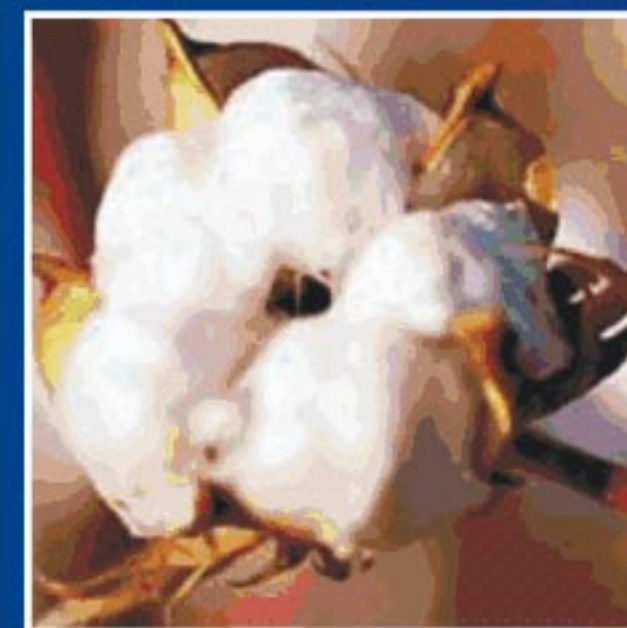
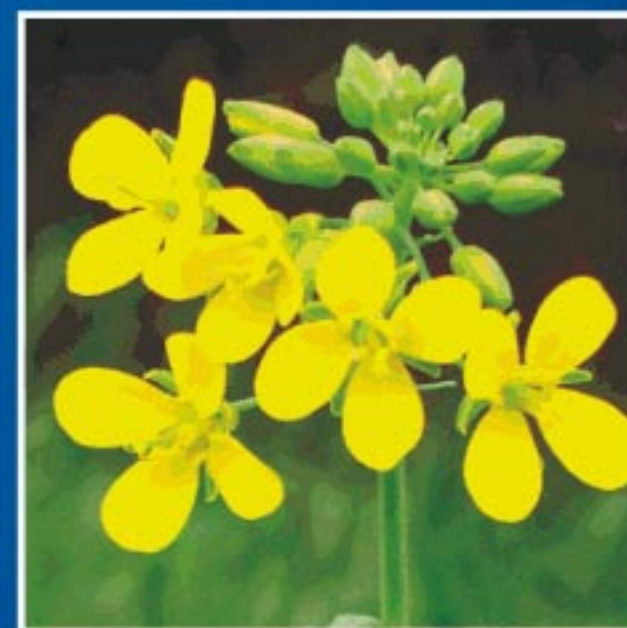




*ANNUAL REPORT*  
**2007**



**ZARAI TARAQIATI BANK LIMITED**



*Consolidated Financial  
Statements*

Annual Report 2007

**BDO EBRAHIM & CO.**

Chartered Accountants  
3rd Floor Saeed Plaza,  
22 East, Jinnah Avenue, Blue Area  
Islamabad.

**HYDER BHIMJI & CO.**

Chartered Accountants  
2nd Floor, Standard Insurance House  
I.I Chundrigar Road  
Karachi

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of ZARAI TARAQIATI BANK LIMITED ("the Bank") and its subsidiary company as at December 31, 2007 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity, together with the notes forming part thereof, for the year then ended. These financial statements include un-audited certified returns from the branches except for ninety six branches, which have been audited by us. The financial statements of subsidiary company, Kissan Support Services (Private) Limited, were audited by BDO Ebrahim & Co Chartered Accountants, whose report has been furnished to us and our opinion in so far as it relates to the amounts included for such company, is based solely on that report. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The consolidated financial statements of the Bank for the year ended December 31, 2006 were audited by Messr; Khalid Majid Rahman Sarfaraz Rahim Iqbal Rafiq; Chartered Accountants and M. Yousuf Adil Saleem & Co.; Chartered Accountants whose report dated June 09, 2007 expressed an unqualified opinion on those consolidated financial statements and laid emphasis on two matters namely inter branch/office current account and borrowing from the State Bank of Pakistan.

We conducted our audit in accordance with auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above referred statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above referred statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above referred statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements examined by us, based on ninety six branches audited by us and the returns referred to above received from the branches which have been found adequate for the purposes of our audit, present fairly the financial position of the Zarai Taraqiati Bank Limited and its subsidiary company as at December 31, 2007, and result of their operations, cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Without qualifying our opinion, we draw attention to the following matters, reported in the auditors' report of the Bank:

1. Prudential Regulation "0-3" for Corporate/Commercial Banking, requires clearance of all outstanding entries in inter-branches/offices current accounts within, a period of 30 days from the date of



recording of transactions in the above referred statements. We have, however, noted balance in inter-branches/offices current accounts, reported in note 18 to the consolidated financial statements on net basis at Rs.531.431 million-Credit Balance (December 31, 2006: Rs. 34.105 million-Credit Balance).

2. As reported in note 14.3 and 22.2.6 of the notes to the consolidated financial statements, the matter of determination of share of the State Bank of Pakistan (SBP) which, as worked out by the Bank, in addition to the mark up already recorded by the Bank amount to Rs. 2,500.582 million is under consideration of the SBP and Ministry of Finance for final decision. Furthermore installments of the debts payable in July 2006, January 2007, July 2007 and January 2008 as required by SBP in its letter No. ACD/3104/Loans-15.A/2004 dated December 16, 2004, has not been paid. Outcome of the decision on this matter may require appropriate adjustment in the provision of accrued markup.

**BDO EBRAHIM & CO.**  
Chartered Accountants  
Islamabad

**HYDER BHIMJI & CO.**  
Chartered Accountants  
Karachi



## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2007

	Note	2007	2006
Rupees in '000			
<b>ASSETS</b>			
Cash and balances with treasury banks	7	2,103,682	1,295,464
Balances with other banks	8	12,054,304	7,883,566
Lendings to financial institutions		-	-
Investments	9	7,504,233	5,534,499
Advances	10	61,313,006	60,839,057
Operating fixed assets	11	867,435	818,866
Other assets	12	9,559,816	9,102,866
		93,402,476	85,474,318
<b>LIABILITIES</b>			
Bills payable	13	392,726	276,333
Borrowings	14	51,257,213	51,257,213
Deposits and other accounts	15	4,322,244	2,882,384
Sub-ordinated loans	16	3,204,323	3,204,323
Liabilities against assets subject to finance lease		-	-
Deferred tax liability	17	119,191	7,629
Other liabilities	18	19,139,108	14,242,721
		78,434,805	71,870,603
<b>NET ASSETS</b>		14,967,671	13,603,715
<b>REPRESENTED BY</b>			
Share capital	19	11,869,612	11,869,612
Reserves	20	565,911	359,348
Unappropriated profit		1,846,632	1,011,744
		14,282,155	13,240,704
Surplus on revaluation of assets	21	685,516	363,011
		14,967,671	13,603,715
<b>CONTINGENCIES AND COMMITMENTS</b>	22		

The annexed notes from 1 to 44 form an integral part of these consolidated financial statements.

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR



## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
		Rupees in '000	
Mark-up/return/interest earned	23	7,033,400	6,001,704
Mark-up/return/interest expensed	24	3,418,023	2,802,785
Net mark-up/interest income		3,615,377	3,198,919
Provision against non-performing loans and advances		3,090,206	1,767,234
Write offs under Government relief packages		567,445	1,482,448
Bad debts written off directly		-	-
		3,657,651	3,249,682
Net mark-up/interest income after provisions		(42,274)	(50,763)
<b>NON MARK-UP/INTEREST INCOME</b>			
Fee, commission and brokerage income		2,338	2,544
Dividend income		2,153	6,458
Other income	25	5,723,145	5,514,079
Total non mark-up/interest income		5,727,636	5,523,081
		5,685,362	5,472,318
<b>NON MARK-UP/INTEREST EXPENSES</b>			
Administrative expenses	26	3,778,579	2,760,450
Provision/(reversal) for diminution in the value of investments, net	9.3	(686)	10,110
Provision against other assets	12.5	72,149	2,048,971
Other charges	27	5,849	306
Total non mark-up/interest expenses		3,855,891	4,819,837
		1,829,471	652,481
<b>UNUSUAL ITEM</b>			
	28	30,366	-
<b>PROFIT BEFORE TAXATION</b>			
		1,799,105	652,481
<b>TAXATION</b>			
Taxation - current	29	637,808	219,673
- prior years	29	8,285	-
- deferred	29	111,561	9,458
		757,654	229,131
<b>PROFIT AFTER TAXATION</b>			
		1,041,451	423,350
Unappropriated profit brought forward		1,011,744	702,355
<b>Profit available for appropriation</b>		2,053,195	1,125,705
<b>Basic earnings per share (Rupees)</b>			
	30	0.877	0.357
<b>Diluted earnings per share (Rupees)</b>			
	31	0.877	0.357

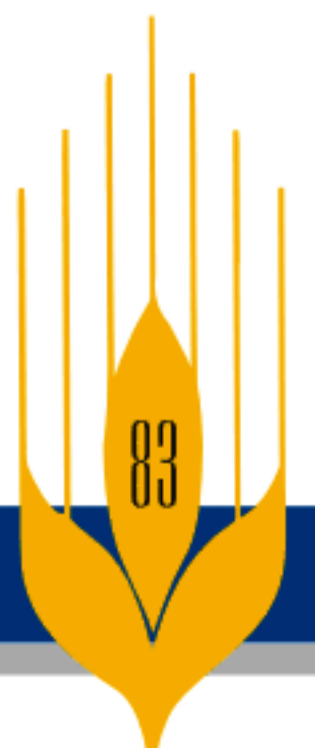
The annexed notes from 1 to 44 form an integral part of these consolidated financial statements.

PRESIDENT

DIRECTOR

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DIRECTOR



## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

Note	2007	2006
	Rupees in '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	1,799,105	652,481
Rental income	(10,446)	-
Interest income	(10,951)	-
Dividend income	(2,153)	(6,458)
	1,775,555	646,023
<b>Adjustments for non-cash charges:</b>		
Depreciation	134,205	106,519
Amortization of deferred income	(14,769)	(14,532)
Provision against non-performing advances	3,090,206	1,767,234
Reversal for employees post retirement benefits	(160,773)	(2,110,467)
Provision for diminution in the value of investments	(686)	10,110
Provision / (reversal) against other assets	79,167	2,048,971
Fixed assets - written off	4,879	-
Unusual item	30,366	-
Write offs under Government relief packages	567,445	1,482,448
Provision for employees' compensated absences	271,137	-
Gain on sale of fixed assets	(28,241)	(37,116)
	3,972,936	3,253,167
	5,748,491	3,899,190
<b>(Increase)/decrease in operating assets:</b>		
Advances-net	(4,132,674)	(10,356,004)
Others assets (excluding advance taxation)	(495,887)	(193,486)
	(4,628,561)	(10,549,490)
<b>Increase in operating liabilities:</b>		
Bills payable	116,393	40,592
Deposits	1,440,766	237,737
Other liabilities (excluding current taxation)	4,310,178	2,339,807
	5,867,337	2,618,136
Staff retirement benefit payments	(34,791)	(2,969,446)
Interest income received	11,106	-
Income tax paid	(163,404)	(418,310)
Net cash flow generated from/(used) in operating activities	6,800,178	(7,419,920)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investment (held to maturity securities)	(1,646,543)	7,391,356
Rental income received	10,446	-
Dividend received	2,153	6,458
Investment in operating fixed assets	(216,154)	(250,141)
Sale proceeds of property and equipment disposed-off	28,876	52,012
Net cash flow generated from/(used) investing activities	(1,821,222)	7,199,685
Increase/(decrease) in cash and cash equivalents	4,978,956	(220,235)
Cash and cash equivalents at beginning of the year	9,179,030	9,399,265
Cash and cash equivalents at end of the year	14,157,986	9,179,030

32

The annexed notes from 1 to 44 form an integral part of these financial statements.

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR

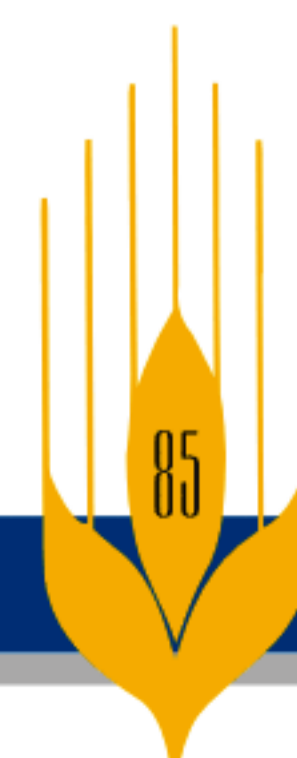


## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007

	SHARE CAPITAL	STATUTORY RESERVE	CONTINGENCIES RESERVE	UNAPPROPRIATED PROFIT	TOTAL
	Rupees in '000				
<b>Balance as at December 31, 2005</b>	11,869,612	215,387	30,000	702,355	12,817,354
Profit for the year ended December 31, 2006	-	-	-	423,350	423,350
Transfer to statutory reserve	-	83,961	-	(83,961)	-
Transfer to contingencies reserve	-	-	30,000	(30,000)	-
<b>Balance as at December 31, 2006</b>	11,869,612	299,348	60,000	1,011,744	13,240,704
Profit for the year ended December 31, 2007	-	-	-	1,041,451	1,041,451
Transfer to statutory reserve	-	206,563	-	(206,563)	-
Transfer to contingencies reserve	-	-	-	-	-
<b>Balance as at December 31, 2007</b>	11,869,612	505,911	60,000	1,846,632	14,282,155

The annexed notes from 1 to 44 form an integral part of these financial statements.

<b>PRESIDENT</b>	<b>DIRECTOR</b>	<b>DIRECTOR</b>	<b>DIRECTOR</b>
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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

### 1. THE GROUP AND ITS OPERATIONS

#### Status

As required under section 3 of the Agricultural Development Bank of Pakistan (Reorganization and Conversion) Ordinance, 2002, Zarai Taraqati Bank Limited was incorporated as a public limited company under the Companies Ordinance, 1984 on October 23, 2002. Consequently, under SRO 823 (1)/2002 dated November 18, 2002, all the assets, contracts, liabilities, proceedings and undertakings of Agricultural Development Bank of Pakistan were transferred to, and vested in Zarai Taraqati Bank Limited on December 14, 2002, the effective date specified by the Federal Government on the basis of net worth determined at Rs. 8.9 billion. The Bank's principal office is situated at 1-Faisal Avenue (Zero Point), Islamabad. The Bank operates 342 (December 31, 2006: 342) branches in Pakistan as at close of the year.

The group consist of Zarai Taraqati Bank Limited and subsidiary Kissan Support Services (Pvt) Limited.

#### 1.1 Nature of Business

The main purpose of the Group is to provide sustainable rural finance and services particularly to small farmers and low-income households to strengthen the rural and agricultural sector, mitigate poverty, capital market and investment activities and other banking business.

### 2. BASIS OF PRESENTATION

The State Bank of Pakistan (SBP) vide Banking Surveillance Department (BSD) Circular No. 4 dated February 17, 2006 has issued 'Revised forms of Annual Financial Statements' which has replaced existing forms prescribed through BSD Circular No. 36 dated October 10, 2001. These consolidated financial statements have been presented in accordance with such revised form.

#### 2.1 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of Zarai Taraqati Bank Limited and its subsidiary with 100% holding(2006: 100%).

Subsidiary is that enterprise in which parent company directly or indirectly controls,

beneficially owns or hold more than 50% of the voting securities or otherwise beneficially owns or hold 50% of its directorship. The financial statements of the subsidiary are included in the consolidated financial statements from the date of control commences until the control ceases.

The assets and liabilities of subsidiary company have been consolidated on a line by line basis and the carrying value of investments held by the parent company is eliminated against the subsidiary shareholders' equity in the consolidated financial statements.

Material intra-group balances and transactions have been eliminated.

### 3. STATEMENT OF COMPLIANCE

**3.1** These consolidated financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962 and directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the SBP. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the provisions of the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962. In case requirements differ, the provisions of directives given in the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and directives of SBP shall prevail.

**3.2** The State Bank of Pakistan has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) through BSD Circular No. 10 dated August 26, 2006. These are not applicable for banking companies in Pakistan. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements. However, investments have been presented in accordance with the requirements prescribed by the State Bank of Pakistan's BSD Circular No. 10 dated July 13, 2004.



### 3.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective.

The following standards, interpretations and amendments of approved accounting standards effective for accounting period beginning on or after January 1, 2008 are either not relevant to the Bank's operations or are not expected to have significant impact on the Group's consolidated financial statements other than certain increased disclosures in certain cases:

- IAS - 1** Presentation of Financial Statements - Amendments Relating to Capital Disclosures
- IAS - 23** Borrowing Costs
- IFAS - 2** Ijarah
- IFRS - 6** Exploration for and Evaluation of Mineral Resources
- IFRS - 8** Operating Segments
- IFRIC - 11** Group and Treasury Share Transactions
- IFRIC - 12** Services Concession Arrangements
- IFRIC - 13** Customer Loyalty Program
- IFRIC - 14 & IAS-19** The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction

### 4. BASIS OF MEASUREMENT

These consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments (Note 9) and in conformity with the accepted accounting practices of the banking institutions in Pakistan.

These consolidated financial statements are presented in Pak Rupees, which is the Group's functional and presentation currency. The amounts are rounded to the nearest thousand rupees.

### 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in conformity with approved accounting standards requires the use of certain critical accounting judgments. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations on future events that are believed to be reasonable under these circumstances. The areas where various

assumptions and estimates are significant to the Group's financial statements or where judgment was exercised in application of accounting policies described in notes are as follows:

#### 5.1 Investments

As described in Note 9 held for trading, held to maturity are investments where the management has positive intent and ability to hold to maturity and available for sale securities are investments that do not fall under the held for trading or held to maturity categories. The classification of these securities involves management judgment at the time of purchase whether the financial assets are held for trading, held to maturity or available for sale investments.

#### 5.2 Provision against non-performing advances

The amount of general provision is determined in accordance with the relevant regulations and management's judgment.

#### 5.3 Defined benefit plans

The cost of the defined benefit plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension and salary increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

#### 5.4 Operating fixed assets

Estimates of useful life of the property and equipment are based on the management's best estimate. Changes in the expected useful life are accounted for by changing the depreciation /amortization period or method, as appropriate, and are treated as changes in accounting estimate.

#### 5.5 Depreciation and amortization of operating fixed assets

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be considered by the Group. The method applied is reviewed at each financial year end and if there is change in the expected pattern of consumption of the future economic benefits embodied on the assets, the method is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with the IAS-8, 'Changes in Accounting Estimates and Errors'.

## 5.6 Taxation

In making the estimates for income taxes currently payable, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past.

## 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied through out the year unless otherwise stated.

### 6.1 Staff retirement benefits

#### Pension scheme

The Group operates defined benefits funded pension scheme approved by the income tax authorities, for its eligible employees who opted for the employees benefits scheme, introduced in 1975 and 1977 for clerical/non-clerical staff and for executives/officers, respectively. The Bank's costs are determined on the basis of actuarial valuation carried out by independent actuaries by using 'Projected Unit Credit Method'. Any surplus/deficit arising on actuarial valuation in excess of the higher of 10% of present value of defined benefit obligations or 10% of the fair value of plan assets, is recognized as income or expense over the estimated working lives of the employees.

#### Gratuity scheme

The parent company operates defined benefits funded gratuity scheme approved by income tax authorities, for its eligible employees who did not opt for the employees benefits scheme, introduced in 1975 and 1977 for clerical/non-clerical staff and for executives/officers, respectively. Annual contributions are made on the basis of actuarial recommendations. Any surplus/deficit arising on actuarial valuation by independent actuaries in excess of the higher of 10% of present value of defined benefit obligation or 10% of the fair value of plan assets is recognized as income or expense over the estimated working lives of the employees.

The subsidiary company operates an unfunded gratuity scheme for its permanent employees.

#### Provident fund scheme

The Group operates a defined contribution funded provident fund scheme for its employees who did not opt for the employees benefits scheme

introduced in 1975 and 1977 for clerical/non clerical staff and for executives/officers respectively. Under this scheme, equal contributions at defined rates are made by the member employees and the Bank. The Bank also operates a non-contributory provident fund for its employees who opted for the new employee benefits scheme, as mentioned above. Under this, non contributory provident fund, contributions at defined rates are made by its member employees only. Both of these provident funds are approved by the income tax authorities.

#### Benevolent scheme

The Group also has two funded defined benefit benevolent fund schemes for its employees, separately for officers and for clerical and non-clerical staff. Contribution to these schemes are made by employees and the Bank. The employee's contribution is matched by an equal contribution by the Bank which is also liable to meet any shortfall in the fund, determined on the basis of actuarial valuation. Transitional liability arising on first time adoption of International Accounting Standard - 19 (revised 2000) "Employee Benefits" is recognized as an expense on straight line basis over five years from the date of its adoption.

#### Post retirement medical benefits

The Group operates an unfunded defined benefit, post retirement medical benefit scheme for all of its employees. Provision is made in the consolidated financial statements for the benefit based on actuarial valuation. Actuarial gains/losses are accounted for in the manner similar to pension scheme.

### 6.2 Employees compensated absences

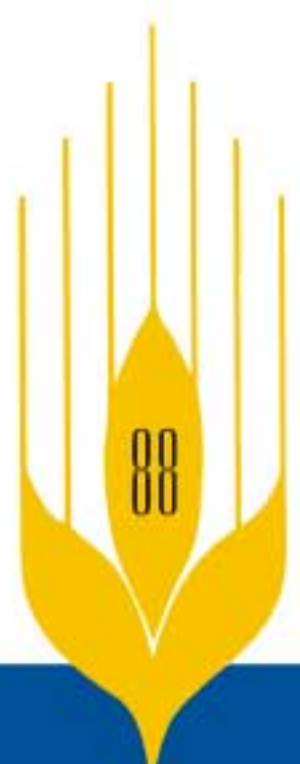
The Group accounts for all accumulating compensated absences when the employees render service that increases their entitlement to future compensated absences. The compensated absences are only encashable at the time of retirement and that too for a certain period provided in the terms of employment. Provision is made in the consolidated financial statements for the benefit based on entitled un-availed leave balances carried forwarded to the next year.

### 6.3 Cash and cash equivalents

Cash and cash equivalents comprise of cash, balances with treasury banks and balances with other banks.

### 6.4 Revenue recognition

Markup/interest on advances and returns on



investments are recognized on an accrual basis except markup/interest on classified advances which is recognized on a receipt basis, in accordance with the prudential regulations issued by the SBP.

Commission is recognized when earned.

Profit/(loss) on sale of investments is credited/charged to profit and loss account currently.

Dividend income is recognized when the Bank's right to receive has been established.

Rental income is recorded on accrual basis.

### 6.5 Advances

Advances are stated at net of provision for non-performing advances. Provision for non-performing advances is determined on the basis of Prudential Regulations issued by the SBP and charged to profit and loss account. Advances are written off when there is no realistic prospect of recovery.

### 6.6 Investment

In accordance with BSD circular No. 10 and 14 dated July 13, 2004 and September 24, 2004 respectively, issued by the SBP, the Bank classifies its investment portfolio into 'Held-for-Trading', 'Held-to-Maturity' and 'Available-for-Sale' securities as follows:

#### Held-for-Trading

These are investments acquired principally for the purpose of generating profits from short term fluctuations in market price.

#### Held-to-Maturity

These are investments with fixed or determinable payments and fixed maturity in respect of which the Bank has the positive intent and ability to hold till maturity.

#### Available-for-Sale

These are investments which do not fall under the 'Held-for-Trading' and 'Held to-Maturity' categories.

Quoted securities where ready quotes are available on Reuters Page (PKRV) or Stock Exchange, other than investments classified as held to maturity, are valued at fair value.

Investments classified as held to maturity are carried at amortised cost. The surplus/deficit arising as a result of revaluation at fair value on trading portfolio is taken to income and that relating to the available for sale portfolio is kept in a separate account and shown below equity.

Investment in unquoted securities are carried at cost less impairment loss, if any.

In case of held to maturity securities, the difference between the face value and purchase price is amortised over the remaining life of the investment using effective yield method, in order to determine amortised cost.

Gains or losses on disposals of investments are dealt with through profit and loss account in the year in which they arise.

All purchases and sales of investments that requires delivery within the timeframe established by the regulation or market convention are recognized at the trade date. Trade date is the date at which the Group commits to purchase or sell the investment.

### 6.7 Operating fixed assets and depreciation /amortization

Operating fixed assets except free hold land are stated at cost less accumulated depreciation, amortisation and accumulated impairment losses (if any). Free hold land is stated at cost.

Depreciation is computed over the estimated useful lives of the related assets at the rates set out in note 11. Depreciation is charged on reducing balance method except for vehicles, computer equipment and lease hold land which are depreciated/amortized on straight line method. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

During the year method for charging depreciation on additions and deletions to the operating fixed assets have been changed, which is accounted for as change in accounting estimates. The new method is that depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off. The impact of the change in accounting estimates is immaterial and non significant.



Gains/losses, if any, on disposal of operating fixed assets are charged to profit and loss account during the year.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account.

### 6.8 Intangible Assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortised for the proportionate period for which the asset remains in use, using the straight line method, whereby the costs of the intangible assets are amortised over its useful life over which economic benefits are expected to flow to the Group. The useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

### 6.9 Impairment

The carrying value of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. The resulting impairment loss is taken to the profit and loss account except for the impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

### 6.10 Taxation

#### Current

Provision for current taxation is based on taxable income at the current rate after taking into account tax credits, exemptions and rebates as laid down in the applicable income tax law. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalized during the year.

#### Deferred

Deferred tax is provided using the balance sheet liability method, providing for all temporary

differences between the carrying amounts of assets and liabilities for the financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using the tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

### 6.11 Borrowings / Deposits and their costs

Borrowings / deposits are recorded at the proceeds received.

Borrowings / deposits costs are recognised as an expense in the period in which these are incurred using effective mark-up / interest rate method.

### 6.12 Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect current best estimate.

### 6.13 Foreign currencies

The Group operates foreign currency transactions through SBP in local currency by paying exchange fluctuation risk fee to the SBP.

### 6.14 Related party transactions

All transactions undertaken between the Group and the related parties are measured at arms' length prices determined in accordance with the methods as prescribed by the SECP.

### 6.15 Financial assets and financial liabilities

All the financial assets and liabilities are recognised at the time when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Group loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.



**6.16 Offsetting**

Financial assets and financial liabilities are set off and the net amount is reported in the consolidated financial statements when there is a legally enforceable right to set off and the Group intends either to settle on a net basis, or to realize the assets and settle the liabilities, simultaneously.

**6.17 Dividend distribution and appropriation**

Dividends (including bonus dividend) and other appropriations (except appropriations which are required by law) are recognized in the period in which these are approved.

**7 CASH AND BALANCES WITH TREASURY BANKS**

	Note	2007	2006
Rupees '000			
<b>Local Currency</b>			
In hand		344,497	149,745
Prize bonds		609	637
In current accounts with:			
State Bank of Pakistan	7.1	1,758,574	1,145,080
National Bank of Pakistan		2	2
		<u>2,103,682</u>	<u>1,295,464</u>

7.1 It represents cash reserves at the rate of 7% of the bank's demand liabilities and deposits maturity upto one year in Pakistan, at nil return, cash reserve rate as required to be maintained with State Bank of Pakistan under section 22 of Banking Companies Ordinance, 1962 and Banking Surveillance Department Circular No. 4 dated August 1, 2007.

**8 BALANCES WITH OTHER BANKS**

In Pakistan in local currency:

In current accounts		18,475	9,702
In deposit accounts	8.1	12,035,829	7,873,864
		<u>12,054,304</u>	<u>7,883,566</u>

8.1 These carry mark-up ranging from 2.00% to 11.5% per annum (2006: 2.00% to 12.75% per annum)

**9 INVESTMENTS****9.1 Investment by types**

	Note	2007			2006		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
Rupees in '000							
<b>Available-for-Sale securities</b>							
Listed companies	9.5	90,294	-	90,294	90,294	-	90,294
Un-listed companies	9.6.4	10,523	-	10,523	10,523	-	10,523
		100,817	-	100,817	100,817	-	100,817
<b>Held-to-Maturity securities</b>							
Market Treasury Bills	9.4	2,883,166	-	2,883,166	1,843,309	-	1,843,309
Pakistan Investment Bonds	9.4	1,084,507	-	1,084,507	1,116,967	-	1,116,967
Federal Investment Bonds	9.4	708,743	2,492	711,235	763,734	2,684	766,418
Certificates of Investment	9.7	2,048,829	-	2,048,829	1,354,500	-	1,354,500
		6,725,245	2,492	6,727,737	5,078,510	2,684	5,081,194
<b>Total investments</b>		<u>6,826,062</u>	<u>2,492</u>	<u>6,828,554</u>	<u>5,179,327</u>	<u>2,684</u>	<u>5,182,011</u>
Provision for diminution in value of investments	9.3	(9,837)	-	(9,837)	(10,523)	-	(10,523)
<b>Investments (Net of provisions)</b>		<u>6,816,225</u>	<u>2,492</u>	<u>6,818,717</u>	<u>5,168,804</u>	<u>2,684</u>	<u>5,171,488</u>
Surplus on revaluation of Available-for-Sale securities	21	685,516	-	68,516	363,011	-	363,011
<b>Total investments at market value</b>		<u>7,501,741</u>	<u>2,492</u>	<u>7,504,233</u>	<u>5,531,815</u>	<u>2,684</u>	<u>5,534,499</u>



9.2 Investment by segments	Note	2007	2006
		Rupees in '000	
<b>Federal government securities</b>			
Market Treasury Bills	9.4	2,883,166	1,843,309
Pakistan Investment Bonds	9.4	1,084,507	1,116,967
Federal Investment Bonds	9.4	711,235	766,418
		4,678,908	3,726,694
<b>Fully paid up ordinary shares:</b>			
Listed companies	9.5	90,294	90,294
Un-listed companies	9.6	10,523	10,523
		100,817	100,817
Certificates of investment	9.7	2,048,829	1,354,500
<b>Total investment at cost</b>		6,828,554	5,182,011
Provision for diminution in value of investments	9.3	(9,837)	(10,523)
		6,818,717	5,171,488
<b>Investments (net of provisions)</b>		6,818,717	5,171,488
Surplus on revaluation of available-for-sale securities	21	685,516	363,011
<b>Total investments at market value</b>		7,504,233	5,534,499

### 9.3 Particulars of provision

Opening balance	10,523	413
Charge for the year	-	10,110
Reversals	(686)	-
Closing balance	9,837	10,523

### 9.3.1 Particulars of provision in respect of type and segment

Available-for-sale securities-(listed securities)	-	-
Available-for-sale securities-(un-listed securities)	9,837	10,523

### 9.4 Principal terms of investments in federal government securities

Name of investment	Maturity	Note	Principal payment	Rate %	Coupon payment
Market Treasury Bills	Jan. 2008 to Jul. 2008	9.4.1	On maturity	9.10 to 9.19	at maturity
Pakistan Investment Bonds	August 2011 to Dec. 2011	9.4.1	On maturity	12 to 13	semi-annually
Federal Investment Bonds	Mar. 2008	9.4.2	On maturity	15	semi-annually

9.4.1 Market treasury bills, Federal Investment Bonds and Pakistan Investment Bonds are held by the Bank which also covers statutory liquid reserve requirements.

9.4.2 Federal Investment Bonds having amortised cost of Rs. 2.492 millions (December 31, 2006: Rs. 2.684 million) are pledged /lodged with SBP as security for Telegraphic Transfer/Demand Draft discounting facility obtained for branches.

### 9.5 Particulars of investments held in listed companies

No. of ordinary shares		Paid up value/share Rupees	Name of companies	2007	2006
2007	2006			Rupees in '000	
280,090	280,090	10	Nestle Milkpak Limited	89,297	89,297
450,000	450,000	10	Uqab Breeding Farm Limited.	585	585
150,000	150,000	10	Mubarik Dairies Limited	412	412
300,000	300,000	10	Dadabhoy Agricultural Leasing Limited	-	-
			9.5.1	90,294	90,294

9.5.1 Dadabhoy Agricultural Leasing Limited is under suspension since November 2001. At the date of suspension, its market value per share was Rs. 2.50 against its face value of Rs. 10 per share.



9.6 Particulars of investments held in un-listed companies

Name of Investee	Percentage of holding	Number of shares held	Break up value	Based on audited financial statements as at	Name of chief executive/ managing director
			Rupees		
National Commodity Exchange Limited	9.13%	909,091	686,207	June 30, 2007	Mr. Assim Jang
Saudi Pak Kala Bagh Livestock Limited-net 9.6.1	33.33%	1,000,000	-	-	Mr. M. Asad Khan
Pakistan Agricultural Storage and Services Corporation Limited-net	8.33%	2,500	(1,653,250)	June 30, 2007	Maj.Gen.(R) F.A.Khan
Larkana Sugar Mills Limited-net 9.6.2	6.36%	141,970	-	-	Mr. Anwar Majeed

9.6.1 Saudi Pak Kala Bagh Livestock Limited has defaulted in the repayment of loan and the case has been referred to National Accountability Bureau.

9.6.2 Larkana Sugar Mills Limited is in the process of liquidation since February 2000 and there is no probability of any recovery of amount invested on final settlement.

9.6.3 Investment in Saudi Pak Kalabagh Livestock Limited and Larkana Sugar Mills Limited are stated at book value due to non-availability of required information for the calculation of breakup value. Moreover, these investments are fully provided for in these financial statements.

9.6.4 Market value of listed investment is Rs. 775.810 million and book value of un-listed investments is Rs. 10.523 million. Face value of investment in un-listed securities is Rs. 37.220 million.

9.7 Particulars of Certificates of Investments

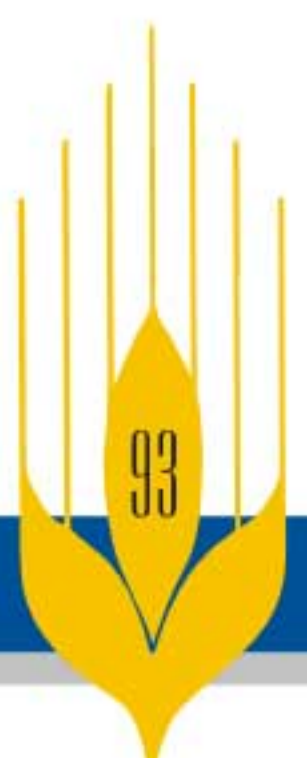
Name of investee	Maturity	Principal payment	Rate %	Coupon payment
		%		
Saudi Pak Industrial and Agricultural Investment Company (Pvt.) Ltd.	February 2008	on maturity	9.75 to 10.15	at maturity
Pak Oman Investment Company Limited	January 2008	on maturity	9.60	at maturity

9.8 Quality of Available-for-Sale securities

	2007		2006	
	Amount	Rating	Amount	Rating
Nestle Milk Pak Limited	89,297	N/A	89,297	N/A
Uqab Breeding Farm Limited	585	N/A	585	N/A
Mubarik Dairies Limited	412	N/A	412	N/A
National Commodity Exchange Limited	10,523	N/A	10,523	N/A
	<u>100,817</u>		<u>100,817</u>	

10 ADVANCES

	Note	Rupees in '000	
		2007	2006
Loans, cash credits, running finances, etc. In Pakistan - gross	10.1	70,540,426	70,615,937
Less:			
Provision for non-performing advances	10.2	(9,221,928)	(9,772,751)
Provision for advances to employees		(5,492)	(4,129)
		<u>(9,227,420)</u>	<u>(9,776,880)</u>
Advances-net of provision		<u>61,313,006</u>	<u>60,839,057</u>





10.1	Particulars of advances (Gross)	2007	2006
		Rupees in '000	
10.1.1	In local currency	70,540,426	70,615,937
10.1.2	Short term	52,069,129	46,566,434
	Long term	18,471,297	24,049,503
		70,540,426	70,615,937

10.2 Advances include Rs. 16,708.290 million (December 31, 2006: Rs. 20,104.490 million) which have been placed under non-performing status as detailed below:

Category of classification	2007		
	Classified advances	Rupees in '000	
		Provision required	Provision held
		Domestic	
Other Assets Especially Mentioned	5,253,843	-	-
Substandard	4,718,271	943,653	943,653
Doubtful	2,915,788	1,457,889	1,457,889
Loss	3,820,386	3,820,386	3,820,386
	16,708,290	6,221,928	6,221,928
Provision under portfolio audit - general	-	-	3,000,000
	16,708,290	6,221,928	9,221,928

### 10.3 Particulars of provision against non-performing advances

Note	2007			2006		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	6,772,751	3,000,000	9,772,751	8,815,111	3,000,000	11,815,111
Net charge for the year	3,088,843	-	3,088,843	1,767,234	-	1,767,234
Amounts written off	10.4	-	-	-	-	-
Amounts charge off	10.5	(3,639,666)	(3,639,666)	(3,809,594)	-	(3,809,594)
Closing balance	6,221,928	3,000,000	9,221,928	6,772,751	3,000,000	9,772,751

### 10.3.1 Particulars of provision against non-performing advances

	2007			2006		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	6,221,928	3,000,000	9,221,928	6,772,751	3,000,000	9,772,751

### 10.4 Particulars of write offs

#### 10.4.1 Against provisions

	Note	2007	2006
		Rupees in '000	
Write offs of Rs 500,000 and above	10.6	-	-
Write offs of below Rs 500,000		-	-



<b>10.5</b>	<b>Particulars of Charge Offs</b>		
<b>10.5.1</b>	Against provisions		3,639,666    3,809,594
<b>10.5.2</b>	Charge offs of Rs 500,000 and above		-    3,693,506
	Charge offs of below Rs 500,000		3,639,666    116,088
		10.7	3,639,666    3,809,594

#### 10.6 Details of write offs of Rs 500,000 and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year have to be disclosed. However, this write off does not effect the Group's right to recover debts from these customers. During the year ended December 31, 2007 no write-off or any other financial relief was allowed to any person(s).

#### 10.7 Particulars of charge off

In terms of Prudential Regulations for Agricultural Financing - Part C (specific regulations) the parent company extinguishes its loans through provisions. The total balance for these off-balance sheet loans extinguished against provisions as on December 31, 2007 was Rs 36,570 million (Rs. 37,300 million as on December 31, 2006) with an addition of Rs. 3,640 million as charge off loans during the year. Detail of charge offs out of extinguished loan portfolio exceeding five hundred thousand only in respect of project loans is given at Annexure-1.

#### 10.8 Particulars of loans and advances

##### To directors and executives

Debts due by the directors and executives / officers of the bank

	2007	2006
	Rupees in '000	
Balance at the beginning of year	1,615,129	1,300,736
Loans granted during the year	865,002	672,882
	2,480,131	1,973,618
Repayments/write offs	(479,052)	(358,489)
Balance at end of year	2,001,079	1,615,129

##### To associated companies

Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members

	Note	2007	2006
		Rupees in '000	
Balance at beginning of year		-	34,263
Repayments/write offs		-	(34,263)
Balance at end of year		-	-

#### 11 OPERATING FIXED ASSETS

Property and equipment	11.1	865,537	815,271
Intangible assets	11.2	1,898	3,595
		867,435	818,866

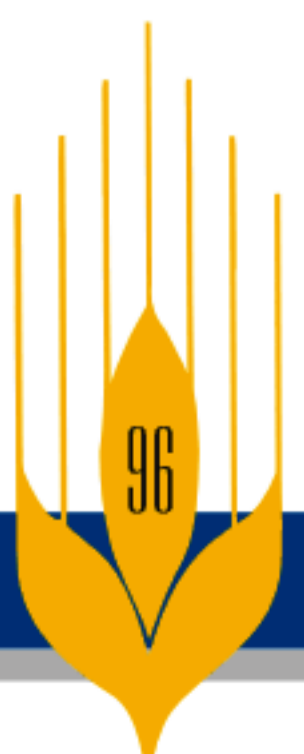


## 11.1 Property and equipments

Particulars	COST				DEPRECIATION				Book value at December 31, 2007	Rate of Depreciation
	At January 1, 2007	Additions	(Deletions)/ adjustments	At December 31, 2007	At January 1, 2007	Charge for the year	(Deletions)/ adjustments	At December 31, 2007		
Rupees in '000										
Free hold land	170,961	-	-	170,961	-	-	-	-	170,961	-
Lease hold land	10,640	-	-	10,640	1,592	398	-	1,990	8,650	-
Building on free hold land	137,886	21	-	137,907	25,825	5,473	-	31,298	106,609	5%
Building on leasehold land	304,400	1,959	-	306,359	67,241	11,339	-	78,580	227,779	5%
Furniture and fixture	30,534	12,058	(15,644)	26,948	10,665	3,286	(1,483)	12,468	14,480	10%
Computer, office and other equipments	96,608	52,447	(8,769)	140,286	49,791	29,309	(7,406)	71,694	68,592	20/33.33%
Vehicles	377,072	150,170	(59,371)	467,871	157,717	82,552	(40,864)	199,405	268,466	20%
<b>2007</b>	<b>1,128,101</b>	<b>216,655</b>	<b>(83,784)</b>	<b>1,260,972</b>	<b>312,831</b>	<b>132,357</b>	<b>(49,753)</b>	<b>395,435</b>	<b>865,537</b>	
Rupees in '000										
Free hold land	170,961	-	-	170,961	-	-	-	-	170,961	-
Lease hold land	10,640	-	-	10,640	1,194	398	-	1,592	9,048	-
Building on free hold land	137,886	-	-	137,886	19,927	5,898	-	25,825	112,061	5%
Building on leasehold land	303,732	668	-	304,400	54,777	12,464	-	67,241	237,159	5%
Furniture fixture	24,210	5,877	-	30,087	6,694	3,971	-	10,665	19,422	10%
Computer, office and other equipments	49,608	52,342	(4,895)	97,055	30,366	19,666	(242)	49,790	47,265	20/33.33%
Vehicles	242,430	185,861	(51,219)	377,072	136,368	62,324	(40,975)	157,717	219,355	20%
<b>2006</b>	<b>939,467</b>	<b>244,748</b>	<b>(56,114)</b>	<b>1,128,101</b>	<b>249,326</b>	<b>104,721</b>	<b>(41,217)</b>	<b>312,830</b>	<b>815,271</b>	

## 11.2 Intangible assets

Particulars	COST				AMORTIZATION				Book value at December 31, 2007	Rate of Amortization
	At January 1, 2007	Additions	(Deletions)/ adjustments	At December 31, 2007	At January 1, 2007	Charge for the year	(Deletions)/ adjustments	At December 31, 2007		
Rupees in '000										
Computer software	5,393	150	-	5,543	1,798	1,847	-	3,645	1,898	33.33%
<b>2007</b>	<b>5,393</b>	<b>150</b>	<b>-</b>	<b>5,543</b>	<b>1,798</b>	<b>1,847</b>	<b>-</b>	<b>3,645</b>	<b>1,898</b>	
Rupees in '000										
Computer software	-	5,393	-	5,393	-	1,798	-	1,798	3,595	33.33%
<b>2006</b>	<b>-</b>	<b>5,393</b>	<b>-</b>	<b>5,393</b>	<b>-</b>	<b>1,798</b>	<b>-</b>	<b>1,798</b>	<b>3,595</b>	



**11.3 Deletions of property and equipments during the year includes**

	Rupees in '000		Book value
	Cost	Accumulated depreciation	
Vehicles written off due to theft	8,427	3,548	4,879
Assets written off as a result of riots			
Vehicles	14,637	4,036	10,601
Furniture and fixture	14,625	1,070	13,556
Computer, office and other equipments	6,584	2,875	3,709
	44,274	11,529	32,745

**11.4** The detail of disposal of assets whose original cost or the book value exceed one million and two hundred fifty thousand rupees respectively, whichever is lower, in respect of the parent company only is given below;

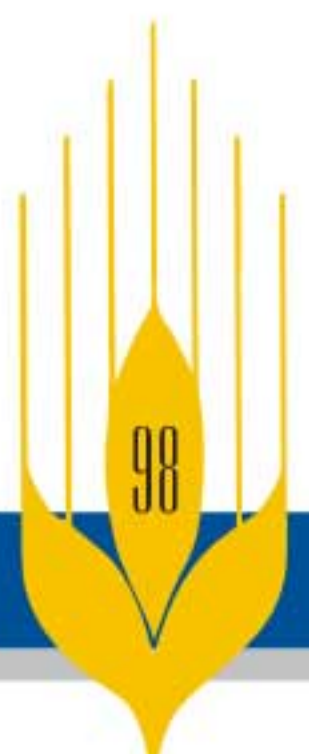
**List of vehicles disposed off during the year**

Sr. No.	Particular of Assets	Registration No.	Model	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Mode of Disposal	Particulars of Buyers
1	Suzuki Cultus	GP-0170	2006	595,000	237,999	357,001	-	Burnt	Loss due to Riot of December 27, 2007.
2	Suzuki Jeep	BC 4380	1995	459,462	91,892	367,570	-	Snatched	Date of Snatch / Stolen 28.04.1997
3	Suzuki Jeep	GP-2317	2006	618,000	247,199	370,801	-	Burnt	Loss due to Riot of December 27, 2007.
4	Suzuki Jeep	GP-2325	2006	618,000	247,199	370,801	-	Burnt	Loss due to Riot of December 27, 2007.
5	Suzuki Jeep	BC 8201	1997	488,754	106,526	382,228	-	Snatched	Date of Snatch / Stolen 23.04.1999
6	Suzuki Jeep	SAD 1312	1998	490,587	98,118	392,469	-	Snatched	Date of Snatch / Stolen 17.06.1998
7	Suzuki Jeep	LSB 373	1994	401,100	-	401,100	-	Snatched	Date of Snatch / Stolen 09.09.1994
8	Suzuki Liana	ALS-169	2007	615,000	122,999	492,001	-	Burnt	Loss due to Riot of December 27, 2007.
9	TLC-3 Door	IDF 1140	1992	840,408	336,164	504,244	-	Stolen	Date of Snatch / Stolen 12.02.1996
10	Suzuki Liana	GP-9005	2006	849,000	339,599	509,401	-	Burnt	Loss due to Riot of December 27, 2007.
11	T. Hilux	OKE 6243	2005	839,500	302,220	537,280	-	Snatched	Date of Snatch / Stolen 06.04.2007
12	Toyota Corolla	ALX-333	2006	900,000	359,999	540,001	-	Burnt	Loss due to Riot of December 27, 2007.
13	Honda City	KY 696	2006	615,000	25,274	547,603	547,603	Sale	Mr. Tahir Ali Shah, Ex SVP, ZTBL, HO, Islamabad
14	Honda Civic	KB 415	2005	615,000	65,712	549,288	549,288	Sale	Mr. Dr. Muhammad Riaz, Ex Economic Advisor
15	T. Hilux	GA 7232	2005	889,500	330,220	559,280	-	Snatched	Date of Snatch / Stolen 09.08.2007
16	Toyota Corolla	JK 307	2005	1,279,000	511,600	767,400	767,400	Sale	R. A. Chughtai, Ex President ZTBL
17	TLC-3 Door	QAF 2816	1992	832,274	-	832,274	-	Snatched	Date of Snatch / Stolen 15.02.1994
18	T. Pickup	GP 5026	2000	902,315	-	902,315	-	Snatched	Date of Snatch / Stolen 03.07.2001

12 OTHER ASSETS	Note	Rupees in '000	
		2007	2006
Income/mark-up accrued in local currency		168,612	74,107
Income/mark up accrued on held to maturity securities		77,920	75,188
Accrued Interest/markup on advances		2,530,820	2,361,814
Accrued mark up on advances to trust fund		78,875	-
Advance to Trust Fund		584,000	675,000
Stationery and stamps on hand		16,292	13,035
Tax recoverable	22.2.1	308,053	308,053
Non banking assets acquired in satisfaction of claims	12.1	372,995	223,881
Receivable from defined benefit plans	12.2	4,222,962	3,795,237
Stock in hand		14,545	14,565
Commutation paid to employees under SR - 2005	12.5.1	3,004,237	2,969,446
Receivable from Federal Government against GHSS	12.5.1	64,040	485,787
Receivable from Trust Funds against GHSS	12.3	-	85,151
Advances against salary and expenses		5,957	2,001
Deposits		1,771	1,786
Advances and other prepayments		241,287	78,605
Others	12.4	16,577	16,188
		<u>11,708,943</u>	<u>11,179,844</u>
Less:Provision held against other assets	12.5	<u>(2,149,127)</u>	<u>(2,076,978)</u>
Other assets (net of provisions)		<u>9,559,816</u>	<u>9,102,866</u>
<b>12.1</b>	Market value of non-banking assets acquired in satisfaction of claims is Rs 525.868 million (December 31, 2006: Rs. 379.415 million).		
	<b>Note</b>	<b>2007</b>	<b>2006</b>
		Rupees in '000	
<b>12.2 Receivable from defined benefit plans</b>			
Pension scheme	35.1.3	2,689,422	2,436,692
Benevolent scheme-officers/executives	35.2.3	214,282	188,855
Benevolent scheme-clerical/non-clerical	35.3.3	12,161	-
Gratuity scheme-Staff Regulations 1975	35.4.1.3	1,307,097	1,169,690
	12.2.1	<u>4,222,962</u>	<u>3,795,237</u>
<b>12.2.1</b>	It represents assets recognized by the Bank as required by International Accounting Standard-19 "Employee Benefits" against its defined benefit schemes on the recommendation of independent actuaries.		
<b>12.3</b>	It represents the amount receivable from Pension Fund Trust and Benevolent Fund Trusts against Golden Hand Shake Scheme		
	<b>Note</b>	<b>2007</b>	<b>2006</b>
<b>12.4 Others</b>		Rupees in '000	
Defence saving certificates		5	5
Advance for purchase of machinery/goods in transit		17	17
Legal charges recoverable on suits filed against loan defaulter		16,280	16,166
Miscellaneous		275	-
		<u>16,577</u>	<u>16,188</u>
<b>12.5 Provision against other assets</b>			
Opening balance		2,076,978	28,737
Charge for the year	12.5.1	72,149	2,048,971
Amount written off		-	(730)
Closing balance		<u>2,149,127</u>	<u>2,076,978</u>

**12.5.1** The Bank announced Staff Regulation-2005 under which 100% commutation were paid to those who opted for SR-2005. ADB vide its Aide-Memoire 13-March 29, 2006 supported the introduction of SR-2005 and use of the remaining loan proceeds from the second tranche for this purpose on the GoP confirmation with regard to the use of remaining second tranche programme loan proceeds for the implementation of the SR-2005. The Bank share out of second tranche amounted to US\$ 34 million. About US\$ 9 million had already been utilized against Voluntary Golden Hand Shake Scheme (VGHSS) and the balance of about US\$ 25 million are lying with the MoF. The ADB also agreed to consider the use of the third tranche proceeds (about US\$ 47 million) for the implementation of Bank's SR-2005, on the basis of position of non-performing loans of the Bank after the management audit. Finance Division of GoP vide letter No.F.3(18)IF-1/2002 dated May 18, 2006 confirmed to ADB that Finance Division has no objection for the use of the remaining loan proceeds from the 2nd tranche for the proposed Bank's SR-2005.

While evaluating the performance of the slow moving ADB category "B" loans in a meeting dated March 17, 2007 chaired by the Advisor to the Prime Minister on Finance and Economic Affairs, it was decided to have negotiations with ADB's forthcoming Mission for waiver of conditionalities for release of third tranche which cannot be complied with. If ADB does not agree to the proposal of waivers, the program loan amounting to US\$ 75 million may be cancelled. Keeping in view the above position, provision has been made in the financial statements amounting to Rs. 2,122 million (during the year 72 Million) being the difference of claim amounting to Rs. 3,066 million and the amount already received by the GoP amounting to Rs. 944 million out of second tranche proceeds.



	Note	2007	2006
Rupees in '000			
<b>13</b>	<b>BILLS PAYABLE</b>		
	In Pakistan	392,726	276,333
<b>14</b>	<b>BORROWINGS</b>		
	In Pakistan	51,257,213	51,257,213
<b>14.1</b>	<b>Particulars of borrowings with respect to currencies</b>		
	In local currency	51,257,213	51,257,213
<b>14.2</b>	<b>Details of borrowings from financial institutions - secured</b>		
	Borrowing from State Bank of Pakistan		
	Agricultural loans	50,174,089	50,174,089
	Agri-project loans	1,083,124	1,083,124
		<u>51,257,213</u>	<u>51,257,213</u>

**14.3** As per agreement with the SBP, these loans were obtained for providing finance to customers for agriculture purposes. Three credit lines amounting to Rs. 1.577 billion carry interest rate of 4.00% per annum while remaining thirty two credit lines amounting to Rs. 49.680 billion are based on profit and loss sharing subject to maximum share of profit to SBP ranging from 4.00% to 10.00% per annum. These loans are secured by way of guarantee of GoP. The Bank has submitted a proposal to SBP for restructuring the debt according to which the SBP's debt of Rs. 51.257 billion and SBP's subordinated debt of Rs. 3.204 billion is repayable in 15 equal annual installments commencing from 2006 onward with the provision to make repayment of the subordinated debt in the last installment and rate of mark up to be pegged at weighted average yield of 12 months Treasury Bill rate of 2.3558% per annum as per treasury bill auction dated June 12, 2003 and capped at the aforesaid markup rate for an initial period of five years.

SBP vide its letters No. ACD/3104/Loans-15-A/2004 dated December 16, 2004 and ACD/14/Loans-15-A/2004 dated January 4, 2005 has agreed with proposed terms except the proposed capping of markup rate which has been fixed on last auction's weighted average yield of Government Treasury Bill of 12 months maturity on floating basis every year and repayment of the SBP debts in 15 years in 30 bi-annual installments with a grace period of 3 years starting from July 2003, i.e. the period of 15 years for repayment of SBP debts will start from July 2006. The subordinated debt of Rs. 3.204 billion shall be repaid in the last installment. In view of the critical importance of debt pricing for the future financial viability and sustainability of the Bank the matter has been referred to Ministry of Finance for a considered Government decision.

In the meeting held on January 16, 2008 between the representatives of Ministry of Finance, the Bank and the State Bank of Pakistan and also in meetings held thereafter, it has been resolved that SBP in consultation with the Bank and MoF shall firm up proposal regarding SBP's debt on priority basis. At present the matter is being examined at the level of SBP and the Bank. Pending the outcome of the conclusion in above respect, mark up has been charged on these loans as per existing contractual rates of the respective credit lines.

**14.4** These loans were given by the SBP for the purpose of providing finance to agro based industry. These are subject to profit and loss sharing with a maximum share of profit to SBP ranging from 4.00% to 6.00% per annum. These are secured by guarantee given by the GoP. The Bank has submitted a proposal to SBP for restructuring of the debt as stated in note 14.3.

	Note	2007	2006
Rupees in '000			
<b>15</b>	<b>DEPOSITS AND OTHER ACCOUNTS</b>		
	<b>Customers</b>		
	Fixed deposits	109,894	63,092
	Saving deposits	757,968	202,684
	Current accounts - remunerative	207,570	188,240
	Current accounts - non-remunerative	3,216,893	2,399,173
	Others	29,919	29,195
		<u>4,322,244</u>	<u>2,882,384</u>



**16 SUB-ORDINATED LOAN**

As per restructuring plan of the Bank approved by the ECC of the cabinet, SBP's Equity holding of Rs. 3.204 billion was converted into subordinated loan on terms to be agreed with SBP. Accordingly, the Bank has submitted a proposal to SBP for restructuring the debt according to which the SBP's debt of Rs. 51.257 billion and SBP's subordinated debt of Rs. 3.204 billion is repayable in 15 equal annual installments commencing from 2006 onward with the provision to make repayment of the subordinated debt in the last installment and rate of mark up to be pegged at weighted average yield of 12 months Treasury Bill rate of 2.3558% per annum as per Treasury Bill auction dated June 12, 2003 and capped at the aforesaid markup rate for an initial period of five years.

SBP vide its letters No. ACD/3104/Loans-15-A/2004 dated December 16, 2004 and ACD/14/Loans-15-A/2004 dated January 4, 2005 has agreed with proposed terms except the proposed capping of markup rate which has been fixed on last auction's weighted average yield of Government Treasury Bill of 12 months maturity on floating basis every year and repayment of the SBP debts in 15 years in 30 bi-annual installments with a grace period of 3 years starting from July 2003, i.e. the period of 15 years for repayment of SBP debts will start from July 2006. The subordinated debt of Rs. 3.204 billion shall be repaid in the last installment.

Since the capping of mark-up charges at 2.3558% has not been agreed by SBP which is of critical importance for the future financial viability and sustainability of the Bank, the matter has been referred to Ministry of Finance for considered government decision. However the mark-up on subordinated debt at the rate of 2.3558% (from December 14, 2002 to June 30, 2004), 2.1867% (from July 1, 2004 to June 30, 2005), at the rate of 8.4009% (from July 1, 2005 to June 30, 2006) and at the rate of 8.7907% (from July 1, 2006 to June 30, 2007) and at the rate of 9.1597% for the period from July 1, 2007 to December 31, 2007 has been charged which is subject to adjustment on finalization of debt restructuring/repricing agreement with SBP.

**17 DEFERRED TAX LIABILITY**

Deferred tax liabilities arise due to temporary difference on account of depreciation charged on operating fixed assets. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using the tax rates enacted at the balance sheet date.

18 OTHER LIABILITIES	Note	2007	2006
		Rupees in '000	
Mark-up/ Return/ Interest payable in local currency		12,705,083	9,359,844
Accrued expenses		36,703	34,123
Current taxation (provisions less payments)		956,083	473,394
Branch adjustment		531,431	34,105
Payable to defined benefit plans	18.1	143,081	19,513
Contributory provident fund - SR 2005	18.2	-	10,000
Gratuity fund - SR 2005	18.2	-	22,197
Benevolent fund Officer - SR - 2005	18.2	-	273
Payable to Ministry of Food Agriculture and Livestock	18.3	352,616	177,715
Profit payable on deposits and other accounts		19,710	19,077
Net liabilities relating to Bangladesh	18.4	189	189
Provision for employees' post retirement medical benefits	35.5.4	3,359,112	3,271,961
Provision for employees' compensated absences	35.5	708,771	437,659
Payable to employees' against Golden handshake scheme		35,777	35,739
Security deposits		51,385	114,309
Deferred income		9,375	7,399
Others	18.5	229,792	225,224
		<u>19,139,108</u>	<u>14,242,721</u>
<b>18.1 Payable to defined benefit plans</b>			
Benevolent scheme-clerical/non-clerical	35.3.3	-	15,753
Gratuity scheme-SR-2005	35.4.2.3	143,081	3,760
		<u>143,081</u>	<u>19,513</u>



18.2 This represented temporary arrangement due to delay in establishment of trusts for the funds under SR-2005. The amounts have been transferred to respective Trust Funds during the year on their establishment.

18.3 This represents the amount of Rs. 9.715 million (December 31, 2006: 9.715 million) and Rs.342.9 million (December 31, 2006: Rs. 168 million) payable to Ministry of Food Agriculture and Livestock under Japanese KR-II grant-1996 and Crop Maximization Project-productivity enhancement on sustainable basis.

	Note	2007	2006
Rupees in '000			
<b>18.4 Liabilities relating to Bangladesh</b>			
Liabilities		1,372,794	1,343,424
Assets		(1,372,605)	(1,343,235)
	18.4.1	189	189

18.4.1 This represents the amount relating to the activities of the Bank in Bangladesh (former East Pakistan) before its separation. In accordance with the Finance Division letter No.F.5(12)PEC(op-FR)/78-236 dated May 6, 1979 the Bank has to calculate interest on the loans made in Bangladesh as it does in the case of corresponding borrowings made from the SBP and instead of carrying the interest to profit and loss account, will show it in the balance sheet only. The Bank is accruing interest at the rate of 8% on its loans and advances made in Bangladesh with contra increase in its liabilities relating to its activities in Bangladesh.

18.5 This represents various payables which includes withholding tax , contribution received from borrowers etc.

	Note	2007	2006
Rupees in '000			
<b>19 SHARE CAPITAL</b>			
Authorized capital 2,500,000,000 ordinary shares of Rs. 10 each ( December 31, 2006: 2,500,000,000 ordinary shares of Rs.10 each)		25,000,000	25,000,000
Issued, subscribed and paid up 1,186,961,201 ordinary shares of Rs. 10 each fully paid (December 31, 2006: 1,186,961,201 ordinary shares of Rs.10 each fully paid)	19.1	11,869,612	11,869,612

19.1	Shareholder	No of ordinary shares	Paid-up value per share	2007	2006
Rupees in '000					
	Government of Pakistan	1,185,961,201	10	11,859,612	11,859,612
	Government of Punjab	277,100	10	2,771	2,771
	Government of Sindh	119,000	10	1,190	1,190
	Government of NWFP	68,000	10	680	680
	Government of Balochistan	35,900	10	359	359
	Erstwhile East Pakistan	500,000	10	5,000	5,000
		1,186,961,201		11,869,612	11,869,612





## 20 RESERVES

	Statutory reserves	Reserves for contingencies	Total
	Rupees in '000		
Balance as at January 1, 2007	299,348	60,000	359,348
Transfer from unappropriated profit	206,563	-	206,563
Balance as at December 31, 2007	505,911	60,000	565,911

20.1 Statutory reserve represents reserve maintained as per requirement of Section 21 of the Banking Companies Ordinance, 1962.

20.2 The Bank has set aside contingency reserve for insurance of cash, building and vehicles.

## 21 SURPLUS ON REVALUATION OF ASSETS

	Note	2007	2006
		Rupees in '000	
Surplus arising on revaluation of available-for-sale securities			
Quoted shares		685,516	360,511
Other securities		-	2,500
		685,516	363,011

## 22 CONTINGENCIES

## 22.1 Contingent assets

The Government of Pakistan has reduced the markup rates on Bank's advances from 14% to 9% vide Presidential Relief Package 2004 w.e.f. July 01, 2004. As per the directive of the Bank's Board of Directors, the Bank has requested the Ministry of Finance to compensate the loss of revenue due to this reduction in rate of markup. The total claim in this respect has provisionally been worked out at Rs. 9,993 millions for the period from July 01, 2004 to December 31, 2007. However, this amount has not been accounted for in the accounts as the formal approval from Ministry of Finance has not been received by the Bank.

## 22.2 Contingent liabilities

22.2.1 There is a contingency of an amount of Rs 297.149 million receivable on account of minimum income tax levied by the income tax authorities under Section 80-D of Income Tax Ordinance, 1979, for assessment years 1991-92 to 1998-99. The income of the Bank was exempt from tax upto income year ended June 30, 1999. The Bank paid, under protest, the disputed tax demand and also filed writ petition in this respect in Lahore High Court, Rawalpindi Bench, Rawalpindi. Later on, the Bank withdrew the petition on directions of the Federal Government and the case was referred to the Law and Justice division of the Government of Pakistan (GoP) which decided the reference in Bank's favour. The Central Board of Revenue disagreed with the aforesaid decision and has further taken up the matter with Federal Cabinet for its review. Federal cabinet has referred the case to the Attorney General for final decision. The advice/decision of the Attorney General is still awaited. Since the Bank is very confident for a favourable decision from the Attorney General, hence, no provision in this respect has been made by the Bank in its books of account.

22.2.2 Contingent liability in respect of 17 cases (December 31, 2006: 17 cases) filed against the Bank by various borrower.

22.2.3 Contingent liability in respect of 140 cases (December 31, 2006: 43 cases) filed against the Bank in various courts of law by the employees.

	Note	2007	2006
		Rupees in '000	
		7,691,373	8,229,512
		53,016	5,578



- 22.2.4** Income tax of Rs. 929.632 million was levied by the income tax department for assessment year 2001-2002, against provision of Rs. 326.281million in the books of account of the Bank for that assessment year. The bank has paid Rs.785,103 million and also filed appeal before the Commissioner of Income Tax ( Appeals) against the aforesaid order. The Commissioner has set-aside the aforesaid order. However, the tax department preferred an appeal against the order of CIT(A) before the ITAT which is pending for hearing. Pending the outcome of the decision , the Bank has not recognized the incremental amount of tax as debt as it is confident that the same is not likely to crystalize. Moreover, in the current period another order has been passed by Additional Commissioner of Income Tax u/s 66A in respect of above year involving a demand of Rs. 355.333 Million thus involving tax contingency of Rs. 29.052 Million over the amount provided in the accounts. The Bank has filed appeal against them and has not accounted for the incremental amount of tax as it is confident that the same will not crystalize.
- 22.2.5** Income tax of Rs. 1,928.362 million was levied by the income tax department for assessment year 2002-2003, against provision of Rs. 1,919.929 million in the books of account of the Bank for that assessment year. The bank has paid Rs. 577.092 million against the said demand and also filed an appeal before the Commissioner of Income Tax (Appeals). The Commissioner has set-aside the aforesaid order and now tax department preferred an appeal against the order of CIT(A) before the ITAT. Pending the outcome of the decision , the Bank has not recognized the incremental amount of tax as debt as it is confident that the same is not likely to crystallize.
- 22.2.6** The SBP debt of Rs. 54.461 billion is in the process of repricing/restructuring. As per debt restructuring proposal the SBP debt was required to link with one year T-Bill rate capped at 2.3558 % plus profit and loss (PLS) sharing, the decision is still pending. The SBP debt has been charged at existing rate i.e contractual rate, as the SBP has not yet accepted the capping and PLS arrangements. The financial impact of this event works out to be approximately Rs.2,500.582 million up to December 31, 2007 .

	Note	2007	2006
		Rupees in '000	
<b>23 MARK UP/RETURN/INTEREST EARNED</b>			
On loans and advances to customers		5,700,683	4,576,510
On investments in held to maturity securities		337,171	471,093
On deposits with financial institutions		995,546	954,101
		<u>7,033,400</u>	<u>6,001,704</u>
<b>24 MARK UP/RETURN/INTEREST EXPENSED</b>			
Deposits		7,149	2,961
Long term borrowings - State Bank of Pakistan		3,408,311	2,798,557
Bank commission and other charges		2,563	1,267
		<u>3,418,023</u>	<u>2,802,785</u>
<b>25 OTHER INCOME</b>			
Rent on property - others		7,993	6,577
Net profit on sale of property and equipment		28,242	37,116
Loan application fee		234,131	345,512
Net reversal of provision relating to defined benefit plans	25.1	160,773	2,110,467
Return on Advances to trust fund		78,875	-
Deferred income amortization		14,769	14,532
Others	25.2	5,198,362	2,999,875
		<u>5,723,145</u>	<u>5,514,079</u>

- 25.1** Excess provision in respect of defined benefit plans has been written back on the basis of actuarial valuation carried out by an independent actuarial valuer.



25.2 OTHERS	Note	2007	2006
		Rupees in '000	
Recoveries of charge off amounts		5,078,618	2,858,182
Sale proceeds of loan application forms		4,120	4,227
Postal charges received from loanees		38,441	49,500
Miscellaneous income	25.2.1	77,183	87,966
		<u>5,198,362</u>	<u>2,999,875</u>

25.2.1 It includes sale of scrap, renewal fee of Sada Bahar Scheme and cost of loose cheque.

## 26 ADMINISTRATIVE EXPENSES

Salaries, allowances and benefits		2,721,029	2,080,540
Charge for defined contribution plan		21,753	7,572
Charge for compensated absence		271,137	82,649
Non-executive directors' fees and other expenses		1,396	1,901
Rent, taxes, insurance, electricity, etc.		86,641	76,890
Legal and professional charges		106,691	21,180
Communications		30,388	33,855
Repairs and maintenance		29,256	13,039
Motor vehicles expenses		159,017	169,396
Traveling expenses		97,054	76,888
Stationery and printing		28,559	27,501
Advertisement and publicity		7,972	11,757
Auditors' remuneration	26.1	3,398	2,984
Depreciation and amortization		134,205	106,519
Expense on senior management team		14,769	14,532
Others		65,314	33,247
		<u>3,778,579</u>	<u>2,760,450</u>

### 26.1 Auditors' remuneration

Audit fee		1,325	1,240
Consolidation of the accounts of subsidiary company		400	-
Tax services		-	274
Special certifications and sundry advisory services		370	380
Out of pocket expenses		1,103	1,090
		<u>3,198</u>	<u>2,984</u>
MYASCO fee for consolidation of accounts	26.1.2	200	-
		<u>3,398</u>	<u>2,984</u>

#### 26.1.1 Particulars of auditors' remuneration

	2007		Total
	HBCO*	BDOECO**	
	Rupees in '000		
Audit fee	625	700	1,325
Consolidation of the accounts of subsidiary company	200	200	400
Tax services	-	-	-
Other certification	185	185	370
Out of pocket expenses	545	558	1,103
	<u>1,555</u>	<u>1,643</u>	<u>3,198</u>



	2006			Total
	BDOECO**	KMRSRIR***	MYASCO****	
	Rupees in '000			
Audit fee	40	600	600	1,240
Tax services	-	274	-	274
Other certification	-	210	170	380
Out of pocket expenses	-	545	545	1,090
	40	1,629	1,315	2,984

\* Hyder Bhimji & Co. Chartered Accountants

\*\* BDO Ebrahim & Co. Chartered Accountants

\*\*\* Khalid Majid Rahman Sarfaraz Rahim Iqbal Rafiq & Co. Chartered Accountants

\*\*\*\* M.Yousuf Adil Saleem & Co.

26.1.2 An amount of Rs. 200 thousand has been paid to M.Yousuf Adil Saleem & Co. Chartered Accountants for consolidation of the financial statements for the year ended December 31, 2006 during the year.

27	OTHER CHARGES	Note	2007	2006
			Rupees in '000	
	Penalties imposed by SBP		970	306
	Fixed assets - written off		4,879	-
			5,849	306

## 28 UNUSUAL ITEM

It represents the losses incurred due to the disruption of law and order in the country on December 27, 2007.

Furniture and Fixtures	13,556	-
Computers	3,709	-
Vehicles	10,601	-
Computer stationery	1,200	-
Cash	1,300	-
	30,366	-

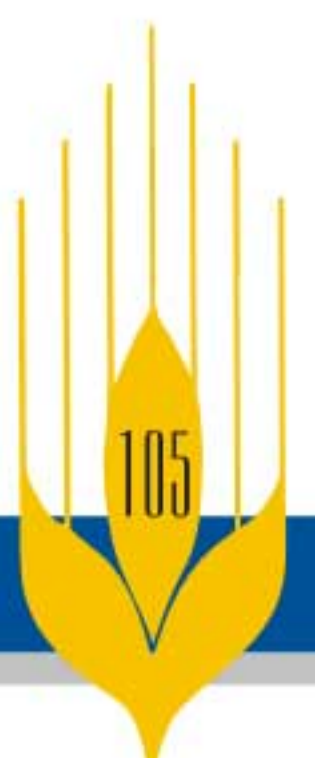
The losses incurred at branches and zonal offices have been recorded on the basis of report of the Task Force Committee established for the purpose.

## 29 TAXATION

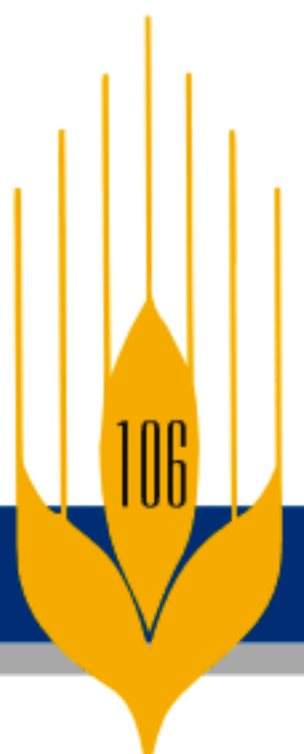
For the year			
Current	29.1	637,808	219,673
Prior years		8,285	-
Deferred		111,561	9,458
		757,654	229,131

### 29.1 Relationship between tax expense and accounting profit

Accounting profit for the year	1,799,105	652,481
Add: accounting depreciation	134,205	106,519
provision for diminution in the value of investment	-	10,110
preliminary expenses	-	267
provision for gratuity	-	264
	(102,945)	98,323
Less: tax depreciation	(12,599)	(6,458)
dividend and rental income for separate consideration	-	(38,091)
assessed loss for tax year 2006	-	53
amortization of preliminary expenses	-	53
	1,817,766	626,716



	Note	2007	2006
Rupees in '000			
Tax-excluding dividend and rental income		637,070	219,350
Tax on dividend and rental income		738	323
Tax for the current period		637,808	219,673
Applicable tax rate		35%	35%
<b>30 BASIC EARNINGS PER SHARE</b>			
Profit for the year		1,041,451	423,350
Weighted average number of ordinary shares (number in thousand)		1,186,961	1,186,961
Basic earnings per share in rupees		0.877	0.357
<b>31</b>	Diluted earnings per share has not been presented as the Group does not have any convertible instruments in issues at December 31, 2006 and 2007 which would have any affect on the earnings per share if the option to convert is exercised.		
	Note	2007	2006
Rupees in '000			
<b>32 CASH AND CASH EQUIVALENTS</b>			
Cash and balance with treasury banks	7	2,103,682	1,295,464
Balance with other banks	8	12,054,304	7,883,566
		14,157,986	9,179,030
<b>33 STAFF STRENGTH</b>			
Permanent		5,333	5,326
Contractual		7	-
Others (on deputation)		-	1
Total staff strength		5,340	5,327
<b>34 CREDIT RATING</b>			
JCR-VIS Credit Rating Company, Karachi in its report of July 07, 2007 has reaffirmed credit rating of the Bank at AAA/A-1+ (2006:AAA/A-1+) with stable outlook, medium to long term credit rating of B and short-term credit rating of B. (2006, BB + medium to long term, B short term rating).			



**35 DEFINED BENEFIT PLANS**

The Bank operates the following retirement benefit for its employees:-

- Pension Scheme-funded
- Benevolent Scheme-funded
- Post Retirement Medical Benefits-unfunded
- Employees Gratuity Scheme-funded and unfunded

**35.1 Pension scheme****35.1.1 General description**

For employees who opted for the scheme introduced in year 1975 for clerical/non-clerical staff and in the year 1977 for officers/executives, the Bank operates an approved funded pension scheme on which monthly contributions are made on the basis of actuarial recommendation. However, most of the officers/executives have been excluded from this scheme after opting new Staff Regulations introduced in 2005 (SR-2005) effective from July 1, 2006.

**35.1.2 Principal actuarial assumption**

The latest actuarial valuation is carried out as at December 31, 2007. The actuarial valuations were made using the Projected Unit Credit (PUC) method based on the following significant assumptions:

Valuation discount rate	10% per annum
Expected rate of increase in salary	9% per annum
Expected rate of return on investments	10% per annum
Indexation in pension	3% per annum

Note	2007	2006
	Rupees in '000	

**35.1.3 Reconciliation of payable/(receivable) to/(from) pension fund**

Present value of defined benefit obligation	1,838,739	1,604,684
Fair value of plan assets	(4,751,634)	(4,254,458)
Net actuarial gains not recognized	223,473	213,082
	(2,689,422)	(2,436,692)

**35.1.4 Movement in net liability/(asset) recognized**

Opening net asset		(2,436,692)	(778,701)
Charge for the period	35.1.5	(241,881)	1,389,641
Contribution to fund/benefits paid during the year		(10,849)	(3,047,632)
Closing net asset		(2,689,422)	(2,436,692)

**35.1.5 Charge/(prepaid) for pension fund**

Current service cost	23,096	58,452
Interest cost	160,469	251,502
Expected return on plan assets	(425,446)	(365,200)
Actuarial gains recognized	-	(59,827)
Curtailement and settlement loss	-	1,504,714
	(241,881)	1,389,641

**35.2 Benevolent scheme - officers/executives****35.2.1 General description**

For all officers/executives, the Bank operates an approved funded benevolent scheme to which contributions are made at the rate of 2% of basic pay to a maximum of Rs. 100, by each officer/executive. Employee contributions are matched by an equal amount of contributions by the Bank which is also liable to meet any shortfall in the fund. However contributions are not made to the fund for those employees governed by the SR-2005 who have less than ten years of their remaining service.



**35.2.2 Principal actuarial assumption**

The latest actuarial valuation is carried out as at December 31, 2007. Actuarial valuation was made using the following significant assumptions:

Expected rate of increase in salary	9 % per annum
Expected rate of return on investments	10 % per annum

	Note	2007	2006
Rupees in '000			
<b>35.2.3 Reconciliation of payable to/(receivable from) benevolent fund</b>			
Present value of defined benefit obligation		208,563	163,623
Fair value of plan assets		(437,348)	(400,372)
Unrecognised actuarial gain/(loss)		14,119	47,125
Negative past service cost-not recognized		384	769
		<u>(214,282)</u>	<u>(188,855)</u>
<b>35.2.4 Movement in net liability/(asset) recognized</b>			
Opening net asset		(188,856)	(156,435)
Charge for the period	35.2.5	(21,250)	(24,818)
Contribution to fund/benefits paid during the year		(4,176)	(7,602)
Closing net asset		<u>(214,282)</u>	<u>(188,855)</u>
<b>35.2.5 Charge/(prepaid) for benevolent fund</b>			
Current service cost		7,630	8,006
Interest cost		16,362	16,860
Expected return on plan assets		(40,037)	(34,806)
Actuarial gains recognized		(644)	(358)
Contribution-employee		(4,176)	(7,603)
Negative past service cost-recognized		(385)	(6,917)
		<u>(21,250)</u>	<u>(24,818)</u>

**35.3 Benevolent scheme - clerical/non-clerical****35.3.1 General description**

For all clerical/non-clerical staff, the Bank operates an approved funded benevolent scheme to which contributions are made at different rates but not exceeding Rs. 100 by each employee. Employee contributions are matched by an equal amount of contributions by the Bank which is also liable to meet any shortfall in the fund.

**35.3.2 Principal actuarial assumption**

The latest actuarial valuation is carried out as at December 31, 2007. Actuarial valuation was made using the following significant assumptions:

Expected rate of increase in salary	9 % per annum
Expected rate of return on investments	10 % per annum

	Note	2007	2006
Rupees in '000			
<b>35.3.3 Reconciliation of payable to/(receivable from) benevolent fund</b>			
Present value of defined benefit obligation		41,989	42,099
Fair value of plan assets		(181,826)	(184,021)
Unrecognized part of transitional liability		-	-
Net actuarial gains/(losses) not recognized		127,676	157,675
		<u>(12,161)</u>	<u>15,753</u>



	Note	2007	2006
Rupees in '000			
<b>35.3.4 Movement in net liability/(asset) recognized</b>			
Opening net liability		15,753	34,760
Charge for the year	35.3.5	(26,048)	(15,184)
Contribution to fund/benefits paid during the year		(1,866)	(3,823)
Closing net liability		(12,161)	15,753
<b>35.3.5 Charge/(prepaid) for benevolent fund</b>			
Current service cost		2,671	3,364
Interest cost		4,210	4,437
Expected return on plan assets		(18,402)	(15,433)
Actuarial (gains)/losses recognized		(12,661)	(11,338)
Contribution-employee		(1,866)	(3,823)
Transitional liability recognized		-	7,606
Past service cost-recognized		-	3
		(26,048)	(15,184)

#### 35.4 Gratuity scheme

##### 35.4.1 Gratuity under old Staff Regulations

###### 35.4.1.1 General description

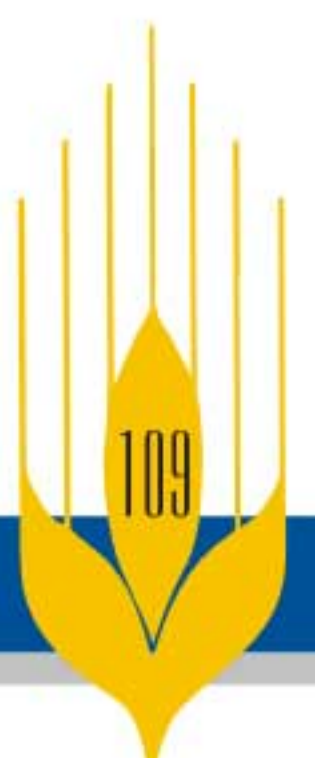
For employees who opted for the scheme introduced in 1975 for clerical/non-clerical staff and in 1977 for officers/executives, the Bank operates an approved funded gratuity scheme on which monthly contributions, if the employee has less than ten years of service, are made by the Bank on the basis of actuarial recommendation.

###### 35.4.1.2 Principal actuarial assumption

The latest actuarial valuation is carried out as at December 31, 2007. Actuarial valuation was made using the following significant assumptions:

Expected rate of increase in salary	9 % per annum
Expected rate of return on investments	10 % per annum

	Note	2007	2006
Rupees in '000			
<b>35.4.1.3 Reconciliation of payable to/(receivable from) gratuity fund</b>			
Present value of defined benefit obligation		13	74,588
Fair value of plan assets		(1,458,084)	(1,336,398)
Net actuarial gains/(losses) not recognized		150,974	166,663
Past service cost not recognized		-	(74,543)
		(1,307,097)	(1,169,690)
<b>35.4.1.4 Movement in net liability/(asset) recognized</b>			
Opening net asset		(1,169,690)	(1,036,035)
Charge for the year	35.4.1.5	(136,634)	(127,586)
Contribution to fund/benefits paid during the year		(773)	(6,069)
Closing net asset		(1,307,097)	(1,169,690)
<b>35.4.1.5 Charge/(prepaid) for gratuity fund</b>			
Current service cost		3	34
Interest cost		5	25
Expected return on plan assets		(133,640)	(116,730)
Actuarial gains recognized		(3,002)	(10,915)
		(136,634)	(127,586)





**35.4.2 Gratuity under Staff Regulations - 2005 (SR-2005)****35.4.2.1 General description**

The Bank also operates a separate Gratuity Fund scheme, w.e.f August 2006, established upon introduction of Staff Regulations - 2005 (SR-2005) for the employees governed under SR-2005 and contributions to this Fund are made by the Bank at the rate of 8.3330% of the monetized salary per month.

**35.4.2.2 Principal actuarial assumption**

The latest actuarial valuation is carried out as at December 31, 2007. Actuarial valuation was made using the following significant assumptions:

Expected rate of increase in salary	9 % per annum
Expected rate of return on investments	10 % per annum

**35.4.2.3 Reconciliation of payable to /(receivable from) gratuity fund**

	Note	2007	2006
Rupees in '000			
Present value of defined benefit obligation		281,689	3,760
Fair value of plan assets		(95,121)	-
Net actuarial gains/(losses) not recognized		(43,487)	-
Past service cost not recognized		-	-
		<u>143,081</u>	<u>3,760</u>

**35.4.2.4 Movement in net liability/(asset) recognized**

Opening net liability		3,760	-
Liabilities of ex-employees		4,002	3,496
Charge for the period	35.4.2.5	228,775	264
Contribution to fund/benefits paid during the year		(93,456)	-
Closing net liability		<u>143,081</u>	<u>3,760</u>

**35.4.2.5 Charge/(prepaid) for gratuity fund**

Current service cost		72,919	264
Interest cost		14,511	-
Expected return on plan assets		-	-
Past Service Cost - Vested		141,345	-
		<u>228,775</u>	<u>264</u>

**35.5 Post retirement medical benefits****35.5.1 General description**

The Bank provides post retirement medical benefits to eligible retired employees. Provision is made annually to meet the cost of such medical benefits on the basis of actuarial valuation carried out by independent actuary by using Projected Unit Credit (PUC) method.

**35.5.2 Principal actuarial assumption**

The latest actuarial valuation is carried out as at December 31, 2007. Actuarial valuation was made using the following significant assumptions:

Valuation discount rate	10% per annum
Medical inflation rate	8% per annum
Exposure inflation rate	3% per annum



	Note	2007	2006
Rupees in '000			
<b>35.5.3 Reconciliation of payable/(receivable) to/(from) medical benefits</b>			
Present value of defined benefit obligation		2,107,028	1,813,938
Net actuarial gains not recognized		1,231,666	1,417,187
Past service cost not recognized		20,418	40,836
		<u>3,359,112</u>	<u>3,271,961</u>
<b>35.5.4 Movement in net liability/(asset) recognized</b>			
Opening net liability		3,271,961	3,649,671
Charge for the period	35.5.5	104,943	(361,011)
Contribution to fund/benefits paid during the year		(17,792)	(16,699)
Closing net liability		<u>3,359,112</u>	<u>3,271,961</u>
<b>35.5.5 Charge/(prepaid) for medical benefits</b>			
Current service cost		56,312	61,870
Interest cost		181,394	123,251
Actuarial gains recognized		(112,345)	(178,605)
Negative past service cost recognized		(20,418)	(367,527)
		<u>104,943</u>	<u>(361,011)</u>

### 35.5 Employee compensated absences

The liability of the Bank in respect of long-term employees compensated absences is determined based on actuarial valuation carried out using Projected Unit Credit (PUC) method. The liability of the Bank as per the latest actuarial valuation carried out as at December 31, 2007 amounted to Rs. 708.771 million (December 31, 2006: Rs. 437.659 million) which has been fully provided by the Bank. The provision has been increased by Rs. 271.112 million for the year ended December 31, 2007.

### 35.6 Defined contribution plan

For all the employees of the Bank who have opted for retirement benefits scheme announced in 1975 and 1977 for clerical/non-clerical staff and for executives/officers, respectively, the Bank operates an approved non-contributory provident fund (General Provident Fund) through an independent trust. Contributions to the fund are made by the employees only at the rate of 8% of mean of pay scale per month. For employees who have not opted for aforesaid retirement benefit scheme, the Bank operates an approved contributory provident fund (Employees Provident Fund) where contributions are made by the Bank and employees at the rate of 8.33% of basic salary per month.

Contributory Provident Fund (CPF) scheme was introduced in 2006 (w.e.f. July 2006) for the employees governed under Staff Regulations 2005 (SR-2005) and contributions to the CPF are made by the employees at the rate of 2% of monetized salary per month and matching contribution by the Bank, if their remaining service is more than ten years from the date of option/appointment.

## 36 REMUNERATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for remuneration, including all benefits to the Chief Executive, Directors and Executives of the Bank is as follows;



	President		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	Rupees in '000				Rupees in '000	
Fee	-	-	1,396	1,900	-	-
Managerial remuneration	3,600	3,600	-	-	564,098	263,149
Charge for defined benefit plan	740	740	-	-	3,968	21,668
Contribution to defined benefit plans	-	-	-	-	(4,040)	-
Rent and house maintenance	840	840	-	-	21,090	29,371
Utilities	-	-	-	-	5,273	7,254
Medical	-	-	-	-	5,742	3,630
Conveyance	329	344	-	-	6,411	25,135
Furnishing allowance	-	-	-	-	2,155	1,774
Leave fare assistance	370	370	-	-	-	-
Club facility	47	-	-	-	-	-
Others	-	-	-	-	903	519
	5,926	5,894	1,396	1,900	605,600	352,500
<b>Number of persons</b>	<b>1</b>	<b>1</b>	<b>10</b>	<b>7</b>	<b>755</b>	<b>496</b>

**36.1** Executives mean employees, other than the chief executive and directors, whose basic/monetized salary exceeds Rs. 500,000 in a financial year. The chief executive, senior vice president and above other than under SR-2005 have been provided Bank maintained cars. Vice president and above governed by SR-2005 have also been provided cars under Cars Loan Depreciation Policy (CLDP).

**36.2** There are no other employees except disclosed above which fall under the definition of key management personnel.

### 37 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'. These securities are being carried at amortised cost in order to comply with the requirements of BSD Circular No. 14 dated September 24, 2004. The fair value of these investments amounts to Rs. 775.810 Million (2006: Rs. 450.804 Million).

Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

37.1 On-balance sheet financial instruments	2007		2006	
	Book value	Fair value	Book value	Fair value
	Rupees in '000		Rupees in '000	
<b>Assets</b>				
Cash and balances with treasury banks	2,103,682	2,103,682	1,295,464	1,295,464
Balances with other banks	12,054,304	12,054,304	7,883,566	7,883,566
Investments	7,054,304	7,504,233	5,534,499	5,534,499
Advances	61,313,006	61,313,006	60,839,057	60,839,057
Other assets	37.2 9,287,691	9,287,691	8,996,661	8,996,661
	92,262,916	92,262,916	84,549,247	84,549,247
<b>Liabilities</b>				
Bills payable	392,726	392,726	276,333	276,333
Borrowings	51,257,213	51,257,213	51,257,213	51,257,213
Deposits and other accounts	4,322,244	4,322,244	2,882,384	2,882,384
Sub-ordinated loan	3,204,323	3,204,323	3,204,323	3,204,323
Other liabilities	37.2 18,607,677	18,607,677	13,983,392	13,983,392
	77,784,183	77,784,183	71,603,645	71,603,645

**37.2** Stationery, stock in hand, advances and prepayments have been excluded while arriving on financial instruments in other assets. Similarly, inter-branch adjustments has been deducted from other liabilities.



**38 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES**

The segment analysis with respect to business activity is as follows:

	Corporate finance	Trading and sales	Retail banking	Commercial banking	Payment and settlement	Agency services	Assets management	Retail brokerage	Others -agri financing
<b>Rupees in '000</b>									
<b>2007</b>									
Total income	-	-	-	-	-	-	-	-	12,761,036
Total expenses	-	-	-	-	-	-	-	-	10,961,931
Net income before tax	-	-	-	-	-	-	-	-	1,799,105
Taxation	-	-	-	-	-	-	-	-	757,654
Income after tax	-	-	-	-	-	-	-	-	1,041,451
Segment assets (gross)	-	-	-	-	-	-	-	-	93,402,476
Segment non performing loans	-	-	-	-	-	-	-	-	16,708,290
Segment provision required	-	-	-	-	-	-	-	-	6,221,928
Segment liabilities	-	-	-	-	-	-	-	-	78,434,805
Segment return on net assets(%)	-	-	-	-	-	-	-	-	6.96%
Segment cost of funds (%)	-	-	-	-	-	-	-	-	5.81%
<b>2006</b>									
Total income	-	-	-	-	-	-	-	-	11,524,785
Total expenses	-	-	-	-	-	-	-	-	10,872,304
Net Income before taxation	-	-	-	-	-	-	-	-	652,481
Taxation	-	-	-	-	-	-	-	-	229,131
Income after tax	-	-	-	-	-	-	-	-	423,350
Segment assets (gross)	-	-	-	-	-	-	-	-	85,474,318
Segment non performing loans	-	-	-	-	-	-	-	-	20,104,490
Segment provision required	-	-	-	-	-	-	-	-	6,772,751
Segment liabilities	-	-	-	-	-	-	-	-	71,870,603
Segment return on net assets(%)	-	-	-	-	-	-	-	-	4.80%
Segment cost of funds (%)	-	-	-	-	-	-	-	-	4.89%

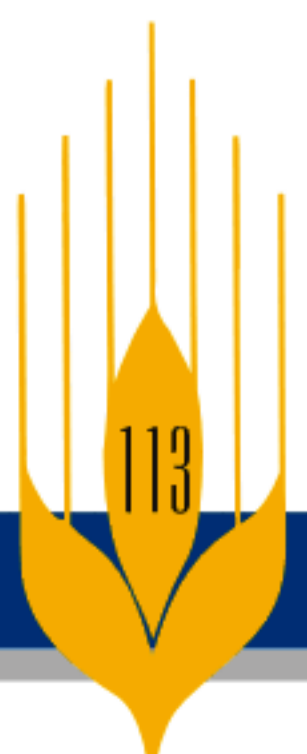
**39 TRUST ACTIVITIES**

Banks commonly act as trustees and in their fiduciary capacities that results in the holding or placing of assets on behalf of individual, trust, retirement benefit plan and other institution. Provided the trustees or similar relationship is legally supported, these assets are not asset of the bank and therefore, are not included in its balance sheet.

**40 RELATED PARTY TRANSACTIONS AND BALANCES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include holding company, subsidiary companies with or without common directors, retirement benefit funds, directors and key management personnel.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to the executives are determined in accordance with the terms of their appointment.



Details of transactions with related parties and balances with them excluding those entered into with directors / executives as per their terms of employment as disclosed in note 36 at the year end was as under:

	2007	2006
<b>Key management personnel</b>		
Rupees '000		
<b>Advances</b>		
As at January 01	3,414	-
Given During the year	-	-
Repaid during the year	227	-
As at December 31	3,187	-
<b>Deposits</b>		
As at January 01	1,060	360
Received during the year	12,865	15,437
Withdrawn during the year	11,893	14,956
As at December 31	2,032	841
	2007	2006
<b>Key management personnel</b>		
Rupees '000		
Mark up/ interest earned	84	-
Remuneration paid	22,389	21,689
Post retirement benefit	-	733
Contribution to defined benefit plan	63	-

#### 41 CAPITAL ADEQUACY

##### 41.1 Capital Management

###### Objectives and goals of managing capital

The objectives and goals of managing capital of the Bank are as follows;

- to be an appropriately capitalised institution, as defined by regulatory authorities and comparable to the peers.
- maintain strong ratings and to protect the Bank against unexpected events;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- achieve low overall cost of capital with appreciate mix of capital elements.



**41.2 Capital adequacy**

The risk weighted assets to capital ratio, calculated in accordance with the SBP guidelines on capital adequacy was as follows:

	2007		2006	
	Rupees in '000			
<b>Regulatory capital base</b>				
<b>Tier I capital</b>				
Shareholders capital	11,869,612		11,869,612	
Reserves	-		359,348	
Unappropriated profits	1,846,632		1,011,744	
	13,716,244		13,240,704	
Less: adjustments	-		-	
<b>Total tier I capital</b>	13,716,244		13,240,704	
<b>Tier II capital</b>				
Subordinated debt (upto 50% of total tier I capital)	3,204,323		3,204,323	
General provisions subject to 1.25% of total risk weighted assets	926,573		884,326	
Revaluation reserve (upto 50%)	342,758		181,506	
<b>Total tier II capital</b>	4,473,654		4,270,155	
<b>Eligible tier III capital</b>	-		-	
<b>Total regulatory capital</b>	(a) 18,189,898		17,510,859	
<b>Risk weighted exposures</b>				
	2007		2006	
	Book value	Risk adjusted value	Book value	Risk adjusted value
	Rupees in '000			
<b>Credit risk</b>				
<b>Balance sheet items:</b>				
Cash and other liquid Assets	345,107	-	150,382	-
Money at call	13,812,879	2,410,861	8,928,648	1,556,714
Investments	7,504,233	2,825,325	5,637,170	1,910,476
Loans and advances	61,313,006	58,545,826	61,514,057	58,596,508
Fixed assets	867,435	865,537	818,866	818,866
Other assets	9,559,816	9,478,304	8,409,442	7,863,531
	93,402,476	74,125,853	85,458,565	70,746,095
<b>Off balance sheet items:</b>				
Loan repayment guarantees	-	-	-	-
Purchase and resale agreements	-	-	-	-
Performance bonds etc	-	-	-	-
Revolving underwriting commitments	-	-	-	-
Stand by letters of credit	-	-	-	-
Outstanding foreign exchange contracts	-	-	-	-
Purchase	-	-	-	-
Sale	-	-	-	-
	-	-	-	-
Credit risk-weighted exposures	93,402,476	74,125,853	85,458,565	70,746,095
	2007		2006	
	Rupees in '000			
<b>Market Risk</b>				
General market risk	-		-	
Specific market Risk	-		-	
Market risk-weighted exposures	-		-	
<b>Total risk-weighted exposures</b>	(b) 74,125,853		70,746,095	
<b>Capital adequacy ratio [ (a) / (b) x 100]</b>	24.54%		24.75%	

## 42 RISK MANAGEMENT

The primary objective of risk management is to support senior management in correctly identifying, adequately measuring, effectively limiting and properly monitoring and controlling risk taking throughout the Bank. The Bank ensures systematic and integrated risk management. This is based on the following structured process risk identification, risk measurement, risk management and control, risk monitoring and risk reporting.

## 42.1 Credit Risk

Credit risk is the risk that arises from the potential that an obligor is either unwilling to perform on an obligation or its capability to execute such obligation is impaired resulting in economic loss to the Bank. Principally, exposures are only approved when reasonably assured for repayment capacity of counter party. Standardized procedures are adopted and under no circumstances it exceeds approved credit lines. The Bank credit appraisal structure comprises of well-defined credit appraisal, approval and review methods for the purpose of prudence in its lending operations and ensuring credit across the bank. The Bank pay particular concentration to the management of NPLs. An independent Special Asset Management (SAM) Department is operational at the head office.

## 42.1.1 Segmental information

Segmental information is presented in respect of the class of business and geographical distribution of advances, deposits, contingencies and commitments.

## 42.1.1a Segments by class of business

	2007					
	Advances (gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting & fishing	67,793,134	96.11%	-	-	-	-
Individuals	-	-	4,311,142	99.74%	7,744,389	64.96%
Others	2,747,292	3.89%	11,102	0.26%	4,178,053	35.04%
	70,540,426	100%	4,322,244	100%	11,922,442	100%

## 42.1.1b Segment by sector

	2007					
	Advances (gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ government	-	-	11,102	0.26%	4,178,053	35.04%
Private	70,540,426	100.00%	4,311,142	99.74%	7,744,389	64.96%
	70,540,426	100.00%	4,322,244	100.00%	11,922,442	100.00%

\* This amount represents deposits belonging to autonomous/semi-autonomous bodies.

## 42.1.1c Details of non-performing advances and specific provisions by class of business segment

	2007		2006	
	Rupees in '000			
	Classified advances	Specific provision held	Classified advances	Specific provision held
Agriculture, forestry, hunting and fishing	16,708,290	6,221,928	20,104,490	6,772,751



**42.1.1d Details of non-performing advances and specific provisions by sector**

Private	16,708,290	6,221,928	20,104,490	6,772,751
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**42.1.1e GEOGRAPHICAL SEGMENT ANALYSIS**

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Rupees in '000				
Pakistan	1,799,105	93,402,476	14,967,671	11,922,442

**42.2 Market Risk**

Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity indices, and others which may be only indirectly observable such as volatilities and correlations.

The Bank is not involved in commercial activities like underwriting, trading and discounting operations. The Bank operates foreign currency transactions through SBP in local currency by paying exchange fluctuation risk fee to the SBP. The Bank is not exposed to interest rate risk as it has a fixed lending rate portfolio of advances and investments/placements are being placed in held to maturity securities/investments. Correspondingly the borrowing from SBP is in the process of restructuring. Liquidity position of the Bank is closely monitored by the Asset Liabilities Management Committee (ALCO) on periodic basis.

**42.3 Foreign Exchange Risk**

The Bank is not directly exposed to foreign exchange risk as the Bank is not engaged in foreign operations. Foreign transactions, if any, are undertaken through SBP.

**42.4 Equity position Risk**

The Bank is not exposed to equity position risk as all the shares are held by Federal and Provincial Governments. Its securities are not publicly traded.





## 42.5 Mismatch of interest rate sensitive assets and liabilities

2007

	Effective Yield/interest rate	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments
<b>On-balance sheet financial instruments</b>												
<b>Assets</b>												
Cash & balances with treasury banks	-	2,103,682	-	-	-	-	-	-	-	-	-	2,103,682
Balances with other banks	8.8	12,054,304	10,232,927	1,802,902	-	-	-	-	-	-	-	18,475
Investments	7.7	7,504,233	735,715	2,727,155	385,093	1,695,266	-	-	1,084,508	-	-	876,496
Advances	-	61,313,006	309,560	16,933,783	28,060,833	3,079,168	1,847,501	3,695,002	7,387,160	-	-	-
Other assets	-	9,288,766	-	-	-	-	-	-	-	-	-	9,288,766
		92,263,991	11,278,202	21,463,840	28,445,926	4,774,434	1,847,501	3,695,002	8,471,668	-	-	12,287,419
<b>Liabilities</b>												
Bills payable	-	392,726	392,726	-	-	-	-	-	-	-	-	-
Borrowings	6.09	51,257,213	5,449,155	-	1,816,385	1,816,385	3,630,770	3,630,770	7,261,540	18,153,850	9,498,358	-
Deposits & other accounts	1-4	4,322,244	1,071,430	-	130	1,198	-	824	1,850	-	-	3,246,812
Sub-ordinated loans	12 month T-Bill rate	3,204,323	-	-	-	-	-	-	-	-	3,204,323	-
Other liabilities	-	18,607,678	-	-	-	-	-	-	-	-	-	18,607,678
		77,784,184	6,913,311	-	1,816,515	1,817,583	3,630,770	3,631,594	7,263,390	18,153,850	12,702,681	21,854,490
<b>On-balance sheet gap</b>		14,479,807	4,364,891	21,463,840	26,629,411	2,956,851	(1,783,269)	63,408	1,208,278	(18,153,850)	(12,702,681)	(9,567,071)
<b>Off-balance sheet gap</b>		-	-	-	-	-	-	-	-	-	-	-
<b>Total yield/ interest risk sensitivity gap</b>		14,479,807	4,364,891	21,463,840	26,629,411	2,956,851	(1,783,269)	63,408	1,208,278	(18,153,850)	(12,702,681)	(9,567,071)
<b>Cumulative yield/ interest risk sensitivity gap</b>		14,479,807	4,364,891	21,463,840	26,629,411	2,956,851	(1,783,269)	63,408	1,208,278	(18,153,850)	(12,702,681)	(9,567,071)

## Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities

	Rupees in '000	Rupees in '000
Total financial assets as per note 42.5	92,263,991	Total financial liabilities as per note 42.5
Add non financial assets		Add non financial liabilities
Operating fixed assets	867,435	Deferred tax liabilities
Other assets	271,050	Other liabilities
	93,402,476	
		77,784,184
		119,191
		531,430
		78,434,805



## 42.5.1 Mismatch of interest rate sensitive assets and liabilities

2006

	Effective Yield / interest rate	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments
<b>On-balance sheet financial instruments</b>												
<b>Assets</b>												
Cash & balances with treasury banks	-	1,295,464	-	-	-	-	-	-	-	-	-	1,295,464
Balances with other banks	8.9	7,883,566	7,063,341	810,523	-	-	-	-	-	-	-	9,702
Investments	8	5,534,499	1,354,500	1,743,309	-	-	766,418	-	1,116,967	-	-	553,305
Advances	-	60,839,057	-	17,497,940	27,780,941	2,177,655	2,053,085	3,734,635	6,866,954	727,847	-	-
Other assets	-	8,684,821	-	-	-	-	-	-	-	-	-	8,648,821
		84,237,407	8,417,841	20,051,772	27,780,941	2,177,655	2,819,503	3,734,635	7,983,921	727,847	-	10,543,292
<b>Liabilities</b>												
Bills payable	-	276,333	-	276,333	-	-	-	-	-	-	-	-
Borrowings	6.09	51,257,213	3,630,770	-	-	1,815,385	3,630,770	3,630,770	7,261,540	18,153,850	13,134,128	-
Deposits & other accounts	0-3.3	2,882,384	259,989	-	94	1,560	-	30	4,103	-	-	2,616,608
Sub-ordinated loans	12 m T-Bill rate	3,204,323	-	-	-	-	-	-	-	-	3,204,323	-
Other liabilities*	-	14,200,755	-	-	-	-	-	-	-	-	-	14,200,755
		71,821,008	3,890,759	276,333	94	1,816,945	3,630,770	3,630,800	7,265,643	18,153,850	16,338,451	16,817,363
<b>On-balance sheet gap</b>		12,416,399	4,527,082	19,775,439	27,780,847	360,710	(811,267)	103,835	718,278	(17,426,003)	(16,338,451)	(6,274,070)
<b>Off-balance sheet gap</b>		-	-	-	-	-	-	-	-	-	-	-
<b>Total yield/ interest risk sensitivity gap</b>		12,416,399	4,527,082	19,775,439	27,780,847	360,710	(811,267)	103,835	718,278	(17,426,003)	(16,338,451)	(6,274,070)
<b>Cumulative yield/ interest risk sensitivity gap</b>		12,416,399	4,527,082	19,775,439	27,780,847	360,710	(811,267)	103,835	718,278	(17,426,003)	(16,338,451)	(6,274,070)

## Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities

Rupees in '000

Rupees in '000

Total financial assets as per note 42.5.1	84,237,407	Total financial liabilities as per note 42.5.1	71,821,008
Add non financial assets		Add non financial liabilities	
Operating fixed assets	818,866	Deferred tax liabilities	7,629
Other assets	418,045	Other liabilities	41,966
	<u>85,474,318</u>		<u>71,870,603</u>

**42.6 Liquidity risk**

Assets and Liabilities Committee (ALCO) in the Bank is playing a very effective role in cash management. Accordingly the yields on fund's placement have been constantly increasing.

**42.6.1 Maturities of assets and liabilities**

	2007									
	Total	Upto 1month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Rupees in '000										
<b>Assets</b>										
Cash & balances with treasury banks	2,103,682	2,103,682	-	-	-	-	-	-	-	-
Balances with other banks	12,054,304	10,773,879	1,280,425	-	-	-	-	-	-	-
Investments	7,504,233	735,715	2,727,155	385,093	1,695,266	-	-	1,084,508	-	876,496
Advances	61,313,006	309,559	16,933,783	28,060,833	3,079,168	1,847,501	3,695,002	7,387,160	-	-
Other assets	9,559,816	14,585	-	971	2,981,304	628,785	-	-	372,995	5,561,176
Operating fixed assets	867,435	-	-	-	-	-	-	-	-	867,435
	93,402,476	13,937,420	20,941,363	28,446,897	7,755,738	2,476,286	3,695,002	8,471,668	372,995	7,305,107
<b>Liabilities</b>										
Bills payable	392,726	-	392,726	-	-	-	-	-	-	-
Borrowings	51,257,213	5,449,155	-	1,816,385	1,816,385	3,630,770	3,630,770	7,261,540	18,153,850	9,498,358
Deposits and other accounts	4,322,244	4,318,242	-	130	1,198	-	824	1,850	-	-
Sub-ordinated loans	3,204,323	-	-	-	-	-	-	-	-	3,204,323
Other liabilities	19,139,108	507,902	-	203,261	17,891,457	189	-	-	-	536,298
Deferred tax liabilities	119,191	-	-	-	-	-	-	-	-	119,191
	78,434,805	10,275,299	392,726	2,019,776	19,709,040	3,630,959	3,631,594	7,263,390	18,153,850	13,358,170
<b>Net assets</b>	14,967,671	3,662,121	20,548,637	26,427,121	(11,953,302)	(1,154,673)	63,408	1,208,278	(17,780,855)	(6,053,063)
Share capital	11,869,612									
Reserves	565,911									
Unappropriated profit	1,846,632									
Surplus on revaluation of assets	685,516									
	14,967,671									



**42.7 Operational risk**

- Operational risk module comprising of key risk indicator, control self assessment and corporate governance has been successfully implemented in the seventeen pilot branches of parent company.
- This module will be rolled out to the remaining branches of Bank during 2008.
- Operational risk at head office are reviewed on a regular basis and risk gaps are reported on to the operational risk committee for corrective measures so that the reported risk gaps can be eliminated or minimized.

**43 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on **27 March, 2008** by the Board of Directors of the Bank.

**44 GENERAL**

- 44.1** The figures in the financial statements are rounded off to the nearest thousand rupees.
- 44.2** Captions as prescribed by BSD Circular No. 4 of 2006 dated February 17, 2006 issued by the SBP in respect of which there are no amounts have been reproduced in these financial statements except, for balance sheet and profit and loss account.
- 44.3** Figures of prior year are rearranged/regrouped, wherever necessary, for the purpose of comparison. Material re-classifications are as under:

<b>From</b>	<b>To</b>	<b>Rupees in '000</b>
Advances	Other Assets	675,000
Investments	Balances with other banks	100,000
Investments	Income/mark up accrued on held to maturity securities	2,671
Provision for diminution in the value of investments	Non Mark up Interest Expenses	10,110
Provision against other assets	Non Mark up Interest Expenses	2,048,971
Non Mark up Interest Expenses	Write offs under Government relief packages	1,482,448
Advances, deposits, advance rent and other prepayments	Security deposits	1,786
Provision against non performing loans	Advances	4,129
Sundry Deposits	Others	219,721
Salaries, allowances and benefits	Charge for compensated absence	82,649
Salaries, allowances and benefits	Other Expenditure	290
Salaries, allowances and benefits	Charge for defined contribution plan	7,334

**PRESIDENT****DIRECTOR****DIRECTOR****DIRECTOR**

"Annexure-1"

**STATEMENT SHOWING WRITTEN OFF LOAN OR ANY OTHER FINANCIAL RELIEF OF RUPEES  
FIVE HUNDRED THOUSAND OR ABOVE PROVIDED DURING THE PERIOD ENDED DECEMBER 31, 2007**

(Rs. in million)

S. No	Name and address of the borrower	Name of individual /parteners/directors	NIC number	Father's/husband's name	Outstanding Liabilities at beginning of the year				Amount written off			
					Principal	Interest	Others	Total	Principal	Interest	Others	Total
1	AGRO FOOD 218 KOT LIAQAT HAYAT, MULTAN ROAD, OKARA.	CH. ABDUL RASHID MUHAMMAD ASGHAR ARSHAD ALI MST. RUBINA ABBAS	340-24-018030 340-60-310002 340-64-410003 340-85-480587	IMAM DIN CH. ABDUL RASHID CH. ABDUL RASHID MUHAMMAD ABBAS	2.350	10.335	0.000	12.685	2.350	8.835	0.000	11.185
2	AGRO RENTAL 214/D LCCHS, LAHORE CANTT.	JAMIL AHMED SAJJAD HUSSAIN	514-85-130063 274-10-335366	CH. MUHAMMAD JAMAL CH. INNAYAT HUSSAIN	5.385	4.230	0.000	9.615	1.144	0.000	0.000	1.144
3	AM. PAK DAIRIES (PVT) LTD. 2 KM VILLAGE JALALPUR, LALYANI ROAD, RAIWAND, LAHORE.	DR. MUHAMMAD AYAZ MUHAMMAD NAWAZ AHMED HUSSAIN MAHMOOD ATTAR KHAN TARIQ NAWAZ	270-39-263285 270-11-060981 246-42-013069 NA NA	MUHAMMAD NAWAZ SHEIKH MUHAMMAD ALAMGIR SHEIKH MUHAMMAD HUSSAIN MUHAMMAD ABDULLAH MUHAMMAD NAWAZ	21.454	104.815	0.000	126.269	21.454	92.197	0.000	113.651
4	BABA MANA INDUSTRIES CIRCULAR ROAD, TANDO ADAM, HYDERABAD.	JAM MADAD ALI JAM SAIF ALI ABDUL QADIR JAVED TAHIR	481-89-137287 487-86-137289 409-85-111607 488-56-003265	JAM ANWAR ALI HAJI ARBAB KHAN TAHIR H. SIDDIQUI	5.414	0.766	0.000	6.180	1.545	0.000	0.000	1.545
5	BISMILLAH AGRO SERVICES CHAK SHAHKHAGGA, TEH AND DISTT. PAKPATTAN.	HAMID MEHMOOD SHAH	36402-1759510-5	MUHAMMAD HUSSAIN SHAH	1.367	1.413	0.000	2.780	0.000	1.342	0.170	1.512
6	BUREWALA COTTON GINNING 473/D FAISAL TOWN, LAHORE	RASHID ANSAR MUHAMMAD ZAHID CH. M. AMAR ZIA MRS. RIZWANA BUTT	601-52-003397 36601-8153178-9 601-90-003401 221-55-029325	ANSAR-UL-HAQ CH. REHMAT ALI ALTAF-UL-HAQ W/O SAQIB AZIZ	4.892	7.898	0.219	13.009	4.892	5.085	0.000	9.977
7	CH. HARVESTING 296-G1, JOHAR TOWN, LAHORE	CH. MUHAMMAD NAJEEB CH. MUHAMMAD LATIF MST. AFSHAN QADEER	271-63-067861 271-20-067869 270-86-107718	CH. MUHAMMAD LATIF MIAN ALI BUKHSH W/O M. ABDUL QADEER	4.800	2.907	0.000	7.707	2.567	0.000	0.000	2.567
8	COLUMBIA LIVE STOCK 1ST FLOOR VARIAWA BUILDING, OPP. LAKHANI CENTRE, I.I. CHUNDRIGER ROAD, KARACHI	MUHAMMAD YAQOOB HABIB MST. KHAIRUNNISA DR. ASAD UZ ZAFAR	511-28-008693 517-86-399160 501-23-006987	HAJI HABIB TAYYAB HAJI SATTAR ABDUL MAJEED	13.014	12.402	0.084	25.500	13.014	3.378	0.000	16.392
9	COMBINE COLD STORAGE VILLAGE MAHMOOD BOOTI BAND ROAD, LAHORE	CH. SALAHUD DIN MALIK ABDUL SATTAR MST. JAMILA MUHAMMAD ASHRAF BABA ABDUL SALAM TANVIR AKHTER	266-38-078087 265-32-379904 270-58-383135 281-85-173055 275-36-110138 266-61-078091	CH. FAZAL DIN MALIK OMAR HAYAT MUHAMMAD AKRAM MANZOOR AHMED HAJI MUHAMMAD YAQOOB CH. SALAHUDDIN	7.118	1.106	0.000	8.224	2.040	0.000	0.000	2.040
10	GRAIN TECH (PVT) LTD. 9 KM HAFIZABAD, JALALPUR BHATIA ROAD, MOUZA KOT MUBARIK VIL. CHANNI, MITHA, HAFIZABAD	SYED FAISAL HASSAN NAUSHEEN FAISAL NAGAR MRS. FERAZ BANO	35202-28359007 35202-2667933 35202-2654126-4	SYED MUKHTAR HUSSAIN SYED FAISAL HASSAN SYED MUKHTAR HUSSAIN	20.425	31.274	0.000	51.699	20.425	20.025	0.000	40.450
11	INDUS FRUIT PRODUCTS LTD. 65 KM MULTAN ROAD, DISTT. KASUR	MUHAMMAD NAEEM FARAN HAROON TAHIR MEHRAN TAHIR AKHTAR NAZIR KHAN IJAZ QADDIR SIRAJUL ISLAM KHALID FAIZI	35202-9863062-5 270-86-035338 270-86-035239 270-46-346304 270-50-022418 269-48-272755 61101-8007999-3	MUHAMMAD AZEEM MUHAMMAD NAEEM TAHIR MUHAMMAD NAEEM TAHIR NAZIR AHMED KHAN CH. MUHAMMAD ALI NAZIR AHMED KHAN FAZAL MUHAMMAD FAIZI	80.351	295.169	9.788	385.308	80.351	231.819	0.000	312.170
12	KHAN AGRO SERVICES TEHSIL KOT LAKHAN, TEH. MAILSI. DISTT. VEhari.	DILAWAR KHAN	325-85-172098	SHERANG KHAN	3.571	7.275	0.000	10.846	3.571	4.526	0.000	8.097



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FIVE HUNDRED THOUSAND OR ABOVE PROVIDED DURING THE PERIOD ENDED DECEMBER 31, 2007

(Rs. in million)

S. No	Name and address of the borrower	Name of individual /parteners/directors	NIC number	Father's/husband's name	Outstanding Liabilities at beginning of the year				Amount written off			
					Principal	Interest	Others	Total	Principal	Interest	Others	Total
13	KHICHI AGRO SERVICES MOUZA KOT LAKHAN, TEH MAILISI, VEHARI.	MUHAMMAD RAB NAWAZ	325-53-180301	HAJI MUHAMMAD KHAN	0.873	5.065	0.000	5.938	0.873	2.296	0.000	3.169
14	KING POULTRY VILLAGE BURJ ATTARI, TEH FEROZWALA, DISTT. SHEIKHUPURA.	MUHAMMAD HASSAN CH. MUHAMMAD NAWAZ CH. MUHAMMAD IQBAL SHAHID AFZAL KHAN BAZAL KHAN	295-23-110219 35401-9256073-5 295-61-110224 121-66-351853 274-52-008032	SIRAJUDDIN CH. MUHAMMAD HUSSAIN CH. MUHAMMAD HUSSAIN SHER AFZAL KHAN KHURSHID AHMED	2.094	4.667	0.267	7.028	2.094	3.919	0.000	6.013
15	MAKHDOOM HARVESTING,VILL. KOHLU WALA, DISTT. GUJRANWALA.	MAKHDOOM SIDRUDDIN MANSOOR HUSSAIN	NA	MAKHDOOM MUZAFFAR HUSSAIN	1.400	1.740	0.000	3.140	1.400	1.529	0.000	2.929
16	MASRAF AGRO SERVICES MOUZA CHAWAKA, TEH. SHAHPUR, DISTT. SARGODHA	SYED MANSOOR ALI SHAH	234-52-244465	SYED ANAYAT ALI SHAH	4.800	0.678	0.000	5.478	1.369	0.000	0.000	1.369
17	MOBILE AGRO HARVESTING MOUZA MAHMOOD BOOTI, BAGHBANPURA, LAHORE.	AHMED KAMAL MUHAMMAD JAMAL AJMAL MST. ROSHAN AKHTER	517-61-358220 275-57-037542 275-22-037543	MUHAMMAD AJMAL MUHAMMAD AJMAL MUHAMMAD AJMAL	4.000	7.721	0.045	11.766	4.000	5.117	0.000	9.117
18	MULTI AGRO OIL EXTRACTION 14 KM SHEIKHUPURA ROAD, THATTA KHUNDYAN, SHEIKHUPURA	M. KHALID MUKHTAR TARIQ PARVEZ KHAN CH. RAHMAT ALI MST. RABIA MUKHTAR MUHAMMAD ASIF KAMAL YOUSAF AYYUB	270-89-444241 287-86-105221 277-51-052912 NA 271-46-038122 122-63-047298	MUKHTAR AHMED ANWAR QAMAR UD DIN KHAN KHUDA BUX KHALID MUKHTAR GHULAM MUHAMMAD SHAUKAT AYYUB	8.695	30.549	0.431	39.675	8.695	18.418	0.025	27.138
19	NAMDAR (PVT) LTD. BURJ KALAN, DISTT. KASUR.	CH. NISAR AHMED CH. ZULFIQAR AHMED MST. JAWARIA GHAFOR	35202-4426237-1 35102-5582851-9 272-89-387032	CH. MUHAMMAD RAFIQU MUHAMMAD RAFIQUE GHAFOR JALIL	5.216	4.410	0.074	9.700	5.216	1.539	0.000	6.755
20	NAWABSHAH POULTRY	HALEEM ADIL SHEIKH	431-90-128922	INAMUD DIN SHEIKH	3.775	8.512	0.149	12.436	3.775	4.245	0.000	8.020
21	PAKISTAN AGRO POWER PVT. LTD. MODEL TOWN, LAHORE	MRS. NAJMA KHALID HAROON KHALID KHALID SAEED KHAN MUHAMMAD AKHTAR KHAN	245-44-023529 245-85-023552 101-48-015685 337-45-172185	D/O KHALID SHER KHALID SHARIF MUHAMMAD SAEED KHAN ASHIQ MUHAMMAD KHAN	3.616	4.385	0.000	8.001	3.616	2.252	0.000	5.868
22	REHMAN AGRI OPERATION MOUZA SHEIKH WAHAN, TEH. HASILPUR, DISTT. BAHAWALPUR	RAO JAMSHED AHMED KHAN	35202-757199-9	MUHAMMAD ARSHAD KHAN	3.367	6.120	0.000	9.487	3.367	3.099	0.000	6.466
23	SHAH MUQEEM AGRO SERVICES SARDAR BAZAR, MOHALAH PURANA HOSPITAL, HAVELI LAKHA, TEH. DEPALPUR, DISTT. OKARA	MUHAMMAD TUFAIL MST. NUSRAT BIBI MST. IQBAL BEGUM	336-49-492811 336-54-492812 336-30-445557	SARDAR ALI MUHAMMAD TUFAIL WALI MUHAMMAD	2.967	6.560	0.000	9.527	0.000	5.027	0.000	5.027
24	STANDARD COLD STORAGE BADAMI BAGH, LAHORE	HABIBULLAH KHAN	270-86-155394	MIAN AKBER ALI	3.252	1.521	0.000	4.773	1.192	0.000	0.000	1.192
25	STANDARD FRUITS LTD. CHAK NO. 66, DINA NATH, TEH CHUNIAN, DISTT. KASUR.	HABIBULLAH KHAN ZAFARULLAH KHAN MRS. NASREEN HABIB MRS. YASMIN ZAFAR FAROOQ HABIB IFTIKHAR HABIB MRS. SABINA FAROOQ	270-86-155394 271-54-209044 270-47-302560 270-85-075816 270-87-302561 270-92-302562 270-75-518612	MIAN AKBER ALI MIAN AKBER ALI W/O MIAN HABIBULLAH KHAN W/O ZAFARULLAH KHAN HABIBULLAH KHAN HABIBULLAH KHAN W/O FAROOQ HABIB	67.739	108.952	0.000	176.691	67.739	92.273	0.000	160.012
26	STAR COLD STORAGE	HABIBULLAH KHAN	270-86-155394	MIAN AKBER ALI	1.472	1.392	0.000	2.864	0.610	0.000	0.000	0.610

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(Rs. in million)

S. No	Name and address of the borrower	Name of individual /parteners/directors	NIC number	Father's/husband's name	Outstanding Liabilities at beginning of the year				Amount written off			
					Principal	Interest	Others	Total	Principal	Interest	Others	Total
27	ZARKHAIZ AGRO SERVICE 172 GARDEN BLOCK, NEW GARDEN TOWN, LAHORE	MIAN HUMA IQBAL MIAN MUHAMMAD AMIN MIAN DAWOOD AMIN MRS. SHAHZADA AMIN MRS. ZUBIA IQBAL MIAN RAHEEL PASHA	270-58-297558 270-28-297555 270-59-302494 27035-297556 NA 211-57-073747	MIAN MUHAMMAD AMIN RAHMAT BUX MIAN MUHAMMAD AMIN W/O MIAN MUHAMMAD AMIN W/O MIAN HUMA IQBAL MIAN WAHEED SUBHANI	3.560	6.823	0.000	10.383	3.562	2.200	0.000	5.762
<b>TOTAL:</b>					<b>286.967</b>	<b>678.685</b>	<b>11.057</b>	<b>976.709</b>	<b>260.861</b>	<b>509.121</b>	<b>0.195</b>	<b>770.177</b>





*Financial Statements*  
Annual Report 2007



**BDO EBRAHIM & CO.**

Chartered Accountants  
3,rd Floor Saeed Plaza,  
22 East, Jinnah Avenue, Blue Area  
Islamabad.

**HYDER BHIMJI & CO.**

Chartered Accountants  
2nd Floor, Standard Insurance House  
I.I Chundrigar Road  
Karachi

**REVIEW REPORT TO THE MEMBERS**

On statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Zarai Taraqati Bank Limited (the Bank) to comply with Prudential Regulation No. XXIX, Responsibilities of the Board of Directors, issued vide BSD Circular No. 15 dated June 13, 2002.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquires of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, we report that:

- Casual vacancies occurred due to the resignation of two directors were not been filled within 30 days. One of the vacancies mentioned above, has not been filled till the issuance of our review report.
- Financial Statements for the first and third quarter have not been filed with statutory authorities within the specified time period.
- Review Report of Auditors' on compliance with Code of Corporate Governance issued by Messers Khalid Majid Rahman Sarfaraz Rahim Iqbal Rafiq; Chartered Accountants and Messers M. Yousuf Adil Saleem & Co.; Chartered Accountants was not included in the published annual report of the Bank for the year ended December 31, 2006.

Except for the significance of the matters reported above, based on our review, nothing has come to our attention, which causes us to believe that the Statements of Compliance does not appropriately reflect the Bank's compliance, in all material respects, as applicable to the Bank for the year ended December 31, 2007 with the best practices contained in the Code of Corporate Governance.

**BDO EBRAHIM & CO.**

Chartered Accountants  
Islamabad

**HYDER BHIMJI & CO.**

Chartered Accountants  
Karachi



**BDO EBRAHIM & CO.**

Chartered Accountants  
3,rd Floor Saeed Plaza,  
22 East, Jinnah Avenue, Blue Area  
Islamabad.

**HYDER BHIMJI & CO.**

Chartered Accountants  
2nd Floor, Standard Insurance House  
I.I Chundrigar Road  
Karachi

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of ZARAI TARAQIATI BANK LIMITED ("the Bank") as at December 31, 2007 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for ninety six branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control and prepare and present the financial statements in conformity with approved accounting standards and the requirements of Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit. The financial statements of the Bank for the year ended December 31, 2006 were audited by Messrs Khalid Majid Rahman Sarfaraz Rahim Iqbal Rafiq; Chartered Accountants and Messrs M. Yousuf 'Adil Saleem & Co.; Chartered Accountants whose report dated June 09, 2007 expressed an unqualified opinion on those financial statements and laid emphasis on two matters namely inter branch / office current account and borrowing from the State Bank of Pakistan.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in the case of loans and advances covered more than sixty percent of the total loans and advances of the Bank, we report that:

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) In our opinion:
  - i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - ii. The expenditure incurred during the year was for the purpose of the Bank's business and,
  - iii. The business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the

balance sheet, profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2007 and its true balance of the profit, its cash flows and changes in equity for the year then ended; and

- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance;

Without qualifying our opinion, we draw attention to the following matters:

1. Prudential Regulation "0-3" for Corporate/Commercial Banking requires clearance of all outstanding entries in inter-branches/ offices current accounts within, a period of 30 days from the date of recording of transactions in the aforesaid financial statements. We have, however, noted balance in inter-branches/offices current accounts, reported in note 18 to the financial statements on net basis at Rs.531.431 million-Credit Balance (December 31, 2006: Rs. 34.105 million-Credit Balance).
2. As reported in note 14.3 and 22.2.6 of the notes to the financial statements, the matter of determination of share of the State Bank of Pakistan (SBP) which, as worked out by the Bank, in addition to the mark up already recorded by the Bank amounts to Rs. 2,500.582 million is under consideration of the SBP and Ministry of Finance for final decision. Furthermore installments of the debts payable in July 2006, January 2007, July 2007 and January 2008 as required by SBP in its letter No. ACD/3104/Loans-15.A/2004 dated December 16, 2004 has not been paid. Outcome of the decision on this matter may require appropriate adjustment in the provision of accrued markup.

**BDO EBRAHIM & CO.**  
Chartered Accountants  
Islamabad

**HYDER BHIMJI & CO.**  
Chartered Accountants  
Karachi



## BALANCE SHEET AS AT DECEMBER 31, 2007

	Note	2007	2006
		Rupees in '000	
<b>ASSETS</b>			
Cash and balances with treasury banks	7	2,103,682	1,295,464
Balances with other banks	8	11,943,898	7,781,056
Lendings to financial institutions		-	-
Investments	9	7,604,233	5,634,499
Advances	10	61,313,006	60,839,057
Operating fixed assets	11	865,293	817,003
Other assets	12	9,556,224	9,100,195
		93,386,336	85,467,274
<b>LIABILITIES</b>			
Bills payable	13	392,726	276,333
Borrowings	14	51,257,213	51,257,213
Deposits and other accounts	15	4,323,150	2,882,384
Sub-ordinated loans	16	3,204,323	3,204,323
Liabilities against assets subject to finance lease		-	-
Deferred tax liability	17	119,191	7,629
Other liabilities	18	19,134,241	14,239,221
		78,430,844	71,867,103
<b>NET ASSETS</b>		14,955,492	13,600,171
<b>REPRESENTED BY</b>			
Share capital	19	11,869,612	11,869,612
Reserves	20	565,911	359,348
Unappropriated profit		1,834,453	1,008,200
		14,269,976	13,237,160
Surplus on revaluation of assets	21	685,516	363,011
		14,955,492	13,600,171
<b>CONTINGENCIES AND COMMITMENTS</b>	22		

The annexed notes from 1 to 44 form an integral part of these financial statements.

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
Rupees in '000			
Mark-up/return/interest earned	23	7,022,360	5,996,030
Mark-up/return/interest expensed	24	3,418,023	2,802,785
Net mark-up/interest income		3,604,337	3,193,245
Provision against non-performing loans and advances		3,090,206	1,767,234
Write offs under Government relief packages		567,445	1,482,448
Bad debts written off directly		-	-
		3,657,651	3,249,682
<b>Net mark-up/interest income after provisions</b>		(53,314)	(56,437)
<b>NON MARK-UP/INTEREST INCOME</b>			
Fee, commission and brokerage income		2,338	2,544
Dividend income		2,153	6,458
Other income	25	5,729,582	5,514,077
Total non mark-up/interest income		5,734,073	5,523,079
		5,680,759	5,466,642
<b>NON MARK-UP/INTEREST EXPENSES</b>			
Administrative expenses	26	3,788,935	2,760,452
Provision/(reversal) for diminution in the value of investments, net	9.3	(686)	10,110
Provision against other assets	12.5	72,149	2,048,971
Other charges	27	5,849	306
Total non mark-up/interest expenses		3,866,247	4,819,839
		1,814,512	646,803
<b>UNUSUAL ITEM</b>	28	30,366	-
<b>PROFIT BEFORE TAXATION</b>		1,784,146	646,803
Taxation - Current	29	631,484	217,539
- Prior years		8,285	-
- Deferred	29	111,561	9,458
		751,330	226,997
<b>PROFIT AFTER TAXATION</b>		1,032,816	419,806
Unappropriated profit brought forward		1,008,200	702,355
<b>Profit available for appropriation</b>		2,041,016	1,122,161
<b>Basic earnings per share (Rupees)</b>	30	0.870	0.350
<b>Diluted earnings per share (Rupees)</b>	31	0.870	0.350

The annexed notes from 1 to 44 form an integral part of these financial statements.

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR



## CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

Note	2007	2006
	Rupees in '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	1,784,146	646,803
Rental income	(10,446)	(6,577)
Dividend income	(2,153)	(6,458)
	1,771,547	633,768
<b>Adjustments for non-cash charges:</b>		
Depreciation	133,530	106,050
Amortization of deferred income	(14,769)	(14,532)
Provision against non-performing advances	3,090,206	1,767,234
Reversal for employees post retirement benefits	(160,773)	(2,193,116)
Provision for diminution in the value of investments	(686)	10,110
Provision / (reversal) against other assets	72,149	2,048,971
Fixed assets - written off	4,879	-
Unusual item	30,366	-
Write offs under Government relief packages	567,445	1,482,448
Provision for employees' compensated absences	271,137	82,649
Gain on sale of fixed assets	(28,182)	(37,116)
	3,965,301	3,252,698
	5,736,848	3,886,466
<b>(Increase)/decrease in operating assets:</b>		
Advances-net	(4,131,600)	(7,386,559)
Others assets (excluding advance taxation)	(495,887)	(3,162,932)
	(4,627,487)	(10,549,491)
<b>Increase in operating liabilities:</b>		
Bills payable	116,393	40,592
Deposits	1,440,766	237,738
Other liabilities (excluding current taxation)	4,320,635	2,337,876
	5,877,794	2,616,206
Staff retirement benefit payments	(34,791)	(2,969,446)
Income tax paid	(160,978)	(417,745)
Net cash flow generated from/(used) in operating activities	6,791,386	(7,434,010)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investment (held to maturity securities)	(1,646,543)	7,294,027
Rental income received	10,446	6,577
Dividend received	2,153	6,458
Investment in operating fixed assets	(214,565)	(247,809)
Sale proceeds of property and equipment disposed-off	28,182	52,012
Net cash flow generated from/(used) investing activities	(1,820,326)	7,111,265
Increase/(decrease) in cash and cash equivalents	4,971,060	(322,745)
Cash and cash equivalents at beginning of the year	9,076,520	9,399,265
Cash and cash equivalents at end of the year	14,047,580	9,076,520

32

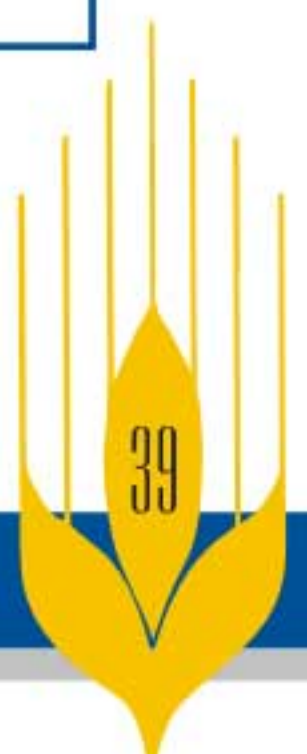
The annexed notes from 1 to 44 form an integral part of these financial statements.

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR



## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007

	SHARE CAPITAL	STATUTORY RESERVE	CONTINGENCIES RESERVE	UNAPPROPRIATED PROFIT	TOTAL
	Rupees in '000				
<b>Balance as at December 31, 2005</b>	11,869,612	215,387	30,000	702,355	12,817,354
Profit for the year ended December 31, 2006	-	-	-	419,806	419,806
Transfer to statutory reserve	-	83,961	-	(83,961)	-
Transfer to contingencies reserve	-	-	30,000	(30,000)	-
<b>Balance as at December 31, 2006</b>	11,869,612	299,348	60,000	1,008,200	13,237,160
Profit for the year ended December 31, 2007	-	-	-	1,032,816	1,032,816
Transfer to statutory reserve	-	206,563	-	(206,563)	-
Transfer to contingencies reserve	-	-	-	-	-
<b>Balance as at December 31, 2007</b>	11,869,612	505,911	60,000	1,834,453	14,269,976

The annexed notes from 1 to 44 form an integral part of these financial statements.

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

### 1. STATUS AND NATURE OF BUSINESS

#### 1.1 Reorganization and Conversion

The Federal Government in its cabinet meeting held on August 28, 2002 decided for the reorganization and conversion of Agricultural Development Bank of Pakistan into a public limited company for the purposes of ensuring good governance, autonomy, delivering high quality and viable financial services to a greater number of rural clientele and adequate returns to stake holders. Accordingly the Agricultural Development Bank of Pakistan (Reorganization and Conversion) Ordinance, 2002 was promulgated for taking over the entire undertaking of Agricultural Development Bank of Pakistan and for matters connected therewith or incidental thereto.

#### 1.2 Status

As required under section 3 of the Agricultural Development Bank of Pakistan (Reorganization and Conversion) Ordinance, 2002, Zarai Taraqati Bank Limited was incorporated as a public limited company under the Companies Ordinance, 1984 on October 23, 2002. Consequently, under SRO 823 (1)/2002 dated November 18, 2002, all the assets, contracts, liabilities, proceedings and undertakings of Agricultural Development Bank of Pakistan were transferred to, and vested in Zarai Taraqati Bank Limited on December 14, 2002, the effective date specified by the Federal Government on the basis of net worth determined at Rs. 8.9 billion. The Bank's principal office is situated at 1-Faisal Avenue (Zero Point), Islamabad. The Bank operates 342 (December 31, 2006: 342) branches in Pakistan as at close of the year.

#### 1.3 Nature of Business

The main purpose of the Bank is to provide sustainable rural finance and services particularly to small farmers and low-income households to strengthen the rural and agricultural sector, mitigate poverty, capital market and investment activities and other banking business.

### 2. BASIS OF PRESENTATION

The State Bank of Pakistan (SBP) vide Banking Surveillance Department (BSD) Circular No. 4 dated February 17, 2006 has issued 'Revised forms

of Annual Financial Statements' which has replaced existing forms prescribed through BSD Circular No. 36 dated October 10, 2001. These financial statements have been presented in accordance with such revised form.

### 3. STATEMENT OF COMPLIANCE

**3.1** These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962 and directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the SBP. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the provisions of the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962. In case requirements differ, the provisions of directives given in the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962 shall prevail.

**3.2** The State Bank of Pakistan has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) through BSD Circular No. 10 dated August 26, 2006. These are not applicable for banking companies in Pakistan. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been presented in accordance with the requirements prescribed by the State Bank of Pakistan's BSD Circular No. 10 dated July 13, 2004.

**3.3** These financial statements represents separate financial statements of the Bank. The consolidated financial statements of the Bank and its subsidiary are being issued separately.

**3.4 Standards, interpretations and amendments to publish approved accounting standards that are not yet effective.**

The following standards, interpretations and amendments of approved accounting standards





effective for accounting period beginning on or after January 1, 2008 are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain increased disclosures in certain cases:

**IAS - 1** Presentation of Financial Statements - Amendments Relating to Capital Disclosures.

**IAS - 23** Borrowing Costs

**IFAS - 2** Ijarah

**IFRS - 6** Exploration for and Evaluation of Mineral Resources

**IFRS - 8** Operating Segments

**IFRIC - 11** Group and Treasury Share Transactions

**IFRIC - 12** Services Concession Arrangements

**IFRIC - 13** Customer Loyalty Program

**IFRIC - 14 & IAS-19** The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction

#### 4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments (Note 9) and in conformity with the accepted accounting practices of the banking institutions in Pakistan.

These financial statements are presented in Pak Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to the nearest thousand rupees.

#### 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting judgments. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations on future events that are believed to be reasonable under these circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies described in notes are as follows:

##### 5.1 Investments

As described in Note 9 held for trading, held to maturity are investments where the management has positive intent and ability to hold to maturity and available for sale securities are investments

that do not fall under the held for trading or held to maturity categories. The classification of these securities involves management judgment at the time of purchase whether the financial assets are held for trading, held to maturity or available for sale investments.

##### 5.2 Provision against non-performing advances

The amount of general provision is determined in accordance with the relevant regulations and management's judgment.

##### 5.3 Defined benefit plans

The cost of the defined benefit plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension and salary increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

##### 5.4 Operating fixed assets

Estimates of useful life of the property and equipment are based on the management's best estimate. Changes in the expected useful life are accounted for by changing the depreciation /amortization period or method, as appropriate, and are treated as changes in accounting estimate.

##### 5.5 Depreciation and amortization of operating fixed assets

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be considered by the Bank. The method applied is reviewed at each financial year end and if there is change in the expected pattern of consumption of the future economic benefits embodied on the assets, the method is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with the IAS-8, 'Changes in Accounting Estimates and Errors'.

##### 5.6 Taxation

In making the estimates for income taxes currently payable by the Bank, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past.

#### 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation



of these financial statements are set out below. These policies have been consistently applied through out the year unless otherwise stated.

### 6.1 Staff retirement benefits

#### Pension scheme

The Bank operates defined benefits funded pension scheme approved by the income tax authorities, for its eligible employees who opted for the employees benefits scheme, introduced in 1975 and 1977 for clerical/non-clerical staff and for executives/officers, respectively. The Bank's costs are determined on the basis of actuarial valuation carried out by independent actuaries by using 'Projected Unit Credit Method'. Any surplus/deficit arising on actuarial valuation in excess of the higher of 10% of present value of defined benefits obligations or 10% of the fair value of plan assets, is recognized as income or expense over the estimated working lives of the employees.

#### Gratuity scheme

The Bank operates defined benefits funded gratuity scheme approved by the income tax authorities, for its eligible employees who did not opt for the employees benefits scheme, introduced in 1975 and 1977 for clerical/non-clerical staff and for executives/officers, respectively. Annual contributions are made on the basis of actuarial recommendations. Any surplus/deficit arising on actuarial valuation by independent actuaries in excess of the higher of 10% of present value of defined benefit obligation or 10% of the fair value of plan assets is recognized as income or expense over the estimated working lives of the employees.

#### Provident fund scheme

The Bank operates a defined contribution funded provident fund scheme for its employees who did not opt for the employees benefits scheme introduced in 1975 and 1977 for clerical/non-clerical staff and for executives/officers respectively. Under this scheme, equal contributions at defined rates are made by the member employees and the Bank. The Bank also operates non-contributory provident fund for its employees who opted for the new employees benefits scheme, as mentioned above. Under this, non contributory provident fund, contributions at defined rates are made by its member employees only. Both of these provident funds are approved by the income tax authorities.

#### Benevolent fund scheme

The Bank also has two funded defined benefits benevolent fund schemes for its employees, separately for officers and for clerical and non-clerical staff. Contribution to these schemes are made by employees and the Bank. The employee's contribution is matched by an equal contribution by the Bank which is also liable to meet any shortfall in the fund, determined on the basis of actuarial valuation. Transitional liability arising on first time adoption of International Accounting Standard - 19 (revised 2000) "Employee Benefits" is recognized as an expense on straight line basis over five years from the date of its adoption.

#### Post retirement medical benefits

The Bank operates an unfunded defined benefit, post retirement medical benefit scheme for all of its employees. Provision is made in the financial statements for the benefit based on actuarial valuation. Actuarial gains/losses are accounted for in the manner similar to pension scheme.

### 6.2 Employees compensated absences

The Bank accounts for all accumulating compensated absences when the employees render service that increases their entitlement to future compensated absences. The compensated absences are only encashable at the time of retirement and that too for a certain period provided in the terms of employment. Provision is made in the financial statements for the benefit based on entitled un-availed leave balances carried forwarded to the next year.

### 6.3 Cash and cash equivalents

Cash and cash equivalents comprise of cash, balances with treasury banks and balances with other banks.

### 6.4 Revenue recognition

Markup/interest on advances and returns on investments are recognized on an accrual basis except markup/interest on classified advances which is recognized on a receipt basis, in accordance with the prudential regulations issued by the SBP.

- Commission is recognized when earned.
- Profit/(loss) on sale of investments is credited/charged to profit and loss account currently.



- Dividend income is recognized when the Bank's right to receive has been established.
- Rental income is recorded on accrual basis.

### 6.5 Advances

Advances are stated at net of provision for non-performing advances. Provision for non-performing advances is determined on the basis of Prudential Regulations issued by the SBP and charged to profit and loss account. Advances are written off when there is no realistic prospect of recovery.

### 6.6 Investment

In accordance with BSD circular No. 10 and 14 dated July 13, 2004 and September 24, 2004 respectively, issued by the SBP, the Bank classifies its investment portfolio into 'Held-for-Trading', 'Held-to-Maturity' and 'Available-for-Sale' securities as follows:

#### Held-for-Trading

These are investments acquired principally for the purpose of generating profits from short term fluctuations in market price.

#### Held-to-Maturity

These are investments with fixed or determinable payments and fixed maturity in respect of which the Bank has the positive intent and ability to hold till maturity.

#### Available-for-Sale

These are investments other than those in subsidiaries which do not fall under the 'Held-for-Trading' and 'Held to-Maturity' categories.

Quoted securities where ready quotes are available on Reuters Page (PKRV) or Stock Exchange, other than investments classified as held to maturity, are valued at fair value. Investments classified as held to maturity are carried at amortised cost. The surplus/deficit arising as a result of revaluation at fair value on trading portfolio is taken to income and that relating to the available for sale portfolio is kept in a separate account and shown below equity.

Investment in un quoted securities are carried at cost less impairment loss, if any.

In case of held to maturity securities, the difference between the face value and purchase price is

amortised over the remaining life of the investment using effective yield method, in order to determine amortised cost.

Investments in subsidiary company is carried at cost. Provision is made for permanent impairment in value, if any.

Gains or losses on disposals of investments are dealt with through profit and loss account in the year in which they arise.

All purchases and sales of investments that requires delivery within the timeframe established by the regulation or market convention are recognized at the trade date. Trade date is the date at which the Bank commits to purchase or sell the investment.

### 6.7 Operating fixed assets and depreciation /amortization

Operating fixed assets except free hold land are stated at cost less accumulated depreciation, amortisation and accumulated impairment losses (if any). Free hold land is stated at cost.

Depreciation is computed over the estimated useful lives of the related assets at the rates set out in note 11. Depreciation is charged on reducing balance method except for vehicles, computer equipment and lease hold land which are depreciated/amortized on straight line method. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

During the year method for charging depreciation on additions and deletions to the operating fixed assets have been changed, which is accounted for as change in accounting estimates. The new method is that depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off. The impact of the change in accounting estimates is immaterial and non significant.

Gains/losses, if any, on disposal of operating fixed assets are charged to profit and loss account during the year.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that



future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account.

### 6.8 Intangible Assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortised for the proportionate period for which the asset remains in use, using the straight line method, whereby the costs of the intangible assets are amortised over its useful life over which economic benefits are expected to flow to the Bank. The useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

### 6.9 Impairment

The carrying value of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. The resulting impairment loss is taken to the profit and loss account except for the impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

### 6.10 Taxation

#### Current

Provision for current taxation is based on taxable income at the current rate after taking into account tax credits, exemptions and rebates as laid down in the applicable income tax law. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalized during the year.

#### Deferred

Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for the financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using the tax rates enacted at the balance

sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

### 6.11 Borrowings/Deposits and their costs

Borrowings/deposits are recorded at the proceeds received. Borrowings / deposits costs are recognised as an expense in the period in which these are incurred using effective mark-up / interest rate method.

### 6.12 Provisions

Provisions are recognized when the Bank has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect current best estimate.

### 6.13 Foreign currencies

The Bank operates foreign currency transactions through SBP in local currency by paying exchange fluctuation risk fee to the SBP.

### 6.14 Related party transactions

All transactions undertaken between the Bank and the related parties are measured at arms' length prices determined in accordance with the methods as prescribed by the SECP.

### 6.15 Financial assets and financial liabilities

All the financial assets and liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Bank loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is taken to income currently.

### 6.16 Offsetting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Bank intends either to settle on a net basis, or to realize the assets and settle the



liabilities, simultaneously.

appropriations (except appropriations which are required by law) are recognized in the period in which these are approved.

### 6.17 Dividend distribution and appropriation

Dividends (including bonus dividend) and other

7 CASH AND BALANCES WITH TREASURY BANKS	Note	2007	2006
Rupees '000			
<b>Local Currency</b>			
In hand		344,497	149,745
Prize bonds		609	637
In current accounts with:			
State Bank of Pakistan	7.1	1,758,574	1,145,080
National Bank of Pakistan		2	2
		2,103,682	1,295,464

7.1 It represents cash reserves at the rate of 7% of the bank's demand liabilities and deposits maturity upto one year in Pakistan, at nil return, cash reserve rate as required to be maintained with State Bank of Pakistan under section 22 of Banking Companies Ordinance, 1962 and Banking Surveillance Department Circular No. 4 dated August 1, 2007.

### 8 BALANCES WITH OTHER BANKS

In Pakistan in local currency:

In current accounts		18,475	7,192
In deposit accounts	8.1	11,925,423	7,773,864
		11,943,898	7,781,056

8.1 These carry mark-up ranging from 2.00% to 11.5% per annum (2006: 2.00% to 12.75% per annum)

### 9 INVESTMENTS

#### 9.1 Investment by types

	Note	2007			2006		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
Rupees in '000							
<b>Available-for-Sale securities</b>							
Listed companies	9.5	90,294	-	90,294	90,294	-	90,294
Un-listed companies	9.6.4	10,523	-	10,523	10,523	-	10,523
		100,817	-	100,817	100,817	-	100,817
<b>Held-to-Maturity securities</b>							
Market Treasury Bills	9.4	2,883,166	-	2,883,166	1,843,309	-	1,843,309
Pakistan Investment Bonds	9.4	1,084,507	-	1,084,507	1,116,967	-	1,116,967
Federal Investment Bonds	9.4	708,743	2,492	711,235	763,734	2,684	766,418
Certificates of Investment	9.7	2,048,829	-	2,048,829	1,354,500	-	1,354,500
		6,725,245	2,492	6,727,737	5,078,510	2,684	5,081,194
<b>Investment in subsidiary</b>							
Kissan Support Services (Pvt) Limited (KSSL)*		100,000	-	100,000	100,000	-	100,000
<b>Total investments</b>		6,926,062	2,492	6,928,554	5,279,327	2,684	5,282,011
Provision for diminution in value of investments	9.3	(9,837)	-	(9,837)	(10,523)	-	(10,523)
<b>Investments (Net of provisions)</b>		6,916,225	2,492	6,918,717	5,268,804	2,684	5,271,488
Surplus on revaluation of Available-for-Sale securities	21	685,516	-	685,516	363,011	-	363,011
<b>Total investments at market value</b>		7,601,741	2,492	7,604,233	5,631,815	2,684	5,634,499

\* KSSL is a wholly owned subsidiary of the Bank and it has started its functions independently effective from January 1, 2006. KSSL provides multiple services to the Bank including security and janitorial services.



9.2 Investment by segments	Note	2007	2006
		Rupees in '000	
<b>Federal government securities</b>			
Market Treasury Bills	9.4	2,883,166	1,843,309
Pakistan Investment Bonds	9.4	1,084,507	1,116,967
Federal Investment Bonds	9.4	711,235	766,418
		4,678,908	3,726,694
<b>Fully paid up ordinary shares:</b>			
Listed companies	9.5	90,294	90,294
Un-listed companies	9.6	10,523	10,523
		100,817	100,817
Certificates of investment	9.7	2,048,829	1,354,500
Investment in KSSL	37	100,000	100,000
<b>Total investment at cost</b>		6,928,554	5,282,011
Provision for diminution in value of investments	9.3	(9,837)	(10,523)
		6,918,717	5,271,488
<b>Investments (net of provisions)</b>			
Surplus on revaluation of available-for-sale securities	21	685,516	363,011
<b>Total investments at market value</b>		7,604,233	5,634,499
<b>9.3 Particulars of provision</b>			
Opening balance		10,523	413
Charge for the year		-	10,110
Reversals		(686)	-
Closing balance		9,837	10,523
<b>9.3.1 Particulars of provision in respect of type and segment</b>			
Available-for-sale securities-(listed securities)		-	-
Available-for-sale securities-(un-listed securities)		9,837	10,523

#### 9.4 Principal terms of investments in federal government securities

Name of investment	Maturity	Note	Principal payment	Rate %	Coupon payment
Market Treasury Bills	Jan. 2008 to Jul. 2008	9.4.1	On maturity	9.10 to 9.19	at maturity
Pakistan Investment Bonds	August 2011 to Dec. 2011	9.4.1	On maturity	12 to 13	semi-annually
Federal Investment Bonds	Mar. 2008	9.4.2	On maturity	15	semi-annually

9.4.1 Market treasury bills, Federal Investment Bonds and Pakistan Investment Bonds are held by the Bank which also covers statutory liquid reserve requirements.

9.4.2 Federal Investment Bonds having amortised cost of Rs. 2.492 millions (December 31, 2006: Rs. 2.684 million) are pledged /lodged with SBP as security for Telegraphic Transfer/Demand Draft discounting facility obtained for branches.

#### 9.5 Particulars of investments held in listed companies

No. of ordinary shares		Paid up value/share	Name of companies	2007	2006
2007	2006	Rupees		Rupees in '000	
280,090	280,090	10	Nestle Milkpak Limited	89,297	89,297
450,000	450,000	10	Uqab Breeding Farm Limited.	585	585
150,000	150,000	10	Mubarik Dairies Limited	412	412
300,000	300,000	10	Dadabhoy Agricultural Leasing Limited	-	-
			9.5.1	90,294	90,294

9.5.1 Dadabhoy Agricultural Leasing Limited is under suspension since November 2001. At the date of suspension, its market value per share was Rs. 2.50 against its face value of Rs. 10 per share.

9.6 Particulars of investments held in un-listed companies

Name of Investee	Percentage of holding	Number of shares held	Break up value	Based on audited financial statements as at	Name of chief executive/ managing director
			<b>Rupees</b>		
National Commodity Exchange Limited	19.13%	909,091	686,207	June 30, 2007	Mr. Assim Jang
Saudi Pak Kala Bagh Livestock Limited-net 9.6.1	33.33%	1,000,000	-	-	Mr. M. Asad Khan
Pakistan Agricultural Storage and Services Corporation Limited-net	8.33%	2,500	(1,653,250)	June 30, 2007	Maj.Gen.(R) F.A.Khan
Larkana Sugar Mills Limited-net 9.6.2	6.36%	141,970	-	-	Mr. Anwar Majeed

9.6.1 Saudi Pak Kala Bagh Livestock Limited has defaulted in the repayment of loan and the case has been referred to National Accountability Bureau.

9.6.2 Larkana Sugar Mills Limited is in the process of liquidation since February 2000 and there is no probability of any recovery of amount invested on final settlement.

9.6.3 Investment in Saudi Pak Kalabagh Livestock Limited and Larkana Sugar Mills Limited are stated at book value due to non-availability of required information for the calculation of breakup value. Moreover, these investments are fully provided for in these financial statements.

9.6.4 Market value of listed investment is Rs. 775.810 million and book value of un-listed investments is Rs. 10.523 million. Face value of investment in un-listed securities is Rs. 37.220 million.

9.7 Particulars of Certificates of Investments

Name of investee	Maturity	Principal payment	Rate %	Coupon payment
		%		
Saudi Pak Industrial and Agricultural Investment Company (Pvt.) Ltd.	February 2008	on maturity	9.75 to 10.15	at maturity
Pak Oman Investment Company Limited	January 2008	on maturity	9.60	at maturity

9.8 Quality of Available-for-Sale securities

	2007		2006	
	Amount	Rating	Amount	Rating
	<b>Rupees in '000</b>			
Nestle Milk Pak Limited	89,297	N/A	89,297	N/A
Uqab Breeding Farm Limited	585	N/A	585	N/A
Mubarik Dairies Limited	412	N/A	412	N/A
National Commodity Exchange Limited	10,523	N/A	10,523	N/A
	<u>100,817</u>		<u>100,817</u>	

10 ADVANCES

	Note	2007	2006
		<b>Rupees in '000</b>	
Loans, cash credits, running finances, etc. In Pakistan - gross	10.1	70,540,426	70,615,937
Less:			
Provision for non-performing advances	10.2	(9,221,928)	(9,772,751)
Provision for advances to employees		(5,492)	(4,129)
		<u>(9,227,420)</u>	<u>(9,776,880)</u>
Advances-net of provision		<u>61,313,006</u>	<u>60,839,057</u>



10.1 Particulars of advances (Gross)	2007	2006
	Rupees in '000	
10.1.1 In local currency	70,540,426	70,615,937
10.1.2 Short term	52,069,129	46,566,434
Long term	18,471,297	24,049,503
	<u>70,540,426</u>	<u>70,615,937</u>

10.2 Advances include Rs. 16,708.290 million (December 31, 2006: Rs. 20,104.490 million) which have been placed under non-performing status as detailed below:

Category of classification	2007		
	Classified advances	Provision required	Provision held
	Rupees in '000		
	<b>Domestic</b>		
Other Assets Especially Mentioned	5,253,843	-	-
Substandard	4,718,271	943,653	943,653
Doubtful	2,915,788	1,457,889	1,457,889
Loss	3,820,386	3,820,386	3,820,386
	<u>16,708,290</u>	<u>6,221,928</u>	<u>6,221,928</u>
Provision under portfolio audit - general	-	-	3,000,000
	<u>16,708,290</u>	<u>6,221,928</u>	<u>9,221,928</u>

### 10.3 Particulars of provision against non-performing advances

	Note	2007			2006		
		Specific	General	Total	Specific	General	Total
		Rupees in '000					
Opening balance		6,772,751	3,000,000	9,772,751	8,815,111	3,000,000	11,815,111
Net charge for the year		3,088,843	-	3,088,843	1,767,234	-	1,767,234
Amounts written off	10.4	-	-	-	-	-	-
Amounts charge off	10.5	(3,639,666)	-	(3,639,666)	(3,809,594)	-	(3,809,594)
Closing balance		<u>6,221,928</u>	<u>3,000,000</u>	<u>9,221,928</u>	<u>6,772,751</u>	<u>3,000,000</u>	<u>9,772,751</u>

### 10.3.1 Particulars of provision against non-performing advances

	Note	2007			2006		
		Specific	General	Total	Specific	General	Total
		Rupees in '000					
In local currency		6,221,928	3,000,000	9,221,928	6,772,751	3,000,000	9,772,751

### 10.4 Particulars of write offs

#### 10.4.1 Against provisions

	Note	2007	2006
		Rupees in '000	
Against provisions		-	-
Write offs of Rs 500,000 and above	10.6	-	-
Write offs of below Rs 500,000		-	-



<b>10.5</b>	<b>Particulars of Charge Offs</b>		
<b>10.5.1</b>	Against provisions	3,639,666	3,809,594
<b>10.5.2</b>	Charge offs of Rs 500,000 and above	-	3,693,506
	Charge offs of below Rs 500,000	3,639,666	116,088
		10.7	3,809,594

**10.6 Details of write offs of Rs 500,000 and above**

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year have to be disclosed. However, this write off does not effect the Bank's right to recover debts from these customers. During the year ended December 31, 2007 no write-off or any other financial relief was allowed to any person(s).

**10.7 Particulars of charge off**

In terms of Prudential Regulations for Agricultural Financing - Part C (specific regulations) Bank extinguishes its loans through provisions. The total balance for these off-balance sheet loans extinguished against provisions as on December 31, 2007 was Rs 36,570 million (Rs. 37,300 million as on December 31, 2006) with an addition of Rs. 3,640 million as charge off loans during the year. Detail of charge offs out of extinguished loan portfolio exceeding five hundred thousand only in respect of project loans is given at Annexure-1.

**10.8 Particulars of loans and advances**

**To directors and executives**

Debts due by the directors and executives / officers of the bank

	2007	2006
	Rupees in '000	
Balance at the beginning of year	1,615,129	1,300,736
Loans granted during the year	865,002	672,882
	2,480,131	1,973,618
Repayments/write offs	(479,052)	(358,489)
Balance at end of year	2,001,079	1,615,129

**To associated companies**

Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members

	Note	2007	2006
		Rupees in '000	
Balance at beginning of year		-	34,263
Repayments/write offs		-	(34,263)
Balance at end of year		-	-

**11 OPERATING FIXED ASSETS**

Property and equipment	11.1	863,395	813,408
Intangible assets	11.2	1,898	3,595
		865,293	817,003



## 11.1 Property and equipments

Particulars	COST			DEPRECIATION				Book value at December 31, 2007	Rate of Depreciation	
	At January 1, 2007	Additions	(Deletions)/ adjustments	At December 31, 2007	At January 1, 2007	Charge for the year	(Deletions)/ adjustments			At December 31, 2007
Rupees in '000										
Free hold land	170,961	-	-	170,961	-	-	-	-	170,961	-
Lease hold land	10,640	-	-	10,640	1,592	398	-	1,990	8,650	-
Building on free hold land	137,886	21	-	137,907	25,825	5,473	-	31,298	106,609	5%
Building on leasehold land	304,400	1,959	-	306,359	67,241	11,339	-	78,580	227,779	5%
Furniture and fixture	30,523	12,058	(15,644)	26,937	10,664	3,285	(1,484)	12,465	14,472	10%/20%
Computer, office and other equipments	96,236	52,413	(8,769)	139,880	49,713	29,177	(7,406)	71,484	68,396	20/33.33%
Vehicles	375,123	148,615	(58,577)	465,161	157,327	82,011	(40,705)	198,633	266,528	20%
<b>2007</b>	<b>1,125,769</b>	<b>215,066</b>	<b>(82,990)</b>	<b>1,257,845</b>	<b>312,362</b>	<b>131,683</b>	<b>(49,595)</b>	<b>394,450</b>	<b>863,395</b>	
Rupees in '000										
Free hold land	170,961	-	-	170,961	-	-	-	-	170,961	-
Lease hold land	10,640	-	-	10,640	1,194	398	-	1,592	9,048	-
Building on free hold land	137,886	-	-	137,886	19,927	5,898	-	25,825	112,061	5%
Building on leasehold land	303,732	668	-	304,400	54,777	12,464	-	67,241	237,159	5%
Furniture fixture	24,210	5,866	-	30,076	6,245	3,970	-	10,215	19,861	10%/20%
Computer, office and other equipments	49,608	51,970	(4,895)	96,683	30,815	19,558	(242)	50,161	46,522	20/33.33%
Vehicles	242,430	183,912	(51,219)	375,123	136,368	61,934	(40,975)	157,327	217,796	20%
<b>2006</b>	<b>939,467</b>	<b>242,416</b>	<b>(56,114)</b>	<b>1,125,769</b>	<b>249,326</b>	<b>104,252</b>	<b>(41,217)</b>	<b>312,361</b>	<b>813,408</b>	

## 11.2 Intangible assets

Particulars	COST			AMORTIZATION				Book value At December 31, 2007	Rate of Amortization	
	At January 1, 2007	Additions	(Deletions)/ adjustments	At December 31, 2007	At January 1, 2007	Charge for the year	(Deletions)/ adjustments			At December 31, 2007
Rupees in '000										
Computer software	5,393	150	-	5,543	1,798	1,847	-	3,645	1,898	33.33%
<b>2007</b>	<b>5,393</b>	<b>150</b>	<b>-</b>	<b>5,543</b>	<b>1,798</b>	<b>1,847</b>	<b>-</b>	<b>3,645</b>	<b>1,898</b>	
Rupees in '000										
Computer software	-	5,393	-	5,393	-	1,798	-	1,798	3,595	33.33%
<b>2006</b>	<b>-</b>	<b>5,393</b>	<b>-</b>	<b>5,393</b>	<b>-</b>	<b>1,798</b>	<b>-</b>	<b>1,798</b>	<b>3,595</b>	

## 11.3 Deletions of property and equipments during the year includes

	Rupees in '000		
	Cost	Accumulated depreciation	Book value
Vehicles written off due to theft	8,427	3,548	4,879
Assets written off as a result of riots			
Vehicles	14,637	4,036	10,601
Furniture and fixture	14,625	1,070	13,556
Computer, office and other equipments	6,584	2,875	3,709
	44,274	11,529	32,745

## 11.4 The detail of disposal of assets whose original cost or the book value exceed one million and two hundred fifty thousand rupees respectively, whichever is lower, is given below;

## List of vehicles disposed off during the year

Sr. No.	Particular of Assets	Registration No.	Model	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Mode of Disposal	Particulars of Buyers
1	Suzuki Cultus	GP-0170	2006	595,000	237,999	357,001	-	Burnt	Loss due to Riot of December 27, 2007.
2	Suzuki Jeep	BC 4380	1995	459,462	91,892	367,570	-	Snatched	Date of Snatch / Stolen 28.04.1997
3	Suzuki Jeep	GP-2317	2006	618,000	247,199	370,801	-	Burnt	Loss due to Riot of December 27, 2007.
4	Suzuki Jeep	GP-2325	2006	618,000	247,199	370,801	-	Burnt	Loss due to Riot of December 27, 2007.
5	Suzuki Jeep	BC 8201	1997	488,754	106,526	382,228	-	Snatched	Date of Snatch / Stolen 23.04.1999
6	Suzuki Jeep	SAD 1312	1998	490,587	98,118	392,469	-	Snatched	Date of Snatch / Stolen 17.06.1998
7	Suzuki Jeep	LSB 373	1994	401,100	-	401,100	-	Snatched	Date of Snatch / Stolen 09.09.1994
8	Suzuki Liana	ALS-169	2007	615,000	122,999	492,001	-	Burnt	Loss due to Riot of December 27, 2007.
9	TLC-3 Door	IDF 1140	1992	840,408	336,164	504,244	-	Stolen	Date of Snatch / Stolen 12.02.1996
10	Suzuki Liana	GP-9005	2006	849,000	339,599	509,401	-	Burnt	Loss due to Riot of December 27, 2007.
11	T. Hilux	OKE 6243	2005	839,500	302,220	537,280	-	Snatched	Date of Snatch / Stolen 06.04.2007
12	Toyota Corolla	ALX-333	2006	900,000	359,999	540,001	-	Burnt	Loss due to Riot of December 27, 2007.
13	Honda City	KY 696	2006	615,000	25,274	547,603	547,603	Sale	Mr. Tahir Ali Shah, Ex SVP, ZTBL, HO, Islamabad
14	Honda Civic	KB 415	2005	615,000	65,712	549,288	549,288	Sale	Mr. Dr. Muhammad Riaz, Ex Economic Advisor
15	T. Hilux	GA 7232	2005	889,500	330,220	559,280	-	Snatched	Date of Snatch / Stolen 09.08.2007
16	Toyota Corolla	JK 307	2005	1,279,000	511,600	767,400	767,400	Sale	R. A. Chughtai, Ex President ZTBL
17	TLC-3 Door	QAF 2816	1992	832,274	-	832,274	-	Snatched	Date of Snatch / Stolen 15.02.1994
18	T. Pickup	GP 5026	2000	902,315	-	902,315	-	Snatched	Date of Snatch / Stolen 03.07.2001

12 OTHER ASSETS	Note	Rupees in '000	
		2007	2006
Income/mark-up accrued in local currency		168,612	74,107
Income/mark up accrued on held to maturity securities		75,403	72,517
Accrued Interest/markup on advances		2,530,820	2,361,814
Accrued mark up on advances to trust fund		78,875	-
Advance to Trust Fund		584,000	675,000
Stationery and stamps on hand		16,292	13,035
Tax recoverable	22.2.1	308,053	308,053
Non banking assets acquired in satisfaction of claims	12.1	372,995	223,881
Receivable from defined benefit plans	12.2	4,222,962	3,795,239
Stock in hand		14,545	14,565
Commutation paid to employees under SR - 2005	12.5.1	3,004,237	2,969,446
Receivable from Federal Government against GHSS	12.5.1	64,040	485,787
Receivable from Trust Funds against GHSS	12.3	-	85,151
Advances against salary and expenses		5,957	2,001
Deposits		1,771	1,786
Advances and other prepayments		240,212	78,605
Others	12.4	16,577	16,187
		<u>11,705,351</u>	<u>11,177,173</u>
Less:Provision held against other assets	12.5	<u>(2,149,127)</u>	<u>(2,076,978)</u>
Other assets (net of provisions)		<u>9,556,224</u>	<u>9,100,195</u>

12.1 Market value of non-banking assets acquired in satisfaction of claims is Rs 525.868 million (December 31, 2006: Rs. 379.415 million).

12.2 Receivable from defined benefit plans	Note	Rupees in '000	
		2007	2006
Pension scheme	35.1.3	2,689,422	2,436,693
Benevolent scheme-officers/executives	35.2.3	214,282	188,856
Benevolent scheme-clerical/non-clerical	35.3.3	12,161	-
Gratuity scheme-Staff Regulations 1975	35.4.1.3	1,307,097	1,169,690
	12.2.1	<u>4,222,962</u>	<u>3,795,239</u>

12.2.1 It represents assets recognized by the Bank as required by International Accounting Standard-19 "Employee Benefits" against its defined benefit schemes on the recommendation of independent actuaries.

12.3 It represents the amount receivable from Pension Fund Trust and Benevolent Fund Trusts against Golden Hand Shake Scheme

12.4 Others	Note	Rupees in '000	
		2007	2006
Defence saving certificates		5	5
Advance for purchase of machinery/goods in transit		17	17
Legal charges recoverable on suits filed against loan defaulter		16,280	16,165
Miscellaneous		275	-
		<u>16,577</u>	<u>16,187</u>
12.5 Provision against other assets			
Opening balance		2,076,978	28,737
Charge for the year	12.5.1	72,149	2,048,971
Amount written off		-	(730)
Closing balance		<u>2,149,127</u>	<u>2,076,978</u>

12.5.1 The Bank announced Staff Regulation-2005 under which 100% commutation were paid to those who opted for SR-2005. ADB vide its Aide-Memoire 13-March 29, 2006 supported the introduction of SR-2005 and use of the remaining loan proceeds from the second tranche for this purpose on the GoP confirmation with regard to the use of remaining second tranche programme loan proceeds for the implementation of the SR-2005. The Bank share out of second tranche amounted to US\$ 34 million. About US\$ 9 million had already been utilized against Voluntary Golden Hand Shake Scheme (VGHSS) and the balance of about US\$ 25 million are lying with the MoF. The ADB also agreed to consider the use of the third tranche proceeds (about US\$ 47 million) for the implementation of Bank's SR-2005, on the basis of position of non-performing loans of the Bank after the management audit. Finance Division of GoP vide letter No.F.3(18)IF-1/2002 dated May 18, 2006 confirmed to ADB that Finance Division has no objection for the use of the remaining loan proceeds from the 2nd tranche for the proposed Bank's SR-2005.

While evaluating the performance of the slow moving ADB category "B" loans in a meeting dated March 17, 2007 chaired by the Advisor to the Prime Minister on Finance and Economic Affairs, it was decided to have negotiations with ADB's forthcoming Mission for waiver of conditionalities for release of third tranche which cannot be complied with. If ADB does not agree to the proposal of waivers, the program loan amounting to US\$ 75 million may be cancelled. Keeping in view the above position, provision has been made in the financial statements amounting to Rs. 2,122 million (during the year 72 Million) being the difference of claim amounting to Rs. 3,066 million and the amount already received by the GoP amounting to Rs. 944 million out of second tranche proceeds.

	Note	2007	2006
Rupees in '000			
<b>13</b>	<b>BILLS PAYABLE</b>		
	In Pakistan	392,726	276,333
<b>14</b>	<b>BORROWINGS</b>		
	In Pakistan	51,257,213	51,257,213
<b>14.1</b>	<b>Particulars of borrowings with respect to currencies</b>		
	In local currency	51,257,213	51,257,213
<b>14.2</b>	<b>Details of borrowings from financial institutions - secured</b>		
	Borrowing from State Bank of Pakistan		
	Agricultural loans	50,174,089	50,174,089
	Agri-project loans	1,083,124	1,083,124
		51,257,213	51,257,213

**14.3** As per agreement with the SBP, these loans were obtained for providing finance to customers for agriculture purposes. Three credit lines amounting to Rs. 1.577 billion carry interest rate of 4.00% per annum while remaining thirty two credit lines amounting to Rs. 49.680 billion are based on profit and loss sharing subject to maximum share of profit to SBP ranging from 4.00% to 10.00% per annum. These loans are secured by way of guarantee of GoP. The Bank has submitted a proposal to SBP for restructuring the debt according to which the SBP's debt of Rs. 51.257 billion and SBP's subordinated debt of Rs. 3.204 billion is repayable in 15 equal annual installments commencing from 2006 onward with the provision to make repayment of the subordinated debt in the last installment and rate of mark up to be pegged at weighted average yield of 12 months Treasury Bill rate of 2.3558% per annum as per treasury bill auction dated June 12, 2003 and capped at the aforesaid markup rate for an initial period of five years.

SBP vide its letters No. ACD/3104/Loans-15-A/2004 dated December 16, 2004 and ACD/14/Loans-15-A/2004 dated January 4, 2005 has agreed with proposed terms except the proposed capping of markup rate which has been fixed on last auction's weighted average yield of Government Treasury Bill of 12 months maturity on floating basis every year and repayment of the SBP debts in 15 years in 30 bi-annual installments with a grace period of 3 years starting from July 2003, i.e. the period of 15 years for repayment of SBP debts will start from July 2006. The subordinated debt of Rs. 3.204 billion shall be repaid in the last installment. In view of the critical importance of debt pricing for the future financial viability and sustainability of the Bank the matter has been referred to Ministry of Finance for a considered Government decision.

In the meeting held on January 16, 2008 between the representatives of Ministry of Finance, the Bank and the State Bank of Pakistan and also in meetings held thereafter, it has been resolved that SBP in consultation with the Bank and MoF shall firm up proposal regarding SBP's debt on priority basis. At present the matter is being examined at the level of SBP and the Bank. Pending the outcome of the conclusion in above respect, mark up has been charged on these loans as per existing contractual rates of the respective credit lines.

**14.4** These loans were given by the SBP for the purpose of providing finance to agro based industry. These are subject to profit and loss sharing with a maximum share of profit to SBP ranging from 4.00% to 6.00% per annum. These are secured by guarantee given by the GoP. The Bank has submitted a proposal to SBP for restructuring of the debt as stated in note 14.3.

	Note	2007	2006
Rupees in '000			
<b>15</b>	<b>DEPOSITS AND OTHER ACCOUNTS</b>		
	<b>Customers</b>		
	Fixed deposits	109,894	63,092
	Saving deposits	757,968	202,684
	Current accounts - remunerative	207,570	188,240
	Current accounts - non-remunerative	3,217,799	2,399,173
	Others	29,919	29,195
		4,323,150	2,882,384



**16 SUB-ORDINATED LOAN**

As per restructuring plan of the Bank approved by the ECC of the cabinet, SBP's Equity holding of Rs. 3.204 billion was converted into subordinated loan on terms to be agreed with SBP. Accordingly, the Bank has submitted a proposal to SBP for restructuring the debt according to which the SBP's debt of Rs. 51.257 billion and SBP's subordinated debt of Rs. 3.204 billion is repayable in 15 equal annual installments commencing from 2006 onward with the provision to make repayment of the subordinated debt in the last installment and rate of mark up to be pegged at weighted average yield of 12 months Treasury Bill rate of 2.3558% per annum as per Treasury Bill auction dated June 12, 2003 and capped at the aforesaid markup rate for an initial period of five years.

SBP vide its letters No. ACD/3104/Loans-15-A/2004 dated December 16, 2004 and ACD/14/Loans-15-A/2004 dated January 4, 2005 has agreed with proposed terms except the proposed capping of markup rate which has been fixed on last auction's weighted average yield of Government Treasury Bill of 12 months maturity on floating basis every year and repayment of the SBP debts in 15 years in 30 bi-annual installments with a grace period of 3 years starting from July 2003, i.e. the period of 15 years for repayment of SBP debts will start from July 2006. The subordinated debt of Rs. 3.204 billion shall be repaid in the last installment.

Since the capping of mark-up charges at 2.3558% has not been agreed by SBP which is of critical importance for the future financial viability and sustainability of the Bank, the matter has been referred to Ministry of Finance for considered government decision. However the mark-up on subordinated debt at the rate of 2.3558% (from December 14, 2002 to June 30, 2004), 2.1867% (from July 1, 2004 to June 30, 2005), at the rate of 8.4009% (from July 1, 2005 to June 30, 2006) and at the rate of 8.7907% (from July 1, 2006 to June 30, 2007) and at the rate of 9.1597% for the period from July 1, 2007 to December 31, 2007 has been charged which is subject to adjustment on finalization of debt restructuring/repricing agreement with SBP.

**17 DEFERRED TAX LIABILITY**

Deferred tax liabilities arise due to temporary difference on account of depreciation charged on operating fixed assets. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using the tax rates enacted at the balance sheet date.

18 OTHER LIABILITIES	Note	Rupees in '000	
		2007	2006
Mark-up/ Return/ Interest payable in local currency		12,705,084	9,359,844
Accrued expenses		35,488	32,785
Current taxation (provisions less payments)		950,616	471,825
Branch adjustment		531,431	34,105
Payable to defined benefit plans	18.1	132,304	15,753
Contributory provident fund - SR 2005	18.2	-	10,000
Gratuity fund - SR 2005	18.2	-	22,197
Benevolent fund Officer - SR - 2005	18.2	-	273
Payable to Ministry of Food Agriculture and Livestock	18.3	352,616	177,715
Profit payable on deposits and other accounts		19,710	19,077
Net liabilities relating to Bangladesh	18.4	189	189
Provision for employees' post retirement medical benefits	35.5.4	3,359,112	3,271,961
Provision for employees' compensated absences	35.6	708,771	437,659
Payable to employees' against Golden handshake scheme		35,777	35,777
Payable to KSSL		12,591	3,538
Security deposits		51,386	114,309
Deferred income		9,375	7,399
Others	18.5	229,791	224,815
		<u>19,134,241</u>	<u>14,239,221</u>
<b>18.1 Payable to defined benefit plans</b>			
Benevolent scheme-clerical/non-clerical	35.3.3	-	15,753
Gratuity scheme-SR-2005	35.4.2.3	132,304	-
		<u>132,304</u>	<u>15,753</u>



18.2 This represented temporary arrangement due to delay in establishment of trusts for the funds under SR-2005. The amounts have been transferred to respective Trust Funds during the year on their establishment.

18.3 This represents the amount of Rs. 9.716 million (December 31, 2006: 9.715 million) and Rs.342.9 million (December 31, 2006: Rs. 168 million) payable to Ministry of Food Agriculture and Livestock under Japanese KR-II grant-1996 and Crop Maximization Project-productivity enhancement on sustainable basis.

	Note	2007	2006
Rupees in '000			
<b>18.4 Liabilities relating to Bangladesh</b>			
Liabilities		1,402,165	1,372,794
Assets		(1,401,976)	(1,372,605)
	18.4.1	189	189

18.4.1 This represents the amount relating to the activities of the Bank in Bangladesh (former East Pakistan) before its separation. In accordance with the Finance Division letter No.F.5(12)PEC(op-FR)/78-236 dated May 6, 1979 the Bank has to calculate interest on the loans made in Bangladesh as it does in the case of corresponding borrowings made from the SBP and instead of carrying the interest to profit and loss account, will show it in the balance sheet only. The Bank is accruing interest at the rate of 8% on its loans and advances made in Bangladesh with contra increase in its liabilities relating to its activities in Bangladesh.

18.5 This represents various payables which includes withholding tax , contribution received from borrowers etc.

	Note	2007	2006
Rupees in '000			
<b>19 SHARE CAPITAL</b>			
Authorized capital 2,500,000,000 ordinary shares of Rs. 10 each ( December 31, 2006: 2,500,000,000 ordinary shares of Rs.10 each)		25,000,000	25,000,000
Issued, subscribed and paid up 1,186,961,201 ordinary shares of Rs. 10 each fully paid (December 31, 2006: 1,186,961,201 ordinary shares of Rs.10 each fully paid)	19.1	11,869,612	11,869,612

19.1	Shareholder	No of ordinary shares	Paid-up value per share	2007	2006
Rupees in '000					
	Government of Pakistan	1,185,961,201	10	11,859,612	11,859,612
	Government of Punjab	277,100	10	2,771	2,771
	Government of Sindh	119,000	10	1,190	1,190
	Government of NWFP	68,000	10	680	680
	Government of Balochistan	35,900	10	359	359
	Erstwhile East Pakistan	500,000	10	5,000	5,000
		1,186,961,201		11,869,612	11,869,612



**20 RESERVES**

	Statutory reserves	Reserves for contingencies	Total
	Rupees in '000		
Balance as at January 1, 2007	299,348	60,000	359,348
Transfer from unappropriated profit	206,563	-	206,563
Balance as at December 31, 2007	505,911	60,000	565,911

**20.1** Statutory reserve represents reserve maintained as per requirement of Section 21 of the Banking Companies Ordinance, 1962.

**20.2** The Bank has set aside contingency reserve for insurance of cash, building and vehicles.

**21 SURPLUS ON REVALUATION OF ASSETS**

	2007	2006
	Rupees in '000	
Surplus arising on revaluation of available-for-sale securities		
Quoted shares	685,516	360,511
Other securities	-	2,500
	685,516	363,011

**22 CONTINGENCIES****22.1 Contingent assets**

The Government of Pakistan has reduced the markup rates on Bank's advances from 14% to 9% vide Presidential Relief Package 2004 w.e.f. July 01, 2004. As per the directive of the Bank's Board of Directors, the Bank has requested the Ministry of Finance to compensate the loss of revenue due to this reduction in rate of markup. The total claim in this respect has provisionally been worked out at Rs. 9,993 millions for the period from July 01, 2004 to December 31, 2007. However, this amount has not been accounted for in the accounts as the formal approval from Ministry of Finance has not been received by the Bank.

**22.2 Contingent liabilities**

**22.2.1** There is a contingency of an amount of Rs 297.149 million receivable on account of minimum income tax levied by the income tax authorities under Section 80-D of Income Tax Ordinance, 1979, for assessment years 1991-92 to 1998-99. The income of the Bank was exempt from tax upto income year ended June 30, 1999. The Bank paid, under protest, the disputed tax demand and also filed writ petition in this respect in Lahore High Court, Rawalpindi Bench, Rawalpindi. Later on, the Bank withdrew the petition on directions of the Federal Government and the case was referred to the Law and Justice Division of the Government of Pakistan (GoP) which decided the reference in Bank's favour. The Central Board of Revenue disagreed with the aforesaid decision and has further taken up the matter with Federal Cabinet for its review. Federal cabinet has referred the case to the Attorney General for final decision. The advice/decision of the Attorney General is still awaited. Since the Bank is very confident for a favourable decision from the Attorney General, hence, no provision in this respect has been made by the Bank in its books of account.

	2007	2006
	Rupees in '000	
<b>22.2.2</b> Contingent liability in respect of 17 cases (December 31, 2006: 17 cases) filed against the Bank by various borrowers.	7,691,373	8,229,512
<b>22.2.3</b> Contingent liability in respect of 140 cases (December 31, 2006: 43 cases) filed against the Bank in various courts of law by the employees.	53,016	5,578



- 22.2.4** Income tax of Rs. 929.632 million was levied by the income tax department for assessment year 2001-2002, against provision of Rs. 326.281million in the books of account of the Bank for that assessment year. The bank has paid Rs. 785,103 million and also filed appeal before the Commissioner of Income Tax ( Appeals) against the aforesaid order. The Commissioner has set-aside the aforesaid order. However, the tax department preferred an appeal against the order of CIT(A) before the ITAT which is pending for hearing. Pending the outcome of the decision , the Bank has not recognized the incremental amount of tax as debt as it is confident that the same is not likely to crystalize. Moreover, in the current period another order has been passed by Additional Commissioner of Income Tax u/s 66A in respect of above year involving a demand of Rs. 355.333 Million thus involving tax contingency of Rs. 29.052 Million over the amount provided in the accounts. The Bank has filed appeal against them and has not accounted for the incremental amount of tax as it is confident that the same will not crystalize.
- 22.2.5** Income tax of Rs. 1,928.362 million was levied by the income tax department for assessment year 2002-2003, against provision of Rs. 1,919.929 million in the books of account of the Bank for that assessment year. The bank has paid Rs. 577.092 million against the said demand and also filed an appeal before the Commissioner of Income Tax (Appeals). The Commissioner has set-aside the aforesaid order and now tax department preferred an appeal against the order of CIT(A) before the ITAT. Pending the outcome of the decision , the Bank has not recognized the incremental amount of tax as debt as it is confident that the same is not likely to crystallize.
- 22.2.6** The SBP debt of Rs. 54.461 billion is in the process of repricing/restructuring. As per debt restructuring proposal the SBP debt was required to link with one year T-Bill rate capped at 2.3558 % plus profit and loss (PLS) sharing, the decision is still pending. The SBP debt has been charged at existing rate i.e contractual rate, as the SBP has not yet accepted the capping and PLS arrangements. The financial impact of this event works out to be approximately Rs.2,500.582 million up to December 31, 2007 .

	Note	2007	2006
		Rupees in '000	
<b>23 MARK UP/RETURN/INTEREST EARNED</b>			
On loans and advances to customers		5,700,683	4,576,510
On investments in held to maturity securities		326,220	465,419
On deposits with financial institutions		995,457	954,101
		<u>7,022,360</u>	<u>5,996,030</u>
<b>24 MARK UP/RETURN/INTEREST EXPENSED</b>			
Deposits		7,149	2,961
Long term borrowings - State Bank of Pakistan		3,408,311	2,798,557
Bank commission and other charges		2,563	1,267
		<u>3,418,023</u>	<u>2,802,785</u>
<b>25 OTHER INCOME</b>			
Rent on property - others		7,993	6,577
Rent on property - KSSL		2,453	-
		<u>10,446</u>	<u>6,577</u>
Net profit on sale of property and equipment		28,182	37,116
Loan application fee		234,131	345,512
Net reversal of provision relating to defined benefit plans	25.1	160,773	2,110,467
Return on Advances to trust fund		78,875	-
Deferred income amortization		14,769	14,532
Others	25.2	5,202,406	2,999,873
		<u>5,729,582</u>	<u>5,514,077</u>

- 25.1** Excess provision in respect of defined benefit plans has been written back on the basis of actuarial valuation carried out by an independent actuarial valuer.



25.2 OTHERS	Note	2007	2006
		Rupees in '000	
Recoveries of charge off amounts		5,078,618	2,858,182
Sale proceeds of loan application forms		4,120	4,227
Postal charges received from loanees		38,441	49,500
Accounting and other services rendered to KSSL		4,044	-
Miscellaneous income	25.2.1	77,183	87,964
		<u>5,202,406</u>	<u>2,999,873</u>

25.2.1 It includes sale of scrap, renewal fee of Sada Bahar Scheme and cost of loose cheque.

## 26 ADMINISTRATIVE EXPENSES

Salaries, allowances and benefits		2,635,515	2,051,392
Charge for defined contribution plan		21,753	7,572
Charge for compensated absence		271,137	82,649
Non-executive directors' fees and other expenses		1,396	1,901
Rent, taxes, insurance, electricity, etc.		86,606	76,832
Legal and professional charges		106,604	21,160
Communications		27,517	33,676
Repairs and maintenance		28,558	13,021
Motor vehicles expenses		159,000	169,242
Traveling expenses		97,006	76,855
Stationery and printing		25,232	24,798
Advertisement and publicity		7,972	11,757
Auditors' remuneration	26.1	3,311	2,944
Depreciation	11.1	133,530	106,051
Services rendered by KSSL	40	111,678	35,614
Expense on senior management team		14,769	14,532
Others		57,351	30,456
		<u>3,788,935</u>	<u>2,760,452</u>

### 26.1 Auditors' remuneration

Audit fee		1,250	1,200
Consolidation of the accounts of subsidiary company		400	-
Tax services		-	274
Special certifications and sundry advisory services		370	380
Out of pocket expenses		1,091	1,090
		<u>3,111</u>	<u>2,944</u>
MYASCO fee for consolidation of accounts	26.1.2	200	-
		<u>3,311</u>	<u>2,944</u>

#### 26.1.1 Particulars of auditors' remuneration

	2007		Total
	HBCO*	BDOECO**	
Rupees in '000			
Audit fee	625	625	1,250
Consolidation of the accounts of subsidiary company	200	200	400
Tax services	-	-	-
Other certification	185	185	370
Out of pocket expenses	545	546	1,091
	<u>1,555</u>	<u>1,556</u>	<u>3,111</u>

	2006		Total
	KMRSRIR***	MYASCO****	
	Rupees in '000		
Audit fee	600	600	1,200
Tax services	274	-	274
Other certification	210	170	380
Out of pocket expenses	545	545	1,090
	1,629	1,315	2,944

\* Hyder Bhimji & Co. Chartered Accountants

\*\* BDO Ebrahim & Co. Chartered Accountants

\*\*\* Khalid Majid Rahman Sarfaraz Rahim Iqbal Rafiq

\*\*\*\* M.Yousuf Adil Saleem & Co.

26.1.2 An amount of Rs. 200 thousand has been paid to M.Yousuf Adil Saleem & Co. Chartered Accountants for consolidation of the financial statements for the year ended December 31, 2006 during the year.

	2007	2006
	Rupees in '000	
<b>27 OTHER CHARGES</b>		
Penalties imposed by SBP	971	306
Fixed assets - written off	4,879	-
	5,850	306

#### 28 UNUSUAL ITEM

It represents the losses incurred due to the disruption of law and order in the country in the month of December 2007.

Furniture and Fixtures	13,556	-
Computers	3,709	-
Vehicles	10,601	-
Computer stationery	1,200	-
Cash	1,300	-
	30,366	-

The losses incurred at branches and zonal office have been recorded on the basis of report of the Task Force Committee established for the purpose.

#### 29 TAXATION

For the year			
Current	29.1	631,484	217,539
Prior years		8,285	-
Deferred		111,561	9,458
		751,330	226,997

#### 29.1 Relationship between tax expense and accounting profit

Accounting profit for the year		1,784,146	646,803
Add: accounting depreciation		133,530	106,051
provision for diminution in the value of investment		-	10,110
Less: tax depreciation		(102,945)	(97,798)
dividend and rental income for separate consideration		(12,599)	(6,458)
assessed loss for tax year 2006		-	(38,091)
		1,802,132	620,617



	2007	2006
	Rupees in '000	
Tax-excluding dividend and rental income	630,746	217,216
Tax on dividend and rental income	738	323
Tax for the current period	631,484	217,539
Applicable tax rate	35%	35%
<b>30 BASIC EARNINGS PER SHARE</b>		
Profit for the year	1,032,816	419,806
Weighted average number of ordinary shares (number in thousand)	1,186,961	1,186,961
Basic earnings per share in rupees	0.870	0.350

31 Diluted earnings per share has not been presented as the Bank does not have any convertible instruments in issues at December 31, 2006 and 2007 which would have any affect on the earnings per share if the option to convert is exercised.

	Note	2007	2006
		Rupees in '000	
<b>32 CASH AND CASH EQUIVALENTS</b>			
Cash and balance with treasury banks	7	2,103,682	1,295,464
Balance with other banks	8	11,943,898	7,781,056
		14,047,580	9,076,520
<b>33 STAFF STRENGTH</b>			
Permanent		5,333	5,326
Contractual		7	-
Others (on deputation)		-	1
Total staff strength		5,340	5,327

#### 34 CREDIT RATING

JCR-VIS Credit Rating Company, Karachi in its report of July 07, 2007 has reaffirmed credit rating of the Bank at AAA/A-1+ (2006:AAA/A-1+) with stable outlook, medium to long term credit rating of B and short-term credit rating of B. (2006, BB + medium to long term, B short term rating).

#### 35 DEFINED BENEFIT PLANS

The Bank operates the following retirement benefit for its employees:-

Pension Scheme-funded  
Benevolent Scheme-funded  
Post Retirement Medical Benefits-unfunded  
Employees Gratuity Scheme-funded

##### 35.1 Pension scheme

##### 35.1.1 General description

For employees who opted for the scheme introduced in year 1975 for clerical/non-clerical staff and in the year 1977 for officers/executives, the Bank operates an approved funded pension scheme on which monthly contributions are made on the basis of actuarial recommendation. However, most of the officers/executives have been excluded from this scheme after opting new Staff Regulations introduced in 2005 (SR-2005) effective from July 1, 2006.



**35.1.2 Principal actuarial assumption**

The latest actuarial valuation is carried out as at December 31, 2007. The actuarial valuations were made using the Projected Unit Credit (PUC) method based on the following significant assumptions:

Valuation discount rate	10% per annum
Expected rate of increase in salary	9% per annum
Expected rate of return on investments	10% per annum
Indexation in pension	3% per annum

	Note	2007	2006
Rupees in '000			
<b>35.1.3 Reconciliation of payable/(receivable) to/(from) pension fund</b>			
Present value of defined benefit obligation		1,838,739	1,604,684
Fair value of plan assets		(4,751,634)	(4,254,458)
Net actuarial gains not recognized		223,473	213,081
		<u>(2,689,422)</u>	<u>(2,436,692)</u>
<b>35.1.4 Movement in net liability/(asset) recognized</b>			
Opening net asset		(2,436,692)	(778,701)
Charge for the period	35.1.5	(241,881)	1,389,641
Contribution to fund/benefits paid during the year		(10,849)	(3,047,632)
Closing net asset		<u>(2,689,422)</u>	<u>(2,436,692)</u>
<b>35.1.5 Charge/(prepaid) for pension fund</b>			
Current service cost		23,096	58,452
Interest cost		160,469	251,502
Expected return on plan assets		(425,446)	(365,200)
Actuarial gains recognized		-	(59,827)
Curtailment and settlement loss		-	1,504,714
		<u>(241,881)</u>	<u>1,389,641</u>
<b>35.2 Benevolent scheme - officers/executives</b>			
<b>35.2.1 General description</b>			
For all officers/executives, the Bank operates an approved funded benevolent scheme to which contributions are made at the rate of 2% of basic pay to a maximum of Rs. 100, by each officer/executive. Employee contributions are matched by an equal amount of contributions by the Bank which is also liable to meet any shortfall in the fund. However contributions are not made to the fund for those employees governed by the SR-2005 who have less than ten years of their remaining service.			
<b>35.2.2 Principal actuarial assumption</b>			
The latest actuarial valuation is carried out as at December 31, 2007. Actuarial valuation was made using the following significant assumptions:			
Expected rate of increase in salary		9 % per annum	
Expected rate of return on investments		10 % per annum	



	Note	2007	2006
Rupees in '000			
<b>35.2.3 Reconciliation of payable/(receivable) to/(from) benevolent fund</b>			
Present value of defined benefit obligation		208,563	163,623
Fair value of plan assets		(437,348)	(400,373)
Unrecognised actuarial gain/(loss)		14,119	47,125
Negative past service cost-not recognized		384	769
		<u>(214,282)</u>	<u>(188,856)</u>
<b>35.2.4 Movement in net liability/(asset) recognized</b>			
Opening net asset		(188,856)	(156,435)
Charge for the period	35.2.5	(21,250)	(24,818)
Contribution to fund/benefits paid during the year		(4,176)	(7,603)
Closing net asset		<u>(214,282)</u>	<u>(188,856)</u>
<b>35.2.5 Charge/(prepaid) for benevolent fund</b>			
Current service cost		7,630	8,006
Interest cost		16,362	16,860
Expected return on plan assets		(40,037)	(34,806)
Actuarial gains recognized		(644)	(358)
Contribution-employee		(4,176)	(7,603)
Negative past service cost-recognized		(385)	(6,917)
		<u>(21,250)</u>	<u>(24,818)</u>
<b>35.3 Benevolent scheme - clerical/non-clerical</b>			
<b>35.3.1 General description</b>			
For all clerical/non-clerical staff, the Bank operates an approved funded benevolent scheme to which contributions are made at different rates but not exceeding Rs. 100 by each employee. Employee contributions are matched by an equal amount of contributions by the Bank which is also liable to meet any shortfall in the fund.			
<b>35.3.2 Principal actuarial assumption</b>			
The latest actuarial valuation is carried out as at December 31, 2007. Actuarial valuation was made using the following significant assumptions:			
Expected rate of increase in salary		9 % per annum	
Expected rate of return on investments		10 % per annum	
<b>35.3.3 Reconciliation of payable to/(receivable from) benevolent fund</b>			
Present value of defined benefit obligation		41,989	42,099
Fair value of plan assets		(181,826)	(184,021)
Unrecognized part of transitional liability		-	-
Net actuarial gains/(losses) not recognized		127,676	157,675
		<u>(12,161)</u>	<u>15,753</u>



	Note	2007	2006
Rupees in '000			
<b>35.3.4 Movement in net liability/(asset) recognized</b>			
Opening net liability		15,753	34,760
Charge for the year	35.3.5	(26,048)	(15,184)
Contribution to fund/benefits paid during the year		(1,866)	(3,823)
Closing net liability		(12,161)	15,753
<b>35.3.5 Charge/(prepaid) for benevolent fund</b>			
Current service cost		2,671	3,364
Interest cost		4,210	4,437
Expected return on plan assets		(18,402)	(15,433)
Actuarial (gains)/losses recognized		(12,661)	(11,338)
Contribution-employee		(1,866)	(3,823)
Transitional liability recognized		-	7,606
Past service cost-recognized		-	3
		(26,048)	(15,184)

#### 35.4 Gratuity scheme

##### 35.4.1 Gratuity under old Staff Regulations

###### 35.4.1.1 General description

For employees who opted for the scheme introduced in 1975 for clerical/non-clerical staff and in 1977 for officers/executives, the Bank operates an approved funded gratuity scheme on which monthly contributions, if the employee has less than ten years of service, are made by the Bank on the basis of actuarial recommendation.

###### 35.4.1.2 Principal actuarial assumption

The latest actuarial valuation is carried out as at December 31, 2007. Actuarial valuation was made using the following significant assumptions:

Expected rate of increase in salary	9 % per annum
Expected rate of return on investments	10 % per annum

	Note	2007	2006
Rupees in '000			
<b>35.4.1.3 Reconciliation of payable/(receivable) to/(from) gratuity fund</b>			
Present value of defined benefit obligation		13	74,588
Fair value of plan assets		(1,458,084)	(1,336,398)
Net actuarial gains/(losses) not recognized		150,974	166,663
Past service cost not recognized		-	(74,543)
		(1,307,097)	(1,169,690)
<b>35.4.1.4 Movement in net liability/(asset) recognized</b>			
Opening net asset		(1,169,690)	(1,036,035)
Charge for the year	35.4.1.5	(136,634)	(127,586)
Contribution to fund/benefits paid during the year		(773)	(6,069)
Closing net asset		(1,307,097)	(1,169,690)
<b>35.4.1.5 Charge/(prepaid) for gratuity fund</b>			
Current service cost		3	34
Interest cost		5	25
Expected return on plan assets		(133,640)	(116,730)
Actuarial gains recognized		(3,002)	(10,915)
		(136,634)	(127,586)



**35.4.2 Gratuity under Staff Regulations - 2005 (SR-2005)****35.4.2.1 General description**

The Bank also operates a separate Gratuity Fund scheme, w.e.f August 2006, established upon introduction of Staff Regulations - 2005 (SR-2005) for the employees governed under SR-2005 and contributions to this Fund are made by the Bank at the rate of 8.3330% of the monetized salary per month.

**35.4.2.2 Principal actuarial assumption**

The latest actuarial valuation is carried out as at December 31, 2007. Actuarial valuation was made using the following significant assumptions:

Expected rate of increase in salary	9 % per annum
Expected rate of return on investments	10 % per annum

**35.4.2.3 Reconciliation of payable/(receivable) to/(from) gratuity fund**

	Note	2007	2006
Rupees in '000			
Present value of defined benefit obligation		270,819	-
Fair value of plan assets		(95,121)	-
Net actuarial gains/(losses) not recognized		(43,395)	-
Past service cost not recognized		-	-
		<u>132,304</u>	<u>-</u>

**35.4.2.4 Movement in net liability/(asset) recognized**

Opening net liability		-	-
Charge for the period	35.4.2.5	225,760	-
Contribution to fund/benefits paid during the year		(93,456)	-
Closing net liability		<u>132,304</u>	<u>-</u>

**35.4.2.5 Charge/(prepaid) for gratuity fund**

Current service cost		70,280	-
Interest cost		14,135	-
Expected return on plan assets		-	-
Past Service Cost - Vested		141,345	-
		<u>225,760</u>	<u>-</u>

**35.5 Post retirement medical benefits****35.5.1 General description**

The Bank provides post retirement medical benefits to eligible retired employees. Provision is made annually to meet the cost of such medical benefits on the basis of actuarial valuation carried out by independent actuary by using Projected Unit Credit (PUC) method.

**35.5.2 Principal actuarial assumption**

The latest actuarial valuation is carried out as at December 31, 2007. Actuarial valuation was made using the following significant assumptions:

Valuation discount rate	10% per annum
Medical inflation rate	8% per annum
Exposure inflation rate	3% per annum





	Note	2007	2006
Rupees in '000			
<b>35.5.3 Reconciliation of payable/(receivable) to/(from) medical benefits</b>			
Present value of defined benefit obligation		2,107,028	1,813,938
Net actuarial gains not recognized		1,231,666	1,417,187
Past service cost not recognized		20,418	40,836
		<u>3,359,112</u>	<u>3,271,961</u>
<b>35.5.4 Movement in net liability/(asset) recognized</b>			
Opening net liability		3,271,961	3,649,671
Charge for the period	35.5.5	104,943	(361,011)
Contribution to fund/benefits paid during the year		(17,792)	(16,699)
Closing net liability		<u>3,359,112</u>	<u>3,271,961</u>
<b>35.5.5 Charge/(prepaid) for medical benefits</b>			
Current service cost		56,312	61,870
Interest cost		181,394	123,251
Actuarial gains recognized		(112,345)	(178,605)
Negative past service cost recognized		(20,418)	(367,527)
		<u>104,943</u>	<u>(361,011)</u>

### 35.6 Employee compensated absences

The liability of the Bank in respect of long-term employees compensated absences is determined based on actuarial valuation carried out using Projected Unit Credit (PUC) method. The liability of the Bank as per the latest actuarial valuation carried out as at December 31, 2007 amounted to Rs. 708.771 million (December 31, 2006: Rs. 437.659 million) which has been fully provided by the Bank. The provision has been increased by Rs. 271.112 million for the year ended December 31, 2007.

### 35.7 Defined contribution plan

For all the employees of the Bank who have opted for retirement benefits scheme announced in 1975 and 1977 for clerical/non-clerical staff and for executives/officers, respectively, the Bank operates an approved non-contributory provident fund (General Provident Fund) through an independent trust. Contributions to the fund are made by the employees only at the rate of 8% of mean of pay scale per month. For employees who have not opted for aforesaid retirement benefit scheme, the Bank operates an approved contributory provident fund (Employees Provident Fund) where contributions are made by the Bank and employees at the rate of 8.33% of basic salary per month.

Contributory Provident Fund (CPF) scheme was introduced in 2006 (w.e.f. July 2006) for the employees governed under Staff Regulations 2005 (SR-2005) and contributions to the CPF are made by the employees at the rate of 2% of monetized salary per month and matching contribution by the Bank, if their remaining service is more than ten years from the date of option/appointment.

## 36 REMUNERATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for remuneration, including all benefits to the Chief Executive, Directors and Executives of the Bank is as follows;



	President		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	Rupees in '000				Rupees in '000	
Fee	-	-	1,396	1,900	-	-
Managerial remuneration	3,600	3,600	-	-	564,098	263,149
Charge for defined benefit plan	740	740	-	-	3,968	21,668
Contribution to defined benefit plans	-	-	-	-	(4,040)	-
Rent and house maintenance	840	840	-	-	21,090	29,371
Utilities	-	-	-	-	5,273	7,254
Medical	-	-	-	-	5,742	3,630
Conveyance	329	344	-	-	6,411	25,135
Furnishing allowance	-	-	-	-	2,155	1,774
Leave fare assistance	370	370	-	-	-	-
Club facility	47	-	-	-	-	-
Others	-	-	-	-	903	519
	5,926	5,894	1,396	1,900	605,600	352,500
<b>Number of persons</b>	<b>1</b>	<b>1</b>	<b>10</b>	<b>7</b>	<b>755</b>	<b>496</b>

**36.1** Executives mean employees, other than the chief executive and directors, whose basic/monetized salary exceeds Rs. 500,000 in a financial year. The chief executive, senior vice president and above other than under SR-2005 have been provided Bank maintained cars. Vice president and above governed by SR-2005 have also been provided cars under Cars Loan Depreciation Policy (CLDP).

**36.2** There are no other employees except disclosed above which fall under the definition of key management personnel.

### 37 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'.

Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

37.1 On-balance sheet financial instruments	2007		2006	
	Book value	Fair value	Book value	Fair value
	Rupees in '000		Rupees in '000	
<b>Assets</b>				
Cash and balances with treasury banks	2,103,682	2,103,682	1,295,464	1,295,464
Balances with other banks	11,943,898	11,943,898	7,781,056	7,781,056
Investments	7,604,233	7,604,233	5,634,499	5,634,499
Advances	61,313,006	61,313,006	61,514,057	61,514,057
Other assets	37.2 9,285,175	9,285,175	7,885,192	7,885,192
	92,249,994	92,249,994	84,110,268	84,110,268
<b>Liabilities</b>				
Bills payable	392,726	392,726	276,333	276,333
Borrowings	51,257,213	51,257,213	51,257,313	51,257,313
Deposits and other accounts	4,323,150	4,323,150	2,882,384	2,882,384
Sub-ordinated loan	3,204,323	3,204,323	3,204,323	3,204,323
Other liabilities	37.2 18,602,810	18,602,810	13,919,506	13,919,506
	77,780,222	77,780,222	71,539,859	71,539,859

**37.2** Stationery, stock in hand, advances and prepayments have been excluded while arriving on financial instruments in other assets. Similarly, inter-branch adjustments has been deducted from other liabilities.



**38 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES**

The segment analysis with respect to business activity is as follows:

	Corporate finance	Trading and sales	Retail banking	Commercial banking	Payment and settlement	Agency services	Assets management	Retail brokerage	Others -agri financing
<b>Rupees in '000</b>									
<b>2007</b>									
Total income	-	-	-	-	-	-	-	-	12,756,433
Total expenses	-	-	-	-	-	-	-	-	10,972,288
Net income before tax	-	-	-	-	-	-	-	-	1,784,146
Taxation	-	-	-	-	-	-	-	-	751,330
Income after tax	-	-	-	-	-	-	-	-	1,032,816
Segment assets (gross)	-	-	-	-	-	-	-	-	93,386,336
Segment non performing loans	-	-	-	-	-	-	-	-	16,708,290
Segment provision required	-	-	-	-	-	-	-	-	6,221,928
Segment liabilities	-	-	-	-	-	-	-	-	78,430,844
Segment return on net assets(%)	-	-	-	-	-	-	-	-	6.91%
Segment cost of funds (%)	-	-	-	-	-	-	-	-	5.81%
<b>2006</b>									
Total income	-	-	-	-	-	-	-	-	11,519,109
Total expenses	-	-	-	-	-	-	-	-	10,872,306
Net Income before taxation	-	-	-	-	-	-	-	-	646,803
Taxation	-	-	-	-	-	-	-	-	226,997
Income after tax	-	-	-	-	-	-	-	-	419,806
Segment assets (gross)	-	-	-	-	-	-	-	-	85,451,521
Segment non performing loans	-	-	-	-	-	-	-	-	20,104,490
Segment provision required	-	-	-	-	-	-	-	-	6,772,751
Segment liabilities	-	-	-	-	-	-	-	-	71,851,350
Segment return on net assets(%)	-	-	-	-	-	-	-	-	3.09%
Segment cost of funds (%)	-	-	-	-	-	-	-	-	4.89%

**39 TRUST ACTIVITIES**

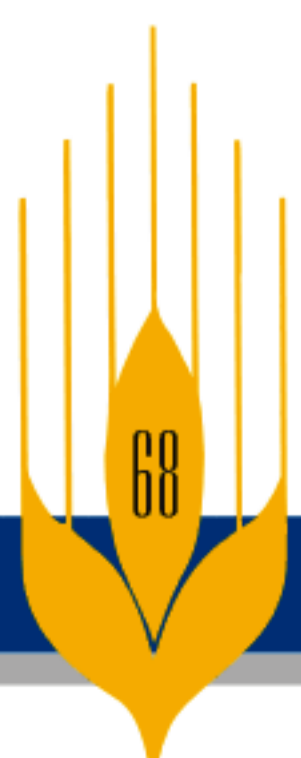
Banks commonly act as trustees and in their fiduciary capacities that results in the holding or placing of assets on behalf of individual, trust, retirement benefit plan and other institution. Provided the trustees or similar relationship is legally supported, these assets are not asset of the bank and therefore, are not included in its balance sheet.

**40 RELATED PARTY TRANSACTIONS AND BALANCES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include holding company, subsidiary companies with or without common directors, retirement benefit funds, directors and key management personnel.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to the executives are determined in accordance with the terms of their appointment.

Details of transactions with related parties and balances with them excluding those entered into with directors / executives as per their terms of employment as disclosed in note 36 at the year end was as under:



	2007		2006	
	Key management personnel	Subsidiary M/s KSSL	Key management personnel	Subsidiary M/s KSSL
	Rupees '000			
<b>Advances</b>				
As at January 01	3,414	-	-	-
Given During the year	-	-	-	-
Repaid during the year	227	-	-	-
As at December 31	3,187	-	-	-
<b>Deposits</b>				
As at January 01	1,060	-	360	-
Received during the year	12,865	-	15,437	-
Withdrawn during the year	11,893	-	14,956	-
As at December 31	2,032	-	841	-
Investments at the end of the year	-	100,000	-	100,000
Payable at the end of the year	-	12,591	-	3,538
Receivable at the end of the year	-	-	-	-

	2007		2006	
	Key management personnel	Subsidiary M/s KSSL	Key management personnel	Subsidiary M/s KSSL
	Rupees '000			
Mark up/ interest earned	84	-	-	-
Remuneration paid	20,005	-	19,909	-
Post retirement benefit	-	-	733	-
Contribution to defined benefit plan	63	-	-	-
Services rendered by subsidiary company.	-	111,677	-	35,614
Rent, accounting and communication charges received	-	6,526	-	-

## 41 CAPITAL ADEQUACY

### 41.1 Capital Management

#### Objectives and goals of managing capital

The objectives and goals of managing capital of the Bank are as follows;

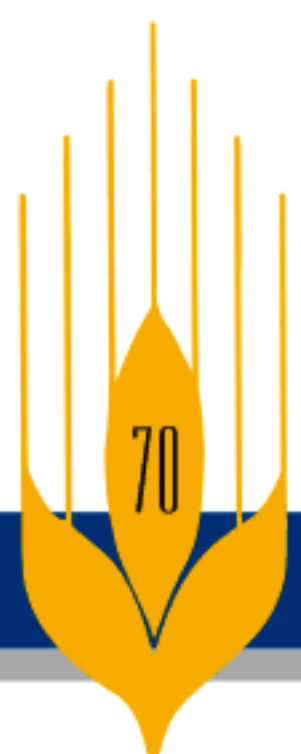
- to be an appropriately capitalised institution, as defined by regulatory authorities and comparable to the peers.
- maintain strong ratings and to protect the Bank against unexpected events;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- achieve low overall cost of capital with appropriate mix of capital elements.



**41.2 Capital adequacy**

The risk weighted assets to capital ratio, calculated in accordance with the SBP guidelines on capital adequacy was as follows:

	2007		2006	
	Rupees in '000			
<b>Regulatory capital base</b>				
<b>Tier I capital</b>				
Shareholders capital	11,869,612		11,869,612	
Reserves	-		359,348	
Unappropriated profits	1,834,453		1,008,200	
	13,704,065		13,237,160	
Less: adjustments	-		-	
<b>Total tier I capital</b>	13,704,065		13,237,160	
<b>Tier II capital</b>				
Subordinated debt (upto 50% of total tier I capital)	3,204,323		3,204,323	
General provisions subject to 1.25% of total risk weighted assets	927,552		884,283	
Revaluation reserve (upto 50%)	342,758		181,505	
<b>Total tier II capital</b>	4,474,633		4,270,111	
<b>Eligible tier III capital</b>	-		-	
<b>Total regulatory capital</b>	(a) 18,178,697		17,507,271	
<b>Risk weighted exposures</b>				
	2007		2006	
	Book value	Risk adjusted value	Book value	Risk adjusted value
	Rupees in '000			
<b>Credit risk</b>				
<b>Balance sheet items:</b>				
Cash and other liquid Assets	345,106	-	150,382	-
Money at call	13,702,474	2,388,780	8,926,138	1,556,212
Investments	7,604,233	2,925,325	5,634,499	1,907,805
Loans and advances	61,313,006	58,545,826	61,514,057	58,596,508
Fixed assets	865,293	863,395	817,003	817,003
Other assets	9,556,224	9,480,821	8,409,442	7,865,100
	93,386,336	74,204,147	85,451,521	70,742,628
<b>Off balance sheet items:</b>				
Loan repayment guarantees	-	-	-	-
Purchase and resale agreements	-	-	-	-
Performance bonds etc	-	-	-	-
Revolving underwriting commitments	-	-	-	-
Stand by letters of credit	-	-	-	-
Outstanding foreign exchange contracts	-	-	-	-
Purchase	-	-	-	-
Sale	-	-	-	-
	-	-	-	-
Credit risk-weighted exposures	93,386,336	74,204,147	85,451,521	70,742,628
			2007	2006
			Rupees in '000	
<b>Market Risk</b>				
General market risk			-	-
Specific market Risk			-	-
Market risk-weighted exposures			-	-
<b>Total risk-weighted exposures</b>		(b)	74,204,147	70,742,628
<b>Capital adequacy ratio [ (a) / (b) x 100]</b>			24.50%	24.75%



## 42 RISK MANAGEMENT

The primary objective of risk management is to support senior management in correctly identifying, adequately measuring, effectively limiting and properly monitoring and controlling risk taking throughout the Bank. The Bank ensures systematic and integrated risk management. This is based on the following structured process risk identification, risk measurement, risk management and control, risk monitoring and risk reporting.

## 42.1 Credit Risk

Credit risk is the risk that arises from the potential that an obligor is either unwilling to perform on an obligation or its capability to execute such obligation is impaired resulting in economic loss to the Bank. Principally, exposures are only approved when reasonably assured for repayment capacity of counter party. Standardized procedures are adopted and under no circumstances it exceeds approved credit lines. The Bank credit appraisal structure comprises of well-defined credit appraisal, approval and review methods for the purpose of prudence in its lending operations and ensuring credit across the bank. The Bank pay particular concentration to the management of NPLs. An independent Special Asset Management (SAM) Department is operational at the head office.

## 42.1.1 Segmental information

Segmental information is presented in respect of the class of business and geographical distribution of advances, deposits, contingencies and commitments.

## 42.1.1a Segments by class of business

	2007					
	Advances (gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting and fishing	67,793,134	96.11%	-	-	-	-
Individuals	-	-	4,312,048	99.74%	7,744,389	64.96%
Others	2,747,292	3.89%	11,102	0.26%	4,178,053	35.04%
	70,540,426	100%	4,323,150	100%	11,922,442	100%

## 42.1.1b Segment by sector

	2007					
	Advances (gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ government	-	-	11,102	0.26%	4,178,053	35.04%
Private	70,540,426	100.00%	4,312,048	99.74%	7,744,389	64.96%
	70,540,426	100.00%	4,323,150	100.00%	11,922,442	100.00%

\* This amount represents deposits belonging to autonomous/semi-autonomous bodies.

## 42.1.1c Details of non-performing advances and specific provisions by class of business segment

	2007		2006	
	Rupees in '000			
	Classified advances	Specific provision held	Classified advances	Specific provision held
Agriculture, forestry, hunting and fishing	16,708,290	6,221,928	20,104,490	6,772,751



**42.1.1d Details of non-performing advances and specific provisions by sector**

Private	16,708,290	6,221,928	20,104,490	6,772,751
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**42.1.1e GEOGRAPHICAL SEGMENT ANALYSIS**

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Rupees in '000				
Pakistan	1,784,146	93,386,336	14,955,491	11,922,442

**42.2 Market Risk**

Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity indices, and others which may be only indirectly observable such as volatilities and correlations.

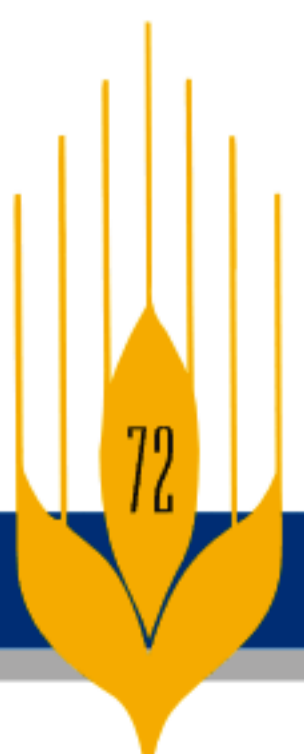
The Bank is not involved in commercial activities like underwriting, trading and discounting operations. The Bank operates foreign currency transactions through SBP in local currency by paying exchange fluctuation risk fee to the SBP. The Bank is not exposed to interest rate risk as it has a fixed lending rate portfolio of advances and investments/placements are being placed in held to maturity securities/investments. Correspondingly the borrowing from SBP is in the process of restructuring. Liquidity position of the Bank is closely monitored by the Asset Liabilities Management Committee (ALCO) on periodic basis.

**42.3 Foreign Exchange Risk**

The Bank is not directly exposed to foreign exchange risk as the Bank is not engaged in foreign operations. Foreign transactions, if any, are undertaken through SBP.

**42.4 Equity position Risk**

The Bank is not exposed to equity position risk as all the shares are held by Federal and Provincial Governments. Its securities are not publicly traded.



42.5 Mismatch of interest rate sensitive assets and liabilities

2007

	Effective Yield / interest rate	Total	Rupees in '000							Non-interest bearing financial instruments		
			Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years		Over 5 to 10 years	Above 10 years
<b>On-balance sheet financial instruments</b>												
<b>Assets</b>												
Cash and balances with treasury banks	-	2,103,682	-	-	-	-	-	-	-	-	-	2,103,682
Balances with other banks	8.8	11,943,898	1,802,902	-	-	-	-	-	-	-	-	18,475
Investments	7.7	7,604,233	2,727,155	385,093	1,695,266	-	-	-	1,084,508	-	-	876,496
Advances	-	61,313,007	16,933,783	28,060,833	3,079,168	1,847,501	3,695,002	7,387,160	-	-	-	-
Other assets	-	9,285,172	-	-	-	-	-	-	-	-	-	9,285,172
		92,249,992	11,267,796	21,463,840	28,445,926	4,774,434	1,847,501	3,695,002	8,471,668	-	-	12,283,825
<b>Liabilities</b>												
Bills payable	-	392,726	-	-	-	-	-	-	-	-	-	-
Borrowings	6.09	51,257,213	5,449,155	1,816,385	1,816,385	3,630,770	3,630,770	7,261,540	18,153,850	9,498,358	-	-
Deposits and other accounts	1-4	4,323,151	1,071,431	130	1,198	-	824	1,850	-	-	-	3,247,718
Sub-ordinated loans	12 month T-Bill rate	3,204,323	-	-	-	-	-	-	-	-	-	3,204,323
Other liabilities	-	18,602,811	-	-	-	-	-	-	-	-	-	18,602,811
		77,780,224	6,913,312	1,816,515	1,817,583	3,630,770	3,631,594	7,263,390	18,153,850	12,702,681	-	21,850,529
<b>On-balance sheet gap</b>		14,469,768	4,354,484	21,463,840	26,629,411	2,956,851	(1,783,269)	63,408	1,208,278	(18,153,850)	(12,702,681)	(9,566,704)
<b>Off-balance sheet gap</b>		-	-	-	-	-	-	-	-	-	-	-
<b>Total yield/ interest risk sensitivity gap</b>		14,469,768	4,354,484	21,463,840	26,629,411	2,956,851	(1,783,269)	63,408	1,208,278	(18,153,850)	(12,702,681)	(9,566,704)
<b>Cumulative yield/ interest risk sensitivity gap</b>		14,469,768	4,354,484	21,463,840	26,629,411	2,956,851	(1,783,269)	63,408	1,208,278	(18,153,850)	(12,702,681)	(9,566,704)

Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities

	Rupees in '000	Rupees in '000
Total financial assets as per note 42.5	92,249,992	77,780,224
Add non financial assets		
Operating fixed assets	865,293	119,191
Other assets	271,050	531,429
	93,386,336	78,430,844
Total financial liabilities as per note 42.5		
Add non financial liabilities		
Deferred tax liabilities		
Other liabilities		





42.5.1 Mismatch of interest rate sensitive assets and liabilities

2006

Effective Yield / interest rate	Total	Rupees in '000							Non-interest bearing financial instruments	
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years		Over 5 to 10 years
<b>On-balance sheet financial instruments</b>										
<b>Assets</b>										
-	1,295,464	-	-	-	-	-	-	-	-	1,295,464
8.9	7,781,056	7,063,341	710,523	-	-	-	-	-	-	7,192
8	5,634,499	1,354,500	1,843,309	-	766,418	-	1,116,967	-	-	553,305
-	60,839,057	-	16,822,940	28,455,941	2,177,655	3,734,635	6,866,954	727,847	-	-
-	8,682,150	-	-	-	-	-	-	-	-	8,682,150
	84,232,226	8,417,841	19,376,772	28,455,941	2,177,655	3,734,635	7,983,921	727,847	-	10,538,111
<b>Liabilities</b>										
-	276,333	-	276,333	-	-	-	-	-	-	-
6.09	51,257,213	3,630,770	-	1,815,385	3,630,770	3,630,770	7,261,540	18,153,850	13,134,128	-
0-3.3	2,882,384	259,989	-	1,560	-	30	4,103	-	-	2,616,608
12 month T-Bill rate	3,204,323	-	-	94	-	-	-	-	3,204,323	-
-	14,194,179	-	-	-	-	-	-	-	-	14,209,932
	71,814,432	3,890,759	276,333	94	1,816,945	3,630,770	7,265,643	18,153,850	16,338,451	16,826,540
<b>On-balance sheet gap</b>		4,527,082	19,100,439	28,455,847	360,710	(811,267)	718,278	(17,426,003)	(16,338,451)	(6,288,429)
<b>Off-balance sheet gap</b>		-	-	-	-	-	-	-	-	-
<b>Total yield/ interest risk sensitivity gap</b>		12,417,794	19,100,439	28,455,847	360,710	(811,267)	103,835	718,278	(17,426,003)	(6,288,429)
<b>Cumulative yield/ interest risk sensitivity gap</b>		12,417,794	19,100,439	28,455,847	360,710	(811,267)	103,835	718,278	(17,426,003)	(6,288,429)

Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities

	Rupees in '000
Total financial assets as per note 42.5.1	84,232,226
Add non financial assets	817,003
Operating fixed assets	418,045
Other assets	85,467,274
Total financial liabilities as per note 42.5.1	71,814,432
Add non financial liabilities	7,629
Deferred tax liabilities	45,042
Other liabilities	71,867,103

**42.6 Liquidity risk**

Assets and Liabilities Committee (ALCO) in the Bank is playing a very effective role in cash management. Accordingly the yields on fund's placement have been constantly increasing.

**42.6.1 Maturities of assets and liabilities**

2007

	Rupees in '000									
	Total	Upto 1month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
<b>Assets</b>										
Cash and balances with treasury banks	2,103,682	-	-	-	-	-	-	-	-	-
Balances with other banks	11,943,898	10,663,473	1,280,425	-	-	-	-	-	-	-
Investments	7,604,233	835,715	2,727,155	385,093	1,695,266	-	-	1,084,508	-	876,496
Advances	61,313,006	309,560	16,933,782	28,060,833	3,079,168	1,847,501	3,695,002	7,387,160	-	-
Other assets	9,556,224	14,583	-	971	3,113,608	628,785	-	-	372,995	5,425,282
Operating fixed assets	865,293	-	-	-	-	-	-	-	-	865,293
	93,386,336	13,927,013	20,941,362	28,446,897	7,888,042	2,476,286	3,695,002	8,471,668	372,995	7,167,071
<b>Liabilities</b>										
Bills payable	392,726	-	392,726	-	-	-	-	-	-	-
Borrowings	51,257,213	5,449,155	-	1,816,385	1,816,385	3,630,770	3,630,770	7,261,540	18,153,850	9,498,358
Deposits and other accounts	4,323,150	4,319,149	-	130	1,198	-	823	1,850	-	-
Sub-ordinated loans	3,204,323	-	-	-	-	-	-	-	-	3,204,323
Other liabilities	19,134,241	507,904	-	203,261	17,891,457	189	-	-	-	531,430
Deferred tax liabilities	119,191	-	-	-	-	-	-	-	-	119,191
	78,430,844	10,276,208	392,726	2,019,776	19,709,040	3,630,959	3,631,593	7,263,390	18,153,850	13,353,302
<b>Net assets</b>	14,955,492	3,650,805	20,548,636	26,427,121	(11,820,998)	(1,154,673)	63,409	1,208,278	(17,780,855)	(6,186,231)
Share capital	11,869,612									
Reserves	565,911									
Unappropriated profit	1,834,453									
Surplus on revaluation of assets	685,516									
	14,955,492									



**42.7 Operational risk**

- Operational risk module comprising of key risk indicator, control self assessment and corporate governance has been successfully implemented in the seventeen pilot branches of the Bank in the year 2006.
- This module is being rolled out in the remaining branches.
- Operational risk at head office are reviewed on a regular basis and risk gaps are reported on to the operational risk committee for corrective measures so that the reported risk gaps can be eliminated or minimized.

**43 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on **27 March, 2008** by the Board of Directors of the Bank.

**44 GENERAL**

- 44.1** The figures in the financial statements are rounded off to the nearest thousand rupees.
- 44.2** Captions as prescribed by BSD Circular No. 4 of 2006 dated February 17, 2006 issued by the SBP in respect of which there are no amounts have been reproduced in these financial statements except, for balance sheet and profit and loss account.
- 44.3** Figures of prior year are rearranged/regrouped, wherever necessary, for better presentation. Material reclassifications are as under:

<b>From</b>	<b>To</b>	<b>Rupees in '000</b>
Advances	Other Assets	675,000
Provision for diminution in the value of investments	Non Mark up Interest Expenses	10,110
Provision against other assets	Non Mark up Interest Expenses	2,048,971
Non Mark up Interest Expenses	Write offs under Government relief packages	1,482,448
Advances, deposits, advance rent and other prepayments	Security deposits	1,786
Provision against non performing loans	Advances	4,129
Sundry Deposits	Others	219,721
Salaries, allowances and benefits	Charge for compensated absence	82,649
Salaries, allowances and benefits	Other Expenditure	290
Salaries, allowances and benefits	Charge for defined contribution plan	7,334
Others	KSSL Expenses	35,614

**PRESIDENT****DIRECTOR****DIRECTOR****DIRECTOR**

"Annexure-1"

**STATEMENT SHOWING WRITTEN OFF LOAN OR ANY OTHER FINANCIAL RELIEF OF RUPEES  
FIVE HUNDRED THOUSAND OR ABOVE PROVIDED DURING THE PERIOD ENDED DECEMBER 31, 2007**

(Rs. in million)

S. No	Name and address of the borrower	Name of individual /parteners/directors	NIC number	Father's/husband's name	Outstanding Liabilities at beginning of the year				Amount written off			
					Principal	Interest	Others	Total	Principal	Interest	Others	Total
1	AGRO FOOD 218 KOT LIAQAT HAYAT, MULTAN ROAD, OKARA.	CH. ABDUL RASHID MUHAMMAD ASGHAR ARSHAD ALI MST. RUBINA ABBAS	340-24-018030 340-60-310002 340-64-410003 340-85-480587	IMAM DIN CH. ABDUL RASHID CH. ABDUL RASHID MUHAMMAD ABBAS	2.350	10.335	0.000	12.685	2.350	8.835	0.000	11.185
2	AGRO RENTAL 214/D LCCHS, LAHORE CANTT.	JAMIL AHMED SAJJAD HUSSAIN	514-85-130063 274-10-335366	CH. MUHAMMAD JAMAL CH. INNAYAT HUSSAIN	5.385	4.230	0.000	9.615	1.144	0.000	0.000	1.144
3	AM. PAK DAIRIES (PVT) LTD. 2 KM VILLAGE JALALPUR, LALYANI ROAD, RAIWAND, LAHORE.	DR. MUHAMMAD AYAZ MUHAMMAD NAWAZ AHMED HUSSAIN MAHMOOD ATTAR KHAN TARIQ NAWAZ	270-39-263285 270-11-060981 246-42-013069 NA NA	MUHAMMAD NAWAZ SHEIKH MUHAMMAD ALAMGIR SHEIKH MUHAMMAD HUSSAIN MUHAMMAD ABDULLAH MUHAMMAD NAWAZ	21.454	104.815	0.000	126.269	21.454	92.197	0.000	113.651
4	BABA MANA INDUSTRIES CIRCULAR ROAD, TANDO ADAM, HYDERABAD.	JAM MADAD ALI JAM SAIF ALI ABDUL QADIR JAVED TAHIR	481-89-137287 487-86-137289 409-85-111607 488-56-003265	JAM ANWAR ALI HAJI ARBAB KHAN TAHIR H. SIDDIQUI	5.414	0.766	0.000	6.180	1.545	0.000	0.000	1.545
5	BISMILLAH AGRO SERVICES CHAK SHAHKHAGGA, TEH AND DISTT. PAKPATTAN.	HAMID MEHMOOD SHAH	36402-1759510-5	MUHAMMAD HUSSAIN SHAH	1.367	1.413	0.000	2.780	0.000	1.342	0.170	1.512
6	BUREWALA COTTON GINNING 473/D FAISAL TOWN, LAHORE	RASHID ANSAR MUHAMMAD ZAHID CH. M. AMAR ZIA MRS. RIZWANA BUTT	601-52-003397 36601-8153178-9 601-90-003401 221-55-029325	ANSAR-UL-HAQ CH. REHMAT ALI ALTAF-UL-HAQ W/O SAQIB AZIZ	4.892	7.898	0.219	13.009	4.892	5.085	0.000	9.977
7	CH. HARVESTING 296-G1, JOHAR TOWN, LAHORE	CH. MUHAMMAD NAJEEB CH. MUHAMMAD LATIF MST. AFSHAN QADEER	271-63-067861 271-20-067869 270-86-107718	CH. MUHAMMAD LATIF MIAN ALI BUKHSH W/O M. ABDUL QADEER	4.800	2.907	0.000	7.707	2.567	0.000	0.000	2.567
8	COLUMBIA LIVE STOCK 1ST FLOOR VARIAWA BUILDING, OPP. LAKHANI CENTRE, I.I. CHUNDRIGER ROAD, KARACHI	MUHAMMAD YAQOOB HABIB MST. KHAIRUNNISA DR. ASAD UZ ZAFAR	511-28-008693 517-86-399160 501-23-006987	HAJI HABIB TAYYAB HAJI SATTAR ABDUL MAJEED	13.014	12.402	0.084	25.500	13.014	3.378	0.000	16.392
9	COMBINE COLD STORAGE VILLAGE MAHMOOD BOOTI BAND ROAD, LAHORE	CH. SALAHUD DIN MALIK ABDUL SATTAR MST. JAMILA MUHAMMAD ASHRAF BABA ABDUL SALAM TANVIR AKHTER	266-38-078087 265-32-379904 270-58-383135 281-85-173055 275-36-110138 266-61-078091	CH. FAZAL DIN MALIK OMAR HAYAT MUHAMMAD AKRAM MANZOOR AHMED HAJI MUHAMMAD YAQOOB CH. SALAHUDDIN	7.118	1.106	0.000	8.224	2.040	0.000	0.000	2.040
10	GRAIN TECH (PVT) LTD. 9 KM HAFIZABAD, JALALPUR BHATIA ROAD, MOUZA KOT MUBARIK VIL. CHANNI, MITHA, HAFIZABAD	SYED FAISAL HASSAN NAUSHEEN FAISAL NAGAR MRS. FERAZ BANO	35202-28359007 35202-2667933 35202-2654126-4	SYED MUKHTAR HUSSAIN SYED FAISAL HASSAN SYED MUKHTAR HUSSAIN	20.425	31.274	0.000	51.699	20.425	20.025	0.000	40.450
11	INDUS FRUIT PRODUCTS LTD. 65 KM MULTAN ROAD, DISTT. KASUR	MUHAMMAD NAEEM FARAN HAROON TAHIR MEHRAN TAHIR AKHTAR NAZIR KHAN IJAZ QADDIR SIRAJUL ISLAM KHALID FAIZI	35202-9863062-5 270-86-035338 270-86-035239 270-46-346304 270-50-022418 269-48-272755 61101-8007999-3	MUHAMMAD AZEEM MUHAMMAD NAEEM TAHIR MUHAMMAD NAEEM TAHIR NAZIR AHMED KHAN CH. MUHAMMAD ALI NAZIR AHMED KHAN FAZAL MUHAMMAD FAIZI	80.351	295.169	9.788	385.308	80.351	231.819	0.000	312.170
12	KHAN AGRO SERVICES TEHSIL KOT LAKHAN, TEH. MAILSI, DISTT. VEHARI	DILAWAR KHAN	325-85-172098	SHERANG KHAN	3.571	7.275	0.000	10.846	3.571	4.526	0.000	8.097

"Annexure-1"  
(Rs. in million)

S. No	Name and address of the borrower	Name of individual /parteners/directors	NIC number	Father's/husband's name	Outstanding Liabilities at beginning of the year				Amount written off			
					Principal	Interest	Others	Total	Principal	Interest	Others	Total
13	KHICHI AGRO SERVICES MOUZA KOT LAKHAN, TEH MAILISI, VEHARI.	MUHAMMAD RAB NAWAZ	325-53-180301	HAJI MUHAMMAD KHAN	0.873	5.065	0.000	5.938	0.873	2.296	0.000	3.169
14	KING POULTRY VILLAGE BURJ ATTARI, TEH FEROZWALA, DISTT. SHEIKHUPURA.	MUHAMMAD HASSAN CH. MUHAMMAD NAWAZ CH. MUHAMMAD IQBAL SHAHID AFZAL KHAN BAZAL KHAN	295-23-110219 35401-9256073-5 295-61-110224 121-66-351853 274-52-008032	SIRAJUDDIN CH. MUHAMMAD HUSSAIN CH. MUHAMMAD HUSSAIN SHER AFZAL KHAN KHURSHID AHMED	2.094	4.667	0.267	7.028	2.094	3.919	0.000	6.013
15	MAKHDOOM HARVESTING,VILL. KOHLU WALA, DISTT. GUJRANWALA.	MAKHDOOM SIDRUDDIN MANSOOR HUSSAIN	NA	MAKHDOOM MUZAFFAR HUSSAIN	1.400	1.740	0.000	3.140	1.400	1.529	0.000	2.929
16	MASRAF AGRO SERVICES MOUZA CHAWAKA, TEH. SHAHPUR, DISTT. SARGODHA	SYED MANSOOR ALI SHAH	234-52-244465	SYED ANAYAT ALI SHAH	4.800	0.678	0.000	5.478	1.369	0.000	0.000	1.369
17	MOBILE AGRO HARVESTING MOUZA MAHMOOD BOOTI, BAGHBANPURA, LAHORE.	AHMED KAMAL MUHAMMAD JAMAL AJMAL MST. ROSHAN AKHTER	517-61-358220 275-57-037542 275-22-037543	MUHAMMAD AJMAL MUHAMMAD AJMAL MUHAMMAD AJMAL	4.000	7.721	0.045	11.766	4.000	5.117	0.000	9.117
18	MULTI AGRO OIL EXTRACTION 14 KM SHEIKHUPURA ROAD, THATTA KHUNDYAN, SHEIKHUPURA	M. KHALID MUKHTAR TARIQ PARVEZ KHAN CH. RAHMAT ALI MST. RABIA MUKHTAR MUHAMMAD ASIF KAMAL YOUSAF AYYUB	270-89-444241 287-86-105221 277-51-052912 NA 271-46-038122 122-63-047298	MUKHTAR AHMED ANWAR QAMAR UD DIN KHAN KHUDA BUX KHALID MUKHTAR GHULAM MUHAMMAD SHAUKAT AYYUB	8.695	30.549	0.431	39.675	8.695	18.418	0.025	27.138
19	NAMDAR (PVT) LTD. BURJ KALAN, DISTT. KASUR.	CH. NISAR AHMED CH. ZULFIQAR AHMED MST. JAWARIA GHAFOR	35202-4426237-1 35102-5582851-9 272-89-387032	CH. MUHAMMAD RAFIQU MUHAMMAD RAFIQUE GHAFOR JALIL	5.216	4.410	0.074	9.700	5.216	1.539	0.000	6.755
20	NAWABSHAH POULTRY	HALEEM ADIL SHEIKH	431-90-128922	INAMUD DIN SHEIKH	3.775	8.512	0.149	12.436	3.775	4.245	0.000	8.020
21	PAKISTAN AGRO POWER PVT. LTD. MODEL TOWN, LAHORE	MRS. NAJMA KHALID HAROON KHALID KHALID SAEED KHAN MUHAMMAD AKHTAR KHAN	245-44-023529 245-85-023552 101-48-015685 337-45-172185	D/O KHALID SHER KHALID SHARIF MUHAMMAD SAEED KHAN ASHIQ MUHAMMAD KHAN	3.616	4.385	0.000	8.001	3.616	2.252	0.000	5.868
22	REHMAN AGRI OPERATION MOUZA SHEIKH WAHAN, TEH. HASILPUR, DISTT. BAHAWALPUR	RAO JAMSHED AHMED KHAN	35202-757199-9	MUHAMMAD ARSHAD KHAN	3.367	6.120	0.000	9.487	3.367	3.099	0.000	6.466
23	SHAH MUQEEM AGRO SERVICES SARDAR BAZAR, MOHALAH PURANA HOSPITAL, HAVELI LAKHA, TEH. DEPALPUR, DISTT. OKARA	MUHAMMAD TUFAIL MST. NUSRAT BIBI MST. IQBAL BEGUM	336-49-492811 336-54-492812 336-30-445557	SARDAR ALI MUHAMMAD TUFAIL WALI MUHAMMAD	2.967	6.560	0.000	9.527	0.000	5.027	0.000	5.027
24	STANDARD COLD STORAGE BADAMI BAGH, LAHORE	HABIBULLAH KHAN	270-86-155394	MIAN AKBER ALI	3.252	1.521	0.000	4.773	1.192	0.000	0.000	1.192
25	STANDARD FRUITS LTD. CHAK NO. 66, DINA NATH, TEH CHUNIAN, DISTT. KASUR.	HABIBULLAH KHAN ZAFARULLAH KHAN MRS. NASREEN HABIB MRS. YASMIN ZAFAR FAROOQ HABIB IFTIKHAR HABIB MRS. SABINA FAROOQ	270-86-155394 271-54-209044 270-47-302560 270-85-075816 270-87-302561 270-92-302562 270-75-518612	MIAN AKBER ALI MIAN AKBER ALI W/O MIAN HABIBULLAH KHAN W/O ZAFARULLAH KHAN HABIBULLAH KHAN HABIBULLAH KHAN W/O FAROOQ HABIB	67.739	108.952	0.000	176.691	67.739	92.273	0.000	160.012
26	STAR COLD STORAGE	HABIBULLAH KHAN	270-86-155394	MIAN AKBER ALI	1.472	1.392	0.000	2.864	0.610	0.000	0.000	0.610
27	ZARKHAIZ AGRO SERVICE 172 GARDEN BLOCK, NEW GARDEN TOWN, LAHORE	MIAN HUMA IQBAL MIAN MUHAMMAD AMIN MIAN DAWOOD AMIN MRS. SHAHZADA AMIN MRS. ZUBIA IQBAL MIAN RAHEEL PASHA	270-58-297558 270-28-297555 270-59-302494 27035-297556 NA 211-57-073747	MIAN MUHAMMAD AMIN RAHMAT BUX MIAN MUHAMMAD AMIN W/O MIAN MUHAMMAD AMIN W/O MIAN HUMA IQBAL MIAN WAHEED SUBHANI	3.560	6.823	0.000	10.383	3.562	2.200	0.000	5.762
<b>TOTAL:</b>					<b>286.967</b>	<b>678.685</b>	<b>11.057</b>	<b>976.709</b>	<b>260.861</b>	<b>509.121</b>	<b>0.195</b>	<b>770.177</b>





ZARAI TARAQIATI BANK LTD

ZARAI TARAQIATI BANK LTD

ZARAI TARAQIATI BANK LTD

*Review of Operations*  
Annual Report 2007

## Review of Operations

During the year 2007, the Bank continued to play a significant role in financing farm investments to modernize agriculture, increase productivity and raise farm incomes. The Bank accorded highest priority to fulfill the demand of small farmers with land holding under 25 acres. ZTBL alone serves about half a million farmers annually and has a share of around 30% of the total institutional agricultural credit.

The Bank operates through a network of 25 Zonal Offices and 342 Branches and a team of 1269 Mobile Credit Officers(MCOs) in the field. Since inception upto 31.12.2007, the Bank has disbursed loan amounting to Rs.481,372 million. The Bank so far has financed 488,630 tractors and 144,013 tube-wells besides being the major source of financing for farm inputs including seeds, fertilizers, pesticides and insecticides. Priority was also accorded to the provision of more credit for livestock, dairy farming, poultry farming, aquaculture and financing of oil seed crops.

The Bank continued to channelize its credit flow through several financial schemes and delivery mechanisms such as Revolving Finance Scheme, Sada Bahar Scheme, One Window Operation, etc. under the Supervised Agricultural Credit System. The credit advanced for various purposes was instrumental in enabling the farmer to raise farm production, increase yield, boost income and expand capacity.

### 1. Overall Credit Disbursement

The Bank disbursed an overall amount of Rs.55,912 million during the year 2007 as compared to Rs.52,521 million disbursed in the year 2006 representing an increase of 6.5%. The number of borrowers served by the Bank

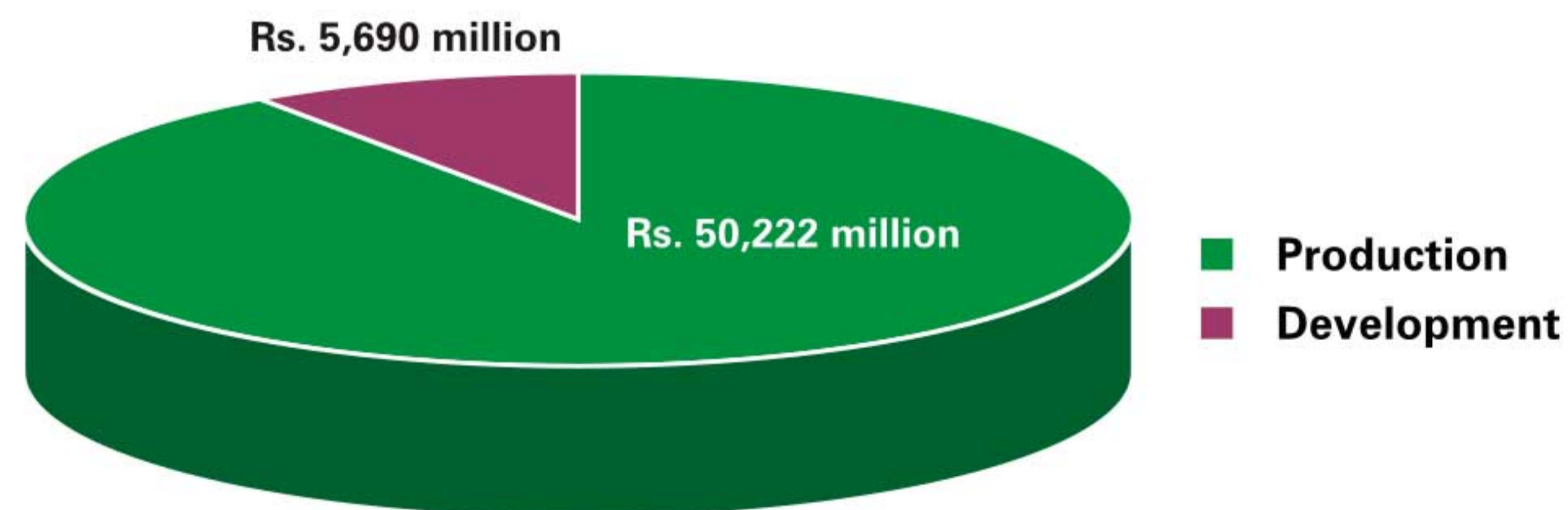
increased to 475,756 during the year 2007 from 443,874 in 2006.

The impact of quantum increase in ZTBL credit is visible from harvest of bumper wheat and sugarcane crops during the period under review. The Bank managed the funds availability from its own resources through boosting recovery and recycling the recovery proceeds for increased disbursements.

#### 1.1 Purpose-wise Disbursement of Loans

The Bank advanced Rs.50,222 million for production purposes during 2007 against Rs.47,786 million disbursed in 2006 registering a growth of 5.1%. Item-wise distribution of production loans includes Rs.24,106 million for fertilizers, Rs.14,062 million for improved seeds and Rs.9,542 million for pesticides etc. Bank also provided loans for working capital for poultry, fisheries, livestock and dairy which were Rs.106 million, Rs.54 million, Rs.11 million and Rs.7 million respectively. The share of production loans to total agricultural loans was 89.8%. Details are given in statistical table No.3.6 annexed.

Disbursement for development purposes amounted to Rs.5,690 million in the year 2007 against Rs.4,735 million disbursed during the previous year. Out of this amount, Rs.3,478 million were disbursed for financing of 10,275 tractors, Rs.178 million for installation of 1,218 tubewells, Rs.61 million for farm equipment, Rs.66 million for godowns/cold storages, Rs.5 million for land development and Rs.6 million for orchards. Bank also disbursed loans for the establishment /replenishment of dairy farms, livestock farms and poultry farms amounting to Rs.1,520 million, Rs.300 million and Rs.9 million respectively. Detail is given in statistical table No.3.6 annexed.



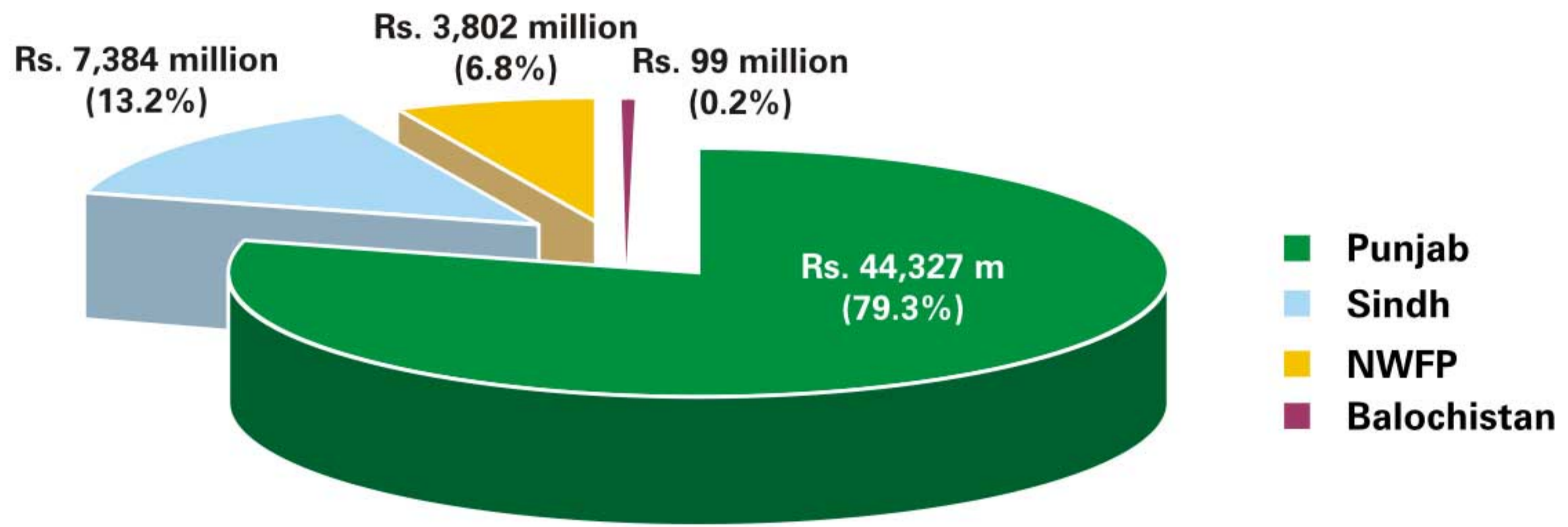
Purpose-wise disbursement of loans



**1.2 Province-wise Disbursement of Loans**

The pattern of disbursement in different areas is almost proportionate to the agriculture potential of respective provinces/areas. Accordingly, during the year 2007, the Bank disbursed Rs.44,327 million (79.3%) in Punjab, Rs.7,384 million

(13.2%) in Sindh, Rs.3,802 million (6.8%) in NWFP, Rs.99 million (0.2%) in Balochistan, Rs.131 million (0.2%) in AJK and Rs.168 million (0.3%) in the Federally Administered Northern Areas. Detail is given in statistical table No.3.2 annexed.



Province-wise disbursement of loans

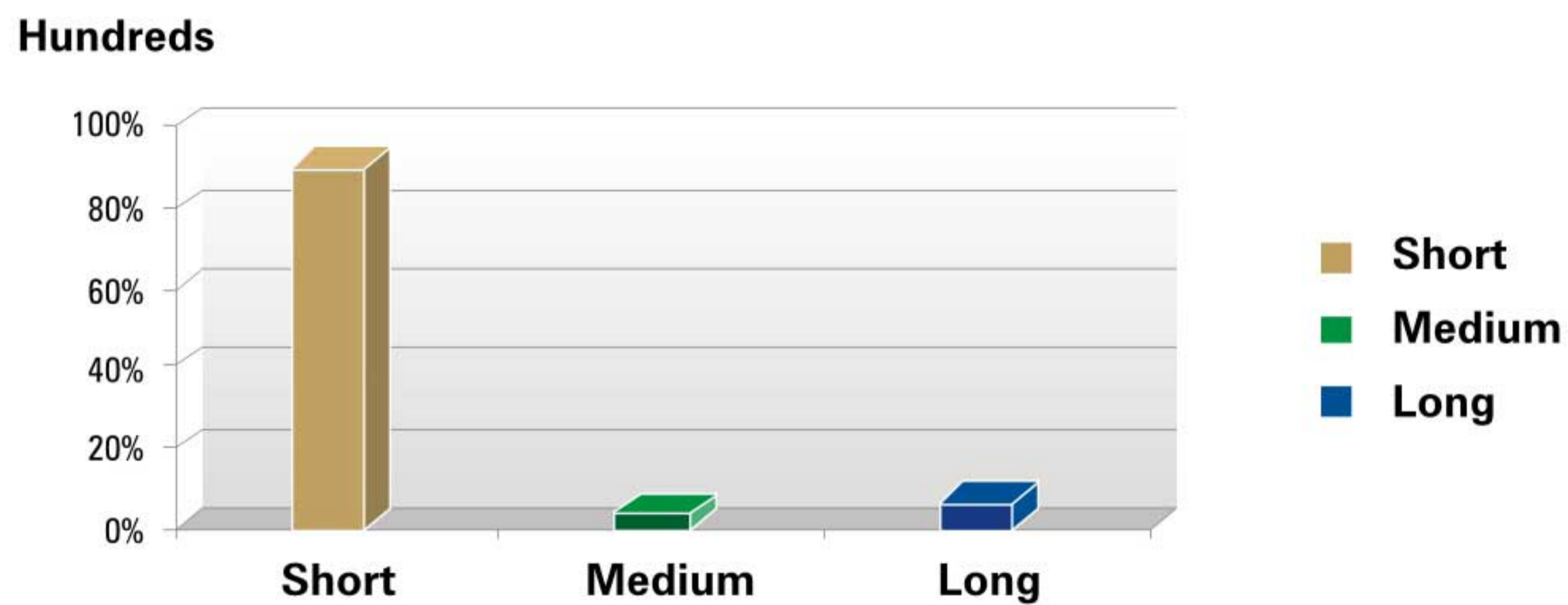
**1.3 Term-wise Loan Disbursement**

The Bank provides loans on short, medium and long terms basis. Short term loans are basically production loans having maturity period of upto 18 months. Medium and long term loans are advanced for development purposes and their

maturity period spread over 5 to 8 years respectively.

Term-wise loan amounts are given below:

Short term loans	Rs. 50,222 Million	(89.8%)
Medium term loans	Rs. 1,892 Million	(3.4%)
Long term loans	Rs. 3,798 Million	(6.8%)



Term-wise loan disbursement

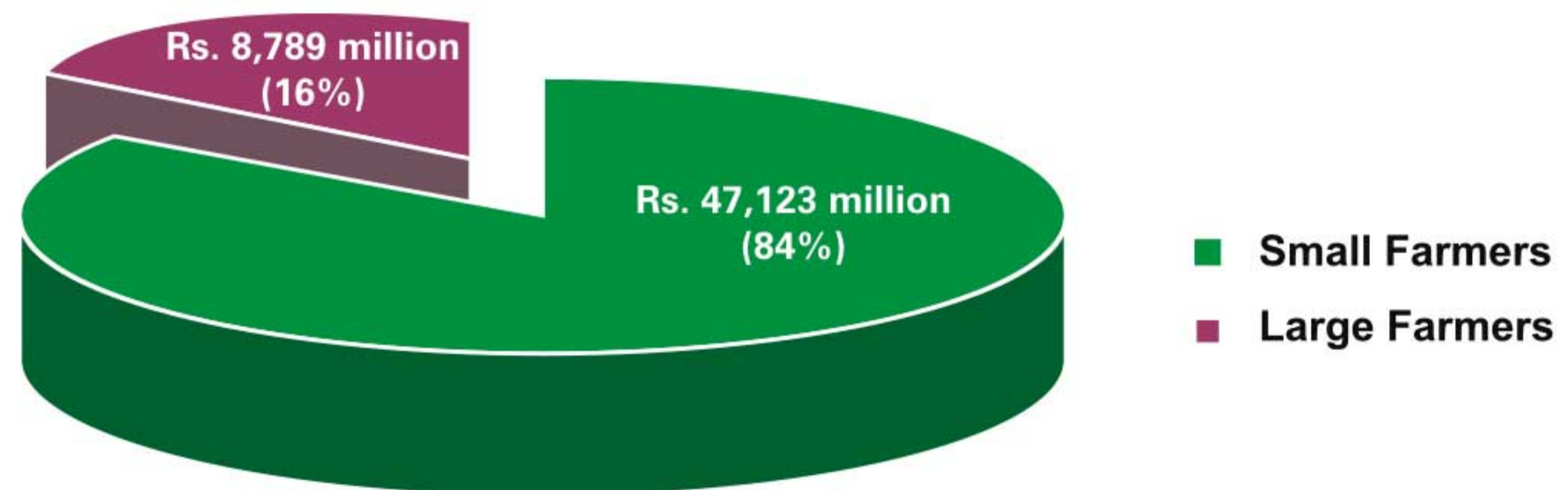




#### 1.4 Loans to Subsistence and Small Farmers

The majority of farmers in Pakistan operate small holdings. The small farmers owning farms upto 25 acres, constitute 94 percent of total farms. The Bank has been channelizing bulk of its credit for subsistence and small farmers. Timely provision of adequate credit to this segment of farming community has proved instrumental in increasing farm productivity and income level.

During the year 2007, the small farmers having land up to 25 acres, had a share of 84 percent as an amount of Rs.47,123 million was disbursed to them out of the total disbursement of Rs.55,912 million. Of this, an amount of Rs.34,715 million was channelled to subsistence farmers constituting 62 percent of the total agricultural credit disbursed by the Bank. Year-wise disbursement to small and subsistence farmers is given in statistical table No.2 annexed.



Disbursement to Farmers

#### 1.5 Holding-wise Disbursement of Loans

Holding-wise disbursement of loans during 2007 revealed that land-less population received Rs.131 million which was 0.2% of the total disbursement. Loans to land owners/operators under 12.5 acres amounted to Rs.33,815 million representing 60.5% share in overall disbursement. Farmers owning/operating land between 12.5 and 25 acres received Rs.13,176 million constituting 23.5% share. It was followed by Rs.5,795 million (10.4%) disbursed to farmers with land holding between 25 and under 50 acres. Rest of the credit amounting to Rs.2,995 million (5.4%) was disbursed to land holders operating farms of 50 acres and above. Details are given in statistical table No.3.8 annexed.

#### 1.6 Size-wise Composition of Loans

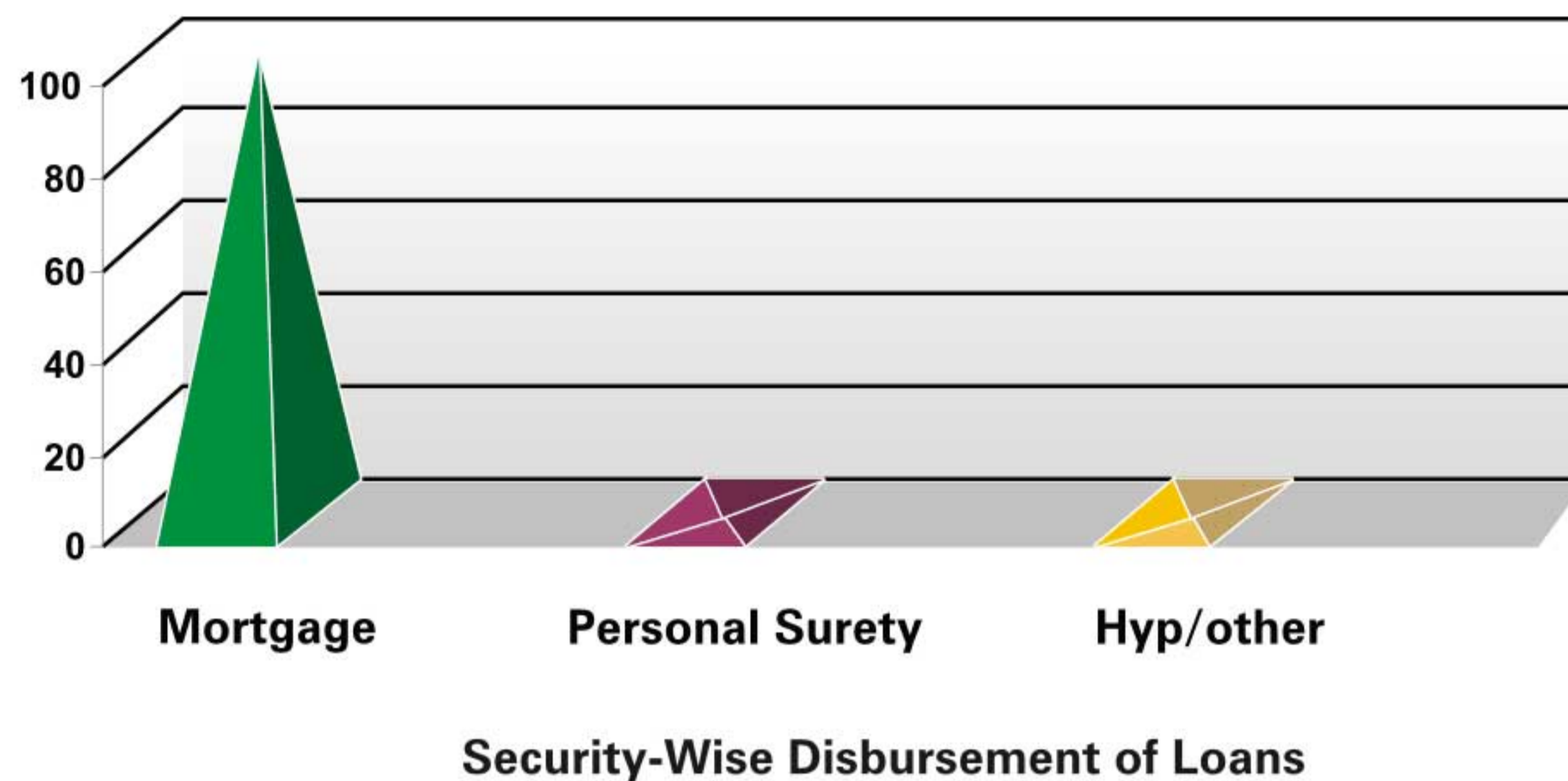
Composition of credit disbursement by size of loan during the period under review revealed that loans availed up to Rs.25,000 constituted only 1% of the

total credit, loans between Rs.25001 to Rs.50,000 were 5.7%, loans between Rs.50,001 to 200,000 were 38.4%, between Rs.200,001 to 500,000 constituted 38.5% and above Rs.500,000 constituted 16.4% of the total credit. The average loan size was Rs.117,522 during the year 2007. Details are given in statistical table No.3.7 annexed.

#### 1.7 Security-Wise Disbursement of Loans

Security-wise composition of total loans indicates that loans amounting to Rs.55,721 million, constituting 99.7%, were secured against pledge/mortgage of tangible securities. Loans amounting to Rs.115 million being 0.2% were disbursed against personal surety while loans amounting to Rs.76 million being 0.1% were advanced against hypothecation of crops and other securities. Details are given in statistical table No.3.4 annexed.





### 1.8 Zarkhaiz Scheme (One Window Operation)

ZTBL continued its expeditious delivery of credit to farmers with special focus on subsistence and small farmers through One Window Operations. This programme has established its importance by witnessing tremendous strength in timely channeling of production loans to small farmers, which contributed significantly towards increasing farm production.

The programme is conducted by the Bank in coordination with the Provincial Revenue Department and Pakistan Post Office once a week on Monday for Rabi crops during the period from October to January and for Kharif crops from April to September each year. Under "One Window Operation" loans are processed on the spot and sanctioned in the branches within 3 days.

### 1.9 Sada Bahar Scheme/Revolving Finance Scheme

For providing timely input loans for crops and working capital for dairy, poultry and fisheries, the Bank has launched a Sada Bahar Scheme. Assessment for inputs requirements for the whole year is made at the time of first application. The amount so assessed is treated as Revolving Limit provided it is within the security limit. For repeat loans, fresh investigation/appraisal is not necessary. The Managers are authorized to

sanction such loan limits within their loan sanctioning powers and renew the same even if previously it was sanctioned by the higher authority. Under these schemes, an amount of Rs.50,062 million was disbursed during the year 2007 inclusive of Rs.13,945 million disbursed under one window operations.

### 1.10 Crop Maximization Project

Ministry of Food, Agriculture & Livestock (MINFAL) launched an integrated development programme entitled "Crop Maximization Project (CMP)" in 15 districts of the country in the year 2003. The project aimed at providing inputs for crops through Revolving Fund for the financial assistance of the farmers in the project area. Under an agreement, the MINFAL will provide funds to the tune of Rs.299.893 million to ZTBL for onward lending to the project farmers to meet the input requirements for various crops. ZTBL will revolve these funds to look after the credit needs for inputs of the project farmers up till 30th June, 2014.

During the year under review, the Bank provided an amount of Rs.143 million to the farmers of project area whereas progressive loans disbursed amounted to Rs.495 million at the end of year 2007. An amount of Rs.381 million has been recovered since inception of the project.

The following table summarizes the progress under the programme till the end of year 2007:

(Rs. Million)

Category	2003	2004	2005	2006	2007	Total upto 31.12.2007
Disbursed	31.161	93.301	99.403	128.048	143.322	495.235
Recoverable		66.366	91.861	153.803	118.298	397.242
Recovered		62.111	84.475	132.358	102.249	381.193
Recovery (%)		94%	92%	86%	86%	96%

### 1.11 Revisions/Improvements in Credit Policy and Procedures

Major improvements/relaxations introduced for achievement of credit volumes and coverage of greater number of farming population are briefly described as under:-

- The PIU rate has been increased from Rs.400/- to Rs.1200/- per PIU while valuing the land under Pass Book System. This would help increase the flow of agricultural credit to the agricultural community.
- In order to improve recovery position of the Bank it has been decided to get post-dated cheques equal to the number of installments from the borrowers at the time issuing demand drafts in tractor cases only. This would be in addition to existing recovery measures being adopted by the branches.
- Business operations were almost at stand-still in the branches of Karachi Zone. A financing package for all the branches of Karachi Zone has been circulated which would accelerate the pace of financing for fisheries, dairy and poultry farming.
- In SAM loan cases it has been decided that amounts of fresh loans would not exceed 75% of the recovery effected with effect from 01.07.2007 and onward in charged off cases (SAM loans). This would increase the recovery from SAM loans and reduce its loan portfolio.
- In the light of SBP instructions a circular has been issued providing therein, that complete disclosure of Bank charges including rate of mark-up on loan without change (during the currency of loans) and return on deposit would be made while processing the loan proposals of the borrowers.
- With a view to increase the flow of credit against the security of building and due to escalation of prices, maximum ceiling for valuation of buildings offered in security, has been revised.
- Maximum per acre credit limit has been fixed for 'lucern' and 'shaftal' minor crops which would help to accelerate the pace of development of livestock and dairy sector in the country.



### 1.12 Farm Mechanization and Technology Dissemination

Zarai Taraqati Bank Limited (ZTBL) attaches high priority to modernization and promotion of Farm Mechanization. The Bank played a leading role in bringing additional land under cultivation through financing of wide range of machinery including tractors, tubewells, farm implements, threshers, combine harvesters etc. which directly helped in increasing yield besides improving the efficiency of other farm activities.

To enhance farmers' awareness and to provide guidelines to bank's field functionaries regarding modern farm technologies, the economics/feasibilities were prepared on various investment schemes. These include Economics of Inland Fish Farming, Feed Lot/Fattening Station (25 Animals), Rearing of 25 Heifers (Female Calves of Buffaloes), Animals Breeding Centre, Different sizes of herd of Sheep/Goat Farming, Mobile Veterinary Clinic, Laser Land Leveler, Cotton, Lucern and Shaftal crops, Arboriculture, Production & Seasonal Loans, Development Loans, Tea Processing Plant & Equipments, Sunflower and Canola crops.

The Bank prepared and published brochures /leaflets on Dairy Farming in Pakistan (White Revolution), Silage for Livestock & Dairy Animals, Sheep & Goat Farming, Wheat Cultivation, Rice Cultivation, Sugarcane Cultivation, Maize Cultivation, Grain Cultivation, Masoor Cultivation, Mung Cultivation, Groundnut Cultivation, Sairab Pakistan, Multi Crop Planter and Trouble Shooting in Turbine Pumps & their Remedies.

The Bank arranged farm visit for 490 students of different Agriculture Universities/Institutions and 30 farmers and provided counseling services to them.

## 2. Innovative Schemes

### 2.1 White Revolution:

Under the White Revolution Scheme two Strategic Partnership Agreements have been executed between ZTBL and M/s Nestle Pakistan Limited and M/s Pakistan Dairy Development Company. Under this participatory approach dairy sector would be modernized with a view to increase milk supply, mitigate poverty and improve the living standard of the rural population. The Bank has earmarked funds to the

tune of Rs.5,000 million for financing of 50,000 animals (buffaloes and imported cows) during the five years period 2007-2011.

M/s Nestle Pakistan would help to select and identify good clients for the Bank to improve quality breed of foreign and local dairy animals. Technical guidance would be provided to the farmers through Nestle Veterinary Doctors. Nestle would purchase milk through its network and make weekly payment of milk sale to the Bank for the adjustment of loan.

M/s Pakistan Dairy Development Company will also help the Bank in the selection of clients and processing of loan cases. Initially the scheme will be for modernization of 5000 farms during 5 years period involving Rs.700 million. Under the scheme 1000 farms would be covered on yearly basis. There would be maximum loan limit of Rs.1 million per borrower/party.

### 2.2 Sairab Pakistan Scheme

Water plays vital role in improving per acre yield. Out of total 31 million hectares area of Pakistan, 22 million hectares are cultivated while 9 million hectares are culturable waste mainly due to non-availability of water. Moreover, increase in water supply being a key input is required to raise cropping intensity and enhance the income of the farmers. Since inception, ZTBL has financed over 144,013 tubewells by disbursing over Rs.14,650 million. For raising irrigated area to accelerate the economic growth and to facilitate the farmers, ZTBL has signed collaboration agreement with M/s KSB Pumps Company Limited. ZTBL will provide loans to farmers for installation of Tubewells/Turbines whereas KSB Pumps Company will provide quality Pumps/Turbines/Equipments to borrowers for efficient pumping of water.

### 2.3 Red Meat Financing Scheme

In line with the policy of Government for accelerated development of livestock sector, the Bank has announced a Red Meat Financing Scheme for fattening/rearing of sheep/goat. This scheme will address the credit needs of livestock farmers especially the small farmers. Initially the scheme is implemented in Multan, Faisalabad, Dera Ghazi Khan, Dera Ismail Khan, Bhakkar, Nawabshah, Dadu, Sukkur, Peshawar, Lasbella, Loralai and Khuzdar Districts Branches having



good potential and repayment culture. The loans are advanced @ Rs.5000/- per Sheep/Goat, Rs.3500/- for Teddy Goat and Rs.1200/- per Kid (Sheep/Goat). Rearing expenses are borne by the borrowers from their own resources.

#### 2.4 Tea Financing Scheme

In its pursuit to promote the cultivation of high value/import substitution crops in Pakistan, the Bank has started financing of Tea Cultivation in District Mansehra, Swat, Matta, Shangla and Dir in Malakand Division. Tea cultivators would not only save the hard earned foreign exchange but would also help improve the socio-economic conditions of the inhabitants of the area. During the year 2007, an amount of Rs.0.449 million has been provided to 22 growers.

### 3. Recovery Operations

During the year 2007, ZTBL attained an all time record recovery of Bank's dues with the untiring efforts, hard work and devoted involvement of its staff. It recovered Rs.58,080 million as compared to Rs.49,156 million during the previous year showing an increase of Rs.8,924 million and growth of 18.2%. The Bank also recovered an amount of Rs.5,078 million out of SAM portfolio during the year 2007 compared to Rs.2,858 million recovered during the year 2006, thus making more funds available for farm credit.

The prominent features of higher recovery during the year were the effective mobilization of MCOs, daily/weekly monitoring of recovery by the Branch Managers, Zonal Chiefs and by the Head Office. This level of recovery was achieved in spite of hindrances during the period such as cyclone in the costal areas, heavy rains in Balochistan Province and relief packages for ZTBL borrowers. Aftermath of assassination of Ex-Prime Minister of Pakistan on 27th December, 2007, resulting in law and order situation in the country and closure of Banks during peak recovery days of the closing month, also adversely impacted Bank's recovery efforts.

### 4. Deposit Mobilization

The Bank raised deposit of Rs.4,323 million as on 31.12.2007 compared to Rs.2,882 million as on 31.12.2006, thus adding to its financial viability for providing extended banking services for the customers particularly rural clientele.

To broaden the base of deposits and strengthen

the Bank's operational viability during the year 2007, it launched several Deposit Mobilization Schemes to give incentive to depositors in the shape of free of cost ancillary financial services.

### 5. New Initiatives

To strengthen the Bank's operational viability and to accelerate the pace of business of the Bank on commercial lines, the Bank's management has taken major initiatives to introduce diversified schemes. Two deposit products viz Zarai Bachat Account and Zarai Term Deposit Schemes were launched, having better annualized rate of return and customized features. Another land mark was achieved by introducing safe deposit lockers facility in major cities across the country. These facilities endeavour to achieve market penetration for ensuing commercial banking activities.

The Bank plans to launch evening banking facilities at designated branches in early 2008 in order to survive in the competitive financial services market. ZTBL also plans to enter into strategic partnership with an organization of international repute on fund remittances to facilitate its clients as well as general public.

Agriculture is exposed to weather vagaries and other risks which direly require an insurance cover. In order to mitigate these risks of the farming community, and in line with the agricultural policy guidelines of State Bank of Pakistan, ZTBL intends to launch a new Insurance Scheme for its borrowers in dairy, tractor/farm machinery and crop production sectors. A proposal for arranging life insurance of Bank's borrowers is also under consideration. The insurance products have been designed keeping in view the nature of ZTBL's clientele, with simple and straight forward claim procedures and based on competitive premium rates. The insurance schemes are aimed at mitigating the risk of the borrower's assets created out of Bank's loan, protection of losses to the borrowers, thus enabling them to concentrate on increasing production for attaining self sufficiency.

### 6. Internal Audit

In accordance with the provisions of Code of Corporate Governance, the Internal Audit Division with functional reporting to the Audit Committee of Board of Directors is functioning in ZTBL. Internal Audit Division consists of three Departments at Head Office and six Audit Zones in the field. The Audit Zones in the field are working with 25 Audit



Teams. The Audit Teams conduct audit of 100% activities transacted at branches and SVP/Incharge of Audit Zone conducts the audit of Zonal Offices to safeguard Bank's interest.

Internal Audit System of ZTBL was revamped and a modified internal audit system was launched. In order to enhance capacity and capability of Audit officials and to enforce compliance of code of ethics, for the first time, Inter province and Inter Zone mixing and mobility of Audit Team members was arranged. True principles of internal auditing i.e. independent, objective assurance designed to add value and improve organization operation were implemented in Internal Audit System of ZTBL. Internal Audit System was made more documented by issuance of Audit Memos on daily basis, on-site reminders to Zonal Chief concerned about un-attended audit observations, recording of points of contest & minutes of discussion on draft audit report. Besides more emphasis was given to rectification of irregularities on-site instead of piling up of audit paras. Permanent Audit Files were maintained. Annual Quality Assurance Review and Annual Audit Workshops were conducted. Compliance of Code of ethics while conducting audit was enforced. Therefore, whole system was made transparent, effective with the mission of Add-value. Automation was initiated in Internal Audit System. Computer proficiency of Audit Teams was enhanced through effective computer training and use of Laptop in conduct of audit.

The above measures provided fruitful results and Audit Teams managed a recovery of Rs.60 million due to rectification of irregularities on the spot. Audit Teams made spot rectification of 31,701 irregularities out of 40,462 irregularities raised during the conduct of audit with on spot settlement ratio of 78%. Corporate Audit Department initiated the audit of Head Office Departments wherein true principles of Management Audit were adopted in the conduct of Audit.

## 7. Compliance Programme

Compliance Programme in ZTBL aims at ensuring compliance with the Bank's instructions, SBP regulations, relevant provisions of local laws etc. with a view to minimize legal and regulatory risks. The compliance function has been strengthened to augment internal monitoring and control for improving the effectiveness of Bank's policies and procedures.

Compliance Department with three allied Units has been set up at Head Office. Moreover, Compliance Units have been established initially at twelve selected Branches in the field. The restructured compliance set up enables better supervision for accomplishment of Bank's operational goals. The compliance programme will be extended to more branches during 2008.

## 8. Human Resource Development

The Bank continued its efforts to upgrade its professional competence and management capabilities of officers and staff by arranging various operational and functional courses. During the year 2007, 20 courses were conducted and 563 officials were trained in Bank's Staff Colleges at Islamabad and Karachi. These included 2 Basic Training Courses for New Inductees, 8 Basic Training Courses for Clerical Staff and 5 One day Workshops for Audit Personnel. Locker Cabinet Training Course was conducted at Staff College, Islamabad which was the first ever of its nature in the history of the Bank, as ZTBL introduced Locker Cabinet facility to its customers and the public in twelve branches of ten selected Zones. IT training of 1089 employees of the Bank from field offices was arranged to familiarize them with basic computer concepts. Moreover 109 Officials were trained in other training Institutions of the country i.e. IBP, PIM, PMI, etc.

The Bank has recently initiated the process of induction of Management Trainee Officers on contract basis. These MTOs will be posted in areas of skill deficiency.

## 9. Information Technology

The Bank continued to deploy the latest information and communication technology tools to enhance the quality, efficiency and speed of services to improve the operations. The most notable highlights of the delivered solutions are as follows:

- For data transmission from field to Head Office through telecommunication lines, ISD successfully deployed the Wide Area Network(WAN) between the Head Office and the 25 Zonal Offices around the country. WAN facility was also extended to two computer centres located at Gilgit and Chitral. This has reduced the delivery time of data from the Zonal Office to Head Office and a lot of improvement has been witnessed in meeting the various reporting deadlines of State Bank of Pakistan.



- To enhance efficiency of inter-office communication, ISD successfully extended the E-mail facility at the Head Office as well as the Zonal Offices which has improved the quality and speed of communication between these offices.
- ISD provided latest hardware including Personal Computers to all field offices across the country which has given impetus to the modernization and automation of Bank's Operations.
- On the software front, a comprehensive branch-based Deposit Management System was developed under ORACLE that provides automation and control over the management and operations of the deposit products of the Bank. Other softwares developed include Non-Performing Loan System in the field, Software for White Revolution Scheme, SAM Reporting System, Payroll Management System, NADRA's CNIC Verification System, CPF/GPF System for Accounts, Performance Appraisal Module for HR, etc.

The Bank is constantly striving to acquire latest IT technology and products for its operations to compete with other institutions and to increase its foot-print in terms of market share. For this purpose, the Bank is actively pursuing the procurement of a centralized Core Banking Applications System and ERP Solution for its back office automation. Commercial Banking products to be introduced in future include ATMs, Credit/Debit Cards, Phone Banking, SWIFT, Messaging & Call Centres, Internet & Remote Banking Interfaced with Mobile or Palm Top Technology alongwith their respective infrastructure. These products will enable the Bank to automate the whole business process of Bank to offer on line Banking and Commercial Banking services to its customers.

### 10. Kissan Support Services (Pvt) Limited (KSSL)

The Kissan Support Services (Pvt) Limited was incorporated as a ZTBL's owned subsidiary with an authorized capital of Rs.100 Million fully subscribed by the Bank. It aims at providing support to ZTBL Management to focus on core banking business and assign non-core activities to its subsidiary. The KSSL is to provide all kind of support services to ZTBL and may undertake any

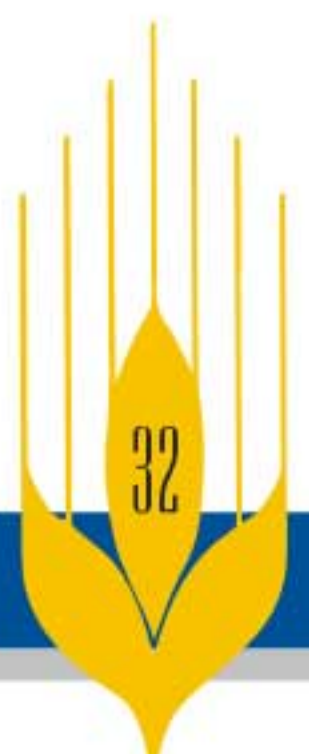
type of non-banking business under the mandate of its Memorandum and Articles of Association. The KSSL has so far provided support services to ZTBL in the following areas:-

(i) The KSSL has recruited and deployed support staff of following categories in ZTBL, Head Office as well as in the field offices:-

Sr. No	Category of Employees	No. of Employees
1.	Darbans and Armed Guards	526
2.	Drivers	291
3.	Naib Qasids	54
4.	Mali/Beldars	25
5.	Typists, Assistants and Sr. Assistants	41
6.	Security Supervisors	03
7.	Sweepers	07
8.	Players	20
9.	Others	15
	<b>TOTAL:</b>	<b>982</b>

(ii) Besides manpower support services, KSSL has also provided following support services to ZTBL:-

- Janitorial Services
- Mail Management Services
- Repair & Maintenance Services
- Photocopying Services
- Sports activities: Cricket & Shooting Ball Teams
- SAM Loan Recoveries
- Security services both at ZTBL, Head Office and its field offices all over the country.



*Directors'*  
REVIEW





## Directors' Review

On behalf of the Board of Directors, I am pleased to present the Annual Report of the Zarai Taraqati Bank Limited (ZTBL) along with the Audited Accounts and Auditors' Report thereon, for the year ended December 31, 2007.

## The Economy of Pakistan

Pakistan's economy continued to maintain its growth momentum in the fiscal year 2006-07. The real GDP grew at 7 percent in 2006-07 as against 6.6 percent during the previous year. Agriculture sector, which remains the single largest contributor to the national economy, attained impressive growth of 5 percent in 2006-07 as compared to preceding year's growth of 1.6 percent. This was primarily due to a strong performance of the crop sector. Record growth of two major food crops i.e. wheat and sugarcane was witnessed during fiscal year 2006-07. This achievement is primarily attributable to the facilitation provided to the farming community, in addition to timely provision of agricultural credit and technical assistance.

## Bank's Operations

Government's agricultural policy encompasses areas like sustainable food security, increase in crop production, import substitution, export orientation and regeneration of agriculture business. ZTBL, in its endeavors to augment Government efforts to achieve self sufficiency in food and marketable surplus in agriculture, has geared up its efforts for delivering high quality, viable and timely financial services to the agriculture sector.

During the year 2007, the Bank continued to push forward its on-going programmes relating to provision of credit to target groups covering landless, subsistence and small farmers to help increase their productivity as well as income level. The Bank once again achieved outstanding results during 2007 and registered a substantial growth in its Disbursement, Recovery Operations and Profitability.

The most positive indicator of operational performance during the year 2007 was the enormous increase in volume of recovery. All time high recovery of Rs.58,080 million was effected with a significant growth of 18% as against Rs.49,156 million recovered during the previous year. An additional amount of Rs.5,078 million was

also recovered out of SAM loans during the year as compared to Rs.2,858 million in the year 2006 thus making more funds available for farm credit.

The Bank's disbursement reached new heights when it touched the mark of Rs.55,912 million during the year under review representing a 6.5% growth over the previous year. The Bank substantially enhanced its outreach by increasing the number of borrowers served to 475,756 through various schemes including Zarkhaiz (One Window Operation) and Sada Bahar Scheme (Revolving Finance Scheme). The Bank channelized bulk of its credit to small farmers who constitute backbone of the agriculture sector of the country. Accordingly, the Bank has maintained its position as the main source of institutional financing in the agriculture sector.

The Bank focused on increase in farm production by exploiting the full potential of land resources with appropriate use of agricultural inputs, tillage practices and water management techniques, and channeled major portion of its funds towards production loans. This is evident from the disbursement of Rs.50,222 million made for production purpose during this year as compared to Rs.47,786 million disbursed during last year exhibiting a growth of 5.1%.

Development loans were provided to the farmers for medium and long term investment categories. During the period under review an amount of Rs.5,690 million constituting 10.2% of the total agricultural credit was disbursed under medium and long term loans. The development loans were mainly utilized for tractors, farm mechanization, tubewells, dairy farming and poultry farming etc. The Bank financed 10,275 tractors with a total disbursement of Rs.3,478 million, besides disbursing an amount of Rs.61 million for farm equipments/farm mechanization and Rs.178 million for installation of 1,218 tubewells to meet out the requirement of water for irrigation purposes.

In order to modernize dairy farming and to mitigate poverty in the country, a strategic partnership between ZTBL and M/s Nestle Pakistan Limited has been agreed upon. The Bank has earmarked funds to the tune of Rs.5,000 million for financing of 50,000 animals (buffaloes and imported cows) during the five years period 2007-2011. Moreover, an agreement has been signed with M/s Pakistan



Dairy Development Company and funds amounting to Rs.700 million have been allocated for modernization of 5000 farms over a period of five years, i.e. 1000 farms per year.

Shortage of water in the agriculture sector has been a major obstacle in development of the sector. Extension of credit for irrigation can alleviate water shortage to some extent. For raising irrigated area to increase production, the Bank has also signed an agreement with M/s KSB Pumps Company Ltd. with a view to facilitate the farmers for availing finances for tubewells and turbines.

### Future Outlook

In order to accelerate the pace of business of the Bank on commercial lines, the Bank's management has taken major initiatives to introduce diversified schemes. Two deposit products viz Zarai Bachat Account and Zarai Term Deposit Scheme were launched, having better annualized rate of return and customized features. Another land mark was achieved by introducing safe deposit lockers facility in major cities across the country. These facilities endeavour to achieve market penetration for ensuing commercial banking activities.

The Bank plans to launch evening banking facilities at designated branches in early 2008 in order to survive in the competitive financial services market. ZTBL also plans to enter into strategic partnership with an organization of international repute on fund remittance to facilitate its clients as well as general public.

Agriculture is exposed to weather vagaries and other risks which direly require an insurance cover. In order to mitigate these risks and in line with the agricultural policy guidelines of State Bank of Pakistan, ZTBL intends to launch a new Insurance Scheme for its borrowers in dairy, tractor/farm

machinery and crop production sectors in near future.

The Bank has recently initiated the process of induction of Management Trainee Officers (MTOs) on contract basis. These MTOs will be posted in the areas of skill deficiency.

A major effort is under-way to automate the whole business operations of ZTBL with the assistance of



Asian Development Bank. A Core Banking Application System (CBAS) has been conceived to enable the Bank to offer on-line Banking Services and Commercial Banking products to its clientele. These products include ATMs, Credit/Debit Cards, Phone Banking, SWIFT, Messaging & Call Centres, Internet & Remote Banking Interfaced with Mobile or Palm Top Technology, alongwith their respective infrastructure.

To boost the morale and to motivate the Bank employees, numerous benefits were given to Officers and Staff during the year 2007, including increase in salary as well as record number of promotions. It is assured that the process of meritorious promotions and other incentives will continue in the coming year also so that the hard working Officers and Staff of the Bank feel encouraged and motivated to deliver.



## Bank's Operations

(Rs. million)

PARTICULARS	2005	2006	2007	Growth over 2006
<b>A. Disbursement</b>				
1. Total Disbursement	39,356	52,521	55,912	6.5%
a. Production Loans	33,415 (84.9%)	47,786 (91.0%)	50,222 (89.8%)	5.1%
b. Development Loans	5,941 (15.1%)	4,735 (9.0%)	5,690 (10.2%)	20.2%
2. Share of Small Farmers (Under 25 Acres)	33,551 (85.3%)	44,330 (84.4%)	47,123 (84.3%)	6.3%
3. Number of Borrowers Served	441,536	443,874	475,756	7.2%
<b>B. Recovery Operation</b>				
Total Amount Recovered	42,144	49,156	58,080	18.2%

### State Bank of Pakistan (SBP) Debt Pricing

The total outstanding borrowings from State Bank of Pakistan stood at Rs.51,257 million and subordinated debt at Rs.3,204 million as on 31st December, 2007. The Bank has submitted a proposal to SBP for restructuring the debt which is repayable in 15 equal annual installments commencing from 2006 onwards with the provision to make repayment of the subordinated debt in the last installment and rate of mark-up to be pegged at weighted average yield of 12 months Treasury Bill rate of 2.3558% per annum as per treasury bill auction dated June 12, 2003 and capped at the aforesaid mark-up rate for an initial period of five years.

SBP has agreed with proposed terms except the proposed capping of mark-up rate which has been fixed on last auction weighted average yield of Govt. Treasury Bill of 12 months maturity on floating basis and repayment of SBP Debts in 15 years in 30 bi-annual installments with a grace period of three years starting from July, 2003 i.e. the period of 15 years for repayment of SBP Debts will start from July, 2006. The subordinated debt of Rs.3,204 million shall be repaid in the last installment. In view of the critical importance of debt pricing for future financial viability of the Bank, the matter has been referred to MOF for a

considered Government decision.

In the meeting held on January 16, 2008 between the representatives of Ministry of Finance, the Bank and the State Bank of Pakistan and also in meetings held thereafter, it has been resolved that SBP in consultation with the Bank and MoF shall firm up proposal regarding SBP's debt on priority basis which shall cover both pricing and repayment of principal debt. At present the matter is being examined at the level of SBP and the Bank.

### Reconciliation of Inter-branch Transactions

Reconciliation of Inter-branch Transactions is in process and it is expected that with the implementation of Core Banking Application System, timely reconciliation within 30 days as required by the Prudential Regulations will be ensured.

### Financials

The Capital Adequacy Ratio stood at 24.5% on December 31, 2007 as against required ratio of 8%. The Bank earned a record pre tax profit of Rs.1,784 million and bad debts were adequately provided for during the period under review. The Bank was able to mobilize upto Rs. 4,323 million as on 31.12.2007 in terms of deposits.



Financial highlights are summarized below.

(Rs. million)

Particulars	2005	2006	2007
1. Total Assets	82,505	85,467	93,386
2. Advances – net	52,925	60,839	61,313
3. Cash & Bank Balance	9,399	9,076	14,047
4. Operating Fixed Assets	690	817	865
5. Share Capital	11,870	11,870	11,870
6. Deposits	2,645	2,882	4,323
7. Total Income	7,661	11,519	12,756
8. Total Expenses	7,752	10,872	10,972
<b>Appropriations</b>			
Profit/(Loss) before Taxation	(91)	647	1,784
Taxation	38	227	751
After Tax Profit/(Loss)	(129)	420	1,033
Un-appropriated Profit brought forward	862	702	1,008
Profit available for Appropriation	732	1,122	2,041
Transferred to Statutory Reserve (20% of after tax profit)	-	84	207
Transferred to Contingencies reserves	30	30	-
Un-appropriated Profit Carried forward	702	1008	1,834

### Share Holding of ZTBL

Authorized Capital of Bank is Rs.25,000,000,000/- divided into 2,500,000,000 ordinary shares of Rs.10/- each. Paid-up capital is Rs.11,869,612,010. Pattern of share holding as at 31.12.2007 is annexed.

The Share Capital of the Bank is not 50% of its authorized capital as required by Section 14(1)(i) of Banking Companies Ordinance, 1962. It has been decided to increase the Share Capital by Rs.652,828,660 by issuing 65,282,866 ordinary shares of Rs. 10/- each as bonus shares to the existing shareholders.

### Earnings per Share

During the year under review basic earnings per share was Rs.0.87 compared to Rs.0.35 in 2006. Its computation has been reported in the financial statements.

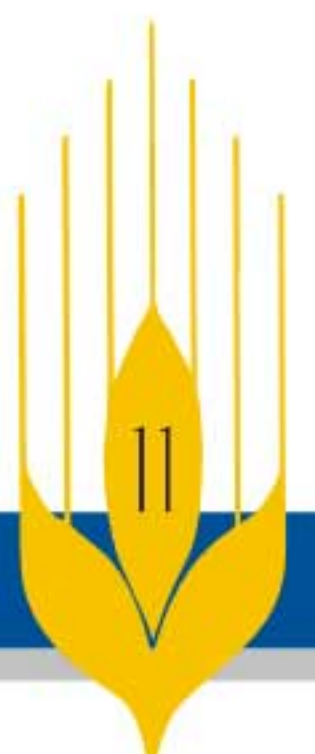
### Credit Rating

JCR-VIS Credit Rating Company, Karachi in its

report of July 07, 2007 has reaffirmed credit rating of the Bank at AAA/A-1+ (2006:AAA/A-1+) with stable outlook, medium to long term credit rating of B and short term credit rating of B. (2006, BB + medium to long term, B short term rating).

### Risk Management Frame Work

Risk Management is a dynamic process of identification, measurement, monitoring and controlling risks. The Office of the Risk Manager has been established in the Bank which reports directly to the President. In addition, a Board Risk Management Committee and Committees on Credit and Operational Risks have been set up separately to address issues relating to Credit and Operations. The Bank has gained significant momentum in dealing with issues of credit risk and operational risk management. The policies of the Bank have been broadened to align the risk management strategies with portfolio growth, operations and control as well as to comply with Basel-II standards.



### Risk Management Policy and Charter

The Risk Management Policy of the Bank encompasses a broader Risk Management Framework. At present Credit Risk is reviewed at the Bank level only. Credit portfolio, disbursement, recovery, security value, NPL & SAM are critically analyzed on a regular basis and risk gaps are reported to the Credit Risk Committee proposing appropriate steps to eliminate or minimize the risk gaps. Similarly in order to analyze issues related to Operational Risk, an Operational Risk Model has been developed which comprises Key Risk Indicators, Control Self Assessment and Corporate Governance. The model has been successfully implemented in 37 pilot branches of the Bank. The data of Operational Risk Model is collected and analyzed on monthly basis and risk gaps are evaluated by Operational Risk Committee for corrective measures. This model will be rolled out to the remaining branches of the Bank in a phased manner.

### Annual General Meeting

Fourth Annual General Meeting of the Bank was held on June 30, 2007.

### Code of Corporate Governance

The Board is fully aware of its responsibilities established by the Code of Corporate Governance issued by the Securities & Exchange Commission of Pakistan (SECP). The Directors are pleased to give following statement in respect of compliance with the Code of Corporate Governance:

- a) The financial statements, together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984.
- b) Proper books of accounts have been maintained.
- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) Approved International Accounting Standards have been followed in preparation of the financial statements.
- e) Internal Control is sound in design and has

been effectively implemented and monitored through out the year.

- f) The Bank has effective budgeting system in place. Annual budget is approved by the Board and comparison of actual results with the budget are periodically prepared and reviewed by the Senior Management.
- g) There are no significant doubts about the Bank's ability to continue as a going concern.
- h) Key operating and financial data is available in the Annual Report.
- i) The values of investment of General Provident Fund, Gratuity and Pension Fund are Rs.2187.172 million, Rs.1771.145 million and Rs.4171.675 million as on 30.06.2007.
- j) Annual income tax returns/cases for the financial year 2000 to financial year 2003 are under appeal with ITAT for their final decision. The liability appearing in the financial statement is subject to the decision by the ITAT.
- k) The major pre-requisites of the Code of Corporate Governance has been attained through the constitution of following committees:
  - Assets Liabilities Management Committee
  - Executive Co-ordination Committee

Sub committees of the Board were also constituted in the following areas:

- Human Resources Management Committee
- Risk Management Committee
- Audit Committee
- Committee on Information Technology

Details regarding constitution of the Committees /Sub-Committees are included in the report.



- i) Seven meetings of the Board were held during the year 2007. Attendance of the members remained as under:

Sr. No.	Name of Member	Designation	No. of Meetings Attended
01	Dr. Waqar Masood Khan	Chairman	06
02	Mr. R.A.Chughtai	President/Director	01
03	Mr. Mansur Khan	President/Director	07
04	Mr. Arif Mansur	Director	04
05	Mr. Mohammad Saleem Khan	Director	04
06	Syed Yawar Ali	Director	06
07	Mr. Aneeq Khawar *	Director	Nil
08	Ms. Rabia Sultan	Director	03
09	Mr. Muhammad Zakria Kasi	Director	06
10	Mr. Jan Ali Khan Junejo **	Director	02
11	Mr. Iskander Mohammad Khan**	Director	02
12	Mr. Ejaz Hussain Rathore **	Director	03
13	Mr. Muhammad Javed Malik **	Director	02

\*Resigned from the position on 25.07.2007.

\*\*Directors were inducted during the year.

### Statement of Internal Control

The Bank is placing increasingly greater emphasis on induction of an effective and reliable system of internal controls:

- i. An Audit Committee of the Board has been constituted with the objective of having a direct oversight responsibility to ensure independence of the internal audit functions and also the independence of external auditors. The Audit Committee meets at least once every quarter in accordance with Code of Corporate Governance.
- ii. In accordance with the provisions of the Code of Corporate Governance, the Internal Audit Division with functional reporting to the Audit Committee of Board of Directors is functioning in ZTBL.
- iii. The Bank's Internal Audit Division through its network audits each branch of the Bank on periodic basis.
- iv. The management proactively pursues the

rectification of the observations and weaknesses pointed out by internal and external auditors.

- v. The compliance function has been strengthened to augment internal monitoring and control for improving the effectiveness of Bank's policies and procedures.
- vi. The Bank has also initiated the process of revamping of its IT infrastructure and acquiring proper banking software/applications through Asian Development Bank's RFSDP support.
- vii. Requisite training of staff is also being planned after Training Needs Analysis (TNA) in order to train them on key regulatory and internal control requirements.

In view of the above, the management has a reasonable assurance that internal controls are in place and the key aspects are working.



**Auditors**

The auditors Messrs BDO Ebrahim & Co., Chartered Accountants and Hyder Bhimjee & Co., Chartered Accountants retired and offered themselves for re-appointment. The Board of Directors on the proposal of the Audit Committee recommended the re-appointment of the auditors for the coming year.

**Condolence**

On August 9th, 2007 Mr. Arif Mansur, nominee Director of Government of Pakistan and Secretary Privatization, died in a car accident in Saudi Arabia where he had proceeded to perform Umra. Mr. Arif Mansur, a seasoned and diligent public servant, was valuable Member of the Board, who contributed greatly to the development of the Bank. The Board and Staff of ZTBL pray that Almighty may grant him eternal peace and solace to his children and fortitude to his family to bear this irreparable loss, Aameen.

**Acknowledgement**

Finally I wish to express my sincere appreciation to the entire staff of the Bank at Head Office and in the field who have worked hard to produce tangible results to enable the Bank in attaining an impressive growth in all spheres of operations i.e. disbursement, recovery, deposits and profitability. It reflected the Bank's commitment towards uplifting of agriculture sector to help accelerate economic growth for eventually alleviating rural poverty. I take this opportunity to place on record my gratitude to Ministry of Finance, State Bank of Pakistan and SECP for their guidance and assistance extended to the Bank. In the coming year, the Staff will have to work even harder to develop and operate ZTBL as a proactive financial institution for sustainable financial growth leading to economic development.

For and on behalf of the Board

**Mansur Khan**

President ZTBL



## General Information

NAME	Zarai Taraqati Bank Limited
ADDRESS	1, Faisal Avenue, P.O.Box 1400, Islamabad
PRESIDENT / CEO	Mansur Khan
CHIEF FINANCIAL OFFICER	Abdul Ghaffar Bhatti
COMPANY SECRETARY	Muazam Ali
AUDITORS	Hyder Bhimji & Company, Chartered Accountants and BDO Ebrahim & Company, Chartered Accountants
AUTHORIZED CAPITAL	Rs.25,000,000,000/- divided into 2,500,000,000 ordinary shares of Rs.10/- each.

### SHAREHOLDING OF ZTBL

Authorized capital of Bank is Rs.25,000,000,000/- divided into 2,500,000,000 ordinary shares of Rs.10/- each. Paid-up capital is Rs.11,869,612,010. Pattern of share holding as at 31.12.2007 is as under:-

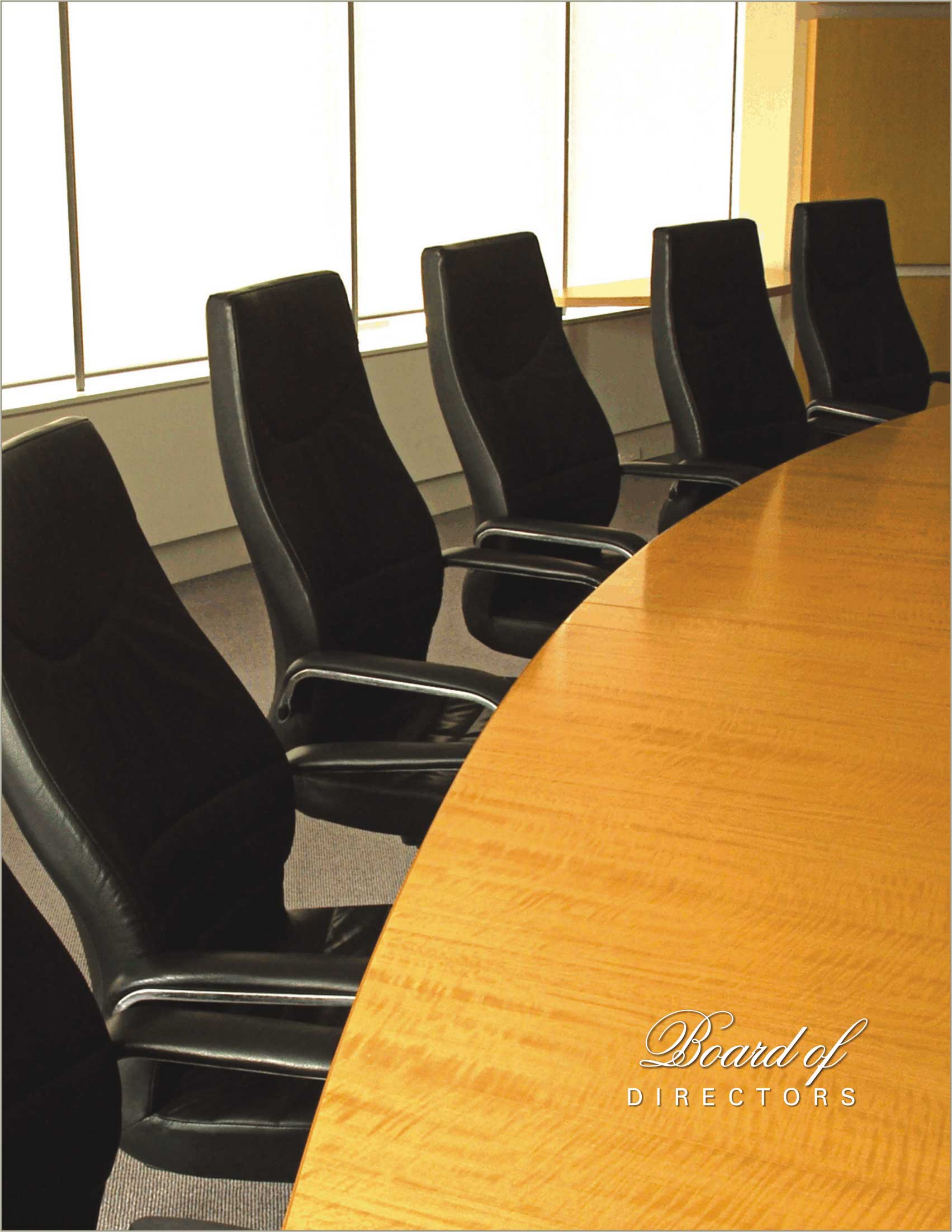
S No.	Shareholders	No. of shares	Amount (Rs.)
1.	Federal Government	1,185,961,201	11,859,612,010
2.	Government of Punjab	277,100	2,771,000
3.	Government of Sindh	119,000	1,190,000
4.	Government of NWFP	68,000	680,000
5.	Government of Balochistan	35,900	359,000
6.	Government of Erstwhile East Pakistan	500,000	5,000,000
	<b>Total:</b>	<b>1,186,961,201</b>	<b>11,869,612,010</b>



## HIGHLIGHTS OF ZTBL OPERATIONS

PARTICULARS	Amount (Rs. Million)
<b><u>A. DISBURSEMENT</u></b>	
<b>1. TOTAL DISBURSEMENT</b>	55,912
a. Production Loans	50,222
b. Development Loans	5,690
<b>2. TRACTORS FINANCED</b>	
Number	10,275
Amount	3,478
<b>3. TUBEWELLS FINANCED</b>	
Number	1,218
Amount	178
<b>4. SHARE OF SUBSISTENCE FARMERS</b>	34,715
<b>6. SHARE OF SMALL FARMERS (UNDER 25 ACRES)</b>	47,123
<b>7. NUMBER OF BORROWERS SERVED</b>	475,756
<b><u>B. RECOVERY OPERATIONS</u></b>	
TOTAL AMOUNT RECOVERED	58,080
<b><u>C. NETWORK OF OPERATIONS</u></b>	
1. NUMBER OF ZONES	25
2. NUMBER OF BRANCHES	342
3. NUMBER OF MCOs	1,269





*Board of*  
DIRECTORS



*Members of the*  
B O A R D

1.	<b>Dr. Waqar Masood Khan</b>	CHAIRMAN
2.	<b>Mr. Mansur Khan (President, ZTBL)</b>	DIRECTOR
3.	<b>Mr. Mohammad Saleem Khan</b>	DIRECTOR
4.	<b>Mr. Muhammad Javed Malik</b>	DIRECTOR
5.	<b>Syed Yawar Ali</b>	DIRECTOR
6.	<b>Ms. Rabia Sultan</b>	DIRECTOR
7.	<b>Mr. Muhammad Zakria Kasi</b>	DIRECTOR
8.	<b>Mr. Jan Ali Khan Junejo</b>	DIRECTOR
9.	<b>Mr. Iskander Mohammad Khan</b>	DIRECTOR
10.	<b>Mr. Ejaz Hussain Rathore</b>	DIRECTOR

## Board/Management Committees

(As on 31.12.2007)

### I. BOARD'S SUB-COMMITTEES

#### A. AUDIT COMMITTEE

1.	Mr. Muhammad Javed Malik	Chairman
2.	Mr. Mohammad Saleem Khan	Member
3.	Ms. Rabia Sultan	Member
4.	Mr. Iskander Mohammad Khan	Member
5.	Mr. Ejaz Hussain Rathore	Member
6.	Chief Internal Auditor	Secretary

#### B. HUMAN RESOURCE MANAGEMENT COMMITTEE

1.	Syed Yawar Ali	Chairman
2.	President, ZTBL	Member
3.	Mr. Iskander Mohammad Khan	Member
4.	Ms. Rabia Sultan	Member
5.	Mr. Muhammad Zakria Kasi	Member
6.	Mr. Jan Ali Khan Junejo	Member
7.	Head Human Resource	Secretary

#### C. RISK MANAGEMENT COMMITTEE

1.	President, ZTBL	Chairman
2.	Mr. Mohammad Saleem Khan	Member
3.	Mr. Ejaz Hussain Rathore	Member
4.	Risk Manager	Member
5.	Company Secretary	Member/Secretary

#### D. COMMITTEE ON INFORMATION TECHNOLOGY

1.	Mr. Muhammad Javed Malik	Convener
2.	Mr. Ejaz Hussain Rathore	Member
3.	Mr. Iskander Mohammad Khan	Member
4.	Chief Information Officer	Member
5.	Head, ISD	Secretary

### II. MANAGEMENT COMMITTEES

#### A. ASSETS LIABILITIES MANAGEMENT COMMITTEE

1.	President/CEO	Convener
2.	Chief Financial Officer	Member/Secretary
3.	SEVP (Operations)	Member
4.	Risk Manager	Member

#### B. EXECUTIVE COORDINATION COMMITTEE

1.	President/CEO	Convener
2.	All Members of Senior Management Team/SEVPs	Member
3.	All EVPs/Divisional Heads	Member
4.	Risk Manager	Member
5.	Compliance Officer	Secretary



## Report on Consolidated Financial Statements

Consolidated Financial Statement of Zarai Taraqati Bank Limited (ZTBL) and its subsidiary namely Kissan Support Service (Pvt.) Limited (KSSL) for the year ended December 31, 2007 is as under:

	(Rs. Million)
Total Assets	93,402
Advances – net	61,313
Cash & Bank Balance	14,158
Operating Fixed Assets	867
Share Capital	11,870
Deposits	4,322
Total Income	12,761
Total Expenses	10,962

The profit before and after taxation, available for appropriation is as under:

Profit before taxation	1,799
Taxation	758
Profit after taxation	1,041
Un-appropriated profit brought forward	1,012
Profit available for appropriation	2,053

### Shareholding

Share capital of Kissan Support Service (Pvt.) Limited (KSSL) is fully subscribed by Zarai Taraqati Bank Limited (ZTBL).

### Earnings per Share

The Consolidated financial statements reflect Rs.0.877 basic earnings per share for the year under review and its computation has been shown in notes 30 and 31 to the financial statements.



STATEMENT OF COMPLIANCES WITH THE CODE OF CORPORATE  
GOVERNANCE FOR THE YEAR ENDED DECEMBER 31, 2007

This statement is being presented to comply with Code of Corporate Governance (the Code) issued by the Securities & Exchange Commission of Pakistan and made applicable by the State Bank of Pakistan to banks in June, 2002 to the extent of applicability under Prudential Regulation XXIX and BSD No. 15 dated June 13, 2002, for the purpose of establishing a frame work of good governance, to manage the Bank in compliance with the best practices of corporate governance.

1. The Directors of the Board were nominated by the Government of Pakistan and were approved/appointed by the Board. At present all the Directors except Chief Executive Officer/President of the Bank are non-Executive Directors.
2. The Directors have confirmed that none of them is serving as a Director in more than ten listed companies, including Zarai Taraqati Bank Limited.
3. All the resident Directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by the stock exchange.
4. Four vacant positions of Directors were filled during the period. Further, four other vacancies arose due to expiry of tenure of office of Directors. Panel of nominees has already been forwarded to Government of Pakistan.
5. Statement of Ethics and Business Practices approved by the Board was got signed from Directors and circulated among all the employees of the Bank for signature.
6. Already approved Vision and Mission

Statement was revisited in 23rd and 30th meetings of the Board. Vision & Mission Statement as part of Strategic & Financial Plan of ZTBL was again placed before the Board in its 34th and 35th meetings.

7. Credit Plan for the year 2007 and all significant policies have been approved by the Board. The bank has comprehensive framework of written policies and procedure on all major areas of operations. Policies are constantly reviewed.
8. All the powers of the Board have been duly exercised and Board has taken decisions on material transactions including appointment and determination of remuneration and terms and conditions of employment of President.
9. The meetings of the Board were presided over by the Chairman. In absence of the Chairman a director elected by the Board for this purpose presided over the relevant meetings. Board met at least once in every quarter and seven meetings of the Board were held during the year. Written notices of the Board meetings along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
10. An orientation course for the Members of the Board was arranged on 15.03.2005. Conference on Corporate Governance was organized by State Bank of Pakistan in 2006.
11. Appointments against vacant positions of Chief Financial Officer, Chief Internal Auditor and Company Secretary were approved by the Board during the year.

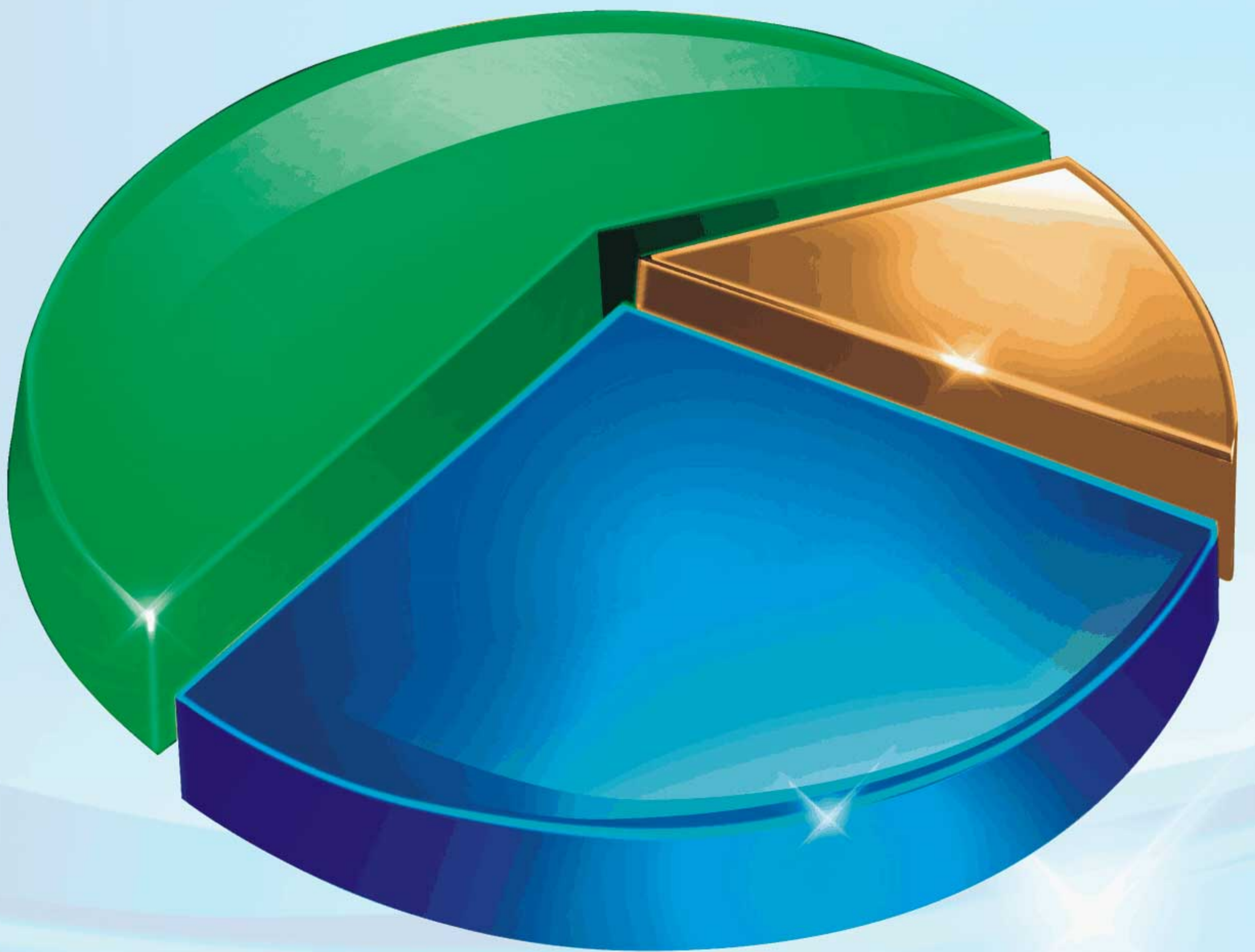
12. The Director's Report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Bank were fully endorsed by the President and the Chief Financial Officer before approval of the Board.
14. The Directors, President and Executives do not have any interest in the shares of the Bank.
15. The Bank has complied with all the corporate and financial reporting requirements of the code.
16. Audit Committee of the Board comprises of five non-executive Directors including Chairman of the Committee.
17. All the meetings of Audit Committee were held at least once in every quarter prior to approval of interim and final results as required by the Code except in first quarter. The same could not be held due to non finalization of accounts as 31.12.2006 within specified period. However, extension in time period for placement of accounts and holding of AGM was obtained from concerned quarters. Five meetings of Audit Committee were held during the year. The terms of reference of the Committee have been formulated and advised to the Committee for compliance.
18. The Board has set-up an effective internal audit function on full time basis.
19. The statutory Auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and the firm and all its partners are in compliances with International Federation of Accounts (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. The Statutory Auditors or the persons associated with them have not been appointed to provide services other than approved services and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

( **Mansur Khan** )  
President



*Statistical Annex*  
Annual Report 2007





## **CONTENTS**

- 1. PARTICULARS OF SHAREHOLDERS**
- 2. SELECTED FINANCIAL & STATISTICAL INDICATORS**
- 3. LOANS DISBURSEMENT**
  - 3.1 LOANS DISBURSED SINCE INCEPTION: AREA-WISE
  - 3.2 LOANS DISBURSED: AREA-WISE
  - 3.3 TERM-WISE COMPOSITION OF LOANS DISBURSED
  - 3.4 LOANS DISBURSED: SECURITY-WISE
  - 3.5 ANNUAL CREDIT DISBURSEMENT, TRACTORS & TUBEWELLS FINANCED SINCE INCEPTION
  - 3.6 AGRI. CREDIT DISBURSED BY MAJOR PURPOSES
  - 3.7 AGRI. CREDIT DISBURSED BY SIZE OF LOAN
  - 3.8 AGRI. CREDIT DISBURSED BY SIZE OF HOLDING
- 4. RECOVERY OPERATIONS**
  - 4.1 TOTAL RECOVERY POSITION
  - 4.2 CUMULATIVE RECOVERY SINCE INCEPTION
- 5. STAFF POSITION**
- 6. NETWORK OF FIELD OFFICES**

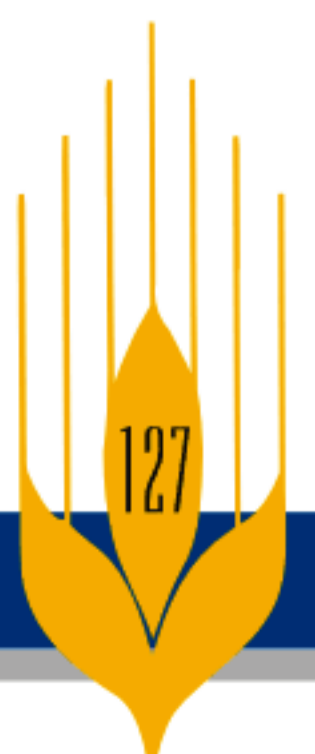


1

**PARTICULARS OF SHAREHOLDERS**

AS ON 31-12-2007

<b>S.No.</b>	<b>SHAREHOLDERS</b>	<b>( RUPEES MILLION )</b>
1.	FEDERAL GOVERNMENT	11859.612
2.	GOVERNMENT OF PUNJAB	2.771
3.	GOVERNMENT OF SINDH	1.190
4.	GOVERNMENT OF N.W.F.P.	0.680
5.	GOVERNMENT OF BALOCHISTAN	0.359
6.	GOVERNMENT OF ERSTWHILE EAST PAKISTAN	5.000
	<b>TOTAL</b>	<b>11869.612</b>



## SELECTED FINANCIAL AND STATISTICAL INDICATORS

( Rupees Million )

S.NO.	DESCRIPTION	14-12-2002 TO 31-12-2003	2004	2005	2006	2007
	<b><u>DURING THE YEAR</u></b>					
1.	AGRICULTURAL CREDIT DISBURSED	32287	33715	39356	52521	55912
2.	LOANS TO SUBSISTENCE FARMERS	20374	22061	25612	33027	34715
3.	2 AS %AGE OF 1	63%	65%	65%	63%	62%
4.	LOANS TO SMALL FARMERS ( UPTO 25.0 ACRES )	27086	28825	33551	44330	47123
5.	4 AS %AGE OF 1	84%	85%	85%	84%	84%
6.	FINANCING OF TRACTORS					
	- NUMBER	10679	7848	10807	9052	10275
	- AMOUNT	2800	1953	2894	2513	3478
7.	6 AS %AGE OF 1	9%	6%	7%	5%	6%
8.	TOTAL RECOVERY	40996	38945	42144	49156	58080
9.	CUMULATIVE RECOVERY (%)	90%	91%	92%	96%	97%
10.	TOTAL INCOME	10724	9053	7661	11519	12756
11.	TOTAL EXPENDITURE	9942	7887	7752	10872	10972
12.	PROFIT BEFORE TAXATION	782	1167	(91)	647	1784
	<b><u>AT THE END OF THE YEAR</u></b>					
1.	TOTAL ASSETS	78740	83930	82505	85467	93386
2.	LOAN PORTFOLIO ( NET )	54172	54335	52925	60839	61313
3.	NUMBER OF REGIONAL/ZONAL OFFICES	49	49	49	25	25
4.	NUMBER OF BRANCHES	343	343	343	342	342
5.	NUMBER OF MCOS	1363	1328	1311	1258	1269
6.	NUMBER OF STAFF	5738	5591	5533	5326	5333



## 3.1

**LOANS DISBURSED SINCE INCEPTION: AREA-WISE**

UPTO 31.12.2007

( Rupees Million )

S.No.	PROVINCE/ AREA	AMOUNT DISBURSED	SHARE (%)
1.	PUNJAB	358291.293	74.4
2.	SINDH	82182.127	17.1
3.	N.W.F.P	28055.007	5.8
4.	BALUCHISTAN	8854.233	1.9
5.	AZAD KASHMIR	2071.456	0.4
6.	FEDERALLY ADMINISTERED NORTHERN AREAS	1917.914	0.4
	<b>TOTAL</b>	<b>481372.030</b>	<b>100.0</b>

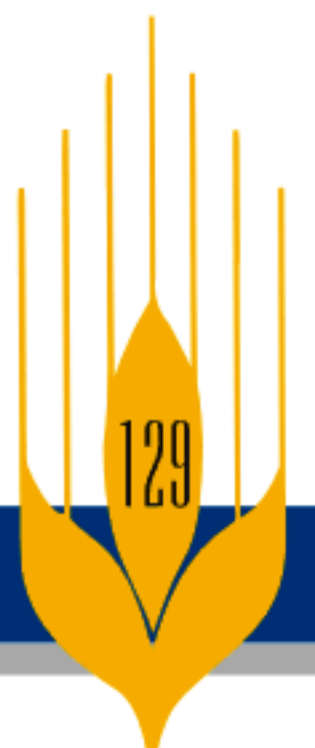
## 3.2

**LOANS DISBURSED : AREA-WISE**

DURING 01-01-2007 TO 31-12-2007

( Rupees Million )

S.NO.	PROVINCE/ AREA	NUMBER OF BORROWERS	AMOUNT DISBURSED	SHARE (%)
1.	PUNJAB	386950	44326.577	79.3
2.	SINDH	44411	7384.166	13.2
3.	N.W.F.P	35925	3802.305	6.8
4.	BALUCHISTAN	738	99.356	0.2
5.	AZAD KASHMIR	6126	131.380	0.2
6.	FEDERALLY ADMINISTERED NORTHERN AREAS	1606	168.234	0.3
	<b>TOTAL</b>	<b>475756</b>	<b>55912.018</b>	<b>100.0</b>



## 3.3

**TERM-WISE COMPOSITION OF LOANS DISBURSED**

DURING 01-01-2007 TO 31-12-2007

( Rupees Million )

S. NO.	PROVINCE/ AREA	SHORT TERM		MEDIUM TERM		LONG TERM		TOTAL	
		NUMBER OF BORROWERS	AMOUNT	NUMBER OF BORROWERS	AMOUNT	NUMBER OF BORROWERS	AMOUNT	NUMBER OF BORROWERS	AMOUNT
1.	PUNJAB	353641	39397.133	19394	1441.992	13915	3487.452	386950	44326.577
2.	SINDH	43170	7246.738	940	57.594	301	79.834	44411	7384.166
3.	N.W.F.P	28931	3290.015	6175	340.826	819	171.464	35925	3802.305
4.	BALUCHISTAN	574	59.567	27	1.828	137	37.961	738	99.356
5.	AZAD KASHMIR	5693	96.672	397	22.920	36	11.788	6126	131.380
6.	FEDERALLY ADMINISTERED NORTHERN AREAS	711	131.599	869	27.405	26	9.230	1606	168.234
	<b>TOTAL</b>	432720	50221.724	27802	1892.565	15234	3797.729	475756	55912.018

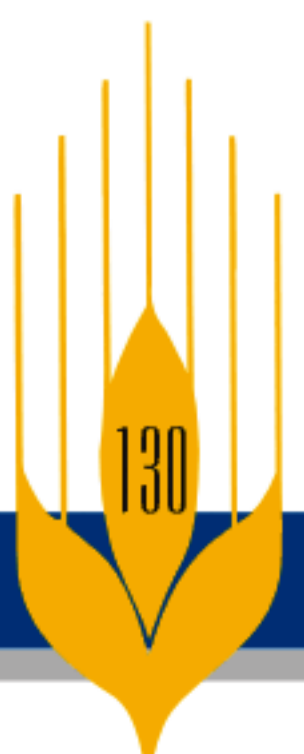
## 3.4

**LOANS DISBURSED: SECURITY – WISE**

DURING 01-01-2007 TO 31-12-2007

( Rupees Million )

S.NO.	PARTICULARS	NUMBER OF BORROWERS	AMOUNT DISBURSED	SHARE (%)
1.	SECURED LOANS	468255	55721.148	99.7
2.	HYPOTHECATION LOANS	71	11.373	0.0
3.	PERSONAL SURETY LOANS	7160	114.762	0.2
4.	OTHER SECURITY	270	64.735	0.1
	<b>TOTAL</b>	<b>475756</b>	<b>55912.018</b>	<b>100.0</b>



## 3.5

**ANNUAL CREDIT DISBURSEMENT, TRACTORS & TUBEWELLS FINANCED**

SINCE INCEPTION UPTO 31-12-2007

( Rupees Million )

YEAR	ANNUAL CREDIT DISBURSEMENT	TRACTORS FINANCED		TUBEWELLS FINANCED	
		NUMBER	AMOUNT	NUMBER	AMOUNT
Since inception upto 30-06-1971	780.798	15043	295.372	18757	213.849
FY' 1972	80.000	1906	37.410	1790	18.412
FY' 1973	169.100	1679	43.654	2389	26.415
FY' 1974	415.570	1997	74.500	2922	45.000
FY' 1975	396.310	3122	131.600	3566	74.500
FY' 1976	532.850	6043	348.200	2357	47.600
FY' 1977	638.770	5888	319.200	1364	25.700
FY' 1978	430.530	5768	324.050	580	10.793
FY' 1979	416.937	6003	310.200	543	10.100
FY' 1980	711.550	8661	468.900	425	9.300
FY' 1981	1066.619	10111	636.560	562	13.646
FY' 1982	1557.386	12359	880.198	745	20.576
FY' 1983	2310.435	17497	1459.256	1246	38.109
FY' 1984	3131.676	22766	2028.706	1623	57.938
FY' 1985	4167.908	25500	2305.668	2548	67.424
FY' 1986	5307.867	20603	1955.257	4260	196.697
FY' 1987	6031.152	23648	2621.911	4621	220.835
FY' 1988	7716.078	20288	2650.555	6743	392.196
FY' 1989	8667.523	19725	2898.750	6632	476.667
FY' 1990	9389.861	20290	3465.396	5898	487.010
FY' 1991	8323.947	12468	2650.302	5388	564.277
FY' 1992	6996.426	8823	1742.676	3281	304.834
FY' 1993	8643.408	16574	3548.008	2528	252.005
FY' 1994	8989.252	17127	4071.548	2403	294.128
FY' 1995	14575.735	22002	5029.803	4920	693.707
FY' 1996	10339.274	15968	3261.605	1680	173.336
FY' 1997	11687.112	10701	3195.652	2300	385.586
FY' 1998	22362.983	13630	4286.009	3869	857.677
FY' 1999	30175.960	16951	4509.982	6998	1436.177
FY' 2000	24423.889	21515	5743.598	4735	830.894
FY' 2001	27610.229	18909	5119.122	8991	1648.100
FY' 2002	29108.015	12744	3501.149	7894	1335.733
01-07-2002 TO 13-12-2002	10426.734	3660	1011.927	2955	384.419
14-12-2002 TO 31-12-2003	32286.990	10679	2799.972	5100	1016.363
CY' 2004	33714.580	7848	1952.655	4369	845.424
CY' 2005	39356.053	10807	2893.575	3895	703.891
CY' 2006	52520.505	9052	2512.927	1918	292.898
CY' 2007	55912.018	10275	3478.103	1218	178.114
<b>TOTAL</b>	<b>481372.030</b>	<b>488630</b>	<b>84563.956</b>	<b>144013</b>	<b>14650.330</b>



## 3.6

**AGRICULTURAL CREDIT DISBURSED BY MAJOR PURPOSES**

DURING 01-01-2007 TO 31-12-2007

( Rupees Million )

<b>PURPOSES</b>	<b>NUMBER OF BORROWERS</b>	<b>AMOUNT DISBURSED</b>	<b>SHARE (%)</b>
<b>I. DEVELOPMENT LOANS</b>	<b>43036</b>	<b>5690.294</b>	<b>10.2</b>
1. TRACTORS	12764	3478.103	6.3
2. DAIRY FARMING	20655	1519.623	2.7
3. FARM EQUIPMENT	573	61.062	0.1
4. TUBEWELLS	1369	178.114	0.3
5. LIVESTOCK	5892	300.374	0.6
6. POULTRY FARMING	37	8.585	0.0
7. ORCHARDS	164	6.206	0.0
8. LAND DEVELOPMENT	117	4.794	0.0
9. FISHERIES	1	0.100	0.0
10. FARM TRANSPORTATION	3	0.695	0.0
11. GODOWN/ COLD STORAGE	433	65.622	0.1
12. OTHERS	1028	67.016	0.1
<b>II. PRODUCTION LOANS</b>	<b>432720</b>	<b>50221.724</b>	<b>89.8</b>
1. FERTILIZER	207705	24106.428	43.1
2. PESTICIDES	82217	9542.128	17.1
3. SEEDS	121162	14062.083	25.1
4. LABOUR HIRE/ OTHER CHARGES	2	0.197	0.0
5. WORKING CAPITAL FOR POULTRY	535	105.790	0.2
6. WORKING CAPITAL FOR DAIRY	474	6.899	0.0
7. WORKING CAPITAL FOR LIVESTOCK	558	11.005	0.0
8. WORKING CAPITAL FOR FISHERIES	1978	54.305	0.1
9. OTHERS	18089	2332.889	4.2
<b>TOTAL:</b>	<b>475756</b>	<b>55912.018</b>	<b>100.0</b>



## 3.7

**AGRICULTURAL CREDIT DISBURSED BY SIZE OF LOAN**

DURING 01-01-2007 TO 31-12-2007

( Rupees Million )

S.No.	SIZE OF LOANS	NUMBER OF BORROWERS	SHARE (%)	AMOUNT DISBURSED	SHARE (%)
1.	UPTO RS. 25000/-	32471	6.8	555.039	1.0
2.	RS.25001 TO 50000/-	85436	17.9	3157.931	5.7
3.	RS.50001 TO 100000/-	131874	27.7	9021.657	16.1
4.	RS.100001 TO 200000/-	105128	22.1	12451.560	22.3
5.	RS.200001 TO 500000/-	94100	19.8	21538.575	38.5
6.	RS.500001 TO 1000000/-	19323	4.1	5585.729	10.0
7.	OVER 1000000/-	7424	1.6	3601.527	6.4
	<b>TOTAL:-</b>	<b>475756</b>	<b>100.0</b>	<b>55912.018</b>	<b>100.0</b>

## 3.8

**AGRICULTURAL CREDIT DISBURSED BY SIZE OF HOLDING**

DURING 01-01-2007 TO 31-12-2007

( Rupees Million )

S.NO.	SIZE OF HOLDINGS	NUMBER OF BORROWERS	SHARE (%)	AMOUNT DISBURSED	SHARE (%)
1.	A. LANDLESS	2453	0.5	131.289	0.2
2.	B. OWNERS UNDER 5.1 HECTARES ( UNDER 12.5 ACRES )	369037	77.6	33815.057	60.5
3.	5.1 TO UNDER 6.5 HECTARES ( 12.5 TO UNDER 16 ACRES )	31352	6.6	5159.451	9.2
4.	6.5 TO UNDER 10.1 HECTARES ( 16 TO UNDER 25 ACRES )	36254	7.6	8016.744	14.3
5.	10.1 TO UNDER 13 HECTARES ( 25 TO UNDER 32 ACRES )	10128	2.1	2519.722	4.5
6.	13 TO UNDER 20.2 HECTARES ( 32 TO UNDER 50 ACRES )	12565	2.7	3274.913	5.9
7.	20.2 TO UNDER 26 HECTARES ( 50 TO UNDER 64 ACRES )	4266	0.9	1014.083	1.8
8.	26 HECTARES & ABOVE ( 64 ACRES & ABOVE )	9701	2.0	1980.759	3.6
	<b>TOTAL:</b>	<b>475756</b>	<b>100.0</b>	<b>55912.018</b>	<b>100.0</b>



## 4.1

**TOTAL RECOVERY POSITION**

DURING 01-01-2007 TO 31-12-2007

( Rupees Million )

S.NO.	PROVINCE/ AREA	RECOVERABLE	RECOVERY	RECOVERY RATE (%)
1.	PUNJAB	56128.245	46474.142	82.8
2.	SINDH	10397.031	7369.995	70.9
3.	N.W.F.P	4593.342	3838.651	83.6
4.	BALUCHISTAN	375.925	98.065	26.1
5.	AZAD KASHMIR	150.897	131.896	87.4
6.	FEDERALLY ADMINISTERED NORTHERN AREAS	185.520	167.118	90.1
	<b>TOTAL</b>	<b>71830.960</b>	<b>58079.867</b>	<b>80.9</b>

## 4.2

**CUMULATIVE RECOVERY**

SINCE INCEPTION UPTO 31.12.2007

( Rupees Million )

S.NO.	PROVINCE/ AREA	TOTAL RECOVERABLE	TOTAL RECOVERY	PAST DUES AS ON 31-12-2007	RECOVERY RATE (%)
1.	PUNJAB	379024.994	369370.891	9654.103	97.5
2.	SINDH	83250.313	80223.277	3027.036	96.4
3.	N.W.F.P	28756.741	28002.050	754.691	97.4
4.	BALUCHISTAN	6856.527	6578.667	277.860	95.9
5.	AZAD KASHMIR	1944.170	1925.169	19.001	99.0
6.	FEDERALLY ADMINISTERED NORTHERN AREAS	1900.766	1882.364	18.402	99.0
	<b>TOTAL</b>	<b>501733.511</b>	<b>487982.418</b>	<b>13751.093</b>	<b>97.3</b>



## 5.

**STAFF POSITION**

( NUMBER )

YEAR	OFFICERS	STAFF	TOTAL	MCOs
FY' 1990	4614	4035	8649	1487
FY' 1991	4781	3963	8744	1434
FY' 1992	4842	3816	8658	1454
FY' 1993	5046	3621	8667	1521
FY' 1994	5035	3369	8404	1432
FY' 1995	5035	3576	8611	1376
FY' 1996	5443	3383	8826	1441
FY' 1997	5347	3830	9177	1441
FY' 1998	4535	3368	7903	1449
FY' 1999	4608	3183	7791	1463
FY' 2000	4586	3196	7782	1459
FY' 2001	4563	3177	7740	1465
FY' 2002	4515	3150	7665	1496
CY' 2003	3711	2027	5738	1363
CY' 2004	3657	1934	5591	1328
CY' 2005	3609	1934	5543	1311
CY' 2006	3485	1841	5326	1258
CY' 2007	3629	1704	5333	1269

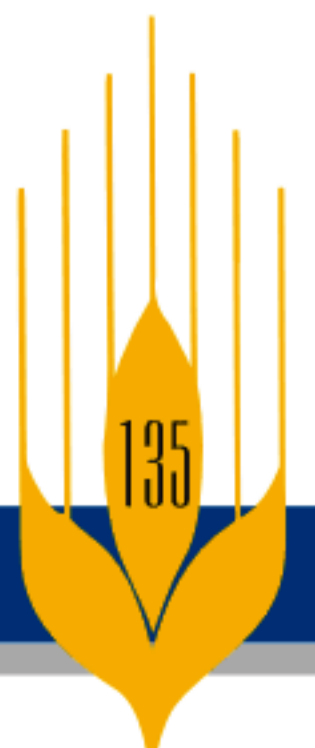
## 6.

**NETWORK OF FIELD OFFICES**

AS ON 31.12.2007

( NUMBER )

S.NO.	PROVINCE/AREA	ZONAL OFFICES	BRANCHES
1.	PUNJAB	12	159
2.	SINDH	6	87
3.	N.W.F.P	4	50
4.	BALUCHISTAN	3	34
5.	AZAD KASHMIR	-	7
6.	FEDERALLY ADMINISTERED NORTHERN AREAS	-	5
	<b>TOTAL</b>	<b>25</b>	<b>342</b>





**ZTBL**





**ZARAI TARAQIATI BANK LTD.**

Tel: +92 - 51 - 9252681

Fax: +92 - 51 - 9252681

[www.ztbl.com.pk](http://www.ztbl.com.pk)





**ZARAI TARAQIATI BANK LTD.**

## *Vision*

*Dedicated to serve the needs of the farming community, by delivering financial products and technical services on a competitive and sustainable basis, in a convenient, efficient and professional manner, leading to success of the Bank and the farmers.*

## *Mission*

*To play effective role in the promotion of economic growth, by enhancing the availability of credit to the agriculture sector, through reliable access to sustainable financing, special lending programmes, technical assistance, and other products & services, and to promote career development opportunities for increasing professionalism and technical proficiencies of employees.*

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