

**AUDITOR'S REPORT TO THE ADMINISTRATOR**

We have audited the annexed statement of financial position of **The Punjab Provincial Cooperative Bank Limited** (the "Bank") as at **June 30, 2015** and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, which include the unaudited certified returns from the branches and other offices except for fifty four branches which have been audited by us and we state that except for matter stated in paragraph (a) below, we have obtained all the information and explanations, which in case of loans and advances covered more than 60% of the total loans and advances of the Bank, which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors (the Administrator) to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the BSD Circular No. 4 dated February 17, 2006 of the State Bank of Pakistan (SBP). Our responsibility is to express an opinion on these statements based on our audit.

Except for the matter stated in paragraph (a) below, we conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, we report that:

- a) Provision held against non-performing loans amounting to Rs. 1,606.077 million as required by Prudential Regulations issued by the SBP and accrued mark-up on advances remained unverified in absence of reliable analysis of advances extended by the Bank. The amounts of non-performing advances, required provision against such loans and accrued mark-up on advances could not be determined accordingly;
- b) in our opinion, except for the matter stated in para (a), proper books of account have been kept by the Bank as required by the Cooperative Societies Act, 1925 and Rules of 1927, and the returns referred to above received from the branches have been found adequate for the purposes of our audit;



- c) in our opinion, except for the matter stated in paragraph above:
- (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the requirements of the BSD Circular No. 4 dated February 17, 2006 of the SBP, and are in agreement with the books of account and further in accordance with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and;
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- d) in our opinion and to the best of our information and according to the explanations given to us, except for the matter stated in paragraph (a) and to the extent of the effects of these on the financial statements, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement, and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and, give the information required by the BSD Circular No. 4 dated February 17, 2006 of the SBP, in the manner so required and respectively give a true and fair view of the state of the Bank's affairs as at June 30, 2015 and its true balance of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- e) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

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

- i) as referred to note 1.2 to the financial statements, which fully explains uncertainty regarding Bank's ability to meet Minimum Capital Requirement as prescribed by State Bank of Pakistan;
- ii) as referred in note 12.2.3 to the accompanying financial statements, ultimate outcome of disputed properties amounting to Rs. 101.183 million cannot be presently determined, and, hence pending the resolution thereof, no impairment for the same in the accompanying financial statements have been made; and

GAC

- iii) as referred in note 11.2 to the accompanying financial statements, the Bank has not adjusted provision held against its non-performing loans including reversal of suspended mark-up income on such loans against properties decreed by the courts as well as transferred in favour of the Bank amounting to Rs. 412.667 million due to their pending possession disputes.

*Ghauri Thornton Ayub Rahman*  
Chartered Accountants

Engagement Partner: Imran Afzal

Lahore

Date 9 Oct 2015

**The Punjab Provincial Cooperative Bank Limited**

**Statement of Financial Position**

As at June 30, 2015

|   | Note | June 30, 2015     | June 30, 2014     |
|---|------|-------------------|-------------------|
|   |      | Rupees in '000    |                   |
| <b>Assets</b>                                       |      |                   |                   |
| Cash and balances with treasury banks               | 7    | 866,698           | 779,550           |
| Balances with other banks                           | 8    | 1,775,794         | 1,240,883         |
| Lending to financial institutions                   | 9    | -                 | 500,000           |
| Investments - net                                   | 10   | 1,934,771         | 2,150,672         |
| Advances - net                                      | 11   | 9,194,515         | 7,975,705         |
| Operating fixed assets                              | 12   | 4,619,964         | 4,594,887         |
| Deferred tax assets - net                           | 13   | -                 | -                 |
| Other assets - net                                  | 14   | 923,123           | 743,700           |
| <b>Total assets</b>                                 |      | <b>19,314,865</b> | <b>17,985,397</b> |
| <b>Liabilities</b>                                  |      |                   |                   |
| Bills payable                                       | 15   | 27,324            | 27,065            |
| Borrowings  |      | -                 | -                 |
| Deposits and other accounts                         | 16   | 4,567,142         | 3,707,719         |
| Sub-ordinated loans                                 |      | -                 | -                 |
| Liabilities against assets subject to finance lease |      | -                 | -                 |
| Deferred tax liabilities - net                      | 13   | -                 | -                 |
| Other liabilities                                   | 17   | 3,130,519         | 2,789,285         |
| <b>Total liabilities</b>                            |      | <b>7,724,985</b>  | <b>6,524,069</b>  |
| <b>Net assets</b>                                   |      | <b>11,589,880</b> | <b>11,461,328</b> |
| <b>Represented by :</b>                             |      |                   |                   |
| Share capital                                       | 18   | 1,938,243         | 1,938,210         |
| Reserves  | 19   | 6,603,774         | 6,581,685         |
| Unappropriated loss                                 |      | (1,678,728)       | (1,656,708)       |
|   |      | <b>6,863,289</b>  | <b>6,863,187</b>  |
| Surplus on revaluation of assets - net of tax       | 20   | 4,726,591         | 4,598,141         |
| <b>Total equity</b>                                 |      | <b>11,589,880</b> | <b>11,461,328</b> |
| <b>Contingencies and commitments</b>                | 21   |                   |                   |

The annexed notes from 1 to 41 form an integral part of these financial statements.

**ZAHID MANSOOR**  
ACTING CHIEF FINANCIAL OFFICER

**MUHAMMAD AYUB**  
ACTING PRESIDENT/ CEO

**The Punjab Provincial Cooperative Bank Limited**

**Profit and Loss Account**

For the year ended June 30, 2015

|   | Note        | June 30, 2015      | June 30, 2014 |
|---|-------------|--------------------|---------------|
|   |             | Rupees in '000     |               |
| <b>Mark-up / return / interest earned</b>   | <b>22</b>   | <b>1,739,766</b>   | 1,619,737     |
| <b>Mark-up / return / interest expensed</b>   | <b>23</b>   | <b>197,365</b>     | 149,263       |
| <b>Net mark-up/ interest income</b>   |             | <b>1,542,401</b>   | 1,470,474     |
| Provision against loans and advances  | <b>11.4</b> | -                  | -             |
| Provision / (reversal) for diminution in the value of investments                     | <b>10.3</b> | -                  | -             |
| Bad debts written off directly  |             | -                  | -             |
| <b>Net mark-up / interest income after provisions</b>                                 |             | <b>1,542,401</b>   | 1,470,474     |
| <b>Non mark-up / interest income</b>  |             |                    |               |
| Fee, commission and brokerage income  |             | <b>17,122</b>      | 23,911        |
| Dividend income   |             | <b>12,408</b>      | 17,193        |
| Income from dealing in foreign currencies   |             | -                  | -             |
| Gain / (loss) on sale of securities   |             | -                  | -             |
| Unrealized gain / (loss) on revaluation of investments classified as held for trading |             | -                  | -             |
| Other income  | <b>24</b>   | <b>70,377</b>      | 68,840        |
| <b>Total non-mark-up / interest income</b>  |             | <b>99,907</b>      | 109,944       |
| <b>Total income</b>   |             | <b>1,642,308</b>   | 1,580,418     |
| <b>Non mark-up / interest expenses</b>  |             |                    |               |
| Administrative expenses   | <b>25</b>   | <b>1,432,249</b>   | 1,469,612     |
| Other provisions / write offs   | <b>26</b>   | <b>85,872</b>      | -             |
| Other charges   | <b>27</b>   | -                  | -             |
| <b>Total non-mark-up / interest expenses</b>  |             | <b>1,518,121</b>   | 1,469,612     |
| Extra ordinary / unusual items  |             | -                  | -             |
| <b>Profit before taxation</b>   |             | <b>124,187</b>     | 110,806       |
| <b>Taxation</b>   |             |                    |               |
| - Current   | <b>28</b>   | <b>33,048</b>      | 26,947        |
| - Prior years   |             | <b>1,414</b>       | -             |
| - Deferred  |             | -                  | -             |
|   |             | <b>34,462</b>      | 26,947        |
| <b>Profit after taxation</b>  |             | <b>89,725</b>      | 83,859        |
| Unappropriated loss brought forward   |             | <b>(1,656,708)</b> | (1,836,133)   |
| Transfer from surplus on revaluation of fixed assets - net of tax                     |             | -                  | -             |
| <b>Loss available for appropriation</b>   |             | <b>(1,566,983)</b> | (1,752,274)   |
| <b>Earnings per share - basic</b>   | <b>29</b>   | <b>4.63</b>        | 6.40          |

The annexed notes from 1 to 41 form an integral part of these financial statements.

**ZAHID MANSOOR**  
ACTING CHIEF FINANCIAL OFFICER

**MUHAMMAD AYUB**  
ACTING PRESIDENT/ CEO

**The Punjab Provincial Cooperative Bank Limited**

**Statement of Comprehensive Income**  
**For the year ended June 30, 2015**

|   | June 30, 2015  | June 30, 2014  |
|---|----------------|----------------|
|   | Rupees in '000 |                |
| Profit after tax for the year   | 89,725         | 83,859         |
| <b>Other comprehensive income</b>                                     |                |                |
| <b>Items that will not be reclassified to profit and loss account</b> |                |                |
| Re-measurement of post employment obligations - net of tax            | (89,314)       | 116,531        |
| <b>Comprehensive income transferred to equity</b>                     | <b>411</b>     | <b>200,390</b> |
| <b>Total comprehensive income</b>                                     | <b>411</b>     | <b>200,390</b> |

Surplus / (deficit) on revaluation of 'available for sale' securities is presented under a separate head below equity as 'surplus / (deficit) on revaluation of assets' in accordance with the requirements specified by the State Bank of Pakistan vide its BSD Circular No. 20 dated August 04, 2000 and BSD Circular No. 10 dated July 13, 2004 respectively.

*The annexed notes from 1 to 41 form an integral part of these financial statements.*

**ZAHID MANSOOR**  
ACTING CHIEF FINANCIAL OFFICER

**MUHAMMAD AYUB**  
ACTING PRESIDENT/ CEO

# Statement of Cash Flows

For the year ended June 30, 2015

|   | Note      | June 30, 2015    | June 30, 2014      |
|---|-----------|------------------|--------------------|
|   |           | Rupees in '000   |                    |
| <b>Cash flows from operating activities</b>                 |           |                  |                    |
| Profit before taxation                                      |           | 124,187          | 110,806            |
| Less: Dividend income                                       |           | (12,408)         | (17,193)           |
|   |           | 111,779          | 93,613             |
| <b>Adjustments for non-cash items:</b>                      |           |                  |                    |
| Depreciation on property and equipment                      |           | 9,843            | 8,170              |
| Amortization of intangible assets                           |           | 846              | -                  |
| Provision against non-performing advances - net             |           | -                | -                  |
| Charge for defined benefit plan                             |           | 431,926          | 497,349            |
| Other provisions/write offs - net                           |           | 5,872            | -                  |
| Gain on sale of fixed assets                                |           | -                | (1,015)            |
|   |           | 448,487          | 504,504            |
| <b>(Increase)/ Decrease in operating assets</b>             |           |                  |                    |
| Advances - net  | 11        | (1,218,810)      | (113,143)          |
| Lending to financial institutions                           |           | 500,000          | 300,000            |
| Others assets (excluding advance taxation) - net            | 14        | (174,226)        | (2,560)            |
|   |           | (893,036)        | 184,297            |
| <b>Increase/ (Decrease) in operating liabilities</b>        |           |                  |                    |
| Bills payable   | 15        | 259              | 13,319             |
| Deposits and other accounts                                 | 16        | 859,423          | 960,011            |
| Other liabilities   | 17        | 86,863           | (25,727)           |
|   |           | 946,545          | 947,603            |
| Income tax paid   |           | (45,531)         | (5,357)            |
| Defined benefit paid  |           | (3,184)          | (4,865)            |
| Contributions to pension fund                               |           | (263,685)        | (202,827)          |
| <b>Net cash flows from operating activities</b>             |           | <b>301,375</b>   | <b>1,516,968</b>   |
| <b>Cash flows from investing activities</b>                 |           |                  |                    |
| Investment made   |           | 344,351          | (1,306,001)        |
| Dividend income received                                    |           | 12,408           | 17,193             |
| Investments in operating fixed assets                       |           | (16,659)         | (19,277)           |
| Net changes in capital work in progress                     |           | (19,107)         | (15,187)           |
| Sale proceeds from property and equipment disposed-off      |           | -                | 3,450              |
| <b>Net cash flows from / (used in) investing activities</b> |           | <b>320,993</b>   | <b>(1,319,822)</b> |
| <b>Cash flows from financing activities</b>                 |           |                  |                    |
| Issue of share capital                                      |           | 33               | 1,800              |
| Medical aid to employees from common good fund              |           | (342)            | (79)               |
| <b>Net cash flows (used in) / from financing activities</b> |           | <b>(309)</b>     | <b>1,721</b>       |
| <b>Increase in cash and cash equivalents</b>                |           | <b>622,059</b>   | <b>198,867</b>     |
| <b>Cash and cash equivalents at beginning of the year</b>   |           | <b>2,020,433</b> | <b>1,821,566</b>   |
| <b>Cash and cash equivalents at end of the year</b>         | <b>30</b> | <b>2,642,492</b> | <b>2,020,433</b>   |

The annexed notes from 1 to 41 form an integral part of these financial statements.

ZAHID MANSOOR  
ACTING CHIEF FINANCIAL OFFICER

MUHAMMAD AYUB  
ACTING PRESIDENT/ CEO

**The Punjab Provincial Cooperative Bank Limited**

**Statement of Changes in Equity**  
**For the year ended June 30, 2015**

|   | Share capital    | Reserves           |                  |                  |                  | Unappropriated profit / (loss) | Total            |
|---|------------------|--------------------|------------------|------------------|------------------|--------------------------------|------------------|
|   |                  | Statutory reserves | Common good fund | Other reserve    | Total Reserves   |                                |                  |
| -----Rupees in '000-----                |                  |                    |                  |                  |                  |                                |                  |
| <b>Balance as on July 1, 2013</b>       | 436,410          | 609,793            | 2,433            | 7,448,573        | 8,060,799        | (1,836,133)                    | 6,661,076        |
| Issue of share capital                  | 1,501,800        | -                  | -                | (1,500,000)      | (1,500,000)      | -                              | 1,800            |
| Total comprehensive income for the year | -                | -                  | -                | -                | -                | 200,390                        | 200,390          |
| Transfer to statutory reserve           | -                | 20,965             | -                | -                | 20,965           | (20,965)                       | -                |
| Medical aid to staff                    | -                | -                  | (79)             | -                | (79)             | -                              | (79)             |
| <b>Balance as on June 30, 2014</b>      | 1,938,210        | 630,758            | 2,354            | 5,948,573        | 6,581,685        | (1,656,708)                    | 6,863,187        |
| Issue of share capital                  | 33               | -                  | -                | -                | -                | -                              | 33               |
| Total comprehensive income for the year | -                | -                  | -                | -                | -                | 411                            | 411              |
| Transfer to statutory reserve           | -                | 22,431             | -                | -                | 22,431           | (22,431)                       | -                |
| Medical aid to staff                    | -                | -                  | (342)            | -                | (342)            | -                              | (342)            |
| <b>Balance as on June 30, 2015</b>      | <b>1,938,243</b> | <b>653,189</b>     | <b>2,012</b>     | <b>5,948,573</b> | <b>6,603,774</b> | <b>(1,678,728)</b>             | <b>6,863,289</b> |

*The annexed notes from 1 to 41 form an integral part of these financial statements.*

**ZAHID MANSOOR**  
 ACTING CHIEF FINANCIAL OFFICER

**MUHAMMAD AYUB**  
 ACTING PRESIDENT/ CEO



# Notes to the Financial Statements

## For the year ended June 30, 2015

### **1 STATUS AND NATURE OF BUSINESS**

**1.1** The Punjab Provincial Cooperative Bank Limited (the Bank) was incorporated in Punjab in the year 1924 as a Cooperative Bank under the Cooperative Societies Act, 1912 (repealed) and commenced its operations from 1924. It was given status of a Scheduled Bank by the State Bank of Pakistan (SBP) w.e.f. November 07, 1955. The Bank is operating under the supervision of the Cooperative Department Government of Punjab and the SBP. The objects for which the Bank is established are to carry out the business of agricultural credit and other activities as defined in the Cooperative Societies Act, 1925 and its Rules. The Bank operates through its 151 (2014 : 151) branches in the province of Punjab. The Registered Office of the Bank is located at Bank Square, The Mall, Lahore.

#### **1.2 MCR of the Bank**

As of June 30, 2015, the paid up capital of the Bank (net of losses) amounts to Rs. 259.515 million in contrast to regulatory MCR of the banks operating in Pakistan under supervision of SBP.

SBP vide BSD circular No. 7 dated April 15, 2009 set the Minimum Capital Requirement (MCR) for banks of Rs. 10 billion (net of losses). SBP had exempted the Bank from meeting Minimum Capital Requirement (MCR) vide their letter no. BPRD (RU-43)512-09(B) / X /15161/98 dated September 08, 1998 and No. BSD (RU-43)512-09(B) / X / 1138 /2001 dated January 25, 2001. However, during the year, SBP vide its letter no. BPRD/BA&CPD/629/006247/15 dated March 16, 2015 advised the Bank to meet requirement of MCR before June 30, 2015. At the same time, SBP also intimated the Bank for withdrawal of such exemption if such MCR would not be complied before June 30, 2015. Subsequent to June 30, 2015, the Bank has not received any further notification from SBP regarding withdrawal of such exemption or extension of such exemption so far.

Management of the Bank has reasonable expectation that the Bank will have the resources to meet regulatory requirements of SBP and continue its business taking into account the matters detailed below.

##### **1.2.1 Restructuring plan**

In order to address the capital deficiency and financial condition and performance of the Bank, Government of Punjab had approved a restructuring plan of the Bank during 2013 which envisages business reforms, human resource capital management and reorganization, transformation of MIS plan and composition of board of directors of the Bank.

##### **1.2.2 Financial commitment from Government of Punjab**

As referred in note 19.2 to the financial statements, during last years, the Bank had received funds of Rs. 7,448.573 million from the Government of Punjab (GoPb) for repayment of borrowings obtained from SBP. Later on, GoPb allowed the Bank to issue share capital amounting to Rs. 1,500 million. Similarly, during the year, GoPb principally agreed on conversion of remaining loan into paid-up capital of the Bank which has also been communicated to SBP. The Administrator and management of the Bank expects such conversion during financial year ending June 30, 2016.

##### **1.2.3 Active involvement of Government of Punjab and State Bank of Pakistan**

Rigorous and conclusive meetings have been held during the year among Administrator of the Bank, Chief Secretary, Government of Punjab and SBP on issues of regulatory concerns of SBP and plans of GoPb in this regard. The management and the Administrator are pursuing SBP to extend further support by granting another extension in exemption of MCR as well as decreasing threshold of MCR of the Bank to Rs. 6 billion.

##### **1.2.4 Profitability**

The Bank has been transformed into a profitable concern over the periods and has been able to cut down its accumulated losses amounting to Rs. 2,442.881 million as at June 30, 2011 to Rs. 1,678.728 million as at June 30, 2015.

##### **1.2.5 Liquidity**

The bank has continued to maintain acceptable level of liquidity position in line with regulatory requirements. The deposit base have broadly remained stable over the periods.

##### **1.2.6 Key uncertainties**

Key uncertainties associated with above referred matters are as under:

- 1) currently, the Bank is exposed to regulatory actions under the Banking laws. While the Bank has regularly updated SBP on its plans regarding the recapitalization and restructuring of the Bank, it needs an explicit support of the SBP in accepting and moving forward with its recapitalization plan including further extension in exemption from MCR or decreasing MCR for the Bank to Rs. 6 billion;
- 2) the ability of the Bank to convert advance amounting to Rs. 5,948.573 million into paid-up capital remains subject to uncertainty in obtaining required legal and regulatory approvals from SBP and GoPb. Completion of said capital raising process may extend beyond anticipated time frame due to uncertainty;
- 3) the ability of the Bank to raise additional capital beyond Rs. 6,208.088 million is subject to various uncertainties including GoPb's commitment to capital raising and its timing and obtaining requisite legal and regulatory approvals from SBP and GoPb; and
- 4) the ability of Bank to achieve the results set out in the financial projections in the restructuring plan 2013-2016, which include, increase of customer base for advances and deposits, lay-off of employees and fresh hiring, sale of owned properties and increase of its earnings.

# Notes to the Financial Statements

## For the year ended June 30, 2015

### **2 BASIS OF PRESENTATION**

These financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04 dated February 17, 2006.

### **3 STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, Islamic Financial Accounting Standards (IFAS) issued by Institute of Chartered Accountants of Pakistan, the requirements of the Banking Companies Ordinance, 1962, or the directives issued by the SBP, the Cooperative Societies Act, 1925 and the Cooperative Societies Rules, 1927. Wherever, the requirements of the Act, Rules, or the directives issued by the SBP differ with the requirements of IFRS, the requirements of the Act, Rules, or the said directives shall prevail.

The SBP vide its BSD Circular Letter No. 07 dated April 20, 2010 has clarified that for the purpose of preparation of financial statements in accordance with International Accounting Standard (IAS) - 1 (Revised), 'Presentation of Financial Statements', two statement approach shall be adopted i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' shall be presented, and Balance Sheet shall be renamed as 'Statement of Financial Position'. Furthermore, only the surplus / (deficit) on revaluation of available for sale (AFS) securities, may be included in the 'Statement of Comprehensive Income'. However, it should continue to be shown separately in the statement of financial position below equity. Accordingly, the above requirements have been adopted in the preparation of these financial statements.

IFRS 8, 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banks in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as the SBP has defined the segment categorization in the above mentioned circular, the SBP's requirements prevail over the requirements specified in IFRS - 8. Accordingly, segmental information disclosed in these financial statements is based on the requirements laid down by the SBP.

#### **3.1 Standards, amendments or interpretations that became effective during the year**

**3.1.1** The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after July 01, 2014:

- IFRS 2 – Share based Payment - (Amendments)
- IFRS 3 – Business Combinations - (Amendments)
- IFRS 10 – Consolidated Financial Statement - (Amendments)
- IFRS 12 – Disclosure of Interests in Other Entities - (Amendments)
- IAS 16 – Property, Plant and Equipment - (Amendments)
- IAS 19 – Employee Benefits - (Amendments)
- IAS 24 – Related Party Disclosures - (Amendments)
- IAS 27 – Separate Financial Statements - (Amendments)
- IAS 32 – Financial Instruments: Presentation - (Amendments)
- IAS 36 – Impairment of Assets - (Amendments)
- IAS 38 – Intangible Assets - (Amendments)
- IAS 40 – Investment Property - (Amendments)

The adoption of the above amendments did not have any material effect on the financial statements.

# Notes to the Financial Statements

## For the year ended June 30, 2015

### 3.2 Standards, Interpretations and Amendments to Published Approved Accounting Standards that are not yet effective

3.2.1 The following new standards and amendments to standards are only effective for annual periods beginning from the dates specified below.

| Standard / Amendments  | IASB effective date (annual periods beginning on after) |
|--|---|
| - IFRS 5 - Noncurrent Assets Held for Sale and Discontinued Operations<br>(Amendments resulting from September 2014 Annual Improvements to IFRSs)                | January 1, 2016   |
| - IFRS 10 - Consolidated Financial Statement<br>(Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture) | January 1, 2016   |
| - IFRS 10 - Consolidated Financial Statement<br>(Amendments regarding the application of the consolidation exception)  | January 1, 2016   |
| - IFRS 11 - Joint Arrangements<br>(Amendments regarding the accounting for acquisitions of an interest in a joint operation)                                     | January 1, 2016   |
| - IFRS 12 - Disclosure of Interests in Other Entities<br>(Amendments regarding the application of the consolidation exception)                                   | January 1, 2016   |
| - IFRS 14 - Regulatory Deferral Accounts<br>(Original issue)   | January 1, 2016   |
| - IAS 16 - Property, Plant and Equipment<br>(Amendments regarding the clarification of acceptable methods of depreciation and amortization)                      | January 1, 2016   |
| - IAS 1 - Presentation of Financial Statements<br>(Amendments resulting from the disclosure initiative)  | January 1, 2016   |
| - IAS 16 - Property, Plant and Equipment<br>(Amendments bringing bearer plants into the scope of IAS 16)   | January 1, 2016   |
| - IAS 19 - Employee Benefits<br>(Amendments resulting from September 2014 Annual Improvements to IFRS)   | January 1, 2016   |
| - IAS 27 - Separate Financial Statements<br>(Amendments reinstating the equity method as an accounting option for investments in                                 | January 1, 2016   |
| - IAS 28 - Investments in Associates and Joint Ventures<br>(Amendments regarding the sale or contribution of assets between an investor and its                  | January 1, 2016   |
| - IAS 28 - Investments in Associates and Joint Ventures<br>(Amendments regarding the application of the consolidation exception)                                 | January 1, 2016   |
| - IAS 34 - Interim Financial Reporting<br>(Amendments resulting from September 2014 Annual Improvements to IFRSs)  | January 1, 2016   |
| - IAS 38 - Intangible Assets<br>(Amendments regarding the clarification of acceptable methods of depreciation and amortization)                                  | January 1, 2016   |
| - IAS 41 - Agriculture<br>(Amendments bringing bearer plants into the scope of IAS 16)   | January 1, 2016   |

3.2.2 Following standards have been issued by IASB which are yet to be notified by the SBP for the purpose of applicability in Pakistan.

- IFRS 9 Financial Instruments: Classification and Measurement
- IFRS 13 Fair Value Measurement
- IFRS 14 - Regulatory Deferral accounts

# Notes to the Financial Statements

## For the year ended June 30, 2015

#### **4 BASIS OF MEASUREMENT**

These financial statements have been prepared under the historical cost convention in accordance with the Cooperative Societies Act 1925 and Rules of 1927, except that free hold land and securities (available for sale) have been recognized in these financial statements at revalued amounts. In addition, obligation in respect of staff retirement benefits is carried at present value. These financial statements are presented in Pak Rupees which is the Bank's functional and presentation currency. The amounts are rounded off to the nearest thousand.

#### **5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT BASIS OF MEASUREMENT**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise judgments in application of its accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgments were made by the management in the application of accounting policies that have a significant risk of material adjustment to the carrying amounts of assets and liabilities are as follows:

- i) Classification and provisioning against investments.
- ii) Income taxes.
- iii) Classification and provisioning against advances.
- iv) Depreciation of operating fixed assets.
- v) Staff retirement benefits.

##### **a) Classification of investments**

- Investments classified as 'held to maturity' are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investment to maturity.
- The investments which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

##### **b) Provision against advances**

The Bank reviews its loan portfolio to assess the amount of non-performing advances and provision required there against on regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrowers and the requirements of the Prudential Regulations are considered.

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

##### **c) Impairment of 'available for sale' equity investments**

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.

##### **d) Taxes**

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

##### **e) Depreciation, amortization and revaluation of operating fixed assets**

In making estimates of the depreciation / amortization method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 Accounting Policies, Changes in Accounting Estimates and Errors. Further, the Bank estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers under the market conditions.

##### **f) Staff retirement benefits**

Certain actuarial assumptions have been adopted as disclosed in Note 32 of these financial statements for the actuarial valuation of staff retirement benefit plans. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may affect the liability / asset under these plans in those years.

# Notes to the Financial Statements

## For the year ended June 30, 2015

### 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 6.1 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.

#### 6.2 Borrowings / deposits

Borrowings / deposits are recorded at the proceeds received. The cost of borrowings / deposits is recognized as an expense in the period in which this is incurred.

#### 6.3 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions are held against identified as well as unidentified losses. Provisions against unidentified losses include 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 is no realistic prospect of recovery.

#### 6.4 Investments

The Bank classifies its investments as follows:

##### Held-for-trading securities

These are investment securities, which are acquired principally for the purpose of generating profit from short-term fluctuations in price or dealer's margin.

##### Held-to-maturity securities

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 securities

These are investments, other than those in subsidiaries and associates, 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.

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.

Investments in quoted securities other than held to maturity are valued at market prices prevailing at the terminal date except investments in government securities, and the difference between the carrying value and the revalued amount of available for sale is recognized in the surplus / (deficit). Gain or loss on disposal is charged to current year's profit and loss account.

Investments in unquoted securities are carried out at lower of cost and breakup value less impairment loss, if any.

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified as 'held to maturity', investments in subsidiaries and investments in associates are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the balance sheet below equity.

Impairment loss in respect of investments classified as available for sale (except for quoted securities) and held to maturity is recognized based on management's assessment of objective evidence of significant and prolonged decline in the estimated future cash flows of such securities, and charged to profit and loss account. Surplus / (deficit) arising on revaluation of quoted securities which are classified as available for sale is taken to a separate account which is shown in the statement of financial position below equity.

#### 6.5 Operating fixed assets

These are stated at cost less accumulated depreciation except freehold land which is stated at revalued amount and capital work in progress, that is stated at cost.

Depreciation is computed over the estimated useful lives of the related fixed assets at the rates specified in note 12.2 on monthly diminishing balance method, 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.

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditures connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to relevant asset as and when assets become available for use.

# Notes to the Financial Statements

## For the year ended June 30, 2015

Surplus on revaluation of land and buildings is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

Gains / 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 and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

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

### **6.6 Crop insurance and Live Stock insurance recoverable**

Crop insurance and Live Stock insurance recoverable are receivables from State Bank of Pakistan (SBP) which are paid after verification of documentation by SBP. The Bank recognizes its receivables on the basis of claims lodged by the Bank with SBP.

### **6.7 Taxation**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity or below equity, in which case it is recognized in equity or below equity.

#### **6.7.1 Current**

Provision for current taxation is based on taxable income for the year. Tax charge for the current year is determined in accordance with the prevailing laws for taxation. The charge for the current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date. The charge for the current tax also includes adjustments relating to prior years, if necessary, arising from assessments finalized during the year.

#### **6.7.2 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. In addition, the Bank also records deferred tax asset on available tax losses.

Deferred tax is calculated using the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available 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 sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilized.

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

Deferred tax liability is not recognized in respect of taxable temporary differences associated with exchange translation reserves of foreign operations, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

### **6.8 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 / returns on non-performing advances and investments are recognized on receipt basis in accordance with the requirements of the Prudential Regulations issued by the SBP. Interest / returns / mark-up on rescheduled / restructured advances and investments are recognized as permitted by the SBP, except where, in the opinion of the management, it would not be prudent to do so.

Fees, commission, brokerage, and other income are recognized on receipt basis, whereas mark up on advances, rental income, markup on deposits & on investment in government securities, mark up on customer's deposits are recognized on accrual basis.

Dividend income from investments is recognized when the Bank's right to receive the dividend is established.

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

### **6.9 Staff retirement benefits**

The Bank operates the following staff retirement benefits schemes for its employees:

#### **6.9.1 Defined benefit plan**

##### **(a) Pension scheme**

The Bank operates defined benefits funded pension scheme approved by the income tax authorities for its eligible employees. Monthly contribution at the rate of 15% and 10% of employees basic salaries was being made by the bank and employees respectively up to March 2014. However, after March 2014 employees were not required to contribute towards pension fund.

# Notes to the Financial Statements

## For the year ended June 30, 2015

Bank's costs are determined on the basis of actuarial valuation carried out by independent actuaries by using 'Projected Unit Credit Method'.

**(b) Gratuity scheme**

The Bank operates defined benefits gratuity scheme for employees under gratuity scheme. Gratuity is paid to employees with years of service equal to 10 or greater than 10 years. Amount of one month's basic salary for each year of completed services subject to maximum of 30 months' salary.

**(c) Employees compensated absences**

Liability in respect of employees' compensated absences is accounted for in the year in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

**6.9.2 Defined contribution plan**

The bank also operates a provident fund scheme for all its regular employees, which is administered by the board of trustees. Employees under provident fund scheme contribute 10% of the basic salaries in accordance with the terms of the scheme. Further, monthly contributions of 10% of the basic salary are made by the Bank for employees who have opted gratuity.

**6.10 Impairment of assets**

The carrying amount of the Bank's assets are reviewed at each date of statement of financial position for impairment. If such indication exists, and whenever events or changes in circumstances indicate that 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 assets.

**6.11 Financial instruments**

**6.11.1 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, lendings to financial institutions, investments (excluding investment in associates and subsidiaries), advances, other assets, bills payable, borrowings, 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.

**6.11.2 Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is legally enforceable right to set off the recognized amounts and the Bank intends to either settle on net basis or to realize the assets and settle the liability simultaneously.

**6.12 Provision**

A provision is recognized in the balance sheet 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.

**6.13 Contingencies & commitments**

Capital commitments and contingencies, unless those are actual liabilities, are not incorporated in the accounts.

Contingent liabilities are disclosed when:

- There is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events wholly within the control of the Bank.
- There is a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

**6.14 Deferred grant**

Deferred grants are not recognized until there is reasonable assurance that the Bank will comply with the conditions attaching to them and that the grants will be received.

Deferred grants are recognized in income and expenditure account on a systematic basis over the periods in which the Bank recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, SBP institutional strengthening fund (ISF) grants whose primary condition is that the Bank should purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the balance sheet and transferred to income and expenditure account on a systematic and rational basis over the useful lives of the related assets.

Notes to the Financial Statements  
For the year ended June 30, 2015

|  | Note | June 30,       | June 30,       |
|--|------|----------------|----------------|
|  |      | 2015           | 2014           |
| Rupees in '000                                 |      |                |                |
| <b>7 CASH AND BALANCES WITH TREASURY BANKS</b> |      |                |                |
| In hand  |      |                |                |
| Local currency                                 |      | 498,221        | 428,635        |
| With State Bank of Pakistan (SBP) in           |      |                |                |
| Local currency current account                 | 7.1  | 264,932        | 238,078        |
| With National Bank of Pakistan (NBP) in        |      |                |                |
| Local currency current account                 |      | 68,594         | 88,952         |
| Local currency deposit account (NIDA)          | 7.2  | 34,951         | 23,885         |
| <b>Total</b>                                   |      | <b>866,698</b> | <b>779,550</b> |

**7.1** Deposits with SBP are maintained to comply with the statutory requirements issued from time to time.

**7.2** Rate of profit on NIDA account ranges from 4.50% per annum to 7% per annum (2014 : 7% per annum).

**8 BALANCES WITH OTHER BANKS**

|  |     |                  |                  |
|--|-----|------------------|------------------|
| In Pakistan                              |     |                  |                  |
| On current accounts                      |     | 22,322           | 16,691           |
| On deposit accounts                      |     |                  |                  |
| Considered good                          | 8.1 | 1,753,472        | 1,224,192        |
| Considered doubtful                      |     | 11,413           | 11,413           |
|  |     | <b>1,787,207</b> | <b>1,252,296</b> |
| Less: Provision against doubtful balance |     | (11,413)         | (11,413)         |
| <b>Total</b>                             |     | <b>1,775,794</b> | <b>1,240,883</b> |

**8.1** These accounts carry interest rates ranging from 4.50% to 6.50% per annum (2014 : 6.50% to 9.25%) per annum.

**9 LENDING TO FINANCIAL INSTITUTIONS**

|              |     |          |                |
|--------------|-----|----------|----------------|
| Others       | 9.1 | -        | 500,000        |
| <b>Total</b> |     | <b>-</b> | <b>500,000</b> |

**9.1** This represented TDRs purchased from different financial institutions with maturity period of 6 months (2014: 1 month to 6 months) at profit rate of 9.95% ( 2014: 9.55% to 10%).

**10 INVESTMENT - NET**

|   | Note | 2015             |                     |                  | 2014             |                     |                  |
|---|------|------------------|---------------------|------------------|------------------|---------------------|------------------|
|   |      | Held by bank     | Given as collateral | Total            | Held by bank     | Given as collateral | Total            |
| Rupees in '000  |      |                  |                     |                  |                  |                     |                  |
| <b>10.1 Investments by types</b>                        |      |                  |                     |                  |                  |                     |                  |
| <b>Available-for-sale securities</b>                    |      |                  |                     |                  |                  |                     |                  |
| Fully paid ordinary shares of listed companies          | 10.9 | 7,023            | -                   | 7,023            | 7,023            | -                   | 7,023            |
| Fully paid ordinary shares of cooperative institutions  | 10.9 | 3,551            | -                   | 3,551            | 3,551            | -                   | 3,551            |
| <b>Held-to-maturity securities</b>                      |      |                  |                     |                  |                  |                     |                  |
| Market Treasury Bills                                   |      | 496,032          | -                   | 496,032          | 1,375,545        | -                   | 1,375,545        |
| Pakistan Investment Bonds                               |      | 1,053,950        | -                   | 1,053,950        | 518,788          | -                   | 518,788          |
| Non-banking financial institutions                      |      | 88,059           | -                   | 88,059           | 88,059           | -                   | 88,059           |
| <b>Investments at cost</b>                              |      | <b>1,648,615</b> | <b>-</b>            | <b>1,648,615</b> | <b>1,992,966</b> | <b>-</b>            | <b>1,992,966</b> |
| Less: Provision for diminution in value of Investments  | 10.3 | (89,648)         | -                   | (89,648)         | (89,648)         | -                   | (89,648)         |
| <b>Investments (net of provisions)</b>                  |      | <b>1,558,967</b> | <b>-</b>            | <b>1,558,967</b> | <b>1,903,318</b> | <b>-</b>            | <b>1,903,318</b> |
| Surplus on revaluation of available for-sale securities |      | 375,804          | -                   | 375,804          | 247,354          | -                   | 247,354          |
| <b>Total investments</b>                                |      | <b>1,934,771</b> | <b>-</b>            | <b>1,934,771</b> | <b>2,150,672</b> | <b>-</b>            | <b>2,150,672</b> |



Notes to the Financial Statements  
For the year ended June 30, 2015

|  | Note | June 30,<br>2015 | June 30,<br>2014 |
|--|------|------------------|------------------|
| Rupees in '000   |      |                  |                  |
| <b>10.2 Investment by segments</b>                           |      |                  |                  |
| <b>Federal Government securities</b>                         |      |                  |                  |
| Market treasury bills  | 10.6 | 496,032          | 1,375,545        |
| Pakistan Investment Bonds                                    | 10.7 | 1,053,950        | 518,788          |
| <b>Investment with other financial institutions</b>          |      |                  |                  |
| Non-banking financial institutions                           | 10.8 | 88,059           | 88,059           |
| <b>Fully Paid up Ordinary Shares:</b>                        |      |                  |                  |
| Listed companies   | 10.9 | 7,023            | 7,023            |
| Cooperative institutions                                     | 10.9 | 3,551            | 3,551            |
| <b>Total investment at cost</b>                              |      | <b>1,648,615</b> | <b>1,992,966</b> |
| Less: Provision for diminution in value of investments       | 10.3 | (89,648)         | (89,648)         |
| <b>Investments (net of provisions)</b>                       |      | <b>1,558,967</b> | <b>1,903,318</b> |
| Add: Surplus on revaluation on Available-for-sale securities | 20.2 | 375,804          | 247,354          |
| <b>Total investments at market value</b>                     |      | <b>1,934,771</b> | <b>2,150,672</b> |

**10.3 Particulars of provision for diminution in value of investments**

|                        |  |               |               |
|------------------------|--|---------------|---------------|
| Opening balance        |  | 89,648        | 89,648        |
| Charge for the year    |  | -             | -             |
| Reversals              |  | -             | -             |
| <b>Closing balance</b> |  | <b>89,648</b> | <b>89,648</b> |

**10.4 Particulars of provision in respect of type and segment**

|                                      | June 30,<br>2015 | June 30,<br>2014 |
|--------------------------------------|------------------|------------------|
| Rupees in '000                       |                  |                  |
| <b>Available-for-sale securities</b> | -                | -                |
| <b>Fully paid up ordinary shares</b> |                  |                  |
| Cooperative institutions             | 1,589            | 1,589            |
| <b>Held-to-maturity securities</b>   | -                | -                |
| <b>Investments with other banks</b>  |                  |                  |
| Non-banking financial institutions   | 88,059           | 88,059           |
|                                      | <b>89,648</b>    | <b>89,648</b>    |

**10.5 Quality of available for sale securities**

| Securities                                     | 2015                  |         | 2014                  |         |
|--|-----------------------|---------|-----------------------|---------|
|  | Amount<br>Rs. in '000 | Rating  | Amount<br>Rs. in '000 | Rating  |
| <b>Shares of listed companies - Fair value</b> |                       |         |                       |         |
| Security Papers Limited                        | 376,759               | Unrated | 248,167               | AAA     |
| NIB Bank Limited                               | 441                   | AA-     | 487                   | AA-     |
| Dawood Lawrencepur Limited                     | 5,602                 | Unrated | 5,699                 | Unrated |
| PICIC Insurance Limited                        | 25                    | BBB+    | 24                    | BBB+    |
|  | <b>382,827</b>        |         | <b>254,377</b>        |         |

**10.6** These securities have a maturity period of six months with yield ranging from 8.36% to 9.98% (2014 : 9.94% to 9.98%) per annum.

**10.7** These securities have maturity time ranging from 1.5 year to 3 years and carry profit rate of 11.25% (2014: 11.25%).

**10.8** This represents investment made in the Certificates of Investment / Deposit of Trust Investment Bank Limited (TIBL) for a period of six months, commencing from 01-03-2010, carrying profit rate of 12.55% per annum. During the year ended 2012, the Bank accepted a swap proposal of loans amounting to Rs. 140 million (existing outstanding balance as at June 30, 2015 amounts to 130.862 million) granted to M/s Vital Enterprises (Pvt.) Limited by TIBL. This was a funded facility against mortgage of urban property. The Bank has filed a petition against TIBL in Honourable Lahore High Court, Lahore for recovery of such amount on September 15, 2015. However, based on financial health of TIBL, a provision for diminution of Rs. 88.059 million has already been made in the financial statements.

**The Punjab Provincial Cooperative Bank Limited**

Notes to the Financial Statements  
For the year ended June 30, 2015

**10.9 Investment in Listed Ordinary Shares / Cooperative Institutions**

| 2015   | 2014      | Face Value<br>of Shares<br>Rs. | Name of company                             | Note   | 2015                      | 2014    |
|--|-----------|--------------------------------|---|--------|---------------------------|---------|
| Number of Shares   |           |                                |   |        | At Cost<br>Rupees in '000 |         |
| <b>Investment in Listed Companies</b>                          |           |                                |   |        |                           |         |
| 4,254,280  | 3,545,234 | 10                             | Security Papers Limited                     |        | 6,708                     | 6,708   |
| 218,287  | 218,287   | 10                             | NIB Bank Limited                            |        | -                         | -       |
| 48,710   | 48,710    | 10                             | Dawood Lawrencepur Limited                  |        | 315                       | 315     |
|  | -         | 10                             | PICIC Insurance Limited                     |        | -                         | -       |
| <b>Shares of Cooperative Institutions</b>                      |           |                                |   |        |                           |         |
| 2,179,137  | 2,179,137 | 10                             | Coop: Insurance Society of Pakistan         | 10.9.2 | 1,919                     | 1,919   |
| 460  | 460       | 100                            | National Coop. Supply Corporation           |        | 43                        | 43      |
| 3,410  | 3,410     | 100                            | Coop: Investment & Management Agency        |        | 341                       | 341     |
| 71   | 71        | 1000                           | Oberoi Coop: Society Sialkot                |        | 71                        | 71      |
| 3,041  | 3,041     | 100                            | Shahdara Pioneer Coop: M.P. Society         |        | 300                       | 300     |
| 7,360  | 7,360     | 100                            | Lahore Central Coop: Store                  |        | 536                       | 536     |
| 10   | 10        | 100                            | Jhelum Distt. Coop: Society                 |        | 1                         | 1       |
| 12   | 12        | 1000                           | All Pakistan Coop: Multi Purpose Society    |        | 11                        | 11      |
| 129  | 129       | 500                            | Punjab Prov. Coop: Cotton Corp.             |        | 65                        | 65      |
| 1  | 1         | 100                            | Pakistan Product Coop: Marketing            |        | -                         | -       |
| 250  | 250       | 100                            | Anjuman Imdad-e-Bahami M.P. Society         |        | 12                        | 12      |
| 30   | 30        | 1000                           | Pioneer Coop: Leather & Rubber Society      |        | 30                        | 30      |
| 4  | 4         | 500                            | Punjab Prov. Coop: Marketing                |        | 2                         | 2       |
| 10   | 10        | 100                            | West Pakistan Coop: Consumer Society        |        | 1                         | 1       |
| 52   | 52        | 500                            | Sargodha Distt. Coop: Society               |        | 18                        | 18      |
| 4  | 4         | 100                            | Sialkot Central Coop: Multi Purpose Society |        | -                         | -       |
| 200  | 200       | 50                             | Multan Distt. Coop: Multi Purpose Society   |        | 8                         | 8       |
| 100  | 100       | 100                            | Lyalpur Distt. Coop: Multi Purpose Society  |        | 10                        | 10      |
| 20   | 20        | 100                            | Lyalpur Distt. Coop: Store                  |        | 1                         | 1       |
| 1,020  | 1,020     | 100                            | Montgomery Coop: Society                    |        | 102                       | 102     |
| 250  | 250       | 100                            | Bahawalpur Coop: Society                    |        | 25                        | 25      |
| 500  | 500       | 100                            | Arifwala Mills Society                      |        | 45                        | 45      |
| 1  | 1         | 10                             | Jhang Coop: Supervising                     |        | -                         | -       |
| 200  | 200       | 50                             | Rawalpindi Multi Purpose Union              |        | 10                        | 10      |
|  |           |                                |   |        | <b>10,574</b>             | 10,574  |
| Impairment in available for sale listed shares / units         |           |                                |   |        | <b>(1,589)</b>            | (1,589) |
| <b>Investment in listed shares / units (net of impairment)</b> |           |                                |   |        | <b>8,985</b>              | 8,985   |
| Surplus / (deficit) on revaluation of shares/units - net       |           |                                |   |        | <b>375,804</b>            | 247,354 |
| <b>Market value as on 30 June, 2015</b>                        |           |                                |   |        | <b>384,789</b>            | 256,339 |

**10.9.1** The shares of Cooperative institutions showing Nil value is due to amounts rounded off to the nearest thousand rupees.

**10.9.2** The Bank has 72.63% share holding (i.e. 21.79 million shares out of 30 million shares) in Cooperative Insurance Society of Pakistan (CISP).

Notes to the Financial Statements  
For the year ended June 30, 2015

|  | Note | June 30, 2015  | June 30, 2014 |
|--|------|----------------|---------------|
|  |      | Rupees in '000 |               |

**11 ADVANCES - NET**

**Loans, cash credits, running finances, etc.**

In Pakistan 10,800,408 9,581,598

**Bills discounted and purchased (excluding treasury bills)**

Payable in Pakistan 184 184

**Advances - gross** 10,800,592 9,581,782

Provision for non-performing advances 11.4 (1,606,077) (1,606,077)

**Advances - net of provision** 9,194,515 7,975,705

**11.1 Particulars of advances (Gross)**

11.1.1 In local currency 10,800,592 9,581,782  
In foreign currency - -  
**Total** 10,800,592 9,581,782

11.1.2 Short term ( for up to one year) 8,982,904 8,054,308  
Long term ( for over one year) 1,817,688 1,527,474  
**Total** 10,800,592 9,581,782

**11.2** Advances include Rs. 2,147,218 thousand (2014 : Rs. 2,265,220 thousand) which have been placed under non-performing status as detailed below:-

|  | 2015                       |          |       |                    |                |
|--|----------------------------|----------|-------|--------------------|----------------|
|  | Classified Advances        |          |       | Provision Required | Provision Held |
|  | Domestic                   | Overseas | Total |                    |                |
|  | ----- Rupees in '000 ----- |          |       |                    |                |

**Category of classification**

|                                   |                  |          |                  |                  |                  |
|-----------------------------------|------------------|----------|------------------|------------------|------------------|
| Other Assets Especially Mentioned | 269,169          | -        | 269,169          | -                | -                |
| Substandard                       | 177,635          | -        | 177,635          | 1,497            | 1,497            |
| Doubtful                          | 213,430          | -        | 213,430          | 15,033           | 15,033           |
| Loss                              | 1,486,984        | -        | 1,486,984        | 1,465,299        | 1,589,547        |
| <b>Total</b>                      | <b>2,147,218</b> | <b>-</b> | <b>2,147,218</b> | <b>1,481,829</b> | <b>1,606,077</b> |

|  | 2014                       |          |       |                    |                |
|--|----------------------------|----------|-------|--------------------|----------------|
|  | Classified Advances        |          |       | Provision Required | Provision Held |
|  | Domestic                   | Overseas | Total |                    |                |
|  | ----- Rupees in '000 ----- |          |       |                    |                |

**Category of classification**

|                                   |                  |          |                  |                  |                  |
|-----------------------------------|------------------|----------|------------------|------------------|------------------|
| Other Assets Especially Mentioned | 274,309          | -        | 274,309          | -                | -                |
| Substandard                       | 352,743          | -        | 352,743          | 7,293            | 7,293            |
| Doubtful                          | 192,993          | -        | 192,993          | 18,465           | 18,465           |
| Loss                              | 1,445,175        | -        | 1,445,175        | 1,418,912        | 1,580,319        |
| <b>Total</b>                      | <b>2,265,220</b> | <b>-</b> | <b>2,265,220</b> | <b>1,444,670</b> | <b>1,606,077</b> |

The Bank has not adjusted its provision held against non-performing loans and reversal of suspended mark-up income on such loans amounting to Rs. 412,667 thousands against properties decreed in favour of the Bank due to their pending possession disputes.

**11.3** Provision is computed as on June 30, 2015 after taking benefit of collaterals for loans outstanding for less than three years.

Notes to the Financial Statements  
For the year ended June 30, 2015

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

|                            | 2015             |              |                  | 2014             |              |                  |
|----------------------------|------------------|--------------|------------------|------------------|--------------|------------------|
|                            | Specific         | General      | Total            | Specific         | General      | Total            |
| ----- Rupees in '000 ----- |                  |              |                  |                  |              |                  |
| Opening balance            | 1,602,549        | 3,528        | 1,606,077        | 1,602,549        | 3,528        | 1,606,077        |
| Charge for the year        | -                | -            | -                | -                | -            | -                |
| <b>Closing balance</b>     | <b>1,602,549</b> | <b>3,528</b> | <b>1,606,077</b> | <b>1,602,549</b> | <b>3,528</b> | <b>1,606,077</b> |

**11.5 Particulars of provisions against non-performing advances**

|                     |                  |              |                  |                  |              |                  |
|---------------------|------------------|--------------|------------------|------------------|--------------|------------------|
| In local currency   | 1,602,549        | 3,528        | 1,606,077        | 1,602,549        | 3,528        | 1,606,077        |
| In foreign currency | -                | -            | -                | -                | -            | -                |
|                     | <b>1,602,549</b> | <b>3,528</b> | <b>1,606,077</b> | <b>1,602,549</b> | <b>3,528</b> | <b>1,606,077</b> |

**11.6 Particulars of write offs**

|  | Note | June 30, 2015  | June 30, 2014 |
|--|------|----------------|---------------|
|  |      | Rupees in '000 |               |
| Against provisions                         | 11.4 | -              | -             |
| Directly charged to profit & loss account  |      | -              | -             |
| <b>Total</b>                               |      | <b>-</b>       | <b>-</b>      |
| 11.6.1 Write offs of Rs. 500,000 and above | 11.7 | -              | -             |
| Write offs of below Rs. 500,000            |      | -              | -             |
|  |      | -              | -             |

**11.7 Details of loan write off of Rs. 500,000 and above**

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended June 30, 2015 is Nil ( 2014: Nil).

**11.8 Particulars of loans and advances to directors (key executives), associated companies etc.**

|   | June 30, 2015  | June 30, 2014 |
|---|----------------|---------------|
|   | Rupees in '000 |               |
| <b>Debts due by directors, executives or officers</b>   |                |               |
| Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons: |                |               |
| Balance at the beginning of the year  | 7,665          | 14,366        |
| Loans granted during the year   | 8,590          | 4,363         |
| Repayments  | (6,068)        | (11,064)      |
| <b>Balance at the end of the year</b>   | <b>10,187</b>  | <b>7,665</b>  |
| Debts due by subsidiary company or firms in which directors (executives) of the bank are interested as directors (executives) |                |               |
| Balance at the beginning of the year  | -              | -             |
| Loans granted during the year   | -              | -             |
| Repayments  | -              | -             |
| <b>Balance at the end of the year</b>   | <b>-</b>       | <b>-</b>      |

The Punjab Provincial Cooperative Bank Limited

Notes to the Financial Statements  
For the year ended June 30, 2015

**12 OPERATING FIXED ASSETS**

|                          | Note | June 30,         | June 30,         |
|--------------------------|------|------------------|------------------|
|                          |      | 2015             | 2014             |
|                          |      | Rupees in '000   |                  |
| Capital work-in-progress | 12.1 | 24,731           | 23,333           |
| Property and equipment   | 12.2 | 4,587,621        | 4,571,554        |
| Intangible assets        |      | 7,612            | -                |
|                          |      | <b>4,619,964</b> | <b>4,594,887</b> |

**12.1 Capital work-in-progress**

|   | Opening balance as at July 01 | Additions during the year | Transfers to operating fixed assets | Closing balance as at June 30 |
|---|-------------------------------|---------------------------|-------------------------------------|-------------------------------|
|   | Rupees in '000                |                           |                                     |                               |
| Civil works                               | 15,528                        | 6,849                     | 9,251                               | 13,126                        |
| ATM Machines                              | -                             | 3,615                     | -                                   | 3,615                         |
| Advances to suppliers (Intangible Assets) | 7,805                         | 8,643                     | 8,458                               | 7,990                         |
| <b>2015</b>                               | <b>23,333</b>                 | <b>19,107</b>             | <b>17,709</b>                       | <b>24,731</b>                 |
| 2014                                      | 8,146                         | 15,187                    | -                                   | 23,333                        |

**12.2 Property and equipment**

|   | 2015               |                                      |                         |                  |                 |                     |                       |                 |                  |                      |
|---|--------------------|--------------------------------------|-------------------------|------------------|-----------------|---------------------|-----------------------|-----------------|------------------|----------------------|
|   | Cost / revaluation |                                      |                         |                  | Depreciation    |                     |                       |                 | Net book value   | Rate of depreciation |
|   | Opening balance    | Additions / Revaluations / Transfers | (Deletions) / Transfers | Closing balance  | Opening balance | Charge for the year | (Deletion) / Transfer | Closing balance |                  |                      |
| Rupees in '000                            |                    |                                      |                         |                  |                 |                     |                       |                 | %                |                      |
| Free hold land                            | 110,479            | -                                    | -                       | 110,479          | -               | -                   | -                     | -               | <b>110,479</b>   | -                    |
| Revaluation surplus                       | 4,350,788          | -                                    | -                       | 4,350,788        | -               | -                   | -                     | -               | <b>4,350,788</b> | -                    |
| <b>Total</b>                              | <b>4,461,267</b>   | -                                    | -                       | <b>4,461,267</b> | -               | -                   | -                     | -               | <b>4,461,267</b> |                      |
| Building on free hold land                | 121,223            | 10,561                               | -                       | 131,784          | 47,449          | 2,034               | -                     | 49,483          | <b>82,301</b>    | 2.5                  |
| Building on lease hold land               | 4,286              | -                                    | -                       | 4,286            | 2,175           | 52                  | -                     | 2,227           | <b>2,059</b>     | 2.5                  |
| Furniture and fixtures                    | 32,529             | 3,888                                | -                       | 36,417           | 23,299          | 2,109               | -                     | 25,408          | <b>11,009</b>    | 20                   |
| Electrical, office and computer equipment | 33,243             | 7,802                                | -                       | 41,045           | 15,495          | 4,097               | -                     | 19,592          | <b>21,453</b>    | 20                   |
| Vehicles                                  | 52,760             | 3,611                                | -                       | 56,371           | 45,453          | 1,522               | -                     | 46,975          | <b>9,396</b>     | 20                   |
| Telephone exchange & conference system    | 972                | 48                                   | -                       | 1,020            | 944             | 13                  | -                     | 957             | <b>63</b>        | 20                   |
| Arms & ammunitions                        | 260                | -                                    | -                       | 260              | 171             | 16                  | -                     | 187             | <b>73</b>        | 20                   |
|   | <b>245,273</b>     | <b>25,910</b>                        | -                       | <b>271,183</b>   | <b>134,986</b>  | <b>9,843</b>        | -                     | <b>144,829</b>  | <b>126,354</b>   |                      |
| <b>2015</b>                               | <b>4,706,540</b>   | <b>25,910</b>                        | -                       | <b>4,732,450</b> | <b>134,986</b>  | <b>9,843</b>        | -                     | <b>144,829</b>  | <b>4,587,621</b> |                      |



Notes to the Financial Statements  
For the year ended June 30, 2015

|  | June 30,<br>2015 | June 30,<br>2014 |
|--|------------------|------------------|
|  | Rupees in '000   |                  |
| <b>13 DEFERRED TAX</b>   |                  |                  |
| <b>Deductible temporary differences on:</b>                          |                  |                  |
| Provision for gratuity   | 49,284           | 48,661           |
| Provision for compensated leave absences                             | 204,755          | 162,119          |
| Provision against other assets                                       | 59,680           | 53,808           |
| Un-used tax losses   | 1,459,808        | 1,812,749        |
|  | <b>1,773,527</b> | <b>2,077,337</b> |
| <b>Taxable temporary differences on:</b>                             |                  |                  |
| Operating fixed assets   | 26,708           | 39,124           |
| Investments  | 286,156          | 157,706          |
|  | <b>312,864</b>   | <b>196,830</b>   |
| <b>Temporary differences for which no deferred tax is recognized</b> | <b>1,460,663</b> | <b>1,880,507</b> |

**13.1** In absence of future taxable profits projections, amount of Rs. 511,232 thousands (2014: Rs. 658,177 thousands) has not been recognized as deferred tax asset.

|   | June 30,<br>2015 | June 30,<br>2014 |
|---|------------------|------------------|
|   | Rupees in '000   |                  |
| <b>14 OTHER ASSETS - NET</b>                                    |                  |                  |
| Income / markup accrued on loans and advances in local currency | 625,586          | 514,878          |
| Advances, deposits, advance rent and others prepayments         | 1,723            | 1,639            |
| Advance taxation (payments less provisions) - net               | 23,379           | 12,310           |
| Sundry debtors  | 22,566           | 7,209            |
| Profit recoverable from banks                                   | 700              | 20,036           |
| Crop insurance recoverable                                      | 176,482          | 118,624          |
| Live stock insurance recoverable                                | 364              | -                |
| Branch adjustment account                                       | 40,842           | 39,293           |
| Others  | 91,161           | 83,519           |
|   | <b>982,803</b>   | <b>797,508</b>   |
| Less: Provision held against other assets                       | (59,680)         | (53,808)         |
| <b>Total</b>  | <b>923,123</b>   | <b>743,700</b>   |
| <b>15 BILLS PAYABLE</b>   |                  |                  |
| In Pakistan   | 27,324           | 27,065           |
| Outside Pakistan  | -                | -                |
| <b>Total</b>  | <b>27,324</b>    | <b>27,065</b>    |

Notes to the Financial Statements  
For the year ended June 30, 2015

|  | Note | June 30,       | June 30, |
|--|------|----------------|----------|
|  |      | 2015           | 2014     |
|  |      | Rupees in '000 |          |

**16 DEPOSITS AND OTHER ACCOUNTS**

**Customers**

|                                     |      |                  |                  |
|-------------------------------------|------|------------------|------------------|
| Fixed deposits                      |      | 620,297          | 363,084          |
| Savings deposits                    |      | 2,439,421        | 2,073,742        |
| Current accounts - non-remunerative |      | 1,124,125        | 1,206,465        |
| Call deposits                       |      | 2,833            | 27,873           |
| Other deposits                      | 16.1 | 380,466          | 36,555           |
| <b>Total</b>                        |      | <b>4,567,142</b> | <b>3,707,719</b> |

**Financial institutions**

|                           |  |          |          |
|---------------------------|--|----------|----------|
| Remunerative deposits     |  | -        | -        |
| Non-remunerative deposits |  | -        | -        |
| <b>Total</b>              |  | <b>-</b> | <b>-</b> |

**16.1** Others deposits include staff security deposits, employee's provident fund and pension fund.

**16.2 Particulars of deposits**

|                       |  |                  |                  |
|-----------------------|--|------------------|------------------|
| In local currency     |  | 4,567,142        | 3,707,719        |
| in foreign currencies |  | -                | -                |
| <b>Total</b>          |  | <b>4,567,142</b> | <b>3,707,719</b> |

|  | Note | June 30,       | June 30, |
|--|------|----------------|----------|
|  |      | 2015           | 2014     |
|  |      | Rupees in '000 |          |

**17 OTHER LIABILITIES**

|   |      |                  |                  |
|---|------|------------------|------------------|
| Mark-up/ Return/ Interest payable in local currency |      | 54,649           | 46,776           |
| Accrued expenses                                    |      | 3,333            | 4,563            |
| Provision for salary payable                        |      | 80,000           | -                |
| Sundry creditors                                    | 17.1 | 42,696           | 39,064           |
| Dissolved bank payable                              |      | 37,427           | 37,427           |
| Provision for employees' gratuity                   | 32   | 49,284           | 48,661           |
| Provision for employees' pension fund               | 32   | 2,636,026        | 2,424,914        |
| Provision for employees' compensated absences       | 32   | 204,755          | 162,119          |
| Deferred grant from SBP                             | 17.2 | -                | 7,034            |
| Withholding tax payable                             |      | 993              | 1,253            |
| Others  |      | 21,356           | 17,474           |
| <b>Total</b>  |      | <b>3,130,519</b> | <b>2,789,285</b> |

**17.1** This includes amount of Rs. 6,274 thousands payable on account of Rahwali Sugar Mills (RSM) and Bid Money of Rs. 12,300 thousands that was forfeited by the PPCBL as per settled agreement with respect to auction of 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 still pending for adjudication.

**17.2** This represents Institutional Strengthening Fund (ISF) received from the State Bank of Pakistan (SBP) for the purpose of (a) Review of HR Policy Framework, Training Needs Assessment and Development of Training Modules (b) Implementation of HRIS system (c) Development of IT infrastructure through review of existing CBS and acquisition of licenses for operating systems.



Notes to the Financial Statements  
For the year ended June 30, 2015

**18 SHARE CAPITAL**

| June 30,<br>2015                                   |                   | June 30,<br>2014  |  | June 30,<br>2015 |                  | June 30,<br>2014 |  |
|--|-------------------|---|--|------------------|------------------|------------------|--|
| (Number of shares)                                 |                   |   |  | Rupees in '000   |                  |                  |  |
| <b>18.1 Authorized capital</b>                     |                   |   |  |                  |                  |                  |  |
| Unlimited  | Unlimited         | Ordinary shares of Rs.100 each  |  | Unlimited        | Unlimited        |                  |  |
| <b>18.2 Issued, subscribed and paid up capital</b> |                   |   |  |                  |                  |                  |  |
| 19,006,700   | 19,006,370        | Ordinary shares of Rs. 100 each,<br>fully paid in cash                |  | 1,900,670        | 1,900,637        |                  |  |
| 375,730  | 375,730           | Ordinary shares of Rs. 100 each,<br>issued as fully paid bonus shares |  | 37,573           | 37,573           |                  |  |
| <b>19,382,430</b>                                  | <b>19,382,100</b> |   |  | <b>1,938,243</b> | <b>1,938,210</b> |                  |  |

**18.3** The State Bank of Pakistan (SBP) vide BSD circular No. 7 dated April 15, 2009 set the Minimum Capital Requirement (MCR) for banks of Rs. 10 billion (net of losses) to be achieved up to December 31, 2013. SBP had exempted the Bank from meeting MCR vide their letter no. BPRD (RU-43)512-09(B) / X /15161/98 dated September 08, 1998. However, SBP, vide letter BPRD/BA&CPD/629/006247/15 has advised the bank to comply with such requirements by June 30, 2015.

|  | Note | June 30,<br>2015 | June 30,<br>2014 |
|--|------|------------------|------------------|
|  |      | Rupees in '000   |                  |

**19 RESERVES**

|                   |      |                  |                  |
|-------------------|------|------------------|------------------|
| Statutory reserve |      | 653,189          | 630,758          |
| Common good fund  | 19.1 | 2,012            | 2,354            |
| Other reserve     | 19.2 | 5,948,573        | 5,948,573        |
| <b>Total</b>      |      | <b>6,603,774</b> | <b>6,581,685</b> |

**19.1** This reserve is created to provide for medical treatment to employees of the Bank with respect to any unforeseen accidents / injuries during the duty hours.

**19.2** In accordance with agreement dated September 16, 2009 between the Government of Punjab and the Bank, the Government of Punjab may convert this amount into share capital, as considered appropriate, depending upon the future status of the Bank to meet the consequential regulatory requirements or financial position of the Bank. Further, as referred in note 1.2, during previous year, the Bank submitted financial restructuring plan with Government of Punjab and SBP. In accordance with such plan, share capital amounting to Rs. 7,448.573 millions would be issued in 3 years i.e. 2014, 2015 & 2016. During previous year, shares amounting to Rs. 1,500 millions had been issued to Government of Punjab. Further, during the year, GoPb principally agreed for conversion of such funds into share capital of the Bank. Accordingly, these funds have not been included in borrowings and presented in equity of the Bank.

**20 SURPLUS ON REVALUATION OF ASSETS**

|   |      |                  |                  |
|---|------|------------------|------------------|
| Surplus arising on revaluation (net of tax) of: |      |                  |                  |
| Fixed Assets                                    | 20.1 | 4,350,787        | 4,350,787        |
| Available-for-sale securities                   | 20.2 | 375,804          | 247,354          |
| <b>Total</b>                                    |      | <b>4,726,591</b> | <b>4,598,141</b> |

**20.1 Surplus on revaluation of fixed assets**

|  |  |                  |                  |
|--|--|------------------|------------------|
| As at July 01,   |  | 4,350,787        | 4,350,787        |
| Recognized during the year                               |  | -                | -                |
| Reversal of deficit on account of properties written off |  | -                | -                |
| Transfer to unappropriated profit on disposal            |  | -                | -                |
| <b>As at June 30,</b>                                    |  | <b>4,350,787</b> | <b>4,350,787</b> |

Notes to the Financial Statements  
For the year ended June 30, 2015

|   | June 30,<br>2015 | June 30,<br>2014 |
|---|------------------|------------------|
|   | Rupees in '000   |                  |
| <b>20.2 Surplus on revaluation of available for sale securities</b> |                  |                  |
| As at July 01,  | 247,354          | 194,282          |
| Recognized during the year  | 128,450          | 53,072           |
| <b>As at June 30,</b>   | <b>375,804</b>   | <b>247,354</b>   |

**21 CONTINGENCIES AND COMMITMENTS**

|   | June 30,<br>2015 | June 30,<br>2014 |
|---|------------------|------------------|
|   | Rupees in '000   |                  |
| <b>21.1</b>   |                  |                  |
| The Bank has total of 119 (2014: 150) cases under litigation in different courts. The total amount involved in such outstanding cases aggregate to; | 124,676          | 135,512          |
| <b>21.2 Show cause notices by sales tax-under appeal</b>  | 5,041            | 5,041            |

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 million had not been paid to the Government in regard to sale of machinery valuing Rs. 33.600 million of Rahwali Sugar Mills to M/s Ali Industrial and Engineering Works, Karachi without charging and depositing sales tax leviable thereon. Further the sales tax department reported that M/s Ali Industrial and Engineering Works filed written statement before Deputy Collector Audit-I, that they had paid sales tax on purchase of such machinery. 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 to Sales tax department by the Lahore High Court on 18-06-2010, pending adjudication before the Department.

**21.3 Income tax status / exposure:**

- 21.3.1** The Income Tax Returns up to the tax year 2014 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.
- 21.3.2** Further, tax return for the year 2008 was selected for total audit under section 177(4) of Income Tax Ordinance, 2001 and Department of Income Tax raised a demand of 435.226 million vide order dated September 29, 2009. CIR (Appeals) vide its order dated January 20, 2010 annulled such assessed amount. Later on, Department went into appeal against the order of CIR (Appeals). Case is still pending in Appellate Tribunal Inland Revenue. The management of the Bank as well as its tax advisor is of the view that the Bank has fair chance to get the decision of these appeals in its favour.
- 21.3.3** The Bank is in litigation with the Income Tax Department whereby 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), for tax years 2003-2007 on account of 122(1) / 122(5A) of the Income Tax Ordinance, 2001, for tax year 2010 on account of Section 161/ 205/ 221(1) of the Income Tax Ordinance, 2001, as well as for years 2008-2010 and months of June-July 2013 on account of Section 34 of the Federal Excise Act, are pending adjudication before the Appellate Tribunal Inland Revenue. However, the bank has been charged & paid accordingly all the respective amounts of tax demand for all the Assessment Year / Tax Years under litigation and contesting for refunds of the same. The management of the Bank as well as its tax advisor is of the view that the Bank has fair chance to get the decision of these appeals in its favour.
- 21.3.4** CIR raised demand under section 161/205 of Income Tax Ordinance, 2001, for the tax year 2011, of Rs. 32 million vide order dated October 31, 2014. Appellate Tribunal Inland Revenue vide its order dated February 10, 2015 granted stay order against recoveries against such order on payment of 4.831 million. This case is still pending adjudication in Appellate Tribunal. The management of the Bank as well as its tax advisor is of the view that the Bank has fair chance to get the decision of these appeals in its favour.

**21.4 Commitment against construction and repair of building**

|                         | June 30,<br>2015 | June 30,<br>2014 |
|-------------------------|------------------|------------------|
|                         | Rupees in '000   |                  |
| - Civil work commitment | 9,087            | 18,045           |
| - Intangible assets     | 13,348           | 5,085            |

Notes to the Financial Statements  
For the year ended June 30, 2015

|   | Note | June 30,<br>2015 | June 30,<br>2014 |
|---|------|------------------|------------------|
| Rupees in '000  |      |                  |                  |
| <b>22 MARK-UP/ RETURN / INTEREST EARNED</b>   |      |                  |                  |
| <b>On loans and advances</b>  |      |                  |                  |
| to customers  |      | 1,411,906        | 1,289,581        |
| to employees of the bank  |      | 30,717           | 35,219           |
| <b>On investments in held to maturity securities</b>  |      |                  |                  |
| Treasury Bills / PIBs   |      | 196,110          | 109,966          |
| <b>On deposits with financial institutions</b>  |      | 101,033          | 184,971          |
| <b>Total</b>  |      | <b>1,739,766</b> | <b>1,619,737</b> |
| <b>23 MARK-UP / RETURN / INTEREST EXPENSED</b>  |      |                  |                  |
| Deposits  |      | 197,365          | 149,263          |
| <b>Total</b>  |      | <b>197,365</b>   | <b>149,263</b>   |
| <b>24 OTHER INCOME</b>  |      |                  |                  |
| Rent on property  |      | 29,991           | 30,925           |
| Net profit on gain on sale of fixed assets  |      | -                | 1,015            |
| Profit on sale of books   |      | 4,950            | 3,701            |
| Bank and service charges  |      | 8,422            | 8,633            |
| Others  |      | 27,014           | 24,566           |
| <b>Total</b>  |      | <b>70,377</b>    | <b>68,840</b>    |
| <b>25 ADMINISTRATIVE EXPENSES</b>   |      |                  |                  |
| Salaries, allowances and benefits   |      | 821,785          | 803,556          |
| Charge for defined benefit plan   | 32   | 431,926          | 497,349          |
| Contribution to defined contribution plan   |      | 12,185           | 9,012            |
| Rent, taxes, insurance, electricity, etc.   |      | 42,688           | 42,875           |
| Legal and professional charges  |      | 7,318            | 7,928            |
| Communications  |      | 21,262           | 20,890           |
| Repairs and maintenance   |      | 2,682            | 3,331            |
| Stationery and printing   |      | 3,815            | 4,140            |
| Advertisement and publicity   |      | 2,179            | 3,127            |
| Subscription  |      | 500              | 750              |
| Auditors' remuneration  | 25.1 | 1,102            | 1,075            |
| Depreciation on property and equipment  | 12.2 | 9,843            | 8,170            |
| Amortization of intangible assets   | 12.4 | 846              | -                |
| General bank charges  |      | 20,441           | 19,443           |
| Vehicles expenses   |      | 22,992           | 25,601           |
| Donation  | 25.2 | 832              | 246              |
| IT License fee  |      | 5,999            | 686              |
| Incentive paid to field staff   |      | 5,437            | 7,883            |
| Others  |      | 18,417           | 13,550           |
| <b>Total</b>  |      | <b>1,432,249</b> | <b>1,469,612</b> |
| <b>25.1 Auditors' remuneration</b>  |      |                  |                  |
| Statutory audit fee   |      | 842              | 761              |
| Fee for the review of the half yearly financial statements  |      | 38               | 38               |
| Out of pocket expenses  |      | 87               | 76               |
| Others  |      | 135              | 200              |
| <b>Sub-total</b>  |      | <b>1,102</b>     | <b>1,075</b>     |
| <b>25.2 Administrator / Executives of the Bank or their Spouses did not have any interest in the donee.</b> |      |                  |                  |

**The Punjab Provincial Cooperative Bank Limited**

Notes to the Financial Statements  
For the year ended June 30, 2015

|  | June 30,<br>2015 | June 30,<br>2014 |
|--|------------------|------------------|
|  | Rupees in '000   |                  |

**26 OTHER PROVISIONS / WRITE OFFS**

|   |               |          |
|---|---------------|----------|
| Provision against balance held with banks | -             | -        |
| Provision for salary payable              | 80,000        | -        |
| Provision against other assets            | 5,872         | -        |
| Assets directly charged off               | -             | -        |
| <b>Total</b>                              | <b>85,872</b> | <b>-</b> |

**27 OTHER CHARGES**

|   |          |          |
|---|----------|----------|
| Penalties imposed by State Bank of Pakistan | -        | -        |
| <b>Total</b>                                | <b>-</b> | <b>-</b> |

**28 TAXATION**

|                       |               |               |
|-----------------------|---------------|---------------|
| For the year          |               |               |
| Current               | 33,048        | 26,947        |
| For the prior year(s) |               |               |
| Current               | 1,414         | -             |
| <b>Total</b>          | <b>34,462</b> | <b>26,947</b> |

**28.1 Relationship between tax expense and total revenue**

|   |               |               |
|---|---------------|---------------|
| Total revenue for the year                            | 1,839,673     | 1,729,681     |
| Rate of tax   | 1%            | 1%            |
| Tax on turnover                                       | 17,973        | 16,816        |
| Tax on separate block of income (tax at reduced rate) | 15,075        | 10,131        |
| Tax for prior years                                   | 1,414         | -             |
| <b>Tax expense for the year</b>                       | <b>34,462</b> | <b>26,947</b> |

**28.2** Provision for tax for current has been calculated on the basis of 5th Schedule of the Income Tax Ordinance, 2001. Income from business has been charged under minimum tax regime at 1% of total turnover due to carried forward accumulated tax losses.

**29 EARNINGS PER SHARE - BASIC**

|  |                       | June 30,<br>2015 | June 30,<br>2014 |
|--|-----------------------|------------------|------------------|
| Profit for the year                        | (Rupees in Thousands) | 89,725           | 83,859           |
| Weighted average number of ordinary shares | (Numbers)             | 19,382,295       | 13,110,107       |
| Basic earnings per share                   | (Rupees)              | 4.63             | 6.40             |

There is no dilutive effect on earnings per share during the year.

**30 CASH AND CASH EQUIVALENTS**

|                                      |                  |                  |
|--------------------------------------|------------------|------------------|
| Cash and balance with treasury banks | 866,698          | 779,550          |
| Balance with other banks             | 1,775,794        | 1,240,883        |
| <b>Total</b>                         | <b>2,642,492</b> | <b>2,020,433</b> |

**31 STAFF STRENGTH**

|                                  | June 30,<br>2015 | June 30,<br>2014 |
|----------------------------------|------------------|------------------|
|                                  | Numbers          |                  |
| Permanent                        | 1,128            | 1,168            |
| Temporary / on contractual basis | 543              | 500              |
| Daily wages                      | 177              | 184              |
| <b>Total</b>                     | <b>1,848</b>     | <b>1,852</b>     |

# Notes to the Financial Statements

## For the year ended June 30, 2015

### 32 DEFINED BENEFIT PLAN

**32.1** The Bank operates the following retirement benefits for its employees:

- Pension fund scheme - funded
- Employees gratuity scheme - unfunded
- Employees compensated absences - unfunded

**32.1.1** At present, the bank is operating a contributory Pension Fund for all its permanent employees who do not opted for gratuity. Monthly contribution at the rate of 15% and 10% of employees basic salaries was being made by the bank and employees respectively up to March 2014. However, after March 2014 employees were not required to contribute towards pension fund.

The valuation has been prepared using the Projected Unit Credit (PUC) actuarial cost method. This is the method mandated under the latest International Accounting Standard IAS 19 (revised 2011).

The Projected Unit Credit Method requires an enterprise to attribute benefit to the current and prior periods (in order to determine the present value of defined benefit obligations). An enterprise attributes benefit to periods in which the obligation to provide post-employment benefits arises. Actuarial techniques allow an enterprise to measure that obligation with reliability to justify recognition of a liability.

Under this method the projected value at retirement of the benefits under the schemes are determined for each member and using the service till the curtailment date. Actuarial present value is then determined from this projected value using the valuation rate of discount and after discounting for the probability of survival in service up to the retirement age.

**32.1.2** Gratuity is payable under the scheme to employees on cessation of employment on the following grounds:

- Retirement upon the attainment of the normal retirement age
- Death in service of the employer
- Resignation from service

The valuation has been prepared using the Projected Unit Credit (PUC) Actuarial Cost method. This is the method mandated under the latest International Accounting Standard IAS 19 (revised 2011).

**32.1.3** The employees of the Bank who opted for pension are getting leave salary equivalent to 30 days or one month as compared to the employee opted for gratuity who are getting leave salary for 48 days. Therefore, Bank will pay back the amount of leave salary equivalent to 18 days (per year) to the serving employees, who will opt for gratuity at this stage. The payment of such amount shall be arranged by the bank through quarterly contribution basis with in a period of five years. In the past a reverse exercise was done by the Bank for employees who opted pension from gratuity and recovered excess paid leave salary over and above for 30 days.

#### 32.2 Principal actuarial assumptions

The latest actuarial valuations of the pension fund, employees' gratuity scheme and employee's compensated absences were carried out at June 30, 2015. The principal actuarial assumptions used are as follows:

|                                  | Pension Fund   |        | Gratuity Fund |        | Compensated Absence |        |
|----------------------------------|----------------|--------|---------------|--------|---------------------|--------|
|                                  | 2015           | 2014   | 2015          | 2014   | 2015                | 2014   |
|                                  | Rupees in '000 |        |               |        |                     |        |
| Valuation discount rate          | 10.50%         | 13.50% | 10.50%        | 13.50% | 10.50%              | 13.50% |
| Short term salary increase rate  | 9.50%          | 12.50% | 9.50%         | 12.50% | 9.50%               | 12.50% |
| Long term salary increase rate   | 9.50%          | 12.50% | 9.50%         | 12.50% | 9.50%               | 12.50% |
| Pension indexation rate          | 3.00%          | 5.00%  | -             | -      | -                   | -      |
| Expected return on plan asset    | 10.50%         | 13.50% | -             | -      | -                   | -      |
| Leave accumulation factor (days) | -              | -      | -             | -      | 15                  | 15     |

Notes to the Financial Statements  
For the year ended June 30, 2015

**32.3 Payable to / (receivable from) defined benefit plan**

|  | Pension Fund |           | Gratuity Fund |        | Compensated Absence |         |
|--|--------------|-----------|---------------|--------|---------------------|---------|
|  | 2015         | 2014      | 2015          | 2014   | 2015                | 2014    |
| Rupees in '000                               |              |           |               |        |                     |         |
| Present value of defined benefit obligation  | 2,921,282    | 2,567,608 | 49,284        | 42,189 | 204,755             | 162,119 |
| Fair value of plan asset                     | (285,256)    | (142,694) | -             | -      | -                   | -       |
| Present value of employee contribution       | -            | -         | -             | -      | -                   | -       |
| Net actuarial gains/ (losses) not recognised | -            | -         | -             | -      | -                   | -       |
| Net payable / (receivable) at the year end   | 2,636,026    | 2,424,914 | 49,284        | 42,189 | 204,755             | 162,119 |

**32.4 Reconciliation of the present value of the defined benefit obligation**

|   | Pension Fund |           | Gratuity Fund |         | Compensated Absence |         |
|---|--------------|-----------|---------------|---------|---------------------|---------|
|   | 2015         | 2014      | 2015          | 2014    | 2015                | 2014    |
| Rupees in '000  |              |           |               |         |                     |         |
| Present value of defined benefit obligation as at July 01 | 2,424,914    | 2,320,683 | 48,661        | 42,189  | 162,119             | 99,697  |
| Charge for the year                                       | 379,320      | 426,373   | 9,244         | 6,597   | 43,362              | 64,379  |
| Employees' / employer's contribution                      | (263,685)    | (202,827) | -             | -       | -                   | -       |
| Benefits paid   | -            | -         | (2,458)       | (2,909) | (726)               | (1,957) |
| Other comprehensive (income) / loss                       | 95,477       | (119,315) | (6,163)       | 2,784   | -                   | -       |
| Present value as at June 30                               | 2,636,026    | 2,424,914 | 49,284        | 48,661  | 204,755             | 162,119 |

**32.5 Charge for the defined benefit plan**

The following amounts have been charged to the profit and loss account in respect of defined benefit plans:

|                           | Pension Fund |          | Gratuity Fund |       | Compensated Absence |        |
|---------------------------|--------------|----------|---------------|-------|---------------------|--------|
|                           | 2015         | 2014     | 2015          | 2014  | 2015                | 2014   |
| Rupees in '000            |              |          |               |       |                     |        |
| Current service cost      | 68,830       | 79,739   | 2,840         | 1,913 | 7,477               | 3,539  |
| Net interest              | 318,110      | 258,045  | 6,403         | 4,684 | 21,837              | 11,353 |
| Contributions - employees | (29)         | (21,955) | -             | -     | -                   | -      |
| Past service cost         | -            | 118,500  | -             | -     | -                   | -      |
| Amount transferred        | (7,591)      | (7,957)  | -             | -     | -                   | -      |
| Actuarial (gain) / loss   | -            | -        | -             | -     | 14,048              | 49,487 |
|                           | 379,320      | 426,372  | 9,243         | 6,597 | 43,362              | 64,379 |

**32.6 Movement in fair value of plan asset**

| Pension fund                                     | June 30,  | June 30,  |
|--|-----------|-----------|
|  | 2015      | 2014      |
| Rupees in '000                                   |           |           |
| Balance as at July 01                            | 142,694   | 50,132    |
|  | 142,694   | 50,132    |
| Expected return on plan asset                    | 19,264    | 5,765     |
| Contributions - bank                             | 263,684   | 202,827   |
| Amounts transferred / Donations / Other receipts | 7,591     | 7,957     |
| Contributions - employees                        | 29        | 21,955    |
| Benefits paid                                    | (137,080) | (153,618) |
| Gain / (loss) on plan asset                      | (10,926)  | 7,676     |
| Balance as at June 30                            | 285,256   | 142,694   |

Notes to the Financial Statements  
For the year ended June 30, 2015

**33 COMPENSATION OF CHIEF EXECUTIVES, DIRECTORS AND EXECUTIVES**

|                            | President / Chief Executive |              | Directors |          | Executives    |               |
|----------------------------|-----------------------------|--------------|-----------|----------|---------------|---------------|
|                            | 2015                        | 2014         | 2015      | 2014     | 2015          | 2014          |
| ----- Rupees in '000 ----- |                             |              |           |          |               |               |
| Fees                       | 2,089                       | 2,080        | -         | -        | 7,895         | 11,191        |
| Rent and house maintenance | 469                         | 700          | -         | -        | 2,713         | 3,529         |
| Utilities                  | 28                          | 128          | -         | -        | 448           | 532           |
| Medical                    | 133                         | 154          | -         | -        | 1,144         | 1,449         |
| Conveyance                 | -                           | -            | -         | -        | -             | 1,261         |
| Others                     | 1,138                       | 799          | -         | -        | 4,495         | 5,345         |
| <b>Total</b>               | <b>3,857</b>                | <b>3,861</b> | <b>-</b>  | <b>-</b> | <b>16,695</b> | <b>23,307</b> |
| Number of persons          | 1                           | 2            | -         | -        | 10            | 13            |

**33.1** At present, the Secretary Co-operatives, Government of the Punjab is the Administrator of the Bank, who has full powers and duties those of a Board of Directors.

**34 FAIR VALUE OF FINANCIAL INSTRUMENTS**

**34.1 On-balance sheet financial instruments**

|                                   | 2015              |                   | 2014              |                   |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                   | Book value        | Fair value        | Book value        | Fair value        |
| ----- Rupees in '000 -----        |                   |                   |                   |                   |
| <b>Assets</b>                     |                   |                   |                   |                   |
| Cash balances with treasury banks | 866,698           | 866,698           | 779,550           | 779,550           |
| Balances with other banks         | 1,775,794         | 1,775,794         | 1,240,883         | 1,240,883         |
| Lending to financial institutions | -                 | -                 | 500,000           | 500,000           |
| Investments                       | 1,934,771         | 1,934,771         | 2,150,672         | 2,150,672         |
| Advances                          | 9,194,515         | 9,194,515         | 7,975,705         | 7,975,705         |
| Other assets                      | 857,179           | 857,179           | 731,390           | 731,390           |
| <b>Total</b>                      | <b>14,628,957</b> | <b>14,628,957</b> | <b>13,378,200</b> | <b>13,378,200</b> |
| <b>Liabilities</b>                |                   |                   |                   |                   |
| Bills payable                     | 27,324            | 27,324            | 27,065            | 27,065            |
| Deposits and other accounts       | 4,567,142         | 4,567,142         | 3,707,719         | 3,707,719         |
| Other liabilities                 | 3,130,519         | 3,130,519         | 2,789,285         | 2,789,285         |
| <b>Total</b>                      | <b>7,724,985</b>  | <b>7,724,985</b>  | <b>6,524,069</b>  | <b>6,524,069</b>  |

**34.2** The fair value of investments is based on quoted market price with the exception of unlisted securities and held to maturity securities.

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

# Notes to the Financial Statements

## For the year ended June 30, 2015

### 35 RELATED PARTY TRANSACTIONS

Related parties comprise of key bank executives, President of the Bank, provident fund trust, pension fund trust, member societies, Registrar Co-operative Societies and the Government of Punjab. Transactions with related parties, other than those disclosed in Note 33, are as follows;

|                                      | June 30,<br>2015 | June 30,<br>2014 |
|--------------------------------------|------------------|------------------|
|                                      | Rupees in '000   |                  |
| Loan to executives                   |                  |                  |
| Loans disbursed during the year      | 8,590            | 4,363            |
| Repayments during the year           | (6,068)          | 11,064           |
| Mark-up earned                       | 1,210            | 1,488            |
| Contribution to provident fund trust | 814              | 9,012            |
| Contribution to pension fund trust   | 263,684          | 202,827          |
| Shares issued to GoPb                | -                | 1,500,000        |

Receivables and Payables balances with related parties have been disclosed in respective notes.

### 36 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

|  | Retail<br>financing | Commercial<br>banking | Total      |
|--|---------------------|-----------------------|------------|
|  | Rupees '000         |                       |            |
| <b>2015</b>                            |                     |                       |            |
| Total income                           | 1,442,623           | 397,050               | 1,839,673  |
| Total expenses                         | 1,518,121           | 197,365               | 1,715,486  |
| Net income                             | (75,498)            | 199,685               | 124,187    |
| Segment assets (gross)                 | 16,402,659          | 4,679,024             | 21,081,683 |
| Segment non performing loans           | 2,147,218           | 101,061               | 2,248,279  |
| Segment provision required             | 1,481,829           | -                     | 1,481,829  |
| Segment liabilities                    | 7,670,336           | 54,649                | 7,724,985  |
| Segment Return on net Assets (ROA) (%) | -1.15%              | 4.41%                 | 1.12%      |
| Segment cost of funds (%)              | 4.32%               | 4.32%                 | 4.32%      |
| <b>2014</b>                            |                     |                       |            |
| Total income                           | 1,324,800           | 404,881               | 1,729,681  |
| Total expenses                         | 1,469,612           | 149,263               | 1,618,875  |
| Net income                             | (144,812)           | 255,618               | 110,806    |
| Segment assets (gross)                 | 14,954,141          | 4,792,202             | 19,746,343 |
| Segment non performing loans           | 2,265,220           | 101,061               | 2,366,281  |
| Segment provision required             | 1,444,670           | -                     | 1,444,670  |
| Segment liabilities                    | 6,477,293           | 46,776                | 6,524,069  |
| Segment Return on net Assets (ROA) (%) | -2.33%              | 5.50%                 | 1.02%      |
| Segment cost of funds (%)              | 4.03%               | 4.03%                 | 4.03%      |



Notes to the Financial Statements  
For the year ended June 30, 2015

|  | June 30,<br>2015 | June 30,<br>2014 |
|--|------------------|------------------|
|  | Rupees in '000   |                  |

**37 CAPITAL ADEQUACY**

The risk weighted assets to capital ratio, calculated in accordance with the State Bank of Pakistan guidelines on capital adequacy is as follows:

**Regulatory Capital Base**

**Tier I Capital**

|   |                  |                  |
|---|------------------|------------------|
| Shareholders capital / assigned capital | 1,938,243        | 1,938,210        |
| Reserves                                | 6,603,774        | 6,581,685        |
| Unappropriated losses                   | (1,678,728)      | (1,656,708)      |
| <b>Total Tier I Capital</b>             | <b>6,863,289</b> | <b>6,863,187</b> |

**Tier II Capital**

|  |                  |                  |
|--|------------------|------------------|
| Subordinated debt (up to 50% of total Tier I Capital)                              | -                | -                |
| General provisions subject to 1.25% of total risk weighted assets                  | 3,528            | 3,528            |
| Revaluation reserve (up to 50%)  | 2,363,296        | 2,299,071        |
| <b>Total Tier II Capital (restricted up to the amount of total tier I capital)</b> | <b>2,366,824</b> | <b>2,302,599</b> |

**Eligible Tier III Capital**

|                                     |                  |                  |
|-------------------------------------|------------------|------------------|
|                                     | -                | -                |
| <b>Total Regulatory Capital (a)</b> | <b>9,230,113</b> | <b>9,165,786</b> |

**Risk-Weighted Exposures**

|  | 2015           |               | 2014       |               |
|--|----------------|---------------|------------|---------------|
|  | Book Value     | Risk Adjusted | Book Value | Risk Adjusted |
|  | Rupees in '000 |               |            |               |

**Credit Risk**

**Balance sheet items:-**

|                                       |                   |                   |                   |                   |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Cash and balances with treasury banks | 866,698           | -                 | 779,550           | -                 |
| Balances with other banks             | 1,775,794         | 355,159           | 1,240,883         | 248,177           |
| Lending to financial institutions     | -                 | -                 | 500,000           | 100,000           |
| Investments                           | 1,934,771         | 384,789           | 2,150,672         | 256,339           |
| Loans & advances                      | 9,194,515         | 7,940,915         | 7,975,705         | 7,009,839         |
| Operating fixed assets                | 4,619,964         | 4,619,964         | 4,594,887         | 4,594,887         |
| Other assets                          | 923,123           | 722,338           | 743,700           | 196,476           |
| <b>Sub-total</b>                      | <b>19,314,865</b> | <b>14,023,165</b> | <b>17,985,397</b> | <b>12,405,718</b> |

**Off balance sheet items**

|  |   |   |   |   |
|--|---|---|---|---|
| Loan repayment guarantees              | - | - | - | - |
| Purchase and resale agreements         | - | - | - | - |
| Guarantee acceptance                   | - | - | - | - |
| Revolving underwriting commitments     | - | - | - | - |
| Stand by letters of credit             | - | - | - | - |
| Outstanding foreign exchange contracts | - | - | - | - |
| -Purchase                              | - | - | - | - |
| -Sale                                  | - | - | - | - |
|  | - | - | - | - |

**Credit risk-weighted exposures**

|  |                   |                   |
|--|-------------------|-------------------|
|  | <b>14,023,165</b> | <b>12,405,718</b> |
|--|-------------------|-------------------|

**Market Risk**

|                                       |          |          |          |          |
|---------------------------------------|----------|----------|----------|----------|
| General market risk                   | -        | -        | -        | -        |
| Specific market risk                  | -        | -        | -        | -        |
| <b>Market risk-weighted exposures</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> |

|  |                   |                   |
|--|-------------------|-------------------|
| <b>Total risk-weighted exposures (b)</b> | <b>14,023,165</b> | <b>12,405,718</b> |
|--|-------------------|-------------------|

|  |              |              |
|--|--------------|--------------|
| <b>Capital Adequacy Ratio [ (a) / (b) x 100]</b> | <b>65.82</b> | <b>73.88</b> |
|--|--------------|--------------|

**37.1** The Bank has obtained exemption from The State Bank of Pakistan for the implementation of Basel II and Basel III requirements till December 31, 2015 vide letter no.BPRD/BA&CPD/629/05844/15 dated July 13, 2015.

**37.2** As per requirements of SBP, the banks are required to have a minimum paid up capital (net of losses) of Rs. 10 billion till June 30, 2013. Further, the banks are required to maintain a Capital Adequacy Ratio of 10% at all times. As of June 30, 2015, the paid up capital of the Bank net of losses amounts to Rs. 259.515 million.

# Notes to the Financial Statements

## For the year ended June 30, 2015

### 38 RISK MANAGEMENT

#### 38.1 Credit Risk

The Bank's credit risk exposure is not significantly different from that reflected in the financial statements. The management monitors and limits Bank's exposure to credit risk through monitoring of clients' credit exposure, review and conservative estimates of provisions for doubtful receivable and through the prudent use of collateral for major amounts of credit. The management is of the view that the Bank is exposed to significant concentration of credit risk as its financial assets mostly relate to agriculture sector. Detail is given below:

##### 38.1.1 Segmental Information

| Segments by class of business              | 2015              |            |                  |            |                |            |
|--|-------------------|------------|------------------|------------|----------------|------------|
|  | Advances (gross)  |            | Deposits         |            | Contingencies  |            |
|  | Rupees in '000    | %age       | Rupees in '000   | %age       | Rupees in '000 | %age       |
| Agriculture, forestry, hunting and fishing | 9,987,710         | 92.47      | 461,044          | 10.09      | -              | -          |
| Mining and quarrying                       | -                 | -          | -                | -          | -              | -          |
| Textile                                    | 631               | 0.01       | 35               | -          | -              | -          |
| Chemical and pharmaceuticals               | -                 | -          | -                | -          | -              | -          |
| Cement                                     | -                 | -          | -                | -          | -              | -          |
| Sugar                                      | -                 | -          | -                | -          | -              | -          |
| Footwear and leather garments              | -                 | -          | -                | -          | -              | -          |
| Automobile and transportation equipment    | -                 | -          | -                | -          | -              | -          |
| Electronics and electrical appliances      | -                 | -          | -                | -          | -              | -          |
| Construction                               | -                 | -          | -                | -          | -              | -          |
| Power (electricity), gas, water, sanitary  | -                 | -          | -                | -          | -              | -          |
| Financial                                  | -                 | -          | -                | -          | -              | -          |
| Insurance                                  | -                 | -          | 620              | 0.01       | -              | -          |
| Services                                   | -                 | -          | -                | -          | -              | -          |
| Individuals                                | 177,183           | 1.64       | 3,235,716        | 70.85      | -              | -          |
| Others                                     | 635,068           | 5.88       | 869,727          | 19.04      | 129,717        | 100        |
| <b>Total</b>                               | <b>10,800,592</b> | <b>100</b> | <b>4,567,142</b> | <b>100</b> | <b>129,717</b> | <b>100</b> |
| <b>Segmental Information</b>               |                   |            |                  |            |                |            |
| Public / Government                        | 600,000           | 5.56       | -                | -          | 129,717        | 100        |
| Private                                    | 10,200,592        | 94.44      | 4,567,142        | 100        | -              | -          |
| <b>Total</b>                               | <b>10,800,592</b> | <b>100</b> | <b>4,567,142</b> | <b>100</b> | <b>129,717</b> | <b>100</b> |

Notes to the Financial Statements  
For the year ended June 30, 2015

38.1.2 Details of non-performing advances and specific provisions by class of business segment

|  | 2015                |                          | 2014                |                          |
|--|---------------------|--------------------------|---------------------|--------------------------|
|  | Classified advances | Specific provisions held | Classified advances | Specific provisions held |
| ----- Rupees in '000 -----                 |                     |                          |                     |                          |
| Agriculture, forestry, hunting and fishing | 1,913,623           | 1,508,702                | 2,019,196           | 1,508,702                |
| Mining and quarrying                       | -                   | -                        | -                   | -                        |
| Textile                                    | 631                 | 1,244                    | 712                 | 1,244                    |
| Chemical and pharmaceuticals               | -                   | -                        | -                   | -                        |
| Cement                                     | -                   | -                        | -                   | -                        |
| Sugar                                      | -                   | -                        | -                   | -                        |
| Footwear and leather garments              | -                   | -                        | -                   | -                        |
| Automobile and transportation equipment    | -                   | -                        | -                   | -                        |
| Electronics and electrical appliances      | -                   | -                        | -                   | -                        |
| Construction                               | -                   | -                        | -                   | -                        |
| Power (electricity), gas, water, sanitary  | -                   | -                        | -                   | -                        |
| Wholesale and retail trade                 | -                   | -                        | -                   | -                        |
| Exports/Imports                            | -                   | -                        | -                   | -                        |
| Transport, storage and communication       | -                   | -                        | -                   | -                        |
| Financial                                  | -                   | -                        | -                   | -                        |
| Insurance                                  | -                   | -                        | -                   | -                        |
| Services                                   | -                   | -                        | -                   | -                        |
| Individuals                                | 14,784              | 20,685                   | 16,121              | 20,685                   |
| Others                                     | 218,180             | 75,446                   | 229,191             | 75,446                   |
| <b>Total</b>                               | <b>2,147,218</b>    | <b>1,606,077</b>         | <b>2,265,220</b>    | <b>1,606,077</b>         |

Details of non-performing advances and specific provisions by sector

|                     |           |           |           |           |
|---------------------|-----------|-----------|-----------|-----------|
| Public / Government | -         | -         | -         | -         |
| Private             | 2,147,218 | 1,606,077 | 2,265,220 | 1,606,077 |
|                     | 2,147,218 | 1,606,077 | 2,265,220 | 1,606,077 |

38.1.3 Geographical segment analysis

|                                     | 2015                   |                       |                     |                               |
|-------------------------------------|------------------------|-----------------------|---------------------|-------------------------------|
|                                     | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| ----- Rupees in '000 -----          |                        |                       |                     |                               |
| Pakistan                            | 124,187                | 19,314,865            | 11,589,880          | 152,152                       |
| Asia Pacific (including South Asia) | -                      | -                     | -                   | -                             |
| Europe                              | -                      | -                     | -                   | -                             |
| United States of America and Canada | -                      | -                     | -                   | -                             |
| Middle East                         | -                      | -                     | -                   | -                             |
| Others                              | -                      | -                     | -                   | -                             |
| <b>Total</b>                        | <b>124,187</b>         | <b>19,314,865</b>     | <b>11,589,880</b>   | <b>152,152</b>                |

Notes to the Financial Statements  
For the year ended June 30, 2015

**38.2 Market risk**

**38.2.1 Foreign exchange risk**

Foreign exchange 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.

|                | 2015           |             |                         |                               |
|----------------|----------------|-------------|-------------------------|-------------------------------|
|                | Assets         | Liabilities | Off-balance sheet items | Net foreign currency exposure |
|                | Rupees in '000 |             |                         |                               |
| Pakistan rupee | 19,314,865     | 7,724,985   | -                       | -                             |

**38.2.2 Yield / markup rate risk**

Yield / markup 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 / markup rates will affect the value of financial instruments. The bank is exposed to yield / markup 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 / markup rate can be evaluated from the following:

|   | Effective yield / interest rate | 2015              |                  |                    |                    |                         |                   |                   |                   |                    |                  | Non-interest bearing financial instruments |
|---|---------------------------------|-------------------|------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|------------------|--|
|   |                                 | Total             | Up to 1 month    | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 Years   |  |
|   |                                 | Rupees in '000    |                  |                    |                    |                         |                   |                   |                   |                    |                  |  |
| <b>On-balance sheet financial instruments</b>         |                                 |                   |                  |                    |                    |                         |                   |                   |                   |                    |                  |  |
| <b>Assets</b>   |                                 |                   |                  |                    |                    |                         |                   |                   |                   |                    |                  |  |
| Cash and balances with treasury banks                 | 4.5% to 7%                      | 866,698           | 36,080           | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                | 830,618                                    |
| Balances with other banks                             | 4.5% to 6.5%                    | 1,775,794         | 1,775,794        | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                | -  |
| Lending to financial institutions                     |                                 | -                 | -                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                | -  |
| Investments   | 8.36% to 11.25%                 | 1,934,771         | 378,733          | -                  | 496,032            | -                       | 1,048,424         | 9,993             | -                 | -                  | -                | 1,589                                      |
| Advances  | 9% to 18%                       | 9,194,515         | 685,565          | 148,261            | 1,448,073          | 2,625,423               | 3,169,737         | 280,185           | 605,973           | 170,546            | 60,752           | -  |
| Other assets  |                                 | 899,744           | -                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                | 899,744                                    |
| <b>Sub-total</b>                                      |                                 | <b>14,671,522</b> | <b>2,876,172</b> | <b>148,261</b>     | <b>1,944,105</b>   | <b>2,625,423</b>        | <b>4,218,161</b>  | <b>290,178</b>    | <b>605,973</b>    | <b>170,546</b>     | <b>60,752</b>    | <b>1,731,951</b>                           |
| <b>Liabilities</b>                                    |                                 |                   |                  |                    |                    |                         |                   |                   |                   |                    |                  |  |
| Bills payable   |                                 | 27,324            | -                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                | 27,324                                     |
| Deposits and other accounts                           | 4.5% to 9%                      | 4,567,142         | 2,909,593        | 287,184            | 107,676            | 331,524                 | 42,212            | 205,260           | 209,635           | 25,223             | 371,631          | 77,204                                     |
| Other liabilities                                     |                                 | 3,130,519         | -                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                | 3,130,519                                  |
| <b>Sub-total</b>                                      |                                 | <b>7,724,985</b>  | <b>2,909,593</b> | <b>287,184</b>     | <b>107,676</b>     | <b>331,524</b>          | <b>42,212</b>     | <b>205,260</b>    | <b>209,635</b>    | <b>25,223</b>      | <b>371,631</b>   | <b>3,235,047</b>                           |
| <b>On-balance sheet gap</b>                           |                                 | <b>6,946,537</b>  | <b>(33,421)</b>  | <b>(138,923)</b>   | <b>1,836,429</b>   | <b>2,293,899</b>        | <b>4,175,949</b>  | <b>84,918</b>     | <b>396,338</b>    | <b>145,323</b>     | <b>(310,879)</b> | <b>(1,503,096)</b>                         |
| <b>Total Yield/Interest Risk Sensitivity Gap</b>      |                                 | <b>6,946,537</b>  | <b>(33,421)</b>  | <b>(138,923)</b>   | <b>1,836,429</b>   | <b>2,293,899</b>        | <b>4,175,949</b>  | <b>84,918</b>     | <b>396,338</b>    | <b>145,323</b>     | <b>(310,879)</b> | <b>(1,503,096)</b>                         |
| <b>Cumulative Yield/Interest Risk Sensitivity Gap</b> |                                 | <b>6,946,537</b>  | <b>(33,421)</b>  | <b>(172,344)</b>   | <b>1,664,085</b>   | <b>3,957,984</b>        | <b>8,133,933</b>  | <b>8,218,851</b>  | <b>8,615,189</b>  | <b>8,760,512</b>   | <b>8,449,633</b> | <b>6,946,537</b>                           |

# Notes to the Financial Statements

## For the year ended June 30, 2015

### 38.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulties in raising funds to meet the commitments associated with financial instruments. To safeguard this risk, the Bank has diversified its funding sources and managed its assets with liquidity in mind thereby maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The maturity profile of assets and liabilities is monitored on regular basis to ensure that the adequate liquidity is maintained. The maturity profile of the Bank's assets and liabilities is summarized below:

#### 38.3.1 Maturities of assets and liabilities

|   | 2015              |                  |                    |                    |                         |                   |                   |                   |                    |                  |
|---|-------------------|------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|------------------|
|   | Total             | Up to 1 month    | Over 1 to 3 months | Over 3 to 6 months | Over 6 months to 1 year | Over 1 to 2 years | Over 2 to 3 years | Over 3 to 5 years | Over 5 to 10 years | Above 10 years   |
| ----- Rupees in '000 -----                          |                   |                  |                    |                    |                         |                   |                   |                   |                    |                  |
| <b>Assets</b>                                       |                   |                  |                    |                    |                         |                   |                   |                   |                    |                  |
| Cash and balances with treasury banks               | 866,698           | 866,698          | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Balances with other banks                           | 1,775,794         | 1,775,794        | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Lending to financial institutions                   | -                 | -                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Investments   | 1,934,771         | 380,322          | -                  | 496,032            | -                       | 1,048,424         | 9,993             | -                 | -                  | -                |
| Advances  | 9,194,515         | 685,565          | 148,261            | 1,448,073          | 2,625,423               | 3,169,737         | 280,185           | 605,973           | 170,546            | 60,752           |
| Other assets  | 923,123           | 201,643          | 651,586            | 1,746              | 35,898                  | 1,278             | 158               | 30,600            | 109                | 105              |
| Operating fixed assets                              | 4,619,964         | 7,702            | 1,211              | 690                | 1,357                   | 755               | 3,031             | 89,378            | 1,249              | 4,514,591        |
| Deferred tax assets                                 | -                 | -                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| <b>Sub-total</b>                                    | <b>19,314,865</b> | <b>3,917,724</b> | <b>801,058</b>     | <b>1,946,541</b>   | <b>2,662,678</b>        | <b>4,220,194</b>  | <b>293,367</b>    | <b>725,951</b>    | <b>171,904</b>     | <b>4,575,448</b> |
| <b>Liabilities</b>                                  |                   |                  |                    |                    |                         |                   |                   |                   |                    |                  |
| Bills payable                                       | 27,324            | 27,324           | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Borrowings  | -                 | -                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Deposits and other accounts                         | 4,567,142         | 2,986,797        | 287,184            | 107,676            | 331,524                 | 42,212            | 205,260           | 209,635           | 25,223             | 371,631          |
| Sub-ordinated loans                                 | -                 | -                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Liabilities against assets subject to finance lease | -                 | -                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| Other liabilities                                   | 3,130,519         | -                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | 3,130,519        |
| Deferred tax liabilities                            | -                 | -                | -                  | -                  | -                       | -                 | -                 | -                 | -                  | -                |
| <b>Sub-total</b>                                    | <b>7,724,985</b>  | <b>3,014,121</b> | <b>287,184</b>     | <b>107,676</b>     | <b>331,524</b>          | <b>42,212</b>     | <b>205,260</b>    | <b>209,635</b>    | <b>25,223</b>      | <b>3,502,150</b> |
| <b>Net assets</b>                                   | <b>11,589,880</b> | <b>903,603</b>   | <b>513,874</b>     | <b>1,838,865</b>   | <b>2,331,154</b>        | <b>4,177,982</b>  | <b>88,107</b>     | <b>516,316</b>    | <b>146,681</b>     | <b>1,073,298</b> |

38.3.2 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.

# Notes to the Financial Statements

## For the year ended June 30, 2015

### **39 CREDIT RATING**

SBP has exempted the Bank from credit rating requirements under Prudential Regulation G-4, till the completion of restructuring process vide letter no. BPRD/LRD-02/RATING/2009/1856 dated March 17, 2009.

### **40 DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on October 09, 2015 by the Administrator of the Bank.

### **41 GENERAL**

**41.1** The figures of the corresponding period have been reclassified, wherever necessary to achieve better comparison. However no material reclassification has been made in the financial statements.

**41.2** Figures in these financial statements have been rounded off to the nearest thousand rupees.

**ZAHID MANSOOR**  
ACTING CHIEF FINANCIAL OFFICER

**MUHAMMAD AYUB**  
ACTING PRESIDENT/ CEO