VISION

To be the pre-eminent financial institution in Pakistan and achieve market recognition both in the quality and delivery of service as well as the range of product offering.

MISSION

To be recognized in the market place by Institutionalizing a merit & performance culture, Creating a powerful & distinctive brand identity, Achieving top-tier financial performance, and Adopting & living out our core values.

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NBP Performance at a Glance

Editor's Corner

Dear readers,

It is our endeavour to improve upon the contents of the Economic Bulletin, keeping in view the interest of our readers. Starting with this issue, we will be covering one specific topic in greater detail, whilst also including some of our regular features.

Being part of a bank ourselves, we have selected *"Performance of Banks Operating in Pakistan"* as the subject for this issue. During the last calendar year 2002, all banks' performance in terms of main financial indicators shows improvement in a number of areas. Private banks have done well, widening their niche in the market. In the last four years they have been able to forge ahead of the foreign banks, by increasing their share in total deposits from 14% to 22%. In terms of assets also they are now second to the major players in the market, with an asset size of 24% of the total. They have expanded their branch network, and established market segment niches in consumer banking.

Meanwhile, the presence of foreign banks has reduced and some have sold out to local buyers, while others have left altogether. Societe Generale, Emirates Bank and Mashreq Bank all sold out to local banks. Standard Chartered consolidated its presence with its merger with ANZ Grindlays.

Both the nationalised commercial banks are doing well, and their profits rose substantially last year. National Bank of Pakistan recorded the highest ever pre-tax profit of Rs.6 billion. It has consolidated its operations, offloaded 20% shares in the market, geared to acquire the best information technology, launched new products for general consumers, restructured its operations, enhanced advisory and investment banking activities and strengthened its position in the equity market.

The half yearly accounts for the six month period ended June 30, 2003 for some banks have been published. Despite the lower interest rate environment, these banks have shown good results. For instance, National Bank of Pakistan increased its pre-tax profit to Rs.3.5 billion from Rs.2.3 billion in the corresponding period of last year, while banks such as Muslim Commercial Bank, Union Bank, PICIC Commercial Bank, Askari Commercial Bank and Bank of Punjab recorded increases of 39.7%, 354%, 66%, 50% and 72% respectively.

Banks' lending portfolios have increased and diversified. Private sector is the primary beneficiary, as it receives bulk of banks' advances, except from the nationalised commercial banks who give one fourth to the public sector. Amongst the various categories of banks, while the exposure of nationalised banks is the largest, it is the private banks whose lending portfolio grew by an average of 27% between 1998-02. Textiles are the major beneficiaries of banks' lending in consonance with their weight in the economy. Chemicals and pharmaceuticals, cement, individuals, agribusiness, automobile & transport equipment, energy, are the other sectors which have received large sums. Some sectors have gained greater exposure, such as, rubber products, sports goods, synthetic & rayon and travel agencies by private banks, while oil, gas and energy, telecommunication, individuals by nationalised banks.

The year 2002 saw a change in the banking environment, as mark-up rates came down, and so did yields on government securities. Falling T-bill rates, a major avenue for banks investment are likely to squeeze banks' profit margins unless banks rethink their strategies, try and understand the concept of a fee-based service, the need to give up old beliefs and branch out into non-traditional sectors such as consumer loans, Small Medium Enterprises, mortgage financing etc.

This has become all the more necessary given the abundance of liquidity with banks. Unless they seize this opportunity and profit in the rapidly expanding non-traditional segments of the market by developing new services, they will not be able to sustain their profitability.

In the recent past, there have been some consolidation and big and small players have come together to develop new retail and wholesale financial products and services. For instance, National Bank of Pakistan's agreement with Western Union for faster delivery of home remittances from overseas Pakistanis is working well. Another such example is the formation of 1 Link ATM Network, where 11 banks have come together to form the largest nationwide ATM network. National Bank is amongst these 11 banks.

Meanwhile, Muslim Commercial Bank, Askari Commercial Bank and ABN Amro have started debit card which is facilitated by ORIX Leasing by providing the POS terminals. National Bank of Pakistan is also in the process of launching its debit card through the same media. Other such services have been introduced by some of the other banks. This goes to show that banks have realized the potential that exists in retail lending and are gradually moving towards it.

Ayesha Mahmud

Performance of Commercial Banks Operating in Pakistan

Reforms show results

Following the banking reforms that are underway since the beginning of 1990 and which gained momentum in 1997, the banking sector in Pakistan has come a long way since. Though the market is still dominated by the nationalised banks, the private banks have established niches in the market and are potential competitors. Banks like Muslim Commercial Bank, United Bank Ltd and Allied Bank Ltd have been privatised, while Habib Bank Ltd is in the process of being privatized. National Bank of Pakistan has offloaded 20% of its shares in the market. The restructuring plans prepared by the nationalised banks made it possible for them to rationalize their work strength and size, check the infected loan portfolios, improve service to clients, reduce the lending rates and set it in relation to the demand/supply condition in the market, focus more on consumer banking and adopt new technology.

SBP works towards better financial system

Throughout 2002, the central bank was actively working towards updating and amending regulations and devising policies for the benefit of commercial banks, so that they could improve their solvency, enhance their capital strength and competitive capabilities. By eliminating restrictions related to investments, the SBP has provided an opportunity to banks to enjoy more freedom in implementing their own credit policies. The State Bank of Pakistan, as a monitoring and regulatory body, has taken initiatives focusing on developing sound financial system.

Banks are diversify-ing

The fast growing new private sector banks, alongwith some larger banks are focusing more intently on retail banking products such as, personal loans, small business finance, home finance, car finance, debit and credit cards and other investment products. Some of these banks are now posing a challenge to many domestic as well as foreign banks. Most of the banks have realised that for their own survival, they need to diversify from conventional banking, improve and add to their consumer banking services. Banks' need to design an impressive product portfolio in a highly competitive market.

Acquisi-tions / mergers

The process of privatisation of public sector banks and acquisitions/ amalgamation/merger of smaller banks continues. In the year 2002, National Development Finance Corporation was merged with National Bank of Pakistan (NBP), the privatisation of United Bank Ltd (UBL) was completed, and now Habib Bank Ltd (HBL) is almost ready for sale. Some 19 parties have shown their interest in its purchase, and its privatisation is expected by the end of the year.

Some of the foreign banks have also sold their Pakistan operations to local banks, while some have opted for consolidation. ANZ Grindlays was amalgamated with Standard Chartered Bank, while Mashreq Bank was merged with a local investment bank. Doha Bank suspended its Pakistan operations and is negotiating the possibility of it merging with an investment bank. Following the successful acquisition of Bank of America's Pakistan operations in 2000, the Union Bank acquired the business of American Express Card in 2001 and later acquired the Pakistan operations of Emirates Bank International.

Among other local banks, Meezan Bank purchased the Pakistan operations of Societe Generale, Khadim Ali Shah Bukhari & Company purchased Platinum Commercial Bank, Prudential Commercial Bank was bought by Saudi Pak Industrial & Agricultural Investment Company, and PICIC Commercial Bank took over Gulf Commercial Bank (formally Schon Bank) in 2001.

Restruct-uring at NCBs

As of end-December 2002, 37 scheduled banks were operating in Pakistan, with a cumulative network of 6513 branches, and 74244 staff. Major banks, NBP, HBL, UBL, MCB and ABL accounted for 87% of the total branches and 77% of the staff strength. As a result of ongoing restructuring and reform process, major banks have within the last one year significantly reduced their number of branches and employees by 140 and 4591 respectively. Inspite of the reduction NBP and HBL have a staff strength of 31200, while UBL, MCB and

ABL together have the largest number of branches 2971.

The growth of private domestic banks, and the subsequent increase in network has resulted in the hiring of more people. Last year alone, their staff strength grew by 2028. The 16 foreign banks operating in Pakistan had a network of 81 branches and 2635 headcounts. Their staff strength registered an addition of 330 employees in the year. They have the highest number of staff per branch (33) compared to the five major banks (10) and private banks' (18). Furthermore, the staff per branch ratio is the lowest for the three privatised banks (9), while for the two nationalised banks, the ratio is 12, close to that of the private banks.

Staff per branch

The analysis of 36 (excludes ABL as the bank has not released its annual accounts / balance sheets after 1999) scheduled banks based on their annual accounts/balance sheets as of December 31, 2002, reveals that the entire banking sector's assets grew by nearly 18%, twice the preceding year's growth. This was largely on account of 45% increase in the assets of private banks. Assets of foreign banks declined by 2%, mainly due to some acquisitions/mergers with private banks. Major banks continued to hold the largest share in total assets (over 62%). NBP enjoys the single largest share of 34% in major banks assets and 21% in total bank's assets; MCB in the privatised bank group recorded the highest growth in assets, nearly 26%.

Assets grow

Amongst the 15 private banks, Askari Commercial Bank, Bank Al-Falah, Bank Al-Habib and Union Bank together share 49% of total private banks assets and 12% of entire banking sector's. Though significant growth in assets was contributed by Union Bank (85%), Bank Al-Falah (62%) and Bank Al-Habib (70%), Askari Commercial Bank continued to enjoy the highest assets base, 29% of private banks' total.

Citibank, Standard Chartered (SCB), ABN Amro and Habib Bank AG Zurich, enjoy a share of 78% in total foreign banks' assets and nearly 11% of total banking sector's. With the merger of ANZ Grindlays, SCB has emerged as the single largest bank within this group with a 38% share in foreign banks assets. ABN Amro registered a decline (13.4%) while assets growth of Citibank was almost flat (0.3%). Seven other banks in this group recorded decline in their assets.

Advances plus investments contribute 72% of banking sector's assets. While investment grew by 102% last year, advances showed an increase of 5%. More than half of banking sector advances are held by the major banks, with NCBs holding 67%. Last year, major banks recorded a 6% fall in advances (9% decline in NCBs and 1% in privatised banks advances). This was primarily because of a 17% drop in the advances of NBP. HBL has the largest advances portfolio with 36% share in major banks' advances.

Slow growth in advances

Private domestic banks' advances growing by 38% last year, have a 27% share in the total advances. The large increase was contributed by Union Bank, showing a growth of 108%, followed by Bank Al-Habib almost 50% and Bank Al-Falah 48%. However, Askari Commercial Bank continued to hold largest advance portfolio. The combined share of these four banks in the private banks' advances was 52% and nearly 14% of the total banking sector.

Advances rise

Foreign banks constituting 16 % of the total advances, grew by 8% in 2002, a sharp recovery against preceding year's 9% decline. Four banks (SCB, Citibank, ABN Amro and Habib Bank AG Zurich) made up for 81% of the advances portfolio of this group or 13% of the entire banking sector advances.

In the absence of sufficient credit demand, a large proportion of liquidity with banks was invested in government securities, particularly Treasury Bills. Banking sector saw record growth exceeding 100% in investment portfolio during 2002. The highest contribution to growth in investments came from private domestic banks, which recorded a hefty growth of 121%, followed by major banks (108%). In the private banks group, Union Bank contributed the highest growth (335%) followed by Bank Al-

Record growth in investment

Comparative Performance of Banks

(Rs. Mn)

	Major Banks		Private Domestic Banks		Foreign Banks		Banking Sector Total	
	2001	2002	2001	2002	2001	2002	2001	2002
Assets Net	1111751	1270988	335189	486032	285494	280943	1732434	2037963
Equity	26639	41823	22764	27162	24074	28342	73477	97327
Deposits	935090	1042500	251913	350403	174952	184118	1361955	1577021
Advances	494716	463632	154468	212708	122223	131625	771406	807965
Investments	216007	449015	70926	156925	41533	57283	328467	663223
Interest Income	87107	79018	29627	32132	26743	19076	143477	130226
Interest Expense	48538	38181	21348	21249	20191	11842	90077	71272
Net Interest Income	38569	40837	8279	10883	6553	7235	53400	58954
Non Fund Based Income	15126	17010	4651	7538	4558	5337	24335	29885
Revenue	53694	57873	12930	18421	11111	12571	77735	88865
Admn Expense	32415	35071	6830	9168	5747	5686	44992	49924
Provisions	8264	6093	1267	1167	540	249	10071	7509
Other Expenses	11287	559	295	357	307	19	11889	934
Profit / (Loss) B.T	1729	16150	4538	7729	4518	6618	10784	30497

Growth Rates

(%)

	Major Banks		Private Domestic Banks		Foreign Banks		Banking Sector Total	
	2001	2002	2001	2002	2001	2002	2001	2002
Assets Net	6.8	14.3	24.4	45.0	1.7	-1.6	8.9	17.6
Equity	-15.4	57.0	38.6	19.3	-1.9	17.7	1.4	32.5
Deposits	9.9	11.5	32.1	39.1	-6.7	5.2	10.8	15.8
Advances	6.8	-6.3	14.3	37.7	-8.8	7.7	5.3	4.7
Investments	-1.1	107.9	72.7	121.3	96.0	37.9	17.1	101.9
Interest Income	7.0	-9.3	30.8	8.5	7.5	-28.7	11.3	-9.2
Interest Expense	-7.3	-21.3	26.1	-0.5	7.6	-41.4	2.3	-20.9
Net Interest Income	32.8	5.9	44.7	31.4	7.0	10.4	30.6	10.4
Non Fund Based Income	-10.9	12.5	10.3	62.1	-12.5	17.1	-7.8	22.8
Revenue	14.9	7.8	30.1	42.5	-2.0	13.1	14.3	14.3
Admn Expense	-1.2	8.2	24.6	34.2	-12.8	-1.1	0.3	11.0
Provisions	39.5	-26.3	-23.4	-7.9	-39.9	-54.0	18.8	-25.4
Other Expenses	280.4	-95.1	183.5	20.8	120.2	-93.8	270.3	-92.1
Profit / (Loss) B.T	-65.6	834.2	68.0	70.3	21.9	46.5	-5.7	182.8

Selected Ratios

(%)

	Major Banks		Private Domestic Banks		Foreign Banks		Banking Sector Total	
	2001	2002	2001	2002	2001	2002	2001	2002
Cost of Funds	5.1	3.6	8.0	5.9	5.1	3.6	6.1	4.3
Intermediation Cost	3.6	3.5	3.1	3.0	3.2	3.2	3.5	3.4
Pre Tax Margin	1.7	16.8	13.2	19.5	14.4	27.1	6.4	19.0
NFBI / Revenue	28.2	29.4	36.0	40.9	41.0	42.5	31.3	33.6
NII / Interest Income	44.3	51.7	27.9	33.9	24.5	37.9	37.2	45.3
Advances / Deposits	53.6	48.5	65.4	61.0	70.7	70.7	58.0	53.7
Return on Equity (ROE)	5.9	47.1	23.2	31.7	18.6	25.3	14.8	35.7
Return on Assets (ROA)	0.2	1.4	1.5	1.9	1.6	2.3	0.6	1.6
Return on Deposits (ROD)	0.2	1.6	2.1	2.6	2.5	3.7	0.8	2.1
Equity / Deposits	3.3	3.5	8.9	8.3	13.4	14.6	5.6	5.8
Equity / Assets	2.7	2.9	6.5	6.1	8.6	9.3	4.4	4.5
Capital / Risk Assets (CRA)	6.1	6.1	13.5	13.6	19.0	20.6	9.7	10.8
Admn Expense / Revenue	60.4	60.6	52.8	49.8	51.7	45.2	57.9	56.2
Income / Expense	101.7	120.2	115.3	124.2	116.9	137.2	106.9	123.5

Source: Bank's Annual Reports

Habib (232%), Askari Commercial (129%) and Bank Al-Falah (117%).

The two large NCBs, NBP and HBL contributed 64% to the major banks' investments with NBP's portfolio being the largest (49% of major banks' or 22% of total banks). HBL however, showed a 147% increase. Meanwhile, foreign banks with only 9% share in total investments recorded 38% increase in 2002, down 58 percentage points from 2001. Among the foreign banks, SCB continued to enjoy largest advances portfolio (32% of foreign banks or 3% of total banking sector).

Deposits continue to grow

Although interest rates were greatly reduced, banks' total deposits grew by 16%. Major banks having the largest share in total deposits (66%) recorded 11% growth. NBP retained its top position amongst all banks, with highest deposit base (35% of major banks and 23% of the entire banking sector deposits). However, highest increase in deposits during the year was recorded by MCB (18%).

Private domestic banks with 22% share in total deposits registered the highest growth (39%) amongst all banks, mainly contributed by Union Bank (82%). However, Bank Al-Falah and Askari Commercial together, have the largest deposit base, 15% of private domestic banks.

In 2002, foreign banks operating in Pakistan staged an improvement from preceding year's decline in deposits and recorded a growth of 5%. SCB with the largest deposit base (32% of foreign banks' total) recorded the single highest growth (136%). Citibank with the second highest deposit base suffered a decline, while ABN Amro recorded the lowest growth (1.5%).

Reduced interest margin

The prevailing low interest rates have significantly reduced interest margins. There has been a larger decline in interest expense compared to interest income. This decline has been most for foreign banks, 29% and 41% respectively. Major banks also posted declines, but private domestic banks contributed 8% growth in interest income compared to 0.5% fall in interest expense. The shrinking spread resulted in decelerating growth in Net Interest Income (NII) of major banks (6%). Within this group, NII of NBP continued to be the highest; 32% of major banks or 22% of the entire banking sector. In terms of growth, UBL contributed the highest increase (18%).

Net interest income grows

Cumulatively NII of private domestic banks managed to record the highest growth of 31%, while its share in the banking sector total was 19%. Higher growth was contributed by Union Bank (74%) followed by Bank Al-Falah (73%). In this category, NII of Askari Commercial Bank remained the highest, 18% of private domestic banks. The four large banks in the group (Askari Commercial, Bank Al-Falah, Bank Al-Habib and Union Bank) accounted for 47% of the private domestic banks' NII and 8% of the entire banking sector's.

In line with a relatively slower growth in interest income, foreign banks too registered slower growth in NII (10%), with some exceptions, SCB showed a growth of 89%. However, NII was highest at Citibank, constituting 31% of foreign banks and 4% of the banking sector total.

Slower growth in NII, however, was compensated by a 23% improvement in the Non-Fund Based Income (NFBI) of the entire banking sector with private domestic banks recording a massive growth of 62%. Askari Commercial and Union Bank did well as these two banks crossed Rs.1 billion.

NFBI high at HBL

Amongst the major banks, while growth of NFBI was the highest at MCB (18%), HBL maintained its top position by earning highest NFBI (35% of the major bank's total or 20% of the banking sector total).

Amongst the foreign banks, Citibank maintained its top position by earning highest NFBI in the group (40% of foreign banks' or 7% of the banking sector total). SCB recorded single largest growth (85%).

Revenue increases

Bulk of the increase in revenue (NNI + NFBI) was generated by NBP and HBL. The later was the highest earner, with a share of 33% of major banks' total or 21% of the banking sector. In the private domestic banks category, Askari Commercial, Bank Al-Habib, Bank Al-Falah and Union Bank were the main revenue earners. Foreign banks showed a 13% increase in revenue, where ABN Amro, SCB, Citibank and Habib Bank AG Zurich were the major revenue earners with 11% share in total revenue.

Admn expenses rise

Administrative expenses of all banks recorded an 11% growth in 2002 with private domestic banks recording the highest growth (34%). This increase reflects higher staff cost from expansion of branches, credit cards and retail banking operations. HBL recorded the highest expenditure under this head. Foreign banks recorded decline. However, administrative expense per branch in 2002 was the highest for foreign banks and lowest in major banks.

NBP shows high profit

All loss making banks were able to convert their losses into profit during the year. Profit before tax of the entire banking sector showed a record growth of 183%. All the three banking groups contributed to this growth. Major banks earned a record profit of Rs.16 billion. NBP retained its top position by earning the highest profit of Rs.6 billion, (37% of major banks profit and 20% of entire banking sector profit). Private domestic banks and foreign banks operating in Pakistan recorded growth of 70% and 46% respectively.

Key ratios show improvement

Key performance ratios demonstrated marked improvement during the year. Both cost of funds and intermediation cost of banks have declined. Falling interest rates have reduced cost of funds of most banks, particularly of MCB, where the ratio was the lowest amongst all banks (3.3%). Despite the decline in the ratio for most banks, it still remains high at 7.2% for two private sector banks (Soneri Bank and PICIC Commercial). The intermediation cost has come down to its lowest at 1.8% at Bank of Khyber, though it still remains high at Deutsche Bank (8.7%). Among the larger banks, NBP has the lowest intermediation cost of 2.6%, while MCB has the highest ratio (4.8%). Groupwise, private domestic banks have the lowest intermediation cost, while the ratio is the highest for major banks.

Increasing Pre-tax margin and RoE

Improved profitability of banks had a positive impact on pre-tax margins. This ratio measures the efficiency of the management The ratio was high for foreign banks (27%) compared to private banks (19.5%) and major banks (16.8%). Return on Equity (RoE) measures earning efficiency on equity: High ratio indicates strong financial position and overall enhancement in bank performance. The study reveals that RoE was substantially high among major banks (47%) relative to foreign banks (25%). Among the major banks, NBP recorded the highest ratio (46%).

RoA, RoD improves

Return on Assets (RoA) is another profitability indicator. Higher ratio indicates greater return on assets. An improving RoA also shows the increasing operational and administrative efficiency. The ideal ratio is 1 % plus. The study reveals that RoA exceeded 2% for foreign banks. The ratio was lowest at 1.4% for major banks. Almost all banks, with a few exceptions recorded RoA of above 1%. It was below 1% for Union Bank and Bolan Bank, while it was in negative for KASB Bank. Some smaller private domestic banks and foreign banks recorded very high ratios.

Return on Deposits (RoD) was also higher for foreign banks, indicating improved earnings on deposits .The ratio was the highest (above 5 %) for Citibank and the lowest (1.3%) for HBL. For some smaller banks in the private domestic banks category the ratio is very high. The ratio was as high as 9.5% for Meezan Bank.

Liquidity ratio high

Liquidity as measured by Advances to Deposit ratio ranged from 48% to 70%. The ratio is highest (above 70%) for foreign banks and lowest for major banks (48.5%). Equity to Assets ratio assess the assets coverage by equity. The ratio was the lowest for major banks and highest for foreign banks. 12 larger banks, ranked on the basis of assets and deposits, reveal lowest equity to assets ratio of 2.2% for UBL from the major banks group and highest (9.9%) for Citibank in the foreign banks category.

Equity to deposits ratio indicates equity relationship with deposits. Higher ratio shows higher safety and better utilization of equity. This ratio is also high for foreign banks(14.6%) and low for major banks(3.5%). Income to Expense ratio has also improved for all banks. The ratio remained high for foreign banks and low for major banks. Among the 12 larger banks, the ratio was high (149%) for Citibank and low for NBP (123%).

Key Performance Indicators - Major Banks

(Rs. Mn)

Banks	Assets		Equity		Deposits		Advances		Investments		Interest Income		Interest Expense	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Nationalised Banks	*756074.2*	*844028.4*	*21652.7*	*26792.8*	*639229.0*	*697628.2*	*338350.7*	*308912.8*	*131996.6*	*291898.9*	*58605.2*	*52104.6*	*34645.9*	*26630.7*
National Bank of Pakistan	415089.0	432802.9	11958.7	14279.3	349617.1	362865.6	170319.1	140547.4	71759.4	143525.0	31290.6	27518.9	18877.3	14698.5
Habib Bank Limited	333750.6	403012.5	9502.3	12274.2	283444.7	328182.1	167225.4	167523.3	57792.3	142877.9	26738.4	23956.1	15434.5	11580.4
First Women Bank	7234.6	8213.0	191.7	239.3	6167.2	6580.5	806.2	842.1	2444.9	5496.0	576.2	629.6	334.1	351.8
Privatised Banks	*355676.6*	*426959.6*	*4986.1*	*15030.6*	*295860.7*	*344872.1*	*156364.8*	*154718.7*	*84010.8*	*157116.2*	*28501.3*	*26913.4*	*13892.1*	*11550.3*
United Bank Limited	168623.1	191821.0	(840.6)	8716.6	141316..2	162166.4	79780.7	75795.0	28578.6	67506.4	11468.1	11527.5	6347.2	5475.6
Muslim Commercial Bank	187053.5	235138.6	4986.1	6314.0	154544.5	182705.7	76584.1	78923.7	55432.2	89609.8	17033.2	15385.9	7544.9	6074.7
Total	**1111750.8**	**1270988.0**	**26638.8**	**41823.4**	**935089.7**	**1042500.3**	**494715.5**	**463631.5**	**216007.4**	**449015.1**	**87106.5**	**79018.0**	**48538.0**	**38181.0**

	Net Int. Income		Non Fund Base Inc.		Revenue		Admn Expense		Provisions		Others Expenses		Profit/Loss B.T	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Nationalised Banks	*23959.3*	*25473.9*	*10010.2*	*11039.0*	*33969.5*	*36512.9*	*20414.7*	*21114.3*	*4784.7*	*4625.4*	*3414.6*	*505.6*	*5355.5*	*10267.6*
National Bank of Pakistan	12413.3	12820.4	4501.5	4817.0	16914.8	17637.4	8551.2	9137.8	2140.6	2109.7	3207.4	345.1	3015.6	6044.8
Habib Bank Limited	11303.9	12375.7	5484.0	6188.4	16787.9	18564.1	11724.4	11807.1	2636.7	2512.2	202.5	156.8	2224.3	4088.0
First Women Bank	242.1	277.8	24.7	33.6	266.8	311.4	139.1	169.4	7.4	3.5	4.7	3.7	115.6	134.8
Privatised Banks	*14609.2*	*15363.1*	*5115.3*	*5970.9*	*19724.5*	*21359.7*	*12000.2*	*13956.4*	*3478.9*	*1467.9*	*7872.3*	*52.9*	*-3626.9*	*5882.5*
United Bank Limited	5120.9	6051.9	2914.7	3380.7	8035.6	9458.3	4668.6	5879.0	1262.9	746.3	7832.2	51.6	-5728.1	2781.4
Muslim Commercial Bank	9488.3	9311.2	2200.6	2590.2	11688.9	11901.4	7331.6	8077.4	2216.0	721.6	40.1	1.3	2101.2	3101.1
Total	**38568.5**	**40837.0**	**15125.5**	**17009.9**	**53694.0**	**57872.6**	**32414.9**	**35070.7**	**8263.6**	**6093.3**	**11286.9**	**558.5**	**1728.6**	**16150.1**

Growth Rates

(%)

Banks	Assets		Equity		Deposits		Advances		Investment		Interest Income		Interest Expense	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Nationalised Banks	*7.4*	*11.6*	*7.0*	*23.7*	*9.1*	*9.1*	*7.1*	*-8.7*	*-6.7*	*121.1*	*5.1*	*-11.1*	*-9.73*	*-23.13*
National Bank of Pakistan	11.7	4.3	5.1	19.4	10.5	3.8	21.4	-17.5	-1.2	100.0	5.3	-12.1	-9.60	-22.14
Habib Bank Limited	1.6	20.8	8.3	29.2	6.5	15.8	-4.4	0.2	-15.1	147.2	3.5	-10.4	-11.09	-24.97
First Women Bank	86.9	13.5	111.6	24.8	81.5	6.7	37.8	4.5	220.5	124.8	132.0	-9.3	136.45	5.30
Privatised Banks	*5.7*	*20.0*	*-55.6*	*201.5*	*11.7*	*16.6*	*5.9*	*-1.1*	*9.3*	*87.0*	*11.2*	*-5.6*	*-0.58*	*-16.86*
United Bank Limited	4.2	13.8	-112.4	1136.9	9.6	14.8	30.2	-5.0	-15.4	136.2	-0.2	-0.5	-5.75	-13.73
Muslim Commercial Bank	7.1	25.7	11.2	26.6	13.6	18.2	-11.3	3.1	28.6	61.7	20.6	-9.7	4.23	-19.49
Total	**6.8**	**14.3**	**-15.4**	**57.0**	**9.9**	**11.5**	**6.8**	**-6.3**	**-1.1**	**107.9**	**7.0**	**-9.3**	**7.29**	**-21.34**

	Net Int. Income		Non Fund Base Inc.		Revenue		Admn Expense		Provisions		Others Expenses		Profit/Loss B.T	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Nationalised Banks	*37.7*	*6.3*	*-6.56*	*10.28*	*20.82*	*7.49*	*1.05*	*3.43*	*54.83*	*-3.33*	*22.09*	*-85.19*	*164.17*	*91.72*
National Bank of Pakistan	40.7	3.3	-0.99	7.01	26.53	4.27	6.78	6.86	27.48	-1.44	21.14	-89.24	192.10	100.45
Habib Bank Limited	33.4	9.5	-10.65	12.84	14.88	10.58	-2.95	0.71	86.30	-4.72	36.92	-22.57	129.64	83.79
First Women Bank	126.1	14.8	-13.33	36.03	96.76	16.72	24.09	21.78	280.49	-52.70	261.54	-21.28	339.54	16.61
Privatised Banks	*25.4*	*5.2*	*-18.22*	*16.73*	*6.05*	*8.29*	*-4.77*	*16.30*	*22.86*	*-57.81*	*4519.89*	*-99.33*	*-221.07*	*263.61*
United Bank Limited	7.5	18.2	-16.52	15.99	-10.22	17.70	-14.70	25.93	-25.70	-40.91	7452.75	-99.34	-442.16	148.56
Muslim Commercial Bank	37.8	-1.9	-20.37	17.70	21.14	1.82	2.85	10.17	95.79	-67.44	-39.88	-96.76	58.98	47.59
Total	**32.8**	**5.9**	**-10.86**	**12.46**	**14.94**	**7.78**	**-1.18**	**8.19**	**39.55**	**-26.26**	**280.38**	**-95.05**	**-65.59**	**834.29**

Selected Ratios

(%)

Banks	Cost of Funds		Intermediation Cost		Pre-Tax Margin		NFBI/Revenue		Net Int. Inc/Int. Inc.		OAvg.adv/Avg deposits		ROE	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Nationalised Banks	*5.3*	*3.7*	*3.3*	*3.2*	*7.8*	*16.3*	*29.5*	*30.2*	*40.9*	*48.9*	*53.4*	*48.4*	*25.6*	*42.4*
National Bank of Pakistan	5.5	4.0	2.6	2.6	8.4	18.7	26.6	27.3	39.7	46.6	46.6	43.6	25.8	46.1
Habib Bank Limited	5.1	3.4	4.3	3.9	6.9	13.6	32.7	33.3	42.3	51.7	62.3	54.7	24.3	37.5
First Women Bank	6.5	5.1	2.9	2.7	19.2	20.3	9.3	10.8	42.0	44.1	14.5	12.9	81.9	62.6
Privatised Banks	*4.5*	*3.3*	*4.3*	*4.4*	*-10.8*	*17.9*	*25.9*	*28.0*	*51.3*	*57.1*	*54.2*	*48.6*	*-44.7*	*58.8*
United Bank Limited	4.3	3.4	3.5	3.9	-39.8	18.6	36.3	35.7	44.7	52.5	52.2	51.3	-193.6	70.6
Muslim Commercial Bank	4.8	3.3	5.0	4.8	10.9	17.3	18.8	21.8	55.7	60.5	56.1	46.1	44.4	54.9
Total	**5.1**	**3.6**	**3.6**	**3.5**	**1.7**	**16.8**	**28.2**	**29.4**	**44.3**	**51.7**	**53.6**	**48.5**	**5.9**	**47.1**

	ROA		ROD		Avg.Equity/Avg. Deposits		Avg.Equity/Avg.Assets		Admn. Expense/Revenue		Income/Expense		Profit(BT)/Revenue	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Nationalised Banks	*0.7*	*1.3*	*0.9*	*1.5*	*3.4*	*3.6*	*2.9*	*3.0*	*60.1*	*57.8*	*108.5*	*119.4*	*15.8*	*28.1*
National Bank of Pakistan	0.8	1.4	0.9	1.7	3.5	3.7	3.0	3.1	50.6	51.8	109.2	123.0	17.8	34.3
Habib Bank Limited	0.7	1.1	0.8	1.3	3.3	3.6	2.8	3.0	69.8	63.6	107.4	115.7	13.2	22.0
First Women Bank	2.1	1.7	2.4	2.1	3.0	3.4	2.5	2.8	52.1	54.4	123.8	125.5	43.3	43.3
Privatised Banks	*-1.0*	*1.5*	*-1.3*	*1.8*	*2.9*	*3.1*	*2.3*	*2.6*	*60.8*	*65.3*	*90.3*	*121.8*	*-18.4*	*27.5*
United Bank Limited	-3.5	1.5	-4.2	1.8	2.2	2.6	1.8	2.2	58.1	62.2	71.5	122.9	-71.3	29.4
Muslim Commercial Bank	1.2	1.5	1.4	1.8	3.3	3.4	2.6	2.7	62.7	67.9	112.3	120.8	18.0	26.1
Total	**0.2**	**1.4**	**0.2**	**1.6**	**3.3**	**3.5**	**2.7**	**2.9**	**60.4**	**60.6**	**101.7**	**120.2**	**3.2**	**27.9**

Source: Bank's Annual Reports

Key Performance Indicators - Private Banks

(Rs. Mn)

Banks	Assets		Equity		Deposits		Advances		Investments		Interest Income		Interest Expense	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Askari Commercial	50980.4	70313.1	2557.0	3027.0	41200.2	51732.0	23291.4	30036.0	11706.0	26759.0	4250.9	4655.2	2902.5	3016.9
Soneri Bank	20534.4	27998.9	1543.0	1792.0	16054.0	20545.0	10199.0	11378.0	4942.3	9844.4	1893.2	2137.2	1454.9	1512.4
Bank Al-Habib	29025.2	49437.1	1532.1	1822.0	24697.0	34240.2	15902.0	23775.3	5664.0	18831.3	2591.0	2916.1	1806.7	1975.6
Bank Al-Falah	40098.0	65167.0	1361.2	1616.0	30207.3	51685.0	19132.0	28319.4	11397.0	24694.4	3391.9	4630.5	2515.0	3112.3
Bank of Khyber	17229.0	18843.7	1117.0	1258.1	14123.0	13989.0	6926.0	6575.4	5713.0	6316.3	1728.6	1616.9	1401.1	1065.0
Bank of Punjab	24803.0	29533.8	2255.0	2363.1	19035.0	23767.0	5772.0	6621.0	5970.0	8295.0	2173.0	2069.6	1113.2	996.3
KASB Bank	5376.4	4037.6	707.0	752.0	3991.0	2640.0	2147.0	490.0	1111.4	2118.2	656.3	282.0	524.9	217.7
Metropolitan Bank	27118.0	41381.1	1845.0	2075.0	17902.4	28515.0	12988.0	19444.0	8265.0	15014.0	2187.5	2681.2	1487.5	1768.1
Faysal Bank	41898.0	36671.3	3914.2	4121.0	31860.4	24555.0	24023.2	21935.0	4274.0	6842.0	4754.3	3244.4	3863.7	2167.7
Bolan Bank	8444.0	10595.1	857.0	1113.0	6685.0	7761.0	3002.0	3298.0	630.0	1328.0	697.9	516.7	409.4	313.7
Prime Commercial Bank	14526.0	21637.2	1287.0	1380.1	10367.0	14640.4	6239.1	9016.1	4166.0	7534.3	1136.8	1394.8	693.8	948.1
Union Bank	30128.1	55849.0	1266.0	2243.0	20721.0	37760.2	13869.4	28890.4	2720.2	11823.0	2450.1	3131.0	1852.6	2091.1
Picic Commercial Bank	13464.3	27982.2	804.0	1323.2	9619.0	21155.0	6330.0	10876.3	2686.4	10306.3	1046.5	1776.5	753.7	1297.2
Saudi Pak Commercial Bank	9513.0	19617.3	518.0	803.3	4816.0	12341.0	3785.0	8522.4	1095.0	6365.0	588.1	768.7	540.0	575.6
Meezan Bank	2053.2	6971.4	1203.0	1476.0	637.4	5080.0	865.0	3532.2	588.0	856.0	81.3	311.2	29.1	191.7
Total	**335189.1**	**486032.0**	**22764.0**	**27162.0**	**251913.1**	**350403.0**	**154468.1**	**212708.0**	**70926.0**	**156925.0**	**29627.39**	**32132.0**	**21348.1**	**21249.4**

	Net Income		Non-Fund Based Inc.		Revenue		Admn Expense		Provisions		Other Expenses		Profit/Loss (BT)	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Askari Commercial	1348.4	1638.4	796.3	1049.0	2144.7	2687.4	852.9	1090.4	282.7	350.8	0.6	2.1	1008.5	1244.1
Soneri Bank	438.3	624.8	536.0	492.1	974.3	1116.9	361.9	440.5	58.8	43.5	2.4	11.8	551.2	621.1
Bank Al-Habib	784.3	940.5	357.8	561.6	1142.1	1502.1	538.8	759.8	52.1	118.6	0.2	3.9	551.0	619.8
Bank Al-Falah	876.9	1518.2	377.9	615.4	1254.8	2133.6	743.6	1182.9	-13.7	55.1	0.7	1.0	524.2	894.6
Bank of Khyber	327.5	551.9	149.3	138.6	476.8	690.5	234.2	247.2	76.6	238.1	3.3	4.8	162.7	200.4
Bank of Punjab	1059.8	1073.2	239.5	373.6	1299.3	1446.8	837.0	901.0	39.5	54.2	1.5	59.8	421.3	431.8
KASB Bank	131.4	64.3	91.1	124.8	222.5	189.1	184.1	203.7	111.7	34.0	13.9	53.6	-87.2	-102.2
Metropolitan Bank	700.0	913.1	438.0	516.7	1138.0	1429.8	368.9	484.8	26.3	67.8	0.0	0.9	742.8	876.3
Faysal Bank	890.6	1076.7	659.7	779	1550.3	1855.7	534.1	619.1	61.3	-21.3	30.1	3.3	924.8	1254.6
Bolan Bank	288.5	203.0	65.9	253.2	354.4	456.2	308.9	380.5	34.0	50.0	1.4	1.1	10.1	24.6
Prime Commercial Bank	443.0	446.7	248.8	433.0	691.8	879.7	361.3	512.4	88.7	57.4	0.7	3.9	241.1	306.0
Union Bank	597.5	1039.9	666.5	1006	1264.0	2045.9	1040.0	1532.2	199.4	169.1	16.5	27.6	9.0	286.0
Picic Commercial Bank	292.8	479.3	214.2	326.4	507.0	805.7	234.5	326.1	-23.3	-29.8	0.0	0.3	295.8	509.1
Saudi Pak Commercial Bank	48.1	193.1	-137.0	581.0	-88.9	774.1	194.6	261.5	274.1	40.1	224.7	179.8	-782.3	292.7
Meezan Bank	52.2	119.5	-52.9	288.0	-0.7	407.5	35.6	195.0	-1.2	-60.7	0	2.6	-35.1	270.6
Total	**8279.3**	**10882.6**	**4651.1**	**7538.4**	**12930.4**	**18421.0**	**6830.4**	**9168.1**	**1267.0**	**1166.9**	**295.1**	**356.5**	**4537.9**	**7729.5**

Selected Ratios

(%)

Banks	Cost of Funds		Intermediation Cost		Pre-Tax Margin		NFBI/Revenue		Net Int.Inc/Int.Inc.		Avg.Adv./Avg.Deposits		ROE	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Askari Commercial	7.2	5.5	2.4	2.3	20.0	21.8	37.1	39.0	31.7	35.2	57.6	57.4	42.3	44.6
Soneri Bank	8.0	7.2	2.4	2.4	22.7	23.6	55.0	44.1	23.2	29.2	70.2	59.0	39.2	37.3
Bank Al-Habib	7.4	5.5	2.5	2.6	18.7	17.8	31.3	37.4	30.3	32.3	72.0	67.3	38.6	37.0
Bank Al-Falah	8.1	6.6	2.9	2.9	13.9	17.1	30.1	28.8	25.9	32.8	67.8	57.9	46.4	60.1
Bank of Khyber	9.9	6.9	1.8	1.8	8.7	11.4	31.3	20.1	18.9	34.1	47.9	48.0	18.6	16.9
Bank of Punjab	5.7	4.3	4.6	4.2	17.5	17.7	18.4	25.8	48.8	51.9	33.0	29.0	19.0	18.7
KASB Bank	8.0	5.8	3.5	6.1	-11.7	-25.1	40.9	66.0	20.0	22.8	81.7	39.8	-11.8	-14.0
Metropolitan Bank	7.0	5.9	2.4	2.1	28.3	27.4	38.5	36.1	32.0	34.1	78.5	69.9	45.1	44.7
Faysal Bank	13.3	6.5	2.2	2.2	17.1	31.2	42.6	42.0	18.7	33.2	74.9	81.5	29.3	31.2
Bolan Bank	6.3	3.8	5.2	5.3	1.3	3.2	18.6	55.5	41.3	39.3	48.8	43.6	1.4	2.5
Prime Commercial Bank	6.3	5.9	3.9	4.1	17.4	16.7	36.0	49.2	39.0	32.0	70.0	61.0	20.0	22.9
Union Bank	7.3	5.4	5.5	5.3	0.3	6.9	52.7	49.2	24.4	33.2	71.8	73.1	0.8	16.3
Picic Commercial Bank	7.2	7.2	3.1	2.1	23.5	24.2	42.2	40.5	28.0	27.0	73.9	55.9	39.5	47.9
Saudi Pak Commercial Bank	5.9	4.3	3.7	3.0	-173.4	21.7	154.1	75.1	8.2	25.1	94.6	71.7	-520.0	44.3
Meezan Bank	9.1	6.7	11.2	6.8	-123.7	45.2	0.0	70.7	64.2	38.4	135.7	76.9	-5.8	20.2
Total	**8.0**	**5.9**	**3.1**	**3.0**	**13.2**	**20.0**	**36.0**	**40.9**	**27.9**	**33.9**	**65.4**	**61.0**	**23.2**	**31.0**

	ROA		ROD		Avg.Equity/Avg.Deposits		Avg.Equity/Avg.Assets		Admn Expense/Revenue		Income/Expense		Profit(BT)/Revenue	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Askari Commercial	2.3	2.1	2.8	2.7	6.7	6.0	5.3	4.6	39.8	40.6	125.0	127.9	47.0	46.3
Soneri Bank	2.7	2.6	3.7	3.4	9.4	9.1	6.9	6.9	37.1	39.4	129.4	130.9	56.6	55.6
Bank Al-Habib	2.1	1.6	2.6	2.1	6.7	5.7	5.4	4.3	47.2	50.6	123.0	121.7	48.2	41.3
Bank Al-Falah	1.5	1.7	2.1	2.2	4.5	3.6	3.3	2.8	59.3	55.4	116.2	120.6	41.8	41.9
Bank of Khyber	1.0	1.1	1.2	1.4	6.6	8.4	5.4	6.6	49.1	35.8	109.5	112.9	34.1	29.0
Bank of Punjab	1.8	1.6	2.3	2.0	12.3	10.8	9.6	8.5	64.4	62.3	121.2	121.5	32.4	29.8
KASB Bank	-1.2	-2.2	-1.7	-3.1	14.2	22.0	9.8	15.5	82.7	107.7	89.6	79.9	-39.2	-54.0
Metropolitan Bank	3.1	2.6	4.8	3.8	10.6	8.4	6.9	5.7	32.4	33.9	139.5	137.7	65.3	61.3
Faysal Bank	2.8	3.2	3.7	4.4	12.8	14.2	9.5	10.2	34.5	33.4	120.6	145.3	59.7	67.6
Bolan Bank	0.1	0.3	0.2	0.3	12.1	13.6	8.7	10.3	87.2	83.4	101.3	103.3	2.8	5.4
Prime Commercial Bank	1.9	1.7	2.6	2.4	13.0	10.7	9.5	7.4	52.2	58.2	121.1	120.1	34.9	34.8
Union Bank	0.0	0.7	0.0	1.0	8.2	6.0	4.1	4.1	82.3	76.4	100.3	107.4	0.7	14.0
Picic Commercial Bank	2.6	2.5	3.9	3.3	10.0	6.9	6.5	5.1	46.3	40.5	130.7	131.9	58.3	63.1
Saudi Pak Commercial Bank	-8.0	2.0	-15.1	3.4	2.9	7.7	1.5	4.5	-218.9	33.8	36.6	127.7	880.0	37.8
Meezan Bank	-3.4	6.0	-11.0	9.5	188.7	46.9	58.6	29.7	-	47.9	44.7	182.3	-	66.4
Total	**1.5**	**1.9**	**2.1**	**2.6**	**8.9**	**8.3**	**6.5**	**6.1**	**52.8**	**49.8**	**115.3**	**124.2**	**35.1**	**43.0**

Source: Bank's Annual Reports

Key Performance Indicators - Foreign Banks

(Rs. Mn)

Banks	Assets		Equity		Deposits		Advances		Investments		Interest Income		Interest Expense	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
ABN Amro	52798.5	45721.9	2686.3	3089.1	34191.9	34696.3	23860.8	25141	9317.3	8935.1	4988.7	3516.5	3708.0	2029.1
Standard Chartered	41134.8	82498.1	2364.8	6073.7	24460.1	57803.6	21497.4	42233.9	5816.7	17652.7	3964.0	4437.8	2899.0	2427.5
Citibank	61970.4	62147.5	5698.7	6623.0	41486.2	40838.1	27118.6	25656.9	6798.6	11279.9	6526.4	5071.9	4219.1	2819.6
American Express	14071.2	13588.4	1105.2	1206.8	5956.5	5978.8	4978.5	4840.9	3118.4	4192.0	1112.1	885.0	948.3	706.1
Credit Agricole Indosuez	10406.0	8869.8	590.0	698.1	5306.6	2808.9	4267.3	4144.0	1252.1	1816.7	902.0	593.2	803.5	512.3
Societe Generale	7056.4	merged	887.0	merged	2959.1	merged	2901.7	merged	0.0	merged	938.1	merged	879.1	merged
HSBC	10695.3	8754.3	787.4	1007.3	5832.8	5772.9	43481	4270.3	570.8	303.7	625.4	552.1	514.8	385.9
Deutsche Bank	7032.5	4763.8	657.9	936.4	3994.4	2701.0	3169.3	2292.5	44.1	197.2	619.4	295.2	472.2	149.5
Mashreq Bank	7643.9	4968.3	1179.0	1268.4	3756.4	2075.2	2221.0	1634.0	393.9	625.9	821.6	504.8	725.0	323.3
Emirates Bank Int.	24879.1	-	1515.1	-	14326.1	-	9028.5	-	7351	-	1836.5	-	1395.3	-
Doha Bank	1890.1	1721.8	864.0	836.5	175.1	40.0	639.2	539.4	9.8	0.0	26.2	7.4	139.9	7.3
Oman International	3117.4	2611.3	779.3	1004.4	1823.4	1142.0	1131.0	877.4	135.7	295.4	168.7	145.9	160.8	127.8
Bank of Tokyo	8594.2	5129.2	1668.9	1788.8	6517.0	3007.4	916.1	91.1	808.1	816.4	864.4	376.0	632.2	269.0
Habib Bank AG Zurich	21427.7	28026.5	1379.7	1528.4	16679.2	20192.4	10651.2	13673.8	4118.4	9360.8	2044.1	1811.6	1700.0	1511.4
IFIC Bank	2044.4	2053.8	385.5	384.7	1362.2	1367.9	1213.8	1105.7	25.0	343.4	169.8	128.5	122.5	90.9
Al Baraka Islamic Bank	6951.3	8225.6	889.9	1172.4	4724.6	5344.7	4015.7	4931.0	182.0	162.5	594.4	525.1	446.6	370.3
Bank of Ceylon	2830.1	1161.9	564.6	616.3	1110.0	145.3	121.9	116.0	1139.3	883.8	450.4	179.0	347.7	80.9
Rupali Bank	951.1	700.7	70.9	107.6	290.4	203.3	142.4	77.4	452.1	417.5	91.1	46.0	76.8	30.6
Total	**285494.4**	**280942.9**	**24074.2**	**28341.9**	**174952**	**184117.8**	**122222.5**	**131625.3**	**41533.3**	**57283.0**	**26743.3**	**19076.0**	**20190.8**	**11841.5**

	Net Interest Income		Non-Fund Based Income		Revenue		Admn Expense		Provisions		Other Expenses		Profit / Loss (BT)	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
ABN Amro	1280.7	1487.4	759.4	745.5	2040.1	2232.9	858.0	907.3	3.2	10.8	8.8	6.6	1170.1	1308.2
Standard Chartered	1065.0	2010.3	515.5	955.2	1580.5	2965.5	598.1	1194.7	103.9	21.0	185.4	0.5	693.1	1749.3
Citibank	2307.3	2252.3	1283.4	1897.1	3590.7	4149.4	1680.2	1707.5	142.2	149.6	0.5	4.9	1767.8	2287.4
American Express	163.8	178.9	295.6	335.8	459.4	514.7	396.7	348.9	4.4	1.5	69.6	-0.1	-11.3	164.4
Credit Agricole Indosuez	98.5	80.9	125.6	125.6	224.1	206.2	182.9	191.8	-25.9	-7.7	0.1	0.5	67.0	21.6
Societe Generale	59.0	merged	63.6	merged	122.6	merged	154.7	merged	59.0	merged	0.0	merged	-91.1	merged
HSBC	110.6	166.2	156.5	132.9	267.1	299.1	151.6	182.9	13.6	10.0	0.1	0.3	101.8	105.9
Deutsche Bank	147.2	145.7	166.5	155.1	313.7	300.8	319.7	291.5	13.2	-16.2	0.0	3.2	-19.2	22.3
Mashreq Bank	96.6	181.5	90.0	53.3	186.6	234.8	102.8	110.0	7.2	-49.9	3.5	0.9	73.1	173.8
Emirates Bank Int.	441.2	-	296.1	-	737.3	-	563.1	-	160.3	-	0.2	-	13.7	-
Doha Bank	-113.7	0.1	10.1	0.5	-103.6	0.6	74.3	42.6	-7.9	-5.6	35.8	0.2	-205.8	-36.6
Oman International	7.9	18.1	24.7	16.5	32.6	34-6	44.0	43.4	0.3	0.0	0.1	0.4	-11.8	-9.2
Bank of Tokyo	232.2	107.0	94.4	68.9	326.6	175.9	99.2	90.1	-0.3	-1.7	0.3	0.2	227.4	87.4
Habib Bank AG Zurich	344.1	300.2	427.8	439.7	771.9	739.9	325.5	323.6	39.9	40.4	0.0	0.7	406.5	375.2
IFIC Bank	47.3	37.6	64.0	37.5	111.3	75.1	51.9	54.2	-0.3	-0.2	0.1	0.0	59.6	21.1
Al Baraka Islamic Bank	147.8	154.8	146.7	162.7	294.5	317.5	103.5	119.2	25.6	25.2	1.9	0.4	163.5	172.7
Bank of Ceylon	102.7	98.1	32.6	30.3	135.3	128.4	27.2	30.3	0.3	0.8	0.2	0.2	107.6	97.3
Rupali Bank	14.3	15.4	5.8	180.5	20.1	195.9	13.2	47.6	1.3	70.5	0.1	0.0	5.5	77.8
Total	**6552.5**	**7234.5**	**4558.3**	**5336.8**	**11110.8**	**12571.3**	**5746.6**	**5685.6**	**540.0**	**248.5**	**306.7**	**18.9**	**4517.5**	**6618.3**

Selected Ratios

(%)

Banks	Cost of Funds		Intermediation cost		Pre-Tax Margin		NBFI/Revenue		Net Int. Inc/Int. Inc.		Avg.Adv/Avg.Deposits		ROE	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
ABN Amro	8.8	4.5	2.7	2.6	20.4	30.7	37.2	33.4	25.7	42.3	71.2	71.1	47.3	45.3
Standard Chartered	9.1	4.4	2.6	2.9	15.5	32.4	32.6	32.2	6.9	45.3	78.2	77.5	32.2	41.5
Citibank	9.0	5.4	4.3	4.1	22.6	32.8	35.7	45.7	35.4	44.4	66.2	64.1	35.5	37.1
American Express	7.3	5.9	6.5	5.8	-0.8	13.5	64.3	65.2	14.7	20.2	88.4	82.3	-1.1	14.2
Credit Agricole Indosuez	9.2	5.8	3.9	4.7	6.5	3.0	56.0	60.8	10.9	13.6	94.3	103.6	11.1	3.4
Societe Generale	12.7	-	3.9	-	-9.1	-	51.9	-	6.3	-	77.3	-	-10.0	-
HSBC	6.8	4.6	2.9	3.2	13.0	15.5	58.6	44.4	17.7	30.1	79.9	74.3	13.8	11.8
Deutsche Bank	7.6	3.7	6.9	8.7	-2.4	5.0	53.1	51.6	23.8	49.4	69.7	81.6	-2.8	2.8
Mashreq Bank	9.9	6.6	2.2	3.8	8.0	31.1	48.2	22.7	11.8	36.0	46.4	66.1	6.1	14.2
Emirates Bank Int.	7.0	-	4.4	-	0.6	-	40.2	-	24.0	-	66.2	-	0.9	-
Doha Bank	11.0	1.6	12.4	39.6	-566.9	-463.3	-9.7	83.3	-434.0	1.4	166.6	547.9	-20.2	-4.3
Oman International	8.9	6.7	3.0	2.9	-6.1	-5.7	75.8	47.7	4.7	12.4	70.2	67.7	-1.7	-1.0
Bank of Tokyo	8.3	5.5	1.3	1.9	23.7	19.6	28.9	39.2	26.9	28.5	14.7	10.6	13.4	5.1
Habib Bank AG Zurich	9.4	7.0	2.2	1.8	16.4	16.7	5.4	59.4	16.8	16.6	71.9	66.0	31.6	25.8
IFIC Bank	7.8	5.8	4.1	4.0	25.5	12.7	57.5	49.9	27.9	29.3	94.8	85.0	18.8	5.5
Al Baraka Islamic Bank	8.4	5.8	2.6	2.4	22.1	25.1	49.8	51.2	24.9	29.5	96.2	88.9	21.3	16.7
Bank of Ceylon	12.0	6.4	2.1	4.8	22.3	46.5	24.1	23.6	22.8	54.8	13.1	19.0	18.0	16.5
Rupali Bank	7.9	4.9	3.9	19.3	5.7	34.3	28.9	92.1	15.7	33.5	37.2	44.5	7.9	87.2
Total	**8.2**	**4.9**	**3.2**	**3.2**	**14.4**	**27.1**	**41.0**	**42.5**	**24.5**	**37. 9**	**70.7**	**70.7**	**18.6**	**25.3**

	ROA		ROD		Avg.Equity/Avg.Deposits		Avg.Equity/Avg.Assets		Admn. Expense/Revenue		Income/Expense		Profit(BT)/Revenue	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
ABN Amro	2.5	2.7	3.7	3.8	7.8	8.4	5.4	5.9	42.1	40.6	125.6	144.3	89.5	87.9
Standard Chartered	1.9	2.8	3.0	4.3	9.3	10.3	5.9	6.8	37.8	40.3	118.3	148.0	55.3	156.0
Citibank	3.2	3.7	4.6	5.6	12.8	15.0	9.0	9.9	46.8	41.2	129.3	148.9	73.6	85.4
American Express	-0.1	1.2	-0.2	2.8	16.9	19.4	7.1	8.4	86.4	67.8	99.2	115.6	-2.9	34.7
Credit Agricole Indosuez	0.7	0.2	1.4	0.5	13.0	15.9	6.4	6.7	81.6	93.0	107.0	103.1	26.2	10.4
Societe Generale	-1.1	-	-2.3	-	22.8	-	11.2	-	126.2	-	91.7	-	-57.3	-
HSBC	1.2	1.1	1.9	1.8	13.9	15.5	8.5	9.2	56.8	61.2	115.0	118.3	28.8	40.4
Deutsche Bank	-0.2	0.4	-0.4	0.7	14.6	23.8	8.5	13.5	101.9	96.9	97.6	105.2	-3.4	6.3
Mashreq Bank	0.8	2.8	1.6	6.0	25.4	42.0	13.7	19.4	55.1	46.8	108.7	145.2	15.4	63.8
Emirates Bank Int.	0.1	-	0.1	-	12.1	-	7.1	-	76.4	-	100.6	-	2.1	-
Doha Bank	-8.6	-2.0	-34.4	-34.0	170.4	790.6	42.7	47.1	-71.7	7100.0	15.0	17.8	265.2	32.9
Oman International	-0.5	-0.3	-0.8	-0.6	46.5	60.2	27.1	31.1	135.0	125.4	94.2	94.6	-33.8	-48.7
Bank of Tokyo	2.4	1.3	3.0	1.8	22.8	36.3	18.0	25.2	30.4	51.2	131.1	124.4	57.6	27.2
Habib Bank AG Zurich	2.0	1.5	2.7	2.0	8.7	7.9	6.3	5.9	42.2	43.7	119.7	120.0	55.6	53.2
IFIC Bank	3.1	1.0	4.7	1.5	25.3	28.2	16.3	18.8	46.6	72.2	134.2	114.6	73.0	20.1
Al Baraka Islamic Bank	2.6	2.3	4.0	3.4	18.9	20.5	12.4	13.6	35.1	37.5	128.3	133.5	97.5	82.9
Bank of Ceylon	3.0	4.9	8.4	15.5	46.6	94.1	16.7	29.6	20.1	23.6	128.7	186.5	88.7	93.8
Rupali Bank	0.5	9.4	1.6	31.5	20.5	36.2	6.5	10.8	65.7	24.3	106.0	152.3	12.9	93.8
Total	**1.6**	**2.3**	**2.5**	**3.7**	**13.4**	**14.6**	**8.6**	**9.3**	**51.7**	**45.2**	**116.9**	**137.2**	**40.1**	**149.6**

Source: Bank's Annual Reports

Sectoral Portfolio of Commercial Banks - A Review: 1998-2002

Commercial banks operating in Pakistan lend to all sectors of the economy. With a diversified credit portfolio ranging from food to telecommunications, oil and gas, engineering and trade, these banks are meeting both the short and long term needs of industries.

The break-up of outstanding advances of each bank for the last five years 1998-2002 reveals that the private sector made up the bulk of advances portfolio of each of the bank categories; nationalised commercial banks (NCBs), private banks, provincial banks and the foreign banks.

Private sector receives bulk of advances

Of NCBs total outstanding advances, on the average 31% were given to the public sector. While NCBs advances to all sectors grew by an average of 9.2% in the last five years, advances to public sector showed a higher growth of 21.5%. Interbank variations of outstanding loans to the public sector were for instance, a higher share of National Bank of Pakistan (NBP) 47%, Habib Bank Ltd (HBL) 17%, while in case of First Women Bank 100% was for the private sector. Private banks had lent on the average over 95% to the private sector, as were the case with the foreign banks. Banks such as Doha Bank, Oman Bank, Rupali Bank, Bank of Ceylon, Bank of Tokyo-Mitsubishi had lent solely to the private sector.

Advances Portfolio
Five Year Average (1998-2002)

	Public Sector		Private Sector	
	Amount (Rs.Mn)	%	Amount (Rs.Mn)	%
Nationalised Commercial Banks	92350	31.5	194726	68.5
Privatised Banks	26629	17.5	117414	82.5
Provincial Banks	860	6.8	11303	93.2
Private Banks	4642	3.4	120054	96.6
Foreign Banks	9271	7.8	109818	92.2

Source: Annual Reports of the banks

Certain sectors appear to be more privileged than others when accessing credit. Within manufacturing, textile is the single largest beneficiary of loans. This is consonant with its predominance in value added contribution, (46% share in overall manufacturing activity) and share in overall industrial employment (employing 38% of the industrial labour force). It accounts for 9% of GDP. The bulk of the loans to the textile sector are for rejuvenation and modernisation, to enable them to prepare for the post 2005 world trade order.

Textiles are the largest receiver of loans

While textiles were around an average of 20% of NCBs total portfolio in the last five years, they were 26% of foreign banks advances. The percentage was high for banks such as Doha Bank and IFIC, an average of 54% and 79% of each bank's total advances; with Rupali Bank giving over 90%. Private banks extended on an average 40% of their advances to the textiles during 1998-2002.

Private banks were extending a substantial portion of their advances to textiles, and the growth in quantum (29%) is the highest amongst all categories of banks. This was largely due to higher lending by Bank Al-Falah, an average of 34% in the last five years, Askari Commercial 41%, Metropolitan Bank 57%, Faysal Bank 37%, Union Bank 37% and Soneri Bank 43%. Both the privatised banks, Muslim Commercial Bank and United Bank Ltd (UBL) have an average outstanding of 31% to the sector in the period under review.

The bulk of the loans to the textile sector are targeted to the traditional low value added spinning and weaving segments. While there is a concerted effort to increase exports of non-traditional goods, the banks are not playing an active role in nudging diversification to the relatively high value added sectors, such as bed linen, readymade garments. Even the State Bank of Pakistan has been constrained to comment on this in its second quarterly report for the year 2002-03 when it says "the bank credit has been flowing towards the traditional sub-sectors of textiles, such as spinning and weaving, while

Segment by Class of Business
Selected Sectors
Five Year Average (1998-2002)

	NCBs		Privatised Banks		Provincial Banks		Private Banks		Foreign Banks	
	(Rs.Mn)	% share	(Rs.Mn)	% share	(Rs.Mn)	% share	(Rs.Mn)	% share	(Rs.Mn)	% share
Textiles	57308	20.2	43547	30.4	1564	12.9	49591	40.0	30745	25.8
Chemicals & Pharmaceuticals	10610	3.8	2504	1.8	1001	8.3	4596	3.8	12476	10.4
Cement	4308	1.5	1873	1.4	469	4.0	2634	2.2	1815	1.5
Food & Allied	7069	2.6	-	-	600	5.0	2795	2.3	3584	3.0
Individuals	10572	3.6	4921	3.1	-	-	4700	3.1	15743	13.1
Automobiles & Transport	2554	0.93	4048	2.8	44	0.4	1386	1.2	2863	2.4
Electronics & Electrical Appliances	6348	2.3	2483	1.6	4.4	0.04	1707	1.4	2650	2.2
Metal Products	11237	4.0	956	0.6	79	0.7	494	0.4	-	-
Agribusiness	6569	2.5	9263	6.0	2127	17.6	2037	1.6	509	0.44

NCBs - Nationalised Commercial Banks

Source: Annual Reports of the banks

the identified priority sectors (stitching, knitting and finishing) received only 20% of the total credit, on average, during CY01 and CY02."

Chemicals preferred by foreign banks

The presence of a sizable number of foreign pharmaceutical and chemical companies in Pakistan and the foreign investment that has flowed into the sector, explains to some extent the sizable quantum of exposure to the sector by foreign banks, 10.4% of their portfolio in the last five years; particularly higher exposure by Standard Chartered Bank, Deutsche Bank, Bank of Tokyo-Mitsubishi and Citibank. Amongst the local banks, NBP and HBL invested (as loans) 3%-7% of their outstanding in the sector, while among the provincial banks Bank of Khyber gave an average of 15% of its advances to this sector.

Banks inclined towards individuals

All categories of banks have lent to individuals, with foreign banks average advances to the sector as high as 13.1% during 1998-02, private banks 3.1% and NCBs 3.6%. Amongst the foreign banks, Citibank's outstanding was around 30%, Standard Chartered Bank 20%, while for Mashreq Bank and ABN Amro it was 18%-30% during the last two years. Exposure of private banks to the sector rose in the last two years, as banks such as Bank Al-Falah, Union Bank and Soneri Bank enhanced their lending to individuals. This could partly be explained by increased consumer financing; banks have introduced new products for which a number of people are availing loans to purchase the goods.

In the services sector category, NCBs have extended higher allocation to general traders, while foreign/private and provincial banks have given more to the financial sub-sector. Insurance, hotel and restaurants, leasing, modarabas, real estate and construction have received a relatively smaller share in the total credit by all banks.

NCBs lay emphasis on agri-business

Apart from the key player in the agricultural sector – Zarai Taraqiati Bank, others like NBP, UBL and HBL are actively involved in agribusiness. Smaller banks such as Bolan Bank, Askari Commercial, Faysal Bank and Union Bank are also catering to the needs of this sector, though their respective share in private banks advances portfolio has not shown any change. This sector receives on an average less than 1% of the advances of foreign banks.

National Bank of Pakistan is the second largest lender to agriculture after Zarai Taraqiati Bank. In the year 2002-03, it disbursed nearly Rs.8 billion against the target of Rs.6.2 billion. 90%

of the loans to the agricultural sector are production loans, but it is also aggressive in livestock and poultry. Recovery rate of 98% is the highest amongst all the financial institutions, advancing to the agricultural sector.

Fuel and energy including oil and gas sub-sector received substantial amount from the major players in the market, particularly from the NCBs who lent an average of Rs.19 billion to the sector in the past five years. The oil and gas sector has also been a major beneficiary of foreign direct investment flows. This sector is among the top sectors which have received substantial advances from the foreign banks.

Private banks lending exposure increases over the years

Over the last five years the growth in the exposure has been slightly over 9% for NCBs and the privatised banks, 27% for private banks and 3.4% for the foreign banks. Private banks advances which stood at Rs.78 billion as on December 31, 1998 more than doubled to Rs.199 billion by end December 02, while in absolute terms the quantum was the highest for NCBs, having risen from Rs.223.3 billion to Rs.308.9 billion in the same period.

Though exposure of certain sectors has grown substantially, in absolute terms the amount may not be high. It nevertheless shows the diversification of banks lending.

For instance in the category of private banks, advances to hotels and restaurants which stood at only Rs.6 million by end December 98, had risen to Rs.391 billion by end 2002, or to travel agencies from Rs.5 million to Rs.149 million, or in the case of NCBs lending to the financial sector rose from Rs.487 million to Rs.2.76 billion in the same period.

While growth in exposure has been higher in the foregoing sectors, in absolute terms, sectors such as textiles, oil, gas & petroleum, metal products, individuals, general traders, chemicals & pharmaceuticals, had larger shares in banks' advances.

Segment by Class of Business

(Rs. Mn)

	1998			1999			2000			2001			2002		
	NCBs	Privatised Banks	Provincial Banks	NCBs	Privatised Banks	Provincial Banks	NCBs	Privatised Banks	Provincial Banks	NCBs	Privatised Banks	Provincial Banks	NCBs	Privatised Banks	Provincial Banks
Chemicals & Pharmaceuticals	8077	2347	976	13447	2967	1111	9328	3425	1022	15754	1224	828	6444	2558	1066
	3.6	*2.1*	*8.8*	*5.4*	*2.3*	*9.3*	*3.0*	*2.1*	*8.6*	*4.7*	*0.7*	*6.5*	*2.1*	*1.7*	*8.1*
Agribusiness	9705	1678	2778	10389	2328	1999	4542	7342	1786	3454	17631	1900	4755	17337	2170
	4.3	*1.5*	*25.0*	*4.2*	*1.8*	*16.8*	*1.4*	*4.6*	*15.0*	*1.0*	*10.7*	*15.0*	*1.5*	*11.2*	*16.4*
Textile	49066	34693	1085	53116	40383	1959	59159	48090	2230	61053	46334	1175	64144	48234	1370
	22.0	*31.1*	*9.8*	*21.2*	*31.4*	*16.4*	*18.8*	*30.0*	*18.8*	*18.0*	*28.1*	*9.3*	*20.8*	*31.2*	*10.4*
Cement	4333	1741	803	2384	2650	557	3497	3572	428	5691	958	327	5634	444	232
	1.9	*1.6*	*7.2*	*1.0*	*2.1*	*4.7*	*1.1*	*2.2*	*3.6*	*1.7*	*0.6*	*2.6*	*1.8*	*0.3*	*1.8*
Sugar	4557	3666	540	2740	3760	155	5538	4236	96	6340	922	403	4841	539	519
	2.0	*3.3*	*4.9*	*1.1*	*2.9*	*1.3*	*1.8*	*2.6*	*0.8*	*1.9*	*0.6*	*3.2*	*1.6*	*0.3*	*3.9*
Shoes & Leather Garments	1610	2131	168	1890	3569	211	1684	2016	183	1500	1598	0	1718	1696	0
	0.7	*1.9*	*1.5*	*0.8*	*2.8*	*1.8*	*0.5*	*1.3*	*1.5*	*0.4*	*1.0*	*0.0*	*0.6*	*1.1*	*0.0*
Automobile & Transport Equipment	1987	3323	106	4244	3996	89	2577	2591	24	2493	4577	0	1468	5755	0
	0.9	*3.0*	*1.0*	*1.7*	*3.1*	*0.7*	*0.8*	*1.6*	*0.2*	*0.7*	*2.8*	*0.0*	*0.5*	*3.7*	*0.0*
Financial	487	894	473	2488	1158	500	5463	534	596	2784	468	183	1832	2762	164
	0.2	*0.8*	*4.3*	*1.0*	*0.9*	*4.2*	*1.7*	*0.3*	*5.0*	*0.8*	*0.3*	*1.4*	*0.6*	*1.8*	*1.2*
Insurance	22	1	0	0	110	0	73	8	0	10	1443	0	39		0
	0.0	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Transportation	3572	8674	0	7952	2313	183	7811	11886	161	5563		0	4925		0
	1.6	*7.8*	*0.0*	*3.2*	*1.8*	*1.5*	*2.5*	*7.4*	*1.4*	*1.6*	*0.0*	*0.0*	*1.6*	*0.0*	*0.0*
Electronics & Electrical Appliances	3557	1256	22	13744	656	0	3038	658	0	4481	7012	0	6919	2835	0
	1.6	*1.1*	*0.2*	*5.5*	*0.5*	*0.0*	*1.0*	*0.4*	*0.0*	*1.3*	*4.3*	*0.0*	*2.2*	*1.8*	*0.0*
Production & Transmission of Energy	4211	630	10	6106	1408	39	10139	2760	39	17893	10071	0	3917	4061	100
	1.9	*0.6*	*0.1*	*2.4*	*1.1*	*0.3*	*3.2*	*1.7*	*0.3*	*5.3*	*6.1*	*0.0*	*1.3*	*2.6*	*0.8*
Food & Tobacco	9180		628	8342		899	3884		1012	7198		0	6743		454
	4.1	*0.0*	*5.6*	*3.3*	*0.0*	*7.5*	*1.2*	*0.0*	*8.5*	*2.1*	*0.0*	*0.0*	*2.2*	*0.0*	*3.4*
Metal Products	10700		222	11552		93	7646	4780	79	12734		0	13555		0
	4.8	*0.0*	*2.0*	*4.6*	*0.0*	*0.8*	*2.4*	*3.0*	*0.7*	*3.8*	*0.0*	*0.0*	*4.4*	*0.0*	*0.0*
Oil, Gas Petroleum & Energy	5041		0	14798		285	12784		0	5876		0	14336		0
	2.3	*0.0*	*0.0*	*5.9*	*0.0*	*2.4*	*4.1*	*0.0*	*0.0*	*1.7*	*0.0*	*0.0*	*4.6*	*0.0*	*0.0*
Telecommunication	0		0	0		0	0		0	7511		0	2010	0	0
	0.0	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*2.2*	*0.0*	*0.0*	*0.7*	*0.0*	*0.0*
Public/Government	0		0	0	0	152	58174	0	0	69630		874	62873		0
	0.0	*0.0*	*0.0*	*0.0*	*0.0*	*1.3*	*18.5*	*0.0*	*0.0*	*20.6*	*0.0*	*6.9*	*20.4*	*0.0*	*0.0*
Individuals	2570		0	11740		0	9982		0	15674	11839	0	12893	12768	0
	1.2	*0.0*	*0.0*	*4.7*	*0.0*	*0.0*	*3.2*	*0.0*	*0.0*	*4.6*	*7.2*	*0.0*	*4.2*	*8.3*	*0.0*
General Traders	16279		233	6519		776	6233		920	19457		0	28193		0
	7.3	*0.0*	*2.1*	*2.6*	*0.0*	*6.5*	*2.0*	*0.0*	*7.7*	*5.8*	*0.0*	*0.0*	*9.1*	*0.0*	*0.0*
Others	88335	65285	3080	78645	71041	2902	103178	83364	3313	73251	74695	7007	61672	67535	7123
	39.6	*58.6*	*27.2*	*31.4*	*55.2*	*24.4*	*32.8*	*52.0*	*27.9*	*21.6*	*45.3*	*55.2*	*20.0*	*43.7*	*54.0*
Total	223288	111388	11123	250095	128671	11911	314733	160469	11890	338350	164969	12698	308912	154719	13196
Public Sector	52582	9343	161	76282	10462	485	98761	37591	179	130759	40530	2137	103364	35221	1339
	23.5	*8.4*	*1.4*	*30.5*	*8.1*	*4.1*	*31.4*	*23.4*	*1.5*	*38.6*	*24.6*	*16.8*	*33.5*	*22.8*	*10.1*
Private Sector	170706	102046	10962	173813	118208	11425	215971	122878	11711	207591	124439	10560	205547	119498	11857
	76.5	*91.6*	*98.6*	*69.5*	*91.9*	*95.9*	*68.6*	*76.6*	*98.5*	*61.4*	*75.4*	*83.2*	*66.5*	*77.2*	*89.9*

NCBs - Nationalised Commercial Banks
Figures in italics are % share in total for the year.

Source: Bank's Annual Reports

Segment by Class of Business - Private Banks

(Rs. Mn)

	1998	1999	2000	2001	2002
Agriculture/Agribusiness	960	1549	2658	1951	3065
	1.2	*1.7*	*2.2*	*1.5*	*1.5*
Automobiles and allied	1062	1629	934	1485	1819
	1.3	*1.8*	*0.8*	*1.1*	*0.9*
Cables/Electronics	975	1426	1429	2208	2499
	1.2	*1.6*	*1.2*	*1.6*	*1.3*
Carpets	97	55	382	461	236
	0.1	*0.1*	*0.3*	*0.3*	*0.1*
Cement	2556	2100	1597	2750	4159
	3.2	*2.3*	*1.3*	*2.1*	*2.1*
Chemicals/Pharmaceuticals	2966	3425	4828	5181	6581
	3.8	*3.8*	*4.0*	*3.9*	*3.3*
Engineering	137	152	711	954	349
	0.2	*0.2*	*0.6*	*0.7*	*0.2*
Fertilizer	206	390	872	436	1482
	0.3	*0.4*	*0.7*	*0.3*	*0.7*
Food and allied	962	2863	3114	3113	3922
	1.2	*3.2*	*2.6*	*2.3*	*2.0*
Fuel/Energy	1503	2718	3303	4799	4726
	1.9	*3.0*	*2.7*	*3.6*	*2.4*
Ghee and edible oil	928	231	413	933	1861
	1.2	*0.3*	*0.3*	*0.7*	*0.9*
Glass and ceramics	0	16	262	58	89
	0.0	*0.02*	*0.02*	*0.04*	*0.04*
Hotels/Restaurants	6	0.25	91	154	391
	0.01	*0.0*	*0.07*	*0.11*	*0.20*
Individuals	1057	1175	3360	4569	13339
	1.3	*1.3*	*2.8*	*3.4*	*6.7*
Insurance	51	113	449	79	152
	0.06	*0.13*	*0.37*	*0.06*	*0.08*
Investment banks/Scheduled banks	0	203	825	372	658
	0.0	*0.2*	*0.7*	*0.3*	*0.3*
Leasing	148	161	155	351	424
	0.2	*0.2*	*0.1*	*0.3*	*0.2*
Leather products and shoes	2761	3238	4051	3233	3951
	3.5	*3.6*	*3.3*	*2.4*	*2.0*
Modarabas	0	206	0	23	0.5
	0.0	*0.2*	*0.0*	*0.02*	*0.0*
Paper and board	303	260	332	515	1020
	0.4	*0.3*	*0.3*	*0.4*	*0.5*
Plastic products	104	66	141	82	470
	0.1	*0.1*	*0.1*	*0.1*	*0.2*
Readymade garments	514	400	774	923	1553
	0.7	*0.4*	*0.6*	*0.7*	*0.8*

(Rs. Mn)

	1998	1999	2000	2001	2002
Real estate/Construction	1030	1074	1264	1693	2041
	1.3	*1.2*	*1.0*	*1.3*	*1.0*
Rice processing and trading	1322	235	1221	1364	1341
	1.7	*0.3*	*1.0*	*1.0*	*0.7*
Rubber products	3	6	73	140	151
	0.004	*0.01*	*0.1*	*0.1*	*0.1*
Services	720	682	1136	753	834
	0.9	*0.8*	*0.9*	*0.6*	*0.4*
Sports goods	74	57	317	97	337
	0.09	*0.06*	*0.3*	*0.1*	*0.2*
Sugar	1541	1546	2405	2325	5217
	2.0	*1.7*	*2.0*	*1.7*	*2.6*
Surgical equipment/Metal products	168	85	262	231	517
	0.2	*0.1*	*0.2*	*0.2*	*0.3*
Synthetic and rayon	0	81	721	1187	2117
	0.0	*0.1*	*0.6*	*0.9*	*1.1*
Textile	28823	36601	50362	53910	78261
	36.5	*40.9*	*41.4*	*40.2*	*39.2*
Tobacco/Cigarette manufacturing	20	119	1136	19	7
	0.03	*0.1*	*0.9*	*0.01*	*0.004*
Transport and communications	505	923	1043	1128	920
	0.6	*1.0*	*0.9*	*0.8*	*0.5*
Travel agencies	5	4	67	17	149
	0.01	*0.0*	*0.1*	*0.01*	*0.1*
Woollen	0	9	11	64	36
	0.0	*0.01*	*0.01*	*0.05*	*0.02*
Public/Government	0	0	0	1741	9
	0.0	*0.0*	*0.0*	*1.3*	*0.005*
Financial	1344	1859	1355	1647	4146
	1.7	*2.1*	*1.1*	*1.2*	*2.1*
Production & Transmission of Energy	1828	1644	3101	2870	2612
	2.3	*1.8*	*2.5*	*2.1*	*1.3*
Metal Industries	408	500	455	514	592
	0.5	*0.6*	*0.4*	*0.4*	*0.3*
Importers, Exporters & Retailers	552	555	911	991	1650
	0.7	*0.6*	*0.7*	*0.7*	*0.8*
Others	23267	21089	25109	28727	45766
	29.5	*23.6*	*20.6*	*21.4*	*22.9*
Total	78906	89445	121630	134048	199450
Public Sector	1829	2301	3112	8507	7463
	2.3	*2.6*	*2.6*	*6.3*	*3.7*
Private Sector	77078	87144	118519	125541	191987
	97.7	*97.4*	*97.4*	*93.7*	*96.3*

Segment by Class of Business - Foreign Banks

(Rs. Mn)

	1998	1999	2000	2001	2002
Chemicals and Pharmaceuticals	12691	13457	7617	12747	15867
	11.3	*10.9*	*6.6*	*10.8*	*12.5*
Agribusiness	1330	679	131	8	397
	1.2	*0.6*	*0.1*	*0.01*	*0.3*
Textile	27933	32334	30697	31540	31220
	25.0	*26.2*	*26.7*	*26.6*	*24.6*
Cement	997	753	1269	1819	4237
	0.9	*0.6*	*1.1*	*1.5*	*3.3*
Sugar	1997	2653	797	1339	1620
	1.8	*2.2*	*0.7*	*1.1*	*1.3*
Food & Allied	2876	4338	3908	3857	2942
	2.6	*3.5*	*3.4*	*3.3*	*2.3*
Shoes and leather garments	2082	1821	1264	1263	868
	1.9	*1.5*	*1.1*	*1.1*	*0.7*
Automobile and transportation eqp.	2323	2174	2317	4588	2914
	2.1	*1.8*	*2.0*	*3.9*	*2.3*
Financial	5374	7903	10487	7068	9200
	4.8	*6.4*	*9.1*	*6.0*	*7.3*
Insurance	0	0	0	100	70
	0.0	*0.0*	*0.0*	*0.1*	*0.1*
Electronics & electrical appliances	2830	3019	2109	3748	1544
	2.5	*2.4*	*1.8*	*3.2*	*1.2*
Services	597	487	72	1514	1394
	0.5	*0.4*	*0.1*	*1.3*	*1.1*
Production & transmission of energy	3834	4187	5278	8190	2683
	3.4	*3.4*	*4.6*	*6.9*	*2.1*

(Rs. Mn)

	1998	1999	2000	2001	2002
Individuals	9267	8825	16734	15320	28569
	8.3	*7.2*	*14.5*	*12.9*	*22.5*
Fuel & energy	4450	4304	3233	1748	2273
	4.0	*3.5*	*2.8*	*1.5*	*1.8*
Synthetic & rayon	0	1404	1623	1857	799
	0.0	*1.1*	*1.4*	*1.6*	*0.6*
Transport/Telecommunications	4443	5154	4260	86	402
	4.0	*4.2*	*3.7*	*0.1*	*0.3*
Paper and paper products	143	277	24	77	190
	0.1	*0.2*	*0.02*	*0.1*	*0.1*
Trading	1016	1674	4035	457	1164
	0.9	*1.4*	*3.5*	*0.4*	*0.9*
Manufacturing	0	2358	1591	923	1419
	0.0	*1.9*	*1.4*	*0.8*	*1.1*
Construction and allied	901	1149	266	343	516
	0.8	*0.9*	*0.2*	*0.3*	*0.4*
Exporters/Importers	0	711	958	3052	1362
	0.0	*0.6*	*0.8*	*2.6*	*1.1*
Others	26792	23588	16342	16899	15115
	23.9	*19.1*	*14.2*	*14.3*	*11.9*
Total	111876	123249	115012	118543	126765
Public Sector	8916	10541	8497	11481	6919
	8.0	*8.6*	*7.4*	*9.7*	*5.5*
Private Sector	102960	112708	106515	107062	119845
	92.0	*91.4*	*92.6*	*90.3*	*94.5*

Source: Bank's Annual Reports

Changed Scenario for Banks Operating in Pakistan

The banking sector environment in Pakistan has been undergoing a phenomenal change since 1990. These changes form the major planks of the ongoing economic reforms in Pakistan. Financial reforms have been all encompassing ———— institutional strengthening, restructuring of banks and development finance institutions and improvement in regulatory framework. Reforms were aimed to instil competition and switch over to market based and relatively more efficient monetary and credit mechanism.

Monetary policy also saw a paradigm shift from reliance on direct controls to indirect methods, like discount rate and open market operations to regulate interbank liquidity.

In the recent past (FY99-01), a tight monetary policy was pursued to contain price increases and buttress exchange rates so to build exchange reserves (monetary policy was tightened to meet performance criteria targets agreed with the IMF).

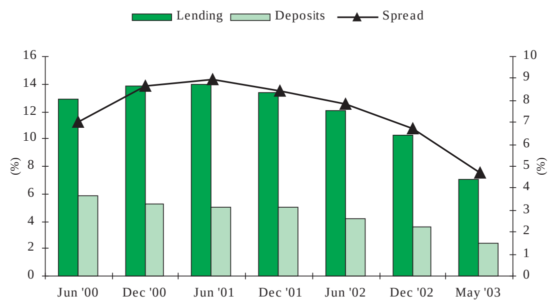
Easing of monetary policy

It was only later, July 2001 that the State Bank of Pakistan began the process of easing of monetary policy with a percentage point cut in discount rate. This was subsequently followed by more such reductions, reducing the rate to 7.5% by November 2002, a level left unchanged since. It was for the first time under the market based mechanism of interest rate determination that discount rate was cut and interest rates lowered.

The year 2002 witnessed a change in the interest rate environment. Lending rates came down significantly from 13.4% in December 01 to 10.3% in December 02, while lending spread was reduced to 6.7% (8.4% in December 01). The rate plunged to 8.3% by end March 2003 and to 7.09% by May same year. Meanwhile, the spread has come down to 4.68%. Within the banking sector, all banking groups made the cuts in lending rates.

Presently privatised banks average lending rates are the lowest (6.07%), followed by nationalised commercial banks (6.48%). The spread for both banks' categories in also lower than that of all groups.

Weighted Average Lending/Deposits Rates
All Banks



In the period of rising interest rates, banks both local and foreign had invested heavily in government securities. Banks could make safe money by investing in government bonds, the income from which was more than 6% a year as recently as July 2002. Balance sheet of most banks show that investment in market treasury bills which are for a period of 6 months to 1 year have been quite high.

Investment in government securities has grown

For instance in 2002, of their respective investment for the year investment in market treasury bills were high. National Bank of Pakistan had invested 54%, Muslim Commercial Bank 61%, Bank Al-Falah 48%, Credit Agricole Indosuez 93%, Standard Chartered 88%, American Express 83%, Habib Bank AG Zurich 29%, Bolan Bank 45% among other banks. Besides MTBs, banks are heavily investing in Federal Investment Bonds and Pakistan Investment Bonds. These banks were enjoying returns ranging from 8.8%-12.4% in 2001, which has come down to less than 2% recently.

Excess liquidity

Alongwith declining interest income, banks are faced with abundance of liquidity. Many Pakistanis residing overseas who were earlier using the informal system of money transfer, have after 9/11 started using the more transparent method of money transfer i.e. through banks. Transfer through informal ways have fallen under severe international scrutiny. More money being channelled through commercial banks alongwith weak loan demand by the business community has contributed to excess liquidity in the banking system.

Interest rates falling

Alongwith decline in lending rates, return on governement securities and National Saving Schemes have fallen. Falling returns makes investment in government securities no more an attractive avenue for investment. This plus an abundance of liquidity with commercial banks, plus decline in banking spreads is posing a serious challenge to the banking sector. These developments are likely to affect the sector's profitability, unless the banks diversify their lending portfolios, lower the stock of non-provisioned non performing loans and increase their non-interest income.

This change in scenario, where banks are teeming with liquidity and are faced with a significant decline in their interest income, has led them to explore new avenues and launch new products.

Growing interest in consumer finance

Consumer finance has emerged as one of the sectors where commercial banks moving into. This offers the banks an opportunity to increase their non fund income, do their job of allocating capital in the economy and at the same time has ushered in a phase where consumer financing would contribute to increased demand, promote production and generate employment. It would give an impetus to the development of a wide range of industries including, housing, automobiles, and varied household items.

The move towards consumer banking is not something specific to Pakistan, banks all over the world are turning towards consumer banking. While earlier only the foreign banks had ventured in this area, now the big nationalised commercial banks, National Bank of Pakistan and Habib Bank Ltd, alongwith the private sector commercial banks are doing consumer financing. Liquidity of the banking sector can now finance household loan requirement.

These banks are now offering products like, car financing, house financing, loans for consumer durables and other facilities like payment of utility bills, ATMs, phone banking, credit cards, smart cards. Consumer durables is the third major segment of consumer banking, the other two being car financing and house financing. Banks are also investing in the capital market. Aware of the new challenges facing the sector, new line of businesses have been developed by the banks to beef up competition and boost profitability. Competition has grown amongst the banks, for most of the banks are now offering similar schemes.

Pakistan's Paper & Paper Board Industry

First mill setup in 1956

At the time of independence Pakistan had no paper and paper board manufacturing unit and the country's entire needs were met through imports. The first paper manufacturing unit was established by the Adamjees at Nowshera in 1956, with a 500 tonnes per annum production capacity. Since then, many large and small sized manufacturing units have been set up in Punjab, NWFP and Sindh. The industry produces various grades of paper using locally produced as well as imported raw materials.

Production/Capacity of Paper & Paper Board

(000 Tonnes)

	97-98	98-99	99-00	00-01	01-02	02-03*
Writing/printing paper	83.4	81.8	90.7	101.6	113.3	53.8
Wrapping/packing paper	24.0	18.0	20.7	4.6	9.3	18.8
Duple paper board	74.9	90.5	107.8	149.1	147.4	105.1
Chip/other board	41.4	24.6	26.4	33.5	36.0	11.9
Fluting paper	23.2	35.2	53.8	39.7	30.7	
Other types of paper	8.1	8.3	6.5	8.7	9.0	40.2†
Actual production	255.0	258.4	305.9	337.2	345.7	229.7
Installed capacity	324.1	331.0	341.0	393.5	393.5	393.5
Capacity utilization %	79.0	78.0	90.0	86.0	88.0	58.0

* July-December

† Includes white duplex board, chip board, fluting paper and other types of paper.

Source: Federal Bureau of Statistics

Produc-tion / capacity

At present there are about 100 units in the organized and unorganized sectors, having a cumulative installed capacity of 600 thousand tonnes. The organized sector comprises of 26 paper manufacturing units with 525 thousand tonnes production capacity. These units produce writing and printing paper, wrapping & packing paper, white duplex board & paper board and chip/other board. Nearly 70% of the paper mills are located in Punjab, 20% in Sindh and 10% in NWFP. Majority of the mills have low production capacities, with only a few having a capacity of more than 100 tonnes per day. On annual basis, production capacity of these units ranges between 1500-68000 tonnes.

In the organized sector, paper board production is based on two types of units; integrated paper & pulp producing units and paper & board producing units. The integrated paper pulp and manufacturing unit is highly value added and requires advance technical know how for quality supplies. Except for a few units in the country who have adopted the advance technical know-how, the others have become inoperative and are closed.

Capital intensive

The paper & paper board industry is highly capital intensive, and so far, an estimated investment of Rs.30 billion has been made in the industry. Its share in manufacturing value added is however only 2.5%, while its contribution to GDP is less than 0.5%. It contributes directly as well as indirectly towards employment generation for technical, skilled, semi-skilled and un-skilled workers. Presently the sector is providing jobs to about 95 thousand persons. The industry comprises of about 44 paper & paper board manufacturing units, 38 wrapping & packing plants and 18 writing & printing paper units.

Industry handicaps

The industry is poorly developed mainly due to non availability of local wood fibre, deficient technological base, lack of infrastructure and non-availability of technical manpower. Though the industry is contributing towards import substitution to the extent of $250 million in foreign exchange annually, it cannot compete in the international market due to high production costs for superior quality products. Local production is only 0.1% of global production.

Local & Global Industry – A comparison

Parameters	International Paper Industry	Pakistan Paper Industry	Local Industry Handicaps
Size	3000 tpd	50 tpd	Very high
Machine size	5-meter width	2-meter width	Very high
Wood pulp	Local	Imported	Very high
Waste paper	Local supplies	Imported & local	Very high
Chemicals	Local supplies	Imported & local	Very high
Duty on fibres	No duty	Duty	Very high
Labour productivity	Very high	Very low	High
Technology	Cost effective	Costly	Very high
Pulp production	Cost effective	Costly	High
Fuel and power	4 cents per kWh	6-8 cents per kWh	High
Agencies involvement	Negligible	Too much intervention	Very high
Tariff rates	Low	High	High
Industry protection	-	Low	-
Infrastructure	Well developed	Under developed	Very high

Source: Experts Advisory Cell
Ministry of Industries & Production

Basic fibrous raw material used in the production of paper & paper board comprises of wood-pulp, non wood-pulp and recycled paper. Limited forest resources restrict the use of wood for production of pulp in Pakistan. Agricultural waste like wheat and rice straw, cotton linter and waste, bagasse are all fibrous raw material available locally for manufacturing paper and duplex board.

In addition, wide range of grasses grown in the country such as Kahi, Bhabbar, Ganj gumaz Rhodes, Chorkha, Pampi, Chari and Dhaman, can be used for making pulp and paper. About 65% of paper products in Pakistan use local grass and wheat straw as the basic raw material and about 25% are based on waste paper bagasse, rice straw and cotton waste. Two-thirds of the paper produced globally is made from non-wood sources such as cotton and rice straw. Most of the high quality paper and newsprint is imported. Special grade products, accounting for some 10% use imported pulp.

Low demand

The demand for paper & paper board in Pakistan is significantly low compared to international standards. Per capita consumption currently stands dismally low at 3.7 kgs, only a small increase from 2.9 kgs in 1997-98. In the past six years demand has shown an erratic trend, with growth averaging 8% per annum. Even this low demand is met through imports, as there is a shortage of supply of paper and paper products in the local market. Local production is short of consumption by between 25%-30%.

Demand & Supply of Paper & Paper Board

Year	Production 000 Tonnes	Imports 000 Tonnes	Demand 000 Tonnes	Consumption Kg/capita
1997-98	255.0	122.0	377.0	2.87
1998-99	258.4	145.8	404.2	3.01
1999-00	305.9	160.4	46.37	3.39
2000-01	337.2	144.0	481.1	3.45
2001-02	345.7	178.3	524.0	3.69
2002-03*	189.6	127.1	316.6	2.60

* July-December

Source: Pakistan Pulp Papers & Board Mills Association

According to the Pakistan Pulp Paper & Board Mills Association, the production of 26 mills in the organized sector has shown a rising trend over the past five years. However, annual growth has been erratic. These mills produced an estimated 356 thousand tonnes of paper & paper board in 2002, utilizing 88% of total installed capacity of these mills. Despite increase in demand, 12% of the capacity remained unutilized.

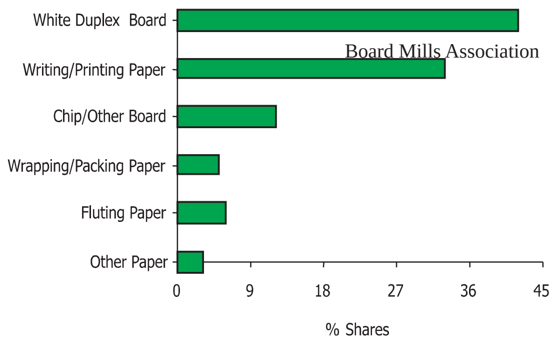
The increase in production is due to expansion at the major units, Packages Limited and Century Paper Mills Limited who are operating at over capacity. Paramount Paper & Board Mills and Olympia Paper & Board Mills, with relatively smaller installed capacity also operated at overcapacity in 2002 and Security Paper Mills is also operating at over capacity. Some new mills have also been setup.

Local production meets part of demand

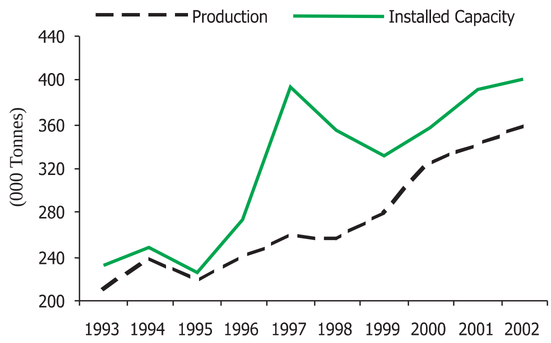
However, local production meets only part of the national demand of six basic paper products, which are, writing and printing paper, wrapping/packing paper, duplex paper board, chip board, paper & board and fluting paper. A break-up of production of various type of paper reveals that in the past 5 years, production of writing/printing paper has gone up by 43% with a share of 36% in total production of paper & paper products, but was 9% short of local demand.

Wrapping/packing paper accounts for only 5% of total production. During the last five years, production has surged 55%, meeting 41% of the demand in 2002. White duplex & other board production jumped 87% in five years, sharing 42% of local production and meeting 71% of demand last year. Production of chip board and fluting paper have declined by 22% and 42% respectively. Their share in total production has also come down to 12% and 6% respectively.

Production Composition of Paper & Paper Board 2002



Production & Capacity Utilisation



Large imports of various types of paper

Despite a substantial number of projects in this sector, domestic production of paper and board falls short of local demand. Various types including high grade and fine quality papers are imported, valuing at around $150 million. Paper & paper board products are imported from Sweden, Finland, Canada, USA and China. Major items of imports are newsprint, writing/printing paper, kraft paper, white duplex/coated board and paper pulp. Entire demand for newsprint and wood pulp is met through imports. About 40% of paper imported consists of newsprint. Pulp/waste paper import constitute nearly 25% of total paper & paper board/pulp & waste paper imports.

Import of Paper & Paper Board

(000 Tonnes)

Year	Newsprint	Other paper & paper board	Total paper & paper board	Pulp & Waste paper
1997-98	54.9	67.1	122.0	50.8
1998-99	63.1	82.6	145.8	39.9
1999-00	77.2	84.2	160.4	33.9
2000-01	59.7	84.3	144.0	35.5
2001-02	70.8	107.5	178.3	54.9
2002-03*	37.6	89.5	127.1	58.5^

* July-December
^ Pulp and recover waste paper

Sources: Pakistan Pulp Paper & Board Mills Association

Problems Facing the Industry

The demand for paper & paper board has risen on account of a change in the social and economic pattern. The local industry however, has not been able to operate successfully and the operational results of most of the projects are highly discouraging. Almost all the units are confronted with different types of problems. Many units have become inoperative. Some of them facing financial constraints have closed down. Currently various impediments are affecting the growth of the local industry. Prominent among these are: -

- Non-availability of wood pulp and raw materials.
- Low capacity utilization.
- Fiscal anomalies, fixation of low ITP value and under invoicing.
- Dumping of cheap paper products.

Shortage of raw materials

Due to low density of forests in Pakistan and also because of unchecked de-forestation, wood pulp, a basic raw material for making paper and board is scarce.

Pulp production is based on agriculture waste such as wheat and rice straw, cotton linters, waste paper, bagasse and kahi grass roots. These are also in short supply as these resources have not been fully tapped. Mills are also facing difficulties in the procurement and storage of these materials at reasonable prices. At the same time, agriculture waste available in Pakistan is for producing only short fibre pulp, consequently quality of paper produced locally is not upto the required standard and not compatible with imported paper.

Major constraint in manufacturing kraft paper which is used mainly for packing/wrapping is the non-availability of high strength long fibre pulp. Bagasse is available in abundance but it is being used by sugar mills as fuel in boilers for generating steam and is not available to paper & board industry. This raw material can be used in manufacturing writing/printing paper and newsprint. Due to non-availability of raw materials and auxiliary materials, the mills are running at under capacity and some units have been forced to shutdown.

High production costs

The paper industry has not been able to capture the local market on account of high production cost. Raw materials constitute 58% of the total cost, labour 10%, fuel and energy 12% and over heads 20%. Increase in the prices of raw materials, inputs and utilities have made the local industry uncompetitive.

Production Cost

(In Rupees)

		Current*	1999-2000	1998-99
Raw material				
Imported pulp	Per/kg	48.00	28.13	23.18
Waste paper	Per/kg	7.36	6.80	6.34
Wheat straw & kahi	Per/kg	0.92	1.04	1.17
Chemical & others	Per/kg	12.05	12.94	12.40
Salaries & wages	Per/ton	1.44	1.238	1.20
Electricity	Per/kwh	3.67	3.60	3.71
Furnace oil	Per/litre	8.77	6.67	5.33

* After 30th June 2000.

Source: Experts Advisory Cell, Ministry of Industries & Production

Consumers' preference for low cost imported paper has adversely affected operation of most paper manufacturing units. As a result, installed capacity utilisation of local industry has been affected and overall operational capacity has been far below its optimum level.

Local industry suffers

The liberal import policy pursued has resulted in large imports of various grades of paper and paper board, which is available in the local market at low cost. The industry is facing increasing pressure from lower import duties, higher excise duties and sales tax. According to the Pakistan Pulp Paper & Board Mills Association, the imposition of discriminatory tariff structure, heavy under invoicing in the import of coated duplex board, fine quality offset paper and writing/printing paper have made local industry operations difficult.

Low availability of waste paper in the international market has pushed up its price. Due to environmental statutory laws, the major exporting countries now consume specific percentage of waste paper domestically for production purposes. In addition, new mills based on waste paper of large capacities are also coming into operation in the developed countries. This has adversely affected the availability of waste paper in the international market at reasonable prices.

Conclusion & Recommendations

Over the decades, there has been a substantial growth in the number of mills. Some 100 plus units are engaged in production of various types and grades of paper & paper board. Domestic production is however, insufficient to meet the existing demand, because the technology used in Pakistan is low to medium with low efficiency. Nearly one-third of production capacity is lying unutilized.

Low consump-tion

Pakistan's share in global paper & paper board production is almost negligible, being less than 0.1%. Though local demand for paper & paper board is increasing at nearly 8% annually, per capita consumption of 3.7 kg is dismally low compared to international standard.

Local raw materials short

Main raw material used for manufacturing paper & paper board are pulp from wood, kraft pulp, waste paper and agricultural crop waste such as wheat and rice straws, cotton linters and cotton waste bagasse and kahi grass etc, while auxiliary materials are caustic soda, chlorine, china clay, soap stone, limestone, barium chloride and resins. Amongst these raw and auxiliary materials, kraft paper, china clay, barium chloride and resins etc., are imported ingredients.

Wood pulp is not available locally. All paper & board mills use combination of waste paper, straw and grass for the production of pulp. Agricultural crop waste is available in abundance. However, potential of these resources is yet to be fully tapped. At the same time, mechanical process is also not suitable for these raw materials as it reduces strength of the product and results in the manufacture of inferior quality of paper & paper board.

Consequently the existing gap between production and consumption of paper & board is being met through imports. Due to negligible wood pulp production capacity in the country, various finer grades of art paper, waste paper and entire newsprint is imported. Being an agrarian economy, Pakistan can play an important role in the development of paper & paper board industry if all available resources are put into productive usage with concerted efforts.

Pakistan Pulp Paper & Board Mills Association calls for measures to remove fiscal anomalies, check paper smuggling and reduce production cost. An incentive package is needed to revitalize the projects in difficulties. Instead of setting up new mills, efforts should be made to attain optimum capacity utilization by making closed units operative, reviving idle capacity through up-gradation of technology and ensuring availability of raw materials at competitive rates. Establishment of new mills should only be allowed for manufacturing newsprint paper, kraft paper and waste paper as these are imported and not locally manufactured.

Measures needed

Provincial agriculture departments in Sindh, Punjab and NWFP be pursued to take steps for increasing the production of wheat/rice straws, bagasse and kahi grass required in large quantity by paper & paper board industry. Arrangements be made for proper procurement, storage and supply of these raw materials to the industry at reasonable rates.

Utilisation of bagasse by the paper & board industry for making newsprint has not been fully explored. It can be effectively used as raw material for the production of newsprint. Therefore, bagasse should be made available to the industry for value added newsprint.

Credit needed

The development financial institutions be asked to provide concessional loans to develop hi-tech paper industry for improving the quality, standard and production of finer grader paper & paper board. Concessional funds should be provided for balancing, modernisation and expansion of units, making the industry competitive. The government should prepare a rescue package for the industry, under which taxes and duties on import of paper, which is locally manufactured, be enhanced and taxes and duties on imported raw materials, not manufactured domestically, be abolished for a specific period.

Concessional financing should also be made available for the import of plants and technology for newsprint manufacturing. The industry is capable of manufacturing paper and paper board of finer quality and standard comparable to international level provided production cost is lowered by adjusting duties on imported raw materials, lowering fuel and power rates, and reviving production capacity lying idle. There is sufficient installed capacity to meet the demand for the next five years.

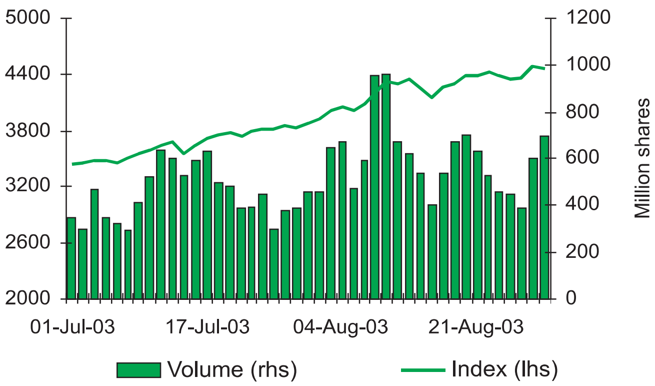
Market Analysis

Market Outlook

The market rally continued unabated through July and August 2003. The KSE-100 index rose 31% in the two-month period. It closed August at 4461 points and has risen an impressive 65% since the start of the calendar year. There does not appear to be any signs of a let up in market growth.

The market gained 528 points in the month of July, and another 531 points in August. Top performers during this period included Askari Bank, SSGC, Cherat Cement and Pakistan Oilfields. Under performers included Hubco, Engro, and FFC (poor long-term earnings growth outlook); Shell and Unilever (low liquidity, plus less than expected earnings); and Dewan Motors and Nishat Mills, which entered into a period of consolidation after making very heavy gains earlier in the year.

KSE-100

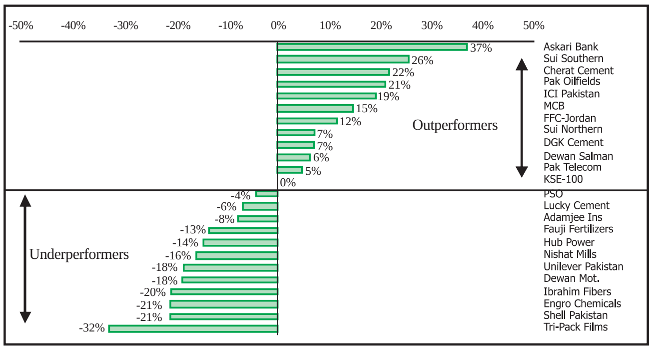


Corporate Earnings

July and August were the corporate earnings season, when most companies announce their full year or half year earnings. Earnings announcements in this period were fairly mixed for the blue chips. While ICI, PSO and Engro announced strong earnings growth for their respective periods, Fauji Fertlizer, Shell and Unilever failed to meet market expectations. The banking sector in general has had a very good half-year despite the fact that interest spreads are under pressure given the low rates.

Major earnings announcements still to come include PTCL, Hubco, SSGC, SNGPL, and Pakistan Oilfields. The market closely watched Pakistan Oilfields in particular on expectations of a bonus shares dividend.

Comparative Performance (July 01, 2003 - August 29, 2003)



Public Offerings

The bullish market conditions, combined with overall improvement in the country's macroeconomic fundamentals means there is an increase in business activity, and conditions are ripe for companies to raise funds through the capital markets. If anything, the low interest rates are presently the main barrier to greater listing activity.

The current year has seen two new listings on the stock exchange with Initial Public Offerings by TRG Pakistan and Pakistan International Container Terminals (PICT). More are in the pipelines including OGDCL and HBL, both of which are keenly awaited by investors. This process is serving to deepen and broaden the market, and is good for the long-term growth and development of the capital markets.

Looking Ahead: Very few threats

This market is in a liquidity driven rally that appears to face very few threats to its medium-long term growth. While political tensions both within the country and with neighbour countries remain in the backdrop, the situation is stable enough for local investors to put worries from those fronts aside (though they are sufficient for foreign investors to shy away).

While short-term corrections may come and go, the long-term trend is expected to remain bullish as long as there is excess liquidity and no major change in the current circumstances vis-à-vis the political and security situation. It is not until interest rates begin to rise again (not expected this calendar year) will the market rally see any major disruption.

(Contributed by Taurus Securities Ltd, a subsidiary of National Bank of Pakistan)

NBP Performance at a Glance

(Rs. Bn)

Items	1998	1999	2000	2001	2002
Net Fund Based Income	8.9	10.4	8.8	12.4	12.8
Non Fund Based Income	2.7	4.0	4.0	4.5	4.8
Administrative Expenses	6.2	7.9	8.0	8.6	9.1
Pre-Tax Profit	2.14	0.52	1.03	3.02	6.04
After-Tax Profit	0.53	0.03	0.46	1.15	2.25
Total Assets	325.1	350.4	371.6	415.1	432.8
Deposits	273.4	294.8	316.5	349.6	362.9
Advances	109.5	122.6	140.3	170.3	140.5
Investments	103.0	91.5	72.6	71.8	143.5
Shareholders' Equity	10.0	10.4	11.4	12.0	14.3
Number of Branches	1434	1431	1428	1245	1204
Number of Employees	15785	15541	15351	15163	12195

Core Values That Define Us

We aim to be an organization that is founded on...

Growth through creation of sustainable relationships with our customers.

Prudence to guide our business conduct.

A national presence with a history of contribution to our communities.

We shall work to…

Meet expectations through Market-based solutions and products.

Reward entrepreneurial efforts.

Create value for all our stakeholders.

We aim to be people who…

Care about relationships.

Lead through the strength of our commitment and willingness to excel.

Practice integrity, honesty and hard work. We believe that these are measures of true success.

We have confidence that tomorrow we will be…

Leaders in our industry.

An organization maintaining the trust of our stakeholders.

An innovative, creative and dynamic institution responding to the changing needs of the internal and external environment.