ECONOMIC BULLETIN

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Editor's Corner

Dear Readers,

In resource constrained countries like Pakistan, foreign assistance has been an important source of financing the economic needs of the country. Most aid is conditional but countries dependent on aid have little choice but to accept. Pakistan has been a recipient of foreign economic assistance for decades and has had to bear the economic repercussions of receiving assistance. Its external debt liabilities today have risen to $50.1 billion, constituting 30.2 percent of GDP. Servicing of foreign debt and foreign loan repayment consumes about 17 percent of the allocation for general public services head under current expenditure in the Annual Budget.

Pakistan has time and again approached the IMF and other multilateral donors for financial assistance. The recent approach for help from IMF and other donors was because of the adverse macroeconomic conditions prevailing. In recent months the economy saw widening of fiscal and current account deficits, decline in export earnings because of the global economic crisis, outflow in portfolio investment, decline in foreign direct investment. Global financial crisis restricted Pakistan's ability to tap international capital markets. The fall in the financial inflows and widening of the trade deficit led to a loss of around 60 percent in Pakistan's reserves in just 11 months (October '07 to November '08).

Pakistan had little option but to seek IMF assistance to help it pursue a macroeconomic stabilization programme and restore the confidence of the investor in the economy. The IMF assistance of $7.6 billion comes with a number of conditionality targets. These focus on quarterly quantitative targets for, government borrowings from State Bank of Pakistan, budget deficit, international reserves, phasing out of electricity subsidies, elimination of oil subsidies, improvement in banking and tax legislation, strengthening the social safety net for poor households and working towards elimination of inter-corporate debt.

The IMF also acceded to government of Pakistan's additional request for $3.2 billion, which has increased the total assistance to $11.3 billion. At the donors conference in Tokyo in April '09, the donors pledge $5.7 billion to Pakistan over three years. Asian Development Bank assistance for various projects – power transmission, development of renewable energy programme and rural development programme in Balochistan has increased by $1.5 billion in FY09. Among the Paris Club, Japan enhanced its lending, while China with a major share in bilateral debt was a major provider in FY09.

As the aggregate amount of foreign liabilities rose, the debt servicing costs have risen to $4.69 billion in FY09, a 54.8 percent increase over a year earlier, alongwith a deterioration in the debt servicing indicators.

The Kerry Lugar Bill created a lot of furore in the country in recent weeks. What is lacking is perhaps the will to reduce the economy's dependence on foreign assistance. This could only be reduced if more taxes are raised by bringing the untaxed segment of society into the tax net, lowering the fiscal deficit by cutting down unnecessary expenditures, increasing the savings and investment level in the economy, raising exports earnings through diversification of items focusing on value addition and nontraditional items and other difficult structural reforms, which can bring a lasting solution to the resource problem.

Ayesha Mahmood

Interview — S. Ali Raza, President
National Bank of Pakistan

National Bank of Pakistan marks its 60th Anniversary in November 2009. S. Ali Raza, President of the Bank gives his views about the major achievements, the areas of development and his vision for the Bank going forward.

Q.1 *Please describe the Bank's strategy as of 2000 when you assumed charge as President of National Bank. How do you compare it to 2009?*

A. In 2001 the bank had some very serious structural and financial issues. Our operating margin was almost zero, we had a huge problem with non performing loans and a very high intermediation cost, the moral among the staff was not very high, and all of this reflected in poor customer service, very little balance sheet growth and an impression that National Bank was like a department of the government and not a commercial organization. Today 7-8 years on, by the grace of God there is no institution that has received the kind of recognition that National Bank has internationally. We have received over 30 awards from the major international journals all over the world.

About two years ago our stock price was amongst the highest in this region. So the bank is completely different, and the challenge we face now are completely different. Challenges never end, they keep on changing in the light of what is happening in the external and internal environment. The problems of Pakistan in 2009 are quite different particularly the problems in the financial sector, or the issues facing the financial sector.

In 2001 the financial sector, most of it was nationalized, because the large banks had not been privatized. But today the entire banking system is privatized and even NBP if not privatized is corporatised and we have an independent Board that makes all decisions. So the structure of the Bank administratively is quite different than what it was in the 80s and 90s. The recent recession as everyone is aware has resulted in some of the most prominent financial institutions either collapsing or becoming nationalized. I think our banking sector has passed through this turbulence with resilience. Our banking system is safe and sound, which is not to say that it doesn't face challenges, I think one of the major challenge it faces today is because of the law & order situation in the country, the energy problem, maybe the high cost of borrowing. A lot of our borrowers, and I am talking about the banking system as a whole now are in difficulty, many are not able to service their debts, because if a factory does not get electricity on a regular basis how can it produce, and if it can't produce how can it sell, if it can't sell how can it repay its loans. So there are problems with respect to non performing loans and this is affecting I suppose the smaller banks more, because the larger banks have capital cushions and strong capital adequacy. The smaller banks have been affected more.

Coming back to National Bank, our earnings have been pretty stable, yes they have been a little lower than the peak we achieved in 2008, but not by much. Our balance sheet continues to grow, which reflects the confidence the customers have in the Bank. So the challenges going forward basically are on the one hand, to manage this issue of non performing loans and the second is to continue to grow in certain areas where we see a good future, for example in agriculture, there is a lot of potential for the banking sector to grow in agriculture. Statistics demonstrate that market penetration that banks have in this sector is something like 20 per cent, so there is a huge amount of potential there. For National Bank it is a natural area of growth because we have a presence all over the country particularly in the rural areas.

Secondly this whole area of small and medium enterprises which is really in my opinion going forward is going to be the bedrock of the banking system, because ultimately large companies as has happened in most countries of the world start accessing the capital market for their borrowings and that will happen in Pakistan as well, and the core function of the commercial banks anyway is to lend to the SME sector.

The SME sector again is starved of credit because it is not organized, it doesn't have a system of credit evaluation or an external system of credit evaluation of the kind that would give banks sufficient confidence to grow their business, but the infrastructure is now ready, the State Bank has now given a very sensible framework for banks to lend to SME sector. So those are the two sectors where I see a lot of growth going forward.

The third area where I see growth is in the area of project finance, because Pakistan is a country that requires a lot of investment in infrastructure whether it is roads, whether its power plants, whether it is refineries, whether its engineering projects and typically these projects are financed through a combination of bank borrowing, capital raising from the debt market, a synthetic combination of different forms of capital raising, I think that is an area where large commercial banks like National Bank who have the balance sheet and who have penetration will be able to play an important role.

And lastly I would like to mention our overseas franchise. We are unique in having a foot print throughout South Asia, Central Asia and Middle East, maybe the only international bank to have such a presence. And whereas I don't see any growth coming from the developed markets, I see more and more synergy in the Central Asia, South Asia and Middle East region in terms of trade, in terms of capital flows and National Bank will be in an excellent position given its on the dot presence to capitalize on these flows. So these are some of the areas where I see growth going forward.

Q.2 *How has NBP developed in the last 10 years? What changes have contributed positively to building the bank?*

A. I think the biggest threat other than the pre financial position that National Bank faced in 2000-01 was that it was too dependent on the public sector both in terms of deposits as well as in term of loans. Virtually 90 percent of our balance sheet was dependent on the government in one shape or form. I am very pleased to tell you that we have now vastly reduced that dependency. We are now functioning as a commercial bank competiting with the other large banks in the market and hopefully delivering the kind of service which not only our customers but which the market expects any good established commercial organization to provide. That's really one of the major transitions that has taken place.

In addition we have invested a lot in Human Resource development, in skill re engineering. In 2002 we started taking MBAs to update the quality of our staff; around 100-250 a year and now we have 900 MBAs working in this organization, which is more than the number of MBAs working in any organization in this country and as we continue to upgrade the quality of our people, the human resource will continue to become better and at the end of the day organizations are all about the quality of human resources. So we are investing a lot in hiring quality personnel, in training our existing staff, re-engineering their skills.

We are investing a lot in our IT platform which is another major focus area for the Bank, putting in a new core banking system which is a state of the art system second to none and it will take about 18 months to implement but once that implementation is in place it will vastly improve our customer service, it will vastly improve our internal MIS, it will vastly improve our ability to provide alternative delivery channels to our customers for their banking products, whether they want to make a bill payment, whether they want to access their account, seek information about their account, make transfers etc. So I would say that those are the other major pillars of our future development; continued development in human resource and investment in IT to achieve our goals.

Q.3 *What are NBP's greatest achievements so far, according to you?*

A. I think NBP's greatest achievement is that it has been able to demonstrate that an organization owned by the government can be not only as efficient but more efficient than its counterpart organizations operating in the private sector. So what it shows really the issue is not ownership of the institution; the issue is quality of management and the vision of the management and the ability of the management to implement that vision. At this point I have to compliment the quality of our people, I think the quality of people at National Bank in terms of their commitment is second to none.

In terms of their training maybe there are areas where they did not receive the kind of training in the past that was necessary so it was not really their fault. But I tell you the commitment I have seen in our employees and how hard they work and in what spirit they work is something I haven't seen any where in the world. I have actually worked in some 13 countries including the US and Europe and Middle East. This is really the core strength of this Bank and Inshallah going forward I am sure this spirit will become stronger and stronger.

Q.4 *What are the new focus areas?*

A. I have talked about the focus areas. I have talked about on the business side, I have talked about agriculture, SMEs and on the infrastructure side I have talked about HR, continued development in HR and the whole IT platform. So those are the focus areas.

Q.5 *Where do you see NBP five years from now?*

I see National Bank as a major regional bank, because in five years, I hope and I am confident that the geo politics of this region will be more peaceful than what it is today. Pakistan is a country with tremendous potential. It is facing challenges but we have the ability to overcome these challenges and I think we will be entering into an era where Pakistan will become strategically a very critical country.

It's the energy corridor for this whole region, it is a country with a large population, so therefore, once there is law & order, stability in the law & order situation we can actually attract a lot of investment. We have tremendous natural resources, tremendous human resources and all of this I think will enable Pakistan to move very very rapidly to the next level of development and I think National Bank with its presence globally especially in this very strategic region of Central Asia/South Asia, Middle East and in Pakistan will hopefully be one of biggest beneficiaries of this new situation.

Q.6 *How do you visualize the banking sector in the years ahead?*

A. I think the banking sector will go through a consolidation phase over the next couple of years, because the State Bank has rightly increased the minimum capital requirement, and because the financial sector has been in difficulty, I think the smaller banks probably would not be viable, in the shape and form that they are in today. They will have to merge or be acquired, this is a natural process and happens everywhere in the world. I see more consolidation in the banking sector. I see the banking sector becoming a much more service oriented sector than what it is today, on the back of technology and on the back of many more products for the convenience of customers and the good thing from the customer point of view is that because you will have a competitive sector, every bank will try and offer maybe a cheaper product in order to get market share. So at the end of the day this is going to be to the benefit of all the customers.

I also see the banking sector becoming a larger percentage of GDP than what it is today. Today the banking sector with deposits of about Rs4 trillion is something like 33 percent of GDP. I see in the next five years the percentage increasing from this 33 per cent to maybe 50-55 percent. So that is going to be very good for the country because if the banks have more deposits their lending capacities will increase. I think the habit of saving through the banking system will become more pronounced going forward. Traditionally in Pakistan the concept has been to use the banking system for transaction — writing cheques, but not for savings. People save through national saving schemes, or by investing in gold or, by investing in the stock market or by investing in property. But I think as the banks have increased their rate of deposits and are almost at par with the national saving schemes I see the banking sector becoming more of a conduit for savings, whereas previously or until even now it was used maybe for transactions and this is reflected from the fact that around 70 percent of the total deposits with the banking system are still current and saving accounts. In India this ratio is 22 percent. I see that evolution also taking place.

National Bank of Pakistan 60th Anniversary

NBP began operations in 1949

National Bank of Pakistan (NBP) opened its doors as a commercial bank on November 9, 1949, just two years after Pakistan gained independence. The need for a commercial bank which was truly national in character and enjoyed the full confidence of the Government had been realised because of the foreign dominance of the banking sector after gaining independence. A bank had to be constituted as to be able to take over the Government treasury work from the Imperial Bank of India.

In September 1949, the Government and the State Bank of Pakistan (SBP) were compelled to accelerate the programme because the devaluation of the sterling was followed by the devaluation of the Indian rupee and other currencies. Pakistan did not follow suit and this led to a cessation of jute purchases by India. In such circumstances an urgent need was felt for a bank to finance the jute trade.

National Bank of Pakistan, which was to be set up under a special legislation in 1950, was set up earlier under an Ordinance of November 9, 1949 following the crisis conditions which developed after deadlock with India. The Bank commenced business at six important jute centres in the then East Pakistan and directed its resources in financing the jute crop. Karachi and Lahore offices were opened in December. The pattern of its advances gave heavy weightage in the initial years to financing of jute trade, in fact until June 1950, the bank was engaged exclusively in jute operations. Later it expanded business to include other commodities as well.

Responsibilities of NBP

Equally important was the kind of responsibility entrusted to NBP, which was distinct from other banks. It was entrusted to act as the trustee of the government and semi-government finances, including the National Investment Trust, and as the agent to the State Bank of Pakistan, in places where the SBP did not have a presence. Besides this it renders active help in provision of services like Hajj services, collection of utility bills, paying of pension to central/provincial pensioners, as well as to civilian military pensioners and retired army personnel. The Bank also collects the railway earnings from designated railway stations and booking agencies all over Pakistan.

National Bank of Pakistan marks its 60th anniversary in November 2009 and celebrates the phenomenal growth, financial success, high socio-economic endeavours and dedicated employees that have made NBP *the Nation's Bank*. Since its inception in 1949 with an issued capital of Rs15 million and only 100 employees, NBP has grown and today its assets are over $10 billion, a balance sheet size which surpasses that of any other bank functioning locally.

Developments during the last six decades

During the last six decades the Bank's financial stature has grown, it has served the economic objectives and social needs of the country, promoted small and medium enterprises, diversified its business portfolio and is today a major player in the debt and equity market, corporate and investment banking, retail and consumer banking, agricultural financing and has introduced a number of products tailored to meet the requirements of its growing clientele. To survive and meet the challenges of a highly competitive environment, the Bank has taken a number of HR initiatives. It has built an extensive branch network domestically and has an international presence in 22 countries of the world. It is a recipient of a number of prestigious international awards.

Let us look at the developments that have taken place at the Bank over the decades.

The 1950s

The 1950s could be termed as the formative phase for the Bank. It was a period when the Bank undertook a programme of expansion. Branch network was expanded, the first overseas branch was established at Jeddah, Saudi Arabia (1950), followed by a branch in London (1953) and another in Baghdad (1957). The later was subsequently closed owing to nationalisation of banks. In 1951 it started foreign exchange business.

During the period the Bank took over Government Treasury operations and established currency chests at various locations. By the end of December 1959, NBP was undertaking Treasury operations and managing currency chests or sub-chests at 57 of its offices, where the turnover of business under the head amounted to Rs2,460 million.

This was accompanied by a corresponding growth in the Bank's financials. Deposits which were constituting 3.1 percent of total deposits of all Pakistani banks in 1949, had risen to 38 percent by 1952. However, by the end of the decade the share had fallen to 25 percent, which shows the growth of other Pakistani banks in the country.

Growth in deposits was accompanied by an increase in bank's portfolio of advances which while giving heavy weightage to jute and cotton branched out as demand from other sectors grew with increase in industrial activity. It lent out to textiles, yarn, iron and steel and played a pioneering role in the support of agriculture and commerce. It also assisted provincial governments with substantial finances for Food Grains Procurement.

The 1960s

The 1960s was a period when the Bank took some initiatives at popularising the banking and savings habit among the people. Initially a scheme was offered to school and college students, industrial workers and ladies. Under its *School and College Banking Scheme*, introduced in 1962, the Bank performed school banking in the premises of selected schools. During the 1960s it was also conducting banking at the premises of mills and factories with a view to promoting banking habit among industrial workers. By end 1969 under the worker scheme, total sum deposited by the factory workers had increased to Rs2.84 million and the number of accounts opened had touched 8767. The Bank also set up Ladies Section at its various offices as a banking facility for ladies, catering to purdah observing ladies' banking requirements. Its *School and Factory Banking Schemes* had been extended and by the close of the decade, the *School Scheme* was operative in 1189 schools with the number of school children maintaining 91,372 accounts and deposits had risen to Rs2.9 million.

NBP's branch network expanded both at home and abroad and its foreign exchange business grew. By the end of the 1960s considerable headway had been made in the Bank's electronic accounting programmes.

The 1970s

The 1970s witnessed the nationalisation of Pakistani commercial banks operating in the country. On January 1, 1974 National Bank of Pakistan alongwith 13 other scheduled Pakistani banks was nationalised by the promulgation of the Banks (Nationalisation) Ordinance 1974 (Ordinance No.1 of 1974). Shares formerly held by the Government were acquired from the private holders after compensating them.

National-isation of banks

Under the provisions of the Banks (Nationalisation) Act, 1974 the safety of all deposits with the bank (including deposits held with foreign branches) stood guaranteed by the Government of Pakistan. According to the Banks (Amalgamation) Scheme 1974 framed by the Pakistan Banking Council in April 1974 in consultation with State Bank of Pakistan, Bank of Bahawalpur Ltd was amalgamated with National Bank of Pakistan with effect from June 30, 1974.

In 1972 the National Bank of Pakistan evolved the *Supervised Agricultural Credit Programme*, which introduced a new methodology of viable credit for small farmers available at their doorstep. The concept was not only operationally feasible but ably served the multitude of small farmers in the vast countryside. Later the other Pakistani banks also adopted the scheme.

The successful implementation of the Supervised Agricultural Credit Scheme to serve the small farmer led the Bank to launch a similar scheme to provide assistance to self-employed Engineers, Technicians and Mistries, called *Supervised Credit for Technology*. Credit in the form of medium term development loans was made available to individuals/ institutions engaged in advancement/adopted of technology in various sectors of the country's economy.

Diversified concessional loans

The Bank made a pronounced move to diversify concessional loaning to people of small means, through increasing loans to farmers, students and loans to agrobased industry, low cost housing etc. This was in accordance with the Small Loans Scheme of the State Bank of Pakistan which was introduced after the National Credit Consultative Council was formed in September 1972. The Bank not only met the target set by SBP, but even surpassed them in most cases.

Overseas branch expansion

In 1972 there was a reorganisation in the top management structure of the Bank, which had remained unchanged since the inception of the Bank. The 1970s saw growth in branch network both at home and abroad, continuation of the socioeconomic operations, reorganisation of banking operations. There was strengthening of relations between National Bank of Pakistan and Bank of China and the later handed over its branches in Chittagong and Karachi to National Bank in 1971. Overseas branch network was expanded with the opening of new branches at Frankfurt, Bahrain, Hong Kong, Cairo, Chicago and UK. Tokyo representative office was converted into a full-fledged branch. National Bank's Joint Venture Subsidiary in Saudi Arabia received a Royal Decree from the Saudi authorities and was renamed Bank Al-Jazira, functioning under NBP management.

NBP introduces Islamic banking

In February 1980 the government announced a three year plan for the implementation of an Islamic Economic System. The system was introduced by the nationalised commercial banks w.e.f. January 1, 1981. NBP introduced a wholly separate and comprehensive procedure for banking under this system from branch level to Head office.

The Bank increased its authorised and paid up capital twice during the 80s so gaining a much broader and stronger equity base. Consolidation of domestic branch network continued, while avenues of expansion in foreign operations was followed.

Changes in administrative setup

The Bank has over the years brought a change in its administrative set up, which was earlier highly centralised and rigid. It has incorporated innovative approaches to its traditional commercial banking operations with a view to give priority to customer care, upgrade the quality of resources both human and technological available to the bank and diversify into new areas of activities. It maintains a presence in all the major financial centres of the world through its overseas network. In 1996, National Discounting Services Ltd was launched as a wholly owned subsidiary of NBP. Corporate branches were set up and it installed ATM at selected branches.

The Bank became a SWIFT member in 1998. The facility provides modern technology to bank customers for prompt and convenient cash transactions and remittances round the clock.

GHS offered

The 1997 the Bank launched a major reorganisation programme and offered Golden Handshake Scheme. Branch network was rationalized, and those branches making losses or marginal profits and without any potential to improve were closed. In 1995 NBP took over Mehran Bank. Its pre-tax profit during 1996 turned into a net loss, after it had fully provided for former Mehran Bank liabilities which were amalgamated with it.

In 1999 the Bank celebrated its golden jubilee. During the five decades the bank made substantial strides in the financial services industry in Pakistan. By the close of the decade its market share had reached around 22 percent and it remained the largest financial institution in the country.

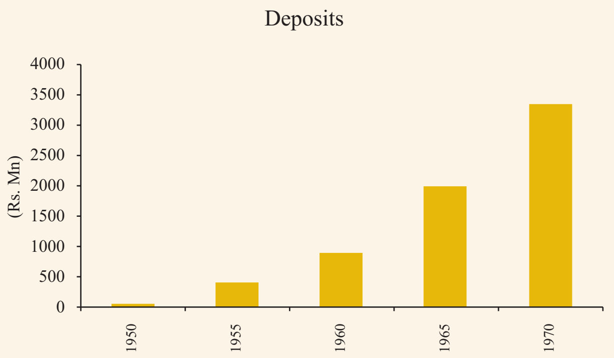
The accompanying tables shows NBP's financial performance in the first five decades.

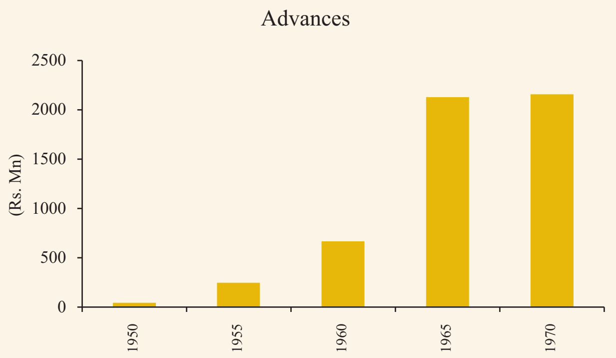
National Bank of Pakistan

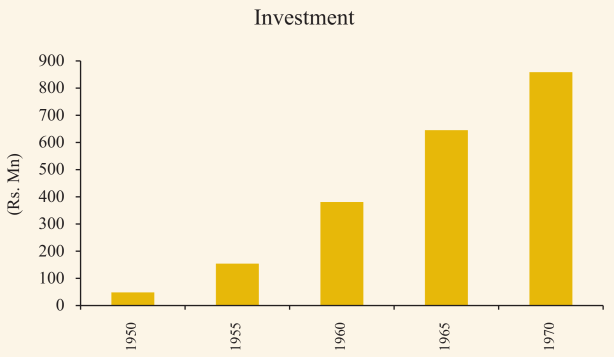
(Rs. Mn)

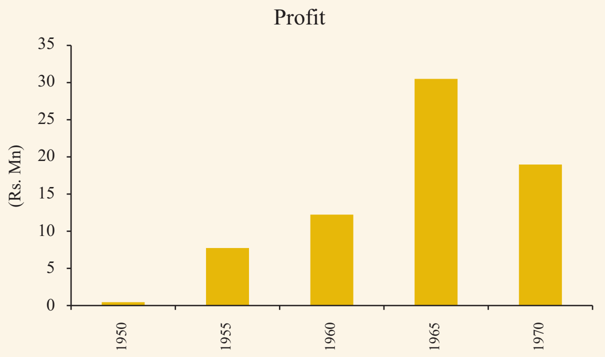
31st December	Deposits	Advances	Investment	Profit	Number of Branch	Number of Staff
1950	55.8	48.7	49.4	0.3	17	390
1951	173.6	208.9	77.9	2.3	29	1505
1952	279.0	177.9	85.4	5.4	40	2368
1953	292.7	160.6	104.1	4.9	52	2648
1954	330.3	182.8	126.4	3.6	65	2878
1955	401.9	245.7	154.3	7.5	67	3090
1956	485.8	322.8	189.8	8.0	73	3477
1957	580.4	423.9	211.0	9.3	85	3577
1958	675.0	576.4	224.4	9.5	105	4064
1959	835.4	554.4	276.2	10.2	129	4517
1960	885.1	664.1	378.9	11.9	156	5023
1961	1046.0	961.9	410.9	17.4	194	5703
1962	1247.2	1055.0	385.5	21.0	239	7091
1963	1575.3	1318.2	436.2	22.9	330	9699
1964	1914.4	1953.6	613.4	29.7	450	12319
1965	1988.8	2129.2	643.3	30.3	519	14460
1966	2273.1	2083.4	735.8	26.0	618	15981
1967	2324.0	1743.0	760.9	20.1	650	16897
1968	2678.7	2217.8	752.7	22.4	686	16946
1969	3114.7	2123.2	858.1	15.5	720	17284
1970	3342.8	2148.3	856.5	18.8	739	17457

Source : Bank's Annual Reports









National Bank of Pakistan

(Rs. Mn)

Year	Total Assets	Deposits	Advances	Investments	Income	Expenditure	Pre-Tax Profit	Share Holder's Equity	Number of Branches	Number of Employees
1971	5569	3744	2120	979	181	161	20	101	770	11617
1972	8799	5659	3245	1136	286	227	59	100	834	11714
1973	10914	6715	3141	1442	391	350	41	107	701	12358
1974	15423	7072	5231	1414	639	566	73	114	1106	16285
1975	15075	9143	5869	1966	908	814	94	124	1342	18437
1976	19074	11927	7999	2855	1054	949	105	144	1479	19997
1977	22019	14209	8447	2937	1370	1251	119	164	1573	20828
1978	24875	15779	8852	3847	1689	1657	32	241	1613	22228
1979	28507	18601	9429	4354	1964	1857	107	268	1646	22132
1980	32380	21384	11803	5761	2530	2421	109	280	1490	21995
1981	34831	24147	13698	6143	2872	2762	110	773	1402	21785
1982	41466	30838	14921	6706	3348	3199	149	839	1490	21980
1983	55813	40611	18990	9063	3684	3501	183	954	1476	21795
1984	61655	44415	21540	8579	4978	4751	226	1123	1322	21949
1985	76026	52477	26990	10746	5536	5264	272	1326	1328	21728
1986	82590	57463	31264	12971	5779	5497	282	1530	1330	21710
1987	91552	63195	32663	18683	6242	5928	314	2621	1342	21567
1988	103158	70990	37658	19201	7139	6824	315	2819	1345	21207
1989	116849	79354	40534	28084	8839	8493	346	2987	1360	20858
1990	135074	87900	47025	31663	10093	9722	371	3175	1389	21004
1991	163331	105748	46425	39140	11520	10574	946	3860	1421	20657
1992	199993	128679	47256	57459	13506	11250	2256	4600	1448	20816
1993	219795	140750	65257	60561	17106	13698	3408	6934	1458	20694
1994	271779	170476	62548	85094	19546	16747	2799	7233	1463	20667
1995	320180	208283	81528	95649	24239	21158	3082	7842	1537	21549
1996	274117	235932	85854	108206	28196	29456	(1260)	7047	1555	23730

Source : Bank's Annual Reports

Restruc-turing process

A process of restructuring commenced in 2001, aimed at institutional development. Initiatives have been taken in terms of changes in the field structure, policies and procedures, internal control system with special emphasis on corporate governance, upgrading the quality of risk management practices, initiating Basel II Gap Analysis Exercises, upgrading of IT infrastructure, offering wide range of products, and developing the human resources. It has offered 23.2 percent shares to the public and is listed on all domestic stock exchanges. It has undergone a brand revitalization initiative, which included a redesigned logo and standardized look of the branches.

The decade (2000-09) has been a witness to a restructuring programme, where unprofitable and loss making branches were closed or merged; unnecessary tiers of management were reduced to 29 Regions; voluntary separation scheme was offered to the employees; a Student Loan Scheme was launched – Qarz-e-Hasna to provide financing free of mark up to outstanding students without sufficient resources; the Bank's shares were listed on the stock exchanges as it downloaded 23.2 percent of its shares; a number of retail products were introduced; it offered its services as Banker to the Issue to Privatisation Commission of Pakistan and has also provided Cash Management Services, which it has ably managed through its network of branches. Its Islamic banking operations have grown. NBP has a presence in the key trading partner countries. Subsidiaries have been set up. The Bank's wholly owned Exchange Company commenced operations in February 2003. NBP was the first bank to venture into this sector. The Bank has gained market recognition and is the recipient of nearly 30 international awards.

Emphasis on training

The ongoing transformation of the Bank has been accompanied by a comprehensive training programme and induction of qualified personnel to meet the needs of changing times. The Bank is investing in developing its human resources through need based training and career development. It provides equal employment opportunities and female employees are being encouraged and given responsible and challenging assignments. The effort of the Bank towards gender mainstreaming has been recognized internationally and it has been presented with a Recognition Award in 2004 for its gender sensitive management.

IT develop-ments

The bank started a number of projects related to IT infrastructure development and upgradation. The Bank has increased the number of on-line branches and ATMs installed. In 2003 it joined the 1-LINK ATM switch, enabling its customers an access to around 300 ATMs, including ATMS of NBP. This has grown since. Capacity building projects initiated include on-line connectivity, Bandwidth enhancement for core WAN link, Call Centres, eChannel Manager/CMS projects and ATM expansion.

Core Banking

More recently the Bank has acquired Core Banking Application from one of the world's leading providers. Once fully adopted it would greatly facilitate Bank's customers and increase the business of the Bank. The software would be installed at different branches of the bank and then interconnected by means of communication lines, allowing customers to operate accounts from any branch if it has installed core banking system. Normal core banking functions will include deposit accounts, loans, payments etc. Banks make these services available across multiple channels like ATMs, Internet Banking and branches.

NBP leading player in corporate sector

The Bank has a growing blue chip clientele and is a leading player in the corporate sector. It has the largest per party limit and provides competitive financial services to meet the clients requirements. The Bank has acted as lead advisor and has arranged a number of syndications, acquisitions, advisory and project financing transactions of its corporate customers, multinational companies and projects of infrastructure, basic industries, oil & gas, refinery, telecommunications etc.

The bank maintains a sound loan portfolio, diversified in nature to counter the risk of credit diversification. These range from big

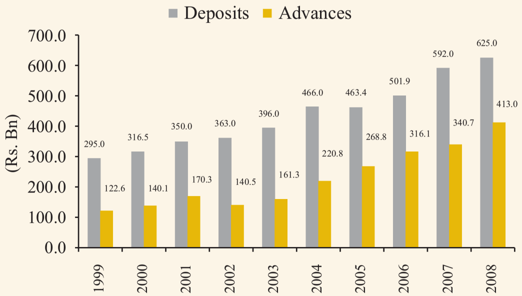
National Bank of Pakistan

(Rs. Mn)

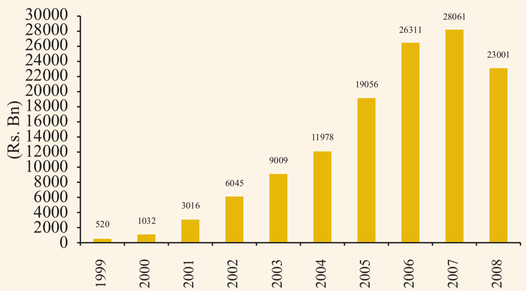
Year	Total Assets	Deposits	Advances	Investments	Income	Expenditure	Pre-Tax Profit	After-Tax Profit	Share Holder's Equity	Number of Branches	Number of Employees
1997	310598	254863	105598	109485	34184	33188	996	62	9203	1468	18096
1998	325057	273391	109356	102969	34505	32369	2135	530	9978	1434	15785
1999	350406	294754	122559	91486	35291	34771	520	31	10358	1431	15541
2000	371636	316493	140318	72609	33732	32700	1032	461	11378	1428	15351
2001	415089	349617	170319	71759	35792	32776	3016	1149	11959	1245	15163
2002	432803	362866	140547	143525	32336	26291	6045	2253	14279	1204	12195
2003	468972	395492	161266	166196	26701	17692	9009	4198	18134	1199	13272
2004	553231	465572	220794	149350	29205	17227	11978	6195	24900	1226	13745
2005	577719	463427	268839	156986	43085	24029	19056	12709	37636	1242	13824
2006	635133	501872	316110	139947	56264	29953	26311	17022	53045	1250	14019
2007	762194	591907	340677	210788	64114	36054	28061	190343	69271	1261	14079
2008	817758	624939	412987	170822	77359	54358	23001	15459	81367	1276	15204

Source : Bank's Annual Reports

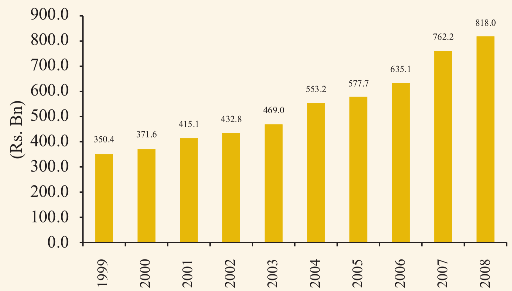
Deposits & Advances



Pre-Tax Profit



Total Assets



corporate clients, infrastructure projects, basic industries to SMEs to agricultural financing and giving smaller loans for income generation purposes in an effort towards poverty alleviation in the country. NBP is well placed in the country's banking industry in terms of other performance indicators.

With a strong focus on SMEs, the Bank in 2005 signed a MoU with Small and Medium Enterprise Development Authority in developing lending programmes for this sector. It also entered into a technical assistance agreement with USAID for extensive training of field functionaries for SME financing.

The Bank has played an important role in financing the country's growing trade. With its 22 overseas branches, sizeable portion of workers' remittances have flowed through them. They play a significant role in financing the country's imports and other economic development projects.

NBP has shed its public sector image and is today a progressive, efficient and customer focused institution, listed on all the domestic stock exchanges.

Bank's Retail products

It is sensitive to the needs of its clientele and offers a wide range of consumer products which cater to the different segments of society and enhances its business. In 2002 it launched *NBP Advance Salary*, and in September 2006 the *NBP Karobar* to bring about socioeconomic change through the development of small business. The other schemes are *NBP Saibaan*, *NBP Kisan Dost*, *NBP Cash n Gold*, NBP *Protection Shield* and *NBP Investor Advantage*. *NBP Saaiban* is a major player in housing finance amongst the top five banks in Pakistan amongst mortgages. When the new core banking system is implemented, the bank expects to launch new fee based retail banking products. .

To attract deposits, the Bank offers attractive schemes, *NBP Premium Enhanced Saving Accounts*, *NBP PLUS PLS Term Deposit Certificates*, *NIDA*, *Premium Aamdani Certificates* besides the PLS term deposits.

Growing overseas operations

The overseas operations were reorganized in 2001. The UK branches of the Bank were merged with branches of United Bank Ltd and a new bank incorporated in UK – Pakistan International Bank (UK) Ltd. It established a wholly owned subsidiary at Almaty in 2002. NBP was the first Pakistani bank to open a branch in Afghanistan (Kabul) in 2003. Overseas operations have been restructured and five regions; America, Europe, Far East, Middle East & Africa and Central Asia have been created, with respective Regional Chiefs located in New York, Paris, Hong Kong, Riyadh and Almaty respectively. It opened branches in Jalalabad (Afghanistan) and Chittagong (Bangladesh) in 2004. Today NBP operates in 22 countries worldwide including the Central Asian cities of Ashgabat, Bishkek and Baku and has recently opened branches in Herat and Mazar-e-Sharif, Afghanistan, and Gulshan, Sylhet, Bangladesh. Shortly the Bank will open its first branch in Riyadh, Saudi Arabia.

Bank adopts measures to channel-ise remitt-ances

The Bank channelises the remittance business through its own overseas branches. The Bank had signed an agreement with Western Union for expanding the base in 2002. The Financial Institution Division has remittance agreement with exchange companies located in the US, Europe, Central Asia, Middle East and Asia. Over the years, NBP has taken various measures to facilitate overseas Pakistanis to send their remittances through the bank branches. It has recently developed *NBP eRemittances*, which would ensure prompt and efficient transfer of credit to the beneficiary.

The State Bank of Pakistan has recently developed a new payment system for Remittances — the *Pakistan Remittances Initiative*. National Bank of Pakistan is among the five major commercial banks which have adopted the new mechanism, and now transfer of remittances to the beneficiary's account takes place the same day.

NBP has correspondent arrangements with banks in nearly a thousand cities worldwide.

It also offers a wide range of cash management and trade related products.

Credit needs of farmers

The Bank has played a pioneering role in meeting the credit needs of the farmers. As far back as 1972 it evolved a new concept, the highly successful *Supervised Agricultural Credit Programme*. Since then it has maintained its position as a major provider of agricultural finances, and is the second largest lender of agricultural credit next to Zarai Taraqiati Bank. It extends loans for thirty different purposes ranging from input loans to livestock farming, for purchase of implements for building of cold storages, fish farming, bee farming, purchase of fish boats, generator loan for tubewells, canal lining, poultry farming etc.

National Bank has been at the forefront of socioeconomic development in the country. It has over the years funded projects which best serve the economic objectives and social needs of the country. As far back as 1964, the Bank was providing credit facilities to small businessmen considered to be the backbone of the country's economy. The *Supervised Agricultural Credit Programme* served well the multitude of small farmers in the vast countryside. In the 1970s the Bank was extending concessional loaning facilities to people of small means, through increasing loans to farmers, students, agro-based industry and low cost housing. It has made tremendous contribution to the development of small and medium sized entrepreneurs and to self employment schemes.

Socio-economic contribution

Over the years, the Bank has always contributed towards various Funds, such as the Flood Relief Fund, Special Olympics, Relief Fund for Earthquake, for promotion of games, to individuals in recognition of their contribution in the field of academics, research, to various trusts, charitable organizations, welfare associations etc.

The Bank's focus in more recent years has been on sports/culture. It has sponsored a number of sports events all over Pakistan. It has built a state-of-the-art sports complex at Karachi. It has also sponsored a number of *Mushaira* in the country, among other the *All Pakistan Mushaira* and the *Pak Hind Mushaira*. It has instituted *Awards for Excellence in Literature*, where cash awards have been given for original work published in Urdu and the four provincial languages (Punjabi, Sindhi, Pushto and Balochi).

Financial performance

The bank's financial performance has been remarkable. Its assets have risen to over Rs800 billion, while deposits have grown to nearly Rs625 billion. Profitability has shown a phenomenal growth in recent years. Advances have risen to Rs413 billion. The Bank remains well capitalized and its capital adequacy ratio is well above the banking industry average. The year 2005 was a profitable year for NBP as its after tax profit (Rs12.7 billion) doubled over the preceding year's profit (Rs6.2 billion). This was achieved through a strong growth in core banking income. During the year (2005) the net interest income had grown by a substantial Rs9 billion, due to an increase in loan portfolio as well as increase in spreads on account of high interest rate prevailing. In 2005 non-performing loans were reduced by Rs2.3 billion due to cash recoveries and restructuring.

The year 2007 was an outstanding year for the Bank when it achieved a pre-tax profit of Rs28 billion through strong growth in core banking income. It was the highest in the Bank's history and in the banking industry. Earnings per share rose to Rs23.34, pre-tax return on assets stood at 4.1 percent and the cost to income ratio of 0.30 remained one of the highest in the sector. There was a decrease in the pre-tax profit of the Bank in 2008, mainly on account of higher provision charges which rose due to the bank's policy of prudently providing for against non-performing loans. As a result the Bank is capable of absorbing any deterioration in the advances quality.

NBP has progressed over the years becoming more service oriented and gaining international recognition.

Pakistan Economy – An Update

Challenges facing the economy

The State Bank of Pakistan recently released its Annual Report 2008-09 on the State of Pakistan's Economy. Last fiscal was a difficult year as many challenges, like record high fiscal and current account deficits, rising inflationary pressures, decline inflows of foreign direct investment, depletion of foreign exchange reserves, erosion of purchasing power, acute energy crisis, had taken a heavy toll of the domestic economy. The global recession and the domestic security situation curtailed the availability of external financial inflows and added to the challenges facing the economy.

Stabilization programme

Given the serious risks the Government initiated a macroeconomic stabilization programme, supported by the IMF Stand-by Arrangement. This entailed fiscal tightening through phasing out of subsidies and implementing tax reforms. This was to be supported by a tight monetary policy. The basic objective was to curb demand for domestic goods.

Fiscal deficit exceeds target

The implementation of the stabilization program has resulted in considerable fiscal consolidation during the year. The budget deficit as a percent of GDP shows a 2.4 percent reduction to 5.2 percent in FY09 over a year earlier. It however, fell short of the target of 4.7 percent agreed with the IMF, because of an increase in development spending, in the last quarter of FY09, reflecting IDP related expenditures and a substantial jump in development spending by the provinces.

A positive development during the year was a change in the composition of budgetary financing away from inflationary borrowings from the State Bank. This occurred as the borrowing requirement fell due to a fall in the fiscal deficit, there were larger inflows from national saving schemes, and higher borrowing from scheduled banks. Compared to FY08 where budgetary borrowings from SBP had effectively financed the entire domestic financing of the fiscal deficit for the year, in FY09 the share of non-bank borrowing in total budgetary borrowing from domestic resources was 42.3 percent against 16.7 percent in FY08.

Selected Macroeconomic Indicators

(%)

	FY08	FY09	
		Target	Actual
Real GDP (at factor costs)	4.1	5.5	2.0
Agriculture	1.1	3.5	4.7
Manufacturing	4.8	5.5	-3.3
Services sector	6.6	6.1	3.6
Consumer price index (FY01=100)	12.0	11.0	20.8
Monetary assets (M2)	15.3	14.0	9.6
Private sector credit	16.5	-	0.7
Exports (f.o.b.)	12.2	16.0	-6.7
Imports (c.i.f.)	30.9	6.5	-12.9
as percent of GDP			
Total investment	22.0	21.5	19.7
National savings	13.4	14.3	14.3
Tax revenue	10.2	10.7	9.2
Budgetary deficit	7.6	4.7	5.2
Current account balance	-8.4	-	-5.3
Total debt (incl. explicit liabilities)	62.4	-	62.2
Domestic debt	31.8	-	29.4
Foreign debt	29.5	-	31.5

Source: Annual Report 2008-09, SBP

Weak demand pressures

Demand pressures weakened as both fiscal and monetary policies sought to restrict demand. This was aided among others by weak investor confidence, energy shortages and the risk averse behaviour of domestic financial institutions. The large scale manufacturing declined by 8.2 percent during the year.

GDP to grow by 3.3%

Primarily because of the decline large scale manufacturing growth, GDP grew by only 2.0 percent, the lowest in the last eight years. It was the agricultural sector growth of 4.7 percent which exceeded both the target (3.5%) for the year and last year's growth (1.1%) that aided the GDP to achieve a positive growth in FY09. GDP is projected to grow by 3.3 percent in FY10.

On the external account, there was a contraction in the trade deficit to $12.46 billion in FY09 against $14.97 billion a year earlier.

While exports declined by nearly 6.0 percent to $19.21 billion, imports contracted by 10.5 percent to $31.67 billion.

Fall in international commodity prices and slowing domestic demand caused a decline in imports, while the international recession domestic energy crisis, law & order situation among other factors impacted Pakistan's exports. Textiles, the major foreign exchange earner, faced a serious impact of the adverse external and domestic development.

Higher remittances

Workers' remittances rose by 21.2 percent in FY09 to $7.81 billion against preceding year's level of $6.44 billion. The positive development during this period was higher inflows (more than 60%) through banks. Earlier these were coming through exchange companies, but with the government's drive to check undocumented fund transfer, people have started to remit money back home through the banks.

Lower currrent account deficit

The current account deficit contracted in absolute terms by $5.0 billion or by 36.1 percent to $8.86 billion in FY09 compared with $13.86 billion a year earlier. A decline in imports, increase in remittances, relatively higher receipts against logistic support and lower payments on account of import freights and travel have all contributed to the contraction in current account deficit. The current account deficit as a percentage of GDP narrowed to 5.3 percent in FY09 from a record 8.4 percent of GDP in the preceding year.

Easing of inflationary pressures

The annual average inflation for FY09 was 20.8 percent, the highest in the decade. It was significantly higher than the target of 11 percent for the year, and preceding year's 12.0 percent. Both food and non-food inflation were at record highs. There has been some easing in the inflationary pressures since March '09. Figures for September '09 show CPI inflation at 10.1 percent year-on-year against 23.9 percent in September '08, with food inflation at 10.0 percent against 29.9 percent earlier.

Easing of inflationary pressures in the economy, alongwith a fall in aggregate demand, and narrowing of current account and fiscal deficits, allowed the Central Bank to ease its monetary stance. In 2009 the State Bank of Pakistan has reduced its policy discount rate by 1.0 percentage points each time in April and August '09.

Slow-down in private sector growth

There was a sharp slowdown in private sector growth, as a large number of industries witnessed substantial retirement in credit. The SBP in its Annual Report 2008-09 has identified some factors which has led to the sluggish growth in private sector credit. These are; the deceleration in economic growth, global and domestic industry specific shocks kept the economy under stress and weakened the demand for credit, banks were hesitant while lending, credit quality concerns compelled the banks to become more cautious. Rising non-performing loans, particularly in the corporate sector affected incremental bank credit.

Advances extended to the manufacturing sector which had been slowing down in the period 2005-07 declined sharply in FY09 and recorded the lowest growth in six years. Entire decline was attributable to a fall in working capital loans as fixed investment loans stayed substantially higher. Textiles, construction, commerce & trade, telecom, mining & quarrying witnessed a more pronounced fall.

Improved prospects for FY10

While FY09 was a difficult year for the economy, prospects have improved both for the domestic economy and world economy, as countries pull out of recession. Global conditions are expected to continue to improve in 2010, though the recovery is expected to be sluggish. In Pakistan, the economy is expected to grow by 3.3 percent in FY10.

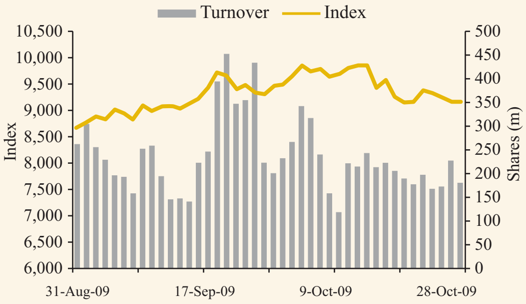
A pick up in domestic demand, a smaller decline in the growth of large scale manufacturing and resolution of circular debt problem would lend support to the economy. The agri-sector performance is expected to be close to the FY10 target of 4.7 percent, says the SBP Report on the economy. Large investments are required in the sector to improve yield, lower losses and increase value addition.

Market Analysis

Market Review

The market performance has been flat for the period under review. The KSE-100 Index during the two-month period of September and October 2009 improved by 483 points to close at 9,159 on October 30, 2009. The average daily turnover during the period under review was 234.5 million shares traded.

KSE-100 Index (Sep-Oct 09)



The market during the first week of September continued its rally, which began in the last week of August. The KSE-100 Index gained 409 points or about 4.7 percent from end of August to September 9 to close at 9.084. From September 10 to September 15, the KSE-100 Index entered into a short-lived consolidation.

The consolidation phase did not last long and a late Ramadan breakout pattern was witnessed from September 15 to September 18, right before the Eid-ul Fitr holidays. In the last 3 trading days of Ramadan, the KSE-100 Index jumped by over 400 points to close at 9,436, as fresh liquidity by both foreign and local investors was the key driver in this break-out pattern. After the Eid break, the market continued to climb to 9,713 on September 24, the highest close of this calendar year so far.

The news of the Kerry-Lugar bill being passed by the US Senate and the hopes of Pakistan receiving aid from the Friends of Democratic Pakistan (FoDP) moot in New York was the key drivers behind the sanguine sentiments of most investors. However, the Index became slightly volatile till the end of the month, as there were no positive developments from the FoDP meeting about the timeline and the nature of financial assistance. The KSE-100 Index ended September 9,349 and the average daily turnover was 258.25 million.

The KSE-100 Index had a strong start to the month as it gained 486 points or 5.2 percent in the first week to close at 9,836 on October 7. The key drivers that had ignited the Index during this period were the passage of the Kerry-Lugar Bill in the US Congress, buying activity by both local and foreign investors and improvement in the economic outlook from negative to stable by credit rating agencies such as Moody's.

However, the market experienced a minor correction over the next few trading days to shed 193 points or 2.0 percent to end at 9,642 on October 12. The slight downturn in the Index can be attributed to both technical factors and political developments. Technically, the Index was trading in the overbought region and so a correction was expected. During this period, the Index challenged the 10,000 plateau in intraday trading but ran into heavy resistance each time.

On the political front, the Kerry-Lugar Bill became a contentious issue among the public, major opposition parties and the military-intelligence establishment that caught the PPP-led government on the back foot and the attack on the Army GHQ in Rawalpindi on October 10 led to anxiety among the public and investor community.

Fortunately, the market staged a modest comeback over the next 4 days to recover most of the losses to close at 9,838 on October 16. There was a shifting of interest among investors from large cap stocks to lower tier stocks from the financial, fertilizer and telecom sectors. There was still some interest in petroleum stocks because of further oil and gas discovery in Tal Block and positive earnings expectations for the upcoming quarterly announcements scheduled during the month under review.

The last two weeks of October saw the market under selling pressure as the security situation throughout the country was precarious, as there were a number of bomb blasts and attacks by militants against both civilian and military targets. This led to panic selling and profit taking by both domestic and foreign investors. Despite good quarterly results reported by petroleum and fertilizer stocks and improvement in the current account balance during 1QFY10, the security situation and the ongoing military operation in South Waziristan has dominated the sentiments of investors.

Regional Valuation

The Pakistan market PE at 8.38x is trading at a 42 percent discount to the regional average of 14.54x. Based on dividend yield, Pakistan is the most attractive at 5.68 percent as compared to the regional average of 2.86 percent, followed by Thailand (5.47 percent) and Singapore (4.98 percent).

Regional Valuation Comparison

Country	12m F PEx	12m F Dividend Yield (%)
China	17.35	2.29
Hong Kong	14.80	2.34
India	15.17	1.13
Indonesia	14.03	2.21
Malaysia	14.25	3.21
Pakistan	**8.38**	**5.68**
Philippines	12.55	3.22
Singapore	14.56	4.98
South Korea	10.66	1.16
Taiwan	20.27	2.59
Thailand	11.79	5.47

Source: Thomson One Analytics, October 15, 2009

Looking Ahead

The monetary policy is going to be announced next month, but there are expectations that the policy rate will remain unchanged as inflationary pressure through higher international crude oil prices could impact the economy going forward. The main concern of investors is the breakdown of the security situation as a siege mentality has developed. The government along with the military-security establishment needs to act in a coordinated manner to improve the situation or else the economy will not grow and investment will not be forthcoming from both domestic and foreign sources.

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

Commercial Banks' Deposits by Type

(Rs. Bn)

Banks	Savings Deposits								Fixed Deposits							
	2001	2002	2003	2004	2005	2006	2007	2008	2001	2002	2003	2004	2005	2006	2007	2008
Public Sector Banks	**124**	**139**	**171**	**204**	**211**	**232**	**265.9**	**190**	**75**	**84**	**92**	**94**	**124**	**162**	**209**	**156**
National Bank of Pakistan	105	118	140	159	166	170	189	180	61	69	75	78	81	100	128	142
First Women Bank	4.5	5.0	6	6	7	2	2.9	3	1	1	1	0.9	0.4	0.2	0.4	1
Bank of Punjab	10	12	19	32	32	52	65	-	5	7	9	9	36	54	72	-
Khyber Bank	4	4	6	7	7	8	9	7	8	7	7	6	7	8	9	13
Privatised Banks	**361**	**431**	**495**	**555**	**546**	**494**	**570**	**577**	**164**	**165**	**143**	**141**	**226**	**336**	**375**	**541**
Habib Bank Ltd.	154	183	213	240	220	168	194	198	73	73	72	74	101	135	143	186
United Bank Ltd.	69	83	104	118	123	122	153	156	39	45	37	43	80	115	127	187
MCB Bank	90	109	127	134	137	137	152	151	28	28	22	14	13	33	32	62
Allied Bank Ltd.	48	56	52	63	66	67	71	72	24	21	12	10	32	53	73	106
Domestic Private Banks	**119**	**167**	**235**	**301**	**321**	**329**	**465**	**423**	**42**	**67**	**77**	**131**	**292**	**387**	**498**	**598**
Askari Comm.	27	36	42	50	58	65	82	80	8	8	7	13	38	40	30	40
Soneri	10	12	16	23	26	21	29	23	3	4	6	5	9	16	18	26
Bank Al Habib	11	13	15	16	17	17	21	22	3	3	5	9	18	34	41	57
Bank Al Falah	18	30	45	66	81	79	108	86	8	11	11	22	80	89	86	117
Union Bank	15	24	31	32	27	-	-	-	2	5	5	10	29	-	-	-
Standard Chartered	-	-	-	-	-	55	69	62	-	-	-	-	-	47	47	51
Faysal Bank	8	9	15	20	24	19	26	25	7	8	8	23	33	36	57	53
Habib Metropolitan Bank	8	11	15	14	13	22	28	30	5	11	10	16	20	49	55	62
Prime Commercial Bank	8	10	12	15	16	•	•	•	1	2	3	4	8	•	•	•
PICIC Comm. Bank	5	8	16	25	22	•	•	•	3	9	9	9	18	•	•	•
KASB Bank	3	2	4	6	6	7	9	9	0	0	0	2	4	7	15	18
mybank	3	3	3	4	5	5	6	4	1	0	1	1	2	7	19	17
Saudi Pak Comm.	3	7	15	20	12	15	9	10	1	4	6	6	10	26	23	22
Meezan Bank	0	2	4	5	8	10	18	25	1	3	3	5	6	13	21	23
Atlas Bank	-	-	0	0	0.4	1	3.3	4	0	0	0	0	0.5	2.0	3.7	9.5
Samba (Formerly Crescent Bank)	-	-	1.00	2.00	1.19	1.50	3.1	1.30	0.00	0.00	0.50	1.96	3.00	3.00	7.00	6.80
NIB	-	-	1	3	6	6	37	23	0	0	2	5	13	18	51	56
JS Bank	-	-	-	-	-	3	3.1	2.6	-	-	-	-	-	3	6	6
Arif Habib Bank	-	-	-	-	-	0.8	3.8	3.6	-	-	-	-	-	0.8	2.9	11.8
Dubai Islamic Bank	-	-	-	-	-	1.4	5	5.7	-	-	-	-	-	1.0	7.2	13
Bank Islami Pakistan	-	-	-	-	-	0.6	3.6	2.8	-	-	-	-	-	0.8	4.9	7
Emirates Global Islamic Bank	-	-	-	-	-	-	1.6	2.3	-	-	-	-	-	-	2.2	6
Dawood Islamic Bank	-	-	-	-	-	-	0.4	0.6	-	-	-	-	-	-	0.6	3
All Private Domestic Banks	**480**	**599**	**730**	**856**	**867**	**823**	**1035**	**1000**	**206**	**232**	**220**	**273**	**517**	**723**	**873**	**1139**
Foreign Banks	**72**	**80**	**92**	**91**	**86**	**54**	**64**	**56**	**61**	**58**	**55**	**79**	**93**	**90**	**92**	**103**
Standard Chartered	26	31	35	37	36	-	-	-	15	10	14	15	18	-	-	-
Citibank	17	17	17	17	13	16	21	21	16	16	15	20	30	37	34	29
RBS (formerly ABN Amro Bank)	17	20	25	19	21	32	32	24	11	9	5	20	16	38	36	38
American Express	3	3	3	3	3	-	-	-	2	2	1	0.5	1	-	-	-
HSBC	2	2	2	3	2	2	4	5	4	3	4	5	5	8	15	22
Habib Bank AG Zurich	4	4	6	7	7	-	-	-	10	14	12	13	18	-	-	-
Deutsche Bank	2	1	0.6	0.4	0.6	0.5	1.2	0.8	1	1	0.2	0.9	0.4	1.3	1.4	7.1
Oman International	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.7	0.5	0.2	0.3	0.3	0.3	0.3
Al-Barka Islamic	2	2	3	4	4	3	6.14	-	2	3	3	3	4	5	5	-
Barclays	-	-	-	-	-	-	-	5.3	-	-	-	-	-	-	-	7
Bank of Tokyo	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-	0	0.5	0.4	1.2	0.2	0.7	0.5	-
Total : All Banks	**676**	**818**	**993**	**1150**	**1165**	**1109**	**1366**	**1246**	**342**	**375**	**366**	**445**	**734**	**975**	**1174**	**1398**

Source: Annual Reports of Various Banks

Commercial Banks' Deposits by Type

(Rs. Bn)

Banks	Current Deposits								Total Deposits*							
	2001	2002	2003	2004	2005	2006	2007	2008	2001	2002	2003	2004	2005	2006	2007	2008
Public Sector Banks	**120**	**116**	**143**	**175**	**178**	**200**	**246**	**200**	**389**	**408**	**453**	**546**	**578**	**666**	**813**	**656**
National Bank of Pakistan	114	109	132	159	158	174	217	194	350	363	395	466	463	502	592	625
First Women Bank	1	1	1	1	2	4	4	2	6	7	8	9	9	7	8	6
Bank of Punjab	4	4	7	13	15	19	22	-	19	24	35	55	88	138	192	-
Khyber Bank	1	2	2	2	3	3	3	4	14	14	15	16	18	19	21	25
Privatised Banks	**130**	**154**	**218**	**271**	**323**	**393**	**503**	**557**	**673**	**783**	**877**	**981**	**1113**	**1257**	**1488**	**1708**
Habib Bank Ltd.	46	51	65	84	105	143	184	206	283	328	361	405	433	459	531	597
United Bank Ltd.	30	32	44	64	80	89	114	130	141	163	190	230	289	335	401	484
MCB Bank	34	46	59	70	74	82	95	105	155	188	212	220	229	257	292	330
Allied Bank Ltd.	20	25	50	53	64	79	110	116	94	104	114	126	162	206	264	297
Domestic Private Banks	**37**	**64**	**115**	**176**	**211**	**255**	**324**	**375**	**220**	**314**	**433**	**621**	**867**	**977**	**1177**	**1463**
Askari Comm.	5	6	11	18	20	25	29	43	41	52	62	83	119	132	143	168
Soneri	2	3	5	8	10	10	10	11	16	21	28	37	48	53	60	62
Bank Al Habib	10	17	26	35	40	39	52	60	25	34	46	62	76	91	115	144
Bank Al Falah	4	9	19	34	46	62	68	78	30	52	77	128	222	239	273	301
Union Bank	3	8	14	20	23	-	-	-	21	38	50	63	91	2	10	-
Standard Chartered	-	-	-	-	-	53	60	59.5	-	-	-	-	-	157	177	174
Faysal Bank	2	3	6	11	11	17	19	21	32	25	31	56	75	74	102	103
Habib Metropolitan Bank	4	7	13	16	18	24	33	31	18	29	39	49	57	102	121	128
Prime Commercial Bank	2	3	6	10	11	•	•	•	11	15	22	30	39	4	16	-
PICIC Comm. Bank	1	2	5	8	12	•	•	•	10	21	32	44	54	•	•	•
KASB Bank	0	1	1	2	3	3	3	4	3	3	5	11	14	21	33	35
mybank	3	4	5	6	5	5	5	6	7	8	9	11	13	19	30	28
Saudi Pak Comm.	0	1	3	3	4	4	5	6	5	12	25	34	37	49	42	41
Meezan Bank	0	0	1	3	5	8	12	21	1	5	8	14	23	34	55	70
Atlas Bank	x	x	x	0	0.3	0.4	1.2	2.5	x	x	0	0	2	9	15.3	19
Samba (Formerly Crescent Bank)	x	x	1.50	1.18	1.00	0.80	1.70	1.10	x	x	3.00	5.14	6.19	6.00	13	-
NIB	x	x	1	1	2	4	25	20	x	x	5	11	22	31	117	105
JS Bank	-	-	-	-	-	1	2	3	-	-	-	-	-	7	13.7	15
Arif Habib Bank	-	-	-	-	-	0.9	2.8	0.8	-	-	-	-	-	2.5	9.5	17
Dubai Islamic Bank	-	-	-	-	-	1.9	3.9	4	-	-	-	-	-	4	16.1	26
Bank Islami Pakistan	-	-	-	-	-	0.3	1.4	3	-	-	-	-	-	1.8	9.9	12
Emirates Global Islamic Bank	-	-	-	-	-	-	0.5	2	-	-	-	-	-	-	4.6	11
Dawood Islamic Bank	-	-	-	-	-	-	0.1	0.4	-	-	-	-	-	-	2.9	5
All Private Domestic Banks	**167**	**218**	**334**	**447**	**534**	**648**	**827**	**932**	**893**	**1097**	**1310**	**1602**	**1980**	**2234**	**2665**	**3171**
Foreign Banks	**31**	**32**	**43**	**51**	**63**	**38**	**42**	**41**	**178**	**179**	**194**	**227**	**245**	**198**	**221**	**206**
Standard Chartered	11	14	18	23	29	-	-	-	57	58	68	77	84	-	-	-
Citibank	4	6	7	8	10	10	11	11	41	41	40	47	53	63	69	65
RBS (formerly ABN Amro Bank)	5	5	7	8	10	21	21	16	34	35	38	48	48	94	90	79
American Express	1	1	2	2	2	-	-	-	6	6	5	5	6	7	14	-
HSBC	0	0	1	1	2	4	6	9	6	6	7	9	9	15	25	37
Habib Bank AG Zurich	3	3	4	7	8	-	-	-	17	20	23	28	33	0	0	-
Deutsche Bank	1	1	0.6	0.6	0.4	1.5	2.3	2.1	4	2.7	1.5	2.1	2	3.3	5.1	10
Oman International	0.0	0.3	0.1	0.1	0.1	0.1	0.1	0.1	2.1	1.1	0.7	0.5	0.5	0.6	0.5	1
Al-Barka Islamic	1	1	1	1	1	1	2	-	5	5	7	8	10	14	17	-
Barclays	-	-	-	-	-	-	-	2	-	-	-	-	-	-	-	15
Bank of Tokyo	4	1.2	2	0.8	0.6	0.6	-	-	6.5	3.0	3	3	1	1	1	-
Total : All Banks	**317**	**366**	**519**	**674**	**775**	**886**	**1115**	**1173**	**1459**	**1683**	**1957**	**2375**	**2804**	**3098**	**3699**	**4034**

Source: Annual Reports of Various Banks

Book/Report Reviews

Between Dreams and Realities
Some Milestones in Pakistan's History
Sartaj Aziz
Oxford University Press, 2009

The book offers an insiders view of the political developments that took place in Pakistan from 1984 onwards. It records the milestones and turning points in Pakistan's political history. Through this journey the author has highlighted the significant landmarks, in the expectation that it will provide some guidance to present and future rulers in evolving a wider national consensus on certain basic issues of state and governance without which no nation can survive or prosper.

In the first few chapters of the book the author writes about his early life, the 1965 war, the separation of East Pakistan, which the author feels would not have taken place had Pakistan evolved a genuine democratic system. During Prime Minister Junejo's tenure the author wrote the five point programme for economic development where agriculture and rural development received great focus. Earlier the author had been actively involved in developing rural development models and had written a book titled *Rural Development: Learning from China.*

The economic reforms initiated during 1990-93 have been discussed in chapter 8. These included privatisation and deregulation, exchange & payments system, tax reforms, industrial policy, export policy and self reliance. The economic reform programme was however, neutralized to some extent by macroeconomic problems. The sanctions imposed on Pakistan after the nuclear test, the stoppage of American military assistance in 1990 (Pressler sanctions) and recurring political stability took a toll on the economy.

In the last two chapters of the book, the author writes about the Kargil Crisis of 1999 and the military takeover in October 1999. In the last chapter the author writes, "No matter, how efficient and effective a military regime may look on the surface, the real tasks of strengthening the foundations of the federation, creating inter-provincial harmony, and providing participatory governance for the benefit of the common people can be accomplished only by a legitimate government with strong democratic institutions."

The book concludes with " Pakistan is located at a geo-strategic crossroad in Asia, linking Western Asia and Central Asia with South Asia. It can build a strong and prosperous economy on these geo-strategic foundations if it can put its own house in order by strengthening its constitutional, political and moral foundations. This is a gigantic task that will require the collective will and efforts of all the stakeholders including the armed forces. Once the foundations of democracy are well established, the focus of the entire nation should shift to development and good governance. The dream of Pakistan should never be allowed to die."

Replicating Dreams
A Comparative Study of Grameen Bank and its replication, Kashf Foundation, Pakistan
Nabiha Syed
Oxford University Press, 2009

Microcredit has played an important role in many countries for alleviating poverty and has emerged as a key component of their development strategy. Grameen Bank of Bangladesh has been widely lauded as a development miracle and has received attention as a development strategy of countries worldwide. Today there are about 200 replications of Grameen-type credit programmes worldwide.

This book introduces the basic structure of Grameen Bank's pioneering model and compares the translation of this institution to the Kashf Foundation — in Pakistan. Kashf has made adjustment and other modifications given the environmental and institutional differences. Kashf is widely recognized as one of the leaders of microfinance in Pakistan. The book studies the basic structure of both Grameen and Kashf, analyzes their institutional differences, and then conceptualizes outreach in a shifting microcredit market as a means of achieving empowerment.

Chapter 1 gives a detailed overview of the Grameen Group Lending Programme, followed by a chapter — Kashf Lending Model Overview. This is followed by an evaluation/assessment of the Grameen Model and Kashf Model.

There are some key differences in both the models, besides the environmental differences. These include differences with regard to designation of loans, gender access to loans, the stage in which the loan is received, training, interest rates, savings aspect of the model, and disciplinary issues. After evaluating the particularities of each institution, the concept of empowerment is examined to understand the aims of both Grameen and Kashf.

Pakistan Energy Outlook
2007-08 to 2021-2022
Petroleum Institute of Pakistan

Recent years have seen a widening gap between energy demand and supply in Pakistan. This comprehensive report offers an analysis of the energy consumption trend and assessment of energy supply position to enable the development of a strategy to meet the energy shortages which has created problems for the country.

Given the growing energy demand the Report indicates the need to enhance the pace of development of indigenous resources, especially coal, hydel and renewables on war-footing and also proceed to execute the LNG and cross border natural gas pipeline projects. Energy infrastructure needs to be modernized, alongwith an energy conservation programme and bringing about a reduction in the transmission distribution losses.

While economic growth is closely correlated to energy demand, the strength varies from country to country. The Report has shown that in case of Pakistan there exists a strong relationship between economic growth and energy demand.

The Report has developed two cases of energy forecast based on economic growth.

Case I: GNP/GDP@4.5% per annum
Case II: GNP/GDP@6.5% per annum

The final energy demand during 2008-2022 will grow at an annual rate of 4.7 percent in case I and by 6.6 percent in case II. By the year 2022, natural gas will maintain the largest share at 46 percent under both cases, followed by petroleum products (28%), electricity (15%) and coal (11%).

In sector-wise final energy demand, industrial sector will maintain its dominant position with a share of 47 percent, followed by transport (26%), residential & commercial (24%), agriculture (2%) and government/defence (1%) sector under both the cases.

Domestic energy deficit will continue to grow and it is expected that over 60-70 percent of energy demand of the country in 2022 will be met by gas, oil and coal imports with consequent adverse impact on the domestic economy.

Natural gas which currently meets 50 percent of the country's energy needs, is expected to start to show a deficit from 2012. Technically a deficit already exists since additional gas is not available for the power and industrial units until 2012 when LNG imports and cross border natural gas pipeline are expected to be begin from gas rich countries. The current deficit in crude and petroleum products is expected to grow in view of increased furnace oil requirements for power sector and demand for diesel in transport sector. It is expected that over 60-70 percent of the energy demand of the country in 2022 will be met by gas, oil and coal imports with consequent adverse impact on the country's economy.

Pakistan Economy – Key Economic Indicators

	Unit	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Output and Prices									
GNP Size	$ bn	72.1	85.0	100.1	111.7	129.8	145.6	167.7	171.3
GDP Size	$ bn	71.7	82.4	97.9	109.4	127.3	143.0	164.4	166.1
Income Per Capita	$	504	579	669	732	835	927	1042	1046
Real Growth	(%)								
GNP		5.1	7.9	6.4	8.3	5.6	6.7	4.1	2.6
GDP		3.1	4.7	7.5	8.6	5.8	6.8	4.1	2.0
Agriculture		0.1	4.1	2.4	6.7	6.3	3.7	1.1	4.7
Manufacturing		4.5	6.9	14.0	12.6	8.7	8.2	4.8	-3.3
Services Sector		4.8	5.2	5.8	8.0	6.5	7.6	6.6	3.6
Prices									
Consumer Price Inflation*	(%)	3.5	3.1	4.6	9.3	7.9	7.8	12.0	21.5†
Wholesale Price Inflation*	(%)	2.1	5.6	7.9	6.8	10.1	6.9	16.4	19.7†
Food Inflation*	(%)	2.5	2.8	6.0	12.5	6.9	10.3	17.6	25.1†
Non Food Inflation*	(%)	4.2	3.3	3.6	7.1	8.6	6.0	7.9	18.7†
Core Inflation*	(%)	2.0	2.5	3.8	7.2	7.5	5.9	8.4	17.8†
Gold Tezabi	$/10 grams	95.5	109.0	127.2	138.3	172.2	208.2	267.1	312.7
Motor Gasoline Premium	Rs/Ltr	31.60	33.08	33.91	40.75	55.21	56.09	57.83	57.83
Kerosene oil	Rs/Ltr	18.58	22.48	24.95	29.11	36.19	39.09	43.44	43.44
Light Speed Diesel	Rs/Ltr	16.70	21.15	22.72	26.50	36.45	38.40	40.97	40.97
GDP Deflator	%	2.49	4.42	7.74	7.02	9.20	7.80	16.21	22.62
Savings and Investment									
National Savings	% GDP	18.4	20.6	17.9	17.5	18.2	17.4	13.5	14.3
Domestic Savings	% GDP	17.9	17.4	15.7	15.4	16.3	15.6	11.5	11.2
Gross Capital Formation	% GDP	15.5	15.3	15.0	17.5	20.5	20.9	20.4	18.1
Public	% GDP	4.1	3.9	4.0	4.3	4.8	5.6	5.4	4.9
Private	%GDP	11.2	11.2	10.9	13.1	15.7	15.4	15.0	13.2
Public Finance									
Revenue Receipts	% GDP	14.0	14.8	14.2	13.8	14.1	14.9	14.8	14.6
Tax Revenue	% GDP	10.7	11.4	10.8	10.1	10.5	10.3	10.2	11.3
Total Expenditure	% GDP	18.5	18.8	16.5	16.8	18.4	20.8	22.1	18.6
Fiscal Deficit	% GDP	4.3	3.7	2.4	3.3	4.3	4.3	7.4	4.3
Domestic Debt	Rs.bn	1718	1854	1979	2150	2322	2601	3266	3884
Funded	% Domestic Debt	53.9	51.0	54.6	59.4	62.0	63.9	68.8	67.7
Non Funded	% Domestic Debt	46.1	49.0	45.4	40.6	38.0	36.1	31.2	32.3
FBR Tax Collection	Rs.bn	404	461	521	590	713	847	1001	989
Direct Taxes	% share	34.9	33.0	31.7	31.0	31.6	39.4	38.3	36.5
Indirect Taxes	% share	65.1	67.0	68.3	69.0	68.4	60.6	61.7	63.5
Monetary Sector									
Net Domestic Assets (NDA)**	Rs.bn	1531	1539	1903	2329	2697	3080	4022	4395†
Net Foreign Assets (NFA)**	Rs.bn	231	540	583	637	710	985	667	372†

** Period Average   ** End-June Stocks   † July-May*

	Unit	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Credit to Private Sector	Rs.bn	841	949	1274	1712	2114	2480	2888	2985†
Net Credit to Government	Rs.bn	677	599	657	753	834	927	1510	1900†
Borrowings for Budgetary Support	Rs.bn	567	511	575	647	708	810	1365	1748†
Broad Money (M2)	growth %	15.4	18.0	19.6	19.1	15.1	19.3	15.3	2.4
Reserve Money (Mo)	growth %	9.6	14.5	15.4	17.6	10.2	20.9	22.3	6.8
Capital Market									
KSE 100 Index	1991=1000	1770	3402	5279	7450	9989	13772	12289	7162
Market Capitalisation	$ bn	6.6	12.8	24.4	34.3	46.2	65.7	60.45	26.90
Listed Companies at KSE	Nos	712	702	668	659	658	658	652	652
National Saving Scheme*	$ bn	13.8	16.8	17.1	15.8	15.6	16.5	17.4	17.0
Banking Sector									
Scheduled Banks Deposits	$ bn	23.1	28.7	34.8	40.9	47.0	55.7	61.0	52.5
Scheduled Banks Advances	$ bn	14.4	16.6	21.6	28.5	34.5	39.2	44.2	37.2
Scheduled Banks Assets	$ bn	37.5	43.4	52.1	62.9	61.3	77.6	81.2	71.3
Lending and Deposit Rates	weighted average								
Deposits Outstanding	% pa	4.17	1.90	1.61	2.55	4.01	5.30	6.94	6.62
Advances Outstanding	% pa	12.03	7.58	7.20	8.98	10.90	11.80	12.42	14.09
Open Market Operation	weighted average								
SBP 3-Day Repo	% pa	9.00	7.50	7.50	9.00	9.00	9.50	12.00	14.00
Treasury Bills Yield - 6 Months	% pa	6.28	1.66	2.08	7.96	8.49	8.90	11.47	13.14
KIBOR - 6 Months	% pa	6.21	2.12	2.69	8.46	9.36	9.77	13.94	12.80
Pakistan Investment Bonds - 5 yrs	% pa	9.39	4.16	5.27	7.50	9.65	9.53	10.80	12.37
Overnight Call Money Rate	%	6.74	4.23	1.86	4.34	8.46	9.37	13.55	12.35†
SBP Export Finance Rate	%	6.50	2.00	1.50	6.50	7.50	6.50	6.50	7.50†
External Sector									
Exports	$ bn	9.14	10.97	12.46	14.48	16.55	17.28	20.12	16.25†
Imports	$ bn	9.43	11.33	13.74	19.00	24.99	26.99	35.42	31.48†
Trade Balance	$ bn	-0.29	-0.36	-1.28	-4.52	-8.44	-9.71	-15.70	-15.23†
Current Account	$ bn	0.09	3.16	1.30	-1.78	-5.70	-7.40	-14.46	-8.4†
	% GDP	0.1	3.7	1.3	-1.6	-6.6	-5.1	-8.6	-5.1†
Worker Remittances	$ mn	2389	4237	3872	4168	4600	5494	6451	7076†
Foreign Private Investment	$ mn	475	816	922	1677	3872	6960	5172	2222†
Direct	$ mn	485	798	950	1524	3521	5140	5153	3326†
Portfolio	$ mn	-10	18	-28	153	351	1820	19	-1104†
External Debt and Liabilities	$ bn	36.5	35.5	35.3	35.8	37.6	40.5	46.3	50.14**
	% GDP	50.9	42.6	36.1	32.7	29.5	28.1	27.6	30.2**
External Debt Servicing	$ mn	4095	4349	5274	2965	3115	2977	3161	3654**
Gold & Forex Reserves	$ mn	7065	11472	13155	13338	14590	17924	13299	12404
Gold	$ mn	667	725	831	917	1288	1366	1957	2052
Cash	$ mn	6398	10747	12324	12421	13302	16558	11342	10345
Crude Oil Spot Prices (Brent)	$/barrel	25.5	28.2	33.0	55.4	73.3	71.9	141.0	70.16
Exchange Rate (Average)	Rs/US$	61.4	58.5	57.6	59.4	59.9	60.6	62.5	78.5

** Outstanding Amount **July-March* † *July-May*