



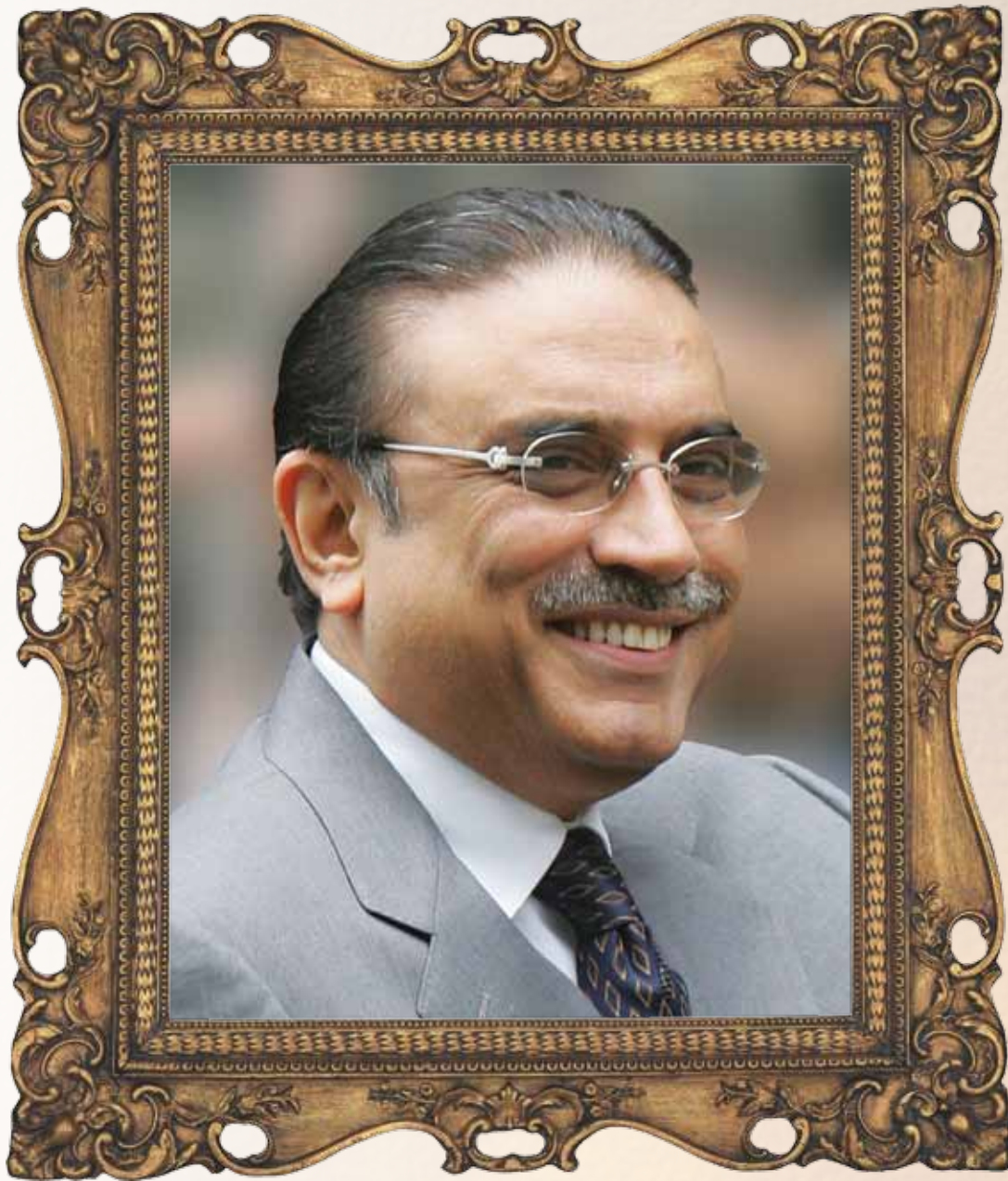
*Annual Report*  
2010



**Zarai Taraqiyati Bank Ltd.**

**ANNUAL REPORT**  
**2010**

**Zarai Taraqati Bank Limited**



**Asif Ali Zardari**  
President  
Islamic Republic of Pakistan

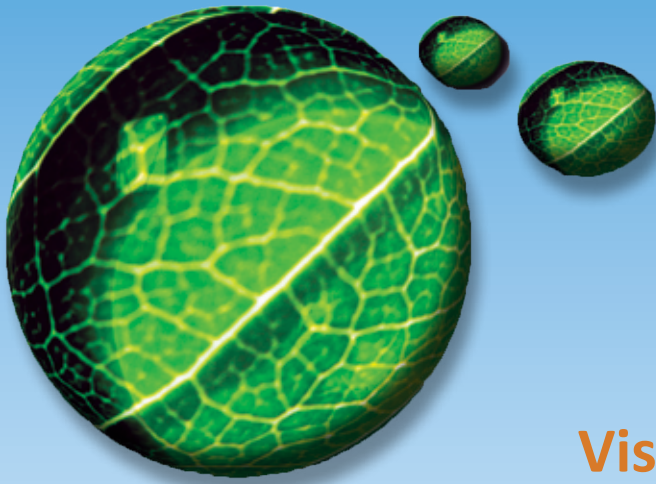


**Mr. Muhammad Zaka Ashraf**  
Director

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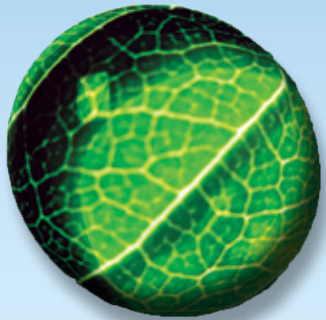
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## Vision

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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

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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.





## Core Values

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- Loyalty to ZTBL Vision and Mission
- Integrity and Meritocracy
- Quality and Efficiency
- Well-Trained Human Resource
- Credit with Technology







**Mr. Muhammad Zaka Ashraf**  
Director



**Ms. Nazrat Bashir**  
Director



**Mr. Babar Yaqoob Fateh Muhammad**  
Director



**Mr. Moazam Ali**  
Company Secretary



**Mr. Sultan Ali Chaudhary**  
Chairman



**Mr. Zafar Iqbal**  
Director



**Mr. Muhammad Iftikhar Khan Mohmand**  
Director



**Dr. Khalid Ahmad Khokhar**  
Director



**Dr. Amir Muhammad**  
Director



**Mr. M. Yaqoob Vardag**  
Director



**Mr. Abdul Wajid Arain**  
Director



**Mr. Mahmood Nawaz Shah**  
Director

## Directors' Review



Dear Shareholders,

I am pleased to present on behalf of the Board of Directors the Annual Report of Zarai Taraqiati Bank Limited (ZTBL) along with Audited Accounts and Auditors' Report thereon, for the year ended December 31, 2010.

### ZTBL – The Agri Credit Institution

ZTBL is the only financial institution in the country, established in 1961 by the Government of Pakistan, as a specialized institution to cater to the needs of the agriculture sector. It has 355 branches, 27 Zonal Offices and over 5000 employees of which 1,362 are Mobile Credit Officers who are contact points between the Bank and farmers. They are trained to disseminate technology along with credit to farmers in line with the vision of the Bank.

The average loan size is Rs.138,000 per borrower whereas production and development lending are two main areas of financing by the Bank. While production financing covers all agri inputs and working capital requirements, whereas development lending includes financing of tractors, agri implements, tubewells, livestock, fisheries and poultry etc. through its branch network, it encompasses the main range of agriculture sector needs. The bank plans to gradually and selectively enter into value added agriculture related products as it builds on its resources both Human and Financial.

The Human Resource of the Bank, over the last three years has been planned so as to achieve a blend of agriculture, banking and other area experts which is being further strengthened to enhance efficiency in operations of the Bank. The Bank is regulated by SECP and SBP and exercises internal controls through

its Internal Audit, Risk Management, Credit Administration policies, which are reviewed and updated regularly. The Bank has embarked upon strengthening its information technology systems and is in the process of acquiring CBAS and is taking necessary measures for implementation of ERP.

The Bank is contributing towards the Millennium Development Goals as the financing by ZTBL is aimed at small farmers which lead to poverty alleviation, income generation in rural areas and uplifting of rural sector and towards enhancing food security. Besides this, financing livestock and dairy farming on small scale mainly for women is aimed at the gender equality and women empowerment which is planned to be expanded in future through special schemes under credit for women.

The Bank is in constant follow up with the Government of Pakistan to allow it to explore international avenues for resource mobilization and fostering international partnership for financial and technical needs of the Bank/farming community.

## Agriculture and Economy of Pakistan

The Agriculture sector continues to play a central role in Pakistan's economy. It is the second largest sector, accounting for over 21 percent of GDP and remains by large for the largest employer, absorbing 45 percent of the country's total labour force. Nearly 62 percent of the country's population resides in rural areas and is directly or indirectly linked with agriculture for their livelihood. The Agriculture sector's strong linkages with the rest of the economy are not fully captured in the statistics as this sector is a primary supplier of raw materials to downstream industry as well as consumer of industrial products such as fertilizer, pesticides, tractors and agricultural implements etc. Agriculture sector offers inherent advantages of foreign exchange earnings on one hand and import substitution and thus foreign exchange savings on the other hand.

Despite its critical importance to economy as a

whole, its contribution to growth, exports and food security, the agriculture sector has reflected a decline. The sector, particularly the crop sub-sector, has shown a decline for the past three decades, with low productivity or yield per acre. Critical investments in quality/certified seeds, farming technology and techniques, and in water infrastructure are not being made. Due attention and substantial investments are needed in these sectors to tackle emerging challenges such as declining water availability and climate change. For the year 2009-10 the agriculture sector grew by around 2%, against a target of 3.8%, and previous year's growth rate of 4%. While the Crops sub-sector declined by 0.4% over the previous year, Livestock posted a healthy rise of 4.1%. This may be viewed in comparison to other sector of the economy e.g. industrial output expanded by 4.9%, with Large Scale Manufacturing posting a 4.4% rate of growth. The Services sector grew by 4.6%, as compared to 1.6% in 2008-09. Overall, the Commodity Producing Sectors are estimated to have expanded at a 3.6% pace.



There are two principal crop seasons in Pakistan, namely the "Kharif", the sowing season of which begins in April-June and harvesting during October-December; and the "Rabi", which begins in October-December and ends in April-May. Rice, sugarcane, cotton, maize, mong, mash, bajra and jowar are "Kharif" crops while wheat, gram, lentil (masoor), tobacco, rapeseed, barley and mustard are "Rabi" crops. Major crops, such as, wheat, rice, cotton and sugarcane account for 82.0 percent of the major crops and on an average, contribute 33.1 percent to the value added in overall agriculture and 7.1 percent to GDP. The minor crops account for 11.1 percent of the value added in overall agriculture. Livestock contributes 53.2 percent to agricultural

value added – much more than the combined contribution of major and minor crops (43.9%). Major crops, registered a negative growth of 0.2 percent as against robust growth of 7.3 percent last year while minor crops posted negative growth of 1.2 percent, a negative trend being witnessed over the past several years.

The timely availability of water for agriculture has been a major problem over the past several years. Efficient irrigation system is a prerequisite for higher agricultural production, since it helps increase the productivity. Despite the existence of a good irrigation canal network in Pakistan, it still suffers from wastage of a large amount of water in the irrigation process. Water availability has now become one of Pakistan's top priority and development concern of the sector needs introduction of efficient methods of irrigation/ water management.

Similarly the availability of quality inputs at controlled prices, rising prices of input due to various factors and declining trend in crop production have resulted in inflation of food products and added to the CPI inflation.

The planners need to pay special attention to agriculture sector as Pakistan is endowed with natural fertile soil with properties matched by few other countries, four seasons which make it possible not only to achieve food security but to become a net exporting country in agriculture products.

The future out look of the economy as a whole can be termed to have a great potential to turn around if installed/available capacity of the industry is utilized to the optimum and investor confidence is tapped by creating an investor friendly atmosphere.

Overall, a combination of rising fiscal pressures, a developing debt overhang, and an uncertain path of inflation in the near term, significantly reduces policy space to stimulate the economy For the longer term, efforts to meaningfully address Pakistan's perennial structural challenges, such as the low tax/GDP ratio, low overall productivity in the economy, and improving balance of payment are more than likely to unlock Pakistan's substantial economic advantage/edge.

## Agriculture Credit Needs

Against institutional credit requirement of Rs.712\* billion in 2010, only Rs.270 billion were allocated

\* Source – SBP, ACAC Report.

as mandatory target to Banking sector by SBP with a demand supply gap of Rs.442 billion which is mainly met through informal lending sector at exorbitant rates. ZTBL being the only financial institution focusing on agriculture sector, can play a positive role in channelizing funds allocated by the government or donors for this sector due to an infrastructure comprising of 27 Zonal Offices, 355 branches and over 5000 field workforce of which 1362 personnel are Mobile Credit Officers who provide a personal link of the Bank with farmers. They asses credit needs of the farmers and also disseminate technology and best practices in agriculture.

## ZTBL's Strategy to fill the Credit Gap

With the ongoing IT up-gradation and GOP decision of removal of cap on lending rates, the Bank plans to generate sizeable resources through mobilization of deposits to fill in the existing credit gap. Besides, the Bank has requested Government of Pakistan to allow ZTBL for negotiations with multilateral financial institutions, such as Islamic Development Bank, Asian Development Bank and Chinese Bank, for obtaining credit lines or for exploring joint venture to meet the credit requirement of faming community on one hand and to allow ZTBL to foster new relationships for the ultimate benefit of the agriculture sector.



## New Initiative taken by ZTBL

### Benazir Tractor Scheme

In order to bridge the gap between demand and supply position of tractors in the country, the Federal Government decided to launch Accelerated Agriculture Mechanization for productivity

Enhancement through "Benazir Tractor Scheme" through ZTBL.

Under the scheme the Bank supplied 10,000 tractors during 2009-10 to the farmers for grant of subsidy up to 50% of the cost of the tractor subject to maximum of Rs.200,000 per beneficiary / tractor as per computerized balloting done by MINFA.

### Awami Zarai Scheme

Awami Zarai Scheme was launched in 2010 to mainly provide agri inputs in kind like fertilizers, pesticides etc through M/S Kissan Support Services (Private) Limited a subsidiary of ZTBL. The scheme is at its initial stages of implementation and is planned to be spread throughout the country in the coming years. This scheme is expected to alleviate the problems of the farmers related to price, quality and availability of inputs.

### Rural Development Scheme

Rural Development Scheme was initiated to provide credit assistance for dairy, poultry, sheep & goat farming in the rural areas of AJ&K state especially in Earthquake affected areas with special emphasis on women. Under this scheme the entire amount of mark-up to be charged by the Bank is borne by the AJ&K Government on receipt of timely payment.

### Establishment of Model Villages by ZTBL

In order to implement Government's vision to ensure development of Agri Sector in a phased manner, establishment of one Model Village in each Zone of the Bank has been launched. Initially the project has been implemented with the collaboration of Federal Government/Provincial Governments Departments and Research Institutes. However, the bank is now running this project independently with its own technical experts and manpower.

An exclusive Agriculture Officer/Mobile Credit Officer is posted in each selected Model Village who is responsible for provision of services to the farming community such as:

- Provision of credit facilities. Improvement of present/existing production level by introducing latest technologies among the farmers of the area in collaboration with public and private agencies dealing in farm inputs/agri technologies.

- Extend full support to raise income of inhabitants in dairy, poultry, livestock and bee farming etc.
- Facilitate farmers in marketing of their crops/produces on the best prevailing market rates.

### Water Management

- Water availability is the major production constraint in certain parts of the country. Motivational campaign regarding laser land leveling system has been introduced to the farmers especially in 31 Model Villages for economical use of Irrigation water.
- For promotion of latest irrigation technique, leaflets and booklets have been prepared in English and Urdu for distribution to farmers.
- ZTBL is also promoting Aerobic Rice cultivation in the country which will save upto 33% water without effecting yield. Seminars on the topic are planned to be arranged in Rice growing areas.



### Horticulture

The Bank plans to encourage and develop the Horticulture sector with the introduction of Technology and loan facilities:

- Bank introduced the walk in Tunnel for off season vegetable production and Mini tunnels for vegetable nurseries in villages located in Northern Areas.
- Off set rotavator, small tractor Post hold digger, Orchard pruner, inter row rotary cultivar, Rota hoe, Fruit grader and Potato grader have been



imported from different countries. These have been tested and have been fabricated locally for introduction to the farmers.

- Feasibility study of a pilot project for the production of potato seed in Northern Areas is in progress. Basic seed will be produced through Tissue culture technique and be marketed in different potato growing areas of Punjab, KPK and Northern Areas.
- Initiated discussion with PARC for fabrication of Fruit Dehydration plant already imported, to save the post harvest losses in the Northern Areas.
- Larkana is famous for production of Guava and Tomato. Capacity building of farmers for improvement in the yield and value addition of both horticultural crops is in progress.
- 10 different varieties of imported olive are under trial production at ZTBL Farm.
- Printed material for the guidance/education of farmers has been prepared and distributed and also posted on the ZTBL website for the promotion of horticultural activity.

## Performance of the Bank

During the year 2010, the Bank continued to push forward its on-going programs relating to provision of credit to target groups covering landless, subsistence and small farmers. As landless farmers have no security to offer, they avail loan against the security of a Bond with two sureties. The Bank has been able to show profits consistently over the last four years period, mainly due to its focus on recovery operations and liquidity management.

The Bank disbursed an amount of Rs.69,561 million during 2010 (calendar year) as against Rs.77,680 million in 2009 showing a decline of 10.5% mainly as a result of unprecedented rains/floods due to which agricultural activities of the country were badly affected. The Bank served 503,662 borrowers in 2010 compared to 567,415 in 2009 through various production lending schemes including One Window Operation, Sada Bahar Scheme, Awami Zarai Scheme. The Bank channelized bulk of its credit to small farmers who constitute backbone of the agriculture sector of the country. The disbursement of Rs.56,867 million was made for production purpose out of total lending of Rs.69,561 million representing 81.75%.

The Bank focused on increase in farm production by exploiting full potential of land resources with appropriate use of agricultural inputs, tillage practices and water management techniques. During the period under review an amount of Rs.12,694 million constituting 18.25% of the total agricultural credit was disbursed under development loans. The development loans carrying tenure of 3 to 7 years were mainly utilized for tractors, farm mechanization, tube-wells, dairy farming and poultry farming etc. The Bank financed 13,321 tractors with a total disbursement of Rs.6,270 million, besides disbursing an amount of Rs.161 million for farm equipments/farm mechanization and Rs.397 million for installation of 1,839 tube-wells to meet the requirement of water for irrigation purposes.

### Impact of Flooding in July, 2010

In the last week of July 2010 torrential rains and

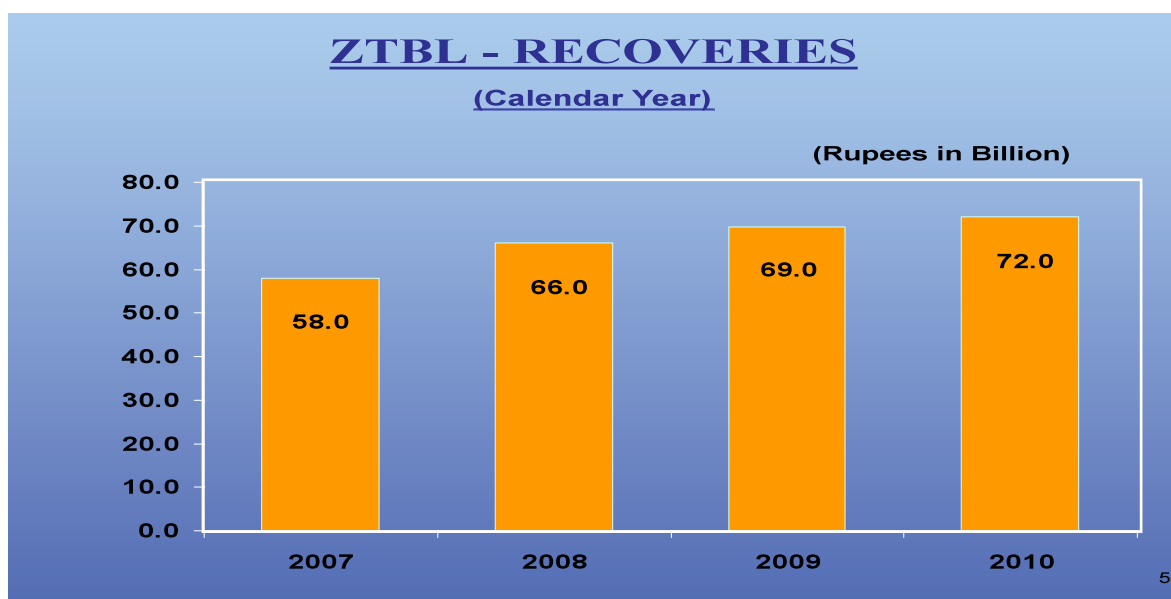
The year-wise summary of Bank's operations over the last four years is given below:-

| (Rs. million)                 |               |               |               |               |                  |
|-------------------------------|---------------|---------------|---------------|---------------|------------------|
| PARTICULARS                   | 2007          | 2008          | 2009          | 2010          | Growth over 2009 |
| A. Disbursement               |               |               |               |               |                  |
| 1. Total Disbursement         | 55,912        | 70,698        | 77,680        | 69,561        | -10.5%           |
| a. Production Loans           | 50,222        | 58,524        | 61,716        | 56,867        | -7.9%            |
|                               | (89.8%)       | (82.8%)       | (79.4%)       | (81.75%)      |                  |
| b. Development Loans          | 5,690         | 12,174        | 15,964        | 12,694        | -20.5%           |
|                               | (10.2%)       | (17.2%)       | (20.6%)       | (18.25%)      |                  |
| 2. Share of Small Farmers     | 47,123        | 61,105        | 67,992        | 61,174        | -10.0%           |
| (Up to 25 Acres)              | 84%           | 86%           | 88%           | 88%           |                  |
| B. Recovery Operation         |               |               |               |               |                  |
| <b>Total Amount Recovered</b> | <b>58,080</b> | <b>65,937</b> | <b>69,549</b> | <b>71,936</b> | <b>3.43%</b>     |

The most positive indicator of operational performance during the year 2010 was the increase in volume of recovery due to effective monitoring and hard work, devotion and involvement of field staff. The Bank recovered Rs.71,936 million against Rs.69,549 million recovered during corresponding period of last year with an increase of Rs.2,387 million showing growth of 3.4%. The overall recovery rate is 89.6% as against last year's recovery rate of 88.8% showing a growth of 0.8%.

unprecedented floods in July and August 2010 damaged precious lives, houses, crops roads and bridges in the rural area with impact of around Rs.12 billion of ZTBL portfolio which would require rescheduling. It was expected that floods would adversely effect the loan recoveries. The Bank, however, under these distress conditions focused:

- In the areas which were not declared as calamity hit.
- On rescheduling in flood affected area within the scope of State Bank of Pakistan guidelines.
- Special incentives on recovery or achievement of assigned targets for the year 2010.
- Through the above arrangements Bank's management was successful in maintaining its recovery momentum which was also supported by the increase in commodity prices.



To improve operational efficiency following have been implemented:

- (i) The business workflows of the Internal Audit Division are at a final stage of computerization.
- (ii) For borrowers evaluation Credit Risk Management System (ICRMS) has been rolled out to implement SBP Guidelines on BASEL-II.
- (iii) The Centralized Deposit Management System (cDMS) is being rolled out to move towards Online Banking. This would also help the Bank to pursue its goal of deposit mobilization with full thrust.

The other major achievement is the HO Data Center as well as Failover Site to provide 24x7 operational support. The Bank is in the process of converting its VPN based Wide Area Network (WAN) to PTCL-VPDN based high speed dedicated and secured network to connect branches with HO Data Center.

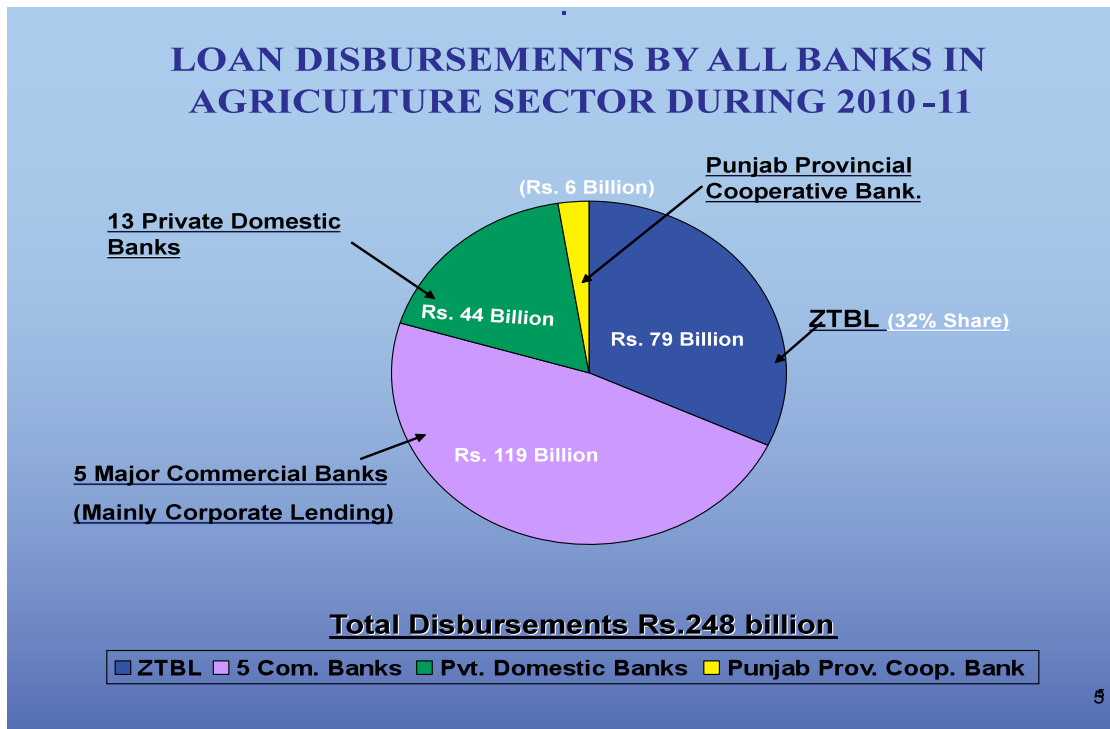
During the fiscal year of 2010 ZTBL has opened 8 new branches which are fully functional and facilitating the rural community.

### SBP Agriculture Credit Target 2009-10

As against SBP target of Rs.80 billion allocated to ZTBL in 2009-2010, the Bank has maintained its position as the main source of institutional financing in the agriculture sector by disbursing Rs.79 billion having an over all share of 32% of the total institutional credit.

| Banks                        | Rs in million     |                 |                 | Shares (%) |
|------------------------------|-------------------|-----------------|-----------------|------------|
|                              | Production        | Development     | Total           |            |
| ZTBL                         | 61551.882         | 17460.472       | 79012.35        | 31.8       |
| Commercial Banks             | 115933.707        | 3675.277        | 119609          | 48.2       |
| Domestic Private Banks       | 42142.096         | 1635.314        | 43777.41        | 17.6       |
| Provincial Cooperative Banks | 5388.486          | 333.247         | 5721.733        | 2.3        |
| <b>Total</b>                 | <b>225016.171</b> | <b>23104.31</b> | <b>248120.5</b> | <b>100</b> |





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## Future Outlook

### Restructuring of the Bank

In order to achieve its objectives, restructuring of the bank was reviewed in line with the government's policy to revitalize the institutional framework, dedicated to expand its outreach. The objective of restructuring of the bank is to run it on sound, viable and self sustained basis.

As per recommendations of a study report carried out by the team of consultants including Professor John W. Mellor, previously Chief Economist in USAID and Director of International Food Policy Research Institute (IFPRI), the Bank is aiming at enhancing its development role through diversification and expansion of loan-able products by formulating policies for revival of credit program for women and financing of modern technologies and new items like, alternative sources of energy i.e. solar energy, wind energy, etc technologies to build the "Green Bank" image. The Bank has reactivated Agriculture Technology Division in 2010, which would enable the Bank to meet its vision of providing credit with technology.

Apart from above, the following long term initiatives have been planned for the Bank as per recommendations of the study report of M/s

Asianics Consultancy:-

- (i) Arrange investments / funding to agriculture to the tune of Rs.80 billion per annum to increase the present outreach, by the Bank from 7% to 25% in five years.
- (ii) Introduce new products/technologies including alternate energy resources, efficient irrigation system, attracting new borrowers, revising existing credit limits, negotiating for new credit lines etc.
- (iii) Strategic investments according to 8 different agro ecological zones, giving due attention to profitability and equity in allocation of resources with special focal shift to value addition agriculture enterprises and new initiatives.
- (iv) In order to save foreign exchange being spent on import of tea and edible oil, cultivation of said crops in addition to traditional ones is to be encouraged by extending credit and technical assistance to the farming community.
- (v) Increase lending rate to run the Bank operations on sustainable basis. Proposal to increase lending rate from the present subsidized rate of 8% was moved for approval of GoP in 2010. (In October, 2011

the GoP has removed cap on lending rate and allowed the bank to raise the lending rate to current level in three years. This change is expected to improve bank's financial viability in years to come and give it leverage to attract deposits on competitive rates).

- (vi) Among initiatives under revamping/ restructuring, establishment of FM Radio stations at different locations is planned to disseminate technical, weather and other related information to farmers. In this regard the Bank has acquired provisional frequency and is in the process of acquiring its FM Radio license.
- (vii) To facilitate the farming community and have real time information, ZTBL is collaborating with SUPARCO on Real Time Solutions. ZTBL plans to utilize services of SUPARCO for monitoring of crops through satellite technology. As a first step, a pilot project in two districts of Larkana in Sindh and Sargodha in Punjab have been selected for demarcating villages/farmers through mapping. With the help of this process ZTBL would be able to monitor crop status of areas per borrower and would be able to ascertain calamity effects as well as augment its recovery efforts.
- (viii) Sectoral distribution of credit to aim at 40% exposure in livestock sector in the next 5 years.
- (ix) Improve Human Resource Quality especially in non-agriculture areas like banking, IT etc.

### Information Technology

To face the challenges of a constantly changing/ highly competitive financial marketplace, efficient functioning as well as decision making, the Bank is in the process of acquisition and implementation of Core Banking Applications System (CBAS) which will enable the Bank to streamline its operations, develop and launch new lending products, profile its consumer base and their needs, to build alternate/ cost effective distribution channels (e.g mobile/branchless banking) and expand its market, credit outreach as well as improve its efforts for mobilization of resources. Similarly the Bank

accelerated efforts for ERP implementation.

### Resource Mobilization

Pakistan's agriculture credit market carries a gap of around Rs.442 billion (about US\$.5 billion) left vacant by institutional credit, which is filled by the informal credit mechanisms at exorbitantly high rates, to the severe disadvantage of the farming community. In order to cope with the present government's vision for agriculture development and alleviation of rural poverty, the Bank is looking for avenues to arrange much needed funds to fill this gap.

The Bank has requested the Federal Government to allow it to coordinate / liaise directly with donors for agriculture related funds available with these institutions, because ZTBL has all the necessary human and physical infrastructure, procedures/ manuals and controls, and, follows regulatory framework and requirements under good governance which makes it the most suitable vehicle to channelize funds to the agriculture sector.

In order to meet the medium and long-term targets of expanding outreach to 25%, the Bank will need additional funds to the tune of \$ 0.9 billion every year over the next five years.

### Markup Capping

The Government of Pakistan had 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 directive of the Bank's Board of Directors, the Bank requested Ministry of Finance to compensate the loss of revenue due to this reduction in markup. The total claim in this respect has been worked out at Rs.22,293 million for the period from July 01, 2004 till Dec. 31, 2010. However, this amount has not been reflected in the accounts of the Bank as the formal payment approval from Ministry of Finance has not been received by the Bank.

The Bank's ability to generate resources through deposit mobilization for expansion of outreach / lending is greatly hampered due to low lending rate. The management took-up the matter with the Government of Pakistan for removal of cap on lending rate in 2010. The Board is glad to report that the cap has been removed in October 2011 and

ZTBL has been allowed to increase its lending rate over three years to the prevailing market lending rate

### Human Resource

The human resource skill deficiency is being addressed by induction of experienced officials with wide and varied experience at selected specialized senior positions. The Bank now presents a blended team of banking, agriculture and other area experts. However, this aspect needs to be further strengthened in 2011. The management of the Bank has also taken the initiatives to improve the quality of human resource through development/grooming of existing human resource by imparting trainings to 3,297 officials during 2010. Induction of well qualified persons at entry level/middle management level has also been carried out.

### Crop Insurance

Due to vulnerability of the agri sector, which is exposed to high risk either due to extreme weather or pest attacks etc. bank's ability to continue to operate on sustainable financially viable basis is dependent on its ability to absorb such unavoidable shocks. To cover such unforeseen risks, crop insurance scheme to mitigate risk of crop losses due to natural calamities was implemented in 2010 for five major crops. This scheme is expected to be refined/expanded further during 2011-12.

### Corporate Social Responsibility

Pakistan had suffered losses due to the recent floods that have displaced millions of people and thousands of lives have been lost. The unprecedented floods have affected significant agricultural land and population. ZTBL has tried to play an active part to reach out to rural/flood hit population:

- The employees of Zarai Taraqiati Bank Ltd (ZTBL) distributed relief goods worth Rs.7.2million among 8000 flood affected families living in the camps.
- ZTBL branch net work was activated to collect donation for flood/calamity victim.
- ZTBL formulated strategy for the relief of flood victim farmers.

- The BOD of ZTBL, in its 47th meeting has approved the President of Pakistan Recovery Relief package from the small borrowers of Gilgit Baltistan.
- Relief package announced by the prime Minister of Pakistan for small farmers of Malakand Division & FATA where ZTBL has a lending exposure.

### Sports

Pakistan Women's Cricket team for 16th Asian games includes nine playing members from ZTBL cricket team.

Zarai Taraqiati Bank Ltd. (ZTBL) won the final of the sixth National Women Cricket Championship defeating Lahore Region by 139 runs.

## Comments on Auditors' Report

The auditors while issuing auditors report on the accounts have reported three qualifications and one matter of emphasis para. These matters were examined by the Management and Board and are explained as under.

The first qualification relates to a credit balance of Rs.570 million in Branch Adjustment Account. The External Auditors have reported that they have not been able to verify the net credit balance of Rs.570 Millions (2009; 544 Millions) as appearing in note 18 to the financial statements and its effects on the financial statements as management is unable to reconcile and classify the individual transactions in respective heads due to mismatched entries.

The explanation given by the concerned management of ZTBL was taken into account which stated that they have provided record of transactions as best as they could possibly derive which relates to past many years. For the current couple of years the Management have made significant improvement in their system to take care of current inter-branch transactions. The management explained that despite inadequate skilled manpower in the field and appropriate IT support, the backlog has been reduced. From Year 2010 reconciliation mechanism has been enhanced and backlog is being handled by creation of focal team to settle this legacy backlog by January 31, 2012. These, explanations have not satisfied the auditors who have considered it appropriate to qualify the auditors report in this regard.

The management has been advised to take steps immediately to address the issue properly for which a dedicated team with appropriately skilled officers should be formed to resolve the inter-branch reconciliation issues/observations.

Considering the above action and the reply of the management given to external auditors, the Board is of the view that despite of the shortage of skilled manpower and appropriate IT infrastructure, management has made significant improvement and advised to resolve the inter-branch reconciliation issue by January 31, 2012.

The second qualification relates to the correctness of provisions of Rs.7,654 Millions (2009; 7,402 Millions) against non-performing advances as appearing in note 10.3 to the financial statements and its effects on the financial statements as the bank does not provide the same according to the requirements of the prudential regulations. The management has, as a measure of abundant caution and keeping in view the risks in agricultural financing, provided for its non performing portfolio whereas the external auditors argued that the bank should take advantage of security value and bank's action contravenes the SBP circular on provisions. The Board endorsed the view of management that the bank, as a matter of prudence, has not accounted for the impact of Sale Value of the mortgaged land due to the nature of security held which is not easily realizable. Furthermore the Board agrees with the management's view that the Prudential Regulations for Agricultural Financing lay down the minimum provision to be kept in the books of accounts.

The third qualification relates to the verification of correctness of the income tax liability of Rs.1,511 Million (2009: 2,067 Million), appearing in Note 18 to the financial statements as no adjustments have been made to reflect the position on filing of income tax returns for the years ended 30 June 2002 and 31 December 2003 to 2009. The auditors have also expressed their inability to determine if any adjustments are required to be made in the financial statements considering the subsequent position and after receipt of consolidated Appellate Tribunal Order dated 22 July, 2011 as the tax position has not been appropriately disclosed in Notes 22.2.3 to 22.2.13 to the financial statements. The management is of the view that it is premature to account for the financial impact of the consolidated Appellate Tribunal Order dated 22 July, 2011 as the tax authorities have filed reference application U/S 133 of the Income Tax Ordinance, 2001, with the Islamabad High Court, Islamabad against the order of appellate tribunal. This fact has been reported in the notes to the accounts. The Board is of the view that the matter has already been appropriately disclosed by the management, in the financial statements.

## Financials

The Bank's Capital Adequacy Ratio (CAR) as at December 31, 2010 was 23.77% as against required ratio of 10%. The Bank earned pre tax profit of Rs.2,878 million and bad debts were adequately

provided for during the period under review. The Bank was able to mobilize up to Rs.9,603 million as on 31.12.2010 in terms of deposits.

ZTBL Financial highlights are summarized below:-

| (Rs. Million)   |         |         |         |
|---|---------|---------|---------|
| Particulars   | 2008    | 2009    | 2010    |
| 1. Total Assets   | 102,341 | 112,619 | 117,586 |
| 2. Advances – net   | 69,923  | 81,974  | 84,793  |
| 3. Cash & Bank Balance  | 17,614  | 11,891  | 13,662  |
| 4. Operating Fixed Assets                                     | 1,143   | 1,070   | 1,132   |
| 5. Share Capital  | 12,522  | 12,522  | 12,522  |
| 6. Deposits   | 5,425   | 8,751   | 9,603   |
| <b>Appropriations</b>   |         |         |         |
| Profit/(Loss) before Taxation                                 | 3,988   | 3,373   | 2,878   |
| Taxation  | 1,387   | 1,246   | 1,014   |
| After Tax Profit/(Loss)                                       | 2,601   | 2,127   | 1,864   |
| Un-appropriated Profit brought forward                        | 1,834   | 3,263   | 4,964   |
| Profit available for Appropriation                            | 4,436   | 5,390   | 6,828   |
| Transferred to Statutory Reserve<br>(20% of after tax profit) | 520     | 425     | 373     |
| Issuance of Bonus Shares                                      | 653     | -       | -       |
| Transferred to Contingencies Reserves                         | -       | -       | -       |
| Un-appropriated Profit Carried forward                        | 3,263   | 4,964   | 6,455   |

### Share Capital

The paid up share capital as on 31.12.2010 was Rs.12,522 million against authorized capital of Rs.25,000 million. Pattern of share holding as at 31.12.2010 is annexed.

### Earnings per Share

During the year under review basic earnings per share was Rs.1.489 compared to Rs.1.698 in 2009. Its computation has been reported in the financial statements.

### Credit Rating

JCR-VIS Credit Rating Company, Karachi in its report dated August 13, 2010 has reaffirmed credit rating of the Bank at AAA/A-1+ (2009:AAA/A-1+) with stable outlook, medium to long term credit rating of B+ and short term credit rating of B. (2009, B+

medium to long term, B short term rating).

### 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, 2010. In the year 2003, the Bank 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 agreed with the proposed terms except the proposed capping of mark-up rate which had been fixed on the last auction weighted average yield of Govt. Treasury Bill of 12 months maturity on floating basis. In view of the critical importance of debt pricing for future financial viability of the bank, the matter was referred to MoF for a considered Government decision. In the tripartite meeting held in January 16, 2008, it was resolved that SBP in consultation with the Bank and MoF shall firm up proposal regarding SBP' debt. SBP forwarded a proposal in November 08, 2008 which was agreed upon between MoF, SBP and ZTBL. Subsequently, MoF advised in September 2009 that Finance Division, SBP and ZTBL will workout revised proposal to rationalize debt structure of ZTBL.

State Bank of Pakistan presented revised restructuring proposal in October 2009. This

proposal was discussed in a meeting held with MoF in February, 2010. The ZTBL explained that due to high financial implications the revised SBP proposal is not practicable and has stressed that SBP agreed upon proposal dated November 08, 2008 may be pragmatic for the bank. In subsequent meetings, the MOF has asked to work out strategy for repayment of entire SBP debt in 30 years. The management has responded that due to limited resources and mark-up capping constraints and inherent risk in agri. financing, repayment of entire debt in 30 years needs to be reconsidered by MOF.

### Board Meetings

Four meetings of the Board were held during the year 2010. Attendance of the members remained as under:-

| Sr. No. | Name of Member                     | Designation                   | No. of meetings attended |
|---------|------------------------------------|-------------------------------|--------------------------|
| 1       | Mr.Sultan Ali Chaudhry             | Chairman                      | 03                       |
| 2       | Mr. Muhammad Zaka Ashraf           | President/CEO, ZTBL/ Director | 03                       |
| 3       | Ms. Nazrat Bashir                  | Director                      | 03                       |
| 4       | Mr.Tauqir Ahmad Faiq *             | Director                      | 01                       |
| 5       | Dr. Amir Muhammed                  | Director                      | 03                       |
| 6       | Mr. Zafar Iqbal                    | Director                      | 04                       |
| 7       | Dr. Khalid Ahmad Khokhar**         | Director                      | 01                       |
| 8       | Mr. Abdul Wajid Arain              | Director                      | 03                       |
| 9       | Mr. Mahmood Nawaz Shah**           | Director                      | 02                       |
| 10      | Mr. Muhammad Iftikhar Khan Mohmand | Director                      | 02                       |
| 11      | Mr. M. Yaqoob Vardag               | Director                      | 02                       |
| 12      | Mr. Babar Yaqoob Fateh Muhammad    | Director                      | 01                       |

\* Replaced by Mr. Babar Yaqoob Fateh Muhammad.

\*\*Two meetings of the board were held during after their appointment.

## Annual General Meeting

Seventh Annual General Meeting of the Bank was held on October 29, 2010.

## Corporate and Financial Reporting Framework

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.

- i. The Bank's financial statements, prepared by the management of the Bank, present fairly its state of affairs, the results of its operations, changes in equity and cash flows.
- ii. Proper books of accounts of the Bank have been maintained.
- iii. Accounting policies have been consistently applied in preparation of these financial statements except as stated in the notes to the financial statements and accounting estimates are based on reasonable and prudent judgment.
- iv. International Accounting Standards, as applicable to banking companies in Pakistan, have been followed in preparation of these financial statements.
- v. The current system of internal control is under constant review by the Internal Audit Division, as are other systems and procedures. This vigilance will continue and identified weakness in controls will be remedied expeditiously.
- vi. Based on the results of December 31, 2010, the Board of Directors is satisfied with the Bank's ability to continue as a going concern.
- vii. There have been no material departures from the best practices of corporate governance as detailed in the Listing Regulation No.35 of the Karachi Stock Exchange (Guarantee) Limited.
- viii. Key operating data and financial data in

summarized form, are included in this Annual Report.

- ix. There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as of December 31, 2010 except as disclosed in these financial statements.

## 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. Compliance Review Program (CRP) is operative in large branches having substantial loan portfolio. Branch Compliance Officers have been posted in the selected branches carrying heavy lending portfolio to review the Bank operations on daily basis.
- vi. In the wake of emerging new auditing techniques, to build capacity and improve quality of audit, a comprehensive

training program for all audit personnel was arranged in 2010.

- vii. For prompt and timely remedial/preventive measures/actions, a special incident report has been introduced. Major irregularities in the operational activities of the Branches are highlighted and promptly brought to the notice of the Management for action/rectification.
- viii. ZTBL is duly observing compliance with the requirements and timelines of Staged Roadmap for implementation of SBP Internal Control Guidelines. The Bank has adopted internationally accepted COSO Internal Control - Integrated Framework for overall set of Internal Controls for ensuring compliance with the SBP Guidelines. ZTBL has also referred US PCAOB Auditing Standard (AS - 5) for evaluating Bank's Internal Control over Financial Report (ICFR).

The Bank has submitted a comprehensive review report, duly approved by Audit committee of the Board, of all stages of Internal Control Guidelines to SBP as part of requirements for the Year 2010. M/s Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants has been engaged to the bank to present a long-form Review Report on the project's progress as of December 31, 2010.

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

### **Risk Management Framework**

At the organizational level, ZTBL has activated risk management in 2009, which encompasses a broader framework for each type of risk. An independent Risk Management Department is now functioning which directly reports to the President. A Board Risk Committee and two separate Committees on Credit Risk and Operational Risk have been set up at Head Office to address issues relating to credit and operations. 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. A separate Unit for Basel-II has been established

in the Risk Management Department to address issues relating to the Basel-II compliance in a timely manner. ALCO discusses the issues related to Market and Liquidity risk.

### **Risk Management Policy and Charter**

Credit Risk is the risk of financial losses arising when a customer or counterparty is unable or unwilling to perform as per the contractual terms resulting in reduction in portfolio value due to actual or perceived deterioration in the credit quality resulting in economic loss to the Bank. The Risk Management Policy of the Bank encompasses a broader Risk Management Framework of the Bank. At present Credit Risk is reviewed at the Bank level only. Credit portfolio, disbursement, recovery, NPL and 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 (KRI), Control Self Assessment (CSA) and Corporate Governance (CG). This model has been successfully implemented in all large and medium branches of the Bank. The data of Operational Risk Model is collected and analyzed on quarterly basis and risk gaps are referred to Operational Risk Committee for corrective measures.

### **Auditors of the Bank for the year 2010**

1. M/s Anjum Asim Shahid Rahman, Chartered Accountants.
2. M/s Ilyas Saeed & Company, Chartered Accountants.

### **Acknowledgement**

In the end, I wish to convey my appreciation to the Bank's team both at the Head Office and in the field for contributing towards maintaining Bank's impressive performance against many odds, which was possible only through their hard work and commitment. It is a clear sign of Bank's promise for the uplifting of Pakistan's agriculture sector and its desire to contribute towards economic growth and alleviation of poverty in the rural sector. I would also like to put on record my gratitude to



the Ministry of Finance, State Bank of Pakistan and SECP for their continued assistance and guidance to the Bank. In the coming year, we all will have to work even harder to take ZTBL to new heights and to meet new challenges as per requirement of the regulators. I am sure that the entire ZTBL team will put in their whole hearted efforts to improve systems and procedures, and, coordinate and explore new business horizons within the vast ambit of agriculture sector and make ZTBL play its due role in the agriculture sector which is of prime importance to the economy of Pakistan.

For and on behalf of the Board

**Acting President/CEO ZTBL**

Date: 09.12.2011

Place: Islamabad

# ZARAI TARAQIATI BANK LIMITED

## Corporate Information

As on December 31,2010

|                          |  |          |
|--------------------------|--|----------|
| Name:                    | Zarai Taraqati Bank Limited  |          |
| Head Office:             | Islamabad  |          |
| Legal Status:            | A Public Limited Company (By shares)   |          |
| Location of Assets:      | In Head Office and in Zonal and Branch Offices located at various positions across the country |          |
| Authorized Capital:      | Rs.25,000,000,000/- divided into 2,500,000,000 ordinary shares of Rs.10 each                   |          |
| Paid-up capital:         | Rs.12,522,440,670/-  |          |
| Board of Directors:      | Mr.Sultan Ali Chaudhry   | Chairman |
|                          | Mr.Muhammad Zaka Ashraf  | Director |
|                          | Ms. Nazrat Bashir  | Director |
|                          | Mr. Babar Yaqoob Fateh Muhammad  | Director |
|                          | Dr. Amir Muhammed  | Director |
|                          | Mr. Zafar Iqbal  | Director |
|                          | Dr.Khalid Ahmad Khokhar  | Director |
|                          | Mr. Abdul Wajid Arain  | Director |
|                          | Mr. Mahmood Nawaz Shah   | Director |
|                          | Mr.Muhammad Iftikhar Khan Mohmand  | Director |
|                          | Mr. M. Yaqoob Vardag   | Director |
| President/CEO            | Mr. Muhammad Zaka Ashraf   |          |
| Chief Operating Officer: | Ms.Roohi R.Khan  |          |
| Chief Financial Officer: | Mr.Abdul Ghaffar Bhatti  |          |
| Company Secretary:       | Mr. Muazam Ali   |          |



## ZARAI TARAQIATI BANK LIMITED

### SHAREHOLDING OF ZTBL

As on December 31,2010

| SR. NO.      | NAME OF SHARE HOLDER                  | NUMBER OF SHARES     | Amount (Rs.)          |
|--------------|---------------------------------------|----------------------|-----------------------|
| 01           | Government of Pakistan                | 1,251,189,067        | 12,511,890,670        |
| 02           | Government of Punjab                  | 292,340              | 2,923,400             |
| 03           | Government of Sindh                   | 125,545              | 1,255,450             |
| 04           | Government of N.W.F.P.                | 71,740               | 717,400               |
| 05           | Government of Balochistan             | 37,875               | 378,750               |
| 06           | Government of Erstwhile East Pakistan | 527,500              | 5,275,000             |
| <b>Total</b> |                                       | <b>1,252,244,067</b> | <b>12,522,440,670</b> |

## HIGHLIGHTS OF ZTBL OPERATIONS 2010

| PARTICULARS                                   | Amount<br>(Rs. Million) |
|---|-------------------------|
| <b>A. DISBURSEMENT</b>                        |                         |
| 1. TOTAL DISBURSEMENT                         |                         |
| a. Production Loans                           | Rs.69,561               |
| b. Development Loans                          | Rs.56,867               |
|   | Rs.12,694               |
| 2. TRACTORS FINANCED                          |                         |
| Number  | 13,321                  |
| Amount  | Rs.6,269                |
| 3. TUBEWELLS FINANCED                         |                         |
| Number  | 1,839                   |
| Amount  | Rs.397                  |
| 4. SHARE OF SUBSISTENCE FARMERS               | 47,135                  |
| 6. SHARE OF SMALL FARMERS<br>(UNDER 25 ACRES) | 61,174                  |
| 7. NUMBER OF BORROWERS SERVED                 | 503,662                 |
| <b>B. RECOVERY OPERATIONS</b>                 |                         |
| TOTAL AMOUNT RECOVERED                        | Rs.71,936               |
| <b>C. NETWORK OF OPERATIONS</b>               |                         |
| 1. NUMBER OF ZONES                            | 27                      |
| 2. NUMBER OF BRANCHES                         | 355                     |
| 3. NUMBER OF MCOs                             | 1,362                   |

## ZARAI TARAQIATI BANK LIMITED

### BOARD SUB-COMMITTEES

#### A. AUDIT COMMITTEE

|    |                          |           |
|----|--------------------------|-----------|
| 1. | Mr. Zafar Iqbal          | Chairman  |
| 2. | Ms. Nazrat Bashir        | Member    |
| 3. | Dr. Amir Muhammed        | Member    |
| 4. | Dr. Khalid Ahmed Khokhar | Member    |
| 5. | Mr. Abdul Wajid Arian    | Member    |
| 6. | Chief Internal Auditor   | Secretary |

#### B. HUMAN RESOURCE MANAGEMENT COMMITTEE

|    |                       |           |
|----|-----------------------|-----------|
| 1. | Mr. Abdul Wajid Arian | Chairman  |
| 2. | Dr. Amir Muhammed     | Member    |
| 3. | President ZTBL        | Member    |
| 4. | Head, Human Resource  | Secretary |

#### C. RISK MANAGEMENT COMMITTEE

|    |                                    |           |
|----|------------------------------------|-----------|
| 1. | Dr. Amir Muhammed                  | Chairman  |
| 2. | Ms. Nazrat Bashir                  | Member    |
| 3. | Mr. M. Yaqoob Vardag               | Member    |
| 4. | Mr. Muhammad Iftikhar Khan Mohmand | Member    |
| 5. | Mr. Zafar Iqbal                    | Member    |
| 6. | Mr. Mahmood Nawaz Shah             | Member    |
| 7. | Head, Risk Management              | Secretary |

#### D. COMMITTEE ON INFORMATION TECHNOLOGY

|    |                                    |           |
|----|------------------------------------|-----------|
| 1. | Dr. Khalid Ahmad Khokhar           | Convener  |
| 2. | Mr. Babar Yaqoob Fateh Muhammad    | Member    |
| 3. | Mr. Mahmood Nawaz Shah             | Member    |
| 4. | Mr. Muhammad Iftikhar Khan Mohmand | Member    |
| 5. | Mr. M. Yaqoob Vardag               | Member    |
| 6. | Head (ISD)                         | Secretary |

#### E. COMMITTEE ON REVAMPING & RESTRUCTURING

|    |   |           |
|----|---|-----------|
| 1. | Dr. Amir Muhammed                       | Convener  |
| 2. | Mr. Babar Yaqoob Fateh Muhammad         | Member    |
| 3. | Mr. Mahmood Nawaz Shah                  | Member    |
| 4. | Mr. Manzar Hayat SEVP Research/Planning | Secretary |

## II. MANAGEMENT COMMITTEES

### A. ASSETS LIABILITIES MANAGEMENT COMMITTEE

- |    |                         |                  |
|----|-------------------------|------------------|
| 1. | President/CEO           | Convener         |
| 2. | Chief Financial Officer | Member/Secretary |
| 3. | EVP (Operations)        | Member           |
| 4. | EVP (Credit)            | Member           |
| 5. | EVP(Recovery & SAM)     | Member           |

### B. EXECUTIVE COORDINATION COMMITTEE

- |    |   |           |
|----|---|-----------|
| 1. | President/CEO                               | Convener  |
| 2. | Chief Operating Officer                     | Member    |
| 3. | All Members of Senior Management Team/SEVPs | Member    |
| 4. | All EVPs/Divisional Heads                   | Member    |
| 5. | Risk Manager                                | Member    |
| 6. | Compliance Officer                          | Secretary |

### C. WRITEOFF REMISSION COMMITTEE

- |    |   |          |
|----|---|----------|
| 1. | President/CEO                           | Convener |
| 2. | Divisional Head Operations Division     | Member   |
| 3. | Divisional Head Recovery & SAM Division | Member   |
| 4. | Senior Vice President (Recovery)        | Member   |
| 5. | Senior Vice President (SAM)             | Member   |

## ZARAI TARAQIATI BANK LIMITED

### STATEMENT OF COMPLIANCES WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED DECEMBER 31, 2010

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. As on December 31, 2010, 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 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. Board of Directors was reconstituted in June 2010. One vacancy arose on the Board was filled in during the period.
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. Vision & Mission Statement and Strategic & Financial Plan of ZTBL were approved by the Board. 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 reviewed on need basis.
7. 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 the President.
8. 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 meeting. Written notices of the Board meetings along with working papers were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
9. Orientation course for the members was scheduled during the Board meeting held in December 2010. However the said course could not be held due to paucity of time. The same is being arranged shortly.
10. Positions of Chief Financial Officer, Company Secretary and Chief Internal Auditor remained intact under due approval of the Board.
11. The Board has set-up an effective internal audit function on full time basis.
12. The Directors' 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 Acting 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 except publication of half yearly financial statements for the six months period ended June 30, 2009 and quarterly financial statements for the period ended September 30, 2010 and holding Board meeting in 1st quarter owing to reconstitution of the Board. However four meetings of the Board were held during the period.
16. Audit Committee of the Board comprised 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 except in 1st quarter owing to reconstitution of the Board. However nine meetings of the Audit Committee were held during the year. The terms of reference of the Committee are formulated and advised to the Committee for compliance. Important points arising out of audit are reviewed by the Board Audit Committee and points requiring attention are brought to the notice of the Board by the Audit Committee.
18. 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 that the firm and all its partners are in compliance with International Federation of Accounts (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. 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.
20. All related party transactions entered during the year were at arms length basis during the period and these have been placed before the Audit Committee and the Board of Directors.
21. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

**(ROOHI R. KHAN)**  
**Acting President/CEO**

Date: 09.12.2011  
Place: Islamabad





# Review of Operations

ZTBL is proud to be the largest financial institution in the rural sector of Pakistan's economy. The Bank continued to operate as the prime financial institution catering to the credit needs of agriculturists for the production, development and modernization of agriculture as well as promotion of non-financial sector.

The Bank is currently passing through the exercise of revamping/restructuring phase so that to serve as a catalyst for the agriculture sector in a more effective and yielding manner aiming at delivering high quality, viable and timely financial and non-financial services to a greater number of clientele so as to increase its outreach on self sustainable basis.

The Bank has been playing an instrumental and proactive role in modernization of agriculture, boosting productivity and enabling growers, particularly the landless poor and small landowners to increase their farm produce and income. ZTBL alone serves about 0.567 million farm families annually and shares around 26.4% of the total institutional credit.

At present the Bank has a network of 27 Zonal Offices and 355 Branches all over the country engaged in catering to the credit needs and providing technical assistance to farming community and rural poor. Since inception, the Bank has disbursed Rs.699.312 billion up to 31.12.2010 which includes financing of 542,690 tractors and 149,710 tube-wells. While meeting the demand for mechanization, attention was also concentrated towards the provision of more credit for livestock, dairy farming, poultry farming and fish farming.

The Bank continuously endeavors to serve its clients with increasing effectiveness and efficiency. In this pursuit, several financial products and delivery mechanisms such as Sada Bahar Scheme, One Window Operation under Supervised Agricultural Credit System, have been introduced over the years.

## 1. Overall Credit Disbursement

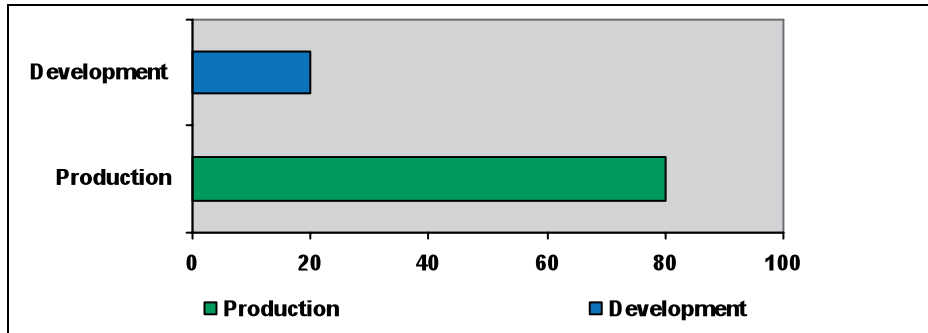
During 2010 the Bank disbursed an overall amount of Rs.69,561 million as compared to Rs. 77,680 million in year 2009. The Bank served 503,662 borrowers during the year 2010. The decline in disbursement is mainly due to havoc created by unprecedented rains/floods due to which agricultural activities of the country were badly affected.

The support to framing community by giving a blend of credits and technology is visible from harvest of bumper wheat crop and relatively better rice and cotton crops during the period under review. The Bank managed the funds availability from its own sources through boosting recovery and recycling the recovery proceeds for increased disbursements.

### 1.1 Purpose-wise Disbursement of Loans

The Bank advanced Rs.56,867 million for production purposes during 2010 against Rs. 61,716 million disbursed in 2009. Item-wise distribution of production loans includes Rs.27,296 million for fertilizers, Rs.15,922 million for improved seeds and Rs.10,804 million for pesticides etc. Bank also provided working capital loans for poultry, dairy, fisheries and livestock which were Rs.106 million, Rs.293 million, Rs.3 million and Rs.57 million, respectively. An amount of Rs.2,383 million was disbursed under the head of others. The share of production loans to total agricultural loans was 81.8. Details are given in statistical table No.2.6 annexed.

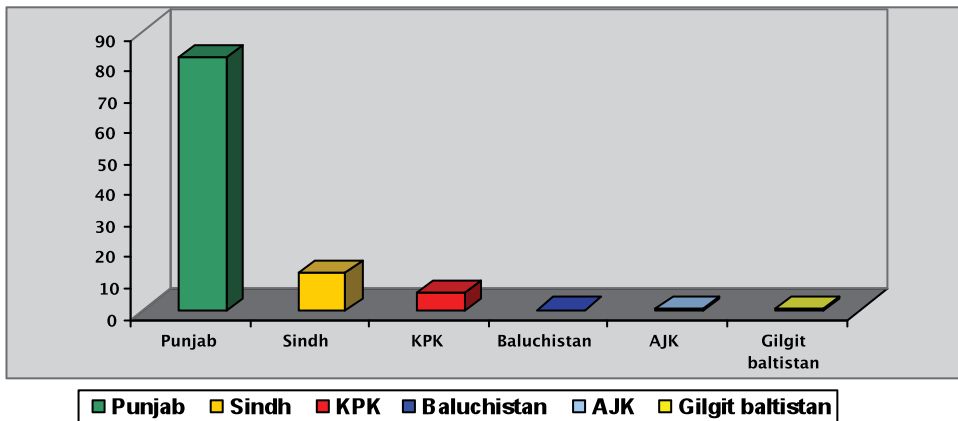
Disbursement for development purposes is amounting to Rs.12,694 million in the year 2010 against Rs. 15,964 million disbursed during the previous year. Out of this amount, Rs.6,270 million were disbursed for financing of 16,109 tractors, Rs.397 million for installation of 1,948 tube-wells, Rs.160 million for farm equipment, Rs.95 million for godowns/cold storages, Rs.7 million for land development and Rs.315 million for orchards. Bank also disbursed loans for the establishment/replenishment of dairy farms, livestock farms and poultry farms amounting to Rs.4,902 million, Rs.463 million and Rs.5 million, respectively. Detail is given in statistical table No.2.6 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 2010 the Bank disbursed Rs.57,058 million (82%) in Punjab, Rs.8,381 million (12.1%) in Sindh, Rs.3,527 million (5.1%) in Khyber Pakhtunkhwa, Rs.115 million (0.2%) in Baluchistan, Rs.242 million (0.3%) in AJK and Rs.238 million (0.3%) in Gilgit Baltistan. Detail is given in statistical table No.2.2 annexed.



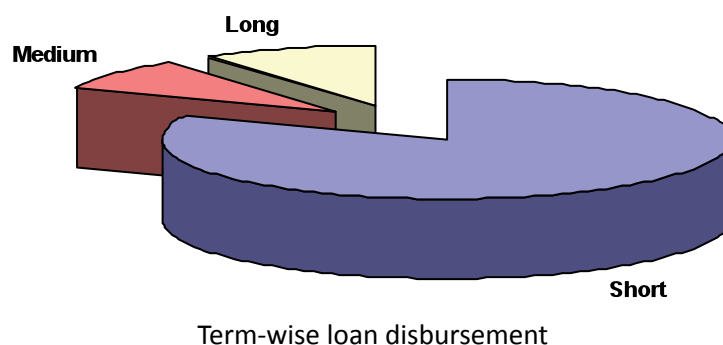
Province-wise disbursement of loans

### 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 up to 18 months. Medium and long term loans are advanced for development purposes and their maturity period spreads over 5 to 8 years, respectively.

Term-wise loan amounts are given below:

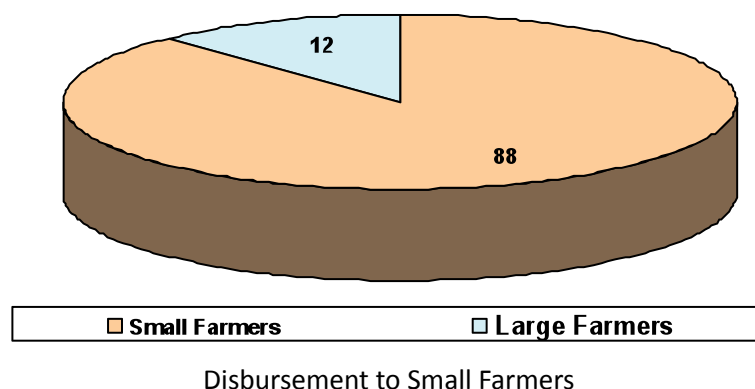
|                   |                   |
|-------------------|-------------------|
| Short term loans  | Rs.56,867 Million |
| Medium term loans | Rs. 5,699 Million |
| Long term loans   | Rs.6,995 Million  |



#### 1.4 Loans to Subsistence and Small Farmers

The majority of farmers in Pakistan operate small holdings. The small farmers owning farms up to 25 acres, constitute 94 percent of total farms. The Bank has been channeling 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 2010, the small farmers having land up to 25 acres, had a share of 88 percent as an amount of Rs.61,174 million was disbursed to them out of the total disbursement of Rs.69,561 million. Out of this, an amount of Rs.47,135 million was channeled to subsistence farmers constituting 68 percent of the total agricultural credit disbursed by the Bank. Year-wise disbursement to small and subsistence farmers is given in statistical table No.1 annexed.



#### 1.5 Holding-wise Disbursement of Loans

Holding-wise disbursement of loans during 2010 revealed that land-less population received Rs.448 million which was 0.6% of the total disbursement. Loans to land owners/operators under 12.5 acres amounted to Rs.45,716 million representing 65.7% share in overall disbursement. Farmers owning/operating land between 12.5 and 25 acres received Rs.15,009 million constituting 22% share. It was followed by Rs.5,631 million (8%) disbursed to farmers with land holding between 25 and under 50 acres. Remaining credit amounting to Rs.2,756 million (4%) was disbursed to land holders operating farms of 50 acres and above. Details are given in statistical table No.2.8 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 0.7% of the total credit, loans between Rs.25,001 to Rs.50,000 were 3.9%, loans between Rs.50,001 to 200,000 were 37%, between Rs.200,001 to Rs.500,000 constituted 45% and above Rs.500,000 constituted 13% of the total credit. Details are given in statistical table No.2.7 annexed.

### 1.7 Security-Wise Disbursement of Loans

Security-wise composition of total loans indicates that loans amounting to Rs.68,964 million, constituting 99.1%, were secured against pledge/ mortgage of tangible securities. Loans amounting to Rs.108 million being 0.2% was disbursed against personal surety while loans amounting to Rs.489 million being 0.7% was advanced against hypothecation and other securities. Details are given in statistical table No.2.4 annexed.



Security-Wise Disbursement of Loans

### 1.8 Zarkhaiz/Awami Zarai Scheme (One Window Operation)

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

Zarkhaiz/Awami Zarai Scheme (One Window Operation) has played a significant role to meet the production credit needs of small farmers timely/satisfactorily. Credit availability to farmers at their door-step enables them to purchase the required good quality inputs. Therefore to meet the farmers inputs needs for Kharif & Rabi Crops, Zarkhaiz/Awami Zarai Scheme (One Window Operation) became operative w.e.f. 4th October' 2010 & 31st July, 2010 to 3rd January, 2011 respectively on every Monday across the country except Mingora Zone in Khyber Pakhtunkhawa, Turbat Zone in Baluchistan, FATA, Gilgit-Baltistan & AJ & K being un-settled/Hilly areas). The loans under the scheme are disbursed by ZTBL in collaboration with Provincial Governments, respective Agriculture Department, Board of Revenue and Postal Authorities.

### 1.9 Preparation of Economic & Per Acre Credit Limit of Flea Seed (Ispaghol) & Olive Orchard (Local)

Flea Seeds (Ispaghol) are very useful for human health. These are sown during the months of September and October. Similarly Olive Oil is also beneficial for human health particularly to control the cholesterol related diseases. Propagation of its oil seed crop is stressed to meet the edible oil shortage in the country. For both the above crops, farmers can also earn/increase income as both the products are very attractive and famous for their sale.

### 1.10 Launching of Product for Provision of Working Capital for Non-Farm Credit (Poultry, Dairy & Fishery) under Awami Zarai Scheme.

In order to facilitate the farmers to run their business, working capital plays pivotal role. Accordingly, under Awami Zarai Scheme, the Bank launched the product for provision of working capital for Non-Farm Credit through which working capital are provided for poultry, dairy and fishery renewal on yearly revolving basis with 3 years currency period.

All experienced poultry, dairy and fishery farmers who are practically engaged and successfully running Non-Farm Credit Activities are eligible to get these loans. The maximum amount of the said loan is Rs.0.500 million.

### 1.11 Discontinuation of Subsequent Loans to the Borrowers of SAM Loans

In light of SBP instructions subsequent lending to the borrowers who have settled/adjusted SAM loans are discontinued. However, the borrowers other than SAM loans who are able to settle their outstanding liabilities by availing write off or remission under any relief package shall continue to be eligible to avail fresh financing facility in their own name or in the name of their dependent/family members including spouses subject to the existing criteria.

### 1.12 Revaluation of Agri-Land under Agri-Pass Book System

In terms of notification issued by Finance Division, Govt. of Pakistan, Islamabad, the value of each Per Index Unit (PIU) has been increased from Rs.1200/- to Rs.2,000/-. The branches of the Bank are allowed to value agricultural land, offered in security, on the above revised rates.

### 1.13 Incentive for Strengthening Scope of Awami Zarai Scheme

In order to provide timely supply of best quality inputs at competitive rates to the farmers through M/S KSSL Awami Zarai Scheme has been launched by ZTBL. In order to strengthen the scope of Awami Zarai Scheme, the Bank has taken following decisions:-

- a. Efforts are made to shift at last 20% existing Sada Bahar Scheme loan cases into Awami Zarai Scheme by providing inputs to the farmers instead of cash.
- b. Further, the branches may entertain new borrowers up to 5% of the amount converted from Sada Bahar to Awami Zarai Scheme wherein the inputs are provided in kind against each equivalent.
- c. If any branch achieves target of 20% conversion by 31.12.2010 Bank would consider attractive incentive for the same.

### 1.14 Sada Bahar 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 limits. To revolve loans, fresh investigation/appraisal is not necessary up to three years. 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.47,906 million was disbursed during the year 2010.

### 1.15 Farm Mechanization and Technology Dissemination

ZTBL is the only bank in Pakistan with complete focus on Agriculture Sector for provision of credit and services in the rural areas particularly to small farmers for modernization and promotion of farm mechanization. The Bank played a vital role in bringing cultivable waste land under cultivation through financing for tractors, tubewells, farm implements such as bed planters, laser land leveling system, farm transportation, vegetable planters, zero tillage drills, rice threshers, combine harvesters for wheat, rice, maize and sunflower etc which directly helped in increasing yield besides improving the efficiency of other farm activities.

At present in Pakistan 922,146 tube wells have been installed which are operating either on diesel or electricity. To reduce the import bill of diesel and to meet the shortage of electricity, ZTBL intends to introduce Solar Energy System as alternate source of power for running irrigation pumps for lift of water, drying/processing of fruits/vegetables and other similar purposes.

The bank introduced *Jatropha* and *Millettia pinnata* cultivation program for alternate source of bio fuel. With the success of this program, it will reduce oil import bill significantly. Similarly bank identified various varieties of olive and introduced its cultivation. Tunnel technology was introduced among farmers for off-season vegetables to enhance their income. Furthermore, emphasis on cultivation of medicinal plants was also given.

27 model villages were established and latest technologies were introduced like laser land leveling, bio-fertilizers, small Agri. Machinery for saving time and labour etc. Field days at Model Villages were conducted and detailed discussions were made to identify problems faced by the farmers and workout their solutions. For this purpose, various subject specialists were invited to discuss about crops and suggest different steps required for yield maximization.

The economics/feasibilities of inland fish farming, Trout farming, Ostrich farming, Beekeeping, Feed lot/fattening station, Rearing of heifers (female calves of buffaloes), Animal breeding centre, Sheep and goat farming, Mobile veterinary clinic were also prepared & distributed among the bank's field functionaries and farmers.

## 2. Recovery Operations

During the year 2010, 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.71,936 million as compared to Rs. 69,549 million recovered during corresponding period of last year with an increase of Rs.2,387 million showing growth of 3.4%. 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.

The overall recovery rate is 89.6% as against 88.8% which is 0.8% plus and this level of recovery was achieved despite of the fact that lot of hindrances during the period such as Law and Order situation in KPK/Baluchistan/Gilgit Baltistan/ Northern Areas and other parts of the country, low rate of paddy/marketing problems, devastating heavy floods which affected 72 Districts involving 11,104 villages and 160 Branches of ZTBL and previous announcements and statements made by the then President and Prime Minister of Pakistan for relief packages for the ZTBL borrowers.

The Bank focused in the areas which were not declared as calamity hit and also pursued for recovery to the loanees of calamity affected areas who were in a position to repay the loans by intensifying contact at grass root level. These arrangements gave positive response and the bank managed to save heavy decline in recovery rather it was improved as against last year's recovery as mentioned above.

An amount of Rs. 1,489 million was charged off during the year and declared as SAM Loans as per SBP Prudential Regulations. Bank has also been able to reduce the additions to charged off/SAM loans by Rs.2.184 billion i.e. about 60% over the last year. This is also a net reduction in outstanding portfolio of charged off loans by Rs. 1.550 billion i.e. 5% as reflected in the table given below. The recovery out of charged off repeat loans is Rs.2.947 billion for the year 2010.

(Rs. Billion)

|                            | 2010   | 2009   | INC/DEC | Improvement<br>(%age) |
|----------------------------|--------|--------|---------|-----------------------|
| Outstanding balance        | 33.432 | 34.982 | -1.550  | -4.5%                 |
| Charge-off during the year | 1.489  | 3.673  | -2.184  | -59.5%                |

Despite worse law & order situation in the country, the Bank's performance regarding SAM loans was commendable due to efforts of bank's management/field functionaries.

### 3. Business Development/Deposit Mobilization

ZTBL is a key player in the agricultural sector of Pakistan for alleviating poverty and ensuring greater outreach for cost effective and timely credit availability to small farmers. In order to ensure efficient and sound operations of field functionaries and provide better services to its clientele, Bank has extended its field network by opening of 04 new Zonal Offices in remote areas of the country.

As per commitment for achieving a sound deposit base, Bank has successfully achieved the deposit target of Rs. 9.880 billion during the period under review with an increase of 13% over the last year. Apart from above, Operations Division has successfully accomplished the following landmarks:-

- Bank has shifted/relocated its 15 Branches to its business potential area for converting these branches in to profit oriented as well as image building of the Bank.
- DMS have been implemented in 250 Branches.
- Bank has collected 4137 Hajj applications which shows an increase of 132% over the last year earning Rs.12.260 million.
- Funds to the tune of Rs.2637.210 million have been collected against Utility Bills earning Rs.4.432 million.
- Implementation of DIMIS in field and HO, which proved a very successful tool in decision support/field tracking.
- Improved Inter Branch Reconciliation process.

### 4. Internal Audit

Internal Audit function conforms to the requirements as set out in Code of Corporate Governance and Prudential Regulations of State Bank of Pakistan. The Audit Committee of the Board maintains an effective oversight over the operations of the Bank's Half Yearly/Yearly Audit of the Branches and Head Office which is carried out in a systematic way through an annual plan approved by the Board Audit Committee.

#### 4.1 Management Audit

The Annual Management Audit of Head Office Departments, Audit Zones and HO Units in the field is conducted in light of applicable rules, regulations, policies and procedures with a view to assess that all the functionaries are performing their duties efficiently and judiciously. In the year 2010 Annual Management audit of 68 Head Office Departments and its units in the field were audited. Targets set for completion of Management Audit of all Departments & its Units were 100% achieved.

#### 4.2 Information Systems Audit

The Information Systems Audit Department conducted 29 IS audit assignments during the year 2010. In addition following tasks were also achieved:

- IS Audit policy was prepared and got approved by the Audit Committee and the Board of Directors.
- Audit Manual was updated.
- Imparted trainings to the field auditors/ZDPMs.
- Introduced video conferencing among audit zones.



## 5. Compliance Programme

Compliance Department continued to pursue Departments at Head Office for ensuring submission of data/reports to SBP as per prescribed procedure. During the year 2010, 62 regular returns were arranged from different Divisions/Departments. The annual SBP Inspection-2009 was coordinated and reply from all concerned Departments was arranged and got cleared by the Board Audit Committee.

Compliance Review Program (CRP) is operative in 37 selected branches having big loan portfolio. Branch Compliance Officers posted in the selected branches review the Bank operations on daily basis. Exceptions observed during the course of review are consolidated on monthly basis and reported in the exception reports. Rectification of exceptions is pursued through Branch Compliance Officers as well as through Operations Division.

## 6. Human Resource Development

The strategy of HR is based on two main pillars i.e. enhancing the capabilities and competencies of the existing Human Resource as well as induction of new blood in various tiers of management. During the year 2010 about 2000 promotions in various cadres were made resulting a great boost up in the morale of bank's work force. In order to overcome the acute shortage of manpower, especially in the Southern Punjab, 292 officers were recruited and posted in those areas to recoup the declining business. In addition 16 middle level executives and 04 senior executives were also inducted on regular or contract basis.

The bank has also been active to Corporate Social Responsibility by contributing in a big way for the help of flood affected people of Pakistan during 2010. The Bank has been a major sponsor of the Pakistan's Cricket. The majority of the Asian Champion Women Cricket team comprises of ZTBL employees.

The bank pursued a vigorous training program during the period under review. About 2300 employees of the bank were trained at its in-house facility whereas 120 others were sent to various training institutes within the country. The bank provided internship facility to 220 students from different colleges/universities. Following courses were conducted at Staff College, Islamabad as detailed below:-

| Sr. No | Course Title   | No. of Courses | No. of participants |
|--------|--|----------------|---------------------|
|        | Staff College Islamabad                              |                |                     |
| 1.     | MCOs Courses   |                |                     |
|        | Orientation Course for newly recruited MCOs          | 1              | 272                 |
|        | ZTBL Operations Course for MCOs                      | 2              | 43                  |
|        | Basic Training Course for Newly Recruited MCOs       | 8              | 267                 |
|        | Course for Bridging Gaps & Capacity Building of MCOs | 6              | 133                 |
|        | Course for Model Village MCOs                        | 1              | 24                  |
|        | Sub Total  | 18             | 739                 |
|        |  |                |                     |
| 2      | Manager Courses                                      |                |                     |
|        | Field Training Courses for Managers with Soft Skills | 3              | 61                  |
|        | Augmenting Core Competencies for Managers            | 3              | 69                  |
|        | Workshop on DM BC & Internal Control System          | 4              | 103                 |
|        | Sub Total  | 10             | 233                 |
|        |  |                |                     |

|    |   |    |      |
|----|---|----|------|
| 3  | Courses/Workshops for Audit Personnel                         |    |      |
|    | Courses for Audit Personnel (Mang. & Core Groups)             | 4  | 103  |
|    | Courses for Team Heads  | 1  | 37   |
|    | Workshop on Credit Disb. & Revenue Matters at all Audit Zones | 9  | 141  |
|    | Comprehensive Training on Computerized IAMS                   | 2  | 48   |
|    | Sub Total   | 16 | 329  |
|    |   |    |      |
| 4  | AM Operations Course  | 8  | 178  |
| 5  | Branch Operations Training Course for Field Functionaries     | 3  | 60   |
| 6  | Workshop on CAD System in ZTBL                                | 4  | 101  |
| 7  | Clerical Staff  | 6  | 136  |
| 8  | IT-Training for Women   | 8  | 161  |
| 9  | IT-Training for HO Employees                                  | 6  | 115  |
| 10 | Miscellaneous   | 9  | 223  |
|    | Grand Total   | 88 | 2275 |
|    |   |    |      |
|    | Executives Trained at other Institutions                      |    | 120  |
|    | Executive Trained Abroad                                      |    | 1    |
|    | ACCA Internship Processed                                     |    | 50   |
|    | Internship (without stipend)                                  |    | 165  |
|    | Internship (with stipend)                                     |    | 5    |
|    | Employees Education Training Program                          |    | 29   |

## 7. Risk Management Framework

At the organizational level, ZTBL has established a robust risk management structure which encompasses a broader framework of Committees, Department and Units responsible for each type of risk. An independent Risk Management Department has been established which directly reports to the President. A Board Risk Committee and two separate Committees on Credit Risk and Operational Risk have been set up at Head Office to address issues relating to credit and operations. 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. A separate Unit for Basel-II has been established in the Risk Management Department to address issues relating to the Basel-II compliance in a timely manner.

### Risk Management Policy and Charter

The Risk Management Policy of the Bank encompasses a broader Risk Management Framework of the Bank. At present Credit Risk is reviewed at the Bank level only. Credit portfolio, disbursement, recovery, 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 (KRI), Control Self Assessment (CSA) and Corporate Governance (CG). This model has been successfully implemented in all large and medium branches of the Bank. The data of Operational Risk Model is collected and analyzed on quarterly basis and risk gaps are elevated to Operational Risk Committee for corrective measures.

## 1.0 Risk Management

The risk management is a dynamic process of identification, measurement, monitoring & control and reporting risk. ZTBL has set up a centralized risk management function at the organizational level which encompasses a broader framework of risk committees, a Risk Management Department and its units responsible for each category of risk i.e. credit, market and liquidity and operational risks. The Bank's Risk Management Department is independent of the business and operations and directly reports to the President. The Bank has set up a Basel-II Implementation Committee and working groups to implement orderly transition and effective implementation of this Basel-II Accord in the Bank. The risk policy has already been modified to cater to the guidelines of the Basel-II Accord.

The Bank's systematic and integrated risk management function for each category of risk is as follows:

### 1.1 Credit Risk

Credit Risk is the risk of financial losses arising when a customer or counterparty is unable or unwilling to perform as per contractual terms resulting in reduction in portfolio value due to actual or perceived deterioration in the credit quality 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's 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 credit portfolio is reviewed and analyzed on quarterly basis and risk-gaps are reported to the Credit Risk Committee for corrective measures.

The Bank pays particular attention to the management of Non-Performing Loans (NPLs).

With the rolling-out of Obligor Risk Rating (ORR) Model for fresh borrowers in year 2010, credit portfolio will be more effectively monitored as well as the loaning products. As an early warning signal, Portfolio at Risk PAR report will also be generated. This will enable the management to take proactive measures for having quality credit portfolio/products.

With regards to Basel-II compliance, the Bank has implemented Standardized Approach (SA) for minimum capital requirements for credit risk. An internal credit rating system (Obligor Risk Rating) is also under process which will be implemented in due course of time.

A robust MIS is a prerequisite for establishment of an effective risk management system therefore the existing MIS of the Bank is undergoing substantial up gradation process for strengthening of the data collection machinery to ensure the integrity and reliability of data.

### 1.2 Market Risk

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.

With regards to Basel-II compliance, the Bank has implemented Standardized Approach (SA) for minimum capital requirements for market risk.

#### 1.2.1 Foreign Exchange Risk

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

### 1.2.2 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.

### 1.2.3 Liquidity Risk

ALCO is effectively performing the function of cash management at ZTBL. Accordingly, the yields on funds placement have been constantly increasing.

### 1.3 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. In order to manage operational issues, an Operational Risk Model (ORM) has been developed which comprises Key Risk Indicator (KRI), Control Self Assessment (CSA) and Corporate Governance (CG). This model has been successfully implemented in all large and medium branches of the Bank. The data of Operational Risk Model is collected and analyzed on quarterly basis and risk gaps are elevated to Operational Risk Committee for corrective measures. This model will be rolled out to the remaining branches of the Bank in a phased manner.

With regards to Basel-II compliance, the Bank has implemented Basic Indicator Approach (BIA) for minimum capital requirements for operational risk. Disaster Recovery and Business Continuity Plan has also been revised. It includes separate IT Business continuity Plan which caters to IT specific Business Continuity Planning requirements.

## 8. Information Systems Division

To better compete in the market, the bank continued to use modern Information and Communication Technology (ICT) to provide best services and attract valued customers. During 2010, the Bank has assessed efficiency of work processes and identified areas for improvement which have been addressed by adoption of modernized ICT infrastructure. The use of ICT has enabled the Bank to improve its operational efficiency by moving from manual to automated banking. Some of the most noteworthy achievements during 2010 are as under:

- Rolled out Internal Credit Risk Management System (ICRMS) for Obligor Risk Rating of Fresh Borrowers in compliance with the SBP guidelines on BASEL-II implementation.
- Developed Internal Audit Control Management System (IAMS) to automate end-to-end business workflows of Internal Audit Division to facilitate all stakeholders for having up to-date position of audit activities.
- In order to introduce paperless environment in the Bank, the Annual Performance Appraisal System has been developed for online Performance Appraisal Management which will enable all appraisers to submit online appraisal of their subordinates.
- cFOCS has been enhanced with features of Awami Zarai Scheme, Canola Re-Financing Scheme, SAM Loan Settlement Cases Tagging and Markup/Rebate calculator.
- Developed centralized version of Deposit Management System (cDMS) with a view to provide facility for online deposit and withdrawal of cheques/cash in real time from any branch of ZTBL.
- Developed Oracle based Centralized Payroll Management System to facilitate Head Office as well as Field Offices to process employee's payroll on central server.
- Enhanced Dynamic Integrated MIS (Di-MIS) with dozens of customized reports to assist

management in making effective decision.

- Developed software for tagging of flood affected areas to identify the expected losses to the Bank.
- The Local Area Network (LAN) was established at 250 Branches and 25 Zonal Offices while the Wide Area Network (WAN) connectivity has been provided at all Branches.
- To develop secure & reliable intranet between Head Office and Field Offices, the VDPN (Virtual Private Data Network) pilot project in coordination with PTCL has been completed with a 20 Mbps backhaul link and 512 Kbps CIR (Committed/Dedicated Information Rate) DSL link at 157 branches.
- Successfully performed the BCP drill on 13th October 2010 when all branches carried out their transactions at failover site and completed the day end process without any difficulty. The data from failover site was then transferred to primary site successfully and from 14th October 2010, all branches were turned to normal operations.
- Process Improvements have been made in IT Quality Assurance, Change Control and IT Security.
- The Data Centre at Head Office has been kept operating smoothly throughout the year.
- Procurement and Development of requisite IT Equipment amounting to Rs. 2.7 million has been carried out.
- More than 2000 IT Support calls were attended
- 8,157 Credit Worthiness Reports were arranged to facilitate risk assessment of borrowers.
- Verification of 31,056 CNICs were arranged online from NADRA to comply with SBP regulations.
- IT Support has been extended to all users for smooth functioning of IT Operations in the Bank.



**Kissan Support Services (Pvt) Ltd.**

(Subsidiary company of ZTBL)

## Board of Directors

### Kissan Support Services (Pvt) Ltd.

|   |                                |                   |
|---|--------------------------------|-------------------|
| 1 | Chaudhary Muhammad Zaka Ashraf | Chairman          |
| 2 | Chaudhary Ashfaq Akhtar        | Member            |
| 3 | Mr. Muhammad Rafiq Bughio      | Member            |
| 4 | Mr. Abdul Ghaffar Bhatti       | Member            |
| 5 | Chaudhary Muhammad Asghar      | Member            |
| 6 | Mrs. Shaheen Saifullah Toru    | Member            |
| 7 | Mrs. Azra Mehmood Sheikh       | Member            |
| 8 | Mr. Anjum Saeed Akhtar         | Member, MD/CEO    |
| 9 | Mr. Saeed Akhtar               | Company Secretary |

## Introduction

The Kissan Support Services (Pvt) Limited was incorporated as a Zarai Taraqati Bank Limited's own 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 & Article of Association for the welfare & support of farmers. Few assignments of KSSL are as follows:-

- Recruitment/provision of staff to ZTBL
- Provision of support services to the farmers.
- Security Services to ZTBL
- Medical Services of ZTBL & KSSL employees.
- Management of ZTBL Sports Activities
- Mail Management Services
- Photocopying Services to ZTBL
- Janitorial Services to ZTBL
- Repair & Maintenance Services to ZTBL

## Review of Operations - 2010

The principal activity of the Company continues to be the provider of non-core support services to the ZTBL by exercising appropriate control on the workforce in line with the best service quality standards besides provision of quality inputs to the farmers.

### 1. Human Resource Department

The KSSL HR&A department provides support Staff (Manpower) to the ZTBL. Since the incorporation of KSSL and start of its operations, KSSL has inducted/recruited various employees at Head Office as well as in the field Offices.

### 2. Medical Services Department

Medical Services department makes available the admissible medical facilities to the Bank's employees and their dependents for their proper health care, to attend routine and emergency patients and refer them to specialists, laboratories.

#### Modalities/Future Plan

- Enlistment of Hospitals of repute on Panel of the Bank
- Establishment of a "State of Art Model Medical Centre".
- Provision of Radiological/Ultrasound facilities.
- Up-gradation of existing Pathological Laboratory with state of the art facilities, Establishment of a Gynecological Unit, Dental Unit, Data Bank for health care users, Immunization/vaccination against Hepatitis-B.

### 3. Review of Security Department

Security Unit, KSSL plays an important role in spiraling Security of the Bank in the year 2010. In order to achieve the maximum level of security measures, the Security Unit has taken the following steps:

- a. Installed Emergency barriers at all the entry points
- b. Constructed room for Security Surveillance at the Main gates and similar booth has been arranged in the branches also.
- c. Security Surveillance equipment has been installed at the Head Office, as well as branch level
- d. In order to keep the Security staff alert KSSL carries out Fire Fighting Practice and make arrangement of Fire Fighting training at National Institute of Fire Fighting, Islamabad.

### 4. Review of Sports Department

Sports Department provides free coaching/training to employees & their Children in the games of Table Tennis & Lawn Tennis at ZTBL Sports Club.

ZTBL Cricket team participated in Quaid-e-Azam Trophy & RBS Cup organized by Pakistan Cricket Board and finished second and fifth respectively on point table in the pool. ZTBL Women Cricket team won 5th National Women Cricket Championship 2010.

### 5. Review of Business Development Department

#### Provision of Fertilizer to ZTBL borrowers

Kissan Support Services (Pvt.) Limited started providing fertilizer to ZTBL farmers through M/s Pak Arab



Fertilizer Limited, Multan in 2009 and successfully continued the project during 2010. The project was gradually extended to other parts of the country and now all agricultural parts of the country are covered by KSSL. The brief zone wise summary of the performance during 2010 is given below:

| Warehouse Name | No. of Bags  |               |              |              |               | TOTAL Fertilizers |
|----------------|--------------|---------------|--------------|--------------|---------------|-------------------|
|                | NP           | CAN           | UREA         |              | Total         |                   |
|                |              |               | PFL          | FFCL         |               |                   |
| Bahawalpur     | 364          | 465           | 1,057        | -            | 1,057         | 1,886             |
| Hyderabad      | 419          | 500           | 48           | 414          | 462           | 1,381             |
| Sargodha       | 1,413        | 1,130         | 1,128        | -            | 1,128         | 3,671             |
| Faisalabad     | 343          | 146           | 635          | -            | 635           | 1,124             |
| Lahore         | 784          | 359           | 4,289        | -            | 4,289         | 5,432             |
| Multan         | 1,545        | 2,737         | 2,622        | -            | 2,622         | 6,904             |
| Rahim Yar Khan | 3,286        | 4,727         | 85           | 8,262        | 8,347         | 16,360            |
| Vehari         | 157          | 319           | 85           | 654          | 739           | 1,215             |
| Nawabshah      | 55           | 12            | -            | 157          | 157           | 224               |
| <b>Total</b>   | <b>8,366</b> | <b>10,395</b> | <b>9,949</b> | <b>9,487</b> | <b>19,436</b> | <b>38,197</b>     |

### Future Endeavors

Further, KSSL has entered into agreement with M/s Engro Fertilizers Limited, Karachi, second largest fertilizer company in Pakistan and started pilot project at Rahim Yar Khan Zone. The project will be gradually extended to rest of the country during 2011.

Kissan Support Services (Pvt.) Limited foresees bright prospects in the field of fertilizer, seeds and pesticide business. These ventures will not only be helpful for the borrowers to choose quality products from wide range of brands at controlled rate but will also help Kissan Support Services Private Limited to become a self sustained entity.

### Pesticides/Insecticides & Seeds

During 2010, KSSL signed agreements with country's leading pesticides, insecticides and seed manufacturing companies such as M/s Ali Akbar Group, M/s Aziz Group (Agri Farm Services), M/s Pioneers Seeds and M/s FMC United for provision for quality products to ZTBL borrowers. KSSL provided pesticides amounting to Rs. 14.99 million to ZTBL borrowers in 8 zones. This amount is estimated to increase many folds as the project is planned to be expanded in all ZTBL zones during 2011.

Further, KSSL is also pursuing to enter into agreement with Punjab Seed Corporation, Pakistan's biggest seed development corporation, for provision of latest and high yield seed varieties to borrowers.

### Provision of Tractors

KSSL is in process of entering into agreements with the leading tractor manufacturing/importing companies of the country for provision of the same to ZTBL borrowers. The objective of this project is to increase efficiency of supply of tractors and facilitate borrowers.

## 6. Review of Administration Department

Administration Department of KSSL performs a broad range of duties for the welfare of the organization which are as follows:-

- i. Rest House for Bank Executives
- ii. Photocopy Services
- iii. Mail Management Services
- iv. Janitorial Services
- v. Repair and Maintenance Services

## Future Plans

- FM Radio station, “KISSAN KI AWAZ” is going to be operational very soon.
- Establishment of a “State of the Art Model Medical Centre” is under process of initiation.
- Establishment of Gymnasium for the Bank employees.

## FINANCIAL OVERVIEW OF KISSAN SUPPORT SERVICES

### BALANCE SHEET

| Sr. No. | Particulars                           | Amount in Million Rs. |                |
|---------|---------------------------------------|-----------------------|----------------|
|         |                                       | Dec 31, 2010          | Dec 31, 2009   |
| 1       | Net assets                            | 15.251                | 3.026          |
| 2       | Current assets                        | 217.011               | 184.010        |
|         | <b>Total Assets</b>                   | <b>232.262</b>        | <b>187.036</b> |
| 3       | Share Capital & Reserves              | 175.316               | 143.222        |
| 4       | Non Current Liabilities               | 28.598                | 29.222         |
| 5       | Current liabilities                   | 28.348                | 14.592         |
|         | <b>Total Equity &amp; Liabilities</b> | <b>232.262</b>        | <b>187.036</b> |

### PROFIT & LOSS ACCOUNT

| Sr. No. | Particulars             | Amount in Million Rs. |               |
|---------|-------------------------|-----------------------|---------------|
|         |                         | 31-Dec-10             | 31-Dec-09     |
| 1       | Income                  | 431.667               | 350.487       |
| 2       | Cost of services        | (374.121 )            | (283.598)     |
| 3       | Administrative Expenses | (44.402)              | (51.681)      |
| 4       | Profit before Tax       | <b>33.788</b>         | <b>35.035</b> |
| 5       | Provision for Tax       | (1.693)               | (9.361)       |
| 6       | Profit after Tax        | <b>32.094</b>         | <b>25.674</b> |
|         |                         | <b>Amount in Rs.</b>  |               |
| 7       | Earning per Share       | 3.21                  | 2.57          |



**UNCONSOLIDATED  
ACCOUNTS**



# Auditor's Report



## **Anjum Asim Shahid Rahman**

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## **Auditors' Report to the Members**

We have audited the annexed statement of financial position of Zarai Tarqiati Bank Limited (the "Bank") as at December 31, 2010 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement, together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, which include the unaudited certified returns from the branches and other offices, except for one hundred and four 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 purposes 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 the 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.

Except for the matters referred in paragraphs from (i) to (iii) below, 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 case of loans and advances covered more than sixty percent of the total loans and advances of the Bank, we report that:

- i. We have not been able to verify the net credit balance of Rs. 570 Million (2009: 544 Million) in "Branch Adjustment Account" appearing in note 18 to the financial statements and its effects on the financial statements as management is unable to reconcile and classify the individual transactions in respective account heads due to mismatched entries;



- ii. We have not been able to verify the correctness of provisions of Rs 7,654 Million (2009: 7,402 Million) against non – performing advances appearing in note 10.3 to the financial statements as the Bank does not provide the same according to the requirements of the prudential regulations; and
- iii. We have not been able to verify the correctness of the income tax liability of Rs 1,511 Million(2009: 2,067 Million), appearing in note 18 to the financial statements as no adjustments have been made to reflect the tax position on filing of income tax returns for the years ended 30 June 2002 and 31 December 2003 to 2009. We have also not been able to determine if any adjustments are required to be made in the financial statements considering the subsequent position and after receipt of consolidated Appellate Tribunal Order dated 22 July 2011 read with reference application filed by the Income Tax Authorities as the tax position has not been appropriately disclosed in Notes 22.2.3 to 22.2.13 to the financial statements.
  - 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 statement of financial position 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 except for the possible effects of the matters described in paragraphs from (i) to (iii) above, the statement of financial position, profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement 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 respectively give a true and fair view of the state of the Bank's affairs as at December 31, 2010 and its true balance of the profit, its comprehensive income, its changes in equity and cash flows 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.

*Jus*

Without further qualifying our opinion, we draw attention to notes 15.5 and 22.2.14 to the financial statements, which fully explain the status of State Bank of Pakistan (SBP) debt with respect to mark up payable by the Bank. As per the submitted debt restructuring proposed by SBP, the additional mark up amounting to Rs. 2.729 Billion has not been accounted for by the Bank, due to reason stated in the aforesaid notes. Outcome of the decision on the matter may require appropriate adjustment in the provision of accrued markup of liability.

The financial statements of the Bank for the year ended December 31, 2009 were audited by M/s BDO Ebrahim & Co. Chartered Accountants and M/s Hyder Bhimji & Co. Chartered Accountants who have issued an unqualified report dated September 28, 2010 and laid emphasis on three matters namely inter branch current account outstanding adjustments, interest rate difference relating to borrowing from the State Bank of Pakistan and non disclosure of impact of flood on the financial operations of the Bank.

  
ANJUM ASIM SHAHID RAHMAN  
Chartered Accountants  
Engagement Partner:  
Nadeem Tirmizi

Islamabad  
Date: 22 DEC 2011

  
ILYAS SAEED & CO.  
Chartered Accountants  
Engagement Partner:  
Imran Ilyas

Islamabad  
Date: 22/12/2011



**ZARAI TARAQIATI BANK LIMITED**  
**UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010**

|  | Note | 2010              | 2009              |
|--|------|-------------------|-------------------|
| Rupees in '000   |      |                   |                   |
| <b>ASSETS</b>  |      |                   |                   |
| Cash and balances with treasury banks                  | 7    | 2,745,611         | 2,354,107         |
| Balances with other banks                              | 8    | 10,916,739        | 9,536,981         |
| Lendings to financial institutions                     |      | -                 | -                 |
| Investments - net                                      | 9    | 7,804,207         | 7,213,948         |
| Advances - net   | 10   | 84,792,594        | 81,974,021        |
| Operating fixed assets                                 | 11   | 1,131,733         | 1,070,417         |
| Deferred tax asset - net                               | 12   | 438,660           | 290,631           |
| Other assets - net                                     | 13   | 9,756,405         | 10,178,772        |
|  |      | 117,585,949       | 112,618,877       |
| <b>LIABILITIES</b>                                     |      |                   |                   |
| Bills payable  | 14   | 306,040           | 2,059,979         |
| Borrowings   | 15   | 51,257,213        | 51,257,213        |
| Deposits and other accounts                            | 16   | 9,602,772         | 8,750,892         |
| Sub-ordinated loans                                    | 17   | 3,204,323         | 3,204,323         |
| Liabilities against assets subject to finance lease    |      | -                 | -                 |
| Deferred tax liability - net                           | 12   | -                 | -                 |
| Other liabilities                                      | 18   | 31,510,958        | 27,911,794        |
|  |      | 95,881,306        | 93,184,201        |
| <b>NET ASSETS</b>                                      |      | <b>21,704,643</b> | <b>19,434,676</b> |
| <b>REPRESENTED BY</b>                                  |      |                   |                   |
| Share capital  | 19   | 12,522,441        | 12,522,441        |
| Reserves   | 20   | 1,884,411         | 1,511,554         |
| Unappropriated profit                                  |      | 6,455,623         | 4,964,194         |
|  |      | 20,862,475        | 18,998,189        |
| Surplus on revaluation of assets - net of deferred tax | 21   | 842,168           | 436,487           |
|  |      | 21,704,643        | 19,434,676        |
| <b>CONTINGENCIES AND COMMITMENTS</b>                   | 22   |                   |                   |

The annexed notes 1 to 44 and Annexure I form an integral part of these unconsolidated financial statements.

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR

**ZARAI TARAQIATI BANK LIMITED**  
**UNCONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2010**

|  | Note | 2010         | 2009         |
|--|------|--------------|--------------|
| Rupees in '000   |      |              |              |
| Mark-up / return / interest earned   | 23   | 8,896,701    | 9,055,314    |
| Mark-up / return / interest expensed   | 24   | 3,713,765    | 3,597,576    |
| Net mark-up / interest income  |      | 5,182,936    | 5,457,738    |
| Provision against non-performing loans and advances                          |      | 1,365,024    | 2,224,674    |
| Provision for diminution in the value of investment                          | 9.3  | -            | -            |
| Impairment in the value of investment  |      | -            | 263          |
| Write offs under Government relief packages                                  |      | 698          | 2,470        |
| Bad debts written off directly   |      | -            | -            |
|  |      | 1,365,722    | 2,227,407    |
| Net mark-up / interest income after provisions                               |      | 3,817,214    | 3,230,331    |
| <b>NON MARK-UP / INTEREST INCOME</b>   |      |              |              |
| Fee, commission and brokerage income   |      | 8,388        | 10,168       |
| Dividend income  |      | 35,420       | 27,986       |
| Income from dealing in foreign currencies                                    |      | -            | -            |
| Gain on sale of securities   |      | -            | -            |
| Unrealized Gain on revaluation of investments classified as held for trading |      | -            | -            |
| Other income   | 25   | 5,289,514    | 6,617,418    |
| Total non mark-up / interest income  |      | 5,333,322    | 6,655,572    |
|  |      | 9,150,536    | 9,885,903    |
| <b>NON MARK-UP / INTEREST EXPENSES</b>                                       |      |              |              |
| Administrative expenses  | 26   | 6,261,430    | 5,782,064    |
| Provision against other assets   | 13.7 | (1,209)      | 53,088       |
| Other charges  | 27   | 1,410        | 390          |
| Total non mark-up / interest expenses  |      | 6,261,631    | 5,835,542    |
|  |      | 2,888,905    | 4,050,361    |
| <b>COMMUTATION TO EMPLOYEES UNDER SR-2005</b>                                | 28   | 11,063       | 677,821      |
| <b>PROFIT BEFORE TAXATION</b>  |      | 2,877,842    | 3,372,540    |
| Taxation - Current   |      | 1,192,110    | 1,667,671    |
| - Prior years  |      | -            | 37,491       |
| - Deferred   |      | (178,554)    | (459,546)    |
|  | 29   | 1,013,556    | 1,245,616    |
| <b>PROFIT AFTER TAXATION</b>   |      | 1,864,286    | 2,126,924    |
| Unappropriated profit brought forward  |      | 4,964,194    | 3,262,655    |
| <b>Profit available for appropriation</b>                                    |      | 6,828,480    | 5,389,579    |
| <b>Basic earnings per share (Rupees)</b>                                     | 30   | <b>1.489</b> | <b>1.698</b> |
| <b>Diluted earnings per share (Rupees)</b>                                   | 31   | <b>1.489</b> | <b>1.698</b> |

The annexed notes 1 to 44 and Annexure I form an integral part of these unconsolidated financial statements.

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR

**ZARAI TARAQIATI BANK LIMITED**  
**UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

|   | <b>Note</b> | <b>2010</b>           | <b>2009</b> |
|---|-------------|-----------------------|-------------|
|   |             | <b>Rupees in '000</b> |             |
| <b>PROFIT AFTER TAXATION</b>                            |             | 1,864,286             | 2,126,924   |
| Other comprehensive income                              |             | -                     | -           |
| <b>TOTAL COMPREHENSIVE INCOME TRANSFERRED TO EQUITY</b> |             | 1,864,286             | 2,126,924   |

Surplus arising on revaluation of assets has been reported in accordance with the directives of the State Bank of Pakistan in a separate account below equity.

The annexed notes 1 to 44 and Annexure I form an integral part of these unconsolidated financial statements.

**PRESIDENT**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**

## ZARAI TARAQIATI BANK LIMITED

### UNCONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2010

| Note  | 2010                 | 2009                |
|---|----------------------|---------------------|
|   | Rupees in '000       |                     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |                      |                     |
| Profit before taxation  | 2,877,842            | 3,372,540           |
| Rental income   | (30,824)             | (25,894)            |
| Dividend income   | (35,420)             | (27,986)            |
|   | <u>2,811,598</u>     | <u>3,318,660</u>    |
| Adjustments:  |                      |                     |
| Depreciation  | 224,225              | 209,194             |
| Amortization  | 25,275               | 25,302              |
| Amortization of deferred income                               | (67,329)             | (71,112)            |
| Provision against non-performing loans and advances           | 1,365,024            | 2,224,674           |
| Impairment in the value of investment                         | -                    | 263                 |
| Provision for employees post retirement benefits              | 261,186              | 326,654             |
| Provision against other assets                                | (1,209)              | 53,088              |
| Fixed assets - written off                                    | 719                  | -                   |
| Write offs under Government relief packages                   | 698                  | 2,470               |
| Reversal/(provision) for employees' compensated absences      | (395,897)            | 242,096             |
| Gain on sale of operating fixed assets                        | (1,942)              | (1,566)             |
|   | <u>1,410,750</u>     | <u>3,011,063</u>    |
|   | 4,222,348            | 6,329,723           |
| (Increase) / decrease in operating assets:                    |                      |                     |
| Advances-net  | (4,184,295)          | (14,277,668)        |
| Others assets - net   | (1,034,148)          | (1,197,321)         |
|   | <u>(5,218,443)</u>   | <u>(15,474,989)</u> |
| Increase / (decrease) in operating liabilities:               |                      |                     |
| Bills payable   | (1,753,939)          | 1,446,601           |
| Deposits and other accounts                                   | 851,880              | 3,325,633           |
| Other liabilities (excluding current taxation)                | 4,358,297            | 3,110,093           |
|   | <u>3,456,238</u>     | <u>7,882,327</u>    |
| Staff retirement benefit payments                             | 1,457,724            | (420,994)           |
| Income tax paid   | (1,749,203)          | (1,699,442)         |
| Net cash flow (used in) / generated from operating activities | <u>2,168,664</u>     | <u>(3,383,375)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |                      |                     |
| Net investment (held to maturity securities)                  | (154,053)            | (2,233,124)         |
| Rental income received  | 30,824               | 25,894              |
| Dividend income received                                      | 35,420               | 27,986              |
| Investment in operating fixed assets                          | (330,157)            | (188,105)           |
| Sale proceeds of property and equipment disposed-off          | 20,564               | 27,644              |
| Net cash flow (used in) / generated from investing activities | <u>(397,402)</u>     | <u>(2,339,705)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |                      |                     |
|   | -                    | -                   |
| Net (decrease) / increase in cash and cash equivalents        | 1,771,262            | (5,723,080)         |
| Cash and cash equivalents at beginning of the year            | 11,891,088           | 17,614,168          |
| Cash and cash equivalents at end of the year                  | 32 <u>13,662,350</u> | <u>11,891,088</u>   |

The annexed notes 1 to 44 and Annexure I form an integral part of these unconsolidated financial statements.

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR

## ZARAI TARAQIATI BANK LIMITED

## UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2010

|   | Share capital | Statutory reserve | Revenue Reserve       |                       | Total      |
|---|---------------|-------------------|-----------------------|-----------------------|------------|
|   |               |                   | Contingencies reserve | Unappropriated profit |            |
| Rupees in '000  |               |                   |                       |                       |            |
| <b>Balance as at December 31, 2008</b>                          | 12,522,441    | 1,026,169         | 60,000                | 3,262,655             | 16,871,265 |
| Total comprehensive income for the year ended December 31, 2009 | -             | -                 | -                     | 2,126,924             | 2,126,924  |
| Transfer to statutory reserve                                   | -             | 425,385           | -                     | (425,385)             | -          |
| <b>Balance as at December 31, 2009</b>                          | 12,522,441    | 1,451,554         | 60,000                | 4,964,194             | 18,998,189 |
| Total comprehensive income for the year ended December 31, 2010 | -             | -                 | -                     | 1,864,286             | 1,864,286  |
| Transfer to statutory reserve                                   | -             | 372,857           | -                     | (372,857)             | -          |
| Transfer to contingencies reserve                               | -             | -                 | -                     | -                     | -          |
| Issuance of bonus shares  | -             | -                 | -                     | -                     | -          |
| <b>Balance as at December 31, 2010</b>                          | 12,522,441    | 1,824,411         | 60,000                | 6,455,623             | 20,862,475 |

The annexed notes 1 to 44 and Annexure I form an integral part of these unconsolidated financial statements.

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR

## ZARAI TARAQIATI BANK LIMITED

### NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

#### 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 (the Bank) 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 355 (December 31, 2009: 347) 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

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

2.2. 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'. These unconsolidated financial statements have been presented in accordance with such revised form.

#### 3. STATEMENT OF COMPLIANCE

3.1. These unconsolidated financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board as are notified under the provisions of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). In case requirements differ, the provisions of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (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, 2002. Further, according to the notification of SECP dated April 28, 2008, the IFRS-7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated financial statements. However, investments have been presented in accordance with the requirements of various circulars issued by SBP.

##### 3.3. Standards, amendments and interpretations not yet effective

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

|                  |  | <b>Effective date<br/>(accounting periods<br/>beginning on or after)</b> |
|------------------|--|--|
| IAS-12           | Income Taxes: Deferred Tax Amendment - Recognition of underlying assets                    | January 1, 2012  |
| IAS-24           | Related Party Disclosures  | January 1, 2011  |
| IAS-32           | Financial Instruments: Presentation-Classification of Rights Issues                        | February 1, 2010   |
| IFRIC-14, IAS-19 | The Limit on Defined Benefit Assets,<br>Minimum Funding Requirements and other Interaction | January 1, 2011  |
| IFRIC-19         | Extinguishing Financial Liabilities with Equity Instruments                                | July 1, 2010   |

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2011. The Bank expects that such improvements to the standards will not have any material impact on the Bank's financial statements in the period of initial application.

Benazir Employee Stock Option Scheme was approved by the Cabinet of Government of Pakistan (GoP) on August 5, 2009 effective from August 14, 2009. This scheme empowers employees of State Owned Enterprises (SOEs)/other GoP share holdings through transfer of twelve percent (12%) of the GoP shareholding and a seat on the board. The Bank has also been named in the SOE for the purposes of this scheme. The financial reporting implications of the amendment in IFRS 2 relating to the scheme is under consideration of the Institute of Chartered Accountants of Pakistan.

#### 4. BASIS OF MEASUREMENT

These unconsolidated 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 unconsolidated 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. Classification of investments

As described in Note 6.5, held for trading are the securities acquired principally for the purpose of generating profits from short term fluctuation in market price while 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 advances

The amount of provision is determined in accordance with the relevant SBP prudential 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 consumed 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 a change in accounting estimate in accordance with the IAS-8, 'Changes in Accounting Estimates and Errors'.

## 5.6. Impairment

### Impairment in available for sale equity investments

Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price.

### Impairment in investments in subsidiaries

The Bank considers that a decline in the recoverable value of investment in subsidiaries below their cost may be evidence of impairment. Recoverable value is calculated as the higher of fair value less costs to sell and value in use. An impairment loss is recognized when the recoverable value falls below the carrying value and is charged to the profit and loss account. Subsequent reversal of impairment loss, up to the cost of investment in subsidiaries is credited to the profit and loss account.

### Impairment in non-financial assets (excluding deferred tax)

The carrying amounts of non-financial assets are reviewed at each reporting 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, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account except for 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 the revalued assets.

## 5.7. Taxation

In making the estimates for income taxes currently payable including prior year effects and related deferred tax 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 unconsolidated financial statements are set out below.

### 6.1. Staff retirement benefits

The Bank operates the following staff retirements benefits for its employees:

#### 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 actuarial gain/(loss) 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 actuarial gain/(loss) 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 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. Equal contribution to these schemes are made by employees and the Bank. The Bank which is also liable to meet any shortfall in the fund, determined on the basis of actuarial valuation.

### **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 unconsolidated 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 unconsolidated financial statements for the benefit based on entitled un-availed leave balances carried forwarded to the next year on the basis of actuarial valuation carried out using the Project Unit Credit method.

## **6.3. Cash and cash equivalents**

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

## **6.4. 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 while advances are charged off in accordance with the Prudential Regulations issued by the SBP.

## **6.5. Investment**

The Bank classifies its investments as follows:

### **Held-for-Trading**

These are securities 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.

Investments in un-quoted securities are carried at lower of cost and break-up value 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 less impairment, if any. 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.

## **6.6. Operating fixed assets and depreciation/amortization**

Property and equipment except free hold land and capital work in progress is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Free hold land and capital work in progress 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.

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.

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.

#### **6.7. 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.

#### **6.8. 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.

#### **6.9. 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.

#### **6.10. 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.

#### **6.11. 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 income 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.

Recoveries against loans written-off under Government relief packages are accounted for on cash receipt basis.

Rental income is accounted for on accrual basis.

#### **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**

Transaction in foreign currencies are translated to Rupees at the foreign currency rate prevailing on the transaction date.

**6.14. 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.

**6.15. Offsetting**

Financial assets and financial liabilities are set off and the net amount is reported in the unconsolidated 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.

**6.16. 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.

**6.17. Earnings per share**

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the bank by the weighted average number of ordinary shares outstanding during the period / year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at December 31, 2010.

**7. CASH AND BALANCES WITH TREASURY BANKS**

|                           | Note | 2010        | 2009      |
|---------------------------|------|-------------|-----------|
|                           |      | Rupees '000 |           |
| <b>Local Currency</b>     |      |             |           |
| In hand                   |      | 769,214     | 489,936   |
| Prize bonds               |      | 622         | 925       |
| In current accounts with: |      |             |           |
| State Bank of Pakistan    | 7.1  | 1,972,245   | 1,863,244 |
| National Bank of Pakistan |      | 3,530       | 2         |
|                           |      | 2,745,611   | 2,354,107 |

7.1. This represents cash reserves at the rate of 5% of the Bank's demand liabilities and deposits with maturity upto one year in Pakistan, at nil return. Cash reserve is required to be maintained with State Bank of Pakistan under section 22 of Banking Companies Ordinance, 1962 and Banking Surveillance Department Circular No. 25 dated October 17, 2008.

**8. BALANCES WITH OTHER BANKS**

In Pakistan in local currency:

|                     |     |            |           |
|---------------------|-----|------------|-----------|
| In current accounts |     | 26,722     | 25,111    |
| In deposit accounts | 8.1 | 10,890,017 | 9,511,870 |
|                     |     | 10,916,739 | 9,536,981 |

8.1. These carry mark-up ranging from 5.00% to 13.50% per annum (2009: 5.00% to 15.25% per annum)

## 9. INVESTMENTS - NET

### 9.1. Investment by types

|   | Note  | 2010         |                     |           | 2009         |                     |           |
|---|-------|--------------|---------------------|-----------|--------------|---------------------|-----------|
|   |       | 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   | 90,031       | -                   | 90,031    | 90,031       | -                   | 90,031    |
| Un-listed companies                                     | 9.6.4 | 10,523       | -                   | 10,523    | 10,523       | -                   | 10,523    |
| Units of mutual funds                                   | 9.7   | 100,000      | -                   | 100,000   | -            | -                   | -         |
|   |       | 200,554      | -                   | 200,554   | 100,554      | -                   | 100,554   |
| <b>Held-to-Maturity securities</b>                      |       |              |                     |           |              |                     |           |
| Market Treasury Bills                                   | 9.4   | 5,003,892    | -                   | 5,003,892 | 5,233,735    | -                   | 5,233,735 |
| Pakistan Investment Bonds                               | 9.4   | 962,366      | 2,524               | 964,890   | 1,004,944    | 2,637               | 1,007,581 |
| Certificates of Investment                              | 9.8   | 610,237      | -                   | 610,237   | 283,650      | -                   | 283,650   |
|   |       | 6,576,495    | 2,524               | 6,579,019 | 6,522,329    | 2,637               | 6,524,966 |
| <b>Investment in subsidiary</b>                         |       |              |                     |           |              |                     |           |
| Kissan Support Services (Pvt.) Limited (KSSL)           | 9.1.1 | 100,000      | -                   | 100,000   | 100,000      | -                   | 100,000   |
| <b>Total investments at cost</b>                        |       | 6,877,049    | 2,524               | 6,879,573 | 6,722,883    | 2,637               | 6,725,520 |
| Provision for diminution in value of investments        | 9.3   | (11,108)     | -                   | (11,108)  | (11,108)     | -                   | (11,108)  |
| <b>Investments (Net of provisions)</b>                  |       | 6,865,941    | 2,524               | 6,868,465 | 6,711,775    | 2,637               | 6,714,412 |
| Surplus on revaluation of Available-for-Sale securities | 21    | 935,742      | -                   | 935,742   | 499,536      | -                   | 499,536   |
| <b>Total investments at market value</b>                |       | 7,801,683    | 2,524               | 7,804,207 | 7,211,311    | 2,637               | 7,213,948 |

9.1.1. KSSL is a wholly owned subsidiary of the Bank and has been incorporated in Pakistan as a private limited company on September 19, 2005. KSSL provides multiple services to the Bank including security and janitorial services.

### 9.2. Investment by segments

|   | Note | 2010           | 2009      |
|---|------|----------------|-----------|
|   |      | Rupees in '000 |           |
| <b>Federal government securities</b>  |      |                |           |
| Market Treasury Bills   | 9.4  | 5,003,892      | 5,233,735 |
| Pakistan Investment Bonds   | 9.4  | 964,890        | 1,007,581 |
|   |      | 5,968,782      | 6,241,316 |
| <b>Fully paid up ordinary shares:</b>   |      |                |           |
| Listed companies  | 9.5  | 90,031         | 90,031    |
| Un-listed companies   | 9.6  | 10,523         | 10,523    |
|   |      | 100,554        | 100,554   |
| <b>Units of Mutual Funds</b>  |      |                |           |
|   |      | 100,000        | -         |
| Certificates of investment  | 9.7  | 610,237        | 283,650   |
| Investment in wholly owned Subsidiary Company (10,000 ordinary shares of Rs. 10 each) | 40   | 100,000        | 100,000   |
| <b>Total investment at cost</b>   |      | 6,879,573      | 6,725,520 |
| Provision for diminution in value of investments                                      | 9.3  | (11,108)       | (11,108)  |
| <b>Investments (net of provisions)</b>  |      | 6,868,465      | 6,714,412 |
| Surplus on revaluation of available-for-sale securities                               | 21   | 935,742        | 499,536   |
| <b>Total investments at market value</b>  |      | 7,804,207      | 7,213,948 |

**9.3. Particulars of provision for diminution in value of investments**

|                     | 2010           | 2009   |
|---------------------|----------------|--------|
|                     | Rupees in '000 |        |
| Opening balance     | 11,108         | 11,108 |
| Charge for the year | -              | -      |
| Reversals           | -              | -      |
| Closing balance     | 11,108         | 11,108 |

**9.3.1. Particulars of provision in respect of type and segment**

|  |        |        |
|--|--------|--------|
| Available-for-sale securities-(listed securities)    | 585    | 585    |
| Available-for-sale securities-(un-listed securities) | 10,523 | 10,523 |
|  | 11,108 | 11,108 |

**9.4. Principal terms of investments in federal government securities**

| Name of investment        | Maturity                     | Note  | Principal payment | Rate %         | Coupon payment |
|---------------------------|------------------------------|-------|-------------------|----------------|----------------|
| Market Treasury Bills     | May 2011 to June 2011        | 9.4.1 | On maturity       | 11.95 to 13.30 | at maturity    |
| Pakistan Investment Bonds | August 2011 to December 2011 | 9.4.1 | On maturity       | 12 to 13       | semi-annually  |

**9.4.1.** Market treasury bills and Pakistan Investment Bonds are held by the Bank which also covers statutory liquidity reserve requirements calculated on the basis of domestic demand and time liabilities.

**9.4.2.** Pakistan Investment Bonds having amortised cost of Rs. 2.637 million (December 31, 2009: Rs. 2.637 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                     | 2010           | 2009   |
|------------------------|---------|---------------------|---------------------------------------|----------------|--------|
| 2010                   | 2009    | Rupees              |                                       | Rupees in '000 |        |
| 430,551                | 430,551 | 10                  | Nestle Pakistan Limited               | 89,296         | 89,296 |
| 450,000                | 450,000 | 10                  | Uqab Breeding Farm Limited            | 585            | 585    |
| 150,000                | 150,000 | 10                  | Mubarik Dairies Limited               | 150            | 150    |
| 300,000                | 300,000 | 10                  | Dadabhoy Agricultural Leasing Limited | -              | -      |
|                        |         |                     |                                       | 90,031         | 90,031 |

**9.5.1.** Uqab Breeding Farm Limited is under suspension since April 9, 2007. At the date of suspension, its market value per share was nil against its face value of Rs. 10 per share. Moreover, these investments are fully provided for in these financial statements.

**9.5.2.** 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. However, at the time of conversion of ADBP into ZTBL market value of the share was nil.

**9.5.3.** Market value of listed investment is Rs. 1,125.188 million.

### 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 in '000</b>  |                       |                       |                |   |  |
| National Commodity Exchange Limited                            | 4.78%                 | 909,091               | (5,863)        | June 30, 2010                               | Mr. Samir Ahmed                            |
| Saudi Pak Kala Bagh Livestock Limited                          | 33.33%                | 1,000,000             | -              | -   | Mr. Malik Allah Yar                        |
| 9.6.1 & 9.6.3  |                       |                       |                |   |  |
| Pakistan Agricultural Storage and Services Corporation Limited | 8.33%                 | 2,500                 | (406,053)      | March 31, 2010                              | Maj.Gen.(R) Sohail Shafqat                 |
| Larkana Sugar Mills Limited                                    | 6.36%                 | 141,970               | -              | -   | Mr. Anwar Majeed                           |
| 9.6.2 & 9.6.3  |                       |                       |                |   |  |

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 nominal amount of Re.1 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. Cost of un-listed investments is Rs. 10.523 million and face value of investment in un-listed securities is Rs. 35.788 million.

### 9.7. Particulars of units of mutual funds

| Units of Mutual Funds                  | Name of Management Company                  | Number of units held | Paid up value per unit | Total paid up/ nominal value | Cost as at            |      |
|--|---|----------------------|------------------------|------------------------------|-----------------------|------|
|  |   |                      |                        |                              | 2010                  | 2009 |
| <b>Rupees</b>                          |   |                      |                        |                              | <b>Rupees in '000</b> |      |
| NAFA Government Securities Liquid Fund | National Fullerton Asset Management Limited | 9900596              | 10                     | 99,006                       | 100,000               | -    |

Market value of units of mutual funds is Rs. 102.090 million.

### 9.8. Particulars of Certificates of Investments

| Name of investee                            | Credit Rating | Maturity             | Principal payment | Rate % per annum | Coupon payment |
|---|---------------|----------------------|-------------------|------------------|----------------|
| Pak Libya Holding Company (Private) Limited | AA-/A1+       | Jan 2011 to Mar 2011 | % on maturity     | 13 to 14.25      | at maturity    |

### 9.9. Quality of Available-for-Sale securities

|  | 2010         |               | 2009         |               |
|--|--------------|---------------|--------------|---------------|
|  | Market value | Credit Rating | Market value | Credit Rating |
| <b>Rupees in '000</b>                  |              |               |              |               |
| <b>Shares in listed companies</b>      |              |               |              |               |
| Nestle Pakistan Limited                | 1,022,498    | Unrated       | 536,449      | Unrated       |
| Uqab Breeding Farm Limited             | -            | Unrated       | -            | Unrated       |
| Mubarik Dairies Limited                | 600          | Unrated       | 150          | Unrated       |
|  | 1,023,098    |               | 536,599      |               |
| <b>Shares in un-listed companies</b>   |              |               |              |               |
| National Commodity Exchange Limited    | -            | Unrated       | -            | Unrated       |
| <b>Units of mutual funds</b>           |              |               |              |               |
| NAFA Government Securities Liquid Fund | 102,090      | AM2-          | -            | -             |
|  | 1,125,188    |               | 536,599      |               |

|  | Note | 2010        | 2009        |
|--|------|-------------|-------------|
| Rupees in '000                               |      |             |             |
| <b>10. ADVANCES - NET</b>                    |      |             |             |
| Loans, cash credits, running finances, etc.  |      |             |             |
| In Pakistan - gross                          | 10.1 | 92,466,919  | 89,396,507  |
| Less:  |      |             |             |
| Provision for non-performing advances        | 10.2 | (7,654,018) | (7,401,719) |
| Provision for advances to employees          |      | (20,307)    | (20,767)    |
|  |      | (7,674,325) | (7,422,486) |
| Advances-net of provision                    |      | 84,792,594  | 81,974,021  |
| <b>10.1. Particulars of advances (Gross)</b> |      |             |             |
| <b>10.1.1.</b> In local currency             |      | 92,466,919  | 89,396,507  |
| <b>10.1.2</b> Short term                     |      | 53,589,692  | 59,439,043  |
| Long term                                    |      | 38,877,227  | 29,957,464  |
|  |      | 92,466,919  | 89,396,507  |

**10.2.** Advances include Rs. 17,244.928 million (December 31, 2009: Rs. 14,086.126 million) which have been placed under non-performing status as detailed below:

| Category of classification                | 2010                |                    |                | 2009                |                    |                |
|---|---------------------|--------------------|----------------|---------------------|--------------------|----------------|
|   | Rupees in '000      |                    |                | Rupees in '000      |                    |                |
|   | Classified advances | Provision required | Provision held | Classified advances | Provision required | Provision held |
|   | Domestic            |                    |                | Domestic            |                    |                |
| Other Assets Especially Mentioned         | 10,730,393          | -                  | -              | 7,345,153           | -                  | -              |
| Substandard                               | 1,046,760           | 209,335            | 209,335        | 2,037,036           | 407,404            | 407,404        |
| Doubtful                                  | 2,046,182           | 1,023,090          | 1,023,090      | 1,419,238           | 709,616            | 709,616        |
| Loss                                      | 3,421,593           | 3,421,593          | 3,421,593      | 3,284,699           | 3,284,699          | 3,284,699      |
|   | 17,244,928          | 4,654,018          | 4,654,018      | 14,086,126          | 4,401,719          | 4,401,719      |
| Provision under portfolio audit - general | -                   | -                  | 3,000,000      | -                   | -                  | 3,000,000      |
|   | 17,244,928          | 4,654,018          | 7,654,018      | 14,086,126          | 4,401,719          | 7,401,719      |

**10.3. Particulars of provision against non-performing advances**

|                     | Note | 2010        |           |             | 2009        |           |             |
|---------------------|------|-------------|-----------|-------------|-------------|-----------|-------------|
|                     |      | Specific    | General   | Total       | Specific    | General   | Total       |
| Rupees in '000      |      |             |           |             |             |           |             |
| Opening balance     |      | 4,401,719   | 3,000,000 | 7,401,719   | 4,806,237   | 3,000,000 | 7,806,237   |
| Charge for the year |      | 3,107,670   | -         | 3,107,670   | 4,489,682   | -         | 4,489,682   |
| Reversals           |      | (1,742,186) | -         | (1,742,186) | 2,245,262   | -         | (2,245,262) |
| Amounts written off | 10.4 | -           | -         | -           | -           | -         | -           |
| Amounts charge off  | 10.5 | (1,113,185) | -         | (1,113,185) | (2,648,938) | -         | 2,648,938   |
| Closing balance     |      | 4,654,018   | 3,000,000 | 7,654,018   | 4,401,719   | 3,000,000 | 7,401,719   |

**10.3.1. Particulars of provision against non-performing advances**

|                   | 2010      |           |           | 2009      |           |           |
|-------------------|-----------|-----------|-----------|-----------|-----------|-----------|
|                   | Specific  | General   | Total     | Specific  | General   | Total     |
| Rupees in '000    |           |           |           |           |           |           |
| In local currency | 4,654,018 | 3,000,000 | 7,654,018 | 4,401,719 | 3,000,000 | 7,401,719 |

|  | Note | 2010      | 2009      |
|--|------|-----------|-----------|
| Rupees in '000                                     |      |           |           |
| <b>10.4. Particulars of write offs</b>             |      |           |           |
| <b>10.4.1. Against provisions</b>                  |      |           |           |
| Against provisions                                 |      | -         | -         |
| Write offs of Rs 500,000 and above                 | 10.6 | -         | -         |
| Write offs of below Rs 500,000                     |      | -         | -         |
|  |      | -         | -         |
| <b>10.5. Particulars of Charge Offs</b>            |      |           |           |
| <b>10.5.1. Against provisions</b>                  |      | 1,113,185 | 2,648,938 |
| <b>10.5.2. Charge offs of Rs 500,000 and above</b> |      | -         | -         |
| Charge offs of below Rs 500,000                    |      | 1,113,185 | 2,648,938 |
|  | 10.7 | 1,113,185 | 2,648,938 |

**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, 2010 no write-off or any other financial relief of five hundred thousand rupees or above 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 Bank extinguishes its loans through provisions. The total balance for these off-balance sheet loans extinguished against provisions as at December 31, 2010 was Rs 33,432 million (Rs. 34,982 million as at December 31, 2009) with an addition of Rs. 1,113 million (Rs. 2,649 million for the year ended December 31, 2009) as charge off loans during the year. Detail of charge offs out of extinguished loan portfolio exceeding five hundred thousand rupees are given at Annexure-I.

**10.8. Particulars of loans and advances to directors, executives and officers**

Debts due by the directors, executives and officers of the bank or any of them either severally or jointly with other persons.

|                                  | 2010      | 2009      |
|----------------------------------|-----------|-----------|
| Rupees in '000                   |           |           |
| Balance at the beginning of year | 2,422,307 | 2,015,442 |
| Loans granted during the year    | 127,014   | 888,471   |
|                                  | 2,549,321 | 2,903,913 |
| Repayments                       | (397,440) | (481,606) |
| Balance at the end of year       | 2,151,881 | 2,422,307 |

**11. OPERATING FIXED ASSETS**

|                          |      |           |           |
|--------------------------|------|-----------|-----------|
| Capital work-in-progress | 11.1 | 86,485    | 4,637     |
| Property and equipment   | 11.2 | 1,036,478 | 1,031,761 |
| Intangible assets        | 11.3 | 8,770     | 34,019    |
|                          |      | 1,131,733 | 1,070,417 |

**11.1. Capital work-in-progress**

|                                       |        |       |
|---------------------------------------|--------|-------|
| Civil works                           | 68,626 | -     |
| Equipments                            | -      | -     |
| Advances to suppliers and contractors | 9,195  | -     |
| Consultancy Charges                   | 8,062  | 4,368 |
| Others                                | 602    | 269   |
|                                       | 86,485 | 4,637 |



## 11.2.

## Property and equipment

| Particulars                                 | COST               |                |                          | DEPRECIATION               |                      |                     | Book value at December 31, 2010 | Rate of Depreciation |                          |                            |                                |
|---|--------------------|----------------|--------------------------|----------------------------|----------------------|---------------------|---------------------------------|----------------------|--------------------------|----------------------------|--------------------------------|
|   | At January 1, 2010 | Additions      | (Deletions)/ adjustments | Provision for stolen asset | At December 31, 2010 | Charge for the year |                                 |                      | (Deletions)/ adjustments | Provision for stolen asset | At December 31, 2010           |
|   | Rupees in '000     |                |                          |                            |                      |                     |                                 |                      |                          |                            |                                |
| Free hold land                              | 170,961            | 50,934         | -                        | -                          | 221,895              | -                   | -                               | -                    | -                        | 221,895                    | -                              |
| Lease hold land                             | 10,640             | -              | -                        | -                          | 10,640               | 2,786               | 398                             | -                    | 3,184                    | 7,456                      | Lease terms for 33 to 99 years |
| Building on free hold land                  | 137,907            | 598            | -                        | -                          | 138,505              | 41,692              | 5,507                           | -                    | 47,199                   | 91,306                     | 5%                             |
| Building on leasehold land                  | 319,766            | 8,454          | -                        | -                          | 328,220              | 103,405             | 3,043                           | -                    | 106,449                  | 221,771                    | 5%                             |
| Building on leasehold land - ADB            | 21,224             | -              | -                        | -                          | 21,224               | 1,673               | 978                             | -                    | 2,650                    | 18,574                     | 5%                             |
| Furniture and fixtures                      | 76,185             | 16,529         | (2,304)                  | -                          | 90,410               | 19,568              | 9,632                           | (125)                | 29,075                   | 61,335                     | 10% / 20%                      |
| Computer, office and other equipments       | 194,629            | 12,712         | (2,351)                  | -                          | 204,990              | 75,099              | 40,541                          | (1,554)              | 114,086                  | 90,904                     | 20% / 33.33%                   |
| Computer, office and other equipments - ADB | 157,519            | -              | -                        | -                          | 157,519              | 101,065             | 41,316                          | -                    | 142,381                  | 15,138                     | 20% / 33.33%                   |
| Vehicles                                    | 617,544            | 160,934        | (23,402)                 | (3,212)**                  | 751,864              | 329,326             | 122,810                         | (7,756)              | 443,765                  | 308,099                    | 20%                            |
| <b>2010</b>                                 | <b>1,706,375</b>   | <b>250,161</b> | <b>(28,057)</b>          | <b>(3,212)</b>             | <b>1,925,267</b>     | <b>674,614</b>      | <b>224,225</b>                  | <b>(9,435)</b>       | <b>888,789</b>           | <b>1,036,478</b>           |                                |

\* This represents the cost and depreciation of the stolen vehicles.

| Particulars                                 | COST               |                |                          | DEPRECIATION               |                      |                     | Book value at December 31, 2009 | Rate of Depreciation |                          |                            |                                |
|---|--------------------|----------------|--------------------------|----------------------------|----------------------|---------------------|---------------------------------|----------------------|--------------------------|----------------------------|--------------------------------|
|   | At January 1, 2009 | Additions      | (Deletions)/ adjustments | Provision for stolen asset | At December 31, 2009 | Charge for the year |                                 |                      | (Deletions)/ adjustments | Provision for stolen asset | At December 31, 2009           |
| Free hold land                              | 170,961            | -              | -                        | -                          | 170,961              | -                   | -                               | -                    | -                        | 170,961                    | -                              |
| Lease hold land                             | 10,640             | -              | -                        | -                          | 10,640               | 2,388               | 398                             | -                    | 2,786                    | 7,854                      | Lease terms for 33 to 99 years |
| Building on free hold land                  | 137,907            | -              | -                        | -                          | 137,907              | 36,628              | 5,064                           | -                    | 41,692                   | 96,215                     | 5%                             |
| Building on leasehold land                  | 315,057            | 4,709          | -                        | -                          | 319,766              | 90,465              | 12,939                          | -                    | 103,405                  | 216,361                    | 5%                             |
| Building on leasehold land - ADB            | 21,224             | -              | -                        | -                          | 21,224               | 644                 | 1,029                           | -                    | 1,673                    | 19,551                     | 5%                             |
| Furniture and fixtures                      | 52,676             | 26,371         | (2,862)                  | -                          | 76,185               | 14,766              | 5,660                           | (858)                | 19,568                   | 56,617                     | 10%/20%                        |
| Computer, office and other equipments       | 114,839            | 72,966         | 6,824                    | -                          | 194,629              | 40,718              | 40,380                          | (5,999)              | 75,099                   | 119,530                    | 20/33.33%                      |
| Computer, office and other equipments - ADB | 170,511            | -              | (12,992)*                | -                          | 157,519              | 59,349              | 45,047                          | (3,331)*             | 101,065                  | 56,454                     | 20/33.33%                      |
| Vehicles                                    | 575,337            | 82,020         | (36,601)                 | (3,212)**                  | 617,544              | 240,629             | 98,677                          | (9,365)              | 329,326                  | 288,218                    | 20%                            |
| <b>2009</b>                                 | <b>1,569,152</b>   | <b>186,066</b> | <b>(45,631)</b>          | <b>(3,212)</b>             | <b>1,706,375</b>     | <b>485,587</b>      | <b>209,194</b>                  | <b>(19,553)</b>      | <b>674,614</b>           | <b>1,031,761</b>           |                                |

\* This represents sales tax on Computer, office and other equipments - ADB and related depreciation transferred to Computer, office and other equipments.

\*\* This represents the cost and depreciation of the stolen vehicles.

11.2.1. Reconciliation of carrying value of the property and equipment

| Particulars                                 | Book value at January 1, 2010 | Additions      | (Deletions)/ adjustments | Provision for stolen asset | Charge for the year | (Deletions)/ adjustments | Provision for stolen asset | Book value at December 31, 2010 | Rate of Depreciation           |
|---|-------------------------------|----------------|--------------------------|----------------------------|---------------------|--------------------------|----------------------------|---------------------------------|--------------------------------|
|   |                               |                |                          |                            |                     |                          |                            |                                 |                                |
| Lease hold land                             | 7,854                         | -              | -                        | -                          | (398)               | -                        | -                          | 7,456                           | Lease terms for 33 to 99 years |
| Building on free hold land                  | 96,215                        | 598            | -                        | -                          | (5,507)             | -                        | -                          | 91,306                          | 5%                             |
| Building on leasehold land                  | 216,361                       | 8,454          | -                        | -                          | (3,043)             | -                        | -                          | 221,772                         | 5%                             |
| Building on leasehold land - ADB            | 19,551                        | -              | -                        | -                          | (978)               | -                        | -                          | 18,574                          | 5%                             |
| Furniture and fixtures                      | 56,617                        | 16,529         | (2,304)                  | -                          | (9,632)             | (125)                    | -                          | 61,335                          | 10%/20%                        |
| Computer, office and other equipments       | 119,530                       | 12,712         | (2,351)                  | -                          | (40,541)            | (1,554)                  | -                          | 90,904                          | 20/33.33%                      |
| Computer, office and other equipments - ADB | 56,454                        | -              | -                        | -                          | (41,316)            | -                        | -                          | 15,138                          | 20/33.33%                      |
| Vehicles                                    | 288,218                       | 160,934        | (23,402)                 | (3,212)                    | (122,810)           | (7,756)                  | (615)                      | 308,099                         | 20%                            |
| <b>2010</b>                                 | <b>1,031,761</b>              | <b>250,161</b> | <b>(28,057)</b>          | <b>(3,212)</b>             | <b>(224,225)</b>    | <b>(9,435)</b>           | <b>(615)</b>               | <b>1,036,478</b>                |                                |

## 11.3. Intangible assets

| Particulars             | COST               |           |                      | AMORTIZATION |                     |                      | Book value at December 31, 2010 | Rate of Amortization |
|-------------------------|--------------------|-----------|----------------------|--------------|---------------------|----------------------|---------------------------------|----------------------|
|                         | At January 1, 2010 | Additions | At December 31, 2010 | adjustments  | Charge for the year | At December 31, 2010 |                                 |                      |
|                         |                    |           |                      |              | Rupees in '000      |                      |                                 |                      |
| Computer software       | 799                | 27        | -                    | -            | 240                 | 747                  | 79                              | 33.33%               |
| Computer software - ADB | 80,500             | -         | 80,500               | -            | 25,035              | 71,809               | 8,691                           | 33.33%               |
| <b>2010</b>             | <b>81,299</b>      | <b>27</b> | <b>-</b>             | <b>-</b>     | <b>25,275</b>       | <b>72,556</b>        | <b>8,770</b>                    |                      |

| Particulars             | COST               |           |                      | AMORTIZATION |                     |                      | Book value at December 31, 2009 | Rate of Amortization |
|-------------------------|--------------------|-----------|----------------------|--------------|---------------------|----------------------|---------------------------------|----------------------|
|                         | At January 1, 2009 | Additions | At December 31, 2009 | Adjustments  | Charge for the year | At December 31, 2009 |                                 |                      |
| Computer software       | 799                | -         | -                    | -            | 266                 | 507                  | 292                             | 33.33%               |
| Computer software - ADB | 80,500             | -         | 80,500               | -            | 25,036              | 46,773               | 33,727                          | 33.33%               |
| <b>2009</b>             | <b>81,299</b>      | <b>-</b>  | <b>-</b>             | <b>-</b>     | <b>25,302</b>       | <b>47,280</b>        | <b>34,019</b>                   |                      |

**2010**      **2009**  
Rupees in '000

80,441      29,534

11.4. Carrying amount of temporarily idle property

11.5. The title documents of freehold land amounting to Rs. 88,678 million and leasehold land amounting to Rs. 5,403 million are still in the name of Agricultural Development Bank of Pakistan.

11.6. The lease tenure of leasehold lands amounting to Rs. 3,450 million have expired and are not yet renewed.

11.7. During the year ended December 31, 2010, no asset has been disposed off, other than to related parties whose original cost or the book value exceeded one million and two hundred fifty thousand rupees respectively, whichever is lower.

11.8. The information relating to the disposal of asset to the related parties is disclosed as under;

## List of vehicles disposed off to the related parties during the year

| Sr. No.   | Particular of Assets  | Purchase price   | Accumulated depreciation | Book Value       | Sale Proceed     | Gain/ (loss) on sale | Particulars of Purchaser         |
|---|-----------------------|------------------|--------------------------|------------------|------------------|----------------------|----------------------------------|
| <b>Mode of disposal - Car Loan Depreciation Policy (CLDP)</b> |                       |                  |                          |                  |                  |                      |                                  |
| 1   | B-5466, S/Cultus      | 595,000          | 406,583                  | 188,417          | 188,417          | -                    | Naseer Ahmed Awan, SVP®          |
| 2   | JZ-282, Honda Civic   | 615,000          | 437,071                  | 177,929          | 177,929          | -                    | Muhammad Tareef Shah, SVP®       |
| 3   | PU-560, Suzuki Cultus | 757,500          | 38,186                   | 719,314          | 719,314          | -                    | Late Sohail S. Zaman Khan, Ex-VP |
| 4   | KE-269, Suzuki Liana  | 615,000          | 456,617                  | 158,383          | 158,383          | -                    | Dr. Anbar Badshah, SVP®          |
| 5   | LEA-07-1749, S/Cultus | 615,000          | 423,255                  | 191,745          | 191,745          | -                    | Riaz Ahmed Nagra, EVP            |
| 6   | KZ-651, Suzuki Cultus | 615,000          | 418,199                  | 196,801          | 196,801          | -                    | Muhammad Asghar, EVP             |
| 7   | KX-349, Honda City    | 615,000          | 429,321                  | 185,679          | 185,679          | -                    | Razia Begum, EVP                 |
| 8   | KE-173, Suzuki Liana  | 794,000          | 617,362                  | 176,638          | 176,638          | -                    | A. Munaf Sattar, SEVP            |
| 9   | KU-668, Suzuki Liana  | 615,000          | 441,115                  | 173,885          | 173,885          | -                    | Khalid Mehmood Gill, EVP         |
| 10  | NB-899, T/Corolla XLI | 645,989          | 248,839                  | 397,150          | 397,150          | -                    | Nek Muhammad Javed, SVP®         |
| 11  | PJ-209, T/Corolla GLI | 1,263,780        | 207,745                  | 1,056,035        | 1,056,035        | -                    | Tahir Anwar Pasha, EVP           |
| 12  | KH-162, S/Cultus      | 615,000          | 291,493                  | 323,507          | 323,507          | -                    | Muhammad Latif Shad, Ex-SVP      |
| 13  | QA-202, S/Cultus      | 772,500          | 115,558                  | 656,942          | 656,942          | -                    | Syed Waqar Hussain, VP           |
| 14  | KS-938, S/Cultus      | 555,000          | 481,102                  | 73,898           | 73,898           | -                    | M. Tariq Awan, VP                |
|   |                       | <b>9,688,769</b> | <b>5,012,446</b>         | <b>4,676,323</b> | <b>4,676,323</b> | <b>-</b>             |                                  |

|   | Note | 2010<br>Rupees in '000 | 2009              |
|---|------|------------------------|-------------------|
| <b>12. DEFERRED TAX ASSET/(LIABILITY) – NET</b>   |      |                        |                   |
| The details of the tax effect of taxable and deductible temporary differences are as follows: |      |                        |                   |
| <b>Taxable timing differences on;</b>   |      |                        |                   |
| Accelerated tax depreciation  |      | (87,638)               | (112,068)         |
| Surplus on revaluation of assets  | 21   | (93,574)               | (63,049)          |
|   |      | <u>(181,212)</u>       | <u>(175,117)</u>  |
| <b>Deductible timing differences on;</b>  |      |                        |                   |
| Provision against non-performing loans and advances   |      | 619,872                | 465,748           |
|   |      | <u>438,660</u>         | <u>290,631</u>    |
| <b>13. OTHER ASSETS - NET</b>   |      |                        |                   |
| Income/mark-up accrued on deposits in local currency  |      | 37,776                 | 203,470           |
| Income/mark up accrued on held to maturity securities   |      | 40,526                 | 241,389           |
| Accrued interest/markup on advances *   | 13.1 | 3,962,768              | 3,467,504         |
| Loan to KSSL  |      | -                      | 15,000            |
| Stationery and stamps on hand   |      | 49,440                 | 33,667            |
| Amount recoverable from Federal Government  | 13.2 | 225,120                | 178,728           |
| Crop loan insurance claim recoverable from Insurance Company                                  |      | 549,120                | -                 |
| SBP Penalties   |      | -                      | -                 |
| Tax recoverable   | 13.3 | 391,751                | 391,751           |
| Non banking assets acquired in satisfaction of claims   | 13.4 | 349,887                | 357,801           |
| Receivable from defined benefit plans   | 13.5 | 4,259,062              | 5,477,019         |
| Stock of farm machinery   |      | 13,138                 | 13,146            |
| Receivable from Federal Government against GHSS   |      | -                      | -                 |
| Advances against salary and expenses  |      | 8,318                  | 7,357             |
| Security deposits   |      | 2,260                  | 1,768             |
| Advances and other prepayments  |      | 279,961                | 204,731           |
| Others  | 13.6 | 16,692                 | 16,064            |
|   |      | <u>10,185,819</u>      | <u>10,609,395</u> |
| Less: Provision held against other assets   | 13.7 | <u>(429,414)</u>       | <u>(430,623)</u>  |
| Other assets (net of provisions)  |      | <u>9,756,405</u>       | <u>10,178,772</u> |

**13.1.** This does not includes Rs. 2,186.803 million (2009: Rs. 2,251.827 million) on account of unrealised mark-up on non performing loans and advances kept in the memorandum account in accordance with the Prudential Regulations for Agriculture Financing.

**13.2.** This represents amount recoverable from Federal Government on account of crop loan insurance premium.

**13.3.** This includes tax recoverable amounting to Rs. 297.149 million for assessment years 1991-92 to 1998-99 as disclosed in Note 22.2.3 and Rs. 11.243 million for the assessment year 2001-2002 as disclosed in Note 22.2.4.

**13.4.** Market value of non-banking assets acquired in satisfaction of claims is Rs. 821.787 million (2009: Rs. 626.546 million).

|  | Note     | 2010<br>Rupees in '000 | 2009             |
|--|----------|------------------------|------------------|
| <b>13.5. Receivable from defined benefit plans</b> |          |                        |                  |
| Pension scheme                                     | 35.1.5   | 3,475,681              | 4,050,684        |
| Benevolent scheme-officers/executives              | 35.2.5   | -                      | 303,138          |
| Benevolent scheme-clerical/non-clerical            | 35.3.5   | -                      | 82,461           |
| Gratuity scheme-Staff Regulations 1975             | 35.4.1.5 | 775,434                | 1,040,736        |
| Gratuity scheme-SR-2005                            | 35.4.2.5 | 7,947                  | -                |
|  | 13.5.1   | <u>4,259,062</u>       | <u>5,477,019</u> |

13.5.1. 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.

|  | Note | 2010<br>Rupees in '000 | 2009          |
|--|------|------------------------|---------------|
| <b>13.6. Others</b>  |      |                        |               |
| Defence saving certificates                                      |      | 3                      | 3             |
| Advance for purchase of machinery/goods in transit               |      | 17                     | 17            |
| Legal charges recoverable on suits filed against loan defaulters |      | 16,672                 | 16,044        |
|  |      | <u>16,692</u>          | <u>16,064</u> |

|  |  |                |                |
|--|--|----------------|----------------|
| <b>13.7. Provision held against other assets</b> |  |                |                |
| Opening balance                                  |  | 430,623        | 378,507        |
| Charge for the year                              |  | 838            | 66,917         |
| Reversals  |  | (2,047)        | (13,829)       |
| Amount written off                               |  | -              | (972)          |
| Closing balance                                  |  | <u>429,414</u> | <u>430,623</u> |

|                          | Note | 2010<br>Rupees in '000 | 2009      |
|--------------------------|------|------------------------|-----------|
| <b>14. BILLS PAYABLE</b> |      |                        |           |
| In Pakistan              |      | 306,040                | 2,059,979 |

|                       |      |            |            |
|-----------------------|------|------------|------------|
| <b>15. BORROWINGS</b> |      |            |            |
| In Pakistan           | 15.1 | 51,257,213 | 51,257,213 |

|   |      |            |            |
|---|------|------------|------------|
| <b>15.1. Particulars of borrowings with respect to currencies</b> |      |            |            |
| In local currency   | 15.2 | 51,257,213 | 51,257,213 |

|  |             |                   |                   |
|--|-------------|-------------------|-------------------|
| <b>15.2. Details of borrowings from financial institutions – secured</b> |             |                   |                   |
| Borrowing from State Bank of Pakistan                                    |             |                   |                   |
| Agricultural loans   | 15.3 & 15.5 | 50,174,089        | 50,174,089        |
| Agri-project loans   | 15.4 & 15.5 | 1,083,124         | 1,083,124         |
|  |             | <u>51,257,213</u> | <u>51,257,213</u> |

15.3. 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. 48.597 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 Government of Pakistan (GoP).

- 15.4.** 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.
- 15.5.** As a part of restructuring process the Bank in the year 2003 submitted a proposal to the SBP for restructuring of the total 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 agreed with proposed terms except the proposed capping of markup rate which was suggested to be fixed on last auction's weighted average yield of Government Treasury Bill of 12 months maturity on floating basis every year. Due to the disagreement on the issue of terms of mark up this proposal could not be implemented. Therefore, mark up/interest on above debt is being charged to unconsolidated profit and loss account as per original terms of agreement.

In view of the critical importance of debt pricing for the future financial viability and sustainability of the Bank the matter was discussed in the meeting held on January 16, 2008 between the representatives of Ministry of Finance (MoF), the Bank and the State Bank of Pakistan and also in meetings held thereafter, it was resolved that SBP in consultation with the Bank and MoF shall firm up proposal regarding SBP's debt on priority basis. Accordingly, SBP submitted a proposal pertaining to ZTBL debt restructuring vide letter No. DG/29/08 dated November 8, 2008.

In this regard MoF vide their letter No. F.1(5)1F-I/2007-1217 dated September 28, 2009 has advised that Finance Division, SBP and ZTBL will work out a revised proposal to rationalize debt structure of the ZTBL. As per GoP directive, State Bank of Pakistan has presented revised restructuring plan vide their letter No. ACD/1.1-13/2009-1071 dated October 27, 2009. However, ZTBL has requested MoF vide its letter No. 2932 dated November 20, 2009 and Letter No. FIN/B&FMD/4(15)/2009-943 dated April 08, 2010 that agreed upon SBP debt restructuring proposal dated November 08, 2008 may be implemented.

Thereafter, SBP revised proposal dated October 27, 2009 was again discussed in a tripartite meeting held in the Ministry of Finance on July 07, 2010 wherein ZTBL representatives stressed that SBP agreed upon proposal dated November 08, 2010 would be practicable for the bank. As per minutes of the meeting vide Ministry of Finance letter No. F.1 (5)IF-I/2007-943 dated July 22, 2010, it was decided in the meeting that ZTBL may come up with a practicable proposal for debt restructuring to be considered by Finance Division and SBP. SBP vide their letter dated February 9, 2011 has submitted revised proposal received through MOF letter dated February 12, 2011. ZTBL response on SBP proposal, with some amendments, furnished to MOF vide ZTBL letter dated February 22, 2011.

|  | Note | 2010      | 2009      |
|--|------|-----------|-----------|
| Rupees in '000                         |      |           |           |
| <b>16. DEPOSITS AND OTHER ACCOUNTS</b> |      |           |           |
| <b>Customers - local currency</b>      |      |           |           |
| Fixed deposits                         |      | 705,947   | 475,733   |
| Saving deposits                        | 16.1 | 3,434,981 | 2,842,757 |
| Current accounts - remunerative        |      | 150,942   | 195,045   |
| Current accounts - non-remunerative    | 16.2 | 5,275,547 | 5,200,839 |
| Unclaimed deposits                     |      | 35,355    | 36,518    |
|  |      | 9,602,772 | 8,750,892 |

**16.1.** This includes Rs. 51.711 million (2009: 32.009 million) as deposit of Kissan Support Services (Pvt.) Limited, wholly owned subsidiary of the Bank.

**16.2.** This includes Rs. 0.333 million (2009: Rs. 0.238 million) as deposit of Kissan Support Services (Pvt.) Limited, wholly owned subsidiary of the Bank.

## 17. 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. As explained in Note 15.5, this proposal could not be implemented and a fresh proposal from SBP is in the process of consideration for finalization.

|   | Note        | 2010       | 2009       |
|---|-------------|------------|------------|
| Rupees in '000  |             |            |            |
| <b>18. OTHER LIABILITIES</b>                              |             |            |            |
| Mark-up payable in local currency                         |             | 22,985,169 | 19,535,500 |
| Accrued expenses  |             | 484,362    | 56,525     |
| Taxation (provisions less payments)                       | see note 22 | 1,510,825  | 2,067,918  |
| Branch adjustment account                                 |             | 570,579    | 544,312    |
| Payable to defined benefit plans                          | 18.1        | -          | 69,131     |
| Payable to Ministry of Food Agriculture and Livestock     | 18.2        | 176,100    | 176,100    |
| Profit payable on deposits and other accounts             |             | 67,645     | 60,081     |
| Net liabilities relating to Bangladesh                    | 18.3        | 189        | 189        |
| Provision for employees' post retirement medical benefits | 35.5.5      | 4,052,253  | 3,812,486  |
| Provision for employees' compensated absences             | 35.6        | 798,452    | 1,194,349  |
| Payable to subsidiary company                             | 40          | 11,507     | 2,713      |
| Security deposits   |             | 15,046     | 20,905     |
| Deferred income   | 18.4        | 68,671     | 136,000    |
| Others  | 18.5        | 770,160    | 235,585    |
|   |             | 31,510,958 | 27,911,794 |

**18.1. Payable to defined benefit plans**

|                         |          |   |        |
|-------------------------|----------|---|--------|
| Gratuity scheme-SR-2005 | 35.4.2.5 | - | 69,131 |
|                         |          | - | 69,131 |

**18.2.** This represents the amount of Rs. 8.100 million (2009: Rs. 8.100 million) and Rs. 168 million (2009: 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   | 2010        | 2009        |
|---|--------|-------------|-------------|
| Rupees in '000                                  |        |             |             |
| <b>18.3. Liabilities relating to Bangladesh</b> |        |             |             |
| Liabilities                                     |        | 1,490,115   | 1,460,825   |
| Assets  |        | (1,489,926) | (1,460,636) |
|   | 18.3.1 | 189         | 189         |

**18.3.1.** 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.

|                              | Note   | 2010     | 2009     |
|------------------------------|--------|----------|----------|
| Rupees in '000               |        |          |          |
| <b>18.4. Deferred Income</b> |        |          |          |
| Balance as at January 1      |        | 136,000  | 207,112  |
| Additions during the year    |        | -        | -        |
| Amortization during the year | 25     | (67,329) | (71,112) |
| Balance as at December 31    | 18.4.1 | 68,671   | 136,000  |



- 18.4.1. Deferred income comprises of the grants from the Asian Development Bank via Government of Pakistan for Rural Support Development Finance Project (RSDFP).
- 18.5. This represents various payables which includes insurance claims payable/adjustable against the loan liability of the borrowers, withholding tax, contribution received from borrowers etc.

## 19. SHARE CAPITAL

### 19.1. Authorized Capital

| 2010             | 2009          | Note                           | 2010           | 2009       |
|------------------|---------------|--------------------------------|----------------|------------|
| Number of shares |               |                                | Rupees in '000 |            |
| 2,500,000,000    | 2,500,000,000 | Ordinary shares of Rs. 10 each | 25,000,000     | 25,000,000 |

### 19.2. Issued, subscribed and paid up

| 2010          | 2009          | Ordinary shares of Rs. 10 each | 2010       | 2009       |
|---------------|---------------|--------------------------------|------------|------------|
| 1,186,961,201 | 1,186,961,201 | Fully paid in cash             | 11,869,612 | 11,869,612 |
| 65,282,866    | 65,282,866    | Issued as bonus shares         | 652,829    | 652,829    |
| 1,252,244,067 | 1,252,244,067 |                                | 12,522,441 | 12,522,441 |

| 19.3. Shareholder                | No of ordinary shares | Paid-up value per share | 2010       | 2009       |
|----------------------------------|-----------------------|-------------------------|------------|------------|
| Rupees in '000                   |                       |                         |            |            |
| Government of Pakistan           | 1,251,189,067         | 10                      | 12,511,891 | 12,511,891 |
| Government of Punjab             | 292,340               | 10                      | 2,923      | 2,923      |
| Government of Sindh              | 125,545               | 10                      | 1,256      | 1,256      |
| Government of Khyber Pakhtunkhwa | 71,740                | 10                      | 717        | 717        |
| Government of Balochistan        | 37,875                | 10                      | 379        | 379        |
| Erstwhile East Pakistan          | 527,500               | 10                      | 5,275      | 5,275      |
|                                  | 1,252,244,067         |                         | 12,522,441 | 12,522,441 |

## 20. RESERVES

|                                     | Statutory reserve | Contingencies reserve | Total     |
|-------------------------------------|-------------------|-----------------------|-----------|
| Rupees in '000                      |                   |                       |           |
| Balance as at January 1, 2010       | 1,451,554         | 60,000                | 1,511,554 |
| Transfer from unappropriated profit | 372,857           | -                     | 372,857   |
| Balance as at December 31, 2010     | 1,824,411         | 60,000                | 1,884,411 |

- 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.

| Note           | 2010 | 2009 |
|----------------|------|------|
| Rupees in '000 |      |      |

## 21. SURPLUS ON REVALUATION OF ASSETS - NET OF DEFERRED TAX

|   |          |          |
|---|----------|----------|
| Surplus arising on revaluation of available-for-sale securities |          |          |
| Quoted shares   | 933,652  | 447,153  |
| Mutual Funds  | 2,090    | -        |
| Other securities  | -        | 52,383   |
|   | 935,742  | 499,536  |
| Less: Related deferred tax liability                            | (93,574) | (63,049) |
|   | 842,168  | 436,487  |

## 22. CONTINGENCIES AND COMMITMENTS

### 22.1. Contingent assets

**22.1.1.** 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. 22,293 million for the period from July 01, 2004 to December 31, 2010 (Rs. 17,744 million: up to December 31, 2009). 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.

**22.1.2.** There is a contingent gain of an amount of Rs. 756.272 million receivable from the Federal Government on account of President Relief Package announced on May 5, 2007 for the small borrowers of the Bank at Badin, Umerkot and Tharparkar districts which were outstanding as at April 30, 2007. Total amount receivable from the Federal Government was Rs. 956.272 million which was duly certified by a professional firm of Chartered Accountants.

### 22.2. Contingent liabilities

|  | Note | 2010      | 2009       |
|--|------|-----------|------------|
| Rupees in '000   |      |           |            |
| <b>22.2.1.</b> Contingent liabilities in respect of 624 cases (December 31, 2009: 586 cases) filed against the Bank by various borrower.   |      | 9,711,832 | 13,232,419 |
| <b>22.2.2.</b> Contingent liability in respect of 263 cases (December 31, 2009: 440 cases) filed against the Bank in various courts of law by the employees.   |      | 148,857   | 271,112    |
| <b>22.2.3.</b> There is a contingency of an amount of Rs.297.149 million on account of minimum income tax levied by the income tax authorities under Section 80-D of the Income Tax Ordinance, 1979, for assessment years 1991-92 to 1998-99. The income of the Bank was exempt from tax up to 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 the 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 referred the case to the Attorney General of Pakistan (AGP) for final decision which was received on March 12, 2011 whereby the AGP has decided that Section 27-A of the ADBP Ordinance should prevail over the said Section 80-D of the Income Tax Ordinance, 1979. |      |           |            |
| <b>22.2.4.</b> Income Tax Department under section 89/205 of the Income Tax Ordinance, 1979 levied income tax amounting to Rs.11.243 million for the assessment year 2001-2002. The Bank had to pay the amount as it was a mandatory payment. The Bank has filed appeals before the CIT(A). The bank has not charged to Profit & Loss account as it is expected that the demand would not be materialize.  |      |           |            |
| <b>22.2.5.</b> Income tax of Rs.1,700.993 million was levied by the Income Tax Department for Assessment Year 2002-03 on a remanded back case by ITAT. The Commissioner Inland Revenue Appeals, CIR(A) previously CIT(A) allowed provision for Post Retirement Medical Benefits up to the extent of 50% which reduced the levied tax from Rs.1,700.993 million to Rs.989.40 million. Subsequently the Income Tax Department has lodged appeal before the Appellate Tribunal Inland Revenue (ATIR). Against other issues where the Bank was aggrieved, appeal before ITAT against CIR(A) order has been submitted. ATIR decided the appeals wherein order of the CIR(A) has been upheld and further allowed the general provisioning for NPL's. The bank has applied for appeal effects to the Tax Authorities. The Bank has not accounted for the incremental amount of tax and contingent liability as it is confident that the demand will not crystallize.  |      |           |            |
| <b>22.2.6.</b> Income tax of Rs.1,457.555 million and further an amount of Rs.317.482 million was levied by the Income Tax Department for tax year 2003, against provision of Rs.26.800 million in the books of account. The CIR(A) in his orders favouring the appeal of the Bank reduced the tax amount of Rs1,457.555 million to Rs.1,036.570 million and further demand of Rs.317.482 million was reduced to Rs.235.172 million, respectively. The Bank filed appeal before ITAT. ITAT in its Order favoured the appeal of the Bank. The Bank has received appeal effects resulting in refund amounting to Rs.249.411 million. Being aggrieved the Tax Authorities have lodged appeal before the Honorable Lahore High Court, Rawalpindi Bench, Rawalpindi. Pending the outcome of the case, the Bank has not accounted for the incremental amount of tax and contingent liability as it is confident that the demand will not crystallize.  |      |           |            |
| <b>22.2.7.</b> Income tax of Rs.2,157.151 million was levied by the Income Tax Department for tax year 2004, against provision of Rs.368.672 million in the books of account. The CIT (A) in his Orders favouring the appeal of the Bank reduced the tax amount of Rs.2,157.151 million to   |      |           |            |

Rs.2,139.912 million the Income Tax Department is in appeal with the ATIR and subsequently the same was reduced to Rs.2,030.804 million by way of another assessment order. The Bank filed appeal before the ITAT. The ITAT in its order favoured the appeal of the Bank. The Bank has received appeal effects reducing the demand amounting to Rs.64.180 million. Being aggrieved the Tax Authorities have lodged appeal before the Honorable Lahore High Court, Rawalpindi Bench, Rawalpindi. Pending the outcome of the case, the Bank has not accounted for the incremental amount of tax and contingent liability as it is confident that the demand will not crystallize.

- 22.2.8.** Income Tax of Rs.532.136 million was levied by the Income Tax Department for tax year 2005, against provision of Rs.501.471 million in the books of accounts. The Bank filed an appeal before the CIR(A) against the aforesaid order who upheld the assessment. The Bank filed appeal before ITAT. ITAT in its Order favoured the appeal of the Bank. The Bank has received appeal effects amounting to refund of Rs.33.775 million. Being aggrieved the Tax Authorities have lodged appeal before the Honorable Lahore High Court, Rawalpindi Bench, Rawalpindi. Pending the outcome of the case, the Bank has not accounted for the incremental amount of tax and contingent liability as it is confident that the demand will not crystallize.
- 22.2.9.** Income tax of Rs.1,786.258 million and subsequently an addition of Rs.31.055 million was levied by the Income Tax Department for tax year 2006 on the issue of medical facility paid to employees, against provision of Rs.34.114 million in the books of account. The Bank filed an appeal before the CIR(A) against the aforesaid order, the CIR(A) decided the case in favour of the Tax Department against initial demand and in the case of incremental/additional demand the CIR(A) annulled the assessment order with the remarks that orders amended u/s 122(5A) cannot be amended u/s 122(1), on cross appeals on the issue of facility to employees the ATIR in its order remanded back the case to CIR(A) for adjudication on merit. The Bank paid Rs.31.055 million under protest. The Bank has filed an appeal against the order of the CIR(A) before the ITAT and paid Rs.328.228 million under protest. The ITAT in its Order favoured the appeal of the Bank. The Bank has received appeal effects resulting in refund amounting to Rs.370.163 million. Being aggrieved the Tax Authorities have lodged appeal before the Honorable Lahore High Court, Rawalpindi Bench, Rawalpindi. Pending the outcome of the case, the Bank has not accounted for the incremental amount of tax and contingent liability as it is confident that the demand will not crystallize.
- 22.2.10.** Income tax of Rs.2,239.493 million and subsequently an addition of Rs.24.876 million was levied by the Income Tax Department for tax year 2007 on the issue of medical facility paid to employees, against provision of Rs.254.559 million in the books of account. The Bank filed an appeal before the CIR(A) against the aforesaid order, the CIR(A) decided the case in favour of the Tax Department against initial demand and in the case of incremental/additional demand, the CIR(A) annulled the assessment order with the remarks that order amended u/s 122(5A) cannot be amended u/s 122(1), on cross appeals on the issue of facility to employees the ATIR in its order remanded back the case to CIR(A) for adjudication on merit. The Bank paid Rs.24.876 million under protest. The Bank has filed an appeal before the ITAT and paid Rs.1,524.550 million under protest. The ITAT in its Order favoured the appeal of the Bank. The Bank has received appeal effects resulting in refund amounting to Rs.1,602.708 million. Being aggrieved the Tax Authorities have lodged appeal before the Honorable Lahore High Court, Rawalpindi Bench, Rawalpindi. Pending the outcome of the case, the Bank has not accounted for the incremental amount of tax and contingent liability as it is confident that the demand will not crystallize.
- 22.2.11.** Income tax of Rs.1,976.242 million was levied by the Income Tax Department for tax year 2008, against provision of Rs.639.571 million in the books of account. The Bank filed an appeal before the CIR(A) against the aforesaid order, the CIR(A) has allowed provision against Other Assets (VGHSS 2005 paid in 2007) and provision for Post Retirement Medical Benefits up to the extent of 50% which reduced the levied tax from Rs.1,976.242 million to Rs.1,935.738 million. The Tax Department has filed appeal before the ATIR against the allowed 50% on Provision for Post Retirement Medical Benefits. The Bank filed appeal before ATIR against CIR(A) order for the remaining unsettled issues. ATIR vide its order maintained the action of CIR(A) and further allowed the addition on account of write-off Government Relief Packages. On the issue of un-paid liability (mark-up/interest expense) the ATIR remanded back the case to assessing officer for correct determination of the un-paid amount. The Bank has paid Rs.600 million under protest. The Bank has not accounted for the incremental amount of tax as it is confident that the same will not crystallize.
- 22.2.12.** Income tax of Rs.1,382.898 million was levied by the Income Tax Department for tax year 2009, against provision of Rs. 1,387.835 million in the books of account. The Bank filed an appeal before the CIR(A) against the aforesaid order, the CIR(A) has allowed provision against Other Assets (Recoveries from Federal Govt. etc) and provision for Post Retirement Medical Benefits up to the extent of 50% which reduced the levied tax from Rs.1,382.898 to Rs.1,236.448 million. The Tax Department has filed appeal before ATIR against the allowed 50% on Provision for Post Retirement Medical Benefits. The Bank filed appeal before ATIR against CIR(A) order for the remaining unsettled issues. ATIR vide its order maintained the action of CIR(A). On the issue of un-paid liability (mark-up/interest expense) the ATIR remanded back the case to assessing officer for correct determination of the un-paid amount. The Bank has paid Rs.244.069 million under protest. The Bank has not accounted for the incremental amount of tax as it is confident that the same will not crystallize.
- 22.2.13.** The cases relating to taxation matters of the Bank for the assessment years 1991-92 to 1998-99, 2001-2002, 2002-2003, and tax years 2003 to 2009 are being contested by the Bank at various forums. Subsequent to the balance sheet date vide ATIR order dated July 22, 2011, certain reliefs has been provided in respect of tax year 2003-2009. The most of the issue has been decided in favor of the Bank, which has resulted in a tax refund of Rs. 5,830.791 million in contra to tax liability of Rs. 2,067.918 million. The result of the order of the taxation authorities have not been accounted for by the Bank, as the Tax Authorities have filed reference application under section 133 of Income Tax Ordinance, 2001 before the Honorable Islamabad High Court, Islamabad.
- 22.2.14.** The SBP debt of Rs. 75.677 billion ( Principal Rs.54.461 billion; mark-up Rs.22.985 billion) is in the process of repricing/ restructuring as explained in Note 15.5. Consequent upon reworking of accrued mark up as advised by the SBP and as explained in Note 15.5 the

resultant additional mark up amounting to Rs.2.729 billion has not been accounted for in these financial statements, pending formal approval of the debt restructuring proposal including approval of ZTBL claim of differential of mark-up amounting to Rs.22.293 billion from GoP. In this regard MoF vide their letter No. F.1(5)1F-I/2007-1217 dated September 28, 2009 has advised that Finance Division, SBP and ZTBL will work out a revised proposal to rationalize debt structure of the ZTBL. As per GoP directive, State Bank of Pakistan has presented revised restructuring plan vide their letter No. ACD/1.1-13/2009-1071 dated October 27, 2009. However, ZTBL has requested MoF vide its letter No. 2932 dated November 20, 2009 and Letter No. FIN/B&FMD/4(15)/2009-943 dated April 08, 2010 that agreed upon SBP debt restructuring proposal dated November 08, 2008 may be implemented.

Thereafter, SBP revised proposal dated October 27, 2009 was again discussed in a tripartite meeting held in the Ministry of Finance on July 07, 2010 wherein ZTBL representatives stressed that SBP agreed upon proposal dated November 08, 2010 would be practicable for the bank. As per minutes of the meeting vide Ministry of Finance letter No. F.1 (5)IF-I/2007-943 dated July 22, 2010, it was decided in the meeting that ZTBL may come up with a practicable proposal for debt restructuring to be considered by Finance Division and SBP. SBP vide their letter dated February 9, 2011 has submitted revised proposal received through MOF letter dated February 12, 2011. ZTBL response on SBP proposal, with some amendments, furnished to MOF vide ZTBL letter dated February 22, 2011.

|   | Note  | 2010      | 2009      |
|---|---|-----------|-----------|
| Rupees in '000  |   |           |           |
| <b>23. MARK UP/RETURN/INTEREST EARNED</b>                             |   |           |           |
| On loans and advances to customers                                    |   | 7,415,104 | 6,855,395 |
| On investments in held to maturity securities                         |   | 683,104   | 572,388   |
| On deposits with financial institutions                               |   | 798,493   | 1,627,531 |
|   |   | 8,896,701 | 9,055,314 |
| <b>24. MARK UP/RETURN/INTEREST EXPENSED</b>                           |   |           |           |
| On deposits   |   | 197,944   | 92,582    |
| On borrowings and subordinated debt - State Bank of Pakistan          |   | 3,512,741 | 3,501,655 |
| Bank commission and other charges                                     |   | 3,080     | 3,339     |
|   |   | 3,713,765 | 3,597,576 |
| <b>25. OTHER INCOME</b>   |   |           |           |
| Rent of property - KSSL   |   | 13,217    | 9,743     |
| Rent of property - others   |   | 17,607    | 16,151    |
|   |   | 30,824    | 25,894    |
| Recoveries of charge off amounts                                      |   | 2,947,065 | 4,287,158 |
| Recoveries against loans written-off under Government relief packages |   | 760,000   | 480,000   |
| Net profit on sale of property and equipment                          |   | 1,942     | 1,566     |
| Loan application fee  |   | 305,445   | 473,382   |
| Credit relating to defined benefit plans                              | 25.1  | 586,321   | 1,092,802 |
| Reversal for compensated absence                                      | 35.6  | 395,897   | -         |
| Deferred income amortization  | 18.4  | 67,329    | 71,112    |
| Others  | 25.2  | 194,691   | 185,504   |
|   |   | 5,289,514 | 6,617,418 |
| <b>25.1.</b>  | Excess provision in respect of defined benefit plans has been written back on the basis of actuarial valuation carried out by an independent actuary. |           |           |

|  | Note   | 2010    | 2009    |
|--|--------|---------|---------|
| Rupees in '000                                 |        |         |         |
| <b>25.2. OTHERS</b>                            |        |         |         |
| Sale proceeds of loan application forms        |        | 8,390   | 6,824   |
| Postal charges received from loanees           |        | 42,631  | 60,322  |
| Accounting and other services rendered to KSSL |        | 16,065  | 14,177  |
| Miscellaneous income                           | 25.2.1 | 127,605 | 104,181 |
|  |        | 194,691 | 185,504 |

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

## 26. ADMINISTRATIVE EXPENSES

|  | Note | 2010      | 2009      |
|--|------|-----------|-----------|
| Rupees '000                                      |      |           |           |
| Salaries, allowances and benefits                |      | 4,179,216 | 3,615,191 |
| Charge for defined contribution plan             |      | 429,055   | 39,083    |
| Charge relating to defined benefit plans         |      | 149,215   | 545,900   |
| Charge for compensated absence                   |      | -         | 242,096   |
| Non-executive directors' fees and other expenses |      | 2,598     | 516       |
| Rent, taxes, insurance, electricity, etc.        |      | 153,408   | 129,077   |
| Legal and professional charges                   |      | 50,062    | 81,631    |
| Communications                                   |      | 41,438    | 38,580    |
| Repairs and maintenance                          |      | 28,634    | 30,788    |
| Motor vehicle expenses                           |      | 245,744   | 210,617   |
| Traveling expenses                               |      | 133,443   | 131,551   |
| Stationery and printing                          |      | 50,804    | 45,817    |
| Advertisement and publicity                      |      | 47,503    | 23,831    |
| Auditors' remuneration                           | 26.1 | 4,219     | 4,219     |
| Depreciation - tangible                          | 11.2 | 224,225   | 209,194   |
| Amortization - intangible                        | 11.3 | 25,275    | 25,302    |
| Services rendered by KSSL                        |      | 424,009   | 333,442   |
| Others   |      | 72,582    | 75,229    |
|  |      | 6,261,430 | 5,782,064 |

### 26.1. Auditors' remuneration

|   | Ilyas Saeed & Co. Chartered Accountants | Anjum Asim Shahid Rahman Chartered Accountants | Total |
|---|---|--|-------|
| Rupees in '000                                      |   |  |       |
| Audit fee   | 661                                     | 661  | 1,322 |
| Fee for half year review                            | 165                                     | 165  | 330   |
| Consolidation of the accounts of subsidiary company | 200                                     | 200  | 400   |
| Other certification                                 | 363                                     | 362  | 725   |
| Out of pocket expenses                              | 721                                     | 721  | 1,442 |
|   | 2,110                                   | 2,109  | 4,219 |

|   | 2009                                     |   | Total |
|---|--|---|-------|
|   | Hyder Bhimji & Co. Chartered Accountants | BDO Ebrahim & Co. Chartered Accountants |       |
|   | Rupees in '000                           |   |       |
| Audit fee   | 661                                      | 661                                     | 1,322 |
| Fee for half year review                            | 165                                      | 165                                     | 330   |
| Consolidation of the accounts of subsidiary company | 200                                      | 200                                     | 400   |
| Other certification                                 | 363                                      | 362                                     | 725   |
| Out of pocket expenses                              | 721                                      | 721                                     | 1,442 |
|   | 2,110                                    | 2,109                                   | 4,219 |

|                            | Note | 2010           | 2009 |
|----------------------------|------|----------------|------|
|                            |      | Rupees in '000 |      |
| <b>27. OTHER CHARGES</b>   |      |                |      |
| Penalties imposed by SBP   |      | 691            | 390  |
| Fixed assets - written off |      | 719            | -    |
|                            |      | 1,410          | 390  |

**28. COMMUTATION TO EMPLOYEES UNDER SR-2005**

Commutation to employees under SR-2005 comprises the differential of 100% commutation of pension (on the basic pay admissible as on the date of option in respect of officers/executives under SSR-1961 opted for SR-2005) and amount received from pension fund thereof.

|                     | Note | 2010           | 2009      |
|---------------------|------|----------------|-----------|
|                     |      | Rupees in '000 |           |
| <b>29. TAXATION</b> |      |                |           |
| For the year        |      |                |           |
| Current             | 29.1 | 1,192,110      | 1,667,671 |
| Prior years         |      | -              | 37,491    |
| Deferred            |      | (178,554)      | (459,546) |
|                     |      | 1,013,556      | 1,245,616 |

**29.1. Relationship between tax expense and accounting profit**

|  |  |           |           |
|--|--|-----------|-----------|
| Accounting profit for the year   |  | 2,877,842 | 3,372,540 |
| Add:   |  |           |           |
| Accounting depreciation  |  | 249,500   | 234,496   |
| Penalties imposed by SBP   |  | 691       | -         |
| Provision charged against non performing loans as per Prudential Regulations |  | 1,365,024 | 2,224,673 |
|  |  | 1,615,215 | 2,459,169 |
| Less: tax depreciation   |  |           |           |
| tax depreciation   |  | 114,941   | 134,383   |
| Provision against non performing loans allowed up to 1% of gross advances    |  | 924,669   | 893,965   |
| dividend and rental income for separate consideration                        |  | 66,244    | 53,880    |
|  |  | 1,105,854 | 1,082,228 |
|  |  | 3,387,203 | 4,749,481 |

|  | Note | 2010      | 2009      |
|--|------|-----------|-----------|
| Rupees in '000                           |      |           |           |
| Tax-excluding dividend and rental income |      | 1,185,521 | 1,662,318 |
| Tax on dividend and rental income        |      | 6,589     | 5,353     |
| Tax for the current period               |      | 1,192,110 | 1,667,671 |
| Applicable tax rate                      |      | 35%       | 35%       |

**30. BASIC EARNINGS PER SHARE**

|   |  |           |           |
|---|--|-----------|-----------|
| Profit for the year   |  | 1,864,286 | 2,126,924 |
| Weighted average number of ordinary shares outstanding during the year (number in thousand) |  | 1,252,244 | 1,252,244 |
| Basic earnings per share in rupees  |  | 1.489     | 1.698     |

**31. DILUTED EARNINGS PER SHARE**

There is no dilutive effect on the basic earnings per share as the Bank does not have any convertible instruments in issue at December 31, 2010.

|                                      | Note | 2010       | 2009       |
|--------------------------------------|------|------------|------------|
| Rupees in '000                       |      |            |            |
| <b>32. CASH AND CASH EQUIVALENTS</b> |      |            |            |
| Cash and balance with treasury banks | 7    | 2,745,611  | 2,354,107  |
| Balance with other banks             | 8    | 10,916,739 | 9,536,981  |
|                                      |      | 13,662,350 | 11,891,088 |

**33. STAFF STRENGTH**

|                      |  | Number |       |
|----------------------|--|--------|-------|
| Permanent            |  | 5,494  | 5,274 |
| Contractual          |  | 54     | 78    |
| Total staff strength |  | 5,548  | 5,352 |

**34. CREDIT RATING**

JCR-VIS Credit Rating Company, Karachi in its report dated August 13, 2010 has reaffirmed credit rating of the Bank at AAA/A-1+ (2009 : AAA/A-1+) with stable outlook, medium to long term credit rating of B+ and short-term credit rating of B (2009 : B+ medium to long term , B short term rating).

**35. DEFINED BENEFIT AND CONTRIBUTION 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
- Employees Compensated Absences
- Defined Contribution Plan

**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 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 2006 and 2008.

**35.1.2. Principal actuarial assumption**

The latest actuarial valuation is carried out as at December 31, 2010. The actuarial valuations were made using the Projected Unit Credit (PUC) method based on the following significant assumptions:

|  |                  |
|--|------------------|
| Valuation discount rate                | 14.25% per annum |
| Expected rate of increase in salary    | 12% per annum    |
| Expected rate of return on investments | 14.25% per annum |
| Indexation in pension                  | 8.75% per annum  |

|   | Note   | 2010        | 2009        |
|---|--------|-------------|-------------|
| Rupees in '000  |        |             |             |
| <b>35.1.3. Changes in the present value of obligation</b>               |        |             |             |
| Present value of obligation as on January 1                             |        | 1,331,777   | 2,267,226   |
| Current service cost  |        | 13,477      | 26,869      |
| Interest cost   |        | 179,485     | 317,412     |
| Benefits paid   |        | (102,844)   | (617,504)   |
| Reversal gain as a result of transfer of liability to Gratuity SSR-1961 |        | -           | (637,967)   |
| Actuarial (gain)/loss on obligation                                     |        | (219,527)   | (24,259)    |
| Present value of obligation as at December 31                           |        | 1,202,368   | 1,331,777   |
| <b>35.1.4. Changes in the fair value of plan assets</b>                 |        |             |             |
| Total assets as on January 1  |        | 5,180,979   | 5,114,465   |
| Expected return on plan assets  |        | 648,592     | 716,025     |
| Contribution / (refund)   |        | (1,030,633) | 38,830      |
| Benefits paid   |        | (102,844)   | (617,504)   |
| Actuarial gain/(loss) on assets   |        | (86,595)    | (70,837)    |
| Total assets as at December 31  |        | 4,609,499   | 5,180,979   |
| <b>35.1.5. Amounts recognized in statement of financial position</b>    |        |             |             |
| Present value of defined benefit obligation                             |        | 1,202,368   | 1,331,777   |
| Fair value of plan assets   |        | (4,609,499) | (5,180,979) |
| Net actuarial gains not recognized                                      |        | (68,550)    | (201,482)   |
| Asset recognized in the statement of financial position                 | 13.5   | (3,475,681) | (4,050,684) |
| <b>35.1.6. Movement in net asset recognized</b>                         |        |             |             |
| Opening net asset   |        | (4,050,684) | (3,002,143) |
| Credit for the period   | 35.1.7 | (455,630)   | (1,009,711) |
| Refund / (contribution) to fund/benefits paid during the year           |        | 1,030,633   | (38,830)    |
| Closing net asset   |        | (3,475,681) | (4,050,684) |



|   | Note | 2010      | 2009        |
|---|------|-----------|-------------|
| Rupees in '000  |      |           |             |
| <b>35.1.7. Income recognized in the profit and loss account</b>         |      |           |             |
| Current service cost  |      | 13,477    | 26,869      |
| Interest cost   |      | 179,485   | 317,412     |
| Expected return on plan assets  |      | (648,592) | (716,025)   |
| Reversal gain as a result of transfer of liability to Gratuity SSR-1961 |      | -         | (637,967)   |
|   |      | (455,630) | (1,009,711) |

## 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.

### 35.2.2. Principal actuarial assumption

The latest actuarial valuation is carried out as at December 31, 2010. Actuarial valuation was made using the following significant assumptions:

|  |                  |
|--|------------------|
| Valuation discount rate                | 14.25% per annum |
| Expected rate of increase in salary    | 12% per annum    |
| Expected rate of return on investments | 14.25% per annum |

|  | Note | 2010      | 2009      |
|--|------|-----------|-----------|
| Rupees in '000   |      |           |           |
| <b>35.2.3. Changes in the present value of obligation</b>                |      |           |           |
| Present value of obligation as on January 1                              |      | 165,502   | 157,652   |
| Current service cost   |      | 5,689     | 5,787     |
| Interest cost  |      | 22,497    | 22,071    |
| Benefits paid  |      | (9,947)   | (10,584)  |
| Actuarial (gain)/loss on obligation                                      |      | (6,636)   | (9,424)   |
| Present value of obligation as at December 31                            |      | 177,105   | 165,502   |
| <b>35.2.4. Changes in the fair value of plan assets</b>                  |      |           |           |
| Total assets as on January 1   |      | 502,094   | 463,458   |
| Expected return on plan assets   |      | 69,620    | 64,884    |
| Contributions - Employer   |      | -         | 8,643     |
| Contributions - Employee   |      | -         | 8,643     |
| Benefits paid  |      | (9,947)   | (10,584)  |
| Actuarial gain/(loss) on assets  |      | (16,541)  | (32,950)  |
| Total assets as at December 31   |      | 545,226   | 502,094   |
| <b>35.2.5. Amounts recognized in the statement of financial position</b> |      |           |           |
| Present value of defined benefit obligation                              |      | 177,105   | 165,502   |
| Fair value of plan assets  |      | (545,226) | (502,094) |
| Unrecognised actuarial gain/(loss)                                       |      | 23,549    | 33,454    |
| Unrecognised due to Para 58(b)   |      | 344,572   | -         |
| Asset recognized in the statement of financial position                  | 13.5 | -         | (303,138) |

|   | Note   | 2010      | 2009      |
|---|--------|-----------|-----------|
| Rupees in '000  |        |           |           |
| <b>35.2.6. Movement in net asset recognized</b>                         |        |           |           |
| Opening net receivable  |        | (303,138) | (247,497) |
| Credit for the period   | 35.2.7 | 303,138   | (46,998)  |
| Contribution to fund/benefits paid during the year                      |        | -         | (8,643)   |
| Closing net receivable  |        | -         | (303,138) |
| <b>35.2.7. (Income) / expense recognized in profit and loss account</b> |        |           |           |
| Current service cost  |        | 5,689     | 5,787     |
| Interest cost   |        | 22,497    | 22,071    |
| Expected return on plan assets  |        | (69,620)  | (64,884)  |
| Actuarial gains recognized  |        | -         | (1,329)   |
| Contribution-employee   |        | -         | (8,643)   |
| Impact of Para 58(b)  |        | 344,572   | -         |
|   |        | 303,138   | (46,998)  |

### 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, 2010. Actuarial valuation was made using the following significant assumptions:

|  |                  |
|--|------------------|
| Valuation discount rate                | 14.25% per annum |
| Expected rate of increase in salary    | 12% per annum    |
| Expected rate of return on investments | 14.25% per annum |

|   | Note | 2010     | 2009    |
|---|------|----------|---------|
| Rupees in '000  |      |          |         |
| <b>35.3.3. Changes in the present value of obligation</b> |      |          |         |
| Present value of obligation as on January 1               |      | 34,041   | 32,555  |
| Current service cost                                      |      | 1,471    | 1,704   |
| Interest cost   |      | 4,689    | 4,558   |
| Benefits paid   |      | (1,130)  | (1,081) |
| Actuarial (gain)/loss on obligation                       |      | (19,057) | (3,695) |
| Present value of obligation as at December 31             |      | 20,014   | 34,041  |

|  | Note   | 2010      | 2009      |
|--|--------|-----------|-----------|
| Rupees in '000   |        |           |           |
| <b>35.3.4. Changes in the fair value of plan assets</b>                  |        |           |           |
| Total assets as on January 1   |        | 224,993   | 195,519   |
| Expected return on plan assets   |        | 31,423    | 27,373    |
| Contributions - Employer   |        | -         | 3,779     |
| Contributions - Employee   |        | -         | 3,779     |
| Benefits paid  |        | (1,130)   | (1,081)   |
| Actuarial gain/(loss) on assets  |        | (15,181)  | (4,376)   |
| Total assets as at December 31   |        | 240,105   | 224,993   |
| <b>35.3.5. Amounts recognized in the statement of financial position</b> |        |           |           |
| Present value of defined benefit obligation                              |        | 20,014    | 34,041    |
| Fair value of plan assets  |        | (240,105) | (224,993) |
| Net actuarial gains/(losses) not recognized                              |        | 101,618   | 108,491   |
| Unrecognized due to Para 58(b)   |        | 118,473   | -         |
| Asset recognized in the statement of financial position                  | 13.5   | -         | (82,461)  |
| <b>35.3.6. Movement in net asset recognized</b>                          |        |           |           |
| Opening net (receivable)/payable   |        | (82,461)  | (42,588)  |
| Credit for the year  | 35.3.7 | 82,461    | (36,094)  |
| Contribution to fund/benefits paid during the year                       |        | -         | (3,779)   |
| Closing net receivable   |        | -         | (82,461)  |
| <b>35.3.7. (Income) / expense recognized in profit and loss account</b>  |        |           |           |
| Current service cost   |        | 1,471     | 1,703     |
| Interest cost  |        | 4,689     | 4,558     |
| Expected return on plan assets   |        | (31,423)  | (27,373)  |
| Actuarial (gains)/losses recognized                                      |        | (10,749)  | (11,203)  |
| Contribution-employee  |        | -         | (3,779)   |
| Impact of Para 58(b)   |        | 118,473   | -         |
|  |        | 82,461    | (36,094)  |

#### 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, 2010. Actuarial valuation was made using the following significant assumptions:

|  |                  |
|--|------------------|
| Valuation discount rate                | 14.25% per annum |
| Expected rate of increase in salary    | 12% per annum    |
| Expected rate of return on investments | 14.25% per annum |

|  | Note     | 2010        | 2009        |
|--|----------|-------------|-------------|
| Rupees in '000   |          |             |             |
| <b>35.4.1.3. Changes in the present value of obligation</b>                |          |             |             |
| Present value of obligation as on January 1                                |          | 357,969     | 6           |
| Current service cost   |          | 40          | 1           |
| Interest cost  |          | 49,420      | 1           |
| Benefits paid  |          | (10,277)    | (293,526)   |
| Addition to liability from Pension Fund                                    |          | -           | 637,967     |
| Actuarial (gain)/loss on obligation  |          | (397,152)   | 13,520      |
| Present value of obligation as at December 31                              |          | -           | 357,969     |
| <b>35.4.1.4. Changes in the fair value of plan assets</b>                  |          |             |             |
| Total assets as on January 1   |          | 1,483,278   | 1,588,217   |
| Expected return on plan assets   |          | 180,151     | 222,350     |
| Contributions  |          | (395,993)   | 1,467       |
| Benefits paid  |          | (10,277)    | (293,526)   |
| Actuarial gain/(loss) on assets  |          | (12,429)    | (35,230)    |
| Total assets as at December 31   |          | 1,244,730   | 1,483,278   |
| <b>35.4.1.5. Amounts recognized in the statement of financial position</b> |          |             |             |
| Present value of defined benefit obligation                                |          | -           | 357,969     |
| Fair value of plan assets  |          | (1,244,730) | (1,483,278) |
| Net actuarial gains/(losses) not recognized                                |          | 469,296     | 84,573      |
| Asset recognized in the statement of financial position                    | 13.5     | (775,434)   | (1,040,736) |
| <b>35.4.1.6. Movement in net asset recognized</b>                          |          |             |             |
| Opening net asset  |          | (1,040,736) | (1,454,888) |
| Credit for the year  | 35.4.1.7 | (130,691)   | 415,620     |
| Contribution to fund/benefits paid during the year                         |          | 395,993     | (1,467)     |
| Closing net asset  |          | (775,434)   | (1,040,736) |
| <b>35.4.1.7. (Income) / expense recognized in profit and loss account</b>  |          |             |             |
| Current service cost   |          | 40          | 1           |
| Interest cost  |          | 49,420      | 1           |
| Expected return on plan assets   |          | (180,151)   | (222,350)   |
| Actuarial gains recognized   |          | -           | -           |
| Addition to liability from Pension Fund                                    |          | -           | 637,967     |
|  |          | (130,691)   | 415,620     |

**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 8.333% of the monetized salary per month.

**35.4.2.2. Principal actuarial assumption**

The latest actuarial valuation is carried out as at December 31, 2010. Actuarial valuation was made using the following significant assumptions:

|  |                  |
|--|------------------|
| Valuation discount rate                | 14.25% per annum |
| Expected rate of increase in salary    | 12% per annum    |
| Expected rate of return on investments | 14.25% per annum |

|  | Note     | 2010      | 2009      |
|--|----------|-----------|-----------|
| Rupees in '000   |          |           |           |
| <b>35.4.2.3. Changes in the present value of obligation</b>                |          |           |           |
| Present value of obligation as on January 1                                |          | 551,398   | 388,796   |
| Current service cost   |          | 149,830   | 110,732   |
| Interest cost  |          | 76,471    | 54,431    |
| Benefits paid  |          | (10,703)  | (9,457)   |
| Actuarial (gain)/loss on obligation  |          | (154,132) | 6,896     |
| Present value of obligation as at December 31                              |          | 612,864   | 551,398   |
| <b>35.4.2.4. Changes in the fair value of plan assets</b>                  |          |           |           |
| Total assets as on January 1   |          | 446,349   | 249,150   |
| Expected return on plan assets   |          | 77,086    | 34,881    |
| Contributions  |          | 226,293   | 169,747   |
| Benefits paid  |          | (10,703)  | (9,457)   |
| Actuarial gain/(loss) on assets  |          | (8,812)   | 2,028     |
| Total assets as at December 31   |          | 730,213   | 446,349   |
| <b>35.4.2.5. Amounts recognized in the statement of financial position</b> |          |           |           |
| Present value of defined benefit obligation                                |          | 612,864   | 551,398   |
| Fair value of plan assets  |          | (730,213) | (446,349) |
| Net actuarial gains/(losses) not recognized                                |          | 109,402   | (35,918)  |
| (Asset) / liability recognized in the statement of financial position      | 13.5     | (7,947)   | 69,131    |
| <b>35.4.2.6. Movement in net (asset) / liability recognized</b>            |          |           |           |
| Opening net liability  |          | 69,131    | 108,596   |
| Charge for the period  | 35.4.2.7 | 149,215   | 130,282   |
| Contribution to fund/benefits paid during the year                         |          | (226,293) | (169,747) |
| Closing net liability  |          | (7,947)   | 69,131    |

|  | Note | 2010     | 2009     |
|--|------|----------|----------|
| Rupees in '000   |      |          |          |
| <b>35.4.2.7. Expense recognized in profit and loss account</b> |      |          |          |
| Current service cost   |      | 149,830  | 110,732  |
| Interest cost  |      | 76,471   | 54,431   |
| Expected return on plan assets                                 |      | (77,086) | (34,881) |
|  |      | 149,215  | 130,282  |

### 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, 2010. Actuarial valuation was made using the following significant assumptions:

|                         |                  |
|-------------------------|------------------|
| Valuation discount rate | 14.25% per annum |
| Medical inflation rate  | 8.75% per annum  |

|   | Note | 2010        | 2009      |
|---|------|-------------|-----------|
| Rupees in '000  |      |             |           |
| <b>35.5.3. Changes in the present value of obligation</b> |      |             |           |
| Present value of obligation as on January 1               |      | 2,543,255   | 2,512,406 |
| Current service cost                                      |      | 33,444      | 57,132    |
| Interest cost   |      | 354,605     | 351,737   |
| Benefits paid   |      | (21,419)    | (17,746)  |
| Actuarial (gain)/loss on obligation                       |      | (1,988,525) | (360,274) |
| Present value of obligation as at December 31             |      | 921,360     | 2,543,255 |

#### 35.5.4. Amounts recognized in the statement of financial position

|   |    |           |           |
|---|----|-----------|-----------|
| Present value of defined benefit obligation                 |    | 921,360   | 2,543,255 |
| Net actuarial gains not recognized                          |    | 3,130,893 | 1,269,231 |
| Liability recognized in the statement of financial position | 18 | 4,052,253 | 3,812,485 |

#### 35.5.5. Movement in net liability recognized

|  |        |           |           |
|--|--------|-----------|-----------|
| Opening net liability                              |        | 3,812,486 | 3,503,577 |
| Charge for the period                              | 35.5.6 | 261,186   | 326,655   |
| Contribution to fund/benefits paid during the year |        | (21,419)  | (17,746)  |
| Closing net liability                              |        | 4,052,253 | 3,812,486 |

#### 35.5.6. Expense recognized in profit and loss account

|                                       |  |           |          |
|---------------------------------------|--|-----------|----------|
| Current service cost                  |  | 33,444    | 57,132   |
| Interest cost                         |  | 354,605   | 351,738  |
| Actuarial gains recognized            |  | (126,863) | (82,215) |
| Negative past service cost recognized |  | -         | -        |
|                                       |  | 261,186   | 326,655  |

**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 valuation used discount rate of 14.25% per annum and expected rate of increase in salary of 12% per annum. The liability of the Bank as per the latest actuarial valuation carried out as at December 31, 2010 amounted to Rs. 798.452 million (December 31, 2009: Rs. 1,194.349 million) which has been fully provided by the Bank. The provision has been reversed by Rs. 395.897 million for the year ended December 31, 2010.

**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 |           |
|--------------------------------------|----------------|--------|-----------|------|------------|-----------|
|                                      | 2010           | 2009   | 2010      | 2009 | 2010       | 2009      |
|                                      | Rupees in '000 |        |           |      |            |           |
| Fee                                  | -              | -      | 2,598     | 516  | -          | -         |
| Managerial remuneration              | -              | 6,000  | -         | -    | 1,514,330  | 1,252,276 |
| Charge for defined benefit plan      | -              | 1,000  | -         | -    | 118,210    | 104,102   |
| Contribution to defined benefit fund | -              | -      | -         | -    | 20,223     | 16,820    |
| Rent and house maintenance           | -              | 2,220  | -         | -    | 10,770     | 14,281    |
| Utilities                            | -              | 297    | -         | -    | 2,693      | 3,570     |
| Medical                              | 116            | 48     | -         | -    | 3,032      | 3,950     |
| Conveyance                           | 387            | 359    | -         | -    | 3,111      | 2,107     |
| Furnishing allowance                 | -              | -      | -         | -    | 4,710      | 6,724     |
| Leave fare assistance                | -              | -      | -         | -    | -          | -         |
| Club facility                        | 18             | 341    | -         | -    | -          | -         |
| Others                               | -              | 754    | -         | -    | -          | 580       |
|                                      | 521            | 11,019 | 2,598     | 516  | 1,677,079  | 1,404,410 |
| <b>Number of persons</b>             | 1              | 1      | 11        | 9    | 1,590      | 1,391     |

**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 covered 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).

**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.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently re-priced.

**37.1. On-balance sheet financial instruments**

|                                       | 2010           |                    | 2009               |                    |
|---------------------------------------|----------------|--------------------|--------------------|--------------------|
|                                       | Book value     | Fair value         | Book value         | Fair value         |
|                                       | Rupees in '000 |                    | Rupees in '000     |                    |
| <b>Assets</b>                         |                |                    |                    |                    |
| Cash and balances with treasury banks | 2,745,611      | 2,745,611          | 2,354,107          | 2,354,107          |
| Balances with other banks             | 10,916,739     | 10,916,739         | 9,536,981          | 9,536,981          |
| Investments - net                     | 7,804,207      | 7,804,207          | 7,213,948          | 7,213,948          |
| Advances - net                        | 84,792,594     | 84,792,594         | 81,974,021         | 81,974,021         |
| Other assets - net                    | 37.2           | 9,405,548          | 9,927,228          | 9,927,228          |
|                                       |                | <u>115,664,699</u> | <u>111,006,285</u> | <u>111,006,285</u> |
| <b>Liabilities</b>                    |                |                    |                    |                    |
| Bills payable                         |                | 306,040            | 2,059,979          | 2,059,979          |
| Borrowings                            |                | 51,257,213         | 51,257,213         | 51,257,213         |
| Deposits and other accounts           |                | 9,602,772          | 8,750,892          | 8,750,892          |
| Sub-ordinated loan                    |                | 3,204,323          | 3,204,323          | 3,204,323          |
| Other liabilities                     | 37.2           | 30,940,379         | 27,367,482         | 27,367,482         |
|                                       |                | <u>95,310,727</u>  | <u>92,639,889</u>  | <u>92,639,889</u>  |

**37.2.** Stationery and stamps in hand, stock of farm machinery, advance against salary and expenses, 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<br>finance | Trading and<br>sales | Retail<br>banking | Commercial<br>banking | Payment and<br>settlement | Agency<br>services | Assets<br>management | Retail<br>brokerage | Agri financing |
|---------------------------------|----------------------|----------------------|-------------------|-----------------------|---------------------------|--------------------|----------------------|---------------------|----------------|
|                                 | Rupees in '000       |                      |                   |                       |                           |                    |                      |                     |                |
|                                 | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 14,230,023     |
| <b>2010</b>                     |                      |                      |                   |                       |                           |                    |                      |                     |                |
| Total income                    | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 11,352,181     |
| Total expenses                  | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 2,877,842      |
| Net income before tax           | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 1,013,556      |
| Taxation                        | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 1,864,286      |
| Income after tax                | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 117,585,949    |
| Segment assets (gross)          | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 17,244,928     |
| Segment non performing loans    | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 4,654,018      |
| Segment provision required      | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 95,881,306     |
| Segment liabilities             | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 8.59%          |
| Segment return on net assets(%) | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 5.80%          |
| Segment cost of funds (%)       | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   |                |
|                                 |                      |                      |                   |                       |                           |                    |                      |                     |                |
| <b>2009</b>                     |                      |                      |                   |                       |                           |                    |                      |                     |                |
| Total income                    | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 15,164,986     |
| Total expenses                  | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 11,792,446     |
| Net income before tax           | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 3,372,540      |
| Taxation                        | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 1,245,616      |
| Income after tax                | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 2,126,924      |
| Segment assets (gross)          | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 112,618,877    |
| Segment non performing loans    | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 14,086,126     |
| Segment provision required      | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 4,401,719      |
| Segment liabilities             | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 93,184,201     |
| Segment return on net assets(%) | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 10.94%         |
| Segment cost of funds (%)       | -                    | -                    | -                 | -                     | -                         | -                  | -                    | -                   | 5.69%          |

## 39. TRUST ACTIVITIES

The Bank act as trustee in its fiduciary capacity that results in the holding or placing of assets on behalf of individuals, trust, retirement benefit plan and other institutions. 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 except net amount receivable/payable in respect thereof.

#### 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.

Transactions between the Bank and its related parties are carried at arm's length basis under the comparable uncontrolled price method. However, the transactions between the Bank and its subsidiary, Kissan Support Services (Pvt) Limited, are carried out on «cost plus» method. Details of loans and advances to the companies or firms in which the directors of the Bank are interested as directors, partners or in case of private companies as members, are given in note 10.8 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Contributions to and accruals in respect of staff retirement and other benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan as disclosed in notes 35. Remuneration to the executives and disposal of vehicles are disclosed in note 36 and 11.8 to these financial statements respectively. 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:

|                                    | 2010                     |                     | 2009                     |                     |
|------------------------------------|--------------------------|---------------------|--------------------------|---------------------|
|                                    | Key management personnel | Subsidiary M/s KSSL | Key management personnel | Subsidiary M/s KSSL |
|                                    | Rupees '000              |                     |                          |                     |
| <b>Advances</b>                    |                          |                     |                          |                     |
| As on January 1                    | 13,493                   | 15,000              | 11,037                   | -                   |
| Given during the year              | 7,995                    | -                   | 4,733                    | 15,000              |
| Repaid during the year             | (3,029)                  | (15,000)            | (2,277)                  | -                   |
| As at December 31                  | 18,459                   | -                   | 13,493                   | 15,000              |
| <b>Deposits</b>                    |                          |                     |                          |                     |
| As on January 1                    | 9,229                    | -                   | 5,148                    | -                   |
| Received during the year           | 55,328                   | -                   | 58,839                   | -                   |
| Withdrawn during the year          | (53,933)                 | -                   | (54,758)                 | -                   |
| As at December 31                  | 10,624                   | -                   | 9,229                    | -                   |
| Investments at the end of the year | -                        | 100,000             | -                        | 100,000             |
| Payable at the end of the year     | -                        | 11,507              | -                        | 2,713               |

|   | 2010                     |                     | 2009                     |                     |
|---|--------------------------|---------------------|--------------------------|---------------------|
|   | Key management personnel | Subsidiary M/s KSSL | Key management personnel | Subsidiary M/s KSSL |
|   | Rupees '000              |                     |                          |                     |
| Mark up/ interest earned                            | 629                      | 1,287               | 352                      | -                   |
| Remuneration paid                                   | 49,024                   | -                   | 41,106                   | -                   |
| Post retirement benefit                             | 3,783                    | -                   | 3,028                    | -                   |
| Contribution to defined benefit plan                | 304                      | -                   | 311                      | -                   |
| Services rendered by subsidiary company             | -                        | 424,009             | -                        | 333,442             |
| Rent, accounting and communication charges received | -                        | 29,340              | -                        | 23,963              |

#### 41. CAPITAL ADEQUACY

- 41.1. The Basel II Framework is applicable to the Bank whereby the Standardized Approach for reporting Capital Adequacy is currently implemented. Under the said approach, credit risk and market risk exposures are measured using the Standardized Approach and operational risk is measured using the Basic Indicator Approach.

The Bank's capital adequacy is being managed, maintained and reported using various measures including the rules and ratios pro-

vided by the State Bank of Pakistan.

Capital adequacy ratio is a measure of the amount of a Bank's capital expressed as a percentage of its risk weighted assets. Measuring capital adequacy requires risk mitigants to be applied to the amount of assets shown on a Bank's balance sheet. These assets are then applied weightages according to the degree of inherent risk. The capital adequacy ratios compare the amount of eligible capital with the total of risk-weighted assets (RWAs).

The Bank has developed Internal Capital Adequacy Assessment Process (ICAAP) as per the guidelines provided by SBP. This framework has been approved by Bank's Board Risk Committee and submitted to SBP. The Bank has covered additional risks which are not covered under Pillar I and have projected satisfactory capital adequacy for the next six years leaving ample cushion for any future capital requirements. The Bank will review the ICAAP framework on annual basis (financial year end i.e. December) and changes/updates will be recommended to Basel II committee for onward submission to the Board of Directors.

## 41.2. 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 peer.
- 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.

### Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No.7 dated April 15, 2009 requires the minimum paid up capital (net of losses) for all locally incorporated banks to be raised to Rs. 10 billion by the year ending on December 31, 2013. In addition the banks are also required to maintain a minimum capital adequacy ratio (CAR) of 10 % of the risk weighted exposure. The Bank's CAR as at December 31, 2010 was 23.77% of its risk weighted exposure.

Bank's regulatory capital is analysed in to two tiers

- Tier 1 capital, which includes fully paid up capital (including the bonus shares), general reserves as per the financial statements and unappropriated profits and after adjustment of revaluation of available for sale investments and 50% deduction for investments in the equity of subsidiary company.
- Tier 2 capital, which includes general provision for loan losses (up to a maximum of 1.25 % of risk weighted assets), subordinated debt limited to maximum of 50% of the amount of Tier-1 capital, revaluation reserve up to a maximum of 45 % and 50% deduction for investments in the equity of subsidiary companies.
- Tier 3 capital has also been prescribed by the State Bank of Pakistan. However the Bank is not eligible for the Tier 3 capital.

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 30 dated November 25, 2008. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the SBP that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of credit risk, market risk and operational risk.

The calculation of capital adequacy enables the Bank to assess the long-term soundness. As the Bank carries the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across entire organisation and aggregate the risks so as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Bank to particular operations or activities.

### 41.3. Capital adequacy Ratio

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

|   | 2010                        |             | 2009                        |             |
|---|-----------------------------|-------------|-----------------------------|-------------|
|   | Rupees in '000              |             |                             |             |
| <b>Regulatory capital base</b>                                    |                             |             |                             |             |
| <b>Tier I capital</b>   |                             |             |                             |             |
| Shareholders capital  | 12,522,441                  |             | 12,522,441                  |             |
| Reserves  | 1,884,411                   |             | 1,511,554                   |             |
| Unappropriated profits  | 6,455,623                   |             | 4,964,194                   |             |
|   | 20,862,475                  |             | 18,998,189                  |             |
| Less:   |                             |             |                             |             |
| Intangibles   | (8,770)                     |             | (34,019)                    |             |
| 50% deduction for investment in subsidiary                        | (50,000)                    |             | (50,000)                    |             |
|   | (58,770)                    |             | (84,019)                    |             |
| <b>Total eligible tier I capital</b>                              | 20,803,705                  |             | 18,914,170                  |             |
| <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 | 1,096,008                   |             | 1,028,000                   |             |
| Revaluation reserve (upto 45%)                                    | 378,976                     |             | 196,419                     |             |
|   | 4,679,307                   |             | 4,428,742                   |             |
| Less: 50% deduction for investment in subsidiary                  | (50,000)                    |             | (50,000)                    |             |
| <b>Total eligible tier II capital</b>                             | 4,629,307                   |             | 4,378,742                   |             |
| <b>Eligible tier III capital</b>                                  | -                           |             | -                           |             |
| <b>Total regulatory capital base</b> (a)                          | 25,433,012                  |             | 23,292,912                  |             |
| <b>Risk weighted exposures</b>                                    |                             |             |                             |             |
|   | <b>2010</b>                 | <b>2009</b> | <b>2010</b>                 | <b>2009</b> |
|   | <b>Capital Requirements</b> |             | <b>Risk Weighted Assets</b> |             |
|   | Rupees in '000              |             |                             |             |
| <b>Credit risk</b>  |                             |             |                             |             |
| Claims on:  |                             |             |                             |             |
| Banks   | 231,366                     | 194,809     | 2,313,656                   | 1,948,090   |
| Corporates  | 2,042                       | -           | 20,418                      | -           |
| Retail portfolio  | 5,483,566                   | 5,480,416   | 54,835,659                  | 54,804,160  |
| Secured by residential property                                   | 73,062                      | 77,609      | 730,615                     | 776,090     |
| Past due loans  | 1,795,611                   | 1,335,698   | 17,956,107                  | 13,356,984  |
| Listed equity investments   | 102,310                     | 58,898      | 1,023,098                   | 588,982     |
| Investments in fixed assets                                       | 112,296                     | 103,176     | 1,122,963                   | 1,031,761   |
| Other assets  | 967,810                     | 973,391     | 9,678,103                   | 9,733,913   |
| Credit risk-weighted exposures                                    | 8,768,063                   | 8,223,997   | 87,680,619                  | 82,239,980  |
| <b>Market Risk</b>  |                             |             |                             |             |
| Interest rate risk  | -                           | -           | -                           | -           |
| Equity exposure risk  | -                           | -           | -                           | -           |
| Foreign exchange risk   | -                           | -           | -                           | -           |
|   | -                           | -           | -                           | -           |
| <b>Operational Risk</b>   |                             |             |                             |             |
| Total Operational Risk Weighted Amount                            | 1,543,664                   | 1,379,163   | 19,295,798                  | 17,239,537  |
| <b>Total risk-weighted exposures</b> (b)                          | 10,311,727                  | 9,603,160   | 106,976,417                 | 99,479,517  |

|   | 2010   | 2009   |
|---|--------|--------|
| <b>Capital adequacy ratio [ (a) / (b) x 100 ]</b> | 23.77% | 23.41% |

## 42. RISK MANAGEMENT

This section presents information about the Bank's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments:

- Credit risk is the risk of loss resulting from client or counterparty default.
- Market risk is the risk of loss arising from adverse movements in market variables such as interest rates, exchange rates and equity indices.
- Liquidity risk is the risk that the Bank may be unable to meet its payment obligations when due.
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and therefore includes legal risk.
- Equity position risk is the risk that arises due to changes in prices of individual stocks or levels of equity indices.

Risk management is a dynamic process of identification, measurement, monitoring and control and reporting risk. ZTBL has setup a centralized risk management function at the organizational level which encompasses a broader framework of risk committees, risk management department and its units responsible for each category of risk i.e. credit, market, liquidity, operational and equity position risks. The Bank's risk management department is independent of the business and operations and directly reports to the President. The Bank has setup a Basel-II Implementation Committee and working groups to implement orderly transition and effective implementation of this Basel-II Accord in the Bank. The risk policy has already been modified to cater to the guidelines of the Basel-II Accord. The bank systematic and integrated risk management function for each category of risk is as follows:

### 42.1. Credit Risk

Credit risk is the risk of financial losses arising when a customer or counterparty is unable or unwilling to perform as per the contractual terms resulting in reduction in portfolio value due to actual or perceived deterioration in the credit quality 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 credit portfolio is reviewed and analysed on quarterly basis and risk gaps are reported to the Credit Risk Committee for corrective measures. The Bank pays particular attention to the management of Non-Performing Loans (NPLs).

With the rolling-out of Obligor Risk Rating (ORR) Model for fresh borrowers in year 2010, credit portfolio will be more effectively monitored as well as the loaning products. As an early warning signal, Portfolio at Risk PAR report will also be generated. This will enable the management to take proactive measurements for having a quality credit portfolio/products.

With regards to Basel-II compliance, the Bank has implemented Standardized Approach (SA) for minimum capital requirements for credit risk. An internal credit rating system (obligor risk rating) is also under process which will be implemented in due course of time.

A robust MIS is prerequisite for establishment of an effective risk management system therefore the existing MIS of the bank is under going substantial up gradation process for strengthening of the data collection machinery to ensure the integrity and reliability of data.

Risk Management Department independently scrutinize agriculture portfolio on a continuous basis and report crucial findings to the senior management for strategic decision making. Risk factors are identified and necessary actions are recommended to mitigate these risk factors. During the year risk management department also prepared the Internal Capital Adequacy Assessment Process (ICAAP) of the Bank.

#### 42.1.1. Credit Risk - General Disclosures

The Bank follows the standardized approach for all its Credit Risk Exposures. The standardized approach to credit risk sets out fixed risk weights corresponding, where appropriate, to external credit assessment levels. Where no external rating is available, a 100% risk weight is used.

Under the standardized approach, the capital requirement is based on the credit rating assigned to counterparties by External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. In this connection, the Bank utilizes the credit ratings assigned by ECAIs such as JCR-VIS (Japan Credit Rating Company Limited - Vital Information Systems).

| Exposures        | JCR-VIS | PACRA | Others (Specify) |
|------------------|---------|-------|------------------|
| Corporate        |         |       |                  |
| Banks            |         |       |                  |
| Sovereigns       |         |       |                  |
| SME's            |         |       |                  |
| Securizations    |         |       |                  |
| Others (Specify) | *       |       |                  |

\*JCR-VIS Credit Rating Company, Karachi in its report dated August 13, 2010 has reaffirmed credit rating of the Bank at AAA/A-1+ (2009 : AAA/A-1+) with stable outlook, medium to long term credit rating of B+ and short-term credit rating of B. (2009 : B+ medium to long term , B short term rating).

#### Credit exposures subject to standardised approach

| Exposures  | 2010            |                    |               | 2009       |                    |               |            |
|--|-----------------|--------------------|---------------|------------|--------------------|---------------|------------|
|  | Rating category | Amount outstanding | Deduction CRM | Net amount | Amount outstanding | Deduction CRM | Net amount |
| (Rs in thousands)  |                 |                    |               |            |                    |               |            |
| Cash and Cash Equivalents  |                 | 769,836            | 769,836       | -          | 490,861            | 490,861       | -          |
| Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR                                   |                 | 7,981,553          | 7,981,553     | -          | 8,345,951          | 8,345,951     | -          |
| Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan   |                 | -                  | -             | -          | -                  | -             | -          |
| Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR | 1               | -                  | -             | -          | -                  | -             | -          |
|  | 2               | -                  | -             | -          | -                  | -             | -          |
|  | 3               | -                  | -             | -          | -                  | -             | -          |
|  | 4,5             | -                  | -             | -          | -                  | -             | -          |
|  | 6               | -                  | -             | -          | -                  | -             | -          |
|  | Unrated         | -                  | -             | -          | -                  | -             | -          |
| Claims on Bank for International Settlements, International Monetary Fund, European Central Bank, and European Community           |                 | -                  | -             | -          | -                  | -             | -          |
| Claims on Multilateral Development Banks   |                 | -                  | -             | -          | -                  | -             | -          |
|  | 1               | -                  | -             | -          | -                  | -             | -          |
|  | 2,3             | -                  | -             | -          | -                  | -             | -          |
|  | 4,5             | -                  | -             | -          | -                  | -             | -          |
|  | 6               | -                  | -             | -          | -                  | -             | -          |
|  | Unrated         | -                  | -             | -          | -                  | -             | -          |
| Claims on Public Sector Entities in Pakistan   |                 | -                  | -             | -          | -                  | -             | -          |
|  | 1               | -                  | -             | -          | -                  | -             | -          |
|  | 2,3             | -                  | -             | -          | -                  | -             | -          |
|  | 4,5             | -                  | -             | -          | -                  | -             | -          |
|  | 6               | -                  | -             | -          | -                  | -             | -          |
|  | Unrated         | -                  | -             | -          | -                  | -             | -          |
| Claims on Banks  |                 | -                  | -             | -          | -                  | -             | -          |
| Claims, denominated in foreign currency, on banks with original maturity of 3 months or less                                       | 1,2,3           | -                  | -             | -          | -                  | -             | -          |
|  | 6               | -                  | -             | -          | -                  | -             | -          |
|  | unrated         | -                  | -             | -          | -                  | -             | -          |
| Claims on banks with original maturity of 3 months or less denominated in PKR and funded in funded in PKR                          |                 | 11,568,282         | 9,254,626     | 2,313,656  | 9,740,451          | 7,792,361     | 1,948,090  |

|  |         |                    |                   |                   |                    |                   |                   |
|--|---------|--------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| Claims on Corporates (excluding equity exposures)  |         | -                  | -                 | -                 | -                  | -                 | -                 |
|  | 1       | 102,090            | 81,672            | 20,418            | -                  | -                 | -                 |
|  | 2       | -                  | -                 | -                 | -                  | -                 | -                 |
|  | 3,4     | -                  | -                 | -                 | -                  | -                 | -                 |
|  | 5,6     | -                  | -                 | -                 | -                  | -                 | -                 |
|  | Unrated | -                  | -                 | -                 | -                  | -                 | -                 |
| Claims categorized as retail portfolio   |         | -                  | -                 | -                 | -                  | -                 | -                 |
|  |         | -                  | -                 | -                 | -                  | -                 | -                 |
|  |         | -                  | -                 | -                 | -                  | -                 | -                 |
|  |         | 73,114,212         | 18,278,553        | 54,835,659        | 73,072,213         | 18,268,053        | 54,804,160        |
| Claims fully secured by residential property (Residential Mortgage Finance as defined in Section 2.1)  |         | 2,087,472          | 1,356,857         | 730,615           | 2,217,401          | 1,441,311         | 776,090           |
| Past Due loans:  |         | -                  | -                 | -                 | -                  | -                 | -                 |
| 1. The unsecured portion of any claim (other than loans and claims secured against eligible residential mortgages as defined in section 2.1 of circular 8 of 2006) that is past due for more than 90 days and/or impaired: |         | -                  | -                 | -                 | -                  | -                 | -                 |
| 1.1 where specific provisions are less than 20 per cent of the outstanding amount of the past due claim.   |         | 10,730,393         | (5,365,197)       | 16,095,590        | 7,345,153          | (3,672,577)       | 11,017,730        |
| 1.2 where specific provisions are no less than 20 per cent of the outstanding amount of the past due claim.  |         | 1,860,517          | -                 | 1,860,517         | 2,339,254          | -                 | 2,339,254         |
| 1.3 where specific provisions are more than 50 per cent of the outstanding amount of the past due claim.   |         | -                  | -                 | -                 | -                  | -                 | -                 |
| 2. Loans and claims fully secured against eligible residential mortgages that are past due for more than 90 days and/or impaired   |         | -                  | -                 | -                 | -                  | -                 | -                 |
| 3. Loans and claims fully secured against eligible residential mortgage that are past due by 90 days and /or impaired and specific provision held there against is more than 20% of outstanding amount                     |         | -                  | -                 | -                 | -                  | -                 | -                 |
| Listed Equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in the banking book.  |         | 1,023,098          | -                 | 1,023,098         | 588,982            | -                 | 588,982           |
| Unlisted equity investments (other than that deducted from capital) held in banking book   |         | -                  | -                 | -                 | -                  | -                 | -                 |
| Investments in venture capital   |         | -                  | -                 | -                 | -                  | -                 | -                 |
| Investments in premises, plant and equipment and all other fixed assets  |         | 1,122,963          | -                 | 1,122,963         | 1,031,761          | -                 | 1,031,761         |
| Claims on all fixed assets under operating lease   |         | -                  | -                 | -                 | -                  | -                 | -                 |
| All other assets   |         | 9,678,103          | -                 | 9,678,103         | 9,733,913          | -                 | 9,733,913         |
| <b>TOTAL</b>   |         | <b>120,038,519</b> | <b>32,357,900</b> | <b>87,680,619</b> | <b>114,905,940</b> | <b>32,665,960</b> | <b>82,239,980</b> |

#### Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank has adopted the Standardized Approach of Credit Risk. In instances where the Bank's exposure on an obligor is secured by collateral that conforms to the eligibility criteria under the Standardized Approach of CRM, then the Bank reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement i.e. risk weight of the collateral instrument securing the exposure is substituted for the risk weight of the counter party.

The Bank has in place detailed guidelines with respect to valuation and management of various collateral types. In order to obtain the

credit risk mitigation benefit, the Bank uses realizable value of eligible collaterals to the extent of outstanding exposure.

Counterparty rating is obtained through the SBP authorized External Credit Rating Agency; JCR VIS. Credit risk assessment and the continuous monitoring of counterparty and portfolio credit exposures is carried out by the Credit Risk Management function.

The wholesale portfolio, which represents agricultural loans are ideally collateralized by land.

The Bank manages limits and controls concentrations of credit risk as identified. Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Bank sets limits on its credit exposure to counterparty, in line with SBP standards. Limits are also applied in a variety of forms to portfolios or sectors where the Bank considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

The Bank classifies a claim as impaired if it considers it likely that it will suffer a loss on that claim as a result of the obligor's inability to meet its commitments (including interest payments, principal repayments or other payments due) after realization of any available collateral. Loans carried at amortized cost are classified as non-performing where payment of interest, principal or fees is overdue by more than 90 days. Allowances or provisions are determined such that the carrying values of impaired claims are consistent with the requirements of SBP. The authority to establish allowances, provisions and credit valuation adjustments for impaired claims, is vested in Finance Division and is according to SBP regulations.

#### 42.1.2. Segmental information

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

| 42.1.2a | Segments by class of business              | 2010             |         |                |         |                               |         |
|---------|--|------------------|---------|----------------|---------|-------------------------------|---------|
|         |  | Advances (gross) |         | Deposits       |         | Contingencies and commitments |         |
|         |  | Rupees in '000   | Percent | Rupees in '000 | Percent | Rupees in '000                | Percent |
|         | Agriculture, forestry, hunting and fishing | 89,827,362       | 97.15%  | -              | -       | -                             | -       |
|         | Individuals                                | -                | -       | 9,601,064      | 99.98%  | 9,860,689                     | 52.66%  |
|         | Others                                     | 2,639,557        | 2.85%   | 1,708          | 0.02%   | 8,864,928                     | 47.34%  |
|         |  | 92,466,919       | 100%    | 9,602,772      | 100%    | 18,725,617                    | 100%    |

#### 42.1.2b. Segment by sector

|                      | 2010             |         |                |         |                               |         |
|----------------------|------------------|---------|----------------|---------|-------------------------------|---------|
|                      | Advances (gross) |         | Deposits       |         | Contingencies and commitments |         |
|                      | Rupees in '000   | Percent | Rupees in '000 | Percent | Rupees in '000                | Percent |
| Public/ government * | -                | -       | 1,708          | 0.02%   | 8,864,928                     | 47.34%  |
| Private              | 92,466,919       | 100.00% | 9,601,064      | 99.98%  | 9,860,689                     | 52.66%  |
|                      | 92,466,919       | 100.00% | 9,602,772      | 100.00% | 18,725,617                    | 100.00% |

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

#### 42.1.2c. Details of non-performing advances and specific provisions by class of business segment

|  | 2010                |                         | 2009                |                         |
|--|---------------------|-------------------------|---------------------|-------------------------|
|  | Rupees in '000      |                         |                     |                         |
|  | Classified advances | Specific provision held | Classified advances | Specific provision held |
| Agriculture, forestry, hunting and fishing | 17,244,928          | 4,654,018               | 14,086,126          | 4,401,719               |
| Advances to employees                      | 20,307              | 20,307                  | 20,767              | 20,767                  |
|  | 17,265,235          | 4,674,325               | 14,106,893          | 4,422,486               |



**42.1.2d. Details of non-performing advances and specific provisions by sector**

|                       | 2010                |                         | 2009                |                         |
|-----------------------|---------------------|-------------------------|---------------------|-------------------------|
|                       | Rupees in '000      |                         |                     |                         |
|                       | Classified advances | Specific provision held | Classified advances | Specific provision held |
| Private               | 17,244,928          | 4,654,018               | 14,086,126          | 4,401,719               |
| Advances to employees | 20,307              | 20,307                  | 20,767              | 20,767                  |
|                       | 17,265,235          | 4,674,325               | 14,106,893          | 4,422,486               |

**42.1.2e. GEOGRAPHICAL SEGMENT ANALYSIS**

|          | 2010                   |                       |                     |                               |
|----------|------------------------|-----------------------|---------------------|-------------------------------|
|          | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
|          | Rupees in '000         |                       |                     |                               |
| Pakistan | 2,877,842              | 117,585,949           | 21,704,643          | 18,725,617                    |

**42.2. Market Risk Management**

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.

With regards to Basel-II compliance, the Bank has implemented Standardized Approach (SA) for minimum capital requirements for market risk.

**42.3. Foreign Exchange Risk Management**

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 in the Banking Book**

The Bank takes proprietary equity positions for strategic purposes. The Bank has invested in its subsidiary to achieve long term strategic objectives. As of December 31, 2010 the composition of equity investments and subsidiary is as follows:

| Exposures                            | Held for trading | Available for Sale | Subsidiary |
|--------------------------------------|------------------|--------------------|------------|
| Equity Instruments - publicly traded | -                | 190,031            | -          |
| Equity Instruments - others          | -                | 10,523             | 100,000    |
| Total value                          | -                | 200,554            | 100,000    |

Banks classify its equity investment portfolio in accordance with the directives of SBP as follows:

Investments - Held for trading

Investments - Available for sale

Investments in subsidiaries

The accounting policies for equity investments are designed and their valuation is carried out under the provisions and directives of State Bank of Pakistan, Securities and Exchange Commission of Pakistan and the requirements of approved International Accounting Standards as applicable in Pakistan.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than investments in subsidiary are subsequently re-measured to market value. Surplus/(deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the statement of financial position below equity. The surplus/(deficit) arising on

these securities is taken to the profit and loss account when actually realized upon disposal. Surplus/(deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account currently.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

The cumulative unrealized gain of Rs.935.742million was recognized in the statement of financial position in respect of "available for sale" securities.

#### **42.5. Yield / Interest Rate Risk in the Banking Book (IRRBB)-Basel II Specific**

The Bank's interest rate exposure originates from its investing and borrowing activities. Interest rate risk in the banking book is the risk of adverse changes in earnings and / or capital due to mismatched assets and liabilities in the banking book. The Asset and Liability Management Committee (ALCO) of the Bank monitors and controls mismatch of interest rate sensitive assets and liabilities. The Risk Management Department calculates duration and convexity measures to assess the impact of interest rate changes on its investment portfolio. Interest rate risk stress tests are conducted bi-annually to assess the impact of a parallel shift in the yield curve of the Bank's capital using sensitivity positions calculated using earlier of contractual re-pricing or maturity date for on-balance sheet instruments, and settlement date for on-balance sheet instruments.

## 42.6. Mismatch of interest rate sensitive assets and liabilities

|  | Effective Yield/interest rate | 2010                  |  |                    |                    |                         |                   |                   |                   |                    |                | Non-interest bearing financial instruments |              |
|--|-------------------------------|-----------------------|--|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|--|--------------|
|  |                               | 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 |  |              |
| <b>On-balance sheet financial instruments</b>  |                               |                       |  |                    |                    |                         |                   |                   |                   |                    |                |  |              |
| <b>Assets</b>  |                               |                       |  |                    |                    |                         |                   |                   |                   |                    |                |  |              |
| Cash and balances with treasury banks  | -                             | 2,745,611             | -  | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 2,745,611    |
| Balances with other banks  | 8.23                          | 10,916,739            | 5,934,271                                    | 4,566,189          | -                  | 400,000                 | -                 | -                 | -                 | -                  | -              | -  | 16,279       |
| Investments - net  | 12.78                         | 7,804,207             | 169,854                                      | 610,237            | 4,334,185          | 1,564,744               | -                 | -                 | -                 | -                  | -              | -  | 1,125,187    |
| Advances - net   | 8                             | 84,792,594            | 12,559,090                                   | 6,705,594          | 17,179,995         | 17,702,035              | 7,317,803         | 6,703,349         | 8,631,515         | 6,402,752          | 1,004,461      | -  | 586,000      |
| Other assets - net   | -                             | 9,405,548             | -  | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 9,405,548    |
|  |                               | 115,664,699           | 18,663,215                                   | 11,882,020         | 21,514,180         | 19,666,779              | 7,317,803         | 6,703,349         | 8,631,515         | 6,402,752          | 1,004,461      | -  | 13,878,625   |
| <b>Liabilities</b>   |                               |                       |  |                    |                    |                         |                   |                   |                   |                    |                |  |              |
| Bills payable  | -                             | 306,040               | -  | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 306,040      |
| Borrowings   | 6.09                          | 51,257,213            | 12,707,695                                   | -                  | 1,815,385          | 1,815,385               | 3,630,770         | 3,630,770         | 7,261,540         | 18,153,850         | 2,241,818      | -  | -            |
| Deposits and other accounts  | 4.61                          | 9,602,772             | 627,193                                      | -                  | 285,570            | 3,377,981               | -                 | -                 | 1,642             | -                  | -              | -  | 5,310,386    |
| Sub-ordinated loans  | 12 month T-Bill rate          | 3,204,323             | -  | -                  | -                  | -                       | -                 | -                 | -                 | -                  | 3,204,323      | -  | -            |
| Other liabilities  | -                             | 30,940,379            | -  | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 30,940,379   |
|  |                               | 95,310,727            | 13,334,888                                   | -                  | 2,100,955          | 5,193,366               | 3,630,770         | 3,630,770         | 7,263,182         | 18,153,850         | 5,446,141      | -  | 36,556,805   |
| <b>On-balance sheet gap</b>  |                               | 20,353,972            | 5,328,327                                    | 11,882,020         | 19,413,225         | 14,473,413              | 3,687,033         | 3,072,579         | 1,368,333         | (11,751,098)       | (4,441,680)    | -  | (22,678,180) |
| <b>Off-balance sheet gap</b>   |                               | -                     | -  | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | -            |
| <b>Total yield/ interest risk sensitivity gap</b>  |                               | 20,353,972            | 5,328,327                                    | 11,882,020         | 19,413,225         | 14,473,413              | 3,687,033         | 3,072,579         | 1,368,333         | (11,751,098)       | (4,441,680)    | -  | (22,678,180) |
| <b>Cumulative yield/ interest risk sensitivity gap</b>   |                               | 20,353,972            | 5,328,327                                    | 17,210,347         | 36,623,572         | 51,096,985              | 54,784,018        | 57,856,597        | 59,224,930        | 47,473,832         | 43,032,152     | -  | 20,353,972   |
| <b>Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities</b> |                               |                       |  |                    |                    |                         |                   |                   |                   |                    |                |  |              |
|  |                               | <b>Rupees in '000</b> |  |                    |                    |                         |                   |                   |                   |                    |                | <b>Rupees in '000</b>                      |              |
| Total financial assets as per note 42.6  |                               | 115,664,699           | Total financial liabilities as per note 42.6 |                    |                    |                         |                   |                   |                   |                    |                | 95,310,727                                 |              |
| Add non financial assets   |                               |                       | Add non financial liabilities                |                    |                    |                         |                   |                   |                   |                    |                |  |              |
| Operating fixed assets   |                               | 1,131,733             | Other liabilities                            |                    |                    |                         |                   |                   |                   |                    |                | 570,579                                    |              |
| Deferred tax assets  |                               | 438,660               |  |                    |                    |                         |                   |                   |                   |                    |                |  |              |
| Other assets   |                               | 350,857               |  |                    |                    |                         |                   |                   |                   |                    |                |  |              |
|  |                               | <u>117,585,949</u>    |  |                    |                    |                         |                   |                   |                   |                    |                | <u>95,881,306</u>                          |              |

42.6.1. Mismatch of interest rate sensitive assets and liabilities

|   |                       | 2009   |                    |                    |                         |                   |                   |                   |                    |                |  |            |
|---|-----------------------|--|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|--|------------|
| Effective Yield/interest rate   | Total                 | Rupees in '000                                 |                    |                    |                         |                   |                   |                   |                    |                |  |            |
|   |                       | 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>   |                       |  |                    |                    |                         |                   |                   |                   |                    |                |  |            |
|   | 2,354,107             | -  | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 2,354,107  |
| Cash and balances with treasury banks   | 9,536,981             | 7,288,890                                      | 2,231,812          | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 16,279     |
| Balances with other banks   | 7,213,948             | 1,817,725                                      | 2,910,039          | -                  | 1,007,581               | -                 | -                 | -                 | -                  | -              | -  | 725,707    |
| Investments - net   | 81,974,021            | 7,960,946                                      | 19,462,613         | 20,229,492         | 5,106,447               | 4,692,971         | 7,700,221         | 6,688,576         | 1,502,052          | -              | -  | 707,874    |
| Advances - net  | 10,178,772            | (63,984)                                       | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 10,242,756 |
| Other assets - net  | 111,257,829           | 17,003,577                                     | 13,064,680         | 20,229,492         | 6,114,028               | 4,692,971         | 7,700,221         | 6,688,576         | 1,502,052          | -              | -  | 14,046,723 |
| <b>Liabilities</b>  |                       |  |                    |                    |                         |                   |                   |                   |                    |                |  |            |
| Bills payable   | 2,059,979             | -  | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 2,059,979  |
| Borrowings  | 51,257,213            | 12,707,695                                     | -                  | 1,815,385          | 3,630,770               | 3,630,770         | 7,261,540         | 18,153,850        | 2,241,818          | -              | -  | -          |
| Deposits and other accounts   | 8,750,892             | 3,094,809                                      | -                  | 106,685            | 309,753                 | -                 | 2,288             | -                 | -                  | -              | -  | 5,237,357  |
| Sub-ordinated loans   | 3,204,323             | -  | -                  | -                  | -                       | -                 | -                 | -                 | 3,204,323          | -              | -  | -          |
| Other liabilities   | 27,911,794            | (1,239,534)                                    | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 29,151,328 |
|   | 93,184,201            | 14,562,970                                     | -                  | 1,922,070          | 2,125,138               | 3,630,770         | 7,263,828         | 18,153,850        | 5,446,141          | -              | -  | 36,448,664 |
| <b>On-balance sheet gap</b>   | 18,073,628            | 2,440,607                                      | 13,064,680         | 18,104,354         | 2,483,258               | 1,062,201         | 436,393           | (11,465,274)      | (3,944,089)        | (22,401,941)   | -  | -          |
| <b>Off-balance sheet gap</b>  | -                     | -  | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | -          |
| <b>Total yield/ interest risk sensitivity gap</b>   | 18,073,628            | 2,440,607                                      | 13,064,680         | 18,104,354         | 2,483,258               | 1,062,201         | 436,393           | (11,465,274)      | (3,944,089)        | (22,401,941)   | -  | -          |
| <b>Cumulative yield/ interest risk sensitivity gap</b>  | 18,073,628            | 2,440,607                                      | 15,505,287         | 33,798,726         | 51,903,080              | 54,386,338        | 55,448,539        | 44,419,658        | 40,475,569         | 18,073,628     | -  | -          |
| Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities |                       |  |                    |                    |                         |                   |                   |                   |                    |                |  |            |
|   | <b>Rupees in '000</b> | <b>Rupees in '000</b>                          |                    |                    |                         |                   |                   |                   |                    |                |  |            |
| Total financial assets as per note 42.6.1   | 111,257,829           | Total financial liabilities as per note 42.6.1 |                    |                    |                         |                   |                   |                   |                    |                |  |            |
| Add non financial assets  | 1,070,417             | Add non financial liabilities                  |                    |                    |                         |                   |                   |                   |                    |                |  |            |
| Operating fixed assets  | -                     | Deferred tax liabilities                       |                    |                    |                         |                   |                   |                   |                    |                |  |            |
| Other assets  | 112,328,246           | Other liabilities                              |                    |                    |                         |                   |                   |                   |                    |                |  |            |
|   |                       | 93,184,201                                     |                    |                    |                         |                   |                   |                   |                    |                |  |            |

**42.7. Liquidity risk**

Assets and Liabilities Committee (ALCO) is effectively performing the function of cash management at the Bank. Accordingly the yields on fund's placement have been constantly increasing.

**42.7.1. Maturities of assets and liabilities**

|                                       | 2010              |             |                    |                    |                         |                   |                   |                   |                    |                |
|---------------------------------------|-------------------|-------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|
|                                       | 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 and balances with treasury banks | 2,745,611         | 2,745,611   | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |
| Balances with other banks             | 10,916,739        | 5,950,550   | 4,566,189          | -                  | 400,000                 | -                 | -                 | -                 | -                  | -              |
| Lending to financial institutions     | -                 | -           | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |
| Investments - net                     | 7,804,207         | 169,854     | 610,237            | 4,334,185          | 1,564,744               | -                 | -                 | -                 | -                  | 1,125,187      |
| Advances - net                        | 84,792,594        | 12,560,691  | 6,709,444          | 17,193,325         | 17,747,556              | 7,382,417         | 6,715,785         | 8,644,688         | 6,565,760          | 1,272,928      |
| Other assets - net                    | 9,756,405         | 608,993     | 953,901            | 1,189,420          | 2,084,561               | 224,293           | 232,666           | 300,022           | 1,876,339          | 2,286,210      |
| Deferred tax assets                   | 438,660           | -           | -                  | -                  | -                       | -                 | -                 | 438,660           | -                  | -              |
| Operating fixed assets                | 1,131,733         | -           | -                  | -                  | -                       | -                 | -                 | -                 | -                  | 1,131,733      |
|                                       | 117,585,949       | 22,035,699  | 12,839,771         | 22,716,930         | 21,796,861              | 7,606,710         | 6,948,451         | 9,383,370         | 8,442,099          | 5,816,058      |
| <b>Liabilities</b>                    |                   |             |                    |                    |                         |                   |                   |                   |                    |                |
| Bills payable                         | 306,040           | 306,040     | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |
| Borrowings                            | 51,257,213        | 12,707,695  | -                  | 1,815,385          | 1,815,385               | 3,630,770         | 3,630,770         | 7,261,540         | 18,153,850         | 2,241,818      |
| Deposits and other accounts           | 9,602,772         | 5,937,579   | -                  | 285,570            | 3,377,981               | -                 | -                 | 1,642             | -                  | -              |
| Sub-ordinated loans                   | 3,204,323         | -           | -                  | -                  | -                       | -                 | -                 | -                 | -                  | 3,204,323      |
| Other liabilities                     | 31,510,958        | 1,060,125   | 84,766             | 23,012,061         | 862,539                 | 936,297           | 203,249           | 524,271           | 2,176,154          | 2,651,496      |
|                                       | 95,881,306        | 20,011,439  | 84,766             | 25,113,016         | 6,055,905               | 4,567,067         | 3,834,019         | 7,787,453         | 20,330,004         | 8,097,637      |
| <b>Net assets</b>                     | 21,704,643        | 2,024,260   | 12,755,005         | (2,396,086)        | 15,740,956              | 3,039,643         | 3,114,432         | 1,595,917         | (11,887,905)       | (2,281,579)    |
| Share capital                         | 12,522,441        |             |                    |                    |                         |                   |                   |                   |                    |                |
| Reserves                              | 1,884,411         |             |                    |                    |                         |                   |                   |                   |                    |                |
| Unappropriated profit                 | 6,455,623         |             |                    |                    |                         |                   |                   |                   |                    |                |
| Surplus on revaluation of assets      | 842,168           |             |                    |                    |                         |                   |                   |                   |                    |                |
|                                       | <u>21,704,643</u> |             |                    |                    |                         |                   |                   |                   |                    |                |

**42.8. Operational risk**

- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. In order to manage operational issues, an Operational Risk Model (ORM) has been developed which comprises key Risk Indicator (KRI), Control Self Assessment (CSA) and Corporate Governance (CG). This model has been successfully implemented in all large and medium branches of the Bank. The data of the Operational Risk Model is collected and analysed on quarterly basis and risk gaps are elevated to Operational Risk Committee for corrective measures. This model will be rolled out to the remaining branches of the bank in a phased manner.
- With regards to Basel-II compliance, the Bank has implemented Basic Indicator Approach (BIA) for minimum capital requirements for operational risk. Disaster recovery and business continuity plan has also been revised. It includes separate IT business continuity plan which caters to IT specific business continuity planning requirements.

**43. DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on by the Board of Directors of the Bank.

**44. GENERAL**

- 44.1.** Comparative information has been re-classified, re-arranged or additionally incorporated in these unconsolidated financial statements for the purposes of better presentation. Major reclassifications made are as follows:

| From  | To   | Rupees in '000 |
|---|--|----------------|
| Other income (Credit relating to defined benefit plans) | Administrative expenses (Charge relating to defined benefit plans) | 545,900        |

- 44.2.** The figures in the financial statements are rounded off to the nearest thousand rupees.

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR

## “Annexure-I”

**ZARAI TARAQIATI BANK LIMITED**  
**STATEMENT SHOWING CHARGE OFF LOAN OR ANY OTHER FINANCIAL RELIEF OF RUPEES FIVE HUNDRED THOUSAND**  
**OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2010**

| S.NO | Name and address of the borrower  | Name of individual / partners/directors               | NIC number                                      | Father's/husband's name                         | Outstanding Liabilities at beginning of the year |               |              | Amount charge off |              |               |              |               |
|------|---|---|---|---|--|---------------|--------------|-------------------|--------------|---------------|--------------|---------------|
|      |   |   |   |   | Principal  | Interest      | Others       | Principal         | Interest     | Others        | Total        |               |
| 1    | Sultan Ghulam Shah<br>Haq Baho Colony, Usta<br>Muhammad, D. M. Jamali       | Sultan Ghulam Shah                                    | 606-35-001354                                   | Faiz Sultan                                     | 0.111  | 1.257         | -            | 1.368             | 0.112        | 0.999         | -            | 1.111         |
| 2    | Ali Sher<br>Deh Mango Fakir, Thari Mirwah, Sukkur                           | Ali Sher  | 442-42-002016                                   | Gul Sher  | 0.097  | 0.783         | -            | 0.880             | -            | 0.760         | -            | 0.760         |
| 3    | Amir Bux Korai<br>Deh GA Kghakat, The Moro, Nawabshah                       | Amir Bux Korai  | 434-32-127811                                   | Rustam Khan                                     | 0.111  | 0.993         | 0.015        | 1.119             | -            | 0.851         | 0.015        | 0.866         |
| 4    | S. Bakar Ali Shah<br>Deh 13 DAD, Tehsil Daur, Nawabshah                     | S. Bakar Ali Shah                                     | 465-64-101460                                   | Hassan Shah                                     | 0.150  | 0.861         | -            | 1.011             | -            | 0.711         | -            | 0.711         |
| 5    | Altat Hussain<br>Vill Mian Ali Faqiran                                      | Altat Hussain   | 35403-6014708-9                                 | Ahmed Khan                                      | 0.080  | 0.977         | -            | 1.057             | -            | 0.970         | -            | 0.970         |
| 6    | Khanka Dogra<br>Rehmatullah<br>Vill Deh Gorrdi, Pithoro                     | Rehmatullah   | 474-23-077156                                   | Ch. Ghulam Muhammad                             | 0.137  | 1.197         | -            | 1.334             | -            | 0.898         | -            | 0.898         |
| 7    | Chand Bhayo<br>C/o Koura Khan, Jagan Shikarpur                              | Chand Bhayo   | N/A   | Izat Bhayo                                      | 0.019  | 0.518         | -            | 0.537             | 0.019        | 0.517         | -            | 0.536         |
| 8    | Mst. Shahida<br>R-12, 11 East Street  | Mst. Shahida  | 42301-6779673-6                                 | W/o Zahoor ud Din                               | 0.157  | 1.744         | -            | 1.901             | -            | 1.744         | -            | 1.744         |
| 9    | Phase I, DHA, Karachi<br>M/s Ch. Oil Extraction<br>515-EB, Burewala, Vehari | Zulfiqar Ali  | 321-86-299220                                   | Muhammad Khan                                   | 0.550  | 0.313         | -            | 0.863             | -            | 0.863         | -            | 0.863         |
| 10   | M/s New Pak Punjab Agro<br>Chak No. 39/D, Grain Market, Okara               | Manzoor Ahmed<br>Faqir Ali                            | 336-37-179220<br>35301-4535340                  | Noor Muhammad<br>Muhammad Shafi                 | 1.512  | 2.358         | 0.463        | 4.333             | -            | 0.680         | 0.463        | 1.143         |
| 11   | M/s Muhammad Azhar and<br>Mazhar<br>Church Road, Rahim Yar Khan             | Muhammad Mazhar<br>Muhammad Azhar<br>Muhammad Manazir | 358-53-497403<br>358-59-523326<br>358-62-497405 | Muhammad Azam<br>Muhammad Azam<br>Muhammad Azam | 0.840  | 2.198         | 0.005        | 3.043             | -            | 1.440         | 0.005        | 1.445         |
|      |   |   |   |   | <b>3.764</b>                                     | <b>13.199</b> | <b>0.483</b> | <b>17.446</b>     | <b>0.131</b> | <b>10.433</b> | <b>0.483</b> | <b>11.047</b> |







# Auditors' Report



## Anjum Asim Shahid Rahman

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## Auditors' Report to the Members

We have audited the annexed consolidated financial statement comprising consolidated statement of financial position of Zarai Taraqati Bank Limited (the "Bank") and its subsidiary company Kissan Support Services (Pvt.) Limited as at December 31, 2010 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement, together with the notes forming part thereof for the year then ended. These consolidated financial statements include unaudited certified returns from the branches and other offices, except for one hundred and four branches, which have been audited by us. We have also expressed separate opinion on the financial statement of Zarai Taraqati Bank Limited while Anjum Asim Shahid Rahman has expressed opinion on separate financial statements of its subsidiary Kissan Support Services (Pvt.) Limited. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these Consolidated financial statements based on our audit.

Except for the matters referred in paragraphs from (i) to (iii) below, we conducted our audit in accordance with the auditing standards 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 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, we report that:

- i. We have not been able to verify the net credit balance of Rs. 570 Million (2009: 544 Million) in "Branch Adjustment Account" appearing in note 18 to the Consolidated financial statements and its effects on the financial statements as management is unable to reconcile and classify the individual transactions in respective account heads due to mismatched entries;
- ii. We have not been able to verify the correctness of provisions of Rs 7,654 Million (2009: 7,402 Million) against non – performing advances appearing in note 10.3 to the Consolidated financial statements as the Bank does not provide the same according to the requirements of the prudential regulations; and

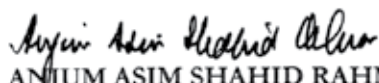


- iii. We have not been able to verify the correctness of the income tax liability of Rs 1,511 Million(2009: 2,067 Million), appearing in note 18 to the Consolidated financial statements as no adjustments have been made to reflect the tax position on filing of income tax returns for the years ended 30 June 2002 and 31 December 2003 to 2009. We have also not been able to determine if any adjustments are required to be made in the Consolidated financial statements considering the subsequent position and after receipt of consolidated Appellate Tribunal Order dated 22 July 2011 read with reference application filed by the Income Tax Authorities as the tax position has not been appropriately disclosed in Notes 22.2.3 to 22.2.13 to the Consolidated financial statements.


In our opinion, the consolidated financial statements examined by us, based on one hundred and four branches audited by us and the returns referred to above received from branches which have been found adequate for the purposes of our audit, except for the possible effects of the matters described in paragraphs from (i) to (iii) above, present fairly the financial position of Zarai Taraqiati Bank Limited and its subsidiary company as at December 31, 2010 and the results of their operations, changes in equity and cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Without further qualifying our opinion, we draw attention to notes 15.5 and 22.2.14 to the Consolidated financial statements, which fully explain the status of State Bank of Pakistan (SBP) debt with respect to mark up payable by the Bank. As per the submitted debt restructuring proposed by SBP, the additional mark up amounting to Rs. 2.729 Billion has not been accounted for by the Bank, due to reason stated in the aforesaid notes. Outcome of the decision on the matter may require appropriate adjustment in the provision of accrued markup of liability.

The financial statements of the Bank for the year ended December 31, 2009 were audited by M/s BDO Ebrahim & Co. Chartered Accountants and M/s Hyder Bhimji & Co. Chartered Accountants while financial statements of Kissan Support Services (Pvt.) Limited for the year ended December 31, 2009 were audited by BDO Ebrahim & Co. Chartered Accountants who have issued an unqualified report dated September 28, 2010 and laid emphasis on three matters namely inter branch current account outstanding adjustments, interest rate difference relating to borrowing from the State Bank of Pakistan and non disclosure of impact of flood on the financial operations of the Bank.

  
**ANJUM ASIM SHAHID RAHMAN**  
 Chartered Accountants  
 Engagement Partner:  
 Nadeem Tirmizi

Islamabad  
 Date: 22 DEC 2011

  
**ILYAS SAEED & CO.**  
 Chartered Accountants  
 Engagement Partner:  
 Imran Ilyas

Islamabad  
 Date: 22/12/2011.

**ZARAI TARAQIATI BANK LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010**

|  | Note | 2010              | 2009              |
|--|------|-------------------|-------------------|
| Rupees in '000   |      |                   |                   |
| <b>ASSETS</b>  |      |                   |                   |
| Cash and balances with treasury banks                  | 7    | 2,745,611         | 2,354,107         |
| Balances with other banks                              | 8    | 11,058,097        | 9,679,278         |
| Lendings to financial institutions                     |      | -                 | -                 |
| Investments - net                                      | 9    | 7,704,207         | 7,113,948         |
| Advances - net   | 10   | 84,792,594        | 81,974,021        |
| Operating fixed assets                                 | 11   | 1,133,941         | 1,073,443         |
| Deferred tax asset - net                               | 12   | 451,702           | 290,631           |
| Other assets - net                                     | 13   | 9,739,908         | 10,169,957        |
|  |      | 117,626,060       | 112,655,385       |
| <b>LIABILITIES</b>                                     |      |                   |                   |
| Bills payable  | 14   | 306,040           | 2,059,979         |
| Borrowings   | 15   | 51,257,213        | 51,257,213        |
| Deposits and other accounts                            | 16   | 9,550,727         | 8,718,645         |
| Sub-ordinated loans                                    | 17   | 3,204,323         | 3,204,323         |
| Liabilities against assets subject to finance lease    |      | -                 | -                 |
| Deferred tax liability - net                           | 12   | -                 | -                 |
| Other liabilities                                      | 18   | 31,527,799        | 27,937,327        |
|  |      | 95,846,102        | 93,177,487        |
| <b>NET ASSETS</b>                                      |      | <b>21,779,958</b> | <b>19,477,898</b> |
| <b>REPRESENTED BY</b>                                  |      |                   |                   |
| Share capital  | 19   | 12,522,441        | 12,522,441        |
| Reserves   | 20   | 1,883,042         | 1,511,554         |
| Unappropriated profit                                  |      | 6,532,307         | 5,007,416         |
|  |      | 20,937,790        | 19,041,411        |
| Surplus on revaluation of assets - net of deferred tax | 21   | 842,168           | 436,487           |
|  |      | 21,779,958        | 19,477,898        |
| <b>CONTINGENCIES AND COMMITMENTS</b>                   | 22   |                   |                   |

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

**PRESIDENT**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**

**ZARAI TARAQIATI BANK LIMITED**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2010**

|  | Note | 2010         | 2009         |
|--|------|--------------|--------------|
| Rupees in '000   |      |              |              |
| Mark-up / return / interest earned   | 23   | 8,917,344    | 9,075,141    |
| Mark-up / return / interest expensed   | 24   | 3,713,765    | 3,597,576    |
| Net mark-up / interest income  |      | 5,203,579    | 5,477,565    |
| Provision against non-performing loans and advances                          |      | 1,365,024    | 2,224,674    |
| Provision for diminution in the value of investment                          | 9.3  | -            | -            |
| Impairment in the value of investment  |      | -            | 263          |
| Write offs under Government relief packages                                  |      | 698          | 2,470        |
| Bad debts written off directly   |      | -            | -            |
|  |      | 1,365,722    | 2,227,407    |
| Net mark-up / interest income after provisions                               |      | 3,837,857    | 3,250,158    |
| <b>NON MARK-UP / INTEREST INCOME</b>   |      |              |              |
| Fee, commission and brokerage income   |      | 8,388        | 10,168       |
| Dividend income  |      | 35,420       | 27,986       |
| Income from dealing in foreign currencies                                    |      | -            | -            |
| Gain on sale of securities   |      | -            | -            |
| Unrealized Gain on revaluation of investments classified as held for trading |      | -            | -            |
| Other income   | 25   | 5,267,890    | 6,610,542    |
| Total non mark-up / interest income  |      | 5,311,698    | 6,648,696    |
|  |      | 9,149,555    | 9,898,854    |
| <b>NON MARK-UP / INTEREST EXPENSES</b>                                       |      |              |              |
| Administrative expenses  | 26   | 6,226,663    | 5,759,980    |
| Provision against other assets   | 13.7 | (1,209)      | 53,088       |
| Other charges  | 27   | 1,410        | 390          |
| Total non mark-up / interest expenses  |      | 6,226,864    | 5,813,458    |
|  |      | 2,922,691    | 4,085,396    |
| <b>COMMUTATION TO EMPLOYEES UNDER SR-2005</b>                                | 28   | 11,063       | 677,821      |
| <b>PROFIT BEFORE TAXATION</b>  |      | 2,911,628    | 3,407,575    |
| Taxation - Current   |      | 1,206,524    | 1,677,248    |
| - Prior years  |      | 322          | 37,274       |
| - Deferred   |      | (191,597)    | (459,546)    |
|  | 29   | 1,015,249    | 1,254,976    |
| <b>PROFIT AFTER TAXATION</b>   |      | 1,896,379    | 2,152,599    |
| Unappropriated profit brought forward  |      | 5,007,416    | 3,280,202    |
| <b>Profit available for appropriation</b>                                    |      | 6,903,795    | 5,432,801    |
| <b>Basic earnings per share (Rupees)</b>                                     | 30   | <b>1.514</b> | <b>1.719</b> |
| <b>Diluted earnings per share (Rupees)</b>                                   | 31   | <b>1.514</b> | <b>1.719</b> |

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

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR

**ZARAI TARAQIATI BANK LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

|   | Note | 2010      | 2009      |
|---|------|-----------|-----------|
| Rupees in '000  |      |           |           |
| <b>PROFIT AFTER TAXATION</b>                            |      | 1,896,379 | 2,152,599 |
| Other comprehensive income                              |      | -         | -         |
| <b>TOTAL COMPREHENSIVE INCOME TRANSFERRED TO EQUITY</b> |      | 1,896,379 | 2,152,599 |

Surplus arising on revaluation of assets has been reported in accordance with the directives of the State Bank of Pakistan in a separate account below equity.

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

**PRESIDENT**

**DIRECTOR**

**DIRECTOR**

**DIRECTOR**

**ZARAI TARAQIATI BANK LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2010**

|   | Note | 2010        | 2009         |
|---|------|-------------|--------------|
| Rupees in '000  |      |             |              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |      |             |              |
| Profit before taxation  |      | 2,911,628   | 3,407,575    |
| Rental income   |      | (20,925)    | (17,422)     |
| Interest income   |      | (20,643)    | (19,826)     |
| Dividend income   |      | (35,420)    | (27,986)     |
|   |      | 2,834,640   | 3,342,341    |
| Adjustments:  |      |             |              |
| Depreciation  |      | 225,276     | 210,092      |
| Amortization  |      | 25,275      | 25,302       |
| Amortization of deferred income                               |      | (67,329)    | (71,112)     |
| Provision against non-performing loans and advances           |      | 1,365,024   | 2,224,674    |
| Impairment in the value of investment                         |      | -           | 263          |
| Provision for employees post retirement benefits              |      | 261,186     | 326,654      |
| Provision against other assets                                |      | (1,209)     | 53,088       |
| Fixed assets - written off                                    |      | 719         | -            |
| Write offs under Government relief packages                   |      | 698         | 2,470        |
| Reversal/(provision) for employees' compensated absences      |      | (395,897)   | 242,096      |
| Gain on sale of operating fixed assets                        |      | (1,942)     | (1,566)      |
|   |      | 1,411,801   | 3,011,961    |
|   |      | 4,246,441   | 6,354,302    |
| (Increase) / decrease in operating assets:                    |      |             |              |
| Advances-net  |      | (4,184,295) | (14,277,668) |
| Others assets - net   |      | (1,055,064) | (1,182,606)  |
|   |      | (5,239,359) | (15,460,274) |
| Increase / (decrease) in operating liabilities:               |      |             |              |
| Bills payable   |      | (1,753,939) | 1,446,601    |
| Deposits and other accounts                                   |      | 832,082     | 3,293,475    |
| Other liabilities (excluding current taxation)                |      | 4,346,776   | 3,119,595    |
|   |      | 3,424,919   | 7,859,671    |
| Staff retirement benefit payments                             |      | 1,486,322   | (420,994)    |
| Interest income received                                      |      | 20,643      | 19,826       |
| Income tax paid   |      | (1,761,109) | (1,706,336)  |
| Net cash flow (used in) / generated from operating activities |      | 2,177,857   | (3,353,805)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |      |             |              |
| Net investment (held to maturity securities)                  |      | (154,053)   | (2,233,124)  |
| Rental income received  |      | 20,925      | 17,422       |
| Dividend income received                                      |      | 35,420      | 27,986       |
| Investment in operating fixed assets                          |      | (331,708)   | (190,693)    |
| Sale proceeds of property and equipment disposed-off          |      | 21,882      | 27,644       |
| Net cash flow (used in) / generated from investing activities |      | (407,534)   | (2,350,765)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |      |             |              |
|   |      | -           | -            |
| Net (decrease) / increase in cash and cash equivalents        |      | 1,770,323   | (5,704,570)  |
| Cash and cash equivalents at beginning of the year            |      | 12,033,385  | 17,737,955   |
| Cash and cash equivalents at end of the year                  | 32   | 13,803,708  | 12,033,385   |

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

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR

## ZARAI TARAQIATI BANK LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2010

|   | Share capital  | Statutory reserve | Revenue Reserve       |                       |  | Total      |
|---|----------------|-------------------|-----------------------|-----------------------|--|------------|
|   |                |                   | Contingencies reserve | Unappropriated profit |  |            |
|   | Rupees in '000 |                   |                       |                       |  |            |
| <b>Balance as at December 31, 2008</b>                          | 12,522,441     | 1,026,169         | 60,000                | 3,280,202             |  | 16,888,812 |
| Total comprehensive income for the year ended December 31, 2009 | -              | -                 | -                     | 2,152,599             |  | 2,152,599  |
| Transfer to statutory reserve                                   | -              | 425,385           | -                     | (425,385)             |  | -          |
| <b>Balance as at December 31, 2009</b>                          | 12,522,441     | 1,451,554         | 60,000                | 5,007,416             |  | 19,041,411 |
| Total comprehensive income for the year ended December 31, 2010 | -              | -                 | -                     | 1,896,379             |  | 1,896,379  |
| Transfer to statutory reserve                                   | -              | 371,488           | -                     | (371,488)             |  | -          |
| <b>Balance as at December 31, 2010</b>                          | 12,522,441     | 1,823,042         | 60,000                | 6,532,307             |  | 20,937,790 |

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

PRESIDENT

DIRECTOR

DIRECTOR

DIRECTOR



## ZARAI TARAQIATI BANK LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

#### 1. THE GROUP AND ITS OPERATIONS

##### 1.1 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 355 (December 31, 2009: 347) branches in Pakistan as at close of the year.

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

##### 1.2 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'. 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(2008: 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 commencement until the control cessation.

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.

#### 3 STATEMENT OF COMPLIANCE

3.1 These consolidated financial statements have been prepared in accordance with the approved accounting standards applicable in Pakistan. 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 23, 2002. Further, according to the notification of SECP dated April 28, 2008, the IFRS-7 “Financial Instruments: Disclosures” has not been made applicable for banks. 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 of various circulars issued by SBP.

### 3.3 Standards, amendments and interpretations not yet effective

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

|            |  | <b>Effective date<br/>(accounting periods<br/>beginning on or after)</b> |
|------------|--|--|
| IFRS - 2   | Share-based Payments   | January 1, 2010  |
| IFRS - 3   | Business Combinations  | July 1, 2009   |
| IAS - 24   | Related Party Disclosures  | January 1, 2011  |
| IAS - 27   | Consolidated and Separate Financial Statements   | July 1, 2009   |
| IAS - 32   | Financial Instruments: Presentation-Classification of Rights Issues                        | February 1, 2010   |
| IFRIC - 14 | The Limit on Defined Benefit Assets,<br>Minimum Funding Requirements and other Interaction | January 1, 2011  |
| IFRIC - 15 | Agreements for the Construction of Real Estate   | October 1, 2009  |
| IFRIC - 17 | Distributions of Non-cash Assets to Owners<br>July 1, 2009                                 | July 1, 2009   |
| IFRIC - 19 | Extinguishing Financial Liabilities with Equity Instruments                                | July 1, 2010   |

Benazir Employee Stock Option Scheme was approved by the Cabinet of Government of Pakistan (GoP) on August 5, 2009 effective from August 14, 2009. This scheme empowers employees of State Owned Enterprises (SOEs)/other GoP share holdings through transfer of twelve percent (12%) of the GoP shareholding and a seat on the board. The Bank has also been named in the SOE for the purposes of this scheme. The financial reporting implications of the amendment in IFRS 2 relating to the scheme is under consideration of the Institute of Chartered Accountants of Pakistan.

## 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 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 Classification of investments

As described in Note 6.5, held for trading are the securities acquired principally for the purpose of generating profits from short term fluctuation in market price while 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 advances

The amount of provision is determined in accordance with the relevant SBP prudential 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 consumed 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 a change in accounting estimate 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 consolidated financial statements are set out below.

### 6.1 Staff retirement benefits

The Bank operates the following staff retirements benefits for its employees:

#### 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 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. Equal contribution to these schemes are made by employees and the Bank. The Bank which is also liable to meet any shortfall in the fund, determined on the basis of actuarial valuation.

#### **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 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 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 consolidated financial statements for the benefit based on entitled un-availed leave balances carried forwarded to the next year on the basis of actuarial valuation carried out using the Project Unit Credit method.

### **6.3 Cash and cash equivalents**

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

### **6.4 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 while advances are charged off in accordance with the Prudential Regulations issued by the SBP.

### **6.5 Investment**

The Bank classifies its investments as follows:

**Held-for-Trading**

These are securities 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.

Investments in un quoted securities are carried at lower of cost and break-up value 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 less impairment, if any. 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.

**6.6 Operating fixed assets and depreciation/amortization**

Property and equipment except free hold land and capital work in progress is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Free hold land and capital work in progress 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.

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.

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.

## 6.7 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.

## 6.8 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.

## 6.9 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.

## 6.10 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.

## 6.11 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 income 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.

Recoveries against loans written-off under Government relief packages are accounted for on cash receipt basis.

Rental income is accounted for on accrual basis.

#### **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**

Transaction in foreign currencies are translated to Rupees at the foreign currency rate prevailing on the transaction date.

#### **6.14 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.

#### **6.15 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 Bank intends either to settle on a net basis, or to realize the assets and settle the liabilities, simultaneously.

#### **6.16 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.

#### **6.17 Earnings per share**

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the bank by the weighted average number of ordinary shares outstanding during the period / year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at December 31, 2009.

| 7. CASH AND BALANCES WITH TREASURY BANKS | Note | 2010             |  | 2009             |  |
|--|------|------------------|--|------------------|--|
|  |      | Rupees '000      |  |                  |  |
| <b>Local Currency</b>                    |      |                  |  |                  |  |
| In hand                                  |      | 769,214          |  | 489,936          |  |
| Prize bonds                              |      | 622              |  | 925              |  |
| In current accounts with:                |      |                  |  |                  |  |
| State Bank of Pakistan                   | 7.1  | 1,972,245        |  | 1,863,244        |  |
| National Bank of Pakistan                |      | 3,530            |  | 2                |  |
|  |      | <u>2,745,611</u> |  | <u>2,354,107</u> |  |

7.1. This represents cash reserves at the rate of 5% of the Bank's demand liabilities and deposits with maturity upto one year in Pakistan, at nil return. Cash reserve is required to be maintained with State Bank of Pakistan under section 22 of Banking Companies Ordinance, 1962 and Banking Surveillance Department Circular No. 25 dated October 17, 2008.

## 8 BALANCES WITH OTHER BANKS

In Pakistan in local currency:

|                     |     |                   |                  |
|---------------------|-----|-------------------|------------------|
| In current accounts |     | 26,722            | 25,111           |
| In deposit accounts | 8.1 | 11,031,375        | 9,654,167        |
|                     |     | <u>11,058,097</u> | <u>9,679,278</u> |

8.1. These carry mark-up ranging from 5.00% to 13.50% per annum (2009: 5.00% to 15.25% per annum)

## 9. INVESTMENTS - NET

### 9.1 Investment by types

|   | Note  | 2010             |                     |                  | 2009             |                     |                  |
|---|-------|------------------|---------------------|------------------|------------------|---------------------|------------------|
|   |       | Held by bank     | Given as collateral | Total            | Held by bank     | Given as collateral | Total            |
| <b>Rupees in '000</b>                                   |       |                  |                     |                  |                  |                     |                  |
| <b>Available-for-Sale securities</b>                    |       |                  |                     |                  |                  |                     |                  |
| Listed companies  | 9.5   | 90,031           | -                   | 90,031           | 90,031           | -                   | 90,031           |
| Un-listed companies                                     | 9.6.4 | 10,523           | -                   | 10,523           | 10,523           | -                   | 10,523           |
| Units of mutual funds                                   | 9.7   | 100,000          | -                   | 100,000          | -                | -                   | -                |
|   |       | 200,554          | -                   | 200,554          | 100,554          | -                   | 100,554          |
| <b>Held-to-Maturity securities</b>                      |       |                  |                     |                  |                  |                     |                  |
| Market Treasury Bills                                   | 9.4   | 5,003,892        | -                   | 5,003,892        | 5,233,735        | -                   | 5,233,735        |
| Pakistan Investment Bonds                               | 9.4   | 962,366          | 2,524               | 964,890          | 1,004,944        | 2,637               | 1,007,581        |
| Certificates of Investment                              | 9.8   | 610,237          | -                   | 610,237          | 283,650          | -                   | 283,650          |
|   |       | 6,576,495        | 2,524               | 6,579,019        | 6,522,329        | 2,637               | 6,524,966        |
| <b>Total investments at cost</b>                        |       | <u>6,777,049</u> | <u>2,524</u>        | <u>6,779,573</u> | <u>6,622,883</u> | <u>2,637</u>        | <u>6,625,520</u> |
| Provision for diminution in value of investments        | 9.3   | (11,108)         | -                   | (11,108)         | (11,108)         | -                   | (11,108)         |
| <b>Investments (Net of provisions)</b>                  |       | <u>6,765,941</u> | <u>2,524</u>        | <u>6,768,465</u> | <u>6,611,775</u> | <u>2,637</u>        | <u>6,614,412</u> |
| Surplus on revaluation of Available-for-Sale securities | 21    | 935,742          | -                   | 935,742          | 499,536          | -                   | 499,536          |
| <b>Total investments at market value</b>                |       | <u>7,701,683</u> | <u>2,524</u>        | <u>7,704,207</u> | <u>7,111,311</u> | <u>2,637</u>        | <u>7,113,948</u> |



|  | Note | 2010      | 2009      |
|--|------|-----------|-----------|
| Rupees in '000   |      |           |           |
| <b>9.2 Investment by segments</b>  |      |           |           |
| <b>Federal government securities</b>                                       |      |           |           |
| Market Treasury Bills  | 9.4  | 5,003,892 | 5,233,735 |
| Pakistan Investment Bonds  | 9.4  | 964,890   | 1,007,581 |
|  |      | 5,968,782 | 6,241,316 |
| <b>Fully paid up ordinary shares:</b>                                      |      |           |           |
| Listed companies   | 9.5  | 90,031    | 90,031    |
| Un-listed companies  | 9.6  | 10,523    | 10,523    |
|  |      | 100,554   | 100,554   |
| <b>Units of Mutual Funds</b>   |      | 100,000   | -         |
| Certificates of investment   | 9.7  | 610,237   | 283,650   |
| <b>Total investment at cost</b>  |      | 6,779,573 | 6,625,520 |
| Provision for diminution in value of investments                           | 9.3  | (11,108)  | (11,108)  |
| <b>Investments (net of provisions)</b>                                     |      | 6,768,465 | 6,614,412 |
| Surplus on revaluation of available-for-sale securities                    | 21   | 935,742   | 499,536   |
| <b>Total investments at market value</b>                                   |      | 7,704,207 | 7,113,948 |
| <b>9.3 Particulars of provision for diminution in value of investments</b> |      |           |           |
| Opening balance  |      | 11,108    | 11,108    |
| Charge for the year  |      | -         | -         |
| Reversals  |      | -         | -         |
| Closing balance  |      | 11,108    | 11,108    |
| <b>9.3.1 Particulars of provision in respect of type and segment</b>       |      |           |           |
| Available-for-sale securities-(listed securities)                          |      | 585       | 585       |
| Available-for-sale securities-(un-listed securities)                       |      | 10,523    | 10,523    |
|  |      | 11,108    | 11,108    |

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

| Name of investment        | Maturity                     | Note  | Principal payment | Rate           | Coupon payment |
|---------------------------|------------------------------|-------|-------------------|----------------|----------------|
| Market Treasury Bills     | May 2011 to June 2011        | 9.4.1 | On maturity       | 11.95 to 13.30 | at maturity    |
| Pakistan Investment Bonds | August 2011 to December 2011 | 9.4.1 | On maturity       | 12 to 13       | semi-annually  |

9.4.1. Market treasury bills and Pakistan Investment Bonds are held by the Bank which also covers statutory liquidity reserve requirements calculated on the basis of domestic demand and time liabilities.

9.4.2. Pakistan Investment Bonds having amortised cost of Rs. 2.637 million (December 31, 2009: Rs. 2.637 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                           | 2010           | 2009   |
|------------------------|---------|---------------------|---|----------------|--------|
| 2010                   | 2009    | Rupees              |   | Rupees in '000 |        |
| 430,551                | 430,551 | 10                  | Nestle Pakistan Limited                     | 89,296         | 89,296 |
| 450,000                | 450,000 | 10                  | Uqab Breeding Farm Limited 9.5.1            | 585            | 585    |
| 150,000                | 150,000 | 10                  | Mubarik Dairies Limited                     | 150            | 150    |
| 300,000                | 300,000 | 10                  | Dadabhoy Agricultural Leasing Limited 9.5.2 | -              | -      |
|                        |         |                     |   | 90,031         | 90,031 |

**9.5.1** Uqab Breeding Farm Limited is under suspension since April 9, 2007. At the date of suspension, its market value per share was nil against its face value of Rs. 10 per share. Moreover, these investments are fully provided for in these financial statements.

**9.5.2** 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. However, at the time of conversion of ADBP into ZTBL market value of the share was nil.

**9.5.3** Market value of listed investment is Rs. 1,125.188 million.

## 9.6 Particulars of investments held in un-listed companies

### 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 in '000   |                       |                       |                |   |  |
| National Commodity Exchange Limited                            | 4.78%                 | 909,091               | (5,863)        | June 30, 2010                               | Mr. Samir Ahmed                            |
| "Saudi Pak Kala Bagh Livestock Limited<br>9.6.1 & 9.6.3"       | 33.33%                | 1,000,000             | -              | -   | Mr. Malik Allah Yar                        |
| Pakistan Agricultural Storage and Services Corporation Limited | 8.33%                 | 2,500                 | (406,053)      | March 31, 2010                              | Maj.Gen.(R) Sohail Shafqat                 |
| "Larkana Sugar Mills Limited<br>9.6.2 & 9.6.3"                 | 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 nominal amount of Re.1 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** Cost of un-listed investments is Rs. 10.523 million and face value of investment in un-listed securities is Rs. 35.788 million.

## 9.7 Particulars of units of mutual funds

| Units of Mutual Funds                  | Name of Management Company                  | Number of units held | Paid up value per unit | Total paid up/ nominal value | Cost as at |      |
|--|---|----------------------|------------------------|------------------------------|------------|------|
|  |   |                      |                        |                              | 2010       | 2009 |
|  |   |                      | Rupees                 | Rupees in '000               |            |      |
| NAFA Government Securities Liquid Fund | National Fullerton Asset Management Limited | 9900596              | 10                     | 99,006                       | 100,000    | -    |

Market value of units of mutual funds is Rs. 102.090 million.

## 9.8 Particulars of Certificates of Investments

| Name of investee                            | Credit Rating | Maturity             | Principal payment | Rate % per annum | Coupon payment |
|---|---------------|----------------------|-------------------|------------------|----------------|
| Pak Libya Holding Company (Private) Limited | AA-/A1+       | Jan 2011 to Mar 2011 | on maturity       | 13 to 14.25      | at maturity    |

## 9.9 Quality of Available-for-Sale securities

|  | 2010             |               | 2009           |               |
|--|------------------|---------------|----------------|---------------|
|  | Market value     | Credit Rating | Market value   | Credit Rating |
|  | Rupees in '000   |               | Rupees in '000 |               |
| <b>Shares in listed companies</b>      |                  |               |                |               |
| Nestle Pakistan Limited                | 1,022,498        | Unrated       | 536,449        | Unrated       |
| Uqab Breeding Farm Limited             | -                | Unrated       | -              | Unrated       |
| Mubarik Dairies Limited                | 600              | Unrated       | 150            | Unrated       |
|  | <u>1,023,098</u> |               | <u>536,599</u> |               |
| <b>Shares in un-listed companies</b>   |                  |               |                |               |
| National Commodity Exchange Limited    | -                | Unrated       | -              | Unrated       |
| <b>Units of mutual funds</b>           |                  |               |                |               |
| NAFA Government Securities Liquid Fund | 102,090          | AM2-          | -              | -             |
|  | <u>1,125,188</u> |               | <u>536,599</u> |               |

## 10 ADVANCES - NET

|   | Note | 2010               | 2009               |
|---|------|--------------------|--------------------|
|   |      | Rupees in '000     |                    |
| Loans, cash credits, running finances, etc. |      |                    |                    |
| In Pakistan - gross                         | 10.1 | 92,466,919         | 89,396,507         |
| Less:                                       |      |                    |                    |
| Provision for non-performing advances       | 10.2 | (7,654,018)        | (7,401,719)        |
| Provision for advances to employees         |      | (20,307)           | (20,767)           |
|   |      | <u>(7,674,325)</u> | <u>(7,422,486)</u> |
| Advances-net of provision                   |      | <u>84,792,594</u>  | <u>81,974,021</u>  |

**10.1 Particulars of advances (Gross)**

|                | Note              | 2010       | 2009       |
|----------------|-------------------|------------|------------|
| Rupees in '000 |                   |            |            |
| 10.1.1         | In local currency | 92,466,919 | 89,396,507 |
| 10.1.2         | Short term        | 53,589,692 | 59,439,043 |
|                | Long term         | 38,877,227 | 29,957,464 |
|                |                   | 92,466,919 | 89,396,507 |

10.2 Advances include Rs. 17,244.928 million (December 31, 2009: Rs. 14,086.126 million) which have been placed under non-performing status as detailed below:

| Category of classification                | 2010                |                    |                | 2009                |                    |                |
|---|---------------------|--------------------|----------------|---------------------|--------------------|----------------|
|   | Rupees in '000      |                    |                | Rupees in '000      |                    |                |
|   | Classified advances | Provision required | Provision held | Classified advances | Provision required | Provision held |
|   | Domestic            |                    |                | Domestic            |                    |                |
| Other Assets Especially Mentioned         | 10,730,393          | -                  | -              | 7,345,153           | -                  | -              |
| Substandard                               | 1,046,760           | 209,335            | 209,335        | 2,037,036           | 407,404            | 407,404        |
| Doubtful                                  | 2,046,182           | 1,023,090          | 1,023,090      | 1,419,238           | 709,616            | 709,616        |
| Loss                                      | 3,421,593           | 3,421,593          | 3,421,593      | 3,284,699           | 3,284,699          | 3,284,699      |
|   | 17,244,928          | 4,654,018          | 4,654,018      | 14,086,126          | 4,401,719          | 4,401,719      |
| Provision under portfolio audit - general | -                   | -                  | 3,000,000      | -                   | -                  | 3,000,000      |
|   | 17,244,928          | 4,654,018          | 7,654,018      | 14,086,126          | 4,401,719          | 7,401,719      |

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

|                     | Note | 2010        |           |             | 2009        |           |             |
|---------------------|------|-------------|-----------|-------------|-------------|-----------|-------------|
|                     |      | Specific    | General   | Total       | Specific    | General   | Total       |
| Rupees in '000      |      |             |           |             |             |           |             |
| Opening balance     |      | 4,401,719   | 3,000,000 | 7,401,719   | 4,806,237   | 3,000,000 | 7,806,237   |
| Charge for the year |      | 3,107,670   | -         | 3,107,670   | 4,489,682   | -         | 4,489,682   |
| Reversals           |      | (1,742,186) | -         | (1,742,186) | (2,245,262) | -         | (2,245,262) |
| Amounts written off | 10.4 | -           | -         | -           | -           | -         | -           |
| Amounts charge off  | 10.5 | (1,113,185) | -         | (1,113,185) | (2,648,938) | -         | (2,648,938) |
| Closing balance     |      | 4,654,018   | 3,000,000 | 7,654,018   | 4,401,719   | 3,000,000 | 7,401,719   |

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

|                   | 2010      |           |           | 2009      |           |           |
|-------------------|-----------|-----------|-----------|-----------|-----------|-----------|
|                   | Specific  | General   | Total     | Specific  | General   | Total     |
| Rupees in '000    |           |           |           |           |           |           |
| In local currency | 4,654,018 | 3,000,000 | 7,654,018 | 4,401,719 | 3,000,000 | 7,401,719 |

**10.4 Particulars of write offs**

|                                    | Note | 2010<br>Rupees in<br>'000 | 2009 |
|------------------------------------|------|---------------------------|------|
| 10.4.1 Against provisions          |      | -                         | -    |
| Write offs of Rs 500,000 and above | 10.6 | -                         | -    |
| Write offs of below Rs 500,000     |      | -                         | -    |
|                                    |      | -                         | -    |

**10.5 Particulars of Charge Offs**

|  |      |           |           |
|--|------|-----------|-----------|
| 10.5.1 Against provisions                  |      | 1,113,185 | 2,648,938 |
| 10.5.2 Charge offs of Rs 500,000 and above |      | -         | -         |
| Charge offs of below Rs 500,000            |      | 1,113,185 | 2,648,938 |
|  | 10.7 | 1,113,185 | 2,648,938 |

**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, 2010 no write-off or any other financial relief of five hundred thousand rupees or above 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 Bank extinguishes its loans through provisions. The total balance for these off-balance sheet loans extinguished against provisions as at December 31, 2010 was Rs 33,432 million (Rs. 34,982 million as at December 31, 2009) with an addition of Rs. 1,113 million (Rs. 2,649 million for the year ended December 31, 2009) as charge off loans during the year. Detail of charge offs out of extinguished loan portfolio exceeding five hundred thousand rupees are given at Annexure-I.

**10.8. Particulars of loans and advances to directors, executives and officers**

Debts due by the directors, executives and officers of the bank or any of them either severally or jointly with other persons.

|                                  | 2010           | 2009      |
|----------------------------------|----------------|-----------|
|                                  | Rupees in '000 |           |
| Balance at the beginning of year | 2,422,307      | 2,015,442 |
| Loans granted during the year    | 127,014        | 888,471   |
|                                  | 2,549,321      | 2,903,913 |
| Repayments                       | (397,440)      | (481,606) |
| Balance at the end of year       | 2,151,881      | 2,422,307 |

**11 OPERATING FIXED ASSETS**

|                          |      |                  |                  |
|--------------------------|------|------------------|------------------|
| Capital work-in-progress | 11.1 | 86,485           | 4,637            |
| Property and equipment   | 11.2 | 1,038,686        | 1,034,787        |
| Intangible assets        | 11.3 | 8,770            | 34,019           |
|                          |      | <u>1,133,941</u> | <u>1,073,443</u> |

**11.1 Capital work-in-progress**

|                                       |               |              |
|---------------------------------------|---------------|--------------|
| Civil works                           | 68,626        | -            |
| Equipments                            | -             | -            |
| Advances to suppliers and contractors | 9,195         | -            |
| Consultancy Charges                   | 8,062         | 4,368        |
| Others                                | 602           | 269          |
|                                       | <u>86,485</u> | <u>4,637</u> |

## 11.2. Property and equipment

| Particulars                               | COST               |           |                          | DEPRECIATION               |                      |                     | Book value at December 31, 2010 | Rate of Depreciation           |
|---|--------------------|-----------|--------------------------|----------------------------|----------------------|---------------------|---------------------------------|--------------------------------|
|   | At January 1, 2010 | Additions | (Deletions)/ adjustments | Provision for stolen asset | At December 31, 2010 | Charge for the year |                                 |                                |
| Free hold land                            | 170,961            | 50,934    | -                        | -                          | -                    | -                   | 221,895                         | -                              |
| Lease hold land                           | 10,640             | -         | -                        | -                          | 398                  | -                   | 7,456                           | Lease terms for 33 to 99 years |
| Building on free hold land                | 137,907            | 598       | -                        | -                          | 138,505              | -                   | 91,306                          | 5%                             |
| Building on leasehold land                | 319,766            | 8,454     | -                        | -                          | 328,220              | -                   | 221,772                         | 5%                             |
| Building on leasehold land - ADB          | 21,224             | -         | -                        | -                          | 21,224               | -                   | 18,574                          | 5%                             |
| Furniture and fixtures                    | 76,488             | 16,569    | (2,304)                  | -                          | 90,753               | (125)               | 61,635                          | 10% / 20%                      |
| Computer, office and other equipments     | 195,769            | 12,769    | (2,351)                  | -                          | 206,187              | (1,554)             | 91,298                          | 20% / 33.33%                   |
| Computer, office and other equipments-ADB | 157,519            | -         | -                        | -                          | 157,519              | -                   | 15,138                          | 20% / 33.33%                   |
| Vehicles                                  | 621,393            | 162,387   | (24,814)                 | (3,212)**                  | 755,754              | (7,850)             | 309,613                         | 20%                            |
|   | 1,711,667          | 251,711   | (29,469)                 | (3,212)                    | 1,930,697            | (9,529)             | 1,038,686                       |                                |

\*\*This represents the cost and depreciation of the stolen vehicles.

| Particulars                               | COST               |           |                          | DEPRECIATION               |                      |                     | Book value at December 31, 2009 | Rate of Depreciation           |
|---|--------------------|-----------|--------------------------|----------------------------|----------------------|---------------------|---------------------------------|--------------------------------|
|   | At January 1, 2009 | Additions | (Deletions)/ adjustments | Provision for stolen asset | At December 31, 2009 | Charge for the year |                                 |                                |
| Free hold land                            | 170,961            | -         | -                        | -                          | -                    | -                   | 170,961                         | -                              |
| Lease hold land                           | 10,640             | -         | -                        | -                          | 2,786                | -                   | 7,854                           | Lease terms for 33 to 99 years |
| Building on free hold land                | 137,907            | -         | -                        | -                          | 137,907              | -                   | 96,215                          | 5%                             |
| Building on leasehold land                | 315,057            | 4,709     | -                        | -                          | 319,766              | -                   | 216,361                         | 5%                             |
| Building on leasehold land - ADB          | 21,224             | -         | -                        | -                          | 21,224               | -                   | 19,551                          | 5%                             |
| Furniture and fixtures                    | 52,721             | 26,629    | (2,862)                  | -                          | 76,488               | (858)               | 56,906                          | 10%/20%                        |
| Computer, office and other equipments     | 115,788            | 73,157    | 6,824                    | -                          | 195,769              | (5,999)             | 120,016                         | 20/33.33%                      |
| Computer, office and other equipments-ADB | 170,511            | -         | (12,992)*                | -                          | 157,519              | (3,331)*            | 56,454                          | 20/33.33%                      |
| Vehicles                                  | 577,047            | 84,159    | (36,601)                 | (3,212)**                  | 621,393              | (9,365)             | 290,469                         | 20%                            |
|   | 1,571,856          | 188,654   | (45,631)                 | (3,212)                    | 1,711,667            | (19,553)            | 1,034,787                       |                                |

\* This represents sales tax on Computer, office and other equipments - ADB and related depreciation transferred to Computer, office and other equipments.

\*\* This represents the cost and depreciation of the stolen vehicles.

11.2.1. Reconciliation of carrying value of the property and equipment

| Particulars                                 | Book value at January 1, 2010 | C O S T        |                          | D E P R E C I A T I O N    |                     |                          | Book value at December 31, 2010 | Rate of Depreciation           |                            |
|---|-------------------------------|----------------|--------------------------|----------------------------|---------------------|--------------------------|---------------------------------|--------------------------------|----------------------------|
|   |                               | Additions      | (Deletions)/ adjustments | Provision for stolen asset | Charge for the year | (Deletions)/ adjustments |                                 |                                | Provision for stolen asset |
|   |                               | Rupees in '000 |                          |                            |                     |                          |                                 |                                |                            |
| Free hold land                              | 170,961                       | 50,934         | -                        | -                          | -                   | -                        | 221,895                         | -                              |                            |
| Lease hold land                             | 7,854                         | -              | -                        | -                          | (398)               | -                        | 7,456                           | Lease terms for 33 to 99 years |                            |
| Building on free hold land                  | 96,215                        | 598            | -                        | -                          | (5,507)             | -                        | 91,306                          | 5%                             |                            |
| Building on leasehold land                  | 216,361                       | 8,454          | -                        | -                          | (3,043)             | -                        | 221,772                         | 5%                             |                            |
| Building on leasehold land - ADB            | 19,551                        | -              | -                        | -                          | (978)               | -                        | 18,574                          | 5%                             |                            |
| Furniture and fixtures                      | 56,906                        | 16,569         | (2,304)                  | -                          | (9,661)             | (125)                    | 61,635                          | 10%/20%                        |                            |
| Computer, office and other equipments       | 120,016                       | 12,769         | (2,351)                  | -                          | (40,691)            | (1,554)                  | 91,298                          | 20/33.33%                      |                            |
| Computer, office and other equipments - ADB | 56,454                        | -              | -                        | -                          | (41,316)            | -                        | 15,138                          | 20/33.33%                      |                            |
| Vehicles                                    | 290,469                       | 162,387        | (24,814)                 | (3,212)                    | (123,682)           | (7,850)                  | 309,613                         | 20%                            |                            |
| <b>2010</b>                                 | <b>1,034,787</b>              | <b>251,711</b> | <b>(29,469)</b>          | <b>(3,212)</b>             | <b>(225,275)</b>    | <b>(9,529)</b>           | <b>1,038,686</b>                |                                |                            |



## 11.3 Intangible assets

| Particulars             | COST               |           |             | AMORTIZATION         |                     |                     | Book value at December 31, 2010 | Rate of Amortization |                      |
|-------------------------|--------------------|-----------|-------------|----------------------|---------------------|---------------------|---------------------------------|----------------------|----------------------|
|                         | At January 1, 2010 | Additions | adjustments | At December 31, 2010 | Charge for the year | adjustments         |                                 |                      | At December 31, 2010 |
|                         | Rupees in '000     |           |             |                      |                     |                     |                                 |                      |                      |
| Computer software       | 799                | 27        | -           | 826                  | 507                 | 240                 | 747                             | 79                   | 33.33%               |
| Computer software - ADB | 80,500             | -         | -           | 80,500               | 46,773              | 25,035              | 71,809                          | 8,691                | 33.33%               |
| <b>2010</b>             | <b>81,299</b>      | <b>27</b> | <b>-</b>    | <b>81,326</b>        | <b>47,280</b>       | <b>25,275</b>       | <b>72,556</b>                   | <b>8,770</b>         |                      |
|                         | Rupees in '000     |           |             |                      |                     |                     |                                 |                      |                      |
|                         | COST               |           |             | AMORTIZATION         |                     |                     | Book value at December 31, 2009 | Rate of Amortization |                      |
|                         | At January 1, 2009 | Additions | adjustments | At December 31, 2009 | At January 1, 2009  | Charge for the year | At December 31, 2009            |                      |                      |
|                         | Rupees in '000     |           |             |                      |                     |                     |                                 |                      |                      |
| Computer software       | 799                | -         | -           | 799                  | 241                 | 266                 | 507                             | 292                  | 33.33%               |
| Computer software - ADB | 80,500             | -         | -           | 80,500               | 21,737              | 25,036              | 46,773                          | 33,727               | 33.33%               |
| <b>2009</b>             | <b>81,299</b>      | <b>-</b>  | <b>-</b>    | <b>81,299</b>        | <b>21,978</b>       | <b>25,302</b>       | <b>47,280</b>                   | <b>34,019</b>        |                      |

11.4 Carrying amount of temporarily idle property

2010      2009

Rupees in '000

80,441      29,534

11.5. The title documents of freehold land amounting to Rs. 88.678 million and leasehold land amounting to Rs. 5.403 million are still in the name of Agricultural Development Bank of Pakistan.

11.6. The lease tenure of leasehold lands amounting to Rs. 3.450 million have expired and are not yet renewed.

11.7. During the year ended December 31, 2010, no asset has been disposed off, other than to related parties whose original cost or the book value exceeded one million and two hundred fifty thousand rupees respectively, whichever is lower.

11.8. The information relating to the disposal of asset to the related parties is disclosed as under;

List of vehicles disposed off to the related parties during the year

| Sr. No.   | Particular of Assets  | Purchase price | Accumulated depreciation | Book Value | Sale Proceed | Gain/(loss) on sale | Particulars of Purchaser         |
|---|-----------------------|----------------|--------------------------|------------|--------------|---------------------|----------------------------------|
| <b>Mode of disposal - Car Loan Depreciation Policy (CLDP)</b> |                       |                |                          |            |              |                     |                                  |
| 1   | B-5466, S/Cultus      | 595,000        | 406,583                  | 188,417    | 188,417      | -                   | Naseer Ahmed Awan, SVP®          |
| 2   | JZ-282, Honda Civic   | 615,000        | 437,071                  | 177,929    | 177,929      | -                   | Muhammad Tareef Shah, SVP®       |
| 3   | PU-560, Suzuki Cultus | 757,500        | 38,186                   | 719,314    | 719,314      | -                   | Late Sohail S. Zaman Khan, Ex-VP |
| 4   | KE-269, Suzuki Liana  | 615,000        | 456,617                  | 158,383    | 158,383      | -                   | Dr. Anbar Badshah, SVP®          |
| 5   | LEA-07-1749, S/Cultus | 615,000        | 423,255                  | 191,745    | 191,745      | -                   | Riaz Ahmed Nagra, EVP            |
| 6   | KZ-651, Suzuki Cultus | 615,000        | 418,199                  | 196,801    | 196,801      | -                   | Muhammad Asghar, EVP             |
| 7   | KX-349, Honda City    | 615,000        | 429,321                  | 185,679    | 185,679      | -                   | Razia Begum, EVP                 |
| 8   | KE-173, Suzuki Liana  | 794,000        | 617,362                  | 176,638    | 176,638      | -                   | A. Munaf Sattar, SEVP            |
| 9   | KU-668, Suzuki Liana  | 615,000        | 441,115                  | 173,885    | 173,885      | -                   | Khalid Mehmood Gill, EVP         |
| 10  | NB-899, T/Corolla XLI | 645,989        | 248,839                  | 397,150    | 397,150      | -                   | Nek Muhammad Javed, SVP®         |
| 11  | PJ-209, T/Corolla GLI | 1,263,780      | 207,745                  | 1,056,035  | 1,056,035    | -                   | Tahir Anwar Pasha, EVP           |
| 12  | KH-162, S/Cultus      | 615,000        | 291,493                  | 323,507    | 323,507      | -                   | Muhammad Latif Shad, Ex-SVP      |
| 13  | QA-202, S/Cultus      | 772,500        | 115,558                  | 656,942    | 656,942      | -                   | Syed Waqar Hussain, VP           |
| 14  | KS-938, S/Cultus      | 555,000        | 481,102                  | 73,898     | 73,898       | -                   | M. Tariq Awan, VP                |
|   |                       | 9,688,769      | 5,012,446                | 4,676,323  | 4,676,323    | -                   |                                  |

|   | Note | 2010              | 2009              |
|---|------|-------------------|-------------------|
| Rupees in '000  |      |                   |                   |
| <b>12. DEFERRED TAX ASSET/(LIABILITY) - NET</b>   |      |                   |                   |
| The details of the tax effect of taxable and deductible temporary differences are as follows: |      |                   |                   |
| <b>Taxable timing differences on;</b>   |      |                   |                   |
| Accelerated tax depreciation  |      | (88,199)          | (112,068)         |
| Surplus on revaluation of assets  | 21   | (93,574)          | (63,049)          |
|   |      | <u>(181,773)</u>  | <u>(175,117)</u>  |
| <b>Deductible timing differences on;</b>  |      |                   |                   |
| Provision for gratuity  |      | 10,009            | -                 |
| Provision for medical facilities  |      | 3,594             | -                 |
| Provision against non-performing loans and advances   |      | 619,872           | 465,748           |
|   |      | <u>451,702</u>    | <u>290,631</u>    |
| <b>13. OTHER ASSETS - NET</b>   |      |                   |                   |
| Income/mark-up accrued on deposits in local currency  |      | 37,776            | 207,097           |
| Income/mark up accrued on held to maturity securities   |      | 40,526            | 241,389           |
| Accrued interest/markup on advances *   | 13.1 | 3,967,791         | 3,467,504         |
| Loan to KSSL  |      | -                 | -                 |
| Stationery and stamps on hand   |      | 49,440            | 33,667            |
| Amount recoverable from Federal Government  | 13.2 | 225,120           | 178,728           |
| Crop loan insurance claim recoverable from Insurance Company                                  |      | 549,120           | -                 |
| Tax recoverable   | 13.3 | 391,751           | 391,751           |
| Non banking assets acquired in satisfaction of claims   | 13.4 | 349,887           | 357,801           |
| Receivable from defined benefit plans   | 13.5 | 4,230,464         | 5,477,019         |
| Stock of farm machinery   |      | 13,138            | 13,146            |
| Advances against salary and expenses  |      | 8,318             | 7,357             |
| Security deposits   |      | 2,260             | 1,768             |
| Advances and other prepayments  |      | 282,705           | 204,737           |
| Others  | 13.6 | 21,026            | 18,616            |
|   |      | <u>10,169,322</u> | <u>10,600,580</u> |
| Less: Provision held against other assets   | 13.7 | (429,414)         | (430,623)         |
| Other assets (net of provisions)  |      | <u>9,739,908</u>  | <u>10,169,957</u> |

- 13.1.** This does not includes Rs. 2,186.803 million (2009: Rs. 2,251.827 million) on account of unrealised mark-up on non performing loans and advances kept in the memorandum account in accordance with the Prudential Regulations for Agriculture Financing.
- 13.2.** This represents amount recoverable from Federal Government on account of crop loan insurance premium.
- 13.3.** This includes tax recoverable amounting to Rs. 297.149 million for assessment years 1991-92 to 1998-99 as disclosed in Note 22.2.3 and Rs. 11.243 million for the assessment year 2001-2002 as disclosed in Note 22.2.4.
- 13.4 .** Market value of non-banking assets acquired in satisfaction of claims is Rs. 821.787 million (2009: Rs. 626.546 million).

|  | Note          | 2010             | 2009             |
|--|---------------|------------------|------------------|
| Rupees in '000                                     |               |                  |                  |
| <b>13.5. Receivable from defined benefit plans</b> |               |                  |                  |
| Pension scheme                                     | 35.1.5        | 3,475,681        | 4,050,684        |
| Benevolent scheme-officers/executives              | 35.2.5        | -                | 303,138          |
| Benevolent scheme-clerical/non-clerical            | 35.3.5        | -                | 82,461           |
| Gratuity scheme-Staff Regulations 197 5            | 35.4.1.5      | 775,434          | 1,040,736        |
| Gratuity scheme-SR-2005                            | 35.4.2.5      | (20,651)         | -                |
|  | <b>13.5.1</b> | <b>4,230,464</b> | <b>5,477,019</b> |

13.5.1. 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.

|  | Note | 2010          | 2009          |
|--|------|---------------|---------------|
| Rupees in '000   |      |               |               |
| <b>13.6. Others</b>  |      |               |               |
| Defence saving certificates                                      |      | 3             | 3             |
| Advance for purchase of machinery/goods in transit               |      | 17            | 17            |
| Legal charges recoverable on suits filed against loan defaulters |      | 16,672        | 16,044        |
| Miscellaneous  |      | 4,334         | 2,552         |
|  |      | <b>21,026</b> | <b>18,616</b> |

|  |  |                |                |
|--|--|----------------|----------------|
| <b>13.7. Provision held against other assets</b> |  |                |                |
| Opening balance                                  |  | 430,623        | 378,507        |
| Charge for the year                              |  | 838            | 66,917         |
| Reversals  |  | (2,047)        | (13,829)       |
| Amount written off                               |  | -              | (972)          |
| Closing balance                                  |  | <b>429,414</b> | <b>430,623</b> |

|                          |  |         |           |
|--------------------------|--|---------|-----------|
| <b>14. BILLS PAYABLE</b> |  |         |           |
| In Pakistan              |  | 306,040 | 2,059,979 |

|                       |      |            |            |
|-----------------------|------|------------|------------|
| <b>15. BORROWINGS</b> |      |            |            |
| In Pakistan           | 15.1 | 51,257,213 | 51,257,213 |

|   |      |            |            |
|---|------|------------|------------|
| <b>15.1. Particulars of borrowings with respect to currencies</b> |      |            |            |
| In local currency   | 15.2 | 51,257,213 | 51,257,213 |

|  |             |                   |                   |
|--|-------------|-------------------|-------------------|
| <b>15.2. Details of borrowings from financial institutions - secured</b> |             |                   |                   |
| Borrowing from State Bank of Pakistan                                    |             |                   |                   |
| Agricultural loans   | 15.3 & 15.5 | 50,174,089        | 50,174,089        |
| Agri-project loans   | 15.4 & 15.5 | 1,083,124         | 1,083,124         |
|  |             | <b>51,257,213</b> | <b>51,257,213</b> |

- 15.3.** 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. 48.597 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 Government of Pakistan (GoP).
- 15.4.** 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.
- 15.5** As a part of restructuring process the Bank in the year 2003 submitted a proposal to the SBP for restructuring of the total 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 agreed with proposed terms except the proposed capping of markup rate which was suggested to be fixed on last auction's weighted average yield of Government Treasury Bill of 12 months maturity on floating basis every year. Due to the disagreement on the issue of terms of mark up this proposal could not be implemented. Therefore, mark up/interest on above debt is being charged to unconsolidated profit and loss account as per original terms of agreement.

In view of the critical importance of debt pricing for the future financial viability and sustainability of the Bank the matter was discussed in the meeting held on January 16, 2008 between the representatives of Ministry of Finance (MoF), the Bank and the State Bank of Pakistan and also in meetings held thereafter, it was resolved that SBP in consultation with the Bank and MoF shall firm up proposal regarding SBP's debt on priority basis. Accordingly, SBP submitted a proposal pertaining to ZTBL debt restructuring vide letter No. DG/29/08 dated November 8, 2008.

In this regard MoF vide their letter No. F.1(5)1F-I/2007-1217 dated September 28, 2009 has advised that Finance Division, SBP and ZTBL will work out a revised proposal to rationalize debt structure of the ZTBL. As per GoP directive, State Bank of Pakistan has presented revised restructuring plan vide their letter No. ACD/1.1-13/2009-1071 dated October 27, 2009. However, ZTBL has requested MoF vide its letter No. 2932 dated November 20, 2009 and Letter No. FIN/B&FMD/4(15)/2009-943 dated April 08, 2010 that agreed upon SBP debt restructuring proposal dated November 08, 2008 may be implemented.

Thereafter, SBP revised proposal dated October 27, 2009 was again discussed in a tripartite meeting held in the Ministry of Finance on July 07, 2010 wherein ZTBL representatives stressed that SBP agreed upon proposal dated November 08, 2010 would be practicable for the bank. As per minutes of the meeting vide Ministry of Finance letter No. F.1 (5)IF-I/2007-943 dated July 22, 2010, it was decided in the meeting that ZTBL may come up with a practicable proposal for debt restructuring to be considered by Finance Division and SBP. SBP vide their letter dated February 9, 2011 has submitted revised proposal received through MOF letter dated February 12, 2011. ZTBL response on SBP proposal, with some amendments, furnished to MOF vide ZTBL letter dated February 22, 2011.

| Note                                   | 2010             | 2009             |
|--|------------------|------------------|
|  | Rupees in '000   |                  |
| <b>16. DEPOSITS AND OTHER ACCOUNTS</b> |                  |                  |
| <b>Customers - local currency</b>      |                  |                  |
| Fixed deposits                         | 654,236          | 475,733          |
| Saving deposits                        | 16.1 3,434,647   | 2,842,757        |
| Current accounts - remunerative        | 150,942          | 195,045          |
| Current accounts - non-remunerative    | 16.2 5,275,547   | 5,200,839        |
| Unclaimed deposits                     | 35,355           | 36,518           |
|  | <u>9,550,727</u> | <u>8,750,892</u> |

#### 17. 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. As explained in Note 15.5, this proposal could not be implemented and a fresh proposal from SBP is in the process of consideration for finalization.

|   | Note        | 2010       | 2009       |
|---|-------------|------------|------------|
| Rupees in '000  |             |            |            |
| <b>18. OTHER LIABILITIES</b>                              |             |            |            |
| Mark-up payable in local currency                         |             | 22,985,169 | 19,535,500 |
| Accrued expenses  |             | 505,974    | 56,596     |
| Taxation (provisions less payments)                       | see note 22 | 1,517,561  | 2,071,824  |
| Branch adjustment account                                 |             | 570,579    | 544,312    |
| Payable to defined benefit plans                          | 18.1        | -          | 88,353     |
| Payable to Ministry of Food Agriculture and Livestock     | 18.2        | 176,100    | 176,100    |
| Profit payable on deposits and other accounts             |             | 67,645     | 59,513     |
| Net liabilities relating to Bangladesh                    | 18.3        | 189        | 189        |
| Provision for employees' post retirement medical benefits | 35.5.5      | 4,052,253  | 3,812,486  |
| Provision for employees' compensated absences             | 35.6        | 798,452    | 1,194,349  |
| Payable to employees' against Golden Handshake Scheme     |             | -          | -          |
| Payable to subsidiary company                             | 40          | -          | -          |
| Security deposits   |             | 15,046     | 21,044     |
| Deferred income   | 18.4        | 68,671     | 136,000    |
| Others  | 18.5        | 770,160    | 241,061    |
|   |             | 31,527,799 | 27,937,327 |

**18.1. Payable to defined benefit plans**

|   |          |   |        |
|---|----------|---|--------|
| Benevolent scheme-clerical/non-clerical | 35.3.5   | - | -      |
| Gratuity scheme-SR-2005                 | 35.4.2.5 | - | 69,131 |
|   |          | - | 69,131 |

**18.2.** This represents the amount of Rs. 8.100 million (2009: Rs. 8.100 million) and Rs. 168 million (2009: 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   | 2010        | 2009        |
|---|--------|-------------|-------------|
| Rupees in '000                                  |        |             |             |
| <b>18.3. Liabilities relating to Bangladesh</b> |        |             |             |
| Liabilities                                     |        | 1,490,115   | 1,460,825   |
| Assets  |        | (1,489,926) | (1,460,636) |
|   | 18.3.1 | 189         | 189         |

**18.3.1.** 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.

|                              | Note   | 2010     | 2009     |
|------------------------------|--------|----------|----------|
| Rupees in '000               |        |          |          |
| <b>18.4. Deferred Income</b> |        |          |          |
| Balance as at January 1      |        | 136,000  | 207,112  |
| Additions during the year    |        | -        | -        |
| Amortization during the year | 25     | (67,329) | (71,112) |
| Balance as at December 31    | 18.4.1 | 68,671   | 136,000  |

**18.4.1.** Deferred income comprises of the grants from the Asian Development Bank via Government of Pakistan for Rural Support Development Finance Project (RSDFP).

**18.5.** This represents various payables which includes insurance claims payable/adjustable against the loan liability of the borrowers, withholding tax, contribution received from borrowers etc.

## 19. SHARE CAPITAL

### 19.1. Authorized Capital

| 2010             | 2009          | Note                           | 2010           | 2009       |
|------------------|---------------|--------------------------------|----------------|------------|
| Number of shares |               |                                | Rupees in '000 |            |
| 2,500,000,000    | 2,500,000,000 | Ordinary shares of Rs. 10 each | 25,000,000     | 25,000,000 |

### 19.2. Issued, subscribed and paid up

|               |               | Ordinary shares of Rs. 10 each |            |            |
|---------------|---------------|--------------------------------|------------|------------|
| 1,186,961,201 | 1,186,961,201 | Fully paid in cash             | 11,869,612 | 11,869,612 |
| 65,282,866    | 65,282,866    | Issued as bonus shares         | 652,829    | 652,829    |
| 1,252,244,067 | 1,252,244,067 |                                | 12,522,441 | 12,522,441 |

| 19.3           | Shareholder                      | No of ordinary shares | Paid-up value per share | 2010       | 2009       |
|----------------|----------------------------------|-----------------------|-------------------------|------------|------------|
| Rupees in '000 |                                  |                       |                         |            |            |
|                | Government of Pakistan           | 1,251,189,067         | 10                      | 12,511,891 | 12,511,891 |
|                | Government of Punjab             | 292,340               | 10                      | 2,923      | 2,923      |
|                | Government of Sindh              | 125,545               | 10                      | 1,256      | 1,256      |
|                | Government of Khyber Pakhtunkhwa | 71,740                | 10                      | 717        | 717        |
|                | Government of Balochistan        | 37,875                | 10                      | 379        | 379        |
|                | Erstwhile East Pakistan          | 527,500               | 10                      | 5,275      | 5,275      |
|                |                                  | 1,252,244,067         |                         | 12,522,441 | 12,522,441 |

**20. RESERVES**

|                                     | Statutory reserve | Contingencies reserve | Total     |
|-------------------------------------|-------------------|-----------------------|-----------|
|                                     | Rupees in '000    |                       |           |
| Balance as at January 1, 2010       | 1,451,554         | 60,000                | 1,511,554 |
| Transfer from unappropriated profit | 371,488           | -                     | 371,488   |
| Balance as at December 31, 2010     | 1,823,042         | 60,000                | 1,883,042 |

**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 - NET OF DEFERRED TAX**

Surplus arising on revaluation of available-for-sale securities

Quoted shares

Mutual Funds

Other securities

Less: Related deferred tax liability

|                                      | 2010           | 2009     |
|--------------------------------------|----------------|----------|
|                                      | Rupees in '000 |          |
| Quoted shares                        | 933,652        | 447,153  |
| Mutual Funds                         | 2,090          | -        |
| Other securities                     | -              | 52,383   |
|                                      | 935,742        | 499,536  |
| Less: Related deferred tax liability | (93,574)       | (63,049) |
|                                      | 842,168        | 436,487  |

**22. CONTINGENCIES AND COMMITMENTS****22.1. Contingent assets**

**22.1.1.** 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. 22,293 million for the period from July 01, 2004 to December 31, 2010 (Rs. 17,744 million: up to December 31, 2009). 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.

**22.1.2.** The Company had let out a property to the Institute of Business Education (IBE) on March 27, 2008. Subsequently, the Company served vacation notice dated January 26, 2009 on IBE. IBE failed to vacate the property within notice period. The Company filed a petition with Civil Judge, Islamabad for vacation of property. This petition was decided in favor of the Company. Subsequently, the Company filed another petition for the recovery of rent arrears for the period beyond the notice period of Rs. 2.669 million with the Civil Judge, Islamabad. The case is pending before court for decision. However, based on legal advisor opinion, the management of the Company is confident of favorable outcome. Hence, no provision against rent receivable has been provided.

**22.1.3.** There is a contingent gain of an amount of Rs. 756.272 million receivable from the Federal Government on account of President Relief Package announced on May 5, 2007 for the small borrowers of the Bank at Badin, Umerkot and Tharparkar districts which were outstanding as at April 30, 2007. Total amount receivable from the Federal Government was Rs. 956.272 million which was duly certified by a professional firm of Chartered Accountants.

**22.2. Contingent liabilities**

**22.2.1.** Contingent liabilities in respect of 624 cases (December 31, 2009: 586 cases) filed against the Bank by various borrower.

**22.2.2.** Contingent liability in respect of 263 cases (December 31, 2009: 440 cases) filed against the Bank in various courts of law by the employees.

|   | 2010           | 2009       |
|---|----------------|------------|
|   | Rupees in '000 |            |
| Contingent liabilities in respect of 624 cases (December 31, 2009: 586 cases) filed against the Bank by various borrower.                     | 9,711,832      | 13,232,419 |
| Contingent liability in respect of 263 cases (December 31, 2009: 440 cases) filed against the Bank in various courts of law by the employees. | 148,857        | 271,112    |



- 22.2.3.** There is a contingency of an amount of Rs.297.149 million on account of minimum income tax levied by the income tax authorities under Section 80-D of the Income Tax Ordinance, 1979, for assessment years 1991-92 to 1998-99. The income of the Bank was exempt from tax up to 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 the 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 referred the case to the Attorney General of Pakistan (AGP) for final decision which was received on March 12, 2011 whereby the AGP has decided that Section 27-A of the ADBP Ordinance should prevail over the said Section 80-D of the Income Tax Ordinance, 1979.
- 22.2.4.** Income Tax Department under section 89/205 of the Income Tax Ordinance, 1979 levied income tax amounting to Rs.11.243 million for the assessment year 2001-2002. The Bank had to pay the amount as it was a mandatory payment. The Bank has filed appeals before the CIT(A). The bank has not charged to Profit & Loss account as it is expected that the demand would not be materialize.
- 22.2.5.** Income tax of Rs.1,700.993 million was levied by the Income Tax Department for Assessment Year 2002-03 on a remanded back case by ITAT. The Commissioner Inland Revenue Appeals, CIR(A) previously CIT(A) allowed provision for Post Retirement Medical Benefits up to the extent of 50% which reduced the levied tax from Rs.1,700.993 million to Rs.989.40 million. Subsequently the Income Tax Department has lodged appeal before the Appellate Tribunal Inland Revenue (ATIR). Against other issues where the Bank was aggrieved, appeal before ITAT against CIR(A) order has been submitted. ATIR decided the appeals wherein order of the CIR(A) has been upheld and further allowed the general provisioning for NPL's. The bank has applied for appeal effects to the Tax Authorities. The Bank has not accounted for the incremental amount of tax and contingent liability as it is confident that the demand will not crystallize.
- 22.2.6.** Income tax of Rs.1,457.555 million and further an amount of Rs.317.482 million was levied by the Income Tax Department for tax year 2003, against provision of Rs.26.800 million in the books of account. The CIR(A) in his orders favouring the appeal of the Bank reduced the tax amount of Rs1,457.555 million to Rs.1,036.570 million and further demand of Rs.317.482 million was reduced to Rs.235.172 million, respectively. The Bank filed appeal before ITAT. ITAT in its Order favoured the appeal of the Bank. The Bank has received appeal effects resulting in refund amounting to Rs.249.411 million. Being aggrieved the Tax Authorities have lodged appeal before the Honorable Lahore High Court, Rawalpindi Bench, Rawalpindi. Pending the outcome of the case, the Bank has not accounted for the incremental amount of tax and contingent liability as it is confident that the demand will not crystallize.
- 22.2.7.** Income tax of Rs.2,157.151 million was levied by the Income Tax Department for tax year 2004, against provision of Rs.368.672 million in the books of account. The CIT (A) in his Orders favouring the appeal of the Bank reduced the tax amount of Rs.2,157.151 million to Rs.2,139.912 million the Income Tax Department is in appeal with the ATIR and subsequently the same was reduced it to Rs.2,030.804 million by way of another assessment order. The Bank filed appeal before the ITAT. The ITAT in its order favoured the appeal of the Bank. The Bank has received appeal effects reducing the demand amounting to Rs.64.180 million. Being aggrieved the Tax Authorities have lodged appeal before the Honorable Lahore High Court, Rawalpindi Bench, Rawalpindi. Pending the outcome of the case, the Bank has not accounted for the incremental amount of tax and contingent liability as it is confident that the demand will not crystallize.
- 22.2.8.** Income Tax of Rs.532.136 million was levied by the Income Tax Department for tax year 2005, against provision of Rs.501.471 million in the books of accounts. The Bank filed an appeal before the CIR(A) against the aforesaid order who upheld the assessment. The Bank filed appeal before ITAT. ITAT in its Order favoured the appeal of the Bank. The Bank has received appeal effects amounting to refund of Rs.33.775 million. Being aggrieved the Tax Authorities have lodged appeal before the Honorable Lahore High Court, Rawalpindi Bench, Rawalpindi. Pending the outcome of the case, the Bank has not accounted for the incremental amount of tax and contingent liability as it is confident that the demand will not crystallize.
- 22.2.9.** Income tax of Rs.1,786.258 million and subsequently an addition of Rs.31.055 million was levied by the Income Tax Department for tax year 2006 on the issue of medical facility paid to employees, against provision of Rs.34.114 million in the books of account. The Bank filed an appeal before the CIR(A) against the aforesaid order, the CIR(A) decided the case in favour of the Tax Department against initial demand and in the case of incremental/additional demand the CIR(A) annulled the assessment order with the remarks that orders amended u/s 122(5A) cannot be amended u/s 122(1), on cross appeals on the issue of facility to employees the ATIR in its order remanded back the case to CIR(A) for adjudication on merit. The Bank paid Rs.31.055 million under protest. The Bank has filed an appeal against the order of the CIR(A) before the ITAT and paid Rs.328.228 million under protest. The ITAT in its Order favoured the appeal of the Bank. The Bank has received appeal effects resulting in refund amounting to Rs.370.163 million. Being aggrieved the Tax Authorities have lodged appeal before the Honorable Lahore High Court, Rawalpindi Bench, Rawalpindi. Pending the outcome of the case, the Bank has not accounted for the incremental amount of tax and contingent liability as it is confident that the demand will not crystallize.
- 22.2.10.** Income tax of Rs.2,239.493 million and subsequently an addition of Rs.24.876 million was levied by the Income Tax Department for tax year 2007 on the issue of medical facility paid to employees, against provision of Rs.254.559 million in the books of account. The Bank filed an appeal before the CIR(A) against the aforesaid order, the CIR(A) decided the case in favour of the Tax Department against initial demand and in the case of incremental/additional demand, the CIR(A) annulled the assessment order with the remarks that order amended u/s 122(5A) cannot be amended u/s 122(1), on cross appeals on the issue of facility to employees the ATIR in its order remanded back the case to CIR(A) for adjudication on merit. The Bank paid Rs.24.876 million under protest. The Bank has filed an appeal before the ITAT and paid Rs.1,524.550 million under protest. The ITAT in its Order favoured the appeal of the Bank. The Bank has received appeal effects resulting in refund amounting to Rs.1,602.708 million. Being aggrieved the Tax Authorities have

lodged appeal before the Honorable Lahore High Court, Rawalpindi Bench, Rawalpindi. Pending the outcome of the case, the Bank has not accounted for the incremental amount of tax and contingent liability as it is confident that the demand will not crystallize.

- 22.2.11.** Income tax of Rs.1,976.242 million was levied by the Income Tax Department for tax year 2008, against provision of Rs.639.571 million in the books of account. The Bank filed an appeal before the CIR(A) against the aforesaid order, the CIR(A) has allowed provision against Other Assets (VGHSS 2005 paid in 2007) and provision for Post Retirement Medical Benefits up to the extent of 50% which reduced the levied tax from Rs.1,976.242 million to Rs.1,935.738 million. The Tax Department has filed appeal before the ATIR against the allowed 50% on Provision for Post Retirement Medical Benefits. The Bank filed appeal before ATIR against CIR(A) order for the remaining unsettled issues. ATIR vide its order maintained the action of CIR(A) and further allowed the addition on account of write-off Government Relief Packages. On the issue of un-paid liability (mark-up/interest expense) the ATIR remanded back the case to assessing officer for correct determination of the un-paid amount. The Bank has paid Rs.600 million under protest. The Bank has not accounted for the incremental amount of tax as it is confident that the same will not crystallize.
- 22.2.12.** Income tax of Rs.1,382.898 million was levied by the Income Tax Department for tax year 2009, against provision of Rs. 1,387.835 million in the books of account. The Bank filed an appeal before the CIR(A) against the aforesaid order, the CIR(A) has allowed provision against Other Assets (Recoveries from Federal Govt. etc) and provision for Post Retirement Medical Benefits up to the extent of 50% which reduced the levied tax from Rs.1,382.898 to Rs.1,236.448 million. The Tax Department has filed appeal before ATIR against the allowed 50% on Provision for Post Retirement Medical Benefits. The Bank filed appeal before ATIR against CIR(A) order for the remaining unsettled issues. ATIR vide its order maintained the action of CIR(A). On the issue of un-paid liability (mark-up/interest expense) the ATIR remanded back the case to assessing officer for correct determination of the un-paid amount. The Bank has paid Rs.244.069 million under protest. The Bank has not accounted for the incremental amount of tax as it is confident that the same will not crystallize.
- 22.2.13.** The cases relating to taxation matters of the Bank for the assessment years 1991-92 to 1998-99, 2001-2002, 2002-2003, and tax years 2003 to 2009 are being contested by the Bank at various forums. Subsequent to the balance sheet date vide ATIR order dated July 22, 2011, certain reliefs has been provided in respect of tax year 2003-2009. The most of the issue has been decided in favor of the Bank, which has resulted in a tax refund of Rs. 5,830.791 million in contra to tax liability of Rs. 2,067.918 million. The result of the order of the taxation authorities filed reference application under section 133 of Income Tax Ordinance, 2001 before the Honorable Islamabad High Court, Islamabad.
- 22.2.14.** The SBP debt of Rs. 75.677 billion ( Principal Rs.54.461 billion; mark-up Rs.22.985 billion) is in the process of repricing/ restructuring as explained in Note 15.5. Consequent upon reworking of accrued mark up as advised by the SBP and as explained in Note 15.5 the resultant additional mark up amounting to Rs.2.729 billion has not been accounted for in these financial statements, pending formal approval of the debt restructuring proposal including approval of ZTBL claim of differential of mark-up amounting to Rs.22.293 billion from GoP. In this regard MoF vide their letter No. F.1(5)1F-I/2007-1217 dated September 28, 2009 has advised that Finance Division, SBP and ZTBL will work out a revised proposal to rationalize debt structure of the ZTBL. As per GoP directive, State Bank of Pakistan has presented revised restructuring plan vide their letter No. ACD/1.1-13/2009-1071 dated October 27, 2009. However, ZTBL has requested MoF vide its letter No. 2932 dated November 20, 2009 and Letter No. FIN/B&FMD/4(15)/2009-943 dated April 08, 2010 that agreed upon SBP debt restructuring proposal dated November 08, 2008 may be implemented.

Thereafter, SBP revised proposal dated October 27, 2009 was again discussed in a tripartite meeting held in the Ministry of Finance on July 07, 2010 wherein ZTBL representatives stressed that SBP agreed upon proposal dated November 08, 2010 would be practicable for the bank. As per minutes of the meeting vide Ministry of Finance letter No. F.1 (5)IF-I/2007-943 dated July 22, 2010, it was decided in the meeting that ZTBL may come up with a practicable proposal for debt restructuring to be considered by Finance Division and SBP. SBP vide their letter dated February 9, 2011 has submitted revised proposal received through MOF letter dated February 12, 2011. ZTBL response on SBP proposal, with some amendments, furnished to MOF vide ZTBL letter dated February 22, 2011.

|   | Note  | 2010             | 2009             |
|---|---|------------------|------------------|
|   |   | Rupees '000      |                  |
| <b>23. MARK UP/RETURN/INTEREST EARNED</b>                             |   |                  |                  |
| On loans and advances to customers                                    |   | 7,415,104        | 6,855,395        |
| On investments in held to maturity securities                         |   | 683,104          | 572,388          |
| On deposits with financial institutions                               |   | 819,136          | 1,647,358        |
|   |   | <u>8,917,344</u> | <u>9,075,141</u> |
| <b>24. MARK UP/RETURN/INTEREST EXPENSED</b>                           |   |                  |                  |
| On deposits   |   | 197,944          | 92,582           |
| On borrowings and subordinated debt - State Bank of Pakistan          |   | 3,512,741        | 3,501,655        |
| Bank commission and other charges                                     |   | 3,080            | 3,339            |
|   |   | <u>3,713,765</u> | <u>3,597,576</u> |
| <b>25. OTHER INCOME</b>   |   |                  |                  |
| Rent of property - others   |   | 20,925           | 17,422           |
| Recoveries of charge off amounts                                      |   | 2,947,065        | 4,287,158        |
| Recoveries against loans written-off under Government relief packages |   | 760,000          | 480,000          |
| Net profit on sale of property and equipment                          |   | 1,942            | 1,566            |
| Loan application fee  |   | 305,445          | 473,382          |
| Credit relating to defined benefit plans                              | 25.1  | 586,321          | 1,092,802        |
| Reversal for compensated absence                                      | 35.6  | 395,897          | -                |
| Deferred income amortization  | 18.4  | 67,329           | 71,112           |
| Others  | 25.2  | 182,966          | 187,100          |
|   |   | <u>5,267,890</u> | <u>6,610,542</u> |
| <b>25.1.</b>  | Excess provision in respect of defined benefit plans has been written back on the basis of actuarial valuation carried out by an independent actuary. |                  |                  |
|   | Note  | 2010             | 2009             |
|   |   | Rupees '000      |                  |
| <b>25.2. OTHERS</b>   |   |                  |                  |
| Sale proceeds of loan application forms                               |   | 8,390            | 6,824            |
| Postal charges received from loanees                                  |   | 42,631           | 60,322           |
| Miscellaneous income  | 25.2.1  | 131,945          | 119,954          |
|   |   | <u>182,966</u>   | <u>187,100</u>   |
| <b>25.2.1.</b>  | It includes sale of scrap, renewal fee of Sada Bahar Scheme and cost of loose cheques.  |                  |                  |
| <b>26. ADMINISTRATIVE EXPENSES</b>                                    |   |                  |                  |
| Salaries, allowances and benefits                                     |   | 4,520,860        | 3,889,312        |
| Charge for defined contribution plan                                  |   | 429,055          | 39,083           |
| Charge relating to defined benefit plans                              |   | 149,215          | 545,900          |
| Charge for compensated absence  |   | -                | 242,096          |
| Non-executive directors' fees and other expenses                      |   | 2,598            | 516              |
| Rent, taxes, insurance, electricity, etc.                             |   | 153,462          | 120,726          |
| Legal and professional charges  |   | 50,455           | 81,767           |
| Communications  |   | 49,077           | 44,687           |
| Repairs and maintenance   |   | 29,905           | 33,756           |
| Motor vehicle expenses  |   | 245,866          | 210,689          |
| Traveling expenses  |   | 135,421          | 133,246          |

|                             |      |                  |                  |
|-----------------------------|------|------------------|------------------|
| Stationery and printing     |      | 51,527           | 48,368           |
| Advertisement and publicity |      | 47,503           | 23,831           |
| Auditors' remuneration      | 26.1 | 4,329            | 4,331            |
| Depreciation - tangible     | 11.2 | 225,276          | 210,092          |
| Amortization - intangible   | 11.3 | 25,275           | 25,302           |
| Others                      |      | 106,839          | 106,228          |
|                             |      | <u>6,226,663</u> | <u>5,759,930</u> |

**26.1. Auditors' remuneration**

|   | 2010                                    |  |              |
|---|---|--|--------------|
|   | Ilyas Saeed & Co. Chartered Accountants | Anjum Asim Shahid Rahman Chartered Accountants | Total        |
|   | Rupees in '000                          |  |              |
| Audit fee   | 661                                     | 768  | 1,429        |
| Fee for half year review                            | 165                                     | 165  | 330          |
| Consolidation of the accounts of subsidiary company | 200                                     | 200  | 400          |
| Other certification                                 | 363                                     | 362  | 725          |
| Out of pocket expenses                              | 721                                     | 724  | 1,445        |
|   | <u>2,110</u>                            | <u>2,219</u>                                   | <u>4,329</u> |

|   | 2009                                     |   |              |
|---|--|---|--------------|
|   | Hyder Bhimji & Co. Chartered Accountants | BDO Ebrahim & Co. Chartered Accountants | Total        |
|   | Rupees in '000                           |   |              |
| Audit fee   | 661                                      | 768                                     | 1,429        |
| Fee for half year review                            | 165                                      | 165                                     | 330          |
| Consolidation of the accounts of subsidiary company | 200                                      | 200                                     | 400          |
| Other certification                                 | 363                                      | 362                                     | 725          |
| Out of pocket expenses                              | 721                                      | 726                                     | 1,447        |
|   | <u>2,110</u>                             | <u>2,221</u>                            | <u>4,331</u> |

|                            | 2010           | 2009       |
|----------------------------|----------------|------------|
|                            | Rupees in '000 |            |
| <b>27. OTHER CHARGES</b>   |                |            |
| Penalties imposed by SBP   | 691            | 390        |
| Fixed assets - written off | 719            | -          |
|                            | <u>1,410</u>   | <u>390</u> |

**28. COMMUTATION TO EMPLOYEES UNDER SR-2005**

Commutation to employees under SR-2005 comprises the differential of 100% commutation of pension (on the basic pay admissible as on the date of option in respect of officers/executives under SSR-1961 opted for SR-2005) and amount received from pension fund thereof.

|  | Note | 2010              | 2009              |
|--|------|-------------------|-------------------|
| Rupees in '000   |      |                   |                   |
| <b>29. TAXATION</b>  |      |                   |                   |
| For the year   |      |                   |                   |
| Current  | 29.1 | 1,206,524         | 1,677,248         |
| Prior years  |      | 322               | 37,491            |
| Deferred   |      | (191,597)         | (459,546)         |
|  |      | <u>1,015,249</u>  | <u>1,255,193</u>  |
| <b>29.1. Relationship between tax expense and accounting profit</b>  |      |                   |                   |
| Accounting profit for the year   |      | 2,911,628         | 3,372,540         |
| Add:   |      |                   |                   |
| Accounting depreciation  |      | 250,551           | 234,496           |
| Penalties imposed by SBP   |      | 691               | -                 |
| Provision charged against non performing loans<br>as per Prudential Regulations  |      | 1,365,024         | 2,224,673         |
|  |      | <u>1,616,266</u>  | <u>2,459,169</u>  |
| Less: tax depreciation   |      |                   |                   |
| tax depreciation   |      | 114,941           | 134,383           |
| Provision against non performing loans allowed<br>up to 1% of gross advances   |      | 924,669           | 893,965           |
| dividend and rental income for separate consideration  |      | 56,345            | 53,880            |
|  |      | <u>1,095,955</u>  | <u>1,082,228</u>  |
|  |      | <u>3,431,939</u>  | <u>4,749,481</u>  |
| Tax-excluding dividend and rental income   |      | 1,200,925         | 1,662,318         |
| Tax on dividend and rental income  |      | 5,600             | 5,353             |
| Tax for the current period   |      | <u>1,206,524</u>  | <u>1,667,671</u>  |
| Applicable tax rate  |      | 35%               | 35%               |
| <b>30. BASIC EARNINGS PER SHARE</b>  |      |                   |                   |
| Profit for the year  |      | 1,896,379         | 2,152,599         |
| Weighted average number of ordinary shares outstanding during the<br>year (number in thousand)   |      | 1,252,244         | 1,252,244         |
| Basic earnings per share in rupees   |      | <u>1.514</u>      | <u>1.719</u>      |
| <b>31. DILUTED EARNINGS PER SHARE</b>  |      |                   |                   |
| There is no dilutive effect on the basic earnings per share as the Bank does not have any convertible instruments in issue at December 31, 2010. |      |                   |                   |
|  | Note | 2010              | 2009              |
| Rupees in '000   |      |                   |                   |
| <b>32. CASH AND CASH EQUIVALENTS</b>   |      |                   |                   |
| Cash and balance with treasury banks   | 7    | 2,745,611         | 2,354,107         |
| Balance with other banks   | 8    | 11,058,097        | 9,679,278         |
|  |      | <u>13,803,708</u> | <u>12,033,385</u> |

|                           | Number |       |
|---------------------------|--------|-------|
| <b>33. STAFF STRENGTH</b> |        |       |
| Permanent                 | 5,494  | 5,614 |
| Contractual               | 54     | 139   |
| Total staff strength      | 5,548  | 5,753 |

**34. CREDIT RATING**

JCR-VIS Credit Rating Company, Karachi in its report dated August 13, 2010 has reaffirmed credit rating of the Bank at AAA/A-1+ (2009 : AAA/A-1+) with stable outlook, medium to long term credit rating of B+ and short-term credit rating of B (2009 : B+ medium to long term , B short term rating).

**35. DEFINED BENEFIT AND CONTRIBUTION 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
- Employees Compensated Absences
- Defined Contribution Plan

**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 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 2006 and 2008.

**35.1.2. Principal actuarial assumption**

The latest actuarial valuation is carried out as at December 31, 2010. The actuarial valuations were made using the Projected Unit Credit (PUC) method based on the following significant assumptions:

|  |                  |
|--|------------------|
| Valuation discount rate                | 14.25% per annum |
| Expected rate of increase in salary    | 12% per annum    |
| Expected rate of return on investments | 14.25% per annum |
| Indexation in pension                  | 8.75% per annum  |

|   | Note   | 2010               | 2009               |
|---|--------|--------------------|--------------------|
|   |        | Rupees '000        |                    |
| <b>35.1.3. Changes in the present value of obligation</b>               |        |                    |                    |
| Present value of obligation as on January 1                             |        | 1,331,777          | 2,267,226          |
| Current service cost  |        | 13,477             | 26,869             |
| Interest cost   |        | 179,485            | 317,412            |
| Benefits paid   |        | (102,844)          | (617,504)          |
| Reversal gain as a result of transfer of liability to Gratuity SSR-1961 |        | -                  | (637,967)          |
| Actuarial (gain)/loss on obligation                                     |        | (219,527)          | (24,259)           |
| Present value of obligation as at December 31                           |        | <u>1,202,368</u>   | <u>1,331,777</u>   |
| <b>35.1.4. Changes in the fair value of plan assets</b>                 |        |                    |                    |
| Total assets as on January 1  |        | 5,180,979          | 5,114,465          |
| Expected return on plan assets  |        | 648,592            | 716,025            |
| Contribution / (refund)   |        | (1,030,633)        | 38,830             |
| Benefits paid   |        | (102,844)          | (617,504)          |
| Actuarial gain/(loss) on assets   |        | (86,595)           | (70,837)           |
| Total assets as at December 31  |        | <u>4,609,499</u>   | <u>5,180,979</u>   |
| <b>35.1.5. Amounts recognized in statement of financial position</b>    |        |                    |                    |
| Present value of defined benefit obligation                             |        | 1,202,368          | 1,331,777          |
| Fair value of plan assets   |        | (4,609,499)        | (5,180,979)        |
| Net actuarial gains not recognized                                      |        | (68,550)           | (201,482)          |
| Asset recognized in the statement of financial position                 | 13.5   | <u>(3,475,681)</u> | <u>(4,050,684)</u> |
| <b>35.1.6. Movement in net asset recognized</b>                         |        |                    |                    |
| Opening net asset   |        | (4,050,684)        | (3,002,143)        |
| Credit for the period   | 35.1.7 | (455,630)          | (1,009,711)        |
| Refund / (contribution) to fund/benefits paid during the year           |        | 1,030,633          | (38,830)           |
| Closing net asset   |        | <u>(3,475,681)</u> | <u>(4,050,684)</u> |
| <b>35.1.7. Income recognized in the profit and loss account</b>         |        |                    |                    |
| Current service cost  |        | 13,477             | 26,869             |
| Interest cost   |        | 179,485            | 317,412            |
| Expected return on plan assets  |        | (648,592)          | (716,025)          |
| Reversal gain as a result of transfer of liability to Gratuity SSR-1961 |        | -                  | (637,967)          |
|   |        | <u>(455,630)</u>   | <u>(1,009,711)</u> |

## 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.

### 35.2.2. Principal actuarial assumption

The latest actuarial valuation is carried out as at December 31, 2010. Actuarial valuation was made using the following significant assumptions:

|  |                  |
|--|------------------|
| Valuation discount rate                | 14.25% per annum |
| Expected rate of increase in salary    | 12% per annum    |
| Expected rate of return on investments | 14.25% per annum |

|   | Note   | 2010      | 2009      |
|---|--------|-----------|-----------|
| Rupees in '000  |        |           |           |
| <b>35.2.3. Changes in the present value of obligation</b>   |        |           |           |
| Present value of obligation as on January 1   |        | 165,502   | 157,652   |
| Current service cost  |        | 5,689     | 5,787     |
| Interest cost   |        | 22,497    | 22,071    |
| Benefits paid   |        | (9,947)   | (10,584)  |
| Actuarial (gain)/loss on obligation   |        | (6,636)   | (9,424)   |
| Present value of obligation as at December 31   |        | 177,105   | 165,502   |
| <b>35.2.4. Changes in the fair value of plan assets</b>   |        |           |           |
| Total assets as on January 1  |        | 502,094   | 463,458   |
| Expected return on plan assets  |        | 69,620    | 64,884    |
| Contributions - Employer  |        | -         | 8,643     |
| Contributions - Employee  |        | -         | 8,643     |
| Benefits paid   |        | (9,947)   | (10,584)  |
| Actuarial gain/(loss) on assets   |        | (16,541)  | (32,950)  |
| Total assets as at December 31  |        | 545,226   | 502,094   |
| <b>35.2.5. Amounts recognized in the statement of financial position</b>  |        |           |           |
| Present value of defined benefit obligation   |        | 177,105   | 165,502   |
| Fair value of plan assets   |        | (545,226) | (502,094) |
| Unrecognised actuarial gain/(loss)  |        | 23,549    | 33,454    |
| Unrecognised due to Para 58(b)  |        | 344,572   | -         |
| Asset recognized in the statement of financial position   | 13.5   | -         | (303,138) |
| <b>35.2.6. Movement in net asset recognized</b>   |        |           |           |
| Opening net receivable  |        | (303,138) | (247,497) |
| Credit for the period   | 35.2.7 | 303,138   | (46,998)  |
| Contribution to fund/benefits paid during the year  |        | -         | (8,643)   |
| Closing net receivable  |        | -         | (303,138) |
| <b>35.2.7. (Income) / expense recognized in profit and loss account</b>   |        |           |           |
| Current service cost  |        | 5,689     | 5,787     |
| Interest cost   |        | 22,497    | 22,071    |
| Expected return on plan assets  |        | (69,620)  | (64,884)  |
| Actuarial gains recognized  |        | -         | (1,329)   |
| Contribution-employee   |        | -         | (8,643)   |
| Impact of Para 58(b)  |        | 344,572   | -         |
|   |        | 303,138   | (46,998)  |
| <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. |        |           |           |



**35.3.2. Principal actuarial assumption**

The latest actuarial valuation is carried out as at December 31, 2010. Actuarial valuation was made using the following significant assumptions:

|  |                  |
|--|------------------|
| Valuation discount rate                | 14.25% per annum |
| Expected rate of increase in salary    | 12% per annum    |
| Expected rate of return on investments | 14.25% per annum |

|  | Note   | 2010      | 2009      |
|--|--------|-----------|-----------|
| Rupees in '000   |        |           |           |
| <b>35.3.3. Changes in the present value of obligation</b>                |        |           |           |
| Present value of obligation as on January 1                              |        | 34,041    | 32,555    |
| Current service cost   |        | 1,471     | 1,704     |
| Interest cost  |        | 4,689     | 4,558     |
| Benefits paid  |        | (1,130)   | (1,081)   |
| Actuarial (gain)/loss on obligation                                      |        | (19,057)  | (3,695)   |
| Present value of obligation as at December 31                            |        | 20,014    | 34,041    |
| <b>35.3.4. Changes in the fair value of plan assets</b>                  |        |           |           |
| Total assets as on January 1   |        | 224,993   | 195,519   |
| Expected return on plan assets   |        | 31,423    | 27,373    |
| Contributions - Employer   |        | -         | 3,779     |
| Contributions - Employee   |        | -         | 3,779     |
| Benefits paid  |        | (1,130)   | (1,081)   |
| Actuarial gain/(loss) on assets  |        | (15,181)  | (4,376)   |
| Total assets as at December 31   |        | 240,105   | 224,993   |
| <b>35.3.5. Amounts recognized in the statement of financial position</b> |        |           |           |
| Present value of defined benefit obligation                              |        | 20,014    | 34,041    |
| Fair value of plan assets  |        | (240,105) | (224,993) |
| Net actuarial gains/(losses) not recognized                              |        | 101,618   | 108,491   |
| Unrecognized due to Para 58(b)   |        | 118,473   | -         |
| Asset recognized in the statement of financial position                  | 13.5   | -         | (82,461)  |
| <b>35.3.6. Movement in net asset recognized</b>                          |        |           |           |
| Opening net (receivable)/payable   |        | (82,461)  | (42,588)  |
| Credit for the year  | 35.3.7 | 82,461    | (36,094)  |
| Contribution to fund/benefits paid during the year                       |        | -         | (3,779)   |
| Closing net receivable   |        | -         | (82,461)  |
| <b>35.3.7. (Income) / expense recognized in profit and loss account</b>  |        |           |           |
| Current service cost   |        | 1,471     | 1,703     |
| Interest cost  |        | 4,689     | 4,558     |
| Expected return on plan assets   |        | (31,423)  | (27,373)  |
| Actuarial (gains)/losses recognized                                      |        | (10,749)  | (11,203)  |
| Contribution-employee  |        | -         | (3,779)   |
| Impact of Para 58(b)   |        | 118,473   | -         |
|  |        | 82,461    | (36,094)  |

**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, 2010. Actuarial valuation was made using the following significant assumptions:

|  |                  |
|--|------------------|
| Valuation discount rate                | 14.25% per annum |
| Expected rate of increase in salary    | 12% per annum    |
| Expected rate of return on investments | 14.25% per annum |

|  | Note     | 2010             | 2009               |
|--|----------|------------------|--------------------|
| Rupees in '000   |          |                  |                    |
| <b>35.4.1.3. Changes in the present value of obligation</b>                |          |                  |                    |
| Present value of obligation as on January 1                                |          | 357,969          | 6                  |
| Current service cost   |          | 40               | 1                  |
| Interest cost  |          | 49,420           | 1                  |
| Benefits paid  |          | (10,277)         | (293,526)          |
| Addition to liability from Pension Fund                                    |          | -                | 637,967            |
| Actuarial (gain)/loss on obligation  |          | (397,152)        | 13,520             |
| Present value of obligation as at December 31                              |          | <u>-</u>         | <u>357,969</u>     |
| <b>35.4.1.4. Changes in the fair value of plan assets</b>                  |          |                  |                    |
| Total assets as on January 1   |          | 1,483,278        | 1,588,217          |
| Expected return on plan assets   |          | 180,151          | 222,350            |
| Contributions  |          | (395,993)        | 1,467              |
| Benefits paid  |          | (10,277)         | (293,526)          |
| Actuarial gain/(loss) on assets  |          | (12,429)         | (35,230)           |
| Total assets as at December 31   |          | <u>1,244,730</u> | <u>1,483,278</u>   |
| <b>35.4.1.5. Amounts recognized in the statement of financial position</b> |          |                  |                    |
| Present value of defined benefit obligation                                |          | -                | 357,969            |
| Fair value of plan assets  |          | (1,244,730)      | (1,483,278)        |
| Net actuarial gains/(losses) not recognized                                |          | 469,296          | 84,573             |
| Asset recognized in the statement of financial position                    | 13.5     | <u>(775,434)</u> | <u>(1,040,736)</u> |
| <b>35.4.1.6. Movement in net asset recognized</b>                          |          |                  |                    |
| Opening net asset  |          | (1,040,736)      | (1,454,888)        |
| Credit for the year  | 35.4.1.7 | (130,691)        | 415,620            |
| Contribution to fund/benefits paid during the year                         |          | 395,993          | (1,467)            |
| Closing net asset  |          | <u>(775,434)</u> | <u>(1,040,736)</u> |

|   | Note | 2010      | 2009      |
|---|------|-----------|-----------|
| Rupees in '000  |      |           |           |
| <b>35.4.1.7. (Income) / expense recognized in profit and loss account</b> |      |           |           |
| Current service cost  |      | 40        | 1         |
| Interest cost   |      | 49,420    | 1         |
| Expected return on plan assets  |      | (180,151) | (222,350) |
| Actuarial gains recognized  |      | -         | -         |
| Addition to liability from Pension Fund                                   |      | -         | 637,967   |
|   |      | (130,691) | 415,620   |

#### 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 8.333% of the monetized salary per month.

##### 35.4.2.2. Principal actuarial assumption

The latest actuarial valuation is carried out as at December 31, 2010. Actuarial valuation was made using the following significant assumptions:

|  |                  |
|--|------------------|
| Valuation discount rate                | 14.25% per annum |
| Expected rate of increase in salary    | 12% per annum    |
| Expected rate of return on investments | 14.25% per annum |

|  | Note | 2010      | 2009      |
|--|------|-----------|-----------|
| Rupees in '000   |      |           |           |
| <b>35.4.2.3. Changes in the present value of obligation</b>                |      |           |           |
| Present value of obligation as on January 1                                |      | 572,140   | 403,784   |
| Current service cost   |      | 156,303   | 113,430   |
| Interest cost  |      | 79,374    | 56,529    |
| Benefits paid  |      | (10,703)  | (9,474)   |
| Actuarial (gain)/loss on obligation  |      | (156,203) | 7,871     |
| Present value of obligation as at December 31                              |      | 640,911   | 572,140   |
| <b>35.4.2.4. Changes in the fair value of plan assets</b>                  |      |           |           |
| Total assets as on January 1   |      | 446,349   | 249,150   |
| Expected return on plan assets   |      | 77,086    | 34,881    |
| Contributions  |      | 226,293   | 169,747   |
| Benefits paid  |      | (10,703)  | (9,457)   |
| Actuarial gain/(loss) on assets  |      | (8,812)   | 2,028     |
| Total assets as at December 31   |      | 730,213   | 446,349   |
| <b>35.4.2.5. Amounts recognized in the statement of financial position</b> |      |           |           |
| Present value of defined benefit obligation                                |      | 640,911   | 572,140   |
| Fair value of plan assets  |      | (730,213) | (446,349) |
| Net actuarial gains/(losses) not recognized                                |      | 109,953   | (37,438)  |
| (Asset) / liability recognized in the statement of financial position      | 13.5 | 20,651    | 88,353    |

|  | Note     | 2010             | 2009             |
|--|----------|------------------|------------------|
| Rupees in '000   |          |                  |                  |
| <b>35.4.2.6. Movement in net (asset) / liability recognized</b>  |          |                  |                  |
| Opening net liability  |          | 88,353           | 123,039          |
| Charge for the period  | 35.4.2.7 | 158,591          | 135,078          |
| Contribution to fund/benefits paid during the year   |          | (226,293)        | (169,764)        |
| Closing net liability  |          | <u>20,651</u>    | <u>88,353</u>    |
| <b>35.4.2.7. Expense recognized in profit and loss account</b>   |          |                  |                  |
| Current service cost   |          | 156,303          | 113,430          |
| Interest cost  |          | 79,374           | 56,529           |
| Expected return on plan assets   |          | (77,086)         | (34,881)         |
|  |          | <u>158,591</u>   | <u>135,078</u>   |
| <b>35.5. Post retirement medical benefits</b>  |          |                  |                  |
| <b>35.5.1. General description</b>   |          |                  |                  |
| 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. |          |                  |                  |
| <b>35.5.2. Principal actuarial assumption</b>  |          |                  |                  |
| The latest actuarial valuation is carried out as at December 31, 2010. Actuarial valuation was made using the following significant assumptions:   |          |                  |                  |
| Valuation discount rate  |          | 14.25% per annum |                  |
| Medical inflation rate   |          | 8.75% per annum  |                  |
| Exposure inflation rate  |          | 3% per annum     |                  |
|  | Note     | 2010             | 2009             |
| Rupees in '000   |          |                  |                  |
| <b>35.5.3. Changes in the present value of obligation</b>  |          |                  |                  |
| Present value of obligation as on January 1  |          | 2,543,255        | 2,512,406        |
| Current service cost   |          | 33,444           | 57,132           |
| Interest cost  |          | 354,605          | 351,737          |
| Benefits paid  |          | (21,419)         | (17,746)         |
| Actuarial (gain)/loss on obligation  |          | (1,988,525)      | (360,274)        |
| Present value of obligation as at December 31  |          | <u>921,360</u>   | <u>2,543,255</u> |
| <b>35.5.4. Amounts recognized in the statement of financial position</b>   |          |                  |                  |
| Present value of defined benefit obligation  |          | 921,360          | 2,543,255        |
| Net actuarial gains not recognized   |          | 3,130,893        | 1,269,231        |
| Liability recognized in the statement of financial position  | 18       | <u>4,052,253</u> | <u>3,812,485</u> |
| <b>35.5.5. Movement in net liability recognized</b>  |          |                  |                  |
| Opening net liability  |          | 3,812,486        | 3,503,577        |
| Charge for the period  | 35.5.6   | 261,186          | 326,655          |
| Contribution to fund/benefits paid during the year   |          | (21,419)         | (17,746)         |
| Closing net liability  |          | <u>4,052,253</u> | <u>3,812,486</u> |

|  | Note | 2010           | 2009           |
|--|------|----------------|----------------|
|  |      | Rupees in '000 |                |
| <b>35.5.6. Expense recognized in profit and loss account</b> |      |                |                |
| Current service cost   |      | 33,444         | 57,132         |
| Interest cost  |      | 354,605        | 351,738        |
| Actuarial gains recognized                                   |      | (126,863)      | (82,215)       |
| Negative past service cost recognized                        |      | -              | -              |
|  |      | <u>261,186</u> | <u>326,655</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 valuation used discount rate of 14.25% per annum and expected rate of increase in salary of 12% per annum. The liability of the Bank as per the latest actuarial valuation carried out as at December 31, 2010 amounted to Rs. 798.452 million (December 31, 2009: Rs. 1,194.349 million) which has been fully provided by the Bank. The provision has been reversed by Rs. 395.897 million for the year ended December 31, 2010.

### 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       |                  |
|--------------------------------------|----------------|---------------|--------------|------------|------------------|------------------|
|                                      | 2010           | 2009          | 2010         | 2009       | 2010             | 2009             |
|                                      | Rupees in '000 |               |              |            |                  |                  |
| Fee                                  | -              | -             | 2,598        | 516        | -                | -                |
| Managerial remuneration              | -              | 6,000         | -            | -          | 1,514,330        | 1,252,276        |
| Charge for defined benefit plan      | -              | 1,000         | -            | -          | 118,210          | 104,102          |
| Contribution to defined benefit fund | -              | -             | -            | -          | 20,223           | 16,820           |
| Rent and house maintenance           | -              | 2,220         | -            | -          | 10,770           | 14,281           |
| Utilities                            | -              | 297           | -            | -          | 2,693            | 3,570            |
| Medical                              | 116            | 48            | -            | -          | 3,032            | 3,950            |
| Conveyance                           | 387            | 359           | -            | -          | 3,111            | 2,107            |
| Furnishing allowance                 | -              | -             | -            | -          | 4,710            | 6,724            |
| Leave fare assistance                | -              | -             | -            | -          | -                | -                |
| Club facility                        | 18             | 341           | -            | -          | -                | -                |
| Others                               | -              | 754           | -            | -          | -                | 580              |
|                                      | <u>521</u>     | <u>11,019</u> | <u>2,598</u> | <u>516</u> | <u>1,677,079</u> | <u>1,404,410</u> |
| <b>Number of persons</b>             | <u>1</u>       | <u>1</u>      | <u>11</u>    | <u>9</u>   | <u>1,590</u>     | <u>1,391</u>     |

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 covered 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).

### 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.

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits are frequently re-priced.

#### 37.1. On-balance sheet financial instruments

|                                       | 2010           |                    | 2009               |                    |
|---------------------------------------|----------------|--------------------|--------------------|--------------------|
|                                       | Book value     | Fair value         | Book value         | Fair value         |
|                                       | Rupees in '000 |                    | Rupees in '000     |                    |
| <b>Assets</b>                         |                |                    |                    |                    |
| Cash and balances with treasury banks | 2,745,611      | 2,745,611          | 2,354,107          | 2,354,107          |
| Balances with other banks             | 11,058,097     | 11,058,097         | 9,536,981          | 9,536,981          |
| Investments - net                     | 7,704,207      | 7,704,207          | 7,213,948          | 7,213,948          |
| Advances - net                        | 84,792,594     | 84,792,594         | 81,974,021         | 81,974,021         |
| Other assets - net                    | 37.2           | 9,386,307          | 9,927,228          | 9,927,228          |
|                                       |                | <u>115,686,816</u> | <u>111,006,285</u> | <u>111,006,285</u> |
| <b>Liabilities</b>                    |                |                    |                    |                    |
| Bills payable                         | 306,040        | 306,040            | 2,059,979          | 2,059,979          |
| Borrowings                            | 51,257,213     | 51,257,213         | 51,257,213         | 51,257,213         |
| Deposits and other accounts           | 9,550,727      | 9,550,727          | 8,750,892          | 8,750,892          |
| Sub-ordinated loan                    | 3,204,323      | 3,204,323          | 3,204,323          | 3,204,323          |
| Other liabilities                     | 37.2           | 30,957,220         | 27,367,482         | 27,367,482         |
|                                       |                | <u>95,275,523</u>  | <u>92,639,889</u>  | <u>92,639,889</u>  |

37.2. Stationery and stamps in hand, stock of farm machinery, advance against salary and expenses, advances and prepayments have been excluded while arriving on financial instruments in other assets. Similarly, inter-branch adjustments has been deducted from other liabilities.



### 39. TRUST ACTIVITIES

The Bank act as trustee in its fiduciary capacity that results in the holding or placing of assets on behalf of individuals, trust, retirement benefit plan and other institutions. 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 except net amount receivable/payable in respect thereof.

### 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.

Transactions between the Bank and its related parties are carried at arm's length basis under the comparable uncontrolled price method. However, the transactions between the Bank and its subsidiary, Kissan Support Services (Pvt) Limited, are carried out on "cost plus" method. Details of loans and advances to the companies or firms in which the directors of the Bank are interested as directors, partners or in case of private companies as members, are given in note 10.8 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Contributions to and accruals in respect of staff retirement and other benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan as disclosed in notes 35. Remuneration to the executives and disposal of vehicles are disclosed in note 36 and 11.8 to these financial statements respectively. 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:

|   | 2010                        | 2009                        |
|---|-----------------------------|-----------------------------|
|   | Key management<br>personnel | Key management<br>personnel |
|   | Rupees '000                 |                             |
| <b>Advances</b>                                     |                             |                             |
| As on January 1                                     | 13,493                      | 11,037                      |
| Given during the year                               | 7,995                       | 4,733                       |
| Repaid during the year                              | (3,029)                     | (2,277)                     |
| As at December 31                                   | 18,459                      | 13,493                      |
| <b>Deposits</b>                                     |                             |                             |
| As on January 1                                     | 9,229                       | 5,148                       |
| Received during the year                            | 55,328                      | 58,839                      |
| Withdrawn during the year                           | (53,933)                    | (54,758)                    |
| As at December 31                                   | 10,624                      | 9,229                       |
| Investments at the end of the year                  | -                           | -                           |
| Payable at the end of the year                      | -                           | -                           |
|   | 2010                        | 2009                        |
|   | Key management<br>personnel | Key management<br>personnel |
|   | Rupees '000                 |                             |
| Mark up/ interest earned                            | 629                         | 352                         |
| Remuneration paid                                   | 49,024                      | 41,106                      |
| Post retirement benefit                             | 3,783                       | 3,028                       |
| Contribution to defined benefit plan                | 304                         | 311                         |
| Services rendered by subsidiary company             | -                           | -                           |
| Rent, accounting and communication charges received | -                           | -                           |



## 41. CAPITAL ADEQUACY

41.1. The Basel II Framework is applicable to the Bank whereby the Standardized Approach for reporting Capital Adequacy is currently implemented. Under the said approach, credit risk and market risk exposures are measured using the Standardized Approach and operational risk is measured using the Basic Indicator Approach.

The Bank's capital adequacy is being managed, maintained and reported using various measures including the rules and ratios provided by the State Bank of Pakistan.

Capital adequacy ratio is a measure of the amount of a Bank's capital expressed as a percentage of its risk weighted assets. Measuring capital adequacy requires risk mitigants to be applied to the amount of assets shown on a Bank's balance sheet. These assets are then applied weightages according to the degree of inherent risk. The capital adequacy ratios compare the amount of eligible capital with the total of risk-weighted assets (RWAs).

The Bank has developed Internal Capital Adequacy Assessment Process (ICAAP) as per the guidelines provided by SBP. This framework has been approved by Bank's Board Risk Committee and submitted to SBP. The Bank has covered additional risks which are not covered under Pillar I and have projected satisfactory capital adequacy for the next six years leaving ample cushion for any future capital requirements. The Bank will review the ICAAP framework on annual basis (financial year end i.e. December) and changes/updates will be recommended to Basel II committee for onward submission to the Board of Directors.

### 41.2. 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 peer.
- 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.

#### Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No.7 dated April 15, 2009 requires the minimum paid up capital (net of losses) for all locally incorporated banks to be raised to Rs. 10 billion by the year ending on December 31, 2013. In addition the banks are also required to maintain a minimum capital adequacy ratio (CAR) of 10 % of the risk weighted exposure. The Bank's CAR as at December 31, 2010 was 23.77% of its risk weighted exposure.

Bank's regulatory capital is analysed in to two tiers

- Tier 1 capital, which includes fully paid up capital (including the bonus shares), general reserves as per the financial statements and unappropriated profits and after adjustment of revaluation of available for sale investments and 50% deduction for investments in the equity of subsidiary company.
- Tier 2 capital, which includes general provision for loan losses (up to a maximum of 1.25 % of risk weighted assets), subordinated debt limited to maximum of 50% of the amount of Tier-1 capital, revaluation reserve up to a maximum of 45 % and 50% deduction for investments in the equity of subsidiary companies.
- Tier 3 capital has also been prescribed by the State Bank of Pakistan. However the Bank is not eligible for the Tier 3 capital.

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 30 dated November 25, 2008. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the SBP that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise of credit risk, market risk and operational risk.

The calculation of capital adequacy enables the Bank to assess the long-term soundness. As the Bank carries the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across entire organisation and aggregate the risks so as to take an integrated approach/view. Maximization of the return on risk-adjusted capital is the principal basis to be used in determining how capital is allocated within the Bank to particular operations or activities.

### 41.3. Capital adequacy Ratio

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

|   | 2010                        |             | 2009                        |             |
|---|-----------------------------|-------------|-----------------------------|-------------|
|   | Rupees in '000              |             |                             |             |
| <b>Regulatory capital base</b>                                    |                             |             |                             |             |
| <b>Tier I capital</b>   |                             |             |                             |             |
| Shareholders capital  | 12,522,441                  |             | 12,522,441                  |             |
| Reserves  | 1,883,042                   |             | 1,511,554                   |             |
| Unappropriated profits  | 6,450,147                   |             | 4,964,194                   |             |
|   | 20,855,630                  |             | 18,998,189                  |             |
| Less:   |                             |             |                             |             |
| Intangibles   | (8,770)                     |             | (34,019)                    |             |
| 50% deduction for investment in subsidiary                        | (50,000)                    |             | (50,000)                    |             |
|   | (58,770)                    |             | (84,019)                    |             |
| <b>Total eligible tier I capital</b>                              | 20,796,860                  |             | 18,914,170                  |             |
| <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 | 1,096,008                   |             | 1,028,000                   |             |
| Revaluation reserve (upto 45%)                                    | 378,976                     |             | 196,419                     |             |
|   | 4,679,307                   |             | 4,428,742                   |             |
| Less: 50% deduction for investment in subsidiary                  | (50,000)                    |             | (50,000)                    |             |
| <b>Total eligible tier II capital</b>                             | 4,629,307                   |             | 4,378,742                   |             |
| <b>Eligible tier III capital</b>                                  | -                           |             | -                           |             |
| <b>Total regulatory capital base</b> (a)                          | 25,426,167                  |             | 23,292,912                  |             |
| <b>Risk weighted exposures</b>                                    |                             |             |                             |             |
|   | <b>2010</b>                 | <b>2009</b> | <b>2010</b>                 | <b>2009</b> |
|   | <b>Capital Requirements</b> |             | <b>Risk Weighted Assets</b> |             |
|   | Rupees in '000              |             |                             |             |
| <b>Credit risk</b>  |                             |             |                             |             |
| Claims on;  |                             |             |                             |             |
| Banks   | 231,366                     | 194,809     | 2,313,656                   | 1,948,090   |
| Corporates  | 2,042                       | -           | 20,418                      | -           |
| Retail portfolio  | 5,483,566                   | 5,480,416   | 54,835,659                  | 54,804,160  |
| Secured by residential property                                   | 73,062                      | 77,609      | 730,615                     | 776,090     |
| Past due loans  | 1,795,611                   | 1,335,698   | 17,956,107                  | 13,356,984  |
| Listed equity investments   | 102,310                     | 58,898      | 1,023,098                   | 588,982     |
| Investments in fixed assets                                       | 112,296                     | 103,176     | 1,122,963                   | 1,031,761   |
| Other assets  | 967,810                     | 973,391     | 9,678,103                   | 9,733,913   |
| <b>Credit risk-weighted exposures</b>                             | 8,768,063                   | 8,223,997   | 87,680,619                  | 82,239,980  |
| <b>Market Risk</b>  |                             |             |                             |             |
| Interest rate risk  | -                           | -           | -                           | -           |
| Equity exposure risk  | -                           | -           | -                           | -           |
| Foreign exchange risk   | -                           | -           | -                           | -           |
|   | -                           | -           | -                           | -           |
| <b>Operational Risk</b>   |                             |             |                             |             |
| Total Operational Risk Weighted Amount                            | 1,543,664                   | 1,379,163   | 19,295,798                  | 17,239,537  |
| <b>Total risk-weighted exposures</b> (b)                          | 10,311,727                  | 9,603,160   | 106,976,417                 | 99,479,517  |
| <b>Capital adequacy ratio [ (a) / (b) x 100]</b>                  |                             |             | 23.77%                      | 23.41%      |

## 42. RISK MANAGEMENT

This section presents information about the Bank's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments:

- Credit risk is the risk of loss resulting from client or counterparty default.
- Market risk is the risk of loss arising from adverse movements in market variables such as interest rates, exchange rates and equity indices.
- Liquidity risk is the risk that the Bank may be unable to meet its payment obligations when due.
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and therefore includes legal risk.
- Equity position risk is the risk that arises due to changes in prices of individual stocks or levels of equity indices.

Risk management is a dynamic process of identification, measurement, monitoring and control and reporting risk. ZTBL has setup a centralized risk management function at the organizational level which encompasses a broader framework of risk committees, risk management department and its units responsible for each category of risk i.e. credit, market, liquidity, operational and equity position risks. The Bank's risk management department is independent of the business and operations and directly reports to the President. The Bank has setup a Basel-II Implementation Committee and working groups to implement orderly transition and effective implementation of this Basel-II Accord in the Bank. The risk policy has already been modified to cater to the guidelines of the Basel-II Accord. The bank systematic and integrated risk management function for each category of risk is as follows;

### 42.1. Credit Risk

Credit risk is the risk of financial losses arising when a customer or counterparty is unable or unwilling to perform as per the contractual terms resulting in reduction in portfolio value due to actual or perceived deterioration in the credit quality 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 credit portfolio is reviewed and analysed on quarterly basis and risk gaps are reported to the Credit Risk Committee for corrective measures. The Bank pays particular attention to the management of Non-Performing Loans (NPLs).

With the rolling-out of Obligor Risk Rating (ORR) Model for fresh borrowers in year 2010, credit portfolio will be more effectively monitored as well as the loaning products. As an early warning signal, Portfolio at Risk PAR report will also be generated. This will enable the management to take proactive measurements for having a quality credit portfolio/products.

With regards to Basel-II compliance, the Bank has implemented Standardized Approach (SA) for minimum capital requirements for credit risk. An internal credit rating system (obligor risk rating) is also under process which will be implemented in due course of time.

A robust MIS is prerequisite for establishment of an effective risk management system therefore the existing MIS of the bank is under going substantial up gradation process for strengthening of the data collection machinery to ensure the integrity and reliability of data.

Risk Management Department independently scrutinize agriculture portfolio on a continuous basis and report crucial findings to the senior management for strategic decision making. Risk factors are identified and necessary actions are recommended to mitigate these risk factors. During the year risk management department also prepared the Internal Capital Adequacy Assessment Process (ICAAP) of the Bank.

#### 42.1.1. Credit Risk - General Disclosures

The Bank follows the standardized approach for all its Credit Risk Exposures. The standardized approach to credit risk sets out fixed risk weights corresponding, where appropriate, to external credit assessment levels. Where no external rating is available, a 100% risk weight is used.

Under the standardized approach, the capital requirement is based on the credit rating assigned to counterparties by External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. In this connection, the Bank utilizes the credit ratings assigned by ECAIs such as JCR-VIS (Japan Credit Rating Company Limited - Vital Information Systems).

#### Types of exposures for which the ratings from the External Credit Rating Agencies are used by the Bank.

| Exposures        | JCR-VIS | PACRA | Others (Specify) |
|------------------|---------|-------|------------------|
| Corporate        |         |       |                  |
| Banks            |         |       |                  |
| Sovereigns       |         |       |                  |
| SME's            |         |       |                  |
| Securitized      |         |       |                  |
| Others (Specify) | *       |       |                  |

\*JCR-VIS Credit Rating Company, Karachi in its report dated August 13, 2010 has reaffirmed credit rating of the Bank at AAA/A-1+ (2009 : AAA/A-1+) with stable outlook, medium to long term credit rating of B+ and short-term credit rating of B. (2009 : B+ medium to long term , B short term rating).

## Credit exposures subject to standardised approach

| Exposures  | Rating category | 2010               |               |            | 2009               |               |            |
|--|-----------------|--------------------|---------------|------------|--------------------|---------------|------------|
|  |                 | Amount outstanding | Deduction CRM | Net amount | Amount outstanding | Deduction CRM | Net amount |
| (Rs in thousands)  |                 |                    |               |            |                    |               |            |
| Cash and Cash Equivalents  |                 | 769,836            | 769,836       | -          | 490,861            | 490,861       | -          |
| Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR                                   |                 | 7,981,553          | 7,981,553     | -          | 8,345,951          | 8,345,951     | -          |
| Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan   |                 | -                  | -             | -          | -                  | -             | -          |
| Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR | 1               | -                  | -             | -          | -                  | -             | -          |
|  | 2               | -                  | -             | -          | -                  | -             | -          |
|  | 3               | -                  | -             | -          | -                  | -             | -          |
|  | 4,5             | -                  | -             | -          | -                  | -             | -          |
|  | 6               | -                  | -             | -          | -                  | -             | -          |
|  | Unrated         | -                  | -             | -          | -                  | -             | -          |
| Claims on Bank for International Settlements, International Monetary Fund, European Central Bank, and European Community           |                 | -                  | -             | -          | -                  | -             | -          |
| Claims on Multilateral Development Banks   |                 | -                  | -             | -          | -                  | -             | -          |
|  | 1               | -                  | -             | -          | -                  | -             | -          |
|  | 2,3             | -                  | -             | -          | -                  | -             | -          |
|  | 4,5             | -                  | -             | -          | -                  | -             | -          |
|  | 6               | -                  | -             | -          | -                  | -             | -          |
|  | Unrated         | -                  | -             | -          | -                  | -             | -          |
| Claims on Public Sector Entities in Pakistan   |                 | -                  | -             | -          | -                  | -             | -          |
|  | 1               | -                  | -             | -          | -                  | -             | -          |
|  | 2,3             | -                  | -             | -          | -                  | -             | -          |
|  | 4,5             | -                  | -             | -          | -                  | -             | -          |
|  | 6               | -                  | -             | -          | -                  | -             | -          |
|  | Unrated         | -                  | -             | -          | -                  | -             | -          |
| Claims on Banks  |                 | -                  | -             | -          | -                  | -             | -          |
| Claims, denominated in foreign currency, on banks with original maturity of 3 months or less                                       | 1,2,3           | -                  | -             | -          | -                  | -             | -          |
|  | 6               | -                  | -             | -          | -                  | -             | -          |
|  | unrated         | -                  | -             | -          | -                  | -             | -          |
| Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR                                    |                 | 11,568,282         | 9,254,626     | 2,313,656  | 9,740,451          | 7,792,361     | 1,948,090  |
| Claims on Corporates (excluding equity exposures)  |                 | -                  | -             | -          | -                  | -             | -          |
|  | 1               | 102,090            | 81,672        | 20,418     | -                  | -             | -          |
|  | 2               | -                  | -             | -          | -                  | -             | -          |
|  | 3,4             | -                  | -             | -          | -                  | -             | -          |
|  | 5,6             | -                  | -             | -          | -                  | -             | -          |
|  | Unrated         | -                  | -             | -          | -                  | -             | -          |
| Claims categorized as retail portfolio   |                 | -                  | -             | -          | -                  | -             | -          |
|  |                 | -                  | -             | -          | -                  | -             | -          |
|  |                 | -                  | -             | -          | -                  | -             | -          |
|  |                 | 73,114,212         | 18,278,553    | 54,835,659 | 73,072,213         | 18,268,053    | 54,804,160 |
| Claims fully secured by residential property (Residential Mortgage Finance as defined in Section 2.1)                              |                 | 2,087,472          | 1,356,857     | 730,615    | 2,217,401          | 1,441,311     | 776,090    |
| Past Due loans:  |                 | -                  | -             | -          | -                  | -             | -          |

|  |                    |                   |                   |                    |                   |                   |
|--|--------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| 1. The unsecured portion of any claim (other than loans and claims secured against eligible residential mortgages as defined in section 2.1 of circular 8 of 2006) that is past due for more than 90 days and/or impaired: | -                  | -                 | -                 | -                  | -                 | -                 |
| 1.1 where specific provisions are less than 20 per cent of the outstanding amount of the past due claim.   | 10,730,393         | (5,365,197)       | 16,095,590        | 7,345,153          | (3,672,577)       | 11,017,730        |
| 1.2 where specific provisions are no less than 20 per cent of the outstanding amount of the past due claim.  | 1,860,517          | -                 | 1,860,517         | 2,339,254          | -                 | 2,339,254         |
| 1.3 where specific provisions are more than 50 per cent of the outstanding amount of the past due claim.   | -                  | -                 | -                 | -                  | -                 | -                 |
| 2. Loans and claims fully secured against eligible residential mortgages that are past due for more than 90 days and/or impaired   | -                  | -                 | -                 | -                  | -                 | -                 |
| 3. Loans and claims fully secured against eligible residential mortgage that are past due by 90 days and /or impaired and specific provision held there against is more than 20% of outstanding amount                     | -                  | -                 | -                 | -                  | -                 | -                 |
| Listed Equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in the banking book.  | 1,023,098          | -                 | 1,023,098         | 588,982            | -                 | 588,982           |
| Unlisted equity investments (other than that deducted from capital) held in banking book   | -                  | -                 | -                 | -                  | -                 | -                 |
| Investments in venture capital   | -                  | -                 | -                 | -                  | -                 | -                 |
| Investments in premises, plant and equipment and all other fixed assets  | 1,122,963          | -                 | 1,122,963         | 1,031,761          | -                 | 1,031,761         |
| Claims on all fixed assets under operating lease   | -                  | -                 | -                 | -                  | -                 | -                 |
| All other assets   | 9,678,103          | -                 | 9,678,103         | 9,733,913          | -                 | 9,733,913         |
| <b>TOTAL</b>   | <b>120,038,519</b> | <b>32,357,900</b> | <b>87,680,619</b> | <b>114,905,940</b> | <b>32,665,960</b> | <b>82,239,980</b> |

### Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank has adopted the Standardized Approach of Credit Risk. In instances where the Bank's exposure on an obligor is secured by collateral that conforms to the eligibility criteria under the Standardized Approach of CRM, then the Bank reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement i.e. risk weight of the collateral instrument securing the exposure is substituted for the risk weight of the counter party.

The Bank has in place detailed guidelines with respect to valuation and management of various collateral types. In order to obtain the credit risk mitigation benefit, the Bank uses realizable value of eligible collaterals to the extent of outstanding exposure.

Counterparty rating is obtained through the SBP authorized External Credit Rating Agency; JCR VIS. Credit risk assessment and the continuous monitoring of counterparty and portfolio credit exposures is carried out by the Credit Risk Management function.

The wholesale portfolio, which represents agricultural loans are ideally collateralized by land.

The Bank manages limits and controls concentrations of credit risk as identified. Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Bank sets limits on its credit exposure to counterparty, in line with SBP standards. Limits are also applied in a variety of forms to portfolios or sectors where the Bank considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

The Bank classifies a claim as impaired if it considers it likely that it will suffer a loss on that claim as a result of the obligor's inability to meet its commitments (including interest payments, principal repayments or other payments due) after realization of any available collateral. Loans carried at amortized cost are classified as non-performing where payment of interest, principal or fees is overdue by more than 90 days. Allowances or provisions are determined such that the carrying values of impaired claims are consistent with the requirements of SBP. The authority to establish allowances, provisions and credit valuation adjustments for impaired claims, is vested in Finance Division and is according to SBP regulations.

#### 42.1.2. Segmental information

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

##### 42.1.2.a. Segments by class of business

|  | 2010             |         |                |         |                               |         |
|--|------------------|---------|----------------|---------|-------------------------------|---------|
|  | Advances (gross) |         | Deposits       |         | Contingencies and commitments |         |
|  | Rupees in '000   | Percent | Rupees in '000 | Percent | Rupees in '000                | Percent |
| Agriculture, forestry, hunting and fishing | 89,827,362       | 97.15%  | -              | -       | -                             | -       |
| Individuals                                | -                | -       | 9,549,019      | 99.98%  | 9,860,689                     | 52.66%  |
| Others                                     | 2,639,557        | 2.85%   | 1,708          | 0.02%   | 8,864,928                     | 47.34%  |
|  | 92,466,919       | 100%    | 9,550,727      | 100%    | 18,725,617                    | 100%    |

##### 42.1.2. b. Segment by sector

|                      | 2010             |         |                |         |                               |         |
|----------------------|------------------|---------|----------------|---------|-------------------------------|---------|
|                      | Advances (gross) |         | Deposits       |         | Contingencies and commitments |         |
|                      | Rupees in '000   | Percent | Rupees in '000 | Percent | Rupees in '000                | Percent |
| Public/ government * | -                | -       | 1,708          | 0.02%   | 8,864,928                     | 47.34%  |
| Private              | 92,466,919       | 100.00% | 9,549,019      | 99.98%  | 9,860,689                     | 52.66%  |
|                      | 92,466,919       | 100.00% | 9,550,727      | 100.00% | 18,725,617                    | 100.00% |

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

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

|  | 2010                |                         | 2009                |                         |
|--|---------------------|-------------------------|---------------------|-------------------------|
|  | Rupees in '000      |                         |                     |                         |
|  | Classified advances | Specific provision held | Classified advances | Specific provision held |
| Agriculture, forestry, hunting and fishing | 17,244,928          | 4,654,018               | 14,086,126          | 4,401,719               |
| Advances to employees                      | 20,307              | 20,307                  | 20,767              | 20,767                  |
|  | 17,265,235          | 4,674,325               | 14,106,893          | 4,422,486               |

##### 42.1.2.d. Details of non-performing advances and specific provisions by sector

|                       |            |           |            |           |
|-----------------------|------------|-----------|------------|-----------|
| Private               | 17,244,928 | 4,654,018 | 14,086,126 | 4,401,719 |
| Advances to employees | 20,307     | 20,307    | 20,767     | 20,767    |
|                       | 17,265,235 | 4,674,325 | 14,106,893 | 4,422,486 |

##### 42.1.2. e. GEOGRAPHICAL SEGMENT ANALYSIS

|          | 2010                   |                       |                     |                               |
|----------|------------------------|-----------------------|---------------------|-------------------------------|
|          | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
|          | Rupees in '000         |                       |                     |                               |
| Pakistan | 2,911,628              | 117,626,060           | 21,779,958          | 18,725,617                    |

#### 42.2. Market Risk Management

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.

With regards to Basel-II compliance, the Bank has implemented Standardized Approach (SA) for minimum capital requirements for market risk.

#### 42.3. Foreign Exchange Risk Management

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.s

#### 42.4. Equity Position in the Banking Book

The Bank takes proprietary equity positions for strategic purposes. The Bank has invested in its subsidiary to achieve long term strategic objectives. As of December 31, 2010 the composition of equity investments and subsidiary is as follows:

| Exposures                            | Held for trading | Available for Sale | Subsidiary |
|--------------------------------------|------------------|--------------------|------------|
| Equity Instruments - publicly traded | -                | 190,031            | -          |
| Equity Instruments - others          | -                | 10,523             | -          |
| Total value                          | -                | 200,554            | -          |

Banks classify its equity investment portfolio in accordance with the directives of SBP as follows:

- Investments - Held for trading
- Investments - Available for sale
- Investments in subsidiaries

The accounting policies for equity investments are designed and their valuation is carried out under the provisions and directives of State Bank of Pakistan, Securities and Exchange Commission of Pakistan and the requirements of approved International Accounting Standards as applicable in Pakistan.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than investments in subsidiary are subsequently re-measured to market value. Surplus/(deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the statement of financial position below equity. The surplus/(deficit) arising on these securities is taken to the profit and loss account when actually realized upon disposal. Surplus/(deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account currently.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

The cumulative unrealized gain of Rs.935.742million was recognized in the statement of financial position in respect of "available for sale" securities.

#### 42.5. Yield / Interest Rate Risk in the Banking Book (IRRBB)-Basel II Specific

The Bank's interest rate exposure originates from its investing and borrowing activities. Interest rate risk in the banking book is the risk of adverse changes in earnings and / or capital due to mismatched assets and liabilities in the banking book. The Asset and Liability Management Committee (ALCO) of the Bank monitors and controls mismatch of interest rate sensitive assets and liabilities. The Risk Management Department calculates duration and convexity measures to assess the impact of interest rate changes on its investment portfolio. Interest rate risk stress tests are conducted bi-annually to assess the impact of a parallel shift in the yield curve of the Bank's capital using sensitivity positions calculated using earlier of contractual re-pricing or maturity date for on-balance sheet instruments, and settlement date for on-balance sheet instruments.

#### 42.6. Mismatch of interest rate sensitive assets and liabilities

| Effective Yield/<br>interest rate  | 2010                  |              |                    |                    |                         |                   |                   |                   |                    |                | Non-interest bearing financial instruments |                       |
|--|-----------------------|--------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|--|-----------------------|
|  | 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 |  |                       |
|  | Rupees in '000        |              |                    |                    |                         |                   |                   |                   |                    |                |  |                       |
|  |                       |              |                    |                    |                         |                   |                   |                   |                    |                |  |                       |
| <b>On-balance sheet financial instruments</b>  |                       |              |                    |                    |                         |                   |                   |                   |                    |                |  |                       |
| <b>Assets</b>  |                       |              |                    |                    |                         |                   |                   |                   |                    |                |  |                       |
| Cash and balances with treasury banks  | 2,745,611             | -            | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 2,745,611             |
| Balances with other banks  | 11,058,097            | 6,075,629    | 4,566,189          | -                  | 400,000                 | -                 | -                 | -                 | -                  | -              | -  | 16,279                |
| Investments - net  | 7,704,207             | 69,854       | 4,334,185          | 1,564,744          | -                       | -                 | -                 | -                 | -                  | -              | -  | 1,125,187             |
| Advances - net   | 84,792,594            | 12,559,090   | 6,705,594          | 17,179,995         | 17,702,035              | 7,317,803         | 8,631,515         | 6,402,752         | 1,004,461          | -              | -  | 586,000               |
| Other assets - net   | 9,386,307             | -            | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 9,386,307             |
|  | 115,686,816           | 18,704,573   | 11,882,020         | 21,514,180         | 19,666,779              | 7,317,803         | 8,631,515         | 6,402,752         | 1,004,461          | -              | -  | 13,859,384            |
| <b>Liabilities</b>   |                       |              |                    |                    |                         |                   |                   |                   |                    |                |  |                       |
| Bills payable  | 306,040               | -            | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 306,040               |
| Borrowings   | 51,257,213            | 12,707,695   | -                  | 1,815,385          | 1,815,385               | 3,630,770         | 7,261,540         | 18,153,850        | 2,241,818          | -              | -  | -                     |
| Deposits and other accounts  | 9,550,727             | 575,148      | -                  | 285,570            | 3,377,981               | -                 | 1,642             | -                 | -                  | -              | -  | 5,310,386             |
| Sub-ordinated loans  | 3,204,323             | -            | -                  | -                  | -                       | -                 | -                 | -                 | 3,204,323          | -              | -  | -                     |
| Other liabilities  | 30,957,220            | -            | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | 30,957,220            |
|  | 95,275,523            | 13,282,843   | -                  | 2,100,955          | 5,193,366               | 3,630,770         | 7,263,182         | 18,153,850        | 5,446,141          | -              | -  | 36,573,646            |
| <b>On-balance sheet gap</b>  | 20,411,293            | 5,421,730    | 11,882,020         | 19,413,225         | 14,473,413              | 3,687,033         | 1,368,333         | (11,751,098)      | (4,441,680)        | (22,714,262)   |  |                       |
| <b>Off-balance sheet gap</b>   | -                     | -            | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              | -  | -                     |
| <b>Total yield/ interest risk sensitivity gap</b>  | 20,411,293            | 5,421,730    | 11,882,020         | 19,413,225         | 14,473,413              | 3,687,033         | 1,368,333         | (11,751,098)      | (4,441,680)        | (22,714,262)   |  |                       |
| <b>Cumulative yield/ interest risk sensitivity gap</b>   | 20,411,293            | 5,421,730    | 17,303,750         | 36,716,975         | 51,190,388              | 54,877,421        | 57,950,000        | 47,567,235        | 43,125,555         | 20,411,293     |  |                       |
| <b>Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities</b> |                       |              |                    |                    |                         |                   |                   |                   |                    |                |  |                       |
|  | <b>Rupees in '000</b> |              |                    |                    |                         |                   |                   |                   |                    |                |  | <b>Rupees in '000</b> |
| Total financial assets as per note 42.6  | 115,686,816           |              |                    |                    |                         |                   |                   |                   |                    |                |  | 95,275,523            |
| Add non financial assets   |                       |              |                    |                    |                         |                   |                   |                   |                    |                |  |                       |
| Operating fixed assets   | 1,133,941             |              |                    |                    |                         |                   |                   |                   |                    |                |  | 570,579               |
| Deferred tax assets  | 451,702               |              |                    |                    |                         |                   |                   |                   |                    |                |  | 95,846,102            |
| Other assets   | 353,601               |              |                    |                    |                         |                   |                   |                   |                    |                |  |                       |
|  | 117,626,060           |              |                    |                    |                         |                   |                   |                   |                    |                |  |                       |



## 42.6.1. Mismatch of interest rate sensitive assets and liabilities

|  | 2009                           |             |              |                    |                    |                         |                   |                   |                   |                    | Non-interest bearing financial instruments |                       |
|--|--------------------------------|-------------|--------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|--|-----------------------|
|  | 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        |
| Rupees in '000   |                                |             |              |                    |                    |                         |                   |                   |                   |                    |  |                       |
| <b>On-balance sheet financial instruments</b>  |                                |             |              |                    |                    |                         |                   |                   |                   |                    |  |                       |
| <b>Assets</b>  |                                |             |              |                    |                    |                         |                   |                   |                   |                    |  |                       |
| Cash and balances with treasury banks  | -                              | 2,354,107   | -            | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -  | 2,354,107             |
| Balances with other banks  | 12.68                          | 9,536,981   | 7,288,890    | 2,231,812          | -                  | -                       | -                 | -                 | -                 | -                  | -  | 16,279                |
| Investments - net  | 12.70                          | 7,213,948   | 1,817,725    | 2,910,039          | 752,896            | -                       | 1,007,581         | -                 | -                 | -                  | -  | 725,707               |
| Advances - net   | 8                              | 81,974,021  | 7,960,946    | 7,922,829          | 19,462,613         | 20,228,492              | 5,106,447         | 4,692,971         | 7,700,221         | 6,688,576          | 1,502,052                                  | 707,874               |
| Other assets - net   | -                              | 10,178,772  | (63,984)     | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -  | 10,242,756            |
|  |                                | 111,257,829 | 17,003,577   | 13,064,680         | 20,215,509         | 20,229,492              | 6,114,028         | 4,692,971         | 7,700,221         | 6,688,576          | 1,502,052                                  | 14,046,723            |
| <b>Liabilities</b>   |                                |             |              |                    |                    |                         |                   |                   |                   |                    |  |                       |
| Bills payable  | -                              | 2,059,979   | -            | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -  | 2,059,979             |
| Borrowings   | 6.09                           | 51,257,213  | 12,707,695   | -                  | 1,815,385          | 1,815,385               | 3,630,770         | 3,630,770         | 7,261,540         | 18,153,850         | 2,241,818                                  | -                     |
| Deposits and other accounts  | 3.33                           | 8,750,892   | 3,094,809    | -                  | 106,685            | 309,753                 | -                 | -                 | 2,288             | -                  | -  | 5,237,357             |
| Sub-ordinated loans  | 12 month T-Bill rate           | 3,204,323   | -            | -                  | -                  | -                       | -                 | -                 | -                 | -                  | 3,204,323                                  | -                     |
| Other liabilities  | -                              | 27,911,794  | (1,239,534)  | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -  | 29,151,328            |
|  |                                | 93,184,201  | 14,562,970   | -                  | 1,922,070          | 2,125,138               | 3,630,770         | 3,630,770         | 7,263,828         | 18,153,850         | 5,446,141                                  | 36,448,664            |
| <b>On-balance sheet gap</b>  |                                | 18,073,628  | 2,440,607    | 13,064,680         | 18,293,439         | 18,104,354              | 2,483,258         | 1,062,201         | 436,393           | (11,465,274)       | (3,944,089)                                | (22,401,941)          |
| <b>Off-balance sheet gap</b>   |                                | -           | -            | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -  | -                     |
| <b>Total yield/ interest risk sensitivity gap</b>  |                                | 18,073,628  | 2,440,607    | 13,064,680         | 18,293,439         | 18,104,354              | 2,483,258         | 1,062,201         | 436,393           | (11,465,274)       | (3,944,089)                                | (22,401,941)          |
| <b>Cumulative yield/ interest risk sensitivity gap</b>   |                                | 18,073,628  | 2,440,607    | 15,505,287         | 33,798,726         | 51,903,080              | 54,386,338        | 55,448,539        | 55,884,932        | 44,419,658         | 40,475,569                                 | 18,073,628            |
| <b>Reconciliation of assets and liabilities exposed to yield/ interest rate risk with total assets and liabilities</b> |                                |             |              |                    |                    |                         |                   |                   |                   |                    |  |                       |
|  | <b>Rupees in '000</b>          |             |              |                    |                    |                         |                   |                   |                   |                    |  | <b>Rupees in '000</b> |
| Total financial assets as per note 42.6.1  |                                | 111,257,829 |              |                    |                    |                         |                   |                   |                   |                    |  | 93,184,201            |
| Add non financial assets   |                                | 1,070,417   |              |                    |                    |                         |                   |                   |                   |                    |  | -                     |
|  |                                | -           |              |                    |                    |                         |                   |                   |                   |                    |  | -                     |
|  |                                | 112,328,246 |              |                    |                    |                         |                   |                   |                   |                    |  | 93,184,201            |

#### 42.7. Liquidity risk

Assets and Liabilities Committee (ALCO) is effectively performing the function of cash management at the Bank. Accordingly the yields on fund's placement have been constantly increasing.

##### 42.7.1. Maturities of assets and liabilities

|                                       |             | 2010           |                    |                    |                         |                   |                   |                   |                    |                |  |
|---------------------------------------|-------------|----------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|----------------|--|
|                                       |             | 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 | 2,745,611   | 2,745,611      | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |  |
| Balances with other banks             | 11,058,097  | 6,091,908      | 4,566,189          | -                  | 400,000                 | -                 | -                 | -                 | -                  | -              |  |
| Lending to financial institutions     | -           | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |  |
| Investments - net                     | 7,704,207   | 69,854         | 610,237            | 4,334,185          | 1,564,744               | -                 | -                 | -                 | -                  | 1,125,187      |  |
| Advances - net                        | 84,792,594  | 12,560,691     | 6,709,444          | 17,193,325         | 17,747,556              | 7,382,417         | 6,715,785         | 8,644,688         | 6,565,760          | 1,272,928      |  |
| Other assets - net                    | 9,739,908   | 592,496        | 953,901            | 1,189,420          | 2,084,561               | 224,293           | 232,666           | 300,022           | 1,876,339          | 2,286,210      |  |
| Deferred tax assets                   | 451,702     | -              | -                  | -                  | -                       | -                 | -                 | 451,702           | -                  | -              |  |
| Operating fixed assets                | 1,133,941   | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | 1,133,941      |  |
|                                       | 117,626,060 | 22,060,560     | 12,839,771         | 22,716,930         | 21,796,861              | 7,606,710         | 6,948,451         | 9,396,412         | 8,442,099          | 5,818,266      |  |
| <b>Liabilities</b>                    |             |                |                    |                    |                         |                   |                   |                   |                    |                |  |
| Bills payable                         | 306,040     | 306,040        | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -              |  |
| Borrowings                            | 51,257,213  | 12,707,695     | -                  | 1,815,385          | 1,815,385               | 3,630,770         | 3,630,770         | 7,261,540         | 18,153,850         | 2,241,818      |  |
| Deposits and other accounts           | 9,550,727   | 5,885,534      | -                  | 285,570            | 3,377,981               | -                 | -                 | 1,642             | -                  | -              |  |
| Sub-ordinated loans                   | 3,204,323   | -              | -                  | -                  | -                       | -                 | -                 | -                 | -                  | 3,204,323      |  |
| Other liabilities                     | 31,527,799  | 1,076,966      | 84,766             | 23,012,061         | 862,539                 | 936,297           | 203,249           | 524,271           | 2,176,154          | 2,651,496      |  |
|                                       | 95,846,102  | 19,976,235     | 84,766             | 25,113,016         | 6,055,905               | 4,567,067         | 3,834,019         | 7,787,453         | 20,330,004         | 8,097,637      |  |
| <b>Net assets</b>                     | 21,779,958  | 2,084,325      | 12,755,005         | (2,396,086)        | 15,740,956              | 3,039,643         | 3,114,432         | 1,608,959         | (11,887,905)       | (2,279,371)    |  |
| Share capital                         | 12,522,441  |                |                    |                    |                         |                   |                   |                   |                    |                |  |
| Reserves                              | 1,883,042   |                |                    |                    |                         |                   |                   |                   |                    |                |  |
| Unappropriated profit                 | 6,532,307   |                |                    |                    |                         |                   |                   |                   |                    |                |  |
| Surplus on revaluation of assets      | 842,168     |                |                    |                    |                         |                   |                   |                   |                    |                |  |
|                                       | 21,779,958  |                |                    |                    |                         |                   |                   |                   |                    |                |  |

**42.8. Operational risk**

- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. In order to manage operational issues, an Operational Risk Model (ORM) has been developed which comprises key Risk Indicator (KRI), Control Self Assessment (CSA) and Corporate Governance (CG). This model has been successfully implemented in all large and medium branches of the Bank. The data of the Operational Risk Model is collected and analysed on quarterly basis and risk gaps are elevated to Operational Risk Committee for corrective measures. This model will be rolled out to the remaining branches of the bank in a phased manner.
- With regards to Basel-II compliance, the Bank has implemented Basic Indicator Approach (BIA) for minimum capital requirements for operational risk. Disaster recovery and business continuity plan has also been revised. It includes separate IT business continuity plan which caters to IT specific business continuity planning requirements.

**43. DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on \_\_\_\_\_ by the Board of Directors of the Bank.

**44. GENERAL**

- 44.1.** Comparative information has been re-classified, re-arranged or additionally incorporated in these unconsolidated financial statements for the purposes of better presentation. Major reclassifications made are as follows:

| From  | To   | Rupees in '000 |
|---|--|----------------|
| Other income (Credit relating to defined benefit plans) | Administrative expenses (Charge relating to defined benefit plans) | 545,900        |

- 44.2.** The figures in the financial statements are rounded off to the nearest thousand rupees.

**ZARAI TARAQIATI BANK LIMITED**  
**STATEMENT SHOWING CHARGE OFF LOAN OR ANY OTHER FINANCIAL RELIEF OF RUPEES FIVE HUNDRED THOUSAND**  
**OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2010**

| S.NO | Name and address of the borrower                                      | Name of individual / partners/directors               | NIC number                                      | Father's/husband's name                         | Outstanding Liabilities at beginning of the year |               |              | Amount charge off |              |               |              |               |
|------|---|---|---|---|--|---------------|--------------|-------------------|--------------|---------------|--------------|---------------|
|      |   |   |   |   | Principal  | Interest      | Others       | Principal         | Interest     | Others        | Total        |               |
| 1    | Sultan Ghulam Shah<br>Haq Baho Colony, Usta<br>Muhammad, D. M. Jamali | Sultan Ghulam Shah                                    | 606-35-001354                                   | Faiz Sullan                                     | 0.111  | 1.257         | -            | 1.368             | 0.112        | 0.999         | -            | 1.111         |
| 2    | Ali Sher<br>Deh Mango Fakir, Thari<br>Mirwah, Sukkur                  | Ali Sher  | 442-42-002016                                   | Gul Sher  | 0.097  | 0.783         | -            | 0.880             | -            | 0.760         | -            | 0.760         |
| 3    | Amir Bux Korai<br>Deh G A Kghakat, The<br>Moro, Nawabshah             | Amir Bux Korai  | 434-32-127811                                   | Rustam Khan                                     | 0.111  | 0.993         | 0.015        | 1.119             | -            | 0.851         | 0.015        | 0.866         |
| 4    | S. Bakar Ali Shah<br>Deh 13 DAD, Tehsil<br>Daur, Nawabshah            | S. Bakar Ali Shah                                     | 465-64-101460                                   | Hassan Shah                                     | 0.150  | 0.861         | -            | 1.011             | -            | 0.711         | -            | 0.711         |
| 5    | Altaf Hussain<br>Vill Mian Ali Faqiran<br>Khanka Dogra                | Altaf Hussain   | 35403-6014708-9                                 | Ahmed Khan                                      | 0.080  | 0.977         | -            | 1.057             | -            | 0.970         | -            | 0.970         |
| 6    | Rehmatullah<br>Vill Deh Gordi<br>Pithoro                              | Rehmatullah   | 474-23-077156                                   | Ch. Ghulam Muhammad                             | 0.137  | 1.197         | -            | 1.334             | -            | 0.898         | -            | 0.898         |
| 7    | Chand Bhayo<br>C/o Koura Khan, Jagan<br>Shikarpur                     | Chand Bhayo   | N/A   | Izat Bhayo                                      | 0.019  | 0.518         | -            | 0.537             | 0.019        | 0.517         | -            | 0.536         |
| 8    | Mst. Shahida<br>R-12, 11 East Street<br>Phase I, DHA, Karachi         | Mst. Shahida  | 42301-6779673-6                                 | W/o Zahoor ud Din                               | 0.157  | 1.744         | -            | 1.901             | -            | 1.744         | -            | 1.744         |
| 9    | M/s Ch. Oil Extraction<br>515-EB, Burewala<br>Vehari                  | Zulfiqar Ali  | 321-86-299220                                   | Muhammad Khan                                   | 0.550  | 0.313         | -            | 0.863             | -            | 0.863         | -            | 0.863         |
| 10   | M/s New Pak Punjab Agro<br>Chak No. 39/D, Grain<br>Market, Okara      | Manzoor Ahmed<br>Faqir Ali                            | 336-37-179220<br>35301-4535340                  | Noor Muhammad<br>Muhammad Shafi                 | 1.512  | 2.358         | 0.463        | 4.333             | -            | 0.680         | 0.463        | 1.143         |
| 11   | M/s Muhammad Azhar and<br>Mazhar<br>Church Road, Rahim Yar Khan       | Muhammad Mazhar<br>Muhammad Azhar<br>Muhammad Manazir | 358-53-497403<br>358-59-523326<br>358-62-497405 | Muhammad Azam<br>Muhammad Azam<br>Muhammad Azam | 0.840  | 2.198         | 0.005        | 3.043             | -            | 1.440         | 0.005        | 1.445         |
|      |   |   |   |   | <b>3.764</b>                                     | <b>13.199</b> | <b>0.483</b> | <b>17.446</b>     | <b>0.131</b> | <b>10.433</b> | <b>0.483</b> | <b>11.047</b> |





**STATISTICAL  
ANNEX**



## 1. SELECTED FINANCIAL AND STATISTICAL INDICATORS

(RUPEES MILLION)

| SR. No. | DESCRIPTION                                 | 2006  | 2007  | 2008   | 2009   | 2010   |
|---------|---|-------|-------|--------|--------|--------|
|         | <b><u>DURING THE YEAR</u></b>               |       |       |        |        |        |
| 1       | AGRICULTURAL CREDIT DISBURSED               | 52521 | 55912 | 70698  | 77680  | 69561  |
| 2       | LOANS TO SUBSISTENCE FARMERS                | 33027 | 34715 | 45822  | 52089  | 47135  |
| 3       | 2 AS %AGE OF 1                              | 63%   | 62%   | 65%    | 67%    | 68%    |
| 4       | LOANS TO SMALL FARMERS<br>(UPTO 25.0 ACRES) | 44330 | 47123 | 61105  | 67992  | 61174  |
| 5       | 4 AS %AGE OF 1                              | 84%   | 84%   | 86%    | 88%    | 88%    |
| 6       | FINANCING OF TRACTORS                       |       |       |        |        |        |
|         | - NUMBER                                    | 9052  | 10275 | 16143  | 24596  | 13321  |
|         | - AMOUNT                                    | 2513  | 3478  | 5741   | 9995   | 6270   |
| 7       | 6 AS %AGE OF 1                              | 5%    | 6%    | 8%     | 13%    | 9%     |
| 8       | TOTAL RECOVERY                              | 49156 | 58080 | 65937  | 69549  | 71936  |
| 9       | CUMMULATIVE RECOVERY (%)                    | 96%   | 97%   | 98%    | 99%    | 99%    |
| 10      | TOTAL INCOME                                | 11519 | 12756 | 14263  | 15165  | 14230  |
| 11      | TOTAL EXPENDITURE                           | 10872 | 10972 | 10275  | 11115  | 11342  |
| 12      | PROFIT BEFORE TAXATION                      | 647   | 1784  | 3988   | 3373   | 2878   |
|         | <b><u>AT THE END OF THE YEAR</u></b>        |       |       |        |        |        |
| 1       | TOTAL ASSETS                                | 85467 | 93386 | 102341 | 112619 | 117586 |
| 2       | LOAN PORTFOLIO (NET)                        | 60839 | 61313 | 69923  | 81974  | 84793  |
| 3       | NUMBER OF ZONAL OFFICES                     | 25    | 25    | 25     | 26     | 27     |
| 4       | NUMBER OF BRANCHES                          | 342   | 342   | 342    | 347    | 355    |
| 5       | NUMBER OF MCO's                             | 1258  | 1269  | 1243   | 1212   | 1362   |
| 6       | NUMBER OF STAFF                             | 5326  | 5333  | 5286   | 5274   | 5494   |



## 2.1. LOANS DISBURSED SINCE INCEPTION: AREA-WISE UPTO 31.12.2010

(RUPEES MILLION)

| SR. No. | PROVINCE/ AREA       | AMOUNT DISBURSED  | SHARE (%)    |
|---------|----------------------|-------------------|--------------|
| 1       | PUNJAB               | 534570.934        | 76.5         |
| 2       | SINDH                | 109202.819        | 15.6         |
| 3       | KHYBER/ PAKHTUN KHWA | 40722.091         | 5.8          |
| 4       | BALUCHISTAN          | 9328.197          | 1.3          |
| 5       | AZAD KASHMIR         | 2797.368          | 0.4          |
| 6       | GILGIT BALTISTAN     | 2690.762          | 0.4          |
|         | <b>TOTAL</b>         | <b>699312.171</b> | <b>100.0</b> |

2.2. LOANS DISBURSED: AREA-WISE  
DURING 01-01-2010 TO 31-12-2010

(RUPEES MILLION)

| SR. NO. | PROVINCE/ AREA       | NUMBER OF BORROWERS | AMOUNT DISBURSED | Share (%)    |
|---------|----------------------|---------------------|------------------|--------------|
| 1       | PUNJAB               | 429083              | 57057.979        | 82.0         |
| 2       | SINDH                | 43401               | 8380.536         | 12.0         |
| 3       | KHYBER/ PAKHTUN KHWA | 20962               | 3526.683         | 5.1          |
| 4       | BALUCHISTAN          | 628                 | 115.445          | 0.2          |
| 5       | AZAD KASHMIR         | 8325                | 242.407          | 0.4          |
| 6       | GILGIT BALTISTAN     | 1263                | 238.325          | 0.3          |
|         | <b>TOTAL</b>         | <b>503662</b>       | <b>69561.375</b> | <b>100.0</b> |

**2.3. TERM-WISE COMPOSITION OF LOANS DISBURSED  
DURING 01-01-2010 TO 31-12-2010**

(RUPEES MILLION)

| SR. NO. | PROVINCE / AREA         | SHORT TERM       |           | MEDIUM TERM      |          | LONG TERM        |          | TOTAL            |           |
|---------|-------------------------|------------------|-----------|------------------|----------|------------------|----------|------------------|-----------|
|         |                         | NO. OF BORROWERS | AMOUNT    | NO. OF BORROWERS | AMOUNT   | NO. OF BORROWERS | AMOUNT   | NO. OF BORROWERS | AMOUNT    |
| 1       | PUNJAB                  | 368199           | 45809.759 | 42101            | 4687.232 | 18783            | 6560.988 | 429083           | 57057.979 |
| 2       | SINDH                   | 37755            | 7605.680  | 4958             | 530.538  | 688              | 244.318  | 43401            | 8380.536  |
| 3       | KHYBER/<br>PAKHTUN KHWA | 15942            | 2973.170  | 4651             | 425.758  | 369              | 127.755  | 20962            | 3526.683  |
| 4       | BALUCHISTAN             | 483              | 71.385    | 25               | 1.990    | 120              | 42.070   | 628              | 115.445   |
| 5       | AZAD KASHMIR            | 7821             | 199.154   | 459              | 28.470   | 45               | 14.783   | 8325             | 242.407   |
| 6       | GILGIT<br>BALTISTAN     | 941              | 207.86    | 277              | 25.472   | 45               | 4.993    | 1263             | 238.325   |
|         | TOTAL                   | 431141           | 56867.008 | 52471            | 5699.460 | 20050            | 6994.907 | 503662           | 69561.375 |

2.4. LOANS DISBURSED: SECURITY – WISE  
DURING 01.01.2010 TO 31.12.2010

(RUPEES MILLION)

| SR. NO. | PARTICULARS           | NUMBER OF BORROWERS | AMOUNT DISBURSED | SHARE (%)    |
|---------|-----------------------|---------------------|------------------|--------------|
| 1       | SECURED LOANS         | 494086              | 68963.634        | 99.1         |
| 2       | HYPOTHECATION LOANS   | 285                 | 38.158           | 0.1          |
| 3       | PERSONAL SURETY LOANS | 7110                | 108.104          | 0.2          |
| 4       | OTHER SECURITY        | 2181                | 451.479          | 0.6          |
|         | <b>TOTAL</b>          | <b>503662</b>       | <b>69561.375</b> | <b>100.0</b> |

## 2.5. ANNUAL CREDIT DISBURSEMENT, TRACTORS & TUBEWELLS FINANCED SINCE INCEPTION UPTO 31-12-2010

(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          |
| CY' 2008                        | 70698.335                  | 16143             | 5741.191          | 1941               | 340.850          |
| CY' 2009                        | 77680.431                  | 24596             | 9994.861          | 1917               | 360.733          |
| CY' 2010                        | 69561.375                  | 13321             | 6269.645          | 1839               | 397.014          |
| <b>TOTAL</b>                    | <b>699312.171</b>          | <b>542690</b>     | <b>106569.653</b> | <b>149710</b>      | <b>15748.927</b> |

## 2.6. AGRICULTURAL CREDIT DISBURSED BY MAJOR PURPOSES DURING 01-01-2010 TO 31-12-2010

(RUPEES MILLION)

| PURPOSES                           | NO. OF<br>BORROWERS  | AMOUNT<br>DISBURSED     | SHARE<br>(%)       |
|------------------------------------|----------------------|-------------------------|--------------------|
| <b><u>I. DEVELOPMENT LOANS</u></b> | <b><u>72521</u></b>  | <b><u>12694.367</u></b> | <b><u>18.2</u></b> |
| 1 TRACTORS                         | 16109                | 6269.645                | 9.0                |
| 2 DAIRY FARMING                    | 44428                | 4902.383                | 7.0                |
| 3 FARM EQUIPMENT                   | 1295                 | 160.703                 | 0.2                |
| 4 TUBEWELLS                        | 1948                 | 397.014                 | 0.6                |
| 5 LIVESTOCK                        | 5082                 | 463.164                 | 0.7                |
| 6 POULTRY FARMING                  | 23                   | 5.265                   | 0.0                |
| 7 ORCHARDS                         | 1887                 | 315.174                 | 0.5                |
| 8 LAND DEVELOPMENT                 | 168                  | 6.739                   | 0.0                |
| 9 FISHERIES                        | 7                    | 0.703                   | 0.0                |
| 10 FARM TRANSPORTATION             | 0                    | 0.000                   | 0.0                |
| 11 GODOWN/ COLD STORAGE            | 545                  | 94.620                  | 0.1                |
| 12 OTHERS                          | 1029                 | 78.957                  | 0.1                |
| <b><u>II. PRODUCTION LOANS</u></b> | <b><u>431141</u></b> | <b><u>56867.008</u></b> | <b><u>81.8</u></b> |
| 1 FERTILIZER                       | 206948               | 27296.164               | 39.3               |
| 2 PESTICIDES                       | 81917                | 10804.732               | 15.5               |
| 3 SEEDS                            | 120719               | 15922.762               | 22.9               |
| 4 LABOUR HIRE/ OTHER CHARGES       | 17                   | 0.328                   | 0.0                |
| 5 WORKING CAPITAL FOR POULTRY      | 931                  | 106.465                 | 0.2                |
| 6 WORKING CAPITAL FOR DAIRY        | 2189                 | 293.298                 | 0.4                |
| 7 WORKING CAPITAL FOR LIVESTOCK    | 479                  | 57.192                  | 0.1                |
| 8 WORKING CAPITAL FOR FISHERIES    | 20                   | 3.125                   | 0.0                |
| 9 OTHERS                           | 17921                | 2382.942                | 3.4                |
| <b>TOTAL</b>                       | <b>503662</b>        | <b>69561.375</b>        | <b>100.0</b>       |

## 2.7. AGRICULTURAL CREDIT DISBURSED BY SIZE OF LOAN DURING 01-01-2010 TO 31-12-2010

(RUPEES MILLION)

| SIZE OF LOAN           | NO. OF<br>BORROWERS | SHARE (%) | AMOUNT DIS-<br>BURSED | SHARE (%) |
|------------------------|---------------------|-----------|-----------------------|-----------|
| UPTO RS. 25000/-       | 26605               | 5.3       | 466.652               | 0.7       |
| RS.25001 TO 50000/-    | 72332               | 14.4      | 2724.006              | 3.9       |
| RS.50001 TO 100000/-   | 147393              | 29.3      | 10854.073             | 15.6      |
| RS.100001 TO 200000/-  | 117994              | 23.4      | 15040.409             | 21.6      |
| RS.200001 TO 500000/-  | 115486              | 22.9      | 31275.335             | 45.0      |
| RS.500001 TO 1000000/- | 19141               | 3.8       | 6707.036              | 9.6       |
| OVER 1000000/-         | 4711                | 0.9       | 2493.864              | 3.6       |
| TOTAL                  | 503662              | 100.0     | 69561.375             | 100.0     |

## 2.8. AGRICULTURAL CREDIT DISBURSED BY SIZE OF HOLDING DURING 01-01-2010 TO 31-12-2010

(RUPEES MILLION)

| SIZE OF HOLDING   | NO. OF<br>BORROWERS | SHARE (%) | AMOUNT<br>DISBURSED | SHARE (%) |
|---|---------------------|-----------|---------------------|-----------|
| A. LANDLESS   | 6798                | 1.4       | 447.967             | 0.6       |
| B. OWNERS   |                     |           |                     |           |
| UNDER 5.1 HECTARES<br>( UNDER 12.5 ACRES )              | 399556              | 79.3      | 45716.393           | 65.7      |
| 5.1 TO UNDER 6.5 HECTARES<br>( 12.5 TO UNDER 16 ACRES ) | 30400               | 6.0       | 6021.615            | 8.6       |
| 6.5 TO UNDER 10.1 HECTARES<br>( 16 TO UNDER 25 ACRES )  | 34811               | 6.9       | 8987.608            | 12.9      |
| 10.1 TO UNDER 13 HECTARES<br>( 25 TO UNDER 32 ACRES )   | 8873                | 1.8       | 2552.894            | 3.7       |
| 13 TO UNDER 20.2 HECTARES<br>( 32 TO UNDER 50 ACRES )   | 11295               | 2.2       | 3078.031            | 4.4       |
| 20.2 TO UNDER 26 HECTARES<br>( 50 TO UNDER 64 ACRES )   | 3627                | 0.7       | 880.410             | 1.3       |
| 26 HECTARES & ABOVE<br>( 64 ACRES & ABOVE )             | 8302                | 1.7       | 1876.457            | 2.8       |
| TOTAL   | 503662              | 100.0     | 69561.375           | 100.0     |

### 3.1. RECOVERY POSITION DURING 01-01-2010 TO 31-12-2010

(RUPEES MILLION)

| SR. NO. | PROVINCE/ AREA       | RECOVERABLE      | RECOVERY         | RECOVERY RATE % |
|---------|----------------------|------------------|------------------|-----------------|
| 1       | PUNJAB               | 63198.526        | 58073.673        | 91.9            |
| 2       | SINDH                | 11037.376        | 8480.753         | 76.8            |
| 3       | KHYBER/ PAKHTUN KHWA | 5348.509         | 4796.830         | 89.7            |
| 4       | BALUCHISTAN          | 163.217          | 110.769          | 67.9            |
| 5       | AZAD KASHMIR         | 236.290          | 232.739          | 98.5            |
| 6       | GILGIT BALTISTAN     | 304.335          | 241.468          | 79.3            |
|         | <b>TOTAL</b>         | <b>80288.253</b> | <b>71936.232</b> | <b>89.6</b>     |

### 3.2. CUMMULATIVE RECOVERY SINCE INCEPTION UPTO 31.12.2010

(RUPEES MILLION)

| SR. NO. | PROVINCE / AREA      | TOTAL RECOVERABLE | TOTAL RECOVERY    | PAST DUES AS ON 31-12-2010 | RECOVERY RATE (%) |
|---------|----------------------|-------------------|-------------------|----------------------------|-------------------|
| 1       | PUNJAB               | 542090.181        | 536965.328        | 5124.853                   | 99.1              |
| 2       | SINDH                | 107793.270        | 105236.647        | 2556.623                   | 97.6              |
| 3       | KHYBER/ PAKHTUN KHWA | 41775.175         | 41223.496         | 551.679                    | 98.7              |
| 4       | BALUCHISTAN          | 6962.883          | 6910.435          | 52.448                     | 99.2              |
| 5       | AZAD KASHMIR         | 2543.795          | 2540.244          | 3.551                      | 99.9              |
| 6       | GILGIT BALTISTAN     | 2590.584          | 2527.717          | 62.867                     | 97.6              |
|         | <b>TOTAL</b>         | <b>703755.888</b> | <b>695403.867</b> | <b>8352.021</b>            | <b>98.8</b>       |



## STAFF POSITION

(NUMBERS)

| YEAR     | OFFICERS | STAFF | TOTAL | M.C.O.'s |
|----------|----------|-------|-------|----------|
| 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 | 3621     | 1704  | 5325  | 1265     |
| CY' 2008 | 3651     | 1635  | 5286  | 1243     |
| CY' 2009 | 3709     | 1565  | 5274  | 1212     |
| CY' 2010 | 3930     | 1564  | 5494  | 1362     |

## NETWORK OF FIELD OFFICES AS ON 31.12.2010

(NUMBERS)

| SR.NO. | PROVINCES            | ZONAL OFFICES | BRANCHES |
|--------|----------------------|---------------|----------|
| 1      | PUNJAB               | 12            | 167      |
| 2      | SINDH                | 6             | 88       |
| 3      | KHYBER/ PAKHTUN KHWA | 4             | 50       |
| 4      | BALUCHISTAN          | 3             | 33       |
| 5      | AZAD KASHMIR         | 1             | 10       |
| 6      | GILGIT BALTISTAN     | 1             | 7        |
| TOTAL  |                      | 27            | 355      |





**ZTBL**

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