

INDEPENDENT AUDITOR'S REPORT

To the Administrator of The Punjab Provincial Cooperative Bank Limited

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the annexed financial statements of The Punjab Provincial Cooperative Bank Limited (the Bank), which comprise the statement of financial position as at June 30, 2020, and the profit or loss account, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended (based on audited certified returns received from the branches component auditors) and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that, except for the matters described in paragraph e) to h) of Basis of Adverse Opinion section below, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and the explanations given to us, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our report, the statement of financial position, the profit or loss account, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof do not conform with the accounting and reporting standards as applicable in Pakistan, and do not give the information as required by the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively do not give a true and fair view of the state of the Bank's affairs as at June 30, 2020, and of the profit and other comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Adverse Opinion

- a) The State Bank of Pakistan through its letter No. OSED/SED-3/44 (01)/006636/2020 dated May 07, 2020 has directed the Bank not to take on-board new customers i.e., depositors and borrowers, on account of violation of AML/CFT Regulations issued by SBP, till implementation of remedial plan and application of Transaction monitoring system (TMS) etc. The Bank has not shared any way forward with us. This situation indicates that a material uncertainty exists that may cast significant doubt on the bank's ability to continue as a going concern. The financial statements do not disclose this fact as the management is of the view that the Bank will continue its operation as a going concern in future.
- b) The Bank has not recognised provision in respect of Non-performing loans as disclosed in note 8 to the financial statements, in accordance with the requirements of "Prudential Regulations".

- c) The Bank has recognised contingent assets amounting to Rs. 102.33 million and Rs. 9.65 million in the financial statement under “Other assets” and “Advances” in contravention to the requirements of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” which allows the recognition of contingent assets only where an inflow of economic benefits is virtually certain. These should be derecognized and disclosed as contingent assets, if they meet the disclosure criteria of IAS-37. Had the Bank not recognised these contingent assets “Other assets” and “Advances” would have been lower by Rs. 102.33 million and 9.65 million respectively and profit after taxation would have been lower by the same amounts.
- d) The Bank has recognised surplus on revaluation of available for sale investments amounting to Rs. 207.44 million directly in statement of changes in equity rather showing its movement through statement of comprehensive income. This is in contravention to the Bank’s policy as disclosed in note 4.3 to the financial statements and Prudential Regulations issued by the State Bank of Pakistan. Had the Bank recognised surplus through statement of comprehensive income and restated its financial statements for the prior years, the other comprehensive income for the current and comparative year would have been higher by Rs. 207.44 million and lower by Rs. 119.28 million respectively.
- e) The Bank has not implemented IFRS 16 – Leases in these financial statements. IFRS 16 has become effective for accounting period beginning on or after June 30, 2019. In the absence of relevant information, the resultant adjustments and disclosures required to be presented in the financial statements remain unascertained.
- f) The Bank has not recognised deferred tax asset in the financial statements to the extent of available taxable profits in accordance with requirements of IAS 12. The Bank has taxable profits amounting to Rs. 121.25 million and Rs. 82.97 million for the year ended June 30, 2020 and 2019 respectively as per the confirmation received from tax consultant of the Bank and income tax return filed for the year ended June 30, 2019 respectively. In the absence of relevant workings and management’ expectations for the availability of future taxable profits and tax planning opportunities, resultant adjustments and consequential quantification effects thereof, if any, on the financial statements remains unascertained.
- g) Other assets as disclosed in note 12 to the financial statements include a provision of Rs. 66.48 million, which remains unsubstantiated. In the absence of reasonable explanation and assumptions used by the management, resultant adjustments and consequential impact thereof, if any, on the financial statements remains unascertained.
- h) Advances as disclosed in note 8 to the financial statements include advances amounting to Rs. 51.87 million and markup on these advances amounting to Rs. 34.27 million included in “Other assets” as disclosed in note 12, remain unverified. In the absence of relevant documentation and supporting records, resultant adjustments and consequential impact thereof, if any, on the financial statements remains unascertained.

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Emphasis of Matters

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

- a) As referred in note 8.4 to the financial statements, the Bank has not adjusted its non-performing loans amounting to Rs. 704.97 million (2019: Rs. 678.68million) including mark-up thereon against properties decreed in favor of the Bank due to pending possession disputes.
- b) As referred in note 9.2.4 to the financial statements, the ultimate outcome of disputed properties amounting to Rs. 175.69 million (2019: Rs. 175.69 million) cannot be presently determined, and hence no impairment in this context has been made in these financial statements.
- c) As referred in note 17.3 to the financial statements regarding the status of compliance to the terms and conditions of SBP's letter relaxing Minimum Capital Requirements (MCR) to Rs. 6 billion, these terms and conditions are stated to be in process of implementation although compliance date has passed.
- d) As referred in note 37.1 to the financial statements regarding compliance status of CAR reporting under BASEL I for the time being instead of BASEL III.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Following are the key audit matters:

Key audit matter	How the matter was addressed in our audit
<p>Refer to Bye Law 32 of the Punjab Provincial Cooperative Bank Limited Bye Laws 2010:</p> <p>“The BOD shall consist of: a) Registrar, who shall be its Chairman; b) President; c) Two non-official professionals nominated by the Registrar under Bye-law 6(b); and d) Three elected members, who are qualified to be elected as Director under the election rules.”</p> <p>Whereas, the Bank has no board of directors since 2005. In view of the difficulties being faced by the bank in making strategic decisions, we consider this a key audit matter.</p>	<p>We reviewed and understood the requirements of the Punjab Provincial Cooperative Bank Limited Bye-Laws 2010. Our audit procedures included the following:</p> <ul style="list-style-type: none"> • considered the management’s response over the absence of BOD; • obtained relevant underlying supports for appointment of the Administrator by the Govt. of Punjab and ensured their appropriateness for the sufficient audit evidence; • determined the powers and duties of the Administrator and ensured appropriateness of the requirements as to the management of the Bank; • substantiated the appropriateness of the disclosures provided regarding the formation of board of directors in the financial statements.

Information Other than the Financial Statements and Auditor’s Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Because of the significance of the matters discussed in Basis of Adverse Opinion section of our report, we have concluded that other information is materially misstated for the same reasons.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting and reporting standards as applicable in Pakistan, the requirements of Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Administrator is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

-)] Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
-)] Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
-)] Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
-)] Conclude on the appropriateness of management's use of the going concern basis of

accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

-) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the administrator regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the administrator with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Administrator, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

- a) except for the effects of the matters described in Basis for Adverse Opinion paragraph, proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017) and the returns referred above from the branches have been found adequate for the purpose of our audit;
- b) because of the significance of the matters described in Basis for Adverse Opinion section, the statement of financial position, the profit or loss account and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows (together with the notes thereon have not been drawn up in conformity with the Banking Companies Ordinance, 1962 and the Companies Act,

- 2017(XIX of 2017), however are in agreement with the books of account and returns;
- c) except for the effects of the matters discussed in the Basis for Adverse Opinion paragraph, investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and
 - d) No zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).
2. We confirm that for the purpose of our audit, we have covered more than sixty per cent of the total Loans and Advances of the Bank.

Other Matters

- a) The annual financial statements of the Bank for the year ended June 30, 2019 were audited by another firm of chartered accountants whose audit report dated October 18, 2019, expressed a qualified opinion and matter of emphasis.
- b) The audit of financial statements for the year ended June 30, 2020 comprising 134 branches had been allotted by the Registrar, Co-operative Societies, Punjab, to eight different component auditors. Thus, for purpose of consolidation, the audited certified financial statements furnished by the component auditors have been relied upon.

The engagement partner on the audit resulting in this independent auditor's report is Arqum Naveed.

Chartered Accountants
Lahore
Date: 29.09.2020.

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2020

	Note	2020	2019
Rupees in '000'			
ASSETS			
Cash and balances with treasury banks	5	840,207	742,268
Balances with other banks	6	1,088,417	959,517
Investments	7	2,093,150	2,876,398
Advances	8	10,373,331	9,861,768
Fixed assets	9	7,159,766	7,166,146
Intangible assets	10	13,589	15,367
Deferred tax assets	11	-	-
Other assets	12	3,757,408	833,784
		25,325,868	22,455,248
LIABILITIES			
Bills payable	14	22,921	52,635
Borrowings		-	-
Deposits and other accounts	15	4,620,648	4,579,982
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	16	6,072,752	3,624,550
		10,716,321	8,257,167
NET ASSETS		14,609,547	14,198,081
REPRESENTED BY			
Share capital	17	7,885,449	7,885,490
Reserves		848,179	809,149
Surplus on revaluation of assets	18	7,473,639	7,266,202
Accumulated loss		(1,597,720)	(1,762,760)
		14,609,547	14,198,081
CONTINGENCIES AND COMMITMENTS	19	-	-

The annexed notes 1 to 42 form an integral part of these financial statements.

President / CEO

Chief Financial Officer

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020	2019
Rupees in '000'			
Mark-up / return / interest earned	20	2,043,486	1,910,233
Mark-up / return / interest expensed	21	315,340	207,511
Net mark-up / interest income		<u>1,728,146</u>	<u>1,702,722</u>
NON MARK-UP / INTEREST INCOME			
Fee and commission income	22	71,924	61,729
Dividend income		31,022	38,801
Other income	23	60,040	60,195
Total non mark-up / interest income		<u>162,986</u>	160,725
Total income		<u>1,891,132</u>	<u>1,863,447</u>
NON MARK-UP / INTEREST EXPENSES			
Operating expenses	24	1,677,666	1,432,082
Other charges	25	30	651
Total non mark-up / interest expenses		<u>1,677,696</u>	1,432,733
PROFIT BEFORE PROVISIONS AND TAXATION		<u>213,436</u>	430,714
Provisions and write offs - net	26	-	100,000
PROFIT BEFORE TAXATION		<u>213,436</u>	330,714
Taxation	27	64,136	68,358
PROFIT AFTER TAXATION		<u>149,300</u>	<u>262,356</u>
Rupees			
Basic and diluted earnings per share	28	<u>1.89</u>	<u>3.33</u>

The annexed notes 1 to 42 form an integral part of these financial statements.

President / CEO

Chief Financial Officer

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2020

	2020	2019
	Rupees in '000'	
Profit after taxation	149,300	262,356
Other comprehensive income / (loss)		
Items that may be reclassified to profit and loss account in subsequent periods:		
Movement in surplus / (deficit) on revaluation of investments - net of tax	-	-
	-	-
Items that will not be reclassified to profit and loss account in subsequent periods:		
Remeasurement gain / (loss) on defined benefit obligations - net of tax	55,065	(176,907)
	55,065	(176,907)
Total comprehensive income / (loss)	204,365	85,449

The annexed notes 1 to 42 form an integral part of these financial statements.

President / CEO

Chief Financial Officer

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2020

	Share capital	Statutory reserve	Surplus / (deficit) on revaluation of		Common good fund	Accumulated loss	Total
			Investments	Fixed / non banking assets			
Rupees in '000'							
Balance as at July 1, 2018	7,885,556	737,624	516,704	6,868,774	4,486	(1,780,620)	14,232,524
Profit after taxation for the prior year	-	-	-	-	-	262,356	262,356
Other comprehensive (loss) - net of tax	-	-	-	-	-	(176,907)	(176,907)
Transfer to statutory reserve	-	65,589	-	-	-	(65,589)	-
Transfer to common good fund	-	-	-	-	2,000	(2,000)	-
Medical aid to staff	-	-	-	-	(550)	-	(550)
Deficit on revaluation of assets	-	-	(119,276)	-	-	-	(119,276)
Transactions with owners, recorded directly in equity							
Refund of shares	(66)	-	-	-	-	-	(66)
Balance as at July 1, 2019	7,885,490	803,213	397,428	6,868,774	5,936	(1,762,760)	14,198,081
Profit after taxation for the current year	-	-	-	-	-	149,300	149,300
Other comprehensive income - net of tax	-	-	-	-	-	55,065	55,065
Transfer to statutory reserve	-	37,325	-	-	-	(37,325)	-
Transfer to common good fund	-	-	-	-	2,000	(2,000)	-
Medical aid to staff	-	-	-	-	(295)	-	(295)
Surplus on revaluation of assets	-	-	207,437	-	-	-	207,437
Transactions with owners, recorded directly in equity							
Issue of shares	17	-	-	-	-	-	17
Refund of shares	(58)	-	-	-	-	-	(58)
Balance as at June 30, 2020	7,885,449	840,538	604,865	6,868,774	7,641	(1,597,720)	14,609,547

The annexed notes 1 to 42 form an integral part of these financial statements.

President / CEO

Chief Financial Officer

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020	2019
		Rupees in '000'	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		213,436	330,714
Less: Dividend income		(31,022)	(38,801)
		<u>182,414</u>	<u>291,913</u>
Adjustments:			
Depreciation	9.2	18,279	20,116
Amortization	10.2	1,778	2,157
Charge for defined benefit plan	24.1	418,961	242,121
		<u>439,018</u>	<u>264,394</u>
		621,432	556,307
(Increase) / decrease in operating assets			
Advances		(511,563)	346,007
Others assets (excluding advance taxation)		(2,923,624)	23,691
		<u>(3,435,187)</u>	<u>369,698</u>
Increase / (decrease) in operating liabilities			
Bills payable		(29,714)	(2,867)
Deposits		40,666	(744,201)
Other liabilities (excluding current taxation)		2,493,427	137,525
		<u>2,504,379</u>	<u>(609,543)</u>
Income tax paid		(50,855)	(23,588)
Defined benefits and contribution paid		(422,403)	(540,027)
Medical aid paid to employees from common good fund		(295)	(550)
Net cash flow used in operating activities		<u>(782,929)</u>	<u>(247,703)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in held-to-maturity securities		990,685	(84,046)
Dividends received		31,022	38,801
Investments in operating fixed assets		(11,898)	(29,522)
Net cash flow generated from / (used in) investing activities		<u>1,009,809</u>	<u>(74,767)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Refund of share capital		(41)	(66)
Net cash flow used in financing activities		<u>(41)</u>	<u>(66)</u>
Increase / (decrease) in cash and cash equivalents		226,839	(322,536)
Cash and cash equivalents at beginning of the year	29	1,701,785	2,024,321
Cash and cash equivalents at end of the year	29	1,928,624	1,701,785

The annexed notes 1 to 42 form an integral part of these financial statements.

President / CEO

Chief Financial Officer

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2020

1 STATUS AND NATURE OF BUSINESS

The Punjab Provincial Cooperative Bank Limited (the Bank) was incorporated in 1924 as a Cooperative Bank under the Cooperative Societies Act, 1912 (repealed) (now the Cooperative Societies Act, 1925). It was given the status of a scheduled bank by the State Bank of Pakistan (SBP) with effect from November 07, 1955. The Bank is operating under the supervision of the Cooperative Department, Government of Punjab and the State Bank of Pakistan (SBP). The principal activity of the Bank is to carry out the business of agriculture credit and other activities as defined in the Cooperative Societies Act, 1925 and its Rules. The Bank operates through its 151 (2019: 151) branches in the whole province of Punjab. The registered office of the Bank is located at the Bank Square, The Mall, Lahore, Pakistan.

2 BASIS OF PRESENTATION

The financial statements are presented in Pakistani Rupee, which is the Bank's functional currency. Figures have been rounded off to the nearest thousand of rupees, unless otherwise stated.

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting and reporting standards as applicable in Pakistan. Approved accounting and reporting standards comprise of:

-International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017;

-Provisions of and directives issued under the Banking Companies Ordinance, 1962 ("the Ordinance"), the Cooperative Societies Act, 1925 ("the Act"), the Cooperative Societies Rules, 1927 ("the Rules"), and the Companies Act, 2017 and;

-Directives issued by the SBP.

Whenever the requirements of the Ordinance, the Act, the Rules, and the Companies Act, 2017 or the directives issued by the SBP differ with the requirements of IFRS, requirements of the Ordinance, the Act, the Rules, and the said directives shall prevail.

The State Bank of Pakistan has deferred the applicability of International Financial Reporting Standard 9, 'Financial Instruments' through BPRD Circular No. 04 of 2019 dated October 23, 2019 and International Accounting Standards 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

IFRS 9, 'Financial Instruments: Classification and Measurement', addresses recognition, classification, measurement and derecognition of financial assets and financial liabilities. The standard has also introduced a new impairment model for financial assets which requires recognition of impairment charge based on an 'expected credit losses' (ECL) approach rather than the 'incurred credit losses' approach as currently followed. The ECL approach has an impact on all assets of the Bank which are exposed to credit risk. The Bank is in the process of assessing the full impact of this standard.

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2020

2.2 Standards, interpretations of and amendments to published approved accounting standards that are effective in the current year

IFRS 16, "leases", became effective for annual reporting periods commencing on or after January 1, 2019. However, the Bank is in process of evaluating the impact of IFRS 16. Moreover, there are new and amended standards and interpretations that are mandatory for accounting period beginning on or after July 01, 2019 but are considered not to be relevant or do not have any significant effect on the Bank's financial statements and or therefore not stated in these financial statements.

2.3 Standards, interpretations of and amendments to published approved accounting standards that are not yet effective

The following other standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after July 1, 2020:

Standard	Effective Date
IFRS-3 Definition of a Business (Amendments)	January 01, 2020
IAS-1/8 Definition of Material (Amendments)	January 01, 2020
IFRS-16 Covid-19 - Related Rent Concessions (Amendments)	June 01, 2020
IAS-37 Onerous Contracts (Amendments)	January 01, 2022
IAS-16 Proceeds Before Intended Use (Amendments)	January 01, 2022
IAS-1 Classification of Liabilities as Current or Non-Current	January 01, 2022

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates is recognized prospectively in the period in which the estimate is revised and in any future periods affected.

The areas involving a higher degree of judgment or complexity, or areas where assumption and estimates are significant to the financial statements are as follows:-

- | | |
|---|-------------------------|
| i) Classification and provisioning against investment | - note 7.1, 7.3 & 4.3 |
| ii) Impairment of 'available for sale' equity investments | - note 7.3.1 & 4.3 |
| iii) Income taxes | - note 11, 27 & 4.7 |
| iv) Classification and provisioning against advances | - note 8.2, 8.3 and 4.4 |
| v) Depreciation and revaluation of operating fixed assets | - note 9.2 & 4.5.1 |
| vi) Amortisation of intangible assets | - note 10.2 & 4.5.2 |
| vii) Staff retirement benefits | - note 31, 32 & 4.6 |

3 BASIS OF MEASUREMENT

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2020

These financial statements have been prepared under the historical cost convention, except as otherwise stated under relevant policy notes.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements have been applied consistently to all periods presented.

4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with treasury banks and balances with other banks in current and deposit accounts.

4.2 Deposits

Deposits are recorded at the proceeds received. The cost of deposits is recognized as an expense in the period in which it is incurred.

4.3 Investments

The Bank classifies its investments as follows:

Held-to-maturity

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

Available-for-sale

These are investments that do not fall under the 'held for trading' or 'held to maturity' categories.

Investments are initially recognized at cost which in case of investments other than 'held for trading' include transaction costs associated with the investment. Transaction costs on investments held for trading are expensed in the profit and loss account.

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

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified as 'held to maturity', 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 surplus / deficit on revaluation of investments through statement of comprehensive income in equity till disposal at which time it is recorded in profit and loss account.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2020

securities is calculated with reference to the net assets of the investee as per the latest available financial statements. Investments classified as 'held to maturity' are carried at amortized cost less accumulated impairment losses, if any.

Provision for impairment in the value of securities is made currently. The Bank determines that '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. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the investee and sector performance, changes in technology and operational / financial cash flows.

4.4 Advances

Advances are stated net of general and specific provisions. Specific provision is determined in accordance with the requirements of the Prudential Regulations and other directives issued by State Bank of Pakistan and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses includes general provision against Consumer and Small Enterprise (SEs) loans made in accordance with the requirements of the Prudential Regulations issued by SBP and provision based on historical loss experience on advances. Advances are written off when there are no realistic prospect of recovery.

4.5 Fixed assets and depreciation

4.5.1 Property and equipments (owned)

Property and equipments, other than land, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Land is carried at revalued amount less subsequent impairment losses, if any.

Depreciation on all property and equipments (excluding land) is charged using diminishing balance method at the rates specified in note 9.2 to these financial statements, except vehicles which are being depreciated on straight line method. Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off. The residual values (in case of vehicles), useful lives (in case of vehicles), depreciation rates and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. These are transferred to specific assets as and when assets become available for use.

Gain / losses on sale of property and equipment are credited / charged to the profit and loss account currently, except that the related surplus on revaluation of land (net of deferred taxation) is transferred

Subsequent costs are included in the asset's carrying amount 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 costs are charged to the profit and loss account.

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Land and buildings are revalued by independent, professionally qualified valuers with sufficient regularity to ensure that their net carrying amount does not differ materially from their fair value. An increase arising on revaluation is credited to the surplus on revaluation of fixed assets account. A decrease arising on revaluation of fixed assets is adjusted against the surplus of that asset or, if no surplus exists, is charged to the profit and loss account as an impairment of the asset. A surplus arising subsequently on an impaired asset is reversed through the profit and loss account up to the extent of the original impairment.

4.5.2 Intangible assets

Intangible assets are carried at cost less any accumulated amortisation and impairment losses, if any. The cost of intangible assets is amortized over their estimated useful lives, using the straight line method. Amortisation is charged from the month the assets are available for use at the rate stated in note 10. The useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. These are transferred to specific assets as and when assets become available for use.

4.6 Staff retirement benefits

The Bank operates a number of post-retirement benefit plans, which include both defined contribution plans and defined benefit plans.

For defined contribution plans, the Bank pays contributions to the fund on a periodic basis, and such amounts are charged to the profit and loss account when the payment obligation is established. The Bank has no further payment obligations once the contributions have been paid.

For funded defined benefit plans, the liability recognised in the statement of financial position is the present value of the defined benefit obligations less the fair value of plan assets as at the statement of financial position date. Contributions to the fund are made by the Bank on a periodic basis.

For non-funded defined benefit plans, the liability recognised in the statement of financial position is the present value of the defined benefit obligations as at the statement of financial position date.

The liability in respect of all obligations under defined benefit schemes is calculated annually by an independent actuary using the Projected Unit Credit Method.

Actuarial gains and losses

Actuarial gains and losses that arise out of experience adjustments and changes in actuarial assumptions are recognised in statement of comprehensive income with no subsequent recycling through the profit and loss account. Gains and losses on remeasurement of the liability for compensated absences are recognised in the profit and loss account immediately.

Past Service Cost

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Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment. The Bank recognises past service cost as an expense when the plan amendment or curtailment occurs.

4.7 Taxation

a) Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation. The charge for current tax is calculated using the prevailing tax rates or tax rates expected to apply to the profits for the year. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalized during the year.

b) Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and amounts used for taxation purposes. The Bank records deferred tax asset / liability using the tax rates enacted or substantively enacted by the balance sheet date expected to be applicable at the time of its reversal.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Bank also recognizes deferred tax asset / liability on deficit / surplus on revaluation of securities and deferred tax liability on surplus on revaluation of fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standards 12 'Income Taxes'.

4.8 Revenue recognition and other items

- Mark-up income / interest on advances and returns on investments are recognized on a time proportion basis except that mark-up income / interest on non-performing advances and investments recognized is on receipt basis in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Interest / returns / mark-up on rescheduled / restructured advances and investments are recognized as permitted by the State Bank of Pakistan.
- Fees, commission, brokerage, and other income is recognized at amount that reflects consideration to which the Bank expects to be entitled in exchange for providing the services. The Bank recognizes fees earned on transaction based arrangements at point in time, when the Bank has provided the services to customer. where the contract requires services to be provided over time, income is recognized on systematic basis over the period of arrangement.
- Dividend income is recognized when the Bank's right to receive the dividend is established.

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- Gain / loss on sale of investments is credited / charged to profit and loss account.

4.9 Assets acquired in satisfaction of claims

Non-banking assets (NBA) acquired in satisfaction of claims are carried at revalued amounts less accumulated depreciation and impairment loss, if any. These assets are revalued by professionally qualified valuers with sufficient regularity to ensure that their net carrying value does not differ materially from their fair value. A surplus arising on revaluation of NBA is credited to the 'surplus on revaluation of non banking assets' account through statement of comprehensive income in equity and any deficit arising on revaluation is taken to profit and loss account directly. Legal fees, transfer costs and direct costs of acquiring title to asset are charged to profit and loss account and not capitalised.

4.10 Impairment of assets

The carrying amount of the assets are reviewed at each date of statement of financial position for impairment whenever events or changes in circumstances indicate that the carrying amount 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 profit and loss account except for impairment loss on revalued assets which is adjusted against the revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

4.11 Financial instruments

4.11.1 Financial assets and financial liabilities

Financial instruments carried on the statement of financial position include cash and balances with treasury banks, balances with other banks, investments, advances, other assets, bills payable, deposits and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

4.11.2 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value using valuation techniques. All the derivative financial instruments are carried as an asset when the fair value is positive and as a liability when the fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

4.11.3 Off setting

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

4.12 Provision

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

4.13 Share capital

Ordinary shares are classified as equity and recognized at their face value. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the equity.

4.14 Contingencies & commitments

Contingent liabilities are not recognised in the statement of financial position as they are possible obligations where it has yet to be confirmed whether a liability, which will ultimately result in an outflow of economic resources to settle the obligation, will arise. In cases where the probability of an outflow of economic resources is considered remote, it is not disclosed as a contingent liability.

Contingent asset is not recognised but is only disclosed when inflow of economic benefits becomes probable.

4.15 Business Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing certain products or services, whereas a geographical segment is one engaged in providing certain products or services within a particular economic environment. Segment information is presented as per the Bank's functional and management reporting structure. The Bank's primary segment reporting is based on following business segments:

a. Retail banking

It includes deposits and banking services to customers of the Bank.

b. Retail finance lending

It includes loans of individuals, agriculture customers and SME. Products offered to customers include salary finance, house finance, livestock finance, dairy finance etc.

c. Others

This includes head office related activities, and all other activities not tagged to the segments above.

4.16 Geographical segment reporting

Geographically, the Bank operates only in the province of Punjab, Pakistan.

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4.17 Earnings per share

The Bank presents basic and diluted earnings per share (EPS). 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 year.

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NOTES TO THE ACCOUNTS
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	Note	2020	2019
Rupees in '000'			
5 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		325,149	294,797
With State Bank of Pakistan in			
Local currency current account	5.1	366,479	302,599
With National Bank of Pakistan in			
Local currency current account		92,833	72,419
Local currency deposit account (NIDA)	5.2	55,746	72,453
		148,579	144,872
		840,207	742,268

5.1 This represents current accounts maintained with the the State Bank of Pakistan under the Cash Reserve Requirement of section 22 of the Banking Companies Ordinance, 1962.

5.2 This represents deposit accounts maintained with the National Bank of Pakistan. These carry markup at rates ranging from 6.50% to 11.25% per annum (2019 : 10.25% per annum).

	Note	2020	2019
Rupees in '000'			
6 BALANCES WITH OTHER BANKS			
In Pakistan			
In current accounts		8,297	7,321
In deposit accounts	6.1	1,080,120	952,196
		1,088,417	959,517

6.1 These represent deposit accounts which carry markup at rates ranging from 6.75% to 12% per annum (2019 : 8.75% to 10.25) per annum.

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7 INVESTMENTS

7.1 Investments by type:

	2020				2019			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
	----- Rupees in '000' -----							
Available-for-sale securities:								
Shares	10,574	(1,589)	604,865	613,850	10,574	(1,589)	397,428	406,413
	10,574	(1,589)	604,865	613,850	10,574	(1,589)	397,428	406,413
Held-to-maturity securities:								
Federal Government securities	1,479,300	-	-	1,479,300	2,469,985	-	-	2,469,985
Non-Government debt securities	88,059	(88,059)	-	-	88,059	(88,059)	-	-
	1,567,359	(88,059)	-	1,479,300	2,558,044	(88,059)	-	2,469,985
Total Investments	1,577,933	(89,648)	604,865	2,093,150	2,568,618	(89,648)	397,428	2,876,398

7.2 Investments by segments:

	2020				2019			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
	----- Rupees in '000' -----							
Federal Government Securities:								
- Market Treasury Bills	1,479,300	-	-	1,479,300	2,469,985	-	-	2,469,985
Non-Government debt securities:								
- Unlisted	88,059	(88,059)	-	-	88,059	(88,059)	-	-
Shares:								
- Listed	7,023	-	604,865	611,888	7,023	-	397,428	404,451
- Unlisted	3,551	(1,589)	-	1,962	3,551	(1,589)	-	1,962
	10,574	(1,589)	604,865	613,850	10,574	(1,589)	397,428	406,413
Total Investments	1,577,933	(89,648)	604,865	2,093,150	2,568,618	(89,648)	397,428	2,876,398

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7.3 Provision for diminution in value of investments

7.3.1 Opening balance

2020	2019
Rupees in '000'	
89,648	89,648

Charge / reversals

Charge for the year

Reversals for the year

Reversal on disposals

-	-
-	-
-	-
-	-

Transfers - net

Amounts written off

Closing Balance

-	-
-	-
89,648	89,648

7.3.2 Particulars of provision against debt securities
Category of classification

Domestic

Other assets especially mentioned

Substandard

Doubtful

Loss

2020		2019	
----- Rupees in '000' -----			
NPI	Provision	NPI	Provision
-	-	-	-
-	-	-	-
-	-	-	-
88,059	88,059	88,059	88,059
88,059	88,059	88,059	88,059

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7.4 Quality of Available for Sale Securities

Details regarding quality of Available for Sale (AFS) securities are as follows:

	2020	2019
	Cost	
	Rupees in '000'	
Shares		
Listed Companies		
Paper and board	6,708	6,708
Commercial bank	-	-
Insurance	-	-
Textile composite	315	315
	7,023	7,023

	2020		2019	
	Cost	Breakup value	Cost	Breakup value
	----- Rupees in '000' -----			
Unlisted Companies				
Coop: Insurance Society of Pakistan	1,919	10	1,919	10
National Coop. Supply Corporation	43	100	43	100
Coop: Investment & Management Agency	341	100	341	100
Oberoi Coop: Society Sialkot	71	1,000	71	1,000
Shahdara Pioneer Coop: M.P. Society	300	100	300	100
Lahore Central Coop: Store	536	100	536	100
Jhelum Distt. Coop: Society	1	100	1	100
All Pakistan Coop: Multi Purpose Society	11	1,000	11	1,000
Punjab Prov. Coop: Cotton Corp.	65	500	65	500
Pakistan Product Coop: Marketing	-	100	-	100
Anjuman Imdad-e-Bahami M.P. Society	12	100	12	100
Pioneer Coop: Leather & Rubber Society	30	1,000	30	1,000
Punjab Prov. Coop: Marketing	2	500	2	500
West Pakistan Coop: Consumer Society	1	100	1	100
Sargodha Distt. Coop: Society	18	500	18	500
Sialkot Central Coop: Multi Purpose Society	-	100	-	100
Multan Distt. Coop: Multi Purpose Society	8	50	8	50
Lyalpur Distt. Coop: Multi Purpose Society	10	100	10	100
Lyalpur Distt. Coop: Store	1	100	1	100
Montgomery Coop: Society	102	100	102	100
Bahawalpur Coop: Society	25	100	25	100
Arifwala Mills Society	45	100	45	100
Jhang Coop: Supervising	-	10	-	10
Rawalpindi Multi Purpose Union	10	50	10	50
	3,551		3,551	

7.5 Particulars relating to Held to Maturity securities are as follows:

	2020	2019
	Cost	
	Rupees in '000'	
Federal Government Securities - Government guaranteed		
Market Treasury Bills	1,479,300	2,469,985
Non Government Debt Securities		
Unlisted		
Unrated	88,059	88,059

7.5.1 The Bank has filed a petition against Trust Investment Bank Limited (TIBL) in Honorable Lahore High Court, Lahore for recovery of Rs. 88,059 thousand plus markup (not incorporated in accounts being doubtful of recovery) as on September 15, 2015. However, based on financial health of TIBL, a provision for diminution of Rs. 88,059 thousand has already been made in the financial statements.

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8 ADVANCES

	Performing		Non Performing		Total	
	2020	2019	2020	2019	2020	2019
----- Rupees in '000' -----						
Loans, cash credits, running finances, etc.	9,427,639	9,089,123	2,551,779	2,378,732	11,979,418	11,467,855
Bills discounted and purchased	-	-	184	184	184	184
Advances - gross	9,427,639	9,089,123	2,551,963	2,378,916	11,979,602	11,468,039
Provision against advances						
- Specific	-	-	1,605,893	1,605,893	1,605,893	1,605,893
- General	-	-	378	378	378	378
	-	-	1,606,271	1,606,271	1,606,271	1,606,271
Advances - net of provision	9,427,639	9,089,123	945,692	772,645	10,373,331	9,861,768

8.1 Particulars of advances (Gross)	2020	2019
	Rupees in '000'	
In local currency	11,979,602	11,468,039
In foreign currencies	-	-
	11,979,602	11,468,039

8.2 Advances include Rs.2,551,779 thousands (2019: Rs. 2,378,732 thousands) which have been placed under non-performing status as detailed below:

Category of Classification	2020		2019	
	Non Performing Loans	Provision	Non Performing Loans	Provision
----- Rupees in '000' -----				
Domestic				
Other Assets Especially Mentioned	432,250	-	391,316	92
Substandard	318,698	11,648	304,444	4,070
Doubtful	197,429	22,170	168,928	14,330
Loss	1,603,402	1,563,855	1,514,044	1,473,235
	2,551,779	1,597,673	2,378,732	1,491,727
Total	2,551,779	1,597,673	2,378,732	1,491,727

8.3 Particulars of provision against advances

	2020			2019		
	Specific	General	Total	Specific	General	Total
----- Rupees in '000' -----						
Opening balance	1,605,893	378	1,606,271	1,605,893	378	1,606,271
Exchange adjustments	-	-	-	-	-	-
Charge for the year	-	-	-	-	-	-
Reversals	-	-	-	-	-	-
	1,605,893	378	1,606,271	1,605,893	378	1,606,271
Amounts written off	-	-	-	-	-	-
Closing balance	1,605,893	378	1,606,271	1,605,893	378	1,606,271

8.3.1 Particulars of provision against advances

	2020			2019		
	Specific	General	Total	Specific	General	Total
Rupees in '000'						
In local currency	1,605,893	378	1,606,271	1,605,893	378	1,606,271
In foreign currencies	-	-	-	-	-	-
	1,605,893	378	1,606,271	1,605,893	378	1,606,271

8.4 The bank has not adjusted its non-performing loans amounting to Rs. 704,975 thousand (2019: 678,680 thousand) including mark-up thereon, against properties decreed in favor of the Bank due to pending possession disputes.

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	Note	2020	2019
Rupees in '000'			
9 FIXED ASSETS			
Capital work-in-progress	9.1	31,250	23,762
Property and equipment	9.2	7,128,515	7,142,384
		<u>7,159,766</u>	<u>7,166,146</u>
9.1 Capital work-in-progress			
Civil works		23,762	23,762
Equipment		7,488	-
		<u>31,250</u>	<u>23,762</u>
9.2 Property and Equipment			

2020										
Freehold land	Leasehold land	Building on Freehold land	Building on Leasehold land	Furniture and fixtures	Electrical, office and computer equipment	Vehicles	Telephone exchange & conference system	Arms & ammunitions	Total	
----- Rupees '000' -----										
At July 1, 2019										
Cost / revalued amount	6,402,535	576,719	154,601	5,524	52,635	75,777	78,703	1,221	277	7,347,992
Accumulated depreciation	-	-	(58,558)	(2,479)	(39,139)	(44,506)	(59,615)	(1,079)	(232)	(205,608)
Net book value	<u>6,402,535</u>	<u>576,719</u>	<u>96,043</u>	<u>3,045</u>	<u>13,496</u>	<u>31,271</u>	<u>19,088</u>	<u>142</u>	<u>45</u>	<u>7,142,384</u>
Year ended June 30, 2020										
Opening net book value	6,402,535	576,719	96,043	3,045	13,496	31,271	19,088	142	45	7,142,384
Additions	-	-	1,237	-	651	2,759	-	-	-	4,647
Disposals	-	-	-	-	-	-	-	-	-	-
Depreciation charge	-	-	(2,426)	(76)	(4,507)	(5,525)	(5,696)	(37)	(12)	(18,279)
Other adjustments / transfers	-	-	(237)	-	-	-	-	-	-	(237)
Closing net book value	<u>6,402,535</u>	<u>576,719</u>	<u>94,617</u>	<u>2,969</u>	<u>9,640</u>	<u>28,505</u>	<u>13,392</u>	<u>105</u>	<u>33</u>	<u>7,128,515</u>
At June 30, 2020										
Cost / revalued amount	6,402,535	576,719	155,838	5,524	53,286	78,536	78,703	1,221	277	7,352,639
Accumulated depreciation	-	-	(61,221)	(2,555)	(43,646)	(50,031)	(65,311)	(1,116)	(244)	(224,124)
Net book value	<u>6,402,535</u>	<u>576,719</u>	<u>94,617</u>	<u>2,969</u>	<u>9,640</u>	<u>28,505</u>	<u>13,392</u>	<u>105</u>	<u>33</u>	<u>7,128,515</u>
Rate of depreciation (percentage)	-	-	2.5%	2.5%	20%	20%	20%	20%	20%	

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2019										
Freehold land	Leasehold land	Building on Freehold land	Building on Leasehold land	Furniture and fixture	Electrical, office and computer equipment	Vehicles	Telephone exchange & conference system	Arms & ammunitions	Total	
----- Rupees '000' -----										
At July 1, 2018										
Cost / revalued amount	6,402,535	576,719	151,344	5,336	49,499	69,493	71,271	1,197	275	7,327,669
Accumulated depreciation	-	-	(56,101)	(2,401)	(33,940)	(38,324)	(53,472)	(1,032)	(222)	(185,492)
Net book value	6,402,535	576,719	95,243	2,935	15,559	31,169	17,799	165	53	7,142,177
Year ended June 2019										
Opening net book value	6,402,535	576,719	95,243	2,935	15,559	31,169	17,799	165	53	7,142,177
Additions	-	-	3,257	188	3,136	6,284	7,432	24	2	20,323
Disposals	-	-	-	-	-	-	-	-	-	-
Depreciation charge	-	-	(2,457)	(78)	(5,199)	(6,182)	(6,143)	(47)	(10)	(20,116)
Other adjustments / transfers	-	-	-	-	-	-	-	-	-	-
Closing net book value	6,402,535	576,719	96,043	3,045	13,496	31,271	19,088	142	45	7,142,384
At June 30, 2019										
Cost / revalued amount	6,402,535	576,719	154,601	5,524	52,635	75,777	78,703	1,221	277	7,347,992
Accumulated depreciation	-	-	(58,558)	(2,479)	(39,139)	(44,506)	(59,615)	(1,079)	(232)	(205,608)
Net book value	6,402,535	576,719	96,043	3,045	13,496	31,271	19,088	142	45	7,142,384
Rate of depreciation (percentage)	-	-	2.5%	2.5%	20%	20%	20%	20%	20%	

- 9.2.1** Included in cost of property and equipment are fully depreciated assets that are still in use of the Bank. Moreover, the Bank has policy to report fully depreciated asset at nominal value for identification purposes.
- 9.2.2** Freehold land was revalued on Feb 10, 2017 by Star Tech Consultants, an independent professional valuer firm, on the basis of fair market value. This revaluation resulted in surplus of Rs. 1,941,268 thousand in respect of freehold land. However, without the effect of revaluation, the carrying amount of the land would have been Rs.110.479 million (2019: Rs.110.479 million). Fair value has been assessed under 'fair value hierarchy: level 3'.
- 9.2.3** Leasehold land was revalued on Feb 10, 2017 by Star Tech Consultants, an independent professional valuer firm, on the basis of fair market value. This revaluation resulted in surplus of Rs. 576,719 thousand in respect of leasehold land. However, without the effect of revaluation, the carrying amount of the land would have been Rs. Nil (2019: Rs. Nil). Fair value has been assessed under 'fair value hierarchy: level 3'.
- 9.2.4** The value of land and buildings include properties under litigation / disputes amounts to Rs. 175.687 million (2019: Rs. 175.687 million) for which legal title has been acquired but the physical possession is under dispute. The ultimate outcome of disputes cannot be determined properly and management is of the view that no impairment is required to be recognised in these financial statements.
- 9.2.5** Fair value of property and equipment excluding land and buildings is not expected to be materially different from their carrying amount.

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	Note	2020	2019
10 INTANGIBLE ASSETS		Computer software	
		Rupees in '000'	
Capital work-in-progress	10.1	13,589	13,589
Computer software	10.2	-	1,778
		13,589	15,367
		13,589	15,367
10.1	This relates to advances given to supplier for development of intangible asset.		
10.2 At July 01			
Cost		10,787	10,787
Accumulated amortisation		(9,009)	(6,852)
Net book value		1,778	3,935
		1,778	3,935
Year ended June			
Opening net book value		1,778	3,935
Amortisation charge		(1,778)	(2,157)
Closing net book value		-	1,778
		-	1,778
At June 30			
Cost		10,787	10,787
Accumulated amortisation and impairment		(10,787)	(9,009)
Net book value		-	1,778
		-	1,778
Rate of amortisation (percentage)		20%	20%
		20%	20%

10.3 This intangible asset relates to the Bank Smart Software system used by the Bank which is fully amortised now.

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NOTES TO THE ACCOUNTS
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11 DEFERRED TAX ASSETS

	2020			
	At July 01, 2019	Recognised in P&L A/C	Recognised in OCI	At June 30, 2020
	----- Rupees in '000' -----			
Deductible Temporary Differences on				
- Post retirement benefits	2,964,230	-	-	2,905,725
- Provision against other assets	66,479	-	-	66,479
- Provision for salary payable	264,285	-	-	264,285
- decelerated tax amortisation	-	-	-	2,146
- Provision against advances	1,606,271	-	-	1,606,271
	4,901,265	-	-	4,844,906
Taxable Temporary Differences on				
- Accelerated tax depreciation	36,192	-	-	38,777
- Surplus on revaluation of investments	395,839	-	-	515,217
	432,031	-	-	553,994
Temporary differences for which no deferred tax is recognized	4,469,234	-	-	4,290,912
	----- Rupees in '000' -----			
	2019			
	At July 01, 2018	Recognised in P&L A/C	Recognised in OCI	At June 30, 2019
	----- Rupees in '000' -----			
Deductible Temporary Differences on				
- Post retirement benefits	3,091,063	-	-	2,964,230
- Provision against other assets	66,479	-	-	66,479
- Provision for salary payable	44,285	-	-	264,285
- Provision against advances	1,606,271	-	-	1,606,271
	4,808,098	-	-	4,901,265
Taxable Temporary Differences on				
- Accelerated tax depreciation	40,191	-	-	36,192
- Surplus on revaluation of investments	427,056	-	-	395,839
	467,247	-	-	432,031
Temporary differences for which no deferred tax is recognized	4,340,851	-	-	4,469,234

In the absence of future taxable profit projections due to unanticipated circumstances, amount of Rs. 1,501,819 thousands (2019: 1,564,232 thousands) has not been recognized as deferred tax asset.

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	Note	2020	2019
12 OTHER ASSETS		Rupees in '000'	
Income / mark-up accrued in local currency		837,107	656,416
Advances, deposits, advance rent and other prepayments		2,349	3,326
Sundry debtors		1,444	2,361
Crop insurance recoverable		111,393	139,003
Live stock insurance recoverable		7,575	12,732
Branch adjustment		71,849	-
Memorandum account		2,590,002	-
Others		202,168	86,425
		<u>3,823,887</u>	<u>900,263</u>
Less: Provision held against other assets	12.1	<u>(66,479)</u>	<u>(66,479)</u>
Other assets (net of provision)		<u><u>3,757,408</u></u>	<u><u>833,784</u></u>
12.1 Provision held against other assets			
Others		<u><u>(66,479)</u></u>	<u><u>(66,479)</u></u>
		2020	2019
12.1.1 Movement in provision held against other assets		Rupees in '000'	
Opening balance		(66,479)	(66,479)
Charge for the year		-	-
Reversals		-	-
Amount written off		-	-
Closing balance		<u><u>(66,479)</u></u>	<u><u>(66,479)</u></u>
13 CONTINGENT ASSETS			
The bank has 124 cases pending with authorities for recoveries and settlement of properties. However inflow of economic benefits from such cases are not probable and therefore are not being disclosed here.			
		2020	2019
14 BILLS PAYABLE		Rupees in '000'	
In Pakistan		<u><u>22,921</u></u>	<u><u>52,635</u></u>

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
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15 DEPOSITS AND OTHER ACCOUNTS

	2020			2019		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
----- Rupees in '000' -----						
Customers						
Current deposits - non remunerative	1,239,856	-	1,239,856	1,232,982	-	1,232,982
Savings deposits - remunerative	3,063,609	-	3,063,609	3,043,218	-	3,043,218
Fixed deposits	239,523	-	239,523	246,447	-	246,447
Call deposits	2,342	-	2,342	3,339	-	3,339
Other deposits	75,318	-	75,318	53,996	-	53,996
	4,620,648	-	4,620,648	4,579,982	-	4,579,982

15.1 Others deposits include staff security deposits and employees' provident fund deposits.

	2020	2019
	Rupees in '000'	
15.2 Composition of deposits		
- Individuals	3,918,249	4,191,363
- Government (Federal and Provincial)	249,172	2,404
- Private Sector	453,227	386,215
	4,620,648	4,579,982

15.3 The above deposits include eligible deposits amounting to Rs. 4,221,396 thousand (2019: Rs. 4,452,396 thousand) vide DPC Circular No. 04 of 2018 dated 22 June 2018.

	Note	2020	2019
		Rupees in '000'	
16 OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		61,189	58,329
Accrued expenses		6,704	8,745
Provision for salary payable / VSS Package		264,285	264,285
Sundry creditors	16.1	69,620	66,357
Advance taxation (payments less provisions)		105,815	88,587
Dissolved bank payable		37,427	37,427
Provision for employees' gratuity		98,651	80,392
Provision for employees' pension fund		2,618,962	2,693,863
Provision for employees' compensated absences		188,112	189,975
Withholding tax payable		6,509	10,456
Branch adjustment		-	102,322
Memorandum account		2,590,002	-
Others		25,476	23,812
		6,072,752	3,624,550

16.1 This includes amounts of Rs. 6,274 thousands payable on account of Rahwali Sugar Mills and Bid Money of Rs. 12,300 thousand for sale of land at Thokar Niaz Baig. The bid money was forfeited by the Bank as per settled agreement with respect to auction of the land in 1999 on failure of the purchaser to deposit the remaining purchase money. However, the purchaser has filed a suit in the court against the Bank for recovery of the above said amounts that is pending for adjudication.

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
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17 SHARE CAPITAL

17.1 Authorized Capital

The authorized share capital consist of an unlimited number of shares of the value of one hundred rupees, as per Section 4 of the Punjab Provincial Cooperative Bank Limited Bye-laws 2010.

17.2 Issued, subscribed and paid up capital

2020	2019		Note	2020	2019
Number of Shares				Rupees in '000'	
		Ordinary shares of Rs. 100 each			
78,492,691	78,492,691	Fully paid in cash		7,849,269	7,849,269
375,730	375,730	Issued as bonus shares		37,573	37,573
<u>78,868,421</u>	<u>78,868,421</u>			<u>7,886,842</u>	<u>7,886,842</u>
(13,932)	(13,519)	Shares refunded	17.2.1	(1,393)	(1,352)
<u>78,854,489</u>	<u>78,854,902</u>			<u>7,885,449</u>	<u>7,885,490</u>

17.2.1 Shares refunded

13,520	12,859	As at July, 1	1,352	1,286
582	1,442	Refunded during the year	58	144
(170)	(781)	Reissued during the year	(17)	(78)
<u>13,932</u>	<u>13,520</u>	As at June, 30	<u>1,393</u>	<u>1,352</u>

This represents the amount against shares refunded to societies in the event of cessation of membership of a member society as per bye-law 13 of the Punjab Provincial Cooperative Bank Limited Bye-Laws 2010.

17.3 State Bank of Pakistan (SBP) vide letter No. BPRD/BACPD/629/023472/15 dated October 26, 2015 relaxed the Minimum Capital Requirement (MCR) for the Bank to Rs. 6 Billion (net of losses) subject to the conditions given below:

1 - Increase the bank's paid up capital (net of losses) to Rs. 6 billion by December 31, 2015.

2 - Appointment of bank's full time / regular president and constitution of its Board of Directors in line with the SBP's Fit and Proper Test (FPT) criteria and other applicable laws, rules and regulations by November 30, 2015.

3 - The bank will submit a strategic plan to function in a self sustainable manner duly meeting applicable regulatory requirements in the areas of risk management, capital, corporate governance etc. The strategic plan should further outline bank business model, proposed commercial banking products / practices and competitive policies, duly supporting the future viability of PPCBL. The plan should be submitted by December 31, 2015.

4 - With the exception of expenses towards banks, sovereigns and PSEs, per party exposure limits for all other customers will be 50% of the PRs limit.

The bank due to circumstances beyond its control could not fully comply with the requirements as set out above with regard to constitution of Board and strategic plan due to non-existence of Board within the prescribed date, whereas requirement of para 4 as above is not applicable to the Bank. However management of the bank is in process to comply with these conditions fully when the circumstances would allow.

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	Note	2020	2019
Rupees in '000'			
18 SURPLUS ON REVALUATION OF ASSETS			
Surplus on revaluation of			
- Available for sale securities	7.1	604,865	397,428
- Fixed assets	18.1	6,868,774	6,868,774
		7,473,639	7,266,202
Deferred tax on surplus on revaluation of:			
- Available for sale securities	11	-	-
- Fixed assets	11	-	-
		-	-
		7,473,639	7,266,202
18.1 Surplus on revaluation of fixed assets			
Surplus on revaluation of fixed assets as at July 1		6,868,774	6,868,774
Surplus on revaluation of fixed assets as at June 30		6,868,774	6,868,774
18.2 There is no movement during the year in surplus on revaluation of fixed assets.			
19 CONTINGENCIES AND COMMITMENTS			
- Commitments	19.1	9,760	10,464
- Other contingent liabilities	19.2	9,000	9,000
		18,760	19,464
19.1 Commitments			
- Civil work		3,530	3,530
- Intangible assets		6,230	6,934
		9,760	10,464
19.2 Other contingent liabilities			
		9,000	9,000

These represent certain claims by third parties against the Bank, which are being contested in the Courts of law. The management is of the view that these relate to the normal course of business and the possibility of an outflow of economic resources is remote.

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
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19.2.1 Sales tax notice

The sales tax department had issued a show cause notice dated: 14-07-2003 to the bank stating as to why the sales tax amounting to Rs.5,041 thousand had not been paid to the Government in regard to sale of machinery valuing Rs. 33,600 thousand of Rahwali Sugar Mills to M/s Ali Industrial and Engineering Works, Karachi. The bank filed petition against the above show cause notice on the ground that bank had sold debris, scrap and non-operative machinery which were not sales tax leviable items, on which Lahore High Court has suspended the show cause notice vide order dated: 06-08-2003. The case has been remanded back to Sales tax department by the Lahore High Court on 18-06-2010, now pending adjudication before the Department.

19.2.2 Income tax status / exposure:

The Income Tax Returns up to the tax year 2019 have been filed under Self Assessment Scheme with the Income Tax Department of Federal Board of Revenue (FBR) which are "deemed assessment orders" unless selected for Audit or revised under respective sections of Income Tax Ordinance by the FBR Authorities.

19.2.3 The Bank is in litigation with the Income Tax Department where by appeals and cross appeals for the assessment years 1999-2000 to 2002-2003 on account of orders passed under Section 62 of the Income Tax Ordinance, 1979 (Repealed Ordinance) and for tax years 2003 to 2009 on account of section 122(1) / 122(5A) of the Income Tax Ordinance, 2001.

19.2.4 The Bank is in litigation for tax year 2010 on account of Section 161/ 205/ 221(1) of the Income Tax Ordinance, 2001 where PPCBL and FBR, both are in crossed appeal before Appellate Tribunal Inland Revenue with the involvement of Rs. 29 thousand and Rs. 1,597 thousand respectively.

19.2.5 Tax return for the year 2008 was selected for audit under section 177(4) of Income Tax Ordinance, 2001. Accordingly Income Tax Department raised a demand of Rs. 435,226 thousand vide order dated September 29, 2009. Afterwards, CIR (Appeals) vide his order dated January 20, 2010 annulled such assessed amount. Later on, Department went into appeal against the order of CIR (Appeals). ITAT has remanded back the case to Department. The Bank has filed appeal before Lahore High Court.

19.2.6 In case of assessment years 2012, 2013 and 2014, Additional CIR passed an order u/s 122(5A) dated 30.05.2018 and created liability of Rs. 544.285 thousand, Rs. 16,854.582 thousand and Rs. 724.551 thousand respectively. Appeal has been filed before CIR and stay order has been obtained from Lahore High Court, against the notice u/s 138(2) in all respective years.

19.2.7 In case of tax year 2014, the Bank has filed an appeal against an order passed by CIR u/s 182(1) amounting Rs. 463.120 thousand on account of filing of late return for tax year 2014 before Appellate Tribunal Inland Revenue.

19.2.8 The bank is contingently liable to super tax demand for the tax year 2015 to the tune of Rs. 4,400 thousand as claimed by the department. However management of the bank and its tax advisor are of the view that since the bank is registered under the Cooperative Societies Act, 1925 therefore the provisions of section 4B of Income Tax Ordinance, 2001 are not applicable on it. Accordingly the provision for super tax has not been recorded in the financial statements.

19.2.9 In case of assessment years 2016, Additional CIR passed an order u/s 122(5A) dated 30.11.2017 and created liability of Rs. 17,121.660 thousand Appeal has been filed before CIR (Appeal) and stay order has been obtained against the notice u/s 138(2) from Lahore High Court.

19.2.10 In case of assessment year 2018, ACIR-FBR imposed penalty for non payment of Advance Tax @ 90% u/s 161/205(1B) of Income Tax Ordinance 2001, for Rs. 101.652 thousand. Appeal has been filed before ATIR and stay has been granted accordingly.

19.2.11 PRA had conducted the audit of PST, resultantly liability of Rs. 684.682 thousand was created. Bank filed an appeal before Punjab Revenue Appellate Authority, but not heard. In parallel PPCBL has obtained stay order against recovery of the said amount from Honorable Lahore High Court till the decision of the case by PRA Appellate Authority.

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020	2019
		Rupees in '000'	
20 MARK-UP/RETURN/INTEREST EARNED			
On:			
a) Loans and advances		1,712,550	1,589,896
b) Investments		217,320	209,547
c) Balances with banks		113,616	110,790
		2,043,486	1,910,233
21 MARK-UP/RETURN/INTEREST EXPENSED			
Deposits		315,340	207,511
22 FEE & COMMISSION INCOME			
Branch banking customer fees		-	6
Commission on utility bills		9,791	10,729
Commission on guarantees		9,280	706
Commission on remittances including home remittances		-	3,860
Commission received on deposit category		1,961	1,624
Bank and service charges		3,335	3,165
Consumer finance related fees		34,954	30,562
Profit on books for sale		8,036	7,327
Rent on lockers		841	1,030
Others		3,726	2,720
		71,924	61,729
23 OTHER INCOME			
Rent on property		60,040	60,195
24 OPERATING EXPENSES			
Total compensation expense	24.1	1,442,384	1,221,761
Property expense			
Rent and taxes		49,768	40,104
Insurance		8,630	8,543
Utilities cost		28,308	27,882
Security (including guards)		37	24
Repair and maintenance (including janitorial charges)		3,731	4,316
Depreciation		2,502	2,535
		92,976	83,404
Information technology expenses			
Amortisation		1,778	2,157

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	Note	2020	2019
		Rupees in '000'	
Other operating expenses			
Legal and professional charges		12,456	8,017
Depreciation		15,777	17,581
Postage and courier charges		5,638	5,574
Communication		16,210	16,779
Stationery and printing		3,074	3,911
Marketing, advertisement and publicity		1,202	1,481
Donations		93	-
Auditors' remuneration	24.2	4,710	4,710
Others		81,368	66,707
		140,528	124,760
		1,677,666	1,432,082

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
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2020 2019
Rupees in '000'

24.1 Total compensation expense

Salary and allowances	966,628	922,311
Managerial remuneration		
i) Fixed	18,148	16,807
Fees and allowances etc	854	1,585
Charge for defined benefit plan	418,961	242,121
Contribution to defined contribution plan	9,680	11,452
Conveyance	24,972	26,867
Others	3,141	618
Grand Total	1,442,384	1,221,761

24.2 Auditors' remuneration

	M/s Muniff Zia-ud-Din & Co	M/s Aslam Malik & Co.	M/s Zahid Noor & Co.	M/s Ahmad Mushir & Co.	M/s Hasnain Ali & Co.	M/s Kamran & Co.	M/s Suleman Arshad & Co.	M/s Malik & Co.	M/s M.A. Chaudhry & Co.	Total	Total
	Rupees in '000 -----										
Audit fee	645	540	510	510	510	450	540	540	420	4,665	4,665
Half yearly review fee	45	-	-	-	-	-	-	-	-	45	45
Fee for other statutory certifications	-	-	-	-	-	-	-	-	-	-	-
Fee for audit of employee funds	-	-	-	-	-	-	-	-	-	-	-
Special certifications and sundry advisory services	-	-	-	-	-	-	-	-	-	-	-
Tax services	-	-	-	-	-	-	-	-	-	-	-
Out-of-pocket expenses	-	-	-	-	-	-	-	-	-	-	-
	690	540	510	510	510	450	540	540	420	4,710	4,710

25 OTHER CHARGES

	Note	2020	2019
		Rupees in '000'	
Penalties imposed by State Bank of Pakistan		30	651

26 PROVISIONS & WRITE OFFS - NET

Provisions against lending to financial institutions		-	-
Provisions for diminution in value of investments	7.3.1	-	-
Provisions against loans & advances	8.3	-	-
Provisions for salary payable		-	100,000
Bad debts written off directly		-	-
Recovery of written off / charged off bad debts		-	-
		-	100,000

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	Note	2020	2019
		Rupees in '000'	
27 TAXATION			
Current		64,136	68,358
Prior years		-	-
Deferred	11	-	-
		<u>64,136</u>	<u>68,358</u>
27.1 Relationship between tax expense and accounting profit			
Accounting profit for the year		<u>213,436</u>	<u>330,714</u>
Tax on income @ 35% (2019: 35%)		74,703	115,750
Tax on separate block of income		21,700	27,249
Others		(32,267)	(74,641)
		<u>64,136</u>	<u>68,358</u>
28 BASIC AND DILUTED EARNINGS PER SHARE			
Profit for the year		<u>149,300</u>	<u>262,356</u>
Weighted average number of ordinary shares		<u>78,854,489</u>	<u>78,854,902</u>
Basic and diluted earnings per share		<u>1.89</u>	<u>3.33</u>
There is no dilutive effect on basic earnings per share during the year.			
29 CASH AND CASH EQUIVALENTS			
Cash and balance with treasury banks		840,207	742,268
Balance with other banks		1,088,417	959,517
		<u>1,928,624</u>	<u>1,701,785</u>

29.1 Reconciliation of movement of liabilities to cash flows arising from financing activities

2020				
----- 'Rupees in '000' -----				
Liabilities	Equity			
Other liabilities	Share capital	Reserves	Accumulated loss	
Balance as at July 01	3,624,550	7,885,490	8,075,351	(1,762,760)
Changes from financing cash flows				
- Cash based				
Issue of shares	-	17	-	-
Refund of shares	-	(58)	-	-
Medical aid to staff	-	-	(295)	-
- Non-cash based	-	-	39,325	165,040
	-	(41)	39,030	165,040
Liability-related				
- Cash based	(560,761)	-	-	-
- Non-cash based	3,008,963	-	-	-
	2,448,202	-	-	-
Balance as at June 30	6,072,752	7,885,449	8,114,381	(1,597,720)

2019				
----- 'Rupees in '000' -----				
Liabilities	Equity			
Other liabilities	Share capital	Reserves	Accumulated loss	
Balance as at July 01	3,569,088	7,885,556	8,127,588	(1,780,620)
Changes from financing cash flows				
- Cash based				
Refund of shares	-	(66)	-	-
Medical aid to staff	-	-	(550)	-
- Non-cash based	-	-	67,589	17,860
	-	(66)	67,039	17,860
Liability-related				
- Cash based	(186,659)	-	-	-
- Non-cash based	242,121	-	-	-
	55,462	-	-	-
Balance as at June 30	3,624,550	7,885,490	8,194,627	(1,762,760)

	2020	2019
	----- (Number) -----	
30 STAFF STRENGTH		
Permanent	963	1,038
On bank contract	666	631
Others (Daily wages)	158	158
Bank's own staff strength at the end of the year	<u><u>1,787</u></u>	<u><u>1,827</u></u>

31 DEFINED BENEFIT PLAN

31.1 General description

The Bank operates an unfunded gratuity scheme and a defined benefit plan, for all its employees who have completed the minimum qualifying service period. Under the scheme, the bank pays a lump-sum benefit equal to last drawn monthly gross salary for each year of service to members whereas the members are not required to make any contributions to the scheme. The scheme is administered by the management of the bank under the supervision and directions of the administrator of the bank. The amount recognized on statement of financial position represents present value of defined benefit obligation. Actuarial gains and losses that arise out of experience adjustments and changes in actuarial assumptions are recognised in statement of comprehensive income with no subsequent recycling through the profit and loss account.

31.2 Number of employees under the scheme

The number of employees covered under the following defined benefit schemes are:

	2020	2019
	----- (Number) -----	
- Pension fund	1,144	1,108
- Gratuity fund	245	266
- Leave encashment scheme	709	751

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2020

31.3 Principal actuarial assumptions

The actuarial valuations were carried out for June 30, 2020 based on the Projected Unit Credit Method, using the following significant assumptions:

	Pension Fund		Gratuity Fund		Compensated Absence	
	2020	2019	2020	2019	2020	2019
Discount rate	9.25%	14.50%	8.50%	14.25%	9.25%	14.25%
Short term salary increase rate	4.25%	3.00%	3.50%	3.00%	4.25%	3.00%
Long term salary increase rate	7.25%	12.50%	6.50%	12.25%	7.25%	12.25%
Pension indexation rate	1.50%	6.75%	-	-	-	-
Expected return on plan asset	9.25%	3.00%	-	-	-	-

The expected return on plan assets is based on the market expectations and depends on the asset portfolio of the Bank, at the beginning of the year, for returns over the entire life of the related obligation.

31.4 Reconciliation of (receivable from) / payable to defined benefit plans

	Pension Fund		Gratuity Fund		Compensated Absence	
	2020	2019	2020	2019	2020	2019
	-----Rupees in '000'-----					
Present value of obligations	4,599,282	4,407,072	98,650	80,393	188,112	189,975
Fair value of plan assets	(1,980,320)	(1,713,209)	-	-	-	-
Net payable / (receivable) at the year end	2,618,962	2,693,863	98,650	80,393	188,112	189,975

31.5 Movement in defined benefit obligations

	Pension Fund		Gratuity Fund		Compensated Absence	
	2020	2019	2020	2019	2020	2019
	-----Rupees in '000'-----					
Obligations at the beginning of the year	4,407,072	3,956,273	80,393	89,161	189,975	245,946
Current service cost	40,042	60,611	3,289	3,210	369	496
Interest cost	619,893	346,940	11,315	8,091	26,670	22,025
Benefits paid by the Bank	(263,891)	(202,776)	(1,978)	(3,388)	(5,641)	(2,446)
Re-measurement loss / (gain)	(203,834)	246,024	5,631	(16,681)	(23,261)	(76,046)
Impact of Pension increase / past payments	-	-	-	-	-	-
Obligations at the end of the year	4,599,282	4,407,072	98,650	80,393	188,112	189,975

31.6 Movement in fair value of plan assets

	Pension Fund		Gratuity Fund		Compensated Absence	
	2020	2019	2020	2019	2020	2019
	-----Rupees in '000'-----					
Fair value at the beginning of the year	1,713,209	1,200,317	-	-	-	-
Interest income on plan assets	259,355	123,205	-	-	-	-
Contribution by the Bank - net	414,785	540,027	-	-	-	-
Benefit payments from plan	(263,891)	(202,776)	-	-	-	-
Re-measurements: Net return on plan assets (excluding interest income)	(143,138)	52,436	-	-	-	-
Fair value at the end of the year	1,980,320	1,713,209	-	-	-	-

31.7 Movement in (receivable) / payable under defined benefit schemes

	Pension Fund		Gratuity Fund		Compensated Absence	
	2020	2019	2020	2019	2020	2019
	-----Rupees in '000'-----					
Present value of defined benefit obligation	2,693,863	2,755,956	80,392	89,161	189,975	245,946
Charge for the year	400,580	284,346	14,604	11,300	3,777	(53,525)
Contributions paid	(414,785)	(540,027)	-	-	-	-
Benefits paid	-	-	(1,978)	(3,388)	(5,640)	(2,446)
Re-measurement loss / (gain) recognised in OCI	(60,696)	193,588	5,631	(16,681)	-	-
Present value as at June 30	2,618,962	2,693,863	98,649	80,392	188,112	189,975

31.8 Charge for defined benefit plans

31.8.1 Cost recognised in profit and loss

	Pension Fund		Gratuity Fund		Compensated Absence	
	2020	2019	2020	2019	2020	2019
	-----Rupees in '000'-----					
Current service cost	40,042	60,611	3,289	3,210	369	496
Net interest on defined benefit asset / liability	360,538	223,735	11,315	8,091	26,669	22,025
Past service cost	-	-	-	17,991	-	-
Actuarial (gain) / loss	-	-	-	-	(23,261)	(76,046)
	400,580	284,346	14,604	29,292	3,777	(53,525)

31.8.2 Re-measurements recognised in OCI during the year

	Pension Fund		Gratuity Fund		Compensated Absence	
	2020	2019	2020	2019	2020	2019
	-----Rupees in '000'-----					
Loss / (gain) on obligation						
- Experience adjustment	(203,834)	246,024	5,631	(16,681)	-	-
Return on plan assets over interest income	143,138	(52,437)	-	-	-	-
Total re-measurements recognised in OCI	(60,696)	193,588	5,631	(16,681)	-	-

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2020
Pension fund
Rupees in '000'

31.9 Components of plan assets

Cash and cash equivalents	38,958
Government Securities	1,941,362
	1,980,320

31.9.1 Investment in Government securities are subject to credit risk and interest rate risks. These risks are regularly monitored by the Trustees of the employee funds.

31.10 Sensitivity analysis

Sensitivity analysis has been performed by varying one assumption while keeping all other assumptions constant and calculating the impact on the present value of the defined benefit obligations under the various employee benefit schemes. The increase / (decrease) in the present value of defined benefit obligations as a result of change in each assumption is summarized below:

	2020		
	Pension fund	Gratuity fund	Compensated absence
	----- Rupees in '000' -----		
Defined benefit obligation	4,599,282	98,650	188,112
1% increase in discount rate	4,185,459	91,362	176,983
1% decrease in discount rate	5,087,605	107,071	200,354
1% increase in expected rate of salary increase	4,778,896	107,279	200,546
1% decrease in expected rate of salary increase	4,432,381	91,063	176,616
1% increase in expected rate of pension increase	4,945,889	-	-
1% decrease in expected rate of pension increase	4,300,520	-	-
1% increase in expected rate of mortality set back	4,649,256	-	-
1% decrease in expected rate of mortality set forward	4,548,297	-	-

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied.

31.11 Expected contributions to be paid to the funds in the next financial year

The Bank contributes to the pension and gratuity funds as per actuarial expected charge for the next financial year.

31.12 Expected charge / (reversal) for the next financial year

Based on actuarial advice, management estimates that the charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2021 would be as follows:

	2021		
	Pension fund	Gratuity fund	Compensated absence
	----- Rupees in '000' -----		
Expected charge / (reversal for the year)	488,363	11,954	17,803

31.13 Maturity profile

	Pension fund	Gratuity fund	Compensated absence
The weighted average duration of the obligation (in years)	10	8	6

31.14 Funding policy

The Bank endeavours to ensure that liabilities under the various employee benefit schemes are covered by the Fund on any valuation date having regards to the various actuarial assumptions such as projected future salary increase, expected future contributions to the fund, projected increase in liability associated with future service and the projected investment income of the Fund.

31.15 Risks associated with defined benefit plans

The defined benefit plans may expose the bank to actuarial risks such as longevity risk, investment risk, salary increase risk and withdrawal rate risk as described below:

Longevity risk

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Investment risk

The risk arises when the actual performance level of investment levels is lower than expectation and thus creating a shortfall in the funding objectives.

Salary increase risk

The most common type of retirement benefit is one where the final benefit is linked with final salary. The risk arises when the actual increases are higher than expectations and impact the liability accordingly.

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Withdrawal rate

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

32 DEFINED CONTRIBUTION PLAN

The Bank operates an approved contributory provident fund scheme for 245 (2019: 266) employees who did not opt for pension in lieu of gratuity. The employer and employee each contribute 10.00% of the basic salary to the scheme every month.

33 COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

33.1 Total compensation expense

Items	2020			Members Shariah Board	President / CEO	Key Management Personnel	Other Material Risk Takers/ Controllers
	Chairman	Executives (other than CEO)	Non- Executives				
	-----Rupees in '000'-----						
Fees and allowances etc	-	-	-	-	-	-	-
Managerial Remuneration							
i) Fixed	-	-	-	-	1,562	16,586	-
ii) Total Variable	-	-	-	-	-	-	-
of which							
a) Cash bonus / awards	-	-	-	-	-	-	-
b) Bonus & awards in shares	-	-	-	-	-	-	-
Charge for defined benefit plan	-	-	-	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	-	-	-
Rent & house maintenance	-	-	-	-	247	2,406	-
Utilities	-	-	-	-	13	147	-
Medical	-	-	-	-	124	1,116	-
Conveyance	-	-	-	-	-	143	-
Others	-	-	-	-	719	7,199	-
Total	-	-	-	-	2,665	27,597	-
Number of persons	-	-	-	-	1	15	-

33.2 Total compensation paid during the year to President / CEO represents amount paid to acting president.

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FOR THE YEAR ENDED JUNE 30, 2020

33.3

Items	2019						
	Directors			Members Shariah Board	President / CEO	Key Management Personnel	Other Material Risk Takers/ Controllers
	Chairman	Executives (other than CEO)	Non- Executives				
Fees and allowances etc.	-	-	-	-	3,289	16,707	-
Managerial remuneration							
i) Fixed	-	-	-	-	-	-	-
ii) Total Variable	-	-	-	-	-	-	-
of which							
a) Cash bonus / awards	-	-	-	-	-	-	-
b) Bonus & awards in Shares	-	-	-	-	-	-	-
Charge for defined benefit plan	-	-	-	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	-	-	-
Rent & house maintenance	-	-	-	-	352	2,994	-
Utilities	-	-	-	-	18	269	-
Medical	-	-	-	-	137	1,375	-
Conveyance	-	-	-	-	-	94	-
Others	-	-	-	-	2,528	9,856	-
Total	-	-	-	-	6,324	31,295	-
Number of Persons	-	-	-	-	1	17	-

34 FAIR VALUE MEASUREMENTS

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost. The carrying amount of unquoted equity securities, is determined on the basis of the break-up value of these investments as per their latest available audited financial statements. The fair value of other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to the absence of a current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

34.1 Fair value of financial assets

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using input for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

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34.2 The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

June 30, 2020				
Carrying Value	Level 1	Level 2	Level 3	Total

On balance sheet financial instruments

----- Rupees in '000' -----

Financial assets - measured at fair value

Investments

Shares	611,888	611,888	-	-	611,888
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Financial assets - disclosed but not measured at fair value

Cash and balances with treasury banks	840,207	-	-	-	-
Balances with other banks	1,088,417	-	-	-	-
Investments in treasury bills and NBFCs	1,479,300	-	-	-	-
Advances	10,373,331	-	-	-	-
Other Assets	3,675,902	-	-	-	-

Financial liabilities - measured at fair value

	-	-	-	-	-
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Financial liabilities - disclosed but not measured at fair value

Bills payable	22,921	-	-	-	-
Deposits and other accounts	4,620,648	-	-	-	-
Other liabilities	5,934,952	-	-	-	-

June 30, 2019				
Carrying Value	Level 1	Level 2	Level 3	Total

On balance sheet financial instruments

----- Rupees in '000' -----

Financial assets - measured at fair value

Investments

Shares	404,451	404,451	-	-	404,451
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Financial assets - disclosed but not measured at fair value

Cash and balances with treasury banks	742,268	-	-	-	-
Balances with other banks	959,517	-	-	-	-
Investments in Treasury bills and NBFCs	2,469,985	-	-	-	-
Advances	9,861,768	-	-	-	-
Other Assets	833,784	-	-	-	-

Financial liabilities - measured at fair value

	-	-	-	-	-
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Financial liabilities - disclosed but not measured at fair value

Bills payable	52,635	-	-	-	-
Deposits and other accounts	4,579,982	-	-	-	-
Other liabilities	3,624,550	-	-	-	-

34.3 Fixed assets include land which is carried at revalued amounts (level 3 measurement) determined by professional valuers based on their assessment of the market values as disclosed in note 9. The valuations are conducted by the valuation experts appointed by the Bank which are also on the panel of State Bank of Pakistan.

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35 SEGMENT INFORMATION

35.1 Segment details with respect to business activities

2020			
Retail banking	Retail finance lending	Others	Total

----- Rupees in '000' -----

Profit & loss

Net mark-up / return / profit	113,616	1,712,550	217,320	2,043,486
Non mark-up / return / interest income	71,924	-	91,062	162,986
Total Income	185,540	1,712,550	308,382	2,206,472
Segment direct expenses	315,370	-	1,677,666	1,993,036
Total expenses	315,370	-	1,677,666	1,993,036
Provisions	-	-	-	-
Profit before tax	(129,830)	1,712,550	(1,369,284)	213,436

Retail banking	Retail finance lending	Others	Total
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----- Rupees in '000' -----

Balance sheet

Cash & bank balances	-	-	1,928,624	1,928,624
Investments	-	-	2,093,150	2,093,150
Net inter segment lending	-	-	-	-
Lendings to financial institutions	-	-	-	-
Advances - performing	-	9,427,639	-	9,427,639
Advances - non-performing	-	945,692	-	945,692
Others	3,605	3,423,504	7,503,654	10,930,763
Total assets	3,605	13,796,835	11,525,428	25,325,868
Bills payable	22,921	-	-	22,921
Deposits & other accounts	4,620,648	-	-	4,620,648
Net inter segment borrowing	-	-	-	-
Others	61,189	2,590,002	3,421,561	6,072,752
Total liabilities	4,704,758	2,590,002	3,421,561	10,716,321
Equity	-	-	14,609,547	14,609,547
Total equity & liabilities	4,704,758	2,590,002	18,031,108	25,325,868
Contingencies & Commitments	-	-	-	-

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2019			
Retail financing	Commercial banking	Others	Total

----- Rupees in '000' -----

Profit & loss

Net mark-up / return / profit	1,589,896	320,337	-	1,910,233
Inter segment revenue - net	-	-	-	-
Non mark-up / return / interest income	-	-	160,725	160,725
Total Income	1,589,896	320,337	160,725	2,070,958
Segment direct expenses	(1,361,813)	(207,511)	(70,920)	(1,640,244)
Inter segment expense allocation	-	-	-	-
Total expenses	(1,361,813)	(207,511)	(70,920)	(1,640,244)
Provisions	(100,000)	-	-	(100,000)
Profit before tax	128,083	112,826	89,805	330,714

Retail financing	Commercial banking	Others	Total
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----- Rupees in '000' -----

Balance sheet

Cash & bank balances	-	1,701,785	-	1,701,785
Investments	-	2,876,398	-	2,876,398
Net inter segment lending	-	-	-	-
Lendings to financial institutions	-	-	-	-
Advances - performing	9,089,123	-	-	9,089,123
Advances - non-performing	772,645	-	-	772,645
Others	8,015,297	-	-	8,015,297
Total assets	17,877,065	4,578,183	-	22,455,248
Bills payable	52,635	-	-	52,635
Deposits & other accounts	4,579,982	-	-	4,579,982
Net inter segment borrowing	-	-	-	-
Others	3,563,361	61,189	-	3,624,550
Total liabilities	8,195,978	61,189	-	8,257,167
Equity	14,198,081	-	-	14,198,081
Total equity & liabilities	22,394,059	61,189	-	22,455,248

Contingencies & Commitments

- - - - -

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NOTES TO THE ACCOUNTS
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36 RELATED PARTY TRANSACTIONS

Related parties comprise of key management personnel, provident fund trust, pension fund trust, Registrar Co-operative Societies and the Government of Punjab.

The Bank enters into transactions with related parties in the ordinary course of business and on substantially the same terms as for comparable transactions with person of similar standing. Contributions to and accruals in respect of staff retirement benefits and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to the executives / officers is determined in accordance with the terms of their appointment.

Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements are as follows:

	2020			2019		
	Key management personnel	Provident fund trust	Pension fund trust	Key management personnel	Provident fund trust	Pension fund trust
	----- (Rupees in '000') -----					
Advances						
Opening balance	6,094	-	-	7,059	-	-
Addition during the year	10,205	-	-	6,734	-	-
Repaid during the year	(5,385)	-	-	(7,699)	-	-
Transfer in / (out) - net	-	-	-	-	-	-
Closing balance	10,914	-	-	6,094	-	-
Other liabilities						
Payable to staff retirement fund	-	-	2,618,962	-	-	2,693,863
	-	-	2,618,962	-	-	2,693,863
Income						
Mark-up / return / interest earned	933	-	-	1,096	-	-
	933	-	-	1,096	-	-
Expense						
Total compensation expense	30,262	-	-	37,211	-	-
Contribution for the year	-	9,680	414,785	-	11,519	540,027
	30,262	9,680	414,785	37,211	11,519	540,027

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2020 2019
Rupees in '000'

37 CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

Minimum Capital Requirement (MCR):

Paid-up capital (net of losses)	<u>6,000,000</u>	<u>6,000,000</u>
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Capital Adequacy Ratio (CAR):

Eligible Common Equity Tier 1 (CET 1) Capital	<u>7,122,319</u>	3,965,871
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Eligible Additional Tier 1 (ADT 1) Capital	<u>-</u>	-
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Total Eligible Tier 1 Capital	<u>7,122,319</u>	3,965,871
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Eligible Tier 2 Capital	<u>2,814,722</u>	1,440,325
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Total Eligible Capital (Tier 1 + Tier 2)	<u>9,937,040</u>	5,406,196
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Risk Weighted Assets (RWAs):

Credit Risk	<u>20,020,929</u>	16,540,725
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Market Risk	<u>1,318,937</u>	808,902
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Operational Risk	<u>3,125,934</u>	3,014,004
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Total	<u>24,465,800</u>	20,363,631
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Common Equity Tier 1 Capital Adequacy ratio	<u>29.11</u>	19.48
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Tier 1 Capital Adequacy Ratio	<u>29.11</u>	7.07
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Total Capital Adequacy Ratio	<u>40.62</u>	26.55
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37.1 State Bank of Pakistan (SBP) vide Letter No. BPRD/BACPD/629/023472/15 dated 26.10.2015 required from Bank to have a minimum paid up capital (net of losses) of Rs. 6 billion. Further, the bank is required to maintain a Capital Adequacy Ratio of 16% at all times. As of June 30, 2020, the paid up capital of the Bank net of losses amounts to Rs. 6,287,729 thousands which is in agreement with regulatory requirements (refer to note 17.3). The management is in the process of implementation of Basel III and in the meanwhile have applied for obtaining further extension in this regard. For the time being CAR is being reported under Basel I as per instructions issued under circular No. 12 of 2004 as allowed by SBP.

Standardized Approach is used for calculating the Credit and Market risk, whereas, Basic Indicator Approach is used for Operational Risk in the Capital Adequacy Calculation.

2020 2019
Rupees in '000'

Leverage Ratio (LR):

Eligible Tier-1 Capital	<u>7,122,319</u>	4,043,603
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Total Exposures	<u>25,325,868</u>	22,402,490
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Leverage Ratio	<u>28.12</u>	18.05
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Liquidity Coverage Ratio (LCR):

Total High Quality Liquid Assets	<u>1,147,132</u>	3,384,442
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Total Net Cash Outflow	<u>136,544</u>	484,583
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Liquidity Coverage Ratio	<u>8.40</u>	6.98
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Net Stable Funding Ratio (NSFR):

Total Available Stable Funding	<u>12,588,241</u>	12,488,584
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Total Required Stable Funding	<u>6,434,890</u>	6,589,914
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Net Stable Funding Ratio	<u>196</u>	190
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38 RISK MANAGEMENT

Risk is an inherent part of banking business activities. The risk management framework and governance structure at the Bank helps to mitigate and counter any foreseeable risk in its various lines of business. Risk awareness forms an integral part of strategic and operational activities of risk management. Through its risk management policy the Bank sets the best course of action under uncertainty by identifying, prioritizing, mitigating and monitoring risk issues, with the goal of enhancing shareholders' value. Bank's risk management structure is based on the following five guiding principles:

- Optimizing risk / return in a controlled manner
- Establishing clear responsibility and accountability
- Establishing independent and properly resourced risk management function.
- Promoting open risk culture
- Adopting international best practices in risk management

Keeping in view dynamics of internal and external environment, the bank regularly reviews and updates policy manuals / frameworks and procedures in accordance with domestic regulatory environment and international standards.

The Bank executes its risk strategy and undertakes controlled risk-taking activities within its risk management framework. The administrator and the relevant committee, i.e., Asset and Liability Management Committee (ALCO) and Compliance Committee etc., are responsible to ensure formulation and implementation of comprehensive Risk Management Framework. This framework is based on prudent risk identification, measurement, management and monitoring processes which are closely aligned with the activities of the bank. The framework combines core policies, procedures and process designs with broad oversight and is supported by an efficient monitoring mechanism across the bank to ensure that risks are kept within an acceptable level.

The Bank ensures that not only the relevant risks are identified but their implications are also considered and basis provided for managing and measuring the risks. Through Internal Control units, the Bank ensures that effective controls are in place to mitigate each of the identified risk.

Independent from business groups, Head of Risk Management reports functionally to the administrator; the ALCO convenes regular meetings to evaluate bank's risk and portfolio concentrations. The Risk Management Committee performs the following critical functions:

- Risk management policy formulation
- Credit risk management
- Credit review
- Credit risk control
- Market risk management
- Liquidity risk management
- Operational risk management
- It risk management

Keeping in view the international best practices and SBP requirements, the administrator of the Bank has approved a program, which takes into account quantitative and qualitative risk indicators, covering target ratios, credit, market, operational, liquidity and business risks.

38.1 Credit Risk

Credit risk arises from the Bank's dealings with individuals, cooperative societies, financial institutions etc. The Bank is exposed to credit risk through its lending and investment activities. Credit risk makes up the largest part of the Bank's exposure and it stems from Bank's both on and off-balance sheet activities. Purpose of Credit Risk Management function is to identify, measure, manage, monitor and mitigate credit risk. To manage adverse outcomes in terms of unfavorable scenarios, multiple control factors in the lending structure of the Bank provide additional comfort and support. Such controls range from quality of eligible collateral, pre-disbursement safety measures to post disbursement monitoring.

The Bank has adopted Standardized Approach to measure Credit risk regulatory capital charge in compliance with Basel requirements. The approach mainly takes into account the assessment of external credit rating agencies. In line with SBP guidelines on Internal Credit Risk Rating Systems, the Bank has developed rating systems and all its borrowers are internally rated. In order to further enhance the

credit risk analysis and the processes, Probability Default based internal credit risk rating (ICRR) system based on the statistical modeling and validation in line with Basel principles has been set in place. The Internal Credit Risk Rating Model for rating of SME Customers has also been revamped to achieve more accurate results and to improve the quality of credit decisions.

In order to manage bank's credit risk, following policies and procedures are in place:

- The approval of credit limits to counter parties are subject to pre-fact review;
- Approval and review process is reviewed by RMC and internal audit;
- Management periodically reviews the powers of credit approving and credit reviewing authorities.

Ongoing administration of the credit portfolio is an essential part of the credit process that supports and controls extension and maintenance of credit. The Bank's Credit Risk Control is responsible for performing following activities:

- Credit disbursement authorization
- Collateral coverage and monitoring
- Compliance of loan covenants/ terms of approval
- Maintenance/ custody of collateral and security documentation
- Credit Risk Limit Controls

Credit risk monitoring is based on a comprehensive reporting framework. Continuous monitoring of the credit portfolio and the risks attached thereto are carried out at different levels including businesses, Audit & Risk Assets Review, Credit Risk Control, Credit Risk Management Division, etc.

To ensure a prudent distribution of asset portfolio, the Bank manages its lending and investment activities within an appropriate limits framework. Per party exposure limit is maintained in accordance with SBP Prudential Regulations.

The Bank creates specific provision against Non-Performing Loans (NPLs) in accordance with the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charges it to the profit and loss account. Provisions are held against identified as well as unidentified losses.

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38.1 Credit Risk

38.1.1 Advances

Credit risk by industry sector	Gross advances		Non-performing advances		Provision held	
	2020	2019	2020	2019	2020	2019
----- Rupees in '000' -----						
Agriculture, Forestry, Hunting and Fishing	11,538,813	11,102,742	2,446,021	2,268,272	1,509,888	1,509,888
Individuals	339,668	266,243	17,123	18,607	20,811	20,811
Others	101,121	99,054	88,635	91,853	75,572	75,572
	11,979,602	11,468,039	2,551,779	2,378,732	1,606,271	1,606,271

Credit risk by public / private sector	Gross advances		Non-performing advances		Provision held	
	2020	2019	2020	2019	2020	2019
Public / Government	950,000	1,000,000	-	-	-	-
Private	11,029,602	10,468,039	2,551,779	2,378,732	1,606,271	1,606,271
	11,979,602	11,468,039	2,551,779	2,378,732	1,606,271	1,606,271

38.1.2 Contingencies and Commitments

Credit risk by industry sector	2020	2019
	Rupees in '000'	
Others	9,000	9,000
	9,000	9,000

Credit risk by public / private sector	2020	2019
	Rupees in '000'	
Public / Government	-	-
Private	9,000	9,000
	9,000	9,000

38.1.3 Advances - Province / Region-wise Disbursement & Utilization

Province / Region	2020					
	Disbursements	Utilization				
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad
----- Rupees in '000' -----						
Punjab	9,122,276	9,122,276	-	-	-	-
Sindh	-	-	-	-	-	-
KPK including FATA	-	-	-	-	-	-
Balochistan	-	-	-	-	-	-
Islamabad	-	-	-	-	-	-
AJK including Gilgit-Baltistan	-	-	-	-	-	-
Total	9,122,276	9,122,276	-	-	-	-

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Province / Region	2019					
	Disbursements		Utilization			
	Punjab	Sindh	KPK including FATA	Balochistan	Islamabad	AJK including Gilgit-Baltistan
	----- Rupees in '000' -----					
Punjab	11,467,855	11,467,855	-	-	-	-
Sindh	-	-	-	-	-	-
KPK including FATA	-	-	-	-	-	-
Balochistan	-	-	-	-	-	-
Islamabad	-	-	-	-	-	-
AJK including Gilgit-Baltistan	-	-	-	-	-	-
Total	11,467,855	11,467,855	-	-	-	-

38.2 Market Risk

Market risk exposes the Bank to the risk of financial losses resulting from movements in market prices. It is the risk associated with changes in the interest rates, foreign exchange rates and equity prices. To manage and control market risk, the standardised approach as per Basel-II is being followed. Moreover, it also includes controls which are applied, where necessary, to individual risk types, to particular books and to specific exposures. These controls include limits on exposure to individual market risk variables as well as limits on concentrations of tenors and issuers. This structure is reviewed, adjusted and approved periodically.

38.2.1 Balance sheet split by trading and banking books

	2020			2019		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	----- Rupees in '000' -----					
Cash and balances with treasury banks	840,207	-	840,207	742,268	-	742,268
Balances with other banks	1,088,417	-	1,088,417	959,517	-	959,517
Investments	1,479,300	613,850	2,093,150	2,469,985	406,413	2,876,398
Advances	10,373,331	-	10,373,331	9,861,768	-	9,861,768
Fixed assets	7,159,766	-	7,159,766	7,166,146	-	7,166,146
Intangible assets	13,589	-	13,589	15,367	-	15,367
Other assets	3,757,408	-	3,757,408	833,784	-	833,784

38.2.2 Foreign Exchange Risk

Foreign exchange risk is the risk that the earnings and share capital will fluctuate due to changes in foreign exchange rates. The Bank only deals in Pakistan Rupees and does not deal in foreign currency, therefore the Bank does not have any exposure which is liable to foreign exchange risk.

38.2.3 Equity position Risk

Equity position risk arises due to adverse movements in the prices of equities and instruments exhibiting behaviour similar to equities held by the bank. The equity investments are classified as Available for Sale (AFS) investments. The objective of investments classified as AFS is to take advantage of both, capital gains and dividend income. CFO is primarily responsible for the oversight of the equity investment risk.

	2020		2019	
	Banking book	Trading book	Banking book	Trading book
	----- Rupees in '000' -----			
Impact of 1% change in equity prices on				
- Other comprehensive income				
+1% change		6,119	-	4,045
-1% change		(6,119)	-	(4,045)

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

Yield / Interest rate risk is the risk of decline in earnings due to adverse movement of yield curve. It arises from the possibility that changes in yield / interest rates will affect the value of financial instruments. The bank is exposed to yield / interest rate risk as a result of mismatch or gaps in the amounts of assets and liabilities that mature or re-price in a given period. Sensitivity of the bank's financial assets and financial liabilities to yield / interest rate can be evaluated from the following:

2020		2019	
Banking book	Trading book	Banking book	Trading book

----- Rupees in '000' -----

Impact of 1% change in interest rates on

- Profit and loss account				
+1% change	17,281	-	17,027	-
-1% change	(17,281)	-	(17,027)	-

38.2.5 Mismatch of Interest Rate Sensitive Assets and Liabilities

Effective Yield / Interest rate	Total	2020									Non-interest bearing financial instruments	
		Exposed to Yield/ Interest risk										
		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' -----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	6.5% to 11.25%	840,207	-	-	55,746	-	-	-	-	-	-	784,461
Balances with other banks	6.75% to 12%	1,088,417	1,080,120	-	-	-	-	-	-	-	-	8,297
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-	-
Investments	8.21% to 13.975%	2,093,150	-	397,435	-	1,081,865	-	-	-	-	-	613,850
Advances	8.5% to 20%	10,373,331	638,657	130,949	1,686,756	4,356,214	1,704,956	364,101	606,644	838,041	47,013	-
Other assets		3,757,408	-	-	-	-	-	-	-	-	-	3,757,408
		18,152,513	1,718,777	528,384	1,742,502	5,438,079	1,704,956	364,101	606,644	838,041	47,013	5,164,016
Liabilities												
Bills payable		22,921	-	-	-	-	-	-	-	-	-	22,921
Borrowings		-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	5.50% to 11.55%	4,620,648	3,137,648	154,103	129,318	401,596	123,283	29,049	273,046	33,369	64,493	274,743
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		6,072,752	-	-	-	-	-	-	-	-	-	6,072,752
		10,716,321	3,137,648	154,103	129,318	401,596	123,283	29,049	273,046	33,369	64,493	6,370,416
On-balance sheet gap		7,436,192	(1,418,871)	374,281	1,613,184	5,036,483	1,581,673	335,052	333,598	804,672	(17,480)	(1,206,400)

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Off-balance sheet financial instruments

Documentary credits and short-term trade-related transactions	-	-	-	-	-	-	-	-	-	-	-
Commitments in respect of:											
- forward foreign exchange contracts	-	-	-	-	-	-	-	-	-	-	-
- forward government securities transactions	-	-	-	-	-	-	-	-	-	-	-
- derivatives	-	-	-	-	-	-	-	-	-	-	-
- forward lending	-	-	-	-	-	-	-	-	-	-	-
Other commitments (to be specified)	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap	-	-	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap	(1,418,871)	374,281	1,613,184	5,036,483	1,581,673	335,052	333,598	804,672	(17,480)	(1,206,400)	
Cumulative Yield/Interest Risk Sensitivity Gap	(1,418,871)	(1,044,590)	568,594	5,605,077	7,186,750	7,521,802	7,855,400	8,660,072	8,642,592	7,436,192	

Effective Yield/Interest rate	Total	2019									
		Exposed to Yield/ Interest risk									
		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

On-balance sheet financial instruments

----- Rupees in '000' -----

Assets												
Cash and balances with treasury banks	10.25%	742,268	72,453	-	-	-	-	-	-	-	-	669,815
Balances with other banks	8.75% to 11.25%	959,517	954,450	-	-	-	-	-	-	-	-	5,067
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	11.16% to 12.66%	2,876,398	406,413	2,469,985	-	-	-	-	-	-	-	-
Advances	9% to 18%	9,861,768	466,524	91,922	1,426,114	2,936,741	3,198,418	672,031	305,379	654,290	110,349	-
Other assets		833,784	-	-	-	-	-	-	-	-	-	833,784
		15,273,735	1,899,840	2,561,907	1,426,114	2,936,741	3,198,418	672,031	305,379	654,290	110,349	1,508,666
Liabilities												
Bills payable		52,635	-	-	-	-	-	-	-	-	-	52,635
Borrowings		-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	4.50% to 8.00%	4,579,982	2,108,107	171,808	163,468	428,691	109,713	15,796	279,668	20,002	49,747	1,232,982
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		3,624,550	-	-	-	-	-	-	-	-	-	3,624,550
		8,257,167	2,108,107	171,808	163,468	428,691	109,713	15,796	279,668	20,002	49,747	4,910,167
On-balance sheet gap		7,016,568	(208,267)	2,390,099	1,262,646	2,508,050	3,088,705	656,235	25,711	634,288	60,602	(3,401,501)

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Off-balance sheet financial instruments

Commitments in respect of:

- forward foreign exchange contracts	-	-	-	-	-	-	-	-	-	-
- forward government securities transactions	-	-	-	-	-	-	-	-	-	-
- derivatives	-	-	-	-	-	-	-	-	-	-
- forward lending	-	-	-	-	-	-	-	-	-	-
Other commitments (to be specified)	-	-	-	-	-	-	-	-	-	-

Off-balance sheet gap

Total Yield / Interest Risk Sensitivity Gap	(208,267)	2,390,099	1,262,646	2,508,050	3,088,705	656,235	25,711	634,288	60,602	(3,401,501)
Cumulative Yield / Interest Risk Sensitivity Gap	(208,267)	2,181,832	3,444,478	5,952,528	9,041,233	9,697,468	9,723,179	10,357,467	10,418,069	7,016,568

Reconciliation of total assets	June 30, 2020	June 30, 2019	Reconciliation of total liabilities	June 30, 2020	June 30, 2019
	----- Rupees in '000 -----			----- Rupees in '000 -----	
Balance as per balance sheet	25,325,868	22,455,248	Balance as per balance sheet	10,716,321	8,257,167
Less: Non-financial assets			Less: Non-financial liabilities		
Fixed assets	7,173,355	7,181,513	Other liabilities	137,800	3,624,550
Other assets	81,506	833,784			
	7,254,861	8,015,297			
Total financial assets	18,071,007	14,439,951	Total financial liabilities	10,578,521	4,632,617

38.3 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

The Bank, like all financial institutions, is exposed to many types of operational risks, including the potential losses arising from internal activities or external events caused by breakdowns in information, communication, physical safeguards, business continuity, supervision, transaction processing, settlement systems and the execution of legal, fiduciary and agency responsibilities.

In accordance with the senior management's approved Operational Risk Policy, the Bank maintains a system of internal controls designed to keep operational risk at appropriate levels, in view of the Bank's financial strength and the characteristics of the activities and market in which it operates, these internal controls are periodically updated to conform to industry best practice.

Further, detailed data of operational losses is being maintained, in conformance with regulatory guidelines. Major Operational Risk events are also analysed from the control breaches perspective and mitigating controls are assessed on design and operating effectiveness. Quarterly updates on Operational Risk events are presented to senior management.

38.3.1 Operational Risk-Disclosures Basel II Specific

Currently, the bank is reporting operational risk capital charge under Basic Indicator Approach (BIA). However, the Bank took a number of initiative with respect to operational risk management. The parallel run approval for Alternative Standardized Approach (ASA) was accorded by SBP. The bank will initiate further steps for improvement Operational Risk management in the bank.

Operational loss data pertaining to key risk events is also collected on bank-wide basis. Operational Risk Management Software (ORMS) has been developed in house in line with the regulatory requirements, which has enhanced bank's capability to capture and report operational risk events in a more systematic way. The software is also capable for periodical regulatory and management reporting. Periodic review and analysis is prepared for senior management and Risk Management Committee (RMC). The report covers the significant risk events with root cause analysis and recommendations for further improvements.

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	2019									
	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 -----										
Assets										
Cash and balances with treasury banks	742,268	742,268	-	-	-	-	-	-	-	-
Balances with other banks	959,517	959,517	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	2,876,398	406,413	2,469,985	-	-	-	-	-	-	-
Advances	9,861,768	466,524	91,922	1,426,114	2,936,741	3,198,418	672,031	305,379	654,290	110,349
Fixed assets	7,166,146	52,117	15,772	1,383	1,335	2,505	402	28,033	1,854	7,062,745
Intangible assets	15,367	-	-	-	-	-	-	-	1,778	13,589
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	833,784	122,338	2,541	6,547	668,021	2,842	9,628	21,315	322	230
	22,455,248	2,749,177	2,580,220	1,434,044	3,606,097	3,203,765	682,061	354,727	658,244	7,186,913
Liabilities										
Bills payable	52,635	52,635	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	4,579,982	3,341,089	171,808	163,468	428,691	109,713	15,796	279,668	20,002	49,747
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	3,624,550	264,648	4,034	197	596	1,232	167,175	1,359	1,685	3,183,624
	8,257,167	3,658,372	175,842	163,665	429,287	110,945	182,971	281,027	21,687	3,233,371
Net assets	14,198,081	(909,195)	2,404,378	1,270,379	3,176,810	3,092,820	499,090	73,700	636,557	3,953,542
Share capital	7,885,490									
Reserves	809,149									
Accumulated loss	(1,762,760)									
Surplus on revaluation of assets	7,266,202									
	14,198,081									

38.4.3 Some assets / liabilities of the bank do not have a contractual maturity date. The period in which these assets / liabilities are assumed to mature is taken as the expected date on which the assets / liabilities be realized / settled. The above maturity analysis is based on the remaining period at the balance sheet date to the contractual maturity date.

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39 EVENTS AFTER THE REPORTING DATE

There are no significant events after the reporting period that may require adjustment of and same / or disclosure in these financial statements.

40 IMPACT OF COVID-19 (CORONA VIRUS)

The pandemic of COVID-19 that has rapidly spread all across the world has not only endangered human lives but has also adversely impacted the global economy. On March 23, 2020, the Government of the Punjab announced a temporary lock down as a measure to reduce the spread of the COVID-19. During the lock down, the Bank continued its operations under the direction and supervision of the State Bank of Pakistan and implemented all the necessary Standard Operating Procedures (SOPs) to ensure safety of employees and its customers. Due to the disruption in operating activities of the Bank caused by the pandemic, the management has assessed the accounting implications of these developments on these financial statements, including but not limited to the following areas:

- the impairment of tangible assets under IAS 36, 'Impairment of non financial assets'; and
- going concern assumption used for the preparation of these financial statements.

According to management's assessment, there is no significant accounting impact of the effects of COVID-19 in these financial statements.

41 CORRESPONDING FIGURES

Corresponding figures have been reclassified wherever necessary to reflect more appropriate presentation of events and transactions for the purpose of comparison in accordance with the accounting and reporting standards as applicable in Pakistan. Following major reclassifications have been made during the year:

Description	Reclassified from	Reclassified to	2019 Rupees in '000'
Bank and service charges	Other income	Fee and commission income	3,165
Loan processing fee	Other income	Fee and commission income	30,562
Capital work-in-progress	Fixed assets	Intangible assets	13,589
Profit recoverable from banks	Profit recoverable from banks	Income / mark-up accrued in local currency - net of provision	5,673
Contribution to fund	Other operating expenses	Total compensation expense	11,452
Key management personnel salary	Salary & allowance	Managerial remuneration	16,807
Profit on books for sale	Other income	Fee and commission income	7,327
Rent on lockers	Other income	Fee and commission income	1,030

42 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 29.09.2020 by the Administrator of the Bank.