

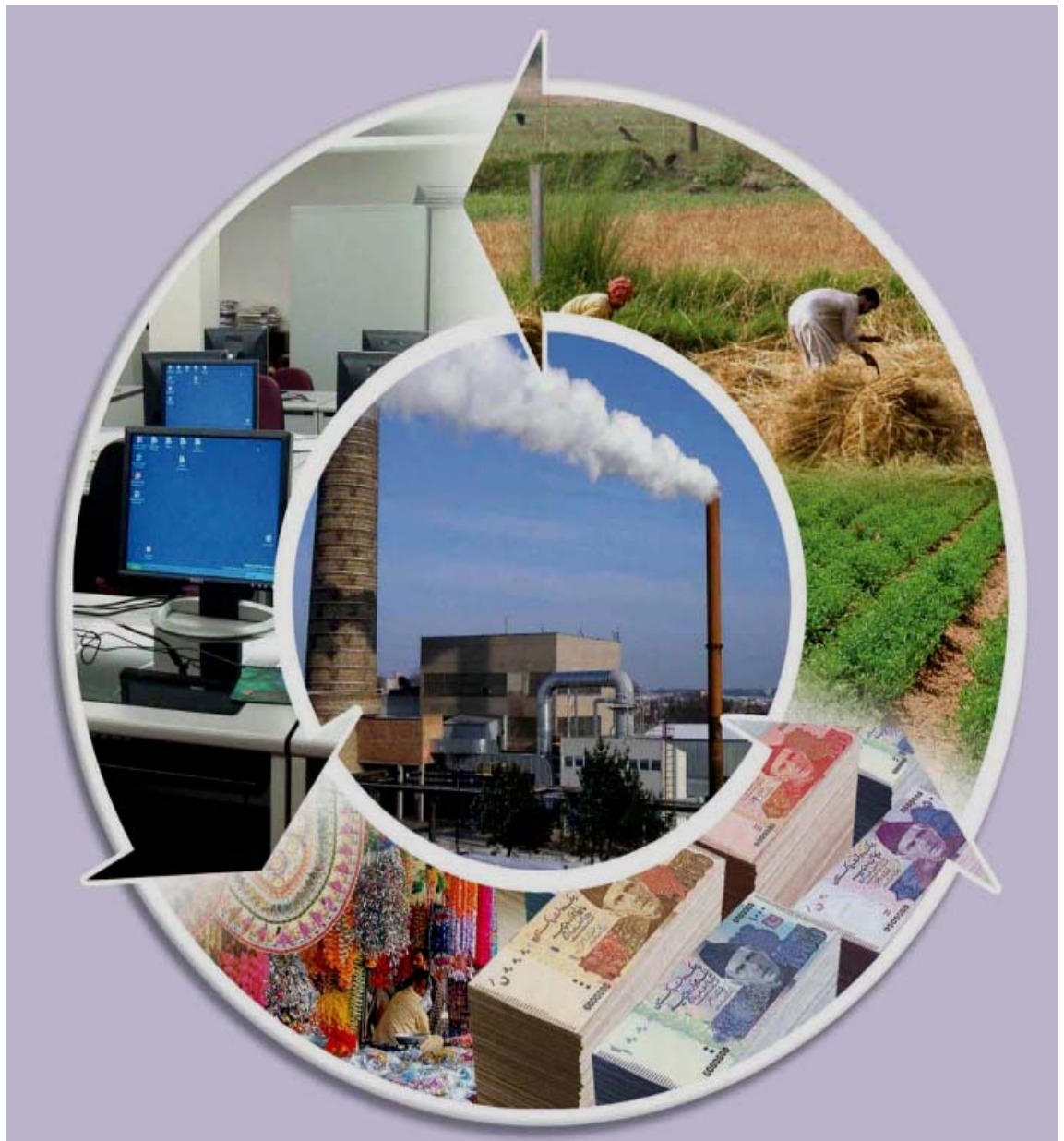
Development Finance Quarterly Review

Inside:

*SME,
Micro,
Agriculture,
Infrastructure,
Housing
Finance
&
SBP Refinance
Schemes*

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EXECUTIVE SUMMARY

One of the major sectors hit hard by the Financial Crisis and global slowdown of economy is Development Finance. The decline in our domestic economy has had severe impact on the Development Finance Sector in Pakistan. The deterioration in DF portfolio which started a year and half ago still continues and by conservative estimates it will take some time to recover. Credit extension to SMEs and Housing sectors has shrunk considerably mainly due to the cautious approach of financial institutions towards these areas. SBP has been making efforts to arrest the decline in DF portfolio which is expected to carry a positive impact on our financial and economic outlook. Keeping in view the current international and domestic economic meltdown, SBP brought about changes in its Regulatory & Policy Framework to facilitate financing to Agriculture, Microfinance, Infrastructure, Housing, Infrastructure and SME sectors. Moreover, consistent efforts are being made to develop Market Supporting Mechanisms as well as focus on the capacity of commercial banks to bring these sectors under the net of Financial Inclusion.

A look at Development Finance outstanding portfolio reflects that stagnancy has prevailed after the initial deterioration in portfolio a year ago. DF portfolio witnessed a marginal growth of 0.9% reflecting on the credit restrictive attitude of financial institutions. The following table shows trends of last two quarters for Development Finance and their share in total outstanding advances.

SME sector is an important sector for our economy and its share in total DF portfolio establishes its importance for the growth of our economy. The gross outstanding amount against SME sector stood at Rs. 330.6 billion recording a decline of 4.2% on QoQ basis. Whereas its share in Development Finance is the largest constituting 38.9% of total DF outstanding (*see Table*). The overall decline in the share of **SME Finance** over the past one year is mainly due to power outages, adverse law & order situation and rising level of NPLs of Banks. An

overview of SME outstanding advances to different enterprising concerns displayed that *Manufacturing SMEs* received the largest share of 43.6% followed by *Trading SMEs* with 39.4% and *Services SMEs* 17.0% respectively.

For promotion of exports, SBP continued to provide incentives & relaxations to export oriented sectors to ease challenges posed by international and domestic economy and to promote growth of the industrial sector in Pakistan. Augmenting on its previous efforts, SBP has recently issued a Scheme for Modernization of Ginning Factories and Rice Husking Mills. SBP also launched a Scheme for Refinancing Agri. Loans/Guarantee Scheme for War Affected Areas of NWFP & FATA. Further, SBP

	Jun-09		Sept-09	
	Amount	% Share	Amount	% Share
SMEs	345.1	41.0	330.6	38.9
Agriculture	150.8	17.9	154.7	18.2
Microfinance (MFBs Only)	8.3	1.0	8.9	1.0
Housing Finance	79.5	9.4	76.2	9.0
Infrastructure Finance	259.0	30.7	279.4	32.9
Total	842.6	100.0	849.9	100.0

also enhanced allocated limits to banks under EFS to Rs 221 Billion. The outstanding amount recorded under EFS was Rs. 169 billion, while the disbursements during the quarter stood at Rs. 151 billion compared to Rs. 80 billion in the preceding quarter of 2009. Similarly, limits under LTFF were also increased to Rs. 19 billion in view of higher demand due to eligibility of new sectors under the scheme. The outstanding amount under LTFF scheme amplified to Rs. 8 billion for the quarter under review compared to Rs. 5.6 billion at the end Jun-09.

The financial inclusion of poor strata of the society is a major challenge to the third world countries. **Microfinance** has been a tested phenomenon for alleviating poverty and proliferating economic opportunities for the down trodden class of the society. An analysis of Microcredit reveals that its outstanding

share is about 1.0% of total Development Finance portfolio. Despite the stagnancy in the overall growth of the sector during the last few quarters, the MFBs continued to register a positive trend in terms of borrowers and depositors. The quarterly growth in MFBs' outreach has recorded a positive growth of 7%, QoQ basis. A healthy trend was also witnessed in deposits which grew by 17%, QoQ basis. FMFB has been the lead player in the quarterly deposit growth, contributing about 20%. Moreover, the overall improvement in NPLs of microcredit over the previous two quarters reflects on good prospects for the sector.

Agriculture plays a pivotal role in our economy, a dominant driving force for growth and the main source of livelihood for more than 66% of the country's population. However, this sector has not been able to muster up financing from FIs as per its needs and potential. Out of total DF portfolio, share of agricultural finance stood at 18.2%. Banks disbursed Rs 44.1 billion during the quarter under review as against Rs 46.6 billion in the corresponding period last year. This slight slash in the portfolio is characterized by banks' focused efforts on recoveries, as their NPLs are rising, and overall slowdown in economic activities. Moreover, higher lending rates and other demand side issues like marketing and viability of farmers have been restricting flow of funds to this sector. This is also reflected in the quarterly decline of borrowers from 1.91 million to 1.89 million during the period under review.

Housing sector is considered an important sector of the economy in developed countries. This sector gained special interest for the developing countries due to the ever increasing population. A flourishing housing sector can play a significant role in accelerating the economic growth of developing economies. **Housing Finance** occupies about 9.0% of total DF Portfolio at the end of Sep-09. This sector has registered a decline of 4.2% on QoQ basis and a decline of 8.9% on YoY basis. The total outstanding portfolio stood at Rs. 76.66 billion compared to Rs. 84.12 billion on YoY basis. While the total number of outstanding borrowers has diminished from 123,047 to 115,959 on YoY basis, a 6% fall. Moreover, Non-performing loans have enhanced considerably from Rs.

10.53 billion to Rs. 15.26 billion on YoY basis. However, this rise in NPLs is not unique to Housing Finance and is associated with the overall increase in NPLs of all sectors revealed by the Industry during the past one year. Furthermore, the Financing for Outright Purchases continues to dominate other sectors like construction and renovation etc by taking the lion's share of almost 60% in total outstanding portfolio.

Infrastructure Development is one of the key factors towards economic development of a country. A well established infrastructure framework supports the market mechanisms notion of economic development. In Pakistan, the share of **Infrastructure Finance** is second highest with 32.9% in total DF portfolio at the end of the quarter under review. The infrastructure project finance portfolio put up a 36.9% growth on YoY basis. Moreover, Power generation sector remains the major beneficiary with disbursement of Rs. 13.2 billion as compared to Rs. 11.7 billion on QoQ basis. However, no new project in this important sector of economy has been reported during the quarter. Furthermore, the Telecom sector, which received a substantial financing in last quarter, remains dormant in the current quarter.

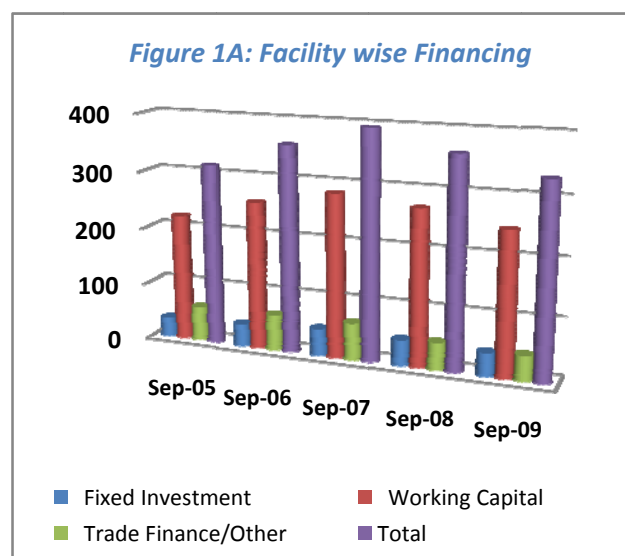
1.1. SME FINANCING-OVERVIEW

SME sector has been experiencing difficulties for the last one year mainly due to the prevailing economic and financial crises in the country. Banks in Pakistan are moving 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 slow economic growth resulted in decelerated financing to SME sector. The end of September, 2009 shows that SME sector's outstanding credit stood at Rs. 330.75 Billion constituting about 9.7% of total outstanding portfolio of the banks, and recording a decline of 4.2%, QoQ basis. This Quarter also witnessed a decline of 1.3% in banking sectors total outstanding amount. An analysis of the breakup of SME portfolio towards various enterprising concerns reveal that *Manufacturing SMEs* took the lions share forming 43.6%, followed by *Trading SMEs* with a share of 39.4%, and *Services SMEs* with a share of 17.0% 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 and recorded an increase of 6%, QoQ basis. However, SME Sector witnessed a little decline of about 2% on QoQ basis. Despite the declining trend in outstanding amount, the number of borrowers however witnessed a minute increase of about 0.7%, YoY basis, mainly attributed to the Trading SMEs.

1.2. FACILITY WISE FINANCING

Facility wise Financing (*See Figure 1A*) to SME sector reveals that the major chunk of the outstanding amount is being utilized under Working Capital accounting for 74.7%, followed by Trade Finance with 13.1% and Fixed Investment Finance 12.2% of total SME portfolio. Predominant portion of working capital finance since Sep-2005 to Sep-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 vicinity of 10% to 14% for the last few years.

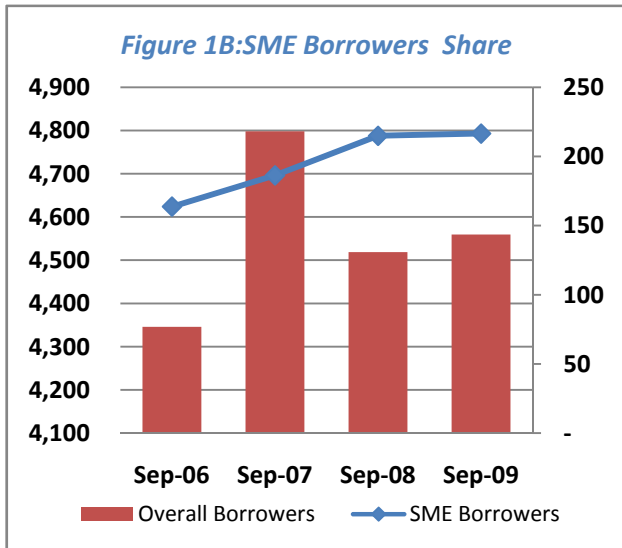
1.3. CLEAN VS COLLATERAL FINANCING

At the end of the period under review the share of clean lending in total outstanding Finance to SME Sector was 9.6% and recorded a decline of 3.7% QoQ basis. While the share of Collateral based lending in total outstanding amount was 90.4%, and witnessed a decline of 4.2% QoQ basis. The decline in both clean and collateral based lending can be attributed to the overall trend of decline. However, the lion's share of lending against collateral depicts the mindset of the Banking Sector towards SMEs which is equivalent 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

The total number of SME borrowers stood at 216,556 constituting about 4.75% of the total borrowers of banking industry (*See Figure 1B*). There has been a remarkable growth of 34.2% during the period Sep-05 to Sep-09 in the SME number of borrowers. However, there has been a slight decline of 1.1% QoQ basis at the end of

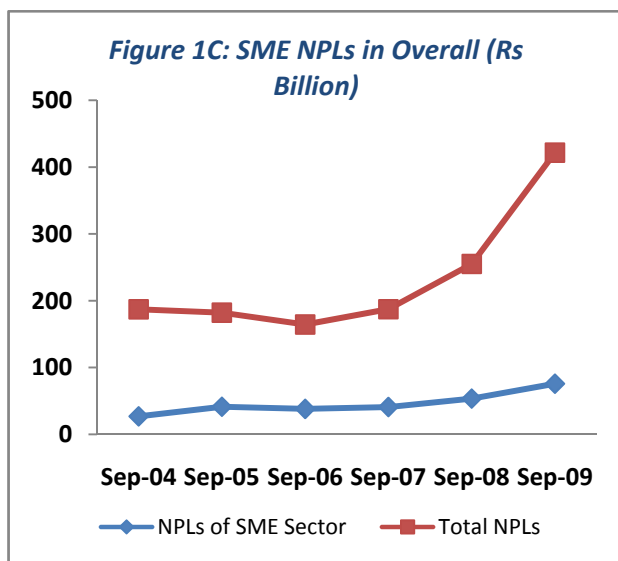
period under review. A duration wise analysis of the borrowers reveal that the share of borrowers availing



long term loans (exceeding 3 years) was 42.0% , **Short Term loans** (upto one year) was 53.0%, and **Medium Term loans**(1 to 3 years) constituted about 5.0% of the total SME borrowers. While, their respective change recorded was -2.5%, 1.6% and -15.5% respectfully QoQ basis. Moreover, 68.0% of total SME Borrowers had a share in loans of upto **Rs. 0.5 Million**.

1.5. NON PERFORMING LOANS

Gross Non Performing Loans (NPLs) of SME Sector have



declined by 2.0% QoQ basis to Rs. 75.9 Billion, constituting about 18.0% of total NPLs of Banking industry at the end of September, 2009 (**See Figure 1C**) and the number of Borrowers against this amount were 57,326. Of this amount about 72.3% was attributed to Working Capital finance, 17.6% to Fixed Investment Finance, and the remaining 10.1% pertained to Trade Finance. A closer look at the behavior of SME sector’s NPLs reveal that there has been a sharp rise during the past two years mainly due to the current economic recession and a host of other factors. Swelling in SME NPLs is not an isolated phenomenon as there has been a similar rise in other sectors of economy as well.

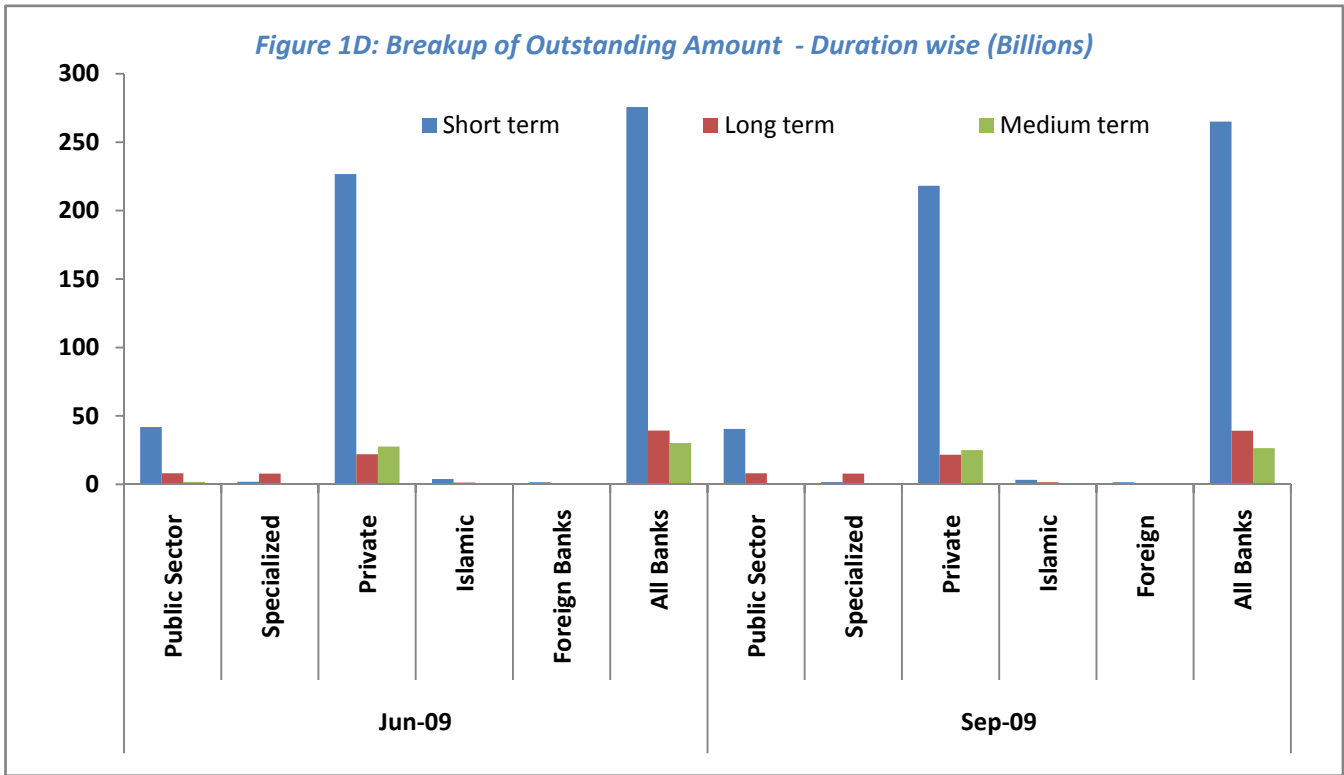
1.6. BANK WISE SHARE

The following is the bank wise share of different categories of Banks.

1.6.1 PUBLIC SECTOR BANKS

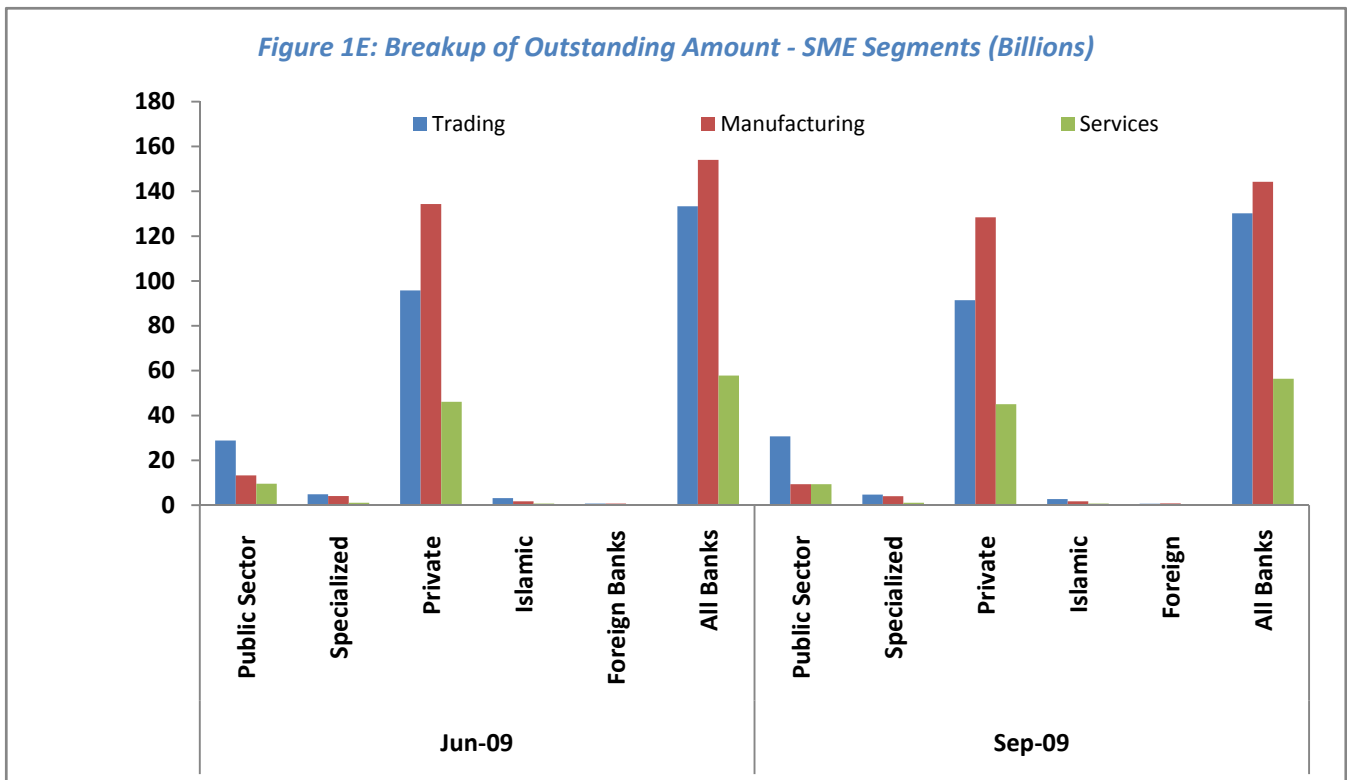
The share of **Public Sector Banks** constituted about 14.9% of the total SME Finance portfolio. A decline of 4.4% in their share, QoQ basis, has been recorded at the end of the period under review. Further, the share of this category of banks towards **Trading SMEs**, **Manufacturing SMEs** and **Services SMEs** was recorded as 9.3%, 2.8% and 2.8% respectively in total SME Finance. The share of FWBL to SME Sector, in its total outstanding portfolio, is the highest among Public Sector Banks with 50.2%, followed by BOK with 30.9%, and NBP with 7.1%. Further, See **Figures 1D & 1E** for their share under facility wise, type wise and duration wise financing to SME Sector.

1.6.2 PRIVATE BANKS



Private Banks (20 in Number) have been doing well for

the last few years under the stress conditions, recording consistent growth compared to other categories of



Banks. The share of **Private Banks** stands at 80.1% of the total outstanding SME finance portfolio. However, their share too saw a decline of 4.1% QoQ basis. Among Private Banks Atlas Bank's share to SME Sector is the highest, with 61.5%, in its total outstanding portfolio, followed by NIB with 34.6% and Silk Bank 32.9%. Further, see **figures 1D & 1E** for their share under Segment wise and duration wise financing to the sector.

1.6.3. ISLAMIC BANKS

Islamic bank's (Total 5 in Number) share has been hovering around 5 Billion for the last few quarters. The total outstanding share of this category of Banks is 1.6% in total SME outstanding amount. Meezan Bank has the highest share of 8.8% towards SME Sector in its total outstanding amount followed by Dawood Islamic Bank with and Bank Islami with 6.6% each. However this category of banks witnessed a decline of 8.0%, QoQ basis, at the end of June, 2009. Further, see **figures 1D & 1E** for their share under Segment wise and duration wise financing to the sector.

1.6.4. SPECIALIZED BANKS

This category of Banks consists of SME Bank, ZTBL, PPCBL and IDBP. **Specialized Banks** share in total SME Financing constitutes about 2.9% and it too witnessed a quarterly decline of 2.1%. 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. About 9% of their total advances are towards SME Sector. Further, see **figures 1D & 1E** for their share under Segment wise and duration wise financing to the sector.

1.6.5. FOREIGN BANKS

Foreign Banks (Total 7 in Number) share in total SME Financing is 0.5%. At the end of the period under review their share witnessed a quarterly decline of 2.9% too. Among this category of Banks, the share of Oman International is the highest to SME Sector, in its total outstanding advances, with 23.0%, followed by Albaraka

Islamic Bank with 5.9%. Further, see **figures 1D & 1E** for their share under Segment wise and duration wise financing to the sector.

1.7. DEVELOPMENT FINANCE INSTITUTIONS (DFI'S)

The total outstanding amount of DFIs (Total 8 in Number) towards SME Sector was about Rs. 0.45 Billion at the end of the period under review. The share of **Pak Oman Investment Company** towards SME Sector is the highest among the group of DFIs followed by **Saudi Pak Industrial & Agricultural Investment Company** with respective share of 3.7% and 2.9% in their total portfolio.

1.8. EXPORT REFINANCE -OVERVIEW

Through Refinance Schemes SBP has been consistently providing incentives and relaxations to the exports oriented sectors to ease pressures and challenges posed by international and domestic economy and to promote growth of the industrial sector which has witnessed significant slowdown. SBP issued a scheme for modernization of ginning factories and Rice Husking Mills under the Long Term Finance Facility. Moreover, SBP launched a scheme for Refinancing agri. Loans/ Guarantee Scheme for war affected areas of NWFP & FATA. On the back of increased demand for EFS financing, SBP increased the limits allocated to banks to Rs 221 billion and the outstanding amount at the end of the quarter was Rs. 169 billion, while the disbursements during the quarter stood at Rs. 151 billion compared to Rs. 80 billion in the preceding quarter of Jun'09. Similarly, limits under LTFF were also increased to Rs. 19 billion in view of higher demand due to eligibility of new sectors under the scheme. The amount outstanding under the scheme increased to Rs. 8 billion for the quarter as compared to Rs. 5.6 billion at end Jun'09.

1.9. EXPORT FINANCE SCHEME (EFS)

EFS continued to remain a major source of export finance. On the back of higher demand from the banks and exporters for subsidized financing, SBP further

Table 1a : Flows of EFS (Rs. In Million)

Banking Group	Change July-Sep. 2009	Change July-Sep. 2008	change 08-09
Public Sector	(2,200)	555	1,156
Private	(6,767)	5,524	34,367
Islamic	130	(166)	(1,175)
Foreign	754	(3,675)	(1,989)
Specialized	20	(9)	4
Total	(8,062)	2,230	32,363

increased the EFS limits to Rs 221 billion (including Rs 13.3 billion under IERS) to ensure adequate supply of funds to the export sector. The increased demand for EFS

stems from the high commercial bank rates, with 6 month KIBOR at 12.65% at the close of quarter, as also banks risk averse behavior to lend in the wake of global uncertainty and rising NPLs. This is also reflected in the disbursements during the quarter which jumped to Rs 151 billion 89% higher, QoQ basis. And 31% higher compared to quarter ended Sept'08. Further, the disbursements for the September quarter are also higher as the fresh limits are assigned and availed for the financial year (July- June) to exporters under EFS Part II (limit based facility).

As on September 30, 2009, Rs. 169 billion was outstanding under the EFS, 30% higher as compared to Rs. 130 billion on September 30, 2008, primarily because of the reversion of SBP to provide 100% refinance which increases the liquidity available with banks for lending and exchange rate depreciation meaning borrowers can borrow more in PKR even if they are exporting less in terms of foreign currency. However, when compared to

Table 1b: Commodity Wise Outstanding Financing under EFS (Rs. In Billion)

Sectors	Sep-09		Sep-08		Sep-07	
	Amount	% Share	Amount	%Share	Amount	% Share
Textile/Textile Products	110.28	65.13	83.29	64.09	91.76	68.26
Edible Goods	19.56	11.55	15.52	11.94	15.26	11.35
Rice	15.45		9.35		8.37	
Leather/Leather Goods	8.76	5.17	9.49	7.30	9.63	7.16
Machinery	0.80	0.48	1.92	1.48	0.80	0.59
Metal Products	2.64	1.56	2.24	1.72	2.87	2.13
Carpets	2.00	1.18	2.47	1.90	2.69	2.00
Sports Goods	2.76	1.63	2.86	2.20	4.38	3.26
Other Commodities	22.50	13.29	12.18	9.37	7.04	5.24
Total	169.31	100.0	129.97	100.0	134.42	100.0

Jun'09 position the outstanding amount has declined marginally by 4.5% (*see Table 1a*). The decline is on account of adjustment of loans by exporters' upto August 31 each year under EFS Part II and renewing of loans as per their new entitlements.

1.9.1. COMMODITY-WISE FINANCING

A distribution of the EFS funds along with different sectors of the economy is shown in *Table 1b*. The textile sector continued to receive the major portion of financing with the share increasing marginally by 2% to 65% for the quarter under review, with a marginal decline in each of the remaining sectors. Other sectors such as edibles (dominated by rice), leather and leather goods also received a significant share.

1.9.2. BORROWER WISE DISTRIBUTION

As of quarter ended Sept-09, the total number of borrowers under EFS stood at 1,742 with an average loan size of Rs. 99 million. A slight decrease of almost 7% was recorded in total number of borrowers during the quarter compared to corresponding quarter of 2008. This decrease may be due to adjustment of loans by some exporters under EFS Part-II for a while, as exporters are required to adjust their outstanding loans by end of August each year so as to avoid penalties levied due to excess availment of loans as per their new entitlements for next fiscal year.

1.9.3. REGIONAL ALLOCATION OF BORROWERS

No change has been observed in region wise allocation of EFS Borrowers. About 90% of the borrowers are still from the four major cities i.e. Karachi, Sialkot, Lahore and Faisalabad, while only Karachi & Sialkot have more than 60% of total beneficiaries under the Scheme. Similarly almost 95% of the EFS funds are accumulated in these four cities with Karachi receiving about 51% of the funds. Moreover, the average loan size is Rs. 271M at Rawalpindi and Sialkot the same is Rs. 18M. As such inconsistent patterns have been witnessed with regard to

average loan size and number of borrowers across the regions.

1.10. ISLAMIC EXPORT REFINANCE SCHEME

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 increased marginally from Jun'09 positions to Rs. 13.3 billion. During the quarter Rs. 7 billion were disbursed, approx. 3 times higher than disbursements made during quarter ended and 75% higher compared to amount disbursed during corresponding quarter of 2008.

1.11. LONG TERM FINANCING FACILITY

Under the Long Term Financing Facility for Plant & Machinery, a limit of Rs. 19 billion has been allocated on the back of higher demand for project finance by Participating Financial Institutions. This high demand stems from the recent additions made to the list of sectors eligible for availing refinance. Further, the disbursements for the quarter were Rs. 2.4 billion, and the amount outstanding remained at Rs 8 billion.

SBP also introduced a new medium to long term financing Scheme for Modernization of cotton ginning factories, allowing them to upgrade their existing setups with new locally manufactured machinery used for ginning. Moreover, under the defunct long term financing scheme of SBP namely LTF-EOP, Rs 32 billion was outstanding as on September, 2009. This figure is not likely to change for the next 2 quarters as SBP has allowed a grace period of one year for the principal payments under its long term financing schemes.

1.12. MAJOR DEPARTMENTAL INITIATIVES

The following were the key initiatives/policy measures taken by SME Finance Department during the quarter.

Modernization of Cotton Ginning Factories

It has been decided vide SMEFD Circular No. 14 dated September 4, 2009 that SBP shall provide financing facilities to cotton ginners to modernize their factories to produce quality ginned cotton for the textile value chain as well as to meet the shortage of electricity. The facility shall be available for BMR of cotton ginning factories, for purchase of new locally manufactured machinery and purchase of new generators upto capacity of 500KVA.

Export Proceeds of Eligible Goods

It has been decided, vide SMEFD Circular No. 12 dated July 16, 2009, that export performance of eligible goods sold in the international fairs/exhibitions will be taken into account for performance /entitlement purpose under Part-II of the Export Finance Scheme provided that exporters have not already availed loan(s) under Part-I on post shipment basis there-against as well as fulfillment of the requirements as prescribed by EPD in category 'B' of Para 31 of Chapter XVII of FE Manual.

Extension in Shipment Period

It has been decided, vide Circular Letter No. 11 dated July 27, 2009, to facilitate the exporters to make the required shipment by allowing them extension upto 180 days in the shipment period under EFS Part-I, provided that the required shipment was falling due in FY 2008-09 (July-June basis).

Mark up Rate Subsidy for Spinning Sector

It was advised, vide SMEFD Circular Letter No. 12 dated August 13, 2009, that Finance Division, Government of Pakistan has made necessary provision / allocation in its budget for FY 2009-10 for disbursement of mark up rate subsidy of 3% to spinning mills for the period January – June 2009. Further, Finance Division has also modified time frame given for payment of subsidy, vide SRO issued on 7th August, 2009. Accordingly, the subsidy for six months period ending on June 30, 2009 (from 01-01-2009 to 30-06-2009) shall be paid from the date of issuance of this circular letter up-to September 15, 2009.

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** with the support of DFID is being finalized.

Separate Prudential Regulations for Small Enterprises

To promote and develop small Enterprises, SBP is working on bifurcation of SMEs definition into SEs and MEs and has prepared separate sets of draft regulations for each. A committee formed for the purpose of reviewing and finalizing is meeting on regular basis.

SME Finance Grass Root Cluster Training Program

In order to develop the capacity of commercial banks in SME Financing, the Second Phase of SME Finance Grass Root Cluster Training Program, covering 7 more cities, will start in the month of November, 2009.

Conducting a Cluster Development Survey

The department is in the process of coordination with DFSD of SBP-BSC 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

After the announcement of EMO (Expanding Microfinance Outreach) strategy in February, 2007, the sector saw phenomenal YoY growth of almost 43% for 2007 and 2008 largely driven by four leading players (two MFBs: FMFB and Khushali; and two MFIs: NRSP and Kashaf). Barring one MFB, the growth in others primarily came through the support of subsidized wholesale loans. The injection of fresh equity in a couple of MFBs during this period also contributed to this growth.

The Top-4 led growth began to slow down in the last quarter of 2008 and still continues. This stagnancy was caused more due to the structural changes than the deterioration in external factors. The two of the Top-4 (Kashaf and NRSP) underwent the long process of transformation into MFB during 2008-09. Kashaf Microfinance Bank has started its micro-banking operation in October, 2008, while NRSP has yet to start its micro-banking operations. Similarly, the largest MFB (Khushali) also saw legal transformation during 2008 by switching over to Microfinance Institutions Ordinance 2001. Under the previous legal framework, Khushali Bank relied on subsidies to reach out to wider population by spreading out across the country. After the 2008 transformation, Khushali Bank has started focusing on new institutional strategy of curtailing operating cost, developing internal controls, and building deposit base to fund the asset growth.

Despite the stagnancy in the overall growth of the sector in last few quarters, the MFBs continue to register a positive trend in respect of growth in borrowers and depositors. The quarterly growth in MFBs' outreach to borrowers during the quarter was at 7% on QoQ basis. A healthy trend was also witnessed in the deposits value which grew by 17% on QoQ basis. The deposit growth, however, continues to be led by the FMFB which contributed 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 i.e Microfinance Institutions. Due to the transformation process, the two largest MFIs are

appearing to consolidate their loan growth. In addition, the portfolio deterioration in few areas of Punjab and

Table 2a: MF BANKING SECTOR

Particulars	2 nd Q09	3 rd Q09	Growth
MFBs	8	8	0%
Branches	271	269	-0.7%
Borrowers	615,189	656,107	7%
Advances	8,254,421	8,918,507	8%
Deposits	5,553,800	5,812,493	5%
Depositor	343,065	402,644	17%
Assets (Rs.)	15,932,41	16,492,68	4.0%
Borrowing	4,781,837	4,790,093	0.2%
Equity (Rs.)	5,098,219	5,096,803	-
NPLs (Rs.`000)	256,978	228,131	-11%

N.W.F.P has also put some pressures on the pace of growth during the last few quarters.

Going forward, the growth momentum will pick up as the newly transformed MFBs settle and focus on business. Recent launch of branchless banking model by one of the MFBs will also likely to translate into high growth in future. The two district MFBs (Rozgar and Network Microfinance Banks) have yet to make a mark in scale and sustainability. Rozgar Bank is already on the exit strategy. The additional impetus, therefore, may come only if new strategic players venture into microfinance banking sector.

During the quarter under review MFBs have managed to increase their number of borrowers with a growth of 7% over the previous quarter. The biggest contributors to this growth were the First Microfinance Bank limited (FMFB) and Khushhali Bank Limited with a net increase of 29,812 and 7,840 borrowers respectively.

The Gross Loan Portfolio (GLP) has recorded 8% growth on QoQ basis, with Khushhali, FMFBL and Tameer as the main contributors. The portfolio of rest of the MFBS has shown a marginal decline.

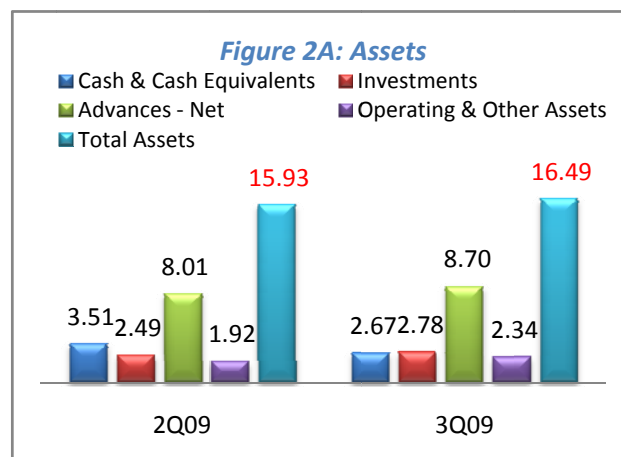
Deposits of MFBS soared by 5%, QoQ basis, mainly led by Tameer and FMFBL with considerable increase in the categories of Fixed, Savings and Current Deposits. The number of depositors has increased by 17% during the quarter. State Bank of Pakistan in its various meetings with stakeholders has been emphasizing the need for developing effective strategies for deposit mobilization. As MFBS are developing internal strategies for saving mobilization; they 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 SBP encourages the development of innovative solutions through capacity building support and enabling environment.

During the September quarter, total assets of MFBS have grown by 4% from Rs. 15.93 billion to Rs. 16.49 billion. The borrowings by MFBS have been almost stagnant at a marginal quarterly growth of 0.2% and registering a value of Rs. 4.79 billion. Equity of MFBS has marginally decreased by 0.03% to Rs. 5.09 billion as of September 09. The NPLs have shown a very positive trend with a considerable decrease of 11% from Rs. 256 million to Rs.228 million, QoQ basis. The percentage of NPLs to total loans stood at 2.56% which has been a remarkable improvement given the current global economic meltdown and its repercussions on the portfolios of financial entities.

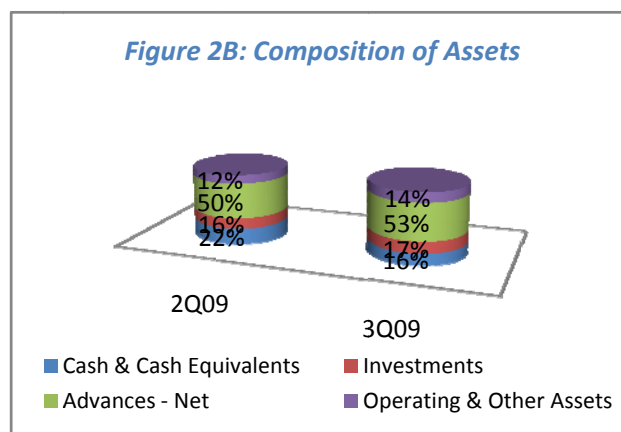
2.2. ASSETS

The assets of microfinance banks have registered a value of Rs.16.49 billion at the end of Sep-09. **Figure 2A** depicts the comparative position of two quarters of assets of microfinance banks.

2.3. ASSETS COMPOSITION

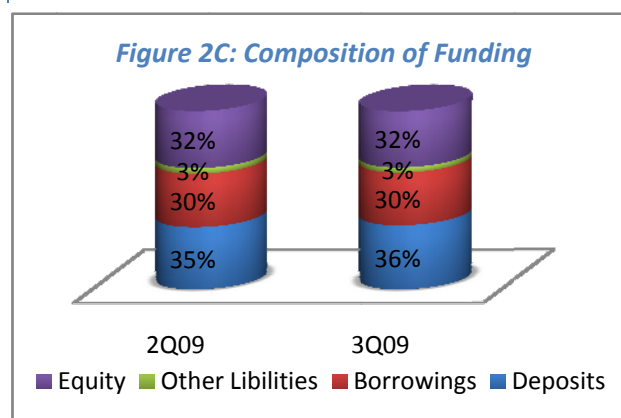


The Assets have witnessed slight change in their composition; the comparative details of 2nd and 3rd



quarter of 2009 are shown in **Figure 2B**.

2.4. FUNDING



The funding structure of MFBS has shown minute changes during the quarter under review. The share of

borrowing, equity, Deposits and other liabilities is shown in **Figure 2C** on QoQ basis.

2.5. ADVANCES-COMPOSITION

The advances have increased to Rs. 8.92 billion as of 3rd quarter of 2009. **Figure 2D** depicts the comparative position of first two quarters of 2009. The 60% of total advances to Agriculture sector (Agri-Input + Livestock), clearly indicates the rural focus of microfinance banks.

2.6. NON PERFORMING LOANS

The 3rd Q09 witnessed an overall positive trend in Non-Performing loans (NPLs) with improvement in the portfolio of Kashf, Khushhali and first microfinance banks. A comparative position is shown in **Figure 2E**. The overall improvement in NPLs is very promising for the future growth and is a good indication of the robustness of the microfinance banking sector.

2.7. DEPOSITS

The overall deposits have grown positively by 5%, registering a value of Rs. 5.81 billion during the quarter (See **Figure 2F**). The continuous rise in the overall deposits is sign of recognition of the fact by MFBs that deposits are one of the most sustainable sources of funding for long run growth of the sector. The fixed deposits have mainly contributed towards this growth and are 67% of the overall deposits, while PLS and current deposits are at 17% and 16% of overall deposits respectively. Deposits by individuals constitute the major part of overall deposits and stood at 63% of total deposits by MFBs during 3rd Q09. Corporate deposits constitute the second largest share at 36% as of 3rd Q09. The remaining proportion is the community deposits..

2.8. GENDER

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

Figure 2D: Composition of Advances

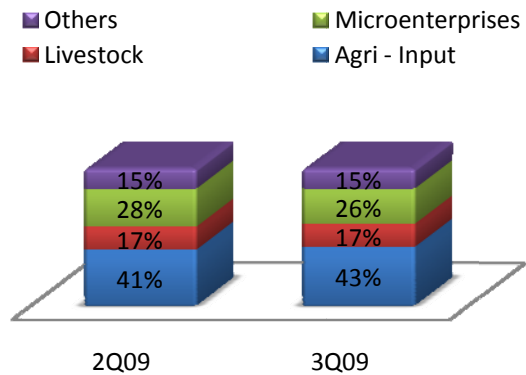
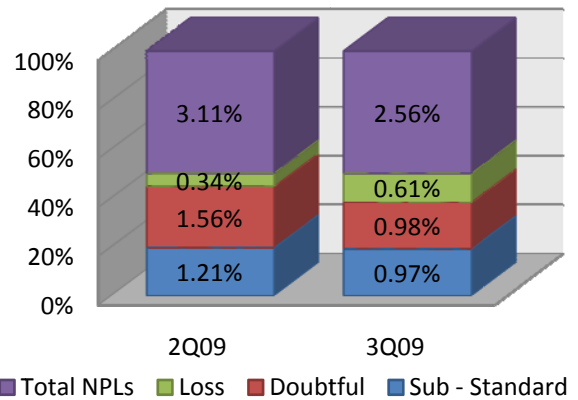
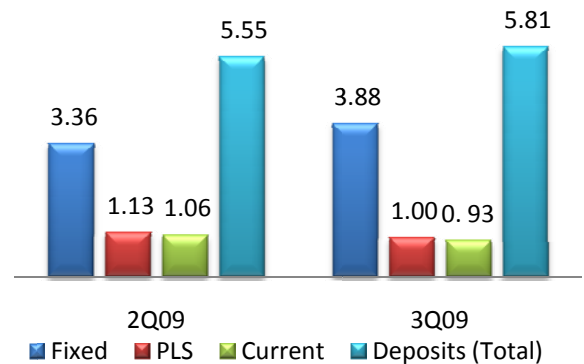


Figure 2E: NPLs



**Figure 2F: Deposit Value
Rs. in Billion**



Asia is largely women focused. The similar trend has also been witnessed in the share in advances where male and female share remained constant at 80% and 20% respectively during last three quarters of 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 3rd Q09.

2.9. KEY INITIATIVES/NEWS UPDATES

Tameer Bank declared as Scheduled MFB

The state Bank declared Tameer Micro Finance Bank Limited (TMFB) as a scheduled microfinance bank. The status will help increase the deposit mobilization capacity of MFB and also pave the way for other microfinance banks to get scheduled.

SBP amends Prudential Regulations for MFBs

SBP has relaxed prudential regulations for microfinance banks in order to remove regulatory bottlenecks. Loan amounts, borrowers' annual income conditions and loan classification criteria are the subjects of relaxations. In addition Credit Information Bureau (CIB) reports have been made compulsory for borrowers with exposure greater than Rs. 50,000.

SBP amends Prudential Regulation No. 27

State Bank of Pakistan discontinued the submission of hard copies of quarterly returns required under Prudential Regulation No. 27 after successful implementation of automation of Quarterly Report of Condition (QRC) along with variables required for calculation of Capital Adequacy Ratio (CAR). MFBs will now submit quarterly data through an online system.

Status of Microfinance Exclusive CIB

Pakistan Microfinance Network (PMN) has initiated a pilot CIB project in Lahore. To facilitate MFBs, State Bank has allowed them to share their customers' data with this pilot/private CIB(s) subject to development of comprehensive customer protection and confidentiality guidelines. Currently, the project is in the data collection phase.

Rs 215 Million to boost Pakistan Microfinance sector

SBP has agreed to provide Rs 215 million to Pakistan Microfinance Network (PMN) and NRSP Microfinance Bank through the Institutional Strengthening Fund (ISF) under a Memorandums of Understanding (MoUs) signed with them.

IFC to Issue First Bond for Microfinance Programs

The IFC has announced to raise US\$300 million through a bond issue targeted at Japanese investors to finance microfinance programs for the poor. It is the first time that the IFC will issue a bond to raise money to lend to commercially viable MFIs.

Setting Up Saving and Credit Unions in Pakistan

The Chief Executive World Council of Credit Union (WOCCU) Mr. Brian Branch along with his colleague Barry Lennon visited Pakistan to work out feasibility of revitalizing cooperatives and possible cooperation with SBP. The team had their meetings with high officials of SBP and other stakeholders. The WOCCU will come up with their findings and way forward.

Results of CGAP's "Financial Access Survey 2009

The CGAP's "Financial Access Survey 2009" contains a sweeping array of data, gathered through a survey of financial regulators in 139 countries. Survey results indicate that about 70% of adults in developing countries still are excluded from the regulated financial system and the best indicator for measuring access to financial services is the number of depositors and borrowers, rather than the number of accounts or loans.

MIV Performance and Prospects

CGAP released its 2009 Microfinance Investment Vehicles (MIVs) Survey. Accordingly to the survey, MIVs grew by 31 percent in 2008 and posted strong returns on investments. However, it has been noted that overall MIV performance may deteriorate in 2009 as the impact of adverse market conditions, including increased credit risks, hits. The survey, for the first time, also reveals MIVs' efforts to include environment, social, and governance (ESG) considerations in their investment policies, due diligence, and monitoring.

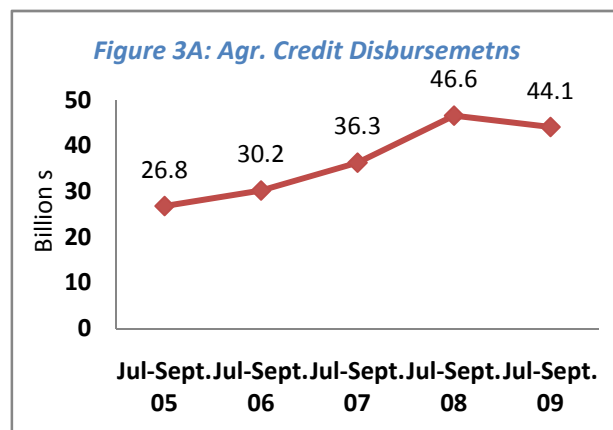
3.1. AGRI. FINANCING - OVERVIEW

The Agricultural Credit Advisory Committee (ACAC) in its annual meeting held on 18th August, 2009 has set agricultural credit target of Rs 260 billion for 2009-10. The target is 11.6% higher than the disbursement of Rs 233 billion in 2008-09. Out of Rs 260 billion, Rs 174 billion were allocated to commercial banks i.e. Rs 124 billion to five major commercial banks and Rs 50 billion to Domestic Private Banks (DPBs). Besides targets of Rs 80 billion and Rs 6 billion were assigned to ZTBL and Punjab Provincial Cooperative Bank Limited (PPCBL) respectively.

3.2. DISBURSEMENTS

During July-September, 2009 banks disbursed Rs 44.1 billion to agriculture sector as against Rs 46.6 billion disbursed in the corresponding period last year. The disbursement was lower by 5% compared with

Moreover, the Sector-wise classification reveals that



during July-September, 2009 out of Rs 44.1 billion an amount of Rs 29.7 billion or 67 percent was disbursed for farm sector activities and Rs14.4 billion or 33 percent were extended to non farm sector compared with disbursements of Rs29.8 billion and Rs16.8 billion to farm and non-farm sector respectively during the same period

Table 3a: Agri. Credit Targets and Disbursement (In Billions)

Banks	2009-10			2008-09		
	Targets 09-10	Flows. (Jul-Sep)	% Share	Targets 08-09	Flows(Jul-Sep)	% Share
5 Large Banks	124.0	25.8	58.6	119.5	25.6	55.0
ZTBL	80.0	9.9	22.3	72.0	8.7	18.8
PPCBL	6.0	0.6	1.4	6.0	0.8	1.8
DPBs	50.0	7.8	17.7	52.5	11.4	24.5
Total	260.0	44.1	100.0	250.0	46.6	100.0

corresponding period last year. The main reasons for lower than expected disbursement are banks' concentration on recoveries due to rising NPLs and overall slowdown in economic activities besides high lending rates and shadow of real side issues of marketing and viability of the farmers. An agri. credit disbursement trend in 1st quarter during last 5 years is illustrated in **Figure 3A**. Bank-wise break up of agri credit disbursements are shown in **Table 3a**.

While **Figure 3b** shows Province-wise indicative targets and disbursements.

last year. Sector-wise details are as per **Table 3c**.

The land holding-wise disbursements pattern shows that major share of farm sector credit is being extended to small farmers and during July September, 2009, out of disbursement of Rs 29.7 billion 62.3% was extended to subsistence land holding farmers, whereas, 23.2% was extended to economic holding and 13.8% to above economic holding.

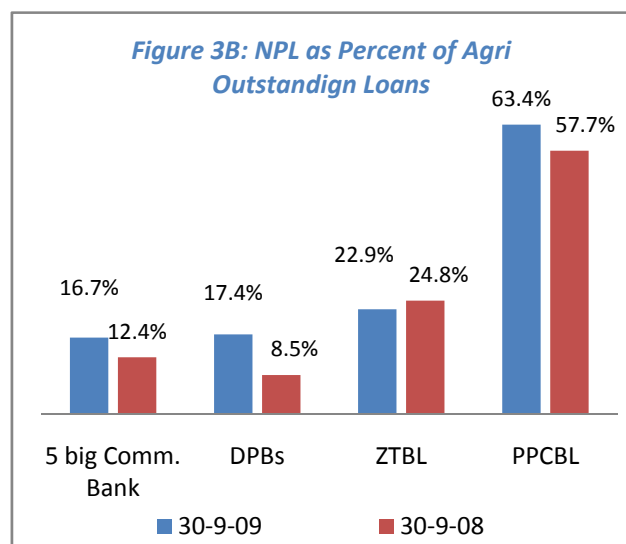
3.3. AGRICULTURAL CREDIT RECOVERY

Table 3b: Province-wise Targets and Disbursement (Billion)

Province	Target 09-10	Disbursed		% share	Target 08-09	Disbursed		% share
		Jul-Sep,09				Jul-Sep, 08		
Punjab	202.8	36.6	83.0	156	40.1	86.0		
Sindh	36.4	5.8	13.2	28	4.4	9.5		
N.W.F.P	15.6	1.3	3.0	12	1.7	3.8		
Baluchistan	3.9	0.1	0.3	3	0.1	0.2		
AJK & GB	1.3	0.2	0.4	1	0.2	0.5		
Total	260	44.1	100.0	200	46.6	100.0		

Source: Agricultural Credit Department, State Bank of Pakistan

During July-September, 2009, banks recovered Rs 40.6 billion or 56.9 percent of recoverable amount of agri.



loans compared with Rs 43.3 billion or 61.4 percent recovered during the same quarter last year. The five major banks recovered Rs 25.4 billion or 71.6 percent compared with Rs 24.9 billion or 71.8 percent of amount due. ZTBL recovery position remained on lower side and they recovered Rs 6.4 billion or 38 percent of the recoverable amount. However, DPBs recovered 8.1 billion of Rs12.8 recoverable and PPCBL recovered only Rs 0.75 billion of 6.4 billion recoverable amount.

3.4. NON-PERFORMING LOANS

Non-performing loans in agri. financing stood at Rs 39.8 billion, 22.3 percent of the outstanding loans as on 30th September, 2009 compared with Rs. 34.9 billion or 20.1 percent of the outstanding loans as 30th September, 2008. Bank wise Non-performing loans as percent of agricultural outstanding loans during July-September, 2009 and in the corresponding period last year are given in **Figure 3B**.

3.5. NUMBER OF LOAN BORROWERS

Agri. Loan borrowers witnessed a partial quarterly decline from 1.91 million to 1.89 million at the end of the period under review. Further, the Bank-wise position of outstanding number of borrowers reveals that decrease in number of borrowers was witnessed in all categories of banks, except ZTBL, mainly due to high mark up, rising NPLs and defaults in repayment.

3.6. KEY DEPARTMENTAL INITIATIVES

SBP has taken various key steps for the promotion of Agri/ rural finance during July-September, 2009, which include

Pilot Project Phase II

has also been introduced in Pilot Districts by the

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

	Jul-Sep 09	% Share	Jul-Sep 08	% Share
A Farm Credit	29.7	100.0	29.8	100.0
1 Subsistence Holding	18.5	62.3	18.3	61.4
<i>i Production</i>	16.0	53.9	16.5	55.4
<i>ii Development</i>	2.5	8.4	1.8	6.0
2 Economic Holding	6.9	23.2	6.3	21.1
<i>i Production</i>	6.8	22.9	5.8	19.5
<i>ii Development</i>	0.1	0.3	0.5	1.7
3 Above Economic Holding	4.3	14.5	5.2	17.4
<i>i Production</i>	4.1	13.8	5.0	16.8
<i>ii Development</i>	0.2	0.7	0.2	0.7
B Non-Farm Credit	14.4	100.0	16.8	100.0
1 Small Farms	2.5	17.4	2.9	17.3
2 Large Farms	11.9	82.6	13.9	82.7
Total (A+B)	44.1		46.6	

To deepen the outreach of agri. finance on fast track basis in the underserved districts of Sindh, Pilot Project was launched in 7 agri. intensive districts viz. Hyderabad, Tando Allahyar, Nawabshah, Sanghar, Khairpur, Mirpur Khas and Larkana from Kharif Crop 2009. After successful completion of the project, Pilot Project Phase-II has been launched in collaboration with agri. lending banks, provincial revenue and agriculture departments, post offices and offices of SBP-BSC in 28 districts of the country (Punjab 14, Sindh 9, NWFP 3 and Baluchistan 2) from Rabi Season 2009-10. Under the project, 18 banks will disburse Rs 44.6 billion including fresh lending of Rs 17.4 billion through their agri. designated branches in the pilot districts during the season. The number of borrowers served will be around 293,000 including 187,000 fresh borrowers. One Window Operation facility

provincial revenue departments for timely completion of revenue formalities in issuance of agri. Passbook, verification, charge creation, etc. The concerned branch and area managers of banks will be responsible for meeting the overall targets. SBP will also monitor the same in collaboration with DFSD and respective offices of SBP-BSC.

Task Force on National Agricultural Insurance Scheme

After successful implementation of mandatory Crop Loan Insurance Scheme from Rabi 2008 for five major crops viz. wheat, rice, cotton, maize and sugarcane, a Task Force on National Agricultural Insurance Scheme (NAIS) has been formed by SBP to develop a framework for introduction of optional agriculture insurance scheme to mitigate the risk of losses of small non borrower farmers

in case of natural hazards and calamities. The Task Force comprises of representatives of MINFAL, PARC, SECP, National Insurance Corporation, major private insurance companies, selected banks and officials of SBP & SBP-BSC.

SBP Focus Group on Agri Finance

To focus on Agri. lending issues and development of schemes/policies in consultation with researchers, experts and practitioners of agriculture and agri. financing banks, it was decided in ACAC meeting held on 8th July 2009 to formulate a Focus Group on Agriculture Finance. Accordingly, the Focus Group has been constituted comprising different stakeholders who will meet quarterly to analyze issues involved in agri. financing and will make recommendations for review and implementation by ACAC.

Amendment in Revolving Credit Scheme for Agriculture

To facilitate farming community in repayment of crop production loans under SBP Revolving Credit Scheme based on their cropping cycle and cash flows, the SBP vide a circular, dated September 01, 2009 allowed banks to segregate the repayments by borrowers in two stages instead of existing condition of one time annual clean up for renewal of the facility. Total repayments in the loan account during the year equals to the maximum amount availed/ outstanding during the year shall also be treated as clean up of the account subject to certain terms and conditions.

4.1. HOUSING FINANCE - OVERVIEW

The housing finance sector reported a decline of 8.9% in gross outstanding portfolio over the last year. The total outstanding reported by banks and DFIs as on Sep 30, 2009 was Rs. 76.66 billion compared to Rs. 84.12 billion as on Sep 30, 2008. While the total number of outstanding borrowers has decreased from 123,047 to 115,959 since September 2008; a 6% fall.

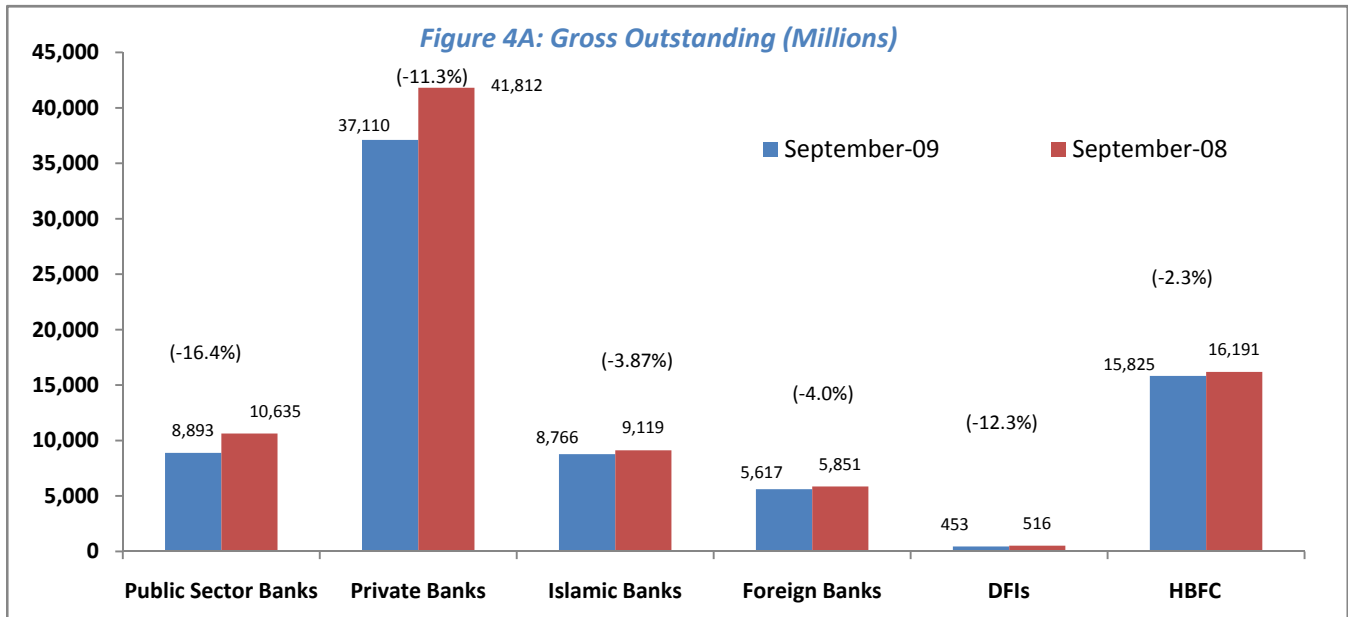
Non-performing loans have increased from Rs. 10.53 billion (Sep 2008) to Rs. 15.26 billion (Sep 2009); a 45% increase over the year. However, this rise in NPLs is not unique to housing finance and is only depicting the overall increase in NPLs of all sectors witnessed in the banking industry during the past year. Approximately 529 new borrowers were extended house loans during the quarter accounting for Rs. 1.33 billion of new disbursements. HBFC accounted for 14% of these new borrowers and contributed 6.4% of the new disbursements made. Financing for outright purchase continues to dominate other sectors (construction and renovation) by comprising almost 60% share in outstanding portfolio.

4.2. GROSS OUTSTANDING

The total outstanding finance as on Sep 30, 2009 of all banks and DFIs stood at Rs. 76.66 billion. Compared to quarter ended Sep 2008, outstanding of all commercial banks and DFIs collectively decreased by 8.9%. Banking sector wise total outstanding with growth/fall (in parenthesis) is shown in **Figure 4A**.

4.3. 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 at the reporting quarters ended Sep 2009 and 2008. NPLs have increased from Rs. 10.53 billion (Sep 2008) to Rs. 15.26 billion (Sep 2009); a staggering 45% increase during the year. NPLs as a proportion of total outstanding have witnessed an increasing trend over the last twelve months. This overall rise in NPLs is due to rising inflation and interest rates.



HBFC's NPLs have increased from Rs. 5.85 billion to Rs. 6.48 billion during the year; an almost 10.86% increase. Although growth of its NPLs remains relatively low in absolute terms when compared to other banking sectors, its percentage share in its total outstanding, however, is the greatest and has further increased over the twelve months; a 41% of its total outstanding constitutes of NPLs. Excluding HBFC, NPLs for all banks and other DFIs have increased by 88% over the year from Rs. 4.68 billion to Rs. 8.78 billion. The percentage share of NPLs that all banks and other DFIs (excluding HBFC) constitute is 14.4% of their total outstanding portfolio, compared to a 6.84% of its total outstanding as on September 30, 2008.

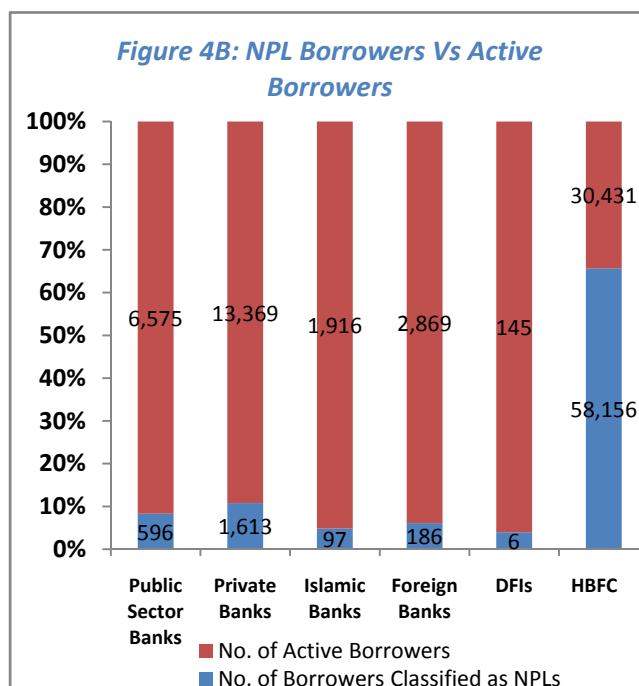
Among banks, Islamic banks have witnessed the sharpest increase in NPLs during the year; an increase of almost 600%, from Rs. 103 million to Rs. 723 million. Although, their NPLs constitute only 8.25% share in total outstanding, the share has jumped from 1.13% (Sep 2008). NPLs of the public sector banks have increased from Rs. 0.65 billion to Rs.1.1 billion; a 67% increase, and 12.2% of its total outstanding is classified as NPLs. NPLs of foreign banks have increased from Rs. 207 million to Rs. 702 million; a 239% increase with 12.5% of its total outstanding classified as NPLs, which was 3.54% in Sep 2008. Private Banks have reported an increase of 70% in NPLs from Rs. 3.65 billion to Rs. 6.21 billion which is 16.73% of their total outstanding as against 8.73 % in Sep 2008. DFIs (excluding HBFC) have reported a decline in NPLs from Rs. 66 million to Rs. 54 million and NPLs as a percentage of outstanding have also decreased from 12.85% to 11.96%.

4.4. NUMBER OF BORROWERS

Total number of outstanding borrowers has decreased from 123,047 to 115,959 since Sep 2008; a 5.8% decrease.

Figure 4B shows number of borrowers classified as NPLs as a percentage of total borrower's shows that approximately 52% of total borrowers of housing loans have been classified as non-performing. However, this is primarily due to HBFC's number (58,156) of non-active borrowers that have been classified as non-performing,

which comes to 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 9.13% of total borrowers of housing loans have been classified as non-performing.

4.5. SHARE OF BANKS

The overall market share¹ of commercial banks (excluding DFIs) remained almost the same since the end of last year, as it decreased marginally from 80.3% to 78.8%. Within commercial banks, the share of private banks in the total outstanding decreased from 49% to 48%. Share of public sector banks has declined slightly from 13% to 12%. Share of Islamic and foreign banks have remained almost stagnant at 11% and 7%, respectively. However, the share of HBFC has risen slightly from 19% to 21% of the total outstanding.

¹ Based on gross outstanding

4.6. DISBURSEMENTS

A total of Rs. 1.33 billion worth fresh disbursements were made during the quarter ending Sep 2009 (**Table 4a**). Private Banks extended new disbursements of Rs. 655 million followed by Islamic banks with Rs. 309 million. HBFC's fresh disbursements for the quarter were reported to be Rs. 85 million. Among commercial banks,

Table 4a: Disbursements during the Quarter

Banks	Amount (Millions)	Borrowers
Public Sector	78	57
Private	655	284
Islamic	309	90
Foreign	198	21
All Banks	1240	452
DFIs	3	1
HBFC	85	76
Total	1,328	529

the number of new borrowers totaled 452, with private banks contributing 284 borrowers. HBFC extended loans to 76 new borrowers during the reporting quarter.

4.7. SECTORAL SHARE

The biggest share of housing finance is currently being attracted towards outright purchase.

The total outstanding for outright purchase stood at Rs. 45.35 billion as on Sep 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. 22.7 billion and that of renovation stood at Rs. 8.6 billion.

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

4.8. ANALYSIS OF LOAN VARIABLES ADOPTED BY BANKS/DFIS & HBFC

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 categorized as foreclosures.

Weighted Average Interest rate

The overall weighted average interest rate for the quarter ending Sep-09 comes to 16.15%; an increase of 0.54 percentage points when compared to quarter ended September 2008. Highest weighted average profit rate was reported by Islamic banks at 19.92%, foreign banks at 17.87% and DFIs (excluding HBFC) at 17.41%. Public sector banks reported a weighted average interest rate of 15.34% and private banks reported 14.84%. The weighted average interest rate reported by HBFC is 14.65%; a 0.94 percentage point increase compared to quarter ended September 2008.

Average Maturity Periods

Average maturity periods have shown increasing signs i.e.; from 11.9 years (Sep-08) to 12.6 years (Sep-09). HBFC's average maturity period is reported to be 15.5 years, while that of Islamic banks is 14.32 years. Table 2 shows that among commercial banks, public sector banks have extended housing loans for an average tenure of 11.3 years followed by foreign banks with 12 years and private sector banks with 12.2 years.

Loan to Value Ratio

The percentage of financing (Loan to Value ratio) extended by banks has increased during last year (Table 3.A). The LTV ratio for housing finance rose from 52% during quarter ending Sep 2008 to 57% during quarter ending Sep 2009. The sharpest increase was witnessed

among foreign banks where the LTV ratio rose from 36.5% to 49.8%. The LTVs for HBFC remained roughly the same at 55%.

Average Time For Loan Processing

banks have financed with an average financing size of Rs. 3.34 millions. Private Banks report an average loan size of Rs. 2.29 million, foreign banks of Rs. 2.77 million and public sector banks report Rs. 1.84 million. The housing finance market is still inclined towards lending to high

Table 4b	Weighted Average Interest Rate (%)					Average Maturity Period (Years)				
	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08
Public Sector	15.34	15.12	14.96	14.3	13.33	11.29	10.6	10.6	10.8	9.4
Private Banks	14.86	15.01	14.55	13.34	13.61	12.20	11.3	11.9	11.9	11.9
Islamic Banks	19.92	17.66	17.81	18.23	14.86	14.32	14.5	14.9	15.3	15
Foreign Banks	17.87	17.49	17.53	16.89	15.05	12.01	11.1	12.0	11.8	9.1
All Banks	16.11	15.67	15.52	14.57	13.94	12.41	11.6	12.3	12.1	11.6
DFIs	17.41	17.80	17.6	16.84	16.01	14.34	13.8	14.5	14.7	12.4
All Banks & DFIs	16.16	15.77	15.60	14.65	14.02	12.48	11.7	12.4	12.2	11.6
HBFC	14.65	12.50	11.88	11.35	13.71	15.50	15.2	15.2	15.1	15.1
Total Average	16.05	15.61	15.42	14.4	13.97	12.57	11.9	12.5	12.4	11.8

The reported average time for loan processing is 26 days for all banks and DFIs; a trend that has remained similar over the year. Currently, the application processing of most banks is a centralized process, where branches forward applications to central branches/head offices for assessment and approvals. Moreover, the processing time can be considerably reduced if land titling issues are resolved; documentation is standardized and institutional inefficiencies removed.

Average Loan Size

Average loan size for disbursements made during the quarter ended Sep-09 is Rs. 2.49 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs. 0.74 million for the reporting quarter. Islamic

income groups.

No. of Foreclosures

No. of cases initiated for foreclosures have increased by 557 new cases during the quarter ended September 2009, for banks/DFIs.

Conclusions

The quarter ending Sep-09 continues to show signs of slowing growth. NPLs in the housing finance portfolio display a rising trend and banks continue to show signs of cautious lending amidst decreased affordability of the borrowers and unfavorable macroeconomic conditions. LTVs have remained constant during the quarter with a slight improvement in average maturity periods. Average loan size has decreased but only marginally. It is due to

Table 4c	Loan to Value Ratio					Average Time for Loan Processing (days)				
	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08
Public Sector	61.4	61.6	60.5	63.1	58.3	30	34.6	31.7	38	38.6
Private Banks	60.4	58.5	55.3	40.3	52.7	23	21.8	22.8	22	22.8
Islamic Banks	55.9	56.9	55.3	39.8	56.7	31	34.6	30.4	36.9	33.6
Foreign Banks	49.8	51.6	36.1	41.9	36.5	23	20.7	22.5	23.6	18.8
All Banks	58.1	57.9	53.0	44	52.4	25	25.5	25.3	26.3	25.7
DFIs	42.5	43.3	43.1	44.2	49.1	30	30.0	30.0	30	30
All Banks &	57.5	57.3	52.6	44	52.3	26	25.8	25.5	26.4	25.9
HBFC	55.8	54.2	55.8	67.5	55	30	30.0	30.0	30	30
Total Average	57.4	57.1	52.8	44.7	52.3	26	26.0	25.7	26.6	26.1

the small size of the housing finance portfolio that

However, lack of a conducive institutional framework and secondary mortgage market still poses as a

Table 4d	Average Loan Size					No. of Foreclosures ²		
	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08	Sep-09	Jun-09	Mar-09
Public Sector Banks	1.84	1.92	1.75	1.46	1.8	N.A	N.A	N.A
Private Banks	2.29	2.48	2.29	2.4	2.38	328	316	228
Islamic Banks	3.34	3.87	3.70	2.52	3.63	47	33	14
Foreign Banks	2.77	2.89	2.68	2.79	1.97	133	121	88
All Banks	2.47	2.62	2.50	2.33	2.41	508	470	330
DFIs	3.01	3.12	3.09	3.01	2.47	1	1	1
All Banks & DFIs	2.49	2.64	2.52	2.35	2.41	509	471	331
HBFC	0.74	1.08	1.08	0.86	0.86	3,344	2,825	2,674
Total	2.44	2.56	2.46	2.29	2.35	3,853	3,296	3,005

financial institutions are currently managing housing-

constraint towards the growth of housing and housing

related risks.

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

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.

Implementation of HAG's Recommendations

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 products. SBP had already disseminated the recommendations to the concerned stakeholders and is currently coordinating with Pakistan Banks' Council (PBA) and the Association of Mortgage Bankers (AMB) for implementation of some of the key recommendations.

Mortgage Refinance Company

SBP and World Bank Group are working together for implementing key recommendations of HAG and for creating financing environment conducive to growth of housing sector by focusing on: establishment of Mortgage Refinance Company, availability of low cost housing finance and establishment of an observatory for real estate market. Work on the establishment of Mortgage Refinance Company particularly is now being pursued aggressively. IFC has developed a detailed business plan and feasibility for the Mortgage Refinance Company. Principal buy-in of the Ministry of Finance has been elicited and stakeholders' consultations are in advance stage.

Capacity Building Program

In addition to initiatives taken to institutionalize housing finance, SBP realizes that a simultaneous development of human capital will play a critical role in ensuring

sustainability of housing finance. In accordance with the Cooperation Agreement signed between International Finance Corporation (private sector arm of the World Bank Group) and SBP, a comprehensive housing finance training program was launched. The training covered all aspects of housing finance from product development, loan marketing/distribution and origination to loan underwriting, servicing and risk management. Representatives of banks and non-bank financial institutions associated with mortgage lending business benefited from this..

Report on 'Expanding Housing Finance System in Pakistan'

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

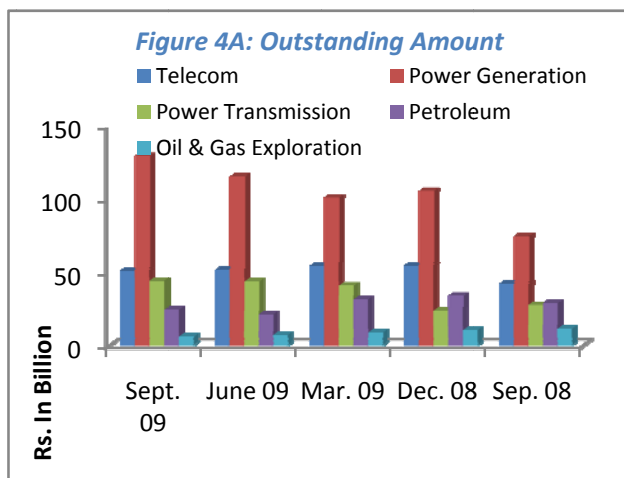
5.1. INFRASTRUCTURE - OVERVIEW

The infrastructure project finance portfolio has posted a 36.9% growth on YoY basis from September 2008 to September 2009. The quantum of overall disbursement is Rs. 18.9 billion in this quarter which was Rs. 22 billion during the previous quarter. Power generation sector remains the supreme beneficiary with disbursement of Rs. 13.2 billion during the quarter under review as compared to Rs. 11.7 billion during previous quarter. Though the disbursement in power generation has slightly increased but no new project in this important sector has been reported. Telecom sector, which received a substantial financing in last quarter, remains dormant in the current quarter.

The level of private sector’s participation is very low as compared to other developing countries of the region and we are arguing through our reviews that a clearly defined PPP policy at the highest level is required for a number of important infrastructure sectors viz. water supply and sanitation, logistics, irrigation, ports, airport etc. in line with a power policy which is in place for quite some time and has been attracting significant amount of private investment over the years.

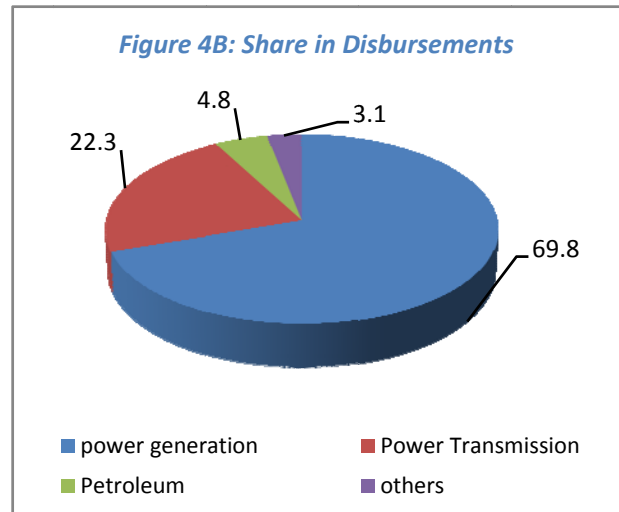
5.2. OUTSTANDING PORTFOLIO

Total financing outstanding at close of September 2009



was Rs. 279.4 billion as against Rs. 204.1 billion at the end of September 2008 achieving a growth of 36.9%. The

analysis shows, as in **Figure 4A**, that stock of other



sectors changes at a slow pace but the rise in stock of power generation is a constant feature in all the quarters over a year. This may be attributed to a number of factors which include the existence of a power policy, expertise of financial sector in getting financial close of the projects (financial sector is involved in energy sector since 1994) and most importantly the sovereign guarantee for private investors. 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

A total of Rs. 18.9 billion disbursed during the quarter in all infrastructure sectors against Rs. 22 billion in previous one. **Figure 4B** shows the share of each sector during the quarter under review. Power generation sector received Rs. 13.2 billion (69.8%) which is significantly higher than other sectors. The share of power generation in total disbursement remained 53.2% (Rs. 11.7 billion) in the last quarter. Telecommunication sector received Rs. 3.7 billion (16.9%) compared to the amount of Rs. 107 million during the quarter under review. Oil & gas sector received Rs. 3.6 billion during last quarter but no disbursement for this sector during the quarter under review.

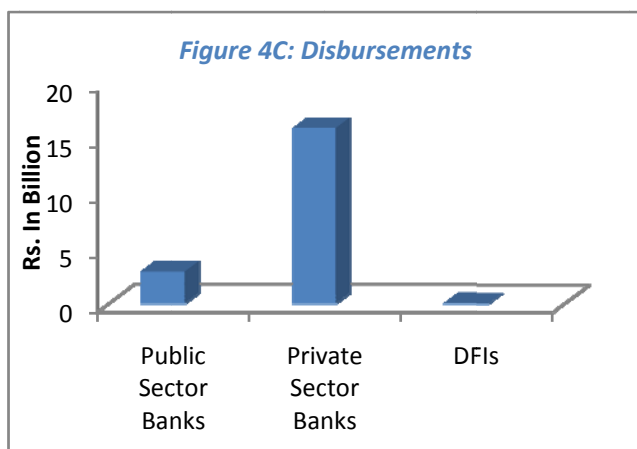
5.4. YEAR-WISE ANALYSIS

In September 2008, power generation sector had 36.5% of the total stock followed by telecommunication sector with 20.7%. After a year, the top slot continues to be held by power generation sector with a substantial 46.4% share in the pie. The telecommunication sector remained at second place with 18.3% 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 14.2% to 8.6% in a year.

5.5. BANKING SECTOR-WISE

Banking Sector-wise Disbursements

Figure 4C shows significant contribution of the private sector commercial banks in infrastructure project financing. Private sector commercial banks disbursed Rs. 15.9 billion out of total Rs. 18.9 billion financing in

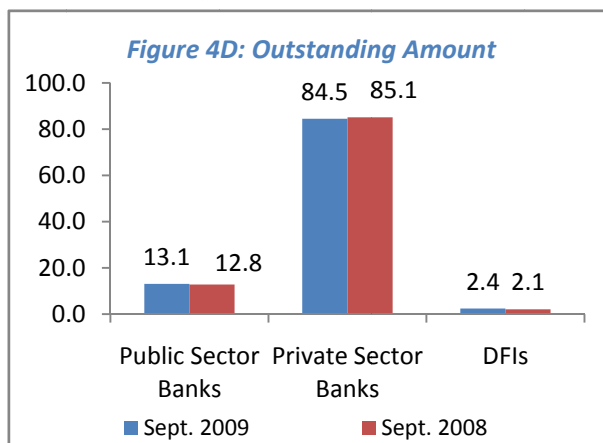


infrastructure sectors during the quarter. Public sector banks disbursed Rs. 2.9 billion while DFIs have miniscule Rs. 34 million.

Banking Sector-wise Share in Outstanding

Figure 4D shows the category-wise share of banking sector in outstanding stock of infrastructure financing. The trend is predominantly in private sector banks' way. The stock share of private sector banks is hovering

around 85% during the year. Public sector banks and DFIs have a very marginal share and did not present a major



shift during the year. Though private banks enjoy a major share, portfolio diversification beyond limited infrastructure sectors is highly desirable.

5.6. KEY INITIATIVES/ACHIEVEMENTS

Following key initiatives have been taken by SBP.

Capacity Building Program

SBP realizes that 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.

Revised Guidelines for Infrastructure Project Finance

Infrastructure & Housing Finance Department has drafted a set of revised guidelines, blending international standards and peculiar domestic experiences in infrastructure financing and shared with the key stakeholders for their input.

Infrastructure Development and Financial Institution

State Bank is presently working on an initiative to establish an institution under Public-Private Partnership mode for growth of infrastructure sectors in the country. Principal buy-in of MoF has been elicited. MLAs have also expressed their initial interest in supporting this initiative and formal discussions with them are in progress.