



“IN THE NAME OF ALLAH,
THE MOST BENEFICIAL,
THE MOST MERCIFUL”



The Punjab Provincial Cooperative Bank Limited

A Farmer Friendly Bank Committed to Development of Agriculture Sector

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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, 2014** 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 forty eight 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, 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 matters 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) Accuracy of provision held against non-performing loans amounting to Rs. 1,606.077 millionas required by Prudential Regulations issued by the SBP remained unverified in absence of reliable analysis of advances extended by the Bank. The amounts of non performing advances, required and provision against such loans 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, 2014 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 in note 1.2 to the accompanying financial statements which states that the Bank has been granted exemption by the State Bank of Pakistan in respect of meeting regulatory capital requirements. Similarly, the Bank has also been exempted from MCR reporting on Basel 2 and Basel 3 formats uptill December 31, 2014. During the year, the Bank has also submitted its restructuring plan to comply with regulatory capital requirements notified by SBP for other banks which is in process of implementation.
- ii) as referred in note 19 to the accompanying financial statements, equity of the Bank includes funds amounting to Rs. 5,948.573 million received from the Government of

Punjab (GoPb), against which shares will be issued in accordance with the restructuring plan submitted to the GoPb and SBP;

- iii) 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
- iv) as referred in note 11.2 to the accompanying financial statements, the Bank has not adjusted its non- performing loans amounting to Rs. 210.161 million and reversal of suspended mark- up income on such loans amounting to Rs. 251.990 million against properties decreed in favour of the Bank due to their pending possession disputes.

Anjum Asim Shahid Rahman

Chartered Accountants

Engagement Partner: Imran Afzal

Lahore

Date

The Punjab Provincial Cooperative Bank Limited
Statement of Financial Position
As at June 30, 2014

	Note	June 30, 2014	June 30, 2013
		Rupees in '000	
Assets			
Cash and balances with treasury banks	7	779,550	634,679
Balances with other banks	8	1,240,883	1,186,887
Lending to financial institutions	9	500,000	800,000
Investments - net	10	2,150,672	791,599
Advances - net	11	7,975,705	7,862,562
Operating fixed assets	12	4,594,887	4,571,028
Deferred tax assets - net	13	-	-
Other assets - net	14	743,700	762,731
Total assets		17,985,397	16,609,486
Liabilities			
Bills payable	15	27,065	13,746
Borrowings		-	-
Deposits and other accounts	16	3,707,719	2,747,708
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net	13	-	-
Other liabilities	17	2,789,285	2,641,887
Total liabilities		6,524,069	5,403,341
Net assets		11,461,328	11,206,145
Represented by :			
Share capital	18	1,938,210	436,410
Reserves	19	6,581,685	8,060,799
Unappropriated profit / (loss)		(1,656,708)	(1,836,133)
		6,863,187	6,661,076
Surplus on revaluation of assets - net of tax	20	4,598,141	4,545,069
Total equity		11,461,328	11,206,145
Contingencies and commitments	21		

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

ZAHID MANSOOR
CHIEF FINANCIAL OFFICER

MUHAMMAD AYUB
PRESIDENT/ CEO

The Punjab Provincial Cooperative Bank Limited

Profit and Loss Account

For the year ended June 30, 2014

	Note	June 30, 2014	June 30, 2013
		Rupees in '000	
Mark-up / return / interest earned	22	1,619,737	1,595,985
Mark-up / return / interest expensed	23	149,263	115,098
Net mark-up/ interest income		1,470,474	1,480,887
Provision against loans and advances-net	11.4	-	184
Provision / (reversal) for diminution in the value of investments-net	10.3	-	(1,962)
Bad debts written off directly		-	-
		-	(1,778)
Net mark-up / interest income after provisions		1,470,474	1,482,665
Non mark-up / interest income			
Fee, commission and brokerage income		23,911	24,148
Dividend income		17,193	18,693
Income from dealing in foreign currencies		-	-
Gain / (loss) on sale of securities-net		-	-
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	24	68,840	57,891
Total non-mark-up / interest income		109,944	100,732
Total income		1,580,418	1,583,397
Non mark-up / interest expenses			
Administrative expenses	25	1,469,612	1,147,041
Other provisions / write offs-net	26	-	(36,192)
Other charges	27	-	18
Total non-mark-up / interest expenses		1,469,612	1,110,867
Extra ordinary / unusual items		-	-
Profit before taxation		110,806	472,530
Taxation			
- Current	28	26,947	(6,198)
- Prior years		-	-
- Deferred		-	-
		26,947	(6,198)
Profit after taxation		83,859	478,728
Unappropriated profit brought forward		(1,836,133)	(2,198,924)
Transfer from surplus on revaluation of fixed assets - net of tax		-	-
Profit / (loss) available for appropriation		(1,752,274)	(1,720,196)
Basic / diluted earnings per share	29	6.40	110.16

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

ZAHID MANSOOR
CHIEF FINANCIAL OFFICER

MUHAMMAD AYUB
PRESIDENT/ CEO

The Punjab Provincial Cooperative Bank Limited

Statement of Comprehensive Income

For the year ended June 30, 2014

	Note	June 30,	June 30,
		2014	2013
		Rupees in '000	
Profit after tax for the year		83,859	478,728
Other comprehensive income			
Items that will not be reclassified to profit and loss account			
Re-measurement of post employment obligations - net of tax		116,531	3,745
Comprehensive income transferred to equity		200,390	482,473
Total comprehensive income		200,390	482,473

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
CHIEF FINANCIAL OFFICER

MUHAMMAD AYUB
PRESIDENT/ CEO

The Punjab Provincial Cooperative Bank Limited

Statement of cash flows
For the year ended June 30, 2014

	Note	June 30, 2014	June 30, 2013
		Rupees in '000	
Cash flows from operating activities			
Profit before taxation		110,806	472,530
Less: Dividend income		(17,193)	(18,693)
		93,613	453,837
Adjustments for non-cash items:			
Depreciation		8,170	13,482
Provision against non-performing advances - net		-	184
Charge for defined benefit plan		497,349	186,612
Provision for diminution in the value of investments - net		-	(1,962)
Other provisions/write offs - net		-	(36,192)
Gain on sale of fixed assets		(1,015)	(172)
		504,504	161,952
(Increase)/ Decrease in operating assets			
Advances - net	11	(113,143)	(52,142)
Lending to financial institutions		300,000	(550,000)
Others assets (excluding advance taxation) - net	14	(2,560)	21,460
		184,297	(580,682)
Increase/ (Decrease) in operating liabilities			
Bills payable	15	13,319	(17,099)
Borrowings from financial institutions		-	-
Deposits and other accounts	16	960,011	338,633
Other liabilities	17	(25,727)	(124,525)
		947,603	197,009
Income tax paid		(5,357)	(516)
Defined benefit paid		(4,865)	(888)
Contributions to pension fund		(202,827)	-
Net cash flows from operating activities		1,516,968	230,713
Cash flows from investing activities			
Investment made		(1,306,001)	386,825
Dividend income received		17,193	18,693
Investments in operating fixed assets		(19,277)	(22,113)
Net changes in capital work in progress		(15,187)	(1,080)
Sale proceeds of property and equipment disposed-off		3,450	1,397
Net cash flows from / (used in) investing activities		(1,319,822)	383,722
Cash flows from financing activities			
Issue of share capital		1,800	262
Medical aid to employees from common good fund		(79)	(471)
Net cash flows from / (used in) financing activities		1,721	(209)
(Decrease) / Increase in cash and cash equivalents		198,867	614,226
Cash and cash equivalents at beginning of the year		1,821,566	1,207,340
Cash and cash equivalents at end of the year	30	2,020,433	1,821,566

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

ZAHID MANSOOR
CHIEF FINANCIAL OFFICER

MUHAMMAD AYUB
PRESIDENT/ CEO

The Punjab Provincial Cooperative Bank Limited

Statement of changes in equity

For the year ended June 30, 2014

	Share capital	Reserves				Unappropriated profit / (loss)	Total
		Statutory reserves	Common good fund	Other reserve	Total Reserves		
-----Rupees in '000-----							
Balance as on July 1, 2012	436,148	490,111	2,904	7,448,573	7,941,588	(2,198,924)	6,178,812
Issue of share capital	262	-	-	-	-	-	262
Comprehensive income for the year	-	-	-	-	-	482,473	482,473
Transfer to statutory reserve	-	119,682	-	-	119,682	(119,682)	-
Medical aid to staff	-	-	(471)	-	(471)	-	(471)
Balance as on June 30, 2013	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
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)
Balance as on June 30, 2014	1,938,210	630,758	2,354	5,948,573	6,581,685	(1,656,708)	6,863,187

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

ZAHID MANSOOR
CHIEF FINANCIAL OFFICER

MUHAMMAD AYUB
PRESIDENT/ CEO

The Punjab Provincial Cooperative Bank Limited

Notes to the financial statements

For the year ended June 30, 2014

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 (June 30, 2013 : 151) branches in the province of Punjab. The Registered Office of the Bank is located at Bank Square, The Mall, Lahore.
- 1.2** The State Bank of Pakistan has 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. Restructuring plans have been submitted vide letter no. MD / COO /025-27 dated December 31, 2009 and letter no. PA/PS/063 dated December 10, 2013. Accordingly, the financial statements have been prepared on going concern assumption.

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, 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.

The SBP has deferred the applicability of IAS - 39, 'Financial Instruments: Recognition and Measurement' and IAS - 40, 'Investment Property' for Banking Companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, the Securities and Exchange Commission of Pakistan (SECP) has also deferred the applicability of IFRS - 7, 'Financial Instruments: Disclosures' through its S.R.O. 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

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, 2013:
- IFRS 7 – Financial Instruments: Disclosures – (Amendments)
(Amendments enhancing disclosures about offsetting of financial Assets and financial liabilities)
 - IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine
 - IFAS 3 – Profit and Loss Sharing on Deposits

The Punjab Provincial Cooperative Bank Limited

Notes to the financial statements

For the year ended June 30, 2014

3.1.2 Improvements to following accounting standards have been issued by IASB during the year:

- IAS 1 – Presentation of Financial Statements – Clarification of the requirements for comparative information
- IAS 16 – Property, Plant and Equipment – Clarification of Servicing Equipment
- IAS 32 – Financial Instruments: Presentation – Tax Effects of Distribution to Holders of Equity Instruments
- IAS 34 – Interim Financial Reporting – Interim Financial Reporting and Segment Information for total Assets and liabilities

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

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

3.2.1 The following new interpretation and amendments to standards are only effective for annual periods beginning from the dates specified below. These amendments and interpretation are either not relevant to the Bank's operations or are not expected to have significant impact on the financial statements of the Bank.

Standard / Amendments	IASB effective date (annual periods beginning on after)
- IAS 16 Property, Plant and Equipment- <i>Amendments resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation)</i>	July 01, 2014
- IAS 19 Employee Benefits	July 01, 2014
- IAS 24 Related Party Disclosures- <i>Amendments resulting from Annual Improvements 2010-2012 Cycle (management entities)</i>	July 01, 2014
- IAS 32 - Offsetting Financial Assets and Financial Liabilities (Amendments)	January 01, 2014
- IAS 36 - Recoverable Amount for Non-Financial Assets - (Amendment)	January 01, 2014
- IAS 38 Intangible Assets- <i>Amendments resulting from Annual Improvements 2010-2012 Cycle (proportionate restatement of accumulated depreciation on revaluation)</i>	July 01, 2014
- IFRS 8 Operating Segments- <i>Amendments resulting from Annual Improvements 2010-2012 Cycle (aggregation of segments, reconciliation of segment assets)</i>	July 01, 2014
- IFRS 10 Consolidated Financial Statements	January 01, 2013
- IFRS 11 Joint Arrangements	January 01, 2013
- IFRS 12 Disclosure of Involvement with Other Entities	January 01, 2013
- IFRIC 21 - Levies	January 01, 2014
3.2.2 Following new standards have been issued by IASB which are yet to be notified by the SECP/SBP for the purpose of applicability in Pakistan.	
- IFRS 9 Financial Instruments: Classification and Measurement	January 01, 2015
- IFRS 13 Fair Value Measurement	January 01, 2013
- IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting - (Amendment)	January 01, 2014

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.

The Punjab Provincial Cooperative Bank Limited

Notes to the financial statements

For the year ended June 30, 2014

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.

The Punjab Provincial Cooperative Bank Limited

Notes to the financial statements

For the year ended June 30, 2014

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

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 prolong 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.

The Punjab Provincial Cooperative Bank Limited

Notes to the financial statements

For the year ended June 30, 2014

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.

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 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.

6.6.1 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.

6.6.2 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 recognises 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.

6.7 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.

The Punjab Provincial Cooperative Bank Limited

Notes to the financial statements

For the year ended June 30, 2014

6.8 Staff retirement benefits

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

6.8.1 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.

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.

(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.

6.8.2 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 and equal monthly contributions of 10% of the basic salary by bank and employee are made only for those staff members who have not opted the pension scheme.

6.9 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.

6.10 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.

6.11 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.

6.12 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.

6.13 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.

The Punjab Provincial Cooperative Bank Limited

Notes to the Financial Statements

For the year ended June 30, 2014

	Note	June 30,	June 30,
		2014	2013
		Rupees in '000	
7 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		428,635	297,602
With State Bank of Pakistan (SBP) in			
Local currency current account	7.1	238,078	178,697
With National Bank of Pakistan (NBP) in			
Local currency current account		88,952	117,054
Local currency deposit account (NIDA)	7.2	23,885	41,326
Total		779,550	634,679

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

7.2 The NIDA account bears profit @ 7% per annum (2013 : 6% per annum).

8 BALANCES WITH OTHER BANKS

In Pakistan			
On current accounts		16,691	15,392
On deposit accounts			
Considered good	8.1	1,224,192	1,171,495
Considered doubtful		11,413	11,413
		1,252,296	1,198,300
Less: Provision against doubtful balance		(11,413)	(11,413)
Total		1,240,883	1,186,887

8.1 These accounts carry interest rates ranging from 6.5% to 9.25% per annum (2013 : 6% to 10%) per annum.

9 LENDING TO FINANCIAL INSTITUTIONS

Others		500,000	800,000
Total		500,000	800,000

9.1 This represents TDRs purchased from different financial institutions having maturity period of 6 months (2013: 1 month to 6 months) at profit rate of 9.95% (2013: 9.55% to 10%).

The Punjab Provincial Cooperative Bank Limited

Notes to the Financial Statements
For the year ended June 30, 2014

10 INVESTMENT - NET

	Note	2014			2013		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total

Rupees in '000

10.1 Investments by types:

Available-for-sale securities							
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
Held-to-maturity securities							
Market Treasury Bills		1,375,545	-	1,375,545	588,332	-	588,332
Pakistan Investment Bonds		518,788	-	518,788	-	-	-
Non-banking financial institutions		88,059	-	88,059	88,059	-	88,059
Investments at cost		1,992,966	-	1,992,966	686,965	-	686,965
Less: Provision for diminution in value of Investments	10.3	(89,648)	-	(89,648)	(89,648)	-	(89,648)
Investments (net of provisions)		1,903,318	-	1,903,318	597,317	-	597,317
Surplus on revaluation of available for-sale securities		247,354	-	247,354	194,282	-	194,282
Total investments		2,150,672	-	2,150,672	791,599	-	791,599

	Note	June 30, 2014	June 30, 2013
		Rupees in '000	

10.2 Investment by segments:

Federal Government securities			
Market treasury bills	10.6	1,375,545	588,332
Pakistan Investment Bonds	10.7	518,788	-
Investment with other financial institution			
Non-banking financial institutions	10.8	88,059	88,059
Fully Paid up Ordinary Shares:			
Listed companies	10.9	7,023	7,023
Cooperative institutions	10.9	3,551	3,551
Total investment at cost		1,992,966	686,965
Less: Provision for diminution in value of investments	10.3	(89,648)	(89,648)
Investments (net of provisions)		1,903,318	597,317
Add: Surplus on revaluation on Available-for-sale securities	20.2	247,354	194,282
Total investments at market value		2,150,672	791,599

10.3 Particulars of provision for diminution in value of investments

Opening balance	89,648	91,610
Charge for the year	-	-
Reversals	-	(1,962)
Closing balance	89,648	89,648

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Notes to the Financial Statements

For the year ended June 30, 2014

	Note	June 30,	June 30,
		2014	2013
		Rupees in '000	
10.4 Particulars of provision in respect of type and segment			
Available-for-sale securities		-	-
Fully paid up ordinary shares			
Cooperative institutions		1,589	1,589
Held-to-maturity securities		-	-
Investments with other banks			
Non-banking financial institutions		88,059	88,059
		89,648	89,648

10.5 Quality of available for sale securities

Securities	2014		2013	
	Amount Rs. in '000	Rating	Amount Rs. in '000	Rating
Shares of listed companies				
Security Papers Limited	6,708	AAA	6,708	AAA
NIB Bank Limited	-	AA-	-	AA-
Dawood Lawrencepur Limited	315	Unrated	315	Unrated
PICIC Insurance Limited	-	BBB+	-	A-
	7,023		7,023	

10.6 These securities have a maturity period of six months (2013: one year) with yield ranging from 9.94% to 9.98% (2013 : 9.35%) per annum.

10.7 These securities will mature on July 18, 2016 and carry profit rate of 11.25%.

10.8 This represents investment made in the Certificate of Investment / Deposit of Trust Investment Bank Limited 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 Rs. 140 million in loans granted to M/s Vital Enterprises (Pvt) Limited by Trust Investment Bank. This was a funded facility against mortgage of urban property. Another proposal submitted by Trust Investment Bank to settle the remaining amount of Rs. 88.059 million is under negotiation. However, based on financial health of Trust Investment Bank, a provision for diminution of Rs. 88.059 million has been made in the financial statements.

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Notes to the financial statements For the year ended June 30, 2014

10.9 Investment in Listed Ordinary Shares / Cooperative Institutions

2014	2013	Face Value of Shares Rs.	Name of company	Note	2014	2013
Number of Shares					At Cost	
					Rupees in '000	
Investment in Listed Companies						
3,545,234	2,954,362	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
	2,314	10	PICIC Insurance Limited		-	-
Shares of Cooperative Institutions						
21,791,370	21,791,370	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
					10,574	10,574
Impairment in available for sale listed shares / units					(1,589)	(1,589)
Investment in listed shares / units (net of impairment)					8,985	8,985
Surplus / (deficit) on revaluation of shares/units - net					247,354	194,282
Market value as on 30 June, 2014					256,339	203,267

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).

The Punjab Provincial Cooperative Bank Limited

Notes to the financial statements
For the year ended June 30, 2014

	Note	June 30, 2014	June 30, 2013
		Rupees in '000	
11 ADVANCES - NET			
Loans, cash credits, running finances, etc.			
In Pakistan		9,581,598	9,468,455
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		184	184
Advances - gross		9,581,782	9,468,639
Provision for non-performing advances	11.4	(1,606,077)	(1,606,077)
Advances - net of provision		7,975,705	7,862,562
11.1 Particulars of advances (Gross)			
11.1.1 In local currency		9,581,782	9,468,639
In foreign currency		-	-
Total		9,581,782	9,468,639
11.1.2 Short term (for up to one year)		8,054,308	7,313,829
Long term (for over one year)		1,527,474	2,154,810
Total		9,581,782	9,468,639

11.2 Advances include Rs. 2,265,220 thousand (2013 : Rs. 2,303,522 thousand) which have been placed under non-performing status as detailed below:-

	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
Total	2,265,220	-	2,265,220	1,444,670	1,606,077

	2013				
	Classified Advances			Provision Required	Provision Held
	Domestic	Overseas	Total		
	----- Rupees in '000 -----				
Category of classification					
Other Assets Especially Mentioned	455,356	-	455,356	-	-
Substandard	221,482	-	221,482	20,457	20,457
Doubtful	75,487	-	75,487	27,869	27,869
Loss	1,551,197	-	1,551,197	1,520,065	1,557,751
Total	2,303,522	-	2,303,522	1,568,391	1,606,077

11.2.1 The Bank has not adjusted its non-performing loans amounting to Rs. 210,161 thousand and reversal of suspended mark-up income on such loans amounting to Rs. 251,990 against properties decreed in favour of the Bank due to their pending possession disputes.

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For the year ended June 30, 2014

11.3 Provision is computed as on June 30, 2014 after taking benefit of collaterals.

11.4 Particulars of provision against non-performing advances

	2014			2013		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
Opening balance	1,602,549	3,528	1,606,077	1,602,365	3,528	1,605,893
Charge for the year	-	-	-	184	-	184
Closing balance	1,602,549	3,528	1,606,077	1,602,549	3,528	1,606,077

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	-	-	-	-	-	-
	1,602,549	3,528	1,606,077	1,602,549	3,528	1,606,077

11.6 Particulars of write offs

	Note	June 30, 2014	June 30, 2013
		Rupees in '000	
Against provisions	11.4	-	-
Directly charged to profit & loss account		-	-
Total		-	-
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, 2014 is Nil (2013: Nil).

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

	Note	June 30, 2014	June 30, 2013
		Rupees in '000	
Debts due by directors, executives or officers			
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other			
Balance at the beginning of the year		14,270	18,194
Loans granted during the year		4,363	4,217
Repayments		11,064	8,141
Balance at the end of the year		7,569	14,270
Debts due by subsidiary company or firms in which directors (executives) of the bank are interested as			
Balance at the beginning of the year		-	-
Loans granted during the year		-	-
Repayments		-	-
Balance at the end of the year		-	-

The Punjab Provincial Cooperative Bank Limited

Notes to the financial statements
For the year ended June 30, 2014

12 OPERATING FIXED ASSETS

	Note	June 30,	June 30,
		2014	2013
Rupees in '000			
Capital work-in-progress	12.1	23,333	8,146
Property and equipment	12.2	4,571,554	4,562,882
		4,594,887	4,571,028

12.1 Capital work-in-progress

	Opening balance as at July 01	Additions during the year	During the year transfers to operating fixed assets	Closing balance as at June 30
-----Rupees in '000-----				
Civil works	1,666	13,862	-	15,528
Advances to suppliers of Banking System Module	6,480	1,325	-	7,805
2014	8,146	15,187	-	23,333
2013	12,904	1,080	5,838	8,146

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Notes to the financial statements

For the year ended June 30, 2014

12.2 Property and equipment

	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	-	-	-	-	110,479	-
Revaluation surplus	4,350,788	-	-	4,350,788	-	-	-	-	4,350,788	-
Total	4,461,267	-	-	4,461,267	-	-	-	-	4,461,267	
Building on free hold land	121,223	-	-	121,223	45,579	1,870	-	47,449	73,774	2.5
Building on lease hold land	4,286	-	-	4,286	2,122	53	-	2,175	2,111	2.5
Furniture and fixtures	29,201	3,328	-	32,529	21,511	1,788	-	23,299	9,230	20
Electrical, office and computer equipment	21,750	11,526	(33)	33,243	12,697	2,809	(11)	15,495	17,748	20
Vehicles	53,352	4,393	(4,985)	52,760	46,396	1,629	(2,572)	45,453	7,307	20
Telephone exchange & conference system	951	21	-	972	941	3	-	944	28	20
Arms & ammunitions	251	9	-	260	153	18	-	171	89	20
	4,692,281	19,277	(5,018)	4,706,540	129,399	8,170	(2,583)	134,986	4,571,554	
2014	4,692,281	19,277	(5,018)	4,706,540	129,399	8,170	(2,583)	134,986	4,571,554	
2013	3,549,599	1,145,343	(2,661)	4,692,281	117,353	13,482	(1,436)	129,399	4,562,882	

12.2.1 Included in cost of property and equipment are fully depreciated assets that are still in use of the Bank. Moreover, the Bank has policy to report fully depreciated asset at nominal value for identification purposes.

12.2.2 Freehold land was revalued on March 9, 2013 by Star Tech Consultants, an independent professional valuer firm, on the basis of fair market value. This revaluation resulted in surplus of Rs. 1,123,230 thousand (note 19.1) in respect of freehold land. However, without the effect of revaluation, the carrying amount of the land would have been Rs.110.479 million (2013: Rs.110.479 million).

12.2.3 The value of land and buildings include properties under litigation / disputes amounts to Rs. 101.183 million (2013: Rs. 101.183 million) for which legal title has been acquired but the physical possession is under dispute.

The Punjab Provincial Cooperative Bank Limited

Notes to the financial statements For the year ended June 30, 2014

12.3 Details of disposal of property and equipment during the year:

Description	Cost	Accumulated depreciation	Net book value	Sale proceeds	Gain / (loss) on disposal	Mode of disposal	Particulars of purchaser
	Rupees in '000						
Items having cost of more than Rs. 1,000,000 or net book value of more than Rs. 250,000							
Vehicles	1,079	(1,079)	-	565	565	Open auction	Mr. Muhammad Iqbal
Vehicles	1,555	(415)	1,140	1,140	-	As per terms of employment	Mr. Talat Mehmood, Ex-President / CEO
Vehicles	1,591	(318)	1,273	1,273	-	As per terms of employment	Mr. Mehboob Hussain, Ex-CFO
Sub-total	4,225	(1,812)	2,413	2,978	565		
Items having cost of less than Rs. 1,000,000 or net book value of less than Rs. 250,000							
Vehicles	760	(760)	-	450	450	Open auction	Mr. Uzair Ahmad
Electrical, office and computer	33	(11)	22	22	-	Exchange	M/s Image Technology
	793	(771)	22	472	450	-	-
2014	5,018	(2,583)	2,435	3,450	1,015		

12.3.1 Restriction on disposal of assets

The Government of Punjab vide Clause 1, sub-clause (v) of the agreement dated September 16, 2009 with the Bank, has restricted the Bank from selling its immovable properties. The Additional Secretary (Staff) to Chief Secretary through letter # PA/AS(S)/34/07-505 dated July 20, 2007 had also restricted the sale of properties of the Bank till such time the merger/restructuring issue of the bank is finalized.

13 Deferred Tax

	Note	June 30, 2014	June 30, 2013
		Rupees in '000	
Deductible temporary differences on:			
Provision for gratuity		48,661	42,189
Provision for compensated leave absences		162,119	99,697
Provision against other assets		53,808	53,808
Un-used tax losses		1,812,749	2,235,729
		2,077,337	2,431,423
Taxable temporary differences on:			
Operating fixed assets		39,124	14,153
Investments		157,706	102,672
		196,830	116,825
Temporary differences for which no deferred tax is recognized		1,880,507	2,314,598

- 13.1 In the absence of future taxable profits projections, amount of Rs. 658,177 thousands (2013: Rs.810,109 thousands) is not recognized as deferred tax assets.

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Notes to the financial statements

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	Note	June 30,	June 30,
		2014	2013
Rupees in '000			
14 OTHER ASSETS - NET			
Income / markup accrued on loans and advances in local currency		514,878	548,464
Advances, deposits, advance rent and others prepayments		1,639	2,374
Advance taxation (payments less provisions)		12,310	33,901
Sundry debtors		7,209	11,483
Profit recoverable from banks		20,036	7,961
Crop insurance recoverable		118,624	126,722
Branch adjustment account		39,293	-
Others		83,519	85,634
		797,508	816,539
Less: Provision held against other assets		(53,808)	(53,808)
Total		743,700	762,731
15 BILLS PAYABLES			
In Pakistan		27,065	13,746
Outside Pakistan		-	-
Total		27,065	13,746
16 DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		363,084	250,615
Savings deposits		2,073,742	1,828,236
Current accounts - non-remunerative		1,206,465	613,788
Call deposits		27,873	3,653
Other deposits	16.1	36,555	51,416
Total		3,707,719	2,747,708
Financial institutions			
Remunerative deposits		-	-
Non-remunerative deposits		-	-
Total		-	-
16.1 Others deposits include Staff Security Deposits, Employee's Provident fund and Pension Fund.			
16.2 Particulars of deposits			
In local currency		3,707,719	2,747,708
in foreign currencies		-	-
Total		3,707,719	2,747,708

The Punjab Provincial Cooperative Bank Limited

Notes to the financial statements

For the year ended June 30, 2014

	Note	June 30,	June 30,
		2014	2013
Rupees in '000			
17 OTHER LIABILITIES			
Mark-up/ Return/ Interest payable in local currency		46,776	39,940
Accrued expenses		4,563	3,119
Branch adjustment account		-	41,286
Sundry creditors	17.1	39,064	36,189
Dissolved bank payable		37,427	37,427
Provision for employees' gratuity	32	48,661	42,189
Provision for employees' pension fund	32	2,424,914	2,320,683
Provision for employees' compensated absences	32	162,119	99,697
Deferred grant from SBP	17.2	7,034	7,486
Withholding tax payable		1,253	518
Others		17,474	13,353
Total		2,789,285	2,641,887

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 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.

18 SHARE CAPITAL

	June 30,	June 30,	Note	June 30,	June 30,
	2014	2013		2014	2013
(Number of shares)				Rupees in '000	
18.1 Authorized capital					
<u>Unlimited</u>	Unlimited	Ordinary shares of Rs.100 each		<u>Unlimited</u>	Unlimited
18.2 Issued, subscribed and paid up capital					
19,006,370	3,988,370	Ordinary shares of Rs. 100 each, fully paid in cash		1,900,637	398,837
375,730	375,730	Ordinary shares of Rs. 100 each, issued as fully paid bonus shares		37,573	37,573
<u>19,382,100</u>	<u>4,364,100</u>			<u>1,938,210</u>	<u>436,410</u>

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 has exempted the Bank from meeting MCR vide their letter no. BPRD (RU-43)512-09(B) / X /15161/98 dated September 08, 1998.

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For the year ended June 30, 2014

	Note	June 30,	June 30,
		2014	2013
Rupees in '000			
19 Reserves			
Statutory reserve		630,758	609,793
Common good fund	19.1	2,354	2,433
Other reserve	19.2	5,948,573	7,448,573
Total		6,581,685	8,060,799

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 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 the year, the Bank has 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. Accordingly this amount has not been included in borrowings and presented here. During the year shares amounting to Rs. 1,500 millions had been issued to Government of Punjab.

20 SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS

Surplus / (deficit) arising on revaluation (net of tax) of:

Fixed Assets	20.1	4,350,787	4,350,787
Available-for-sale securities	20.2	247,354	194,282
Total		4,598,141	4,545,069

20.1 Surplus on revaluation of fixed assets

As at July 01,		4,350,787	3,227,557
Recognized during the year		-	1,123,230
Reversal of deficit on account of properties written off		-	-
Transfer to unappropriated profit on disposal		-	-
As at June 30,		4,350,787	4,350,787

20.2 Surplus / (Deficit) on revaluation of available for sale securities

As at July 01,		194,282	126,437
Recognized during the year		53,072	67,845
As at June 30,		247,354	194,282

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21 CONTINGENCIES AND COMMITMENTS

		June 30, 2014	June 30, 2013
		Rupees in '000	
21.1	The Bank has total of 150 cases under litigation in different courts. The total amount involved in such outstanding cases aggregate to;	135,512	245,046
21.2	Show cause notices by sales tax-under appeal	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 Messers Ali Industrial and Engineering Works, Karachi without charging and depositing sales tax leviable thereon. Further the sales tax department reported that Messers 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 2013 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	The Bank is in litigation with the Income Tax Department whereby appeals and cross appeals for the assessment years 1999-2000 to 2002-2003 as well as for tax years 2003-2008 on account of orders passed under section 62 of the Income Tax Ordinance, 1979 (Repealed Ordinance) and 122(1) / 122(5A) of the Income Tax Ordinance, 2001 are pending adjudication before the Appellate Tribunal Inland Revenue. Whereas, 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 consider that the Bank has fair chance to get the decision of these 2 appeals in its favour. Accordingly, no provision of tax demands raised through above said assessment orders has not been made in these financial statements.		
21.4	Commitment against construction and repair of building	June 30, 2014	June 30, 2013
		Rupees in '000	
	- Civil work commitment	18,045	20,297

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Notes to the financial statements

For the year ended June 30, 2014

	Note	June 30, 2014	June 30, 2013
Rupees in '000			
22 MARK-UP/ RETURN / INTEREST EARNED			
On loans and advances			
to customers		1,289,581	1,359,222
to employees of the bank		35,219	35,572
On investments in held to maturity securities			
Treasury Bills/PIBs		109,966	88,493
On deposits with financial institutions		184,971	112,698
Total		1,619,737	1,595,985
23 MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		149,263	115,098
Total		149,263	115,098
24 OTHER INCOME			
Rent on property		30,925	28,011
Net profit on gain on sale of fixed assets		1,015	172
Profit on sale of books		3,701	3,298
Bank and service charges		8,633	6,411
Others		24,566	19,999
Total		68,840	57,891
25 ADMINISTRATIVE EXPENSES			
Salaries, allowances and benefits		803,556	659,451
Charge for defined benefit plan	32	497,349	333,076
Contribution to defined contribution plan		9,012	6,973
Rent, taxes, insurance, electricity, etc.		42,875	36,819
Legal and professional charges		7,928	3,466
Communications		20,890	17,323
Repairs and maintenance		3,331	2,365
Stationery and printing		4,140	3,077
Advertisement and publicity		3,127	2,099
Subscription		750	500
Auditors' remuneration	25.1	1,075	622
Depreciation	12.2	8,170	13,482
General bank charges		19,443	20,096
Vehicles expenses		25,601	24,415
IT License fee		686	-
Incentive paid to field staff		7,883	13,713
Others		13,796	9,564
Total		1,469,612	1,147,041
25.1 Auditors' remuneration			
Statutory audit fee		761	450
Fee for the review of the half yearly financial statements		38	38
Out of pocket expenses		76	45
Others		200	89
Sub-total		1,075	622

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Notes to the financial statements

For the year ended June 30, 2014

	Note	June 30,	June 30,
		2014	2013
		Rupees in '000	
26	OTHER PROVISIONS / WRITE OFFS		
	Provision against balance held with banks	-	(90,000)
	Provision against other assets	-	53,808
	Assets directly charged off		-
	Total	-	(36,192)
27	OTHER CHARGES		
	Penalties imposed by State Bank of Pakistan	-	18
	Total	-	18
28	TAXATION		
	For the year		
	Current	26,947	12,985
	For the prior year(s)		
	Current	-	(19,183)
	Total	26,947	(6,198)
29	EARNINGS PER SHARE - BASIC		
	Profit for the year	83,859	478,728
	Weighted average number of ordinary shares	(Numbers) 13,110,107	4,345,562
	Basic earnings per share	(Rupees) 6.40	110.16
	There is no dilutive effect on earnings per share during the year.		
30	CASH AND CASH EQUIVALENTS		
	Cash and balance with treasury banks	779,550	634,679
	Balance with other banks	1,240,883	1,186,887
	Total	2,020,433	1,821,566
31	STAFF STRENGTH	June 30, 2014	June 30, 2013
		Numbers	
	Permanent	1,168	1,226
	Temporary / on contractual basis	500	396
	Daily wages	184	219
	Total	1,852	1,841
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		

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Notes to the financial statements

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- 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 19.

- 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, 2014. The principal actuarial assumptions used are as follows:

	Note	Pension Fund		Gratuity Fund		Compensated Absence	
		2014	2013	2014	2013	2014	2013
		Rupees in '000					
Valuation discount rate		13.50%	11.50%	13.50%	11.50%	13.50%	11.50%
Short term salary increase rate		12.50%	8.00%	12.50%	8.00%	12.50%	8.00%
Long term salary increase rate		12.50%	10.50%	12.50%	10.50%	12.50%	10.50%
Pension indexation rate		5.00%	5.00%	-	-	-	-
Expected return on plan asset		13.50%	11.50%	-	-	-	-
Leave accumulation factor (days)		-	-	-	-	15	15

32.3 Payable to / (receivable from) defined benefit plan

	Note	Pension Fund		Gratuity Fund		Compensated Absence	
		2014	2013	2014	2013	2014	2013
		Rupees in '000					
Present value of defined benefit obligation		2,567,608	2,370,814	42,189	35,971	162,119	99,697
Fair value of plan asset		(142,694)	(50,132)	-	-	-	-
Present value of employee contribution		-	-	-	-	-	-
Net actuarial gains/ (losses) not recognised		-	-	-	-	-	-
Net payable / (receivable) at the year end		2,424,914	2,320,682	42,189	35,971	162,119	99,697

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Notes to the financial statements

For the year ended June 30, 2014

32.4 Reconciliation of the present value of the defined benefit obligation

	Note	Pension Fund		Gratuity Fund		Compensated Absence	
		2014	2013	2014	2013	2014	2013
		Rupees in '000					
Present value of defined benefit obligation as at July 01		2,320,683	2,153,786	42,189	35,971	99,697	86,200
Charge for the year		426,373	313,888	6,597	5,912	64,379	14,540
Employees' contribution		(202,827)	(136,549)	-	-	-	-
Benefits paid		-	-	(2,909)	(406)	(1,957)	(1,043)
Other comprehensive income		(119,315)	(10,442)	2,784	712	-	-
Present value as at June 30		2,424,914	2,320,683	48,661	42,189	162,119	99,697

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:

	Note	Pension Fund		Gratuity Fund		Compensated Absence	
		2014	2013	2014	2013	2014	2013
		Rupees in '000					
Current service cost		79,739	72,295	1,913	1,775	3,539	3,363
Net interest		258,045	261,392	4,684	4,137	11,353	9,913
Contributions - employees		(21,955)	(19,799)	-	-	-	-
Past service cost		118,500	-	-	-	-	-
Amount transferred		(7,957)	-	-	-	-	-
Actuarial (gain) / loss		-	-	-	-	49,487	1,264
		426,372	313,888	6,597	5,912	64,379	14,540

32.6 Movement in fair value of plan asset

Pension fund	Note	June 30, 2014	June 30, 2013
		Rupees in '000	
Balance as at July 01		50,132	39,325
		50,132	39,325
Expected return on plan asset		5,765	4,522
Contributions - bank		202,827	136,549
Amounts transferred / Donations / Other receipts		7,957	-
Contributions - employees		21,955	19,799
Benefits paid		(153,618)	(154,114)
Gain / (loss) on plan asset		7,676	4,051
Balance as at June 30		142,694	50,132

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Notes to the financial statements For the year ended June 30, 2014

33 COMPENSATION OF CHIEF EXECUTIVES, DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2014	2013	2014	2013	2014	2013
----- Rupees in '000 -----						
Fees	2,080	2,507	-	-	-	-
Managerial remuneration	-	-	-	-	11,191	9,371
Charge for defined benefit plan	-	-	-	-	-	-
Rent and house maintenance	700	785	-	-	3,529	3,110
Utilities	128	147	-	-	532	381
Medical	154	60	-	-	1,449	1,296
Conveyance	-	-	-	-	1,261	959
Others	799	538	-	-	5,345	4,335
Total	3,861	4,037	-	-	23,307	19,452
Number of persons	2	1	-	-	13	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

	2014		2013	
	Book value	Fair value	Book value	Fair value
----- Rupees in '000 -----				
Assets				
Cash balances with treasury banks	779,550	779,550	634,679	634,679
Balances with other banks	1,240,883	1,240,883	1,986,887	1,986,887
Lending to financial institutions	500,000	500,000	800,000	800,000
Investments	2,150,672	2,150,672	791,599	791,599
Advances	7,975,705	7,975,705	7,862,562	7,862,562
Other assets	731,390	731,390	728,830	728,830
Total	13,378,200	13,378,200	12,804,557	12,804,557
Liabilities				
Bills payable	27,065	27,065	13,746	13,746
Deposits and other accounts	3,707,719	3,707,719	2,747,708	2,747,708
Other liabilities	2,789,285	2,789,285	2,641,887	2,641,887
Total	6,524,069	6,524,069	5,403,341	5,403,341

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.

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Notes to the financial statements

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35 RELATED PARTY TRANSACTIONS

Related parties comprise of key bank executives, provident fund trust, pension fund trust, member societies, Registrar Co-operative Societies and the Government of Punjab.

	2014	2013
	Rupees in '000	
Loan to executives		
Loans disbursed during the year	4,363	4,217
Repayments during the year	11,064	8,141
Mark-up earned	1,488	2,271
Contribution to provident fund trust	9,012	6,973
Contribution to pension fund trust	202,827	136,549
Shares issued to GoPb	1,500,000	-

36 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Retail financing	Commercial banking	Total
	Rupees '000		
2014			
Total income	1,324,800	404,881	1,729,681
Total expenses	1,469,612	149,263	1,618,875
Net income/ (loss)	(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%
2013			
Total income	1,394,794	301,923	1,696,717
Total expenses	1,109,089	115,098	1,224,187
Net income	285,705	186,825	472,530
Segment assets (gross)	16,044,029	2,319,985	18,364,014
Segment non performing loans	2,303,522	101,104	2,404,626
Segment provision required	762,891	-	762,891
Segment liabilities	5,435,487	-	5,435,487
Segment Return on net Assets (ROA) (%)	2.31%	4.35%	4.21%
Segment cost of funds (%)	4.19%	4.19%	4.19%

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Notes to the financial statements

For the year ended June 30, 2014

	Note	June 30,	June 30,	
		2014	2013	
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		1,938,210	436,410	
Reserves		6,581,685	8,060,799	
Unappropriated losses		(1,656,708)	(1,836,133)	
Total Tier I Capital		6,863,187	6,661,076	
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%)		2,299,071	2,272,535	
Total Tier II Capital (restricted up to the amount of total tier I capital)		2,302,599	2,276,063	
Eligible Tier III Capital		-	-	
Total Regulatory Capital	(a)	9,165,786	8,937,139	
Risk-Weighted Exposures				
	2014		2013	
	Book Value	Risk Adjusted	Book Value	Risk Adjusted
Rupees in '000				
Credit Risk				
Balance sheet items:-				
Cash and balances with treasury banks	779,550	-	634,679	-
Balances with other banks	1,240,883	248,177	1,186,887	237,377
Lending to financial institutions	500,000	100,000	800,000	160,000
Investments	2,150,672	256,339	791,599	203,267
Loans & advances	7,975,705	7,009,839	7,862,562	7,050,940
Operating fixed assets	4,594,887	4,594,887	4,571,028	4,571,028
Other assets	743,700	196,476	762,731	728,830
Sub-total	17,985,397	12,405,717	16,609,486	12,951,442
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		12,405,717		12,951,442

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Market Risk

General market risk	-	-	-	-
Specific market risk	-	-	-	-
Market risk-weighted exposures	-	-	-	-
Total risk-weighted exposures	(b)	-	12,405,717	-
Capital Adequacy Ratio [(a) / (b) x 100]			73.88	69.00

The Bank has obtained exemption from The State Bank of Pakistan for the implementation of Basel II and Basel III requirements till December 31, 2014 vide letter no.BPRD/BA&CPD/629/19606/2013 dated December 26, 2013.

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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	2014					
	Advances (gross)		Deposits		Contingencies and commitments	
	Rupees	%age	Rupees	%age	Rupees	%age
Agriculture, forestry, hunting and fishing	8,735,904	91.17	385,846	10.41	-	-
Mining and quarrying	-	-	-	-	-	-
Textile	712	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	-	-	550	0.01	-	-
Services	-	-	-	-	-	-
Individuals	162,593	1.70	2,869,503	77.39	-	-
Others	682,573	7.12	451,785	12.18	140,553	100
Total	9,581,782	100	3,707,719	100	140,553	100
Segmental Information						
Public / Government	600,000	6.26	-	-	-	-
Private	8,981,782	93.74	3,707,719	100	140,553	100
Total	9,581,782	100	3,707,719	100	140,553	100

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

	2014		2013	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	----- Rupees in '000 -----			
Agriculture, forestry, hunting and fishing	2,019,196	1,508,702	2,187,409	1,508,702
Mining and quarrying	-	-	-	-
Textile	712	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	16,121	20,685	15,333	20,685
Others	229,191	75,446	100,068	75,446
Total	2,265,220	1,606,077	2,303,522	1,606,077

Details of non-performing advances and specific provisions by sector

Public / Government	-	-	-	-
Private	2,265,220	1,606,077	2,303,522	1,606,077
	2,265,220	1,606,077	2,303,522	1,606,077

38.1.3 Geographical segment analysis

	2014			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- Rupees in '000 -----			
Pakistan	110,806	17,985,397	11,461,328	158,598
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
Total	110,806	17,985,397	11,461,328	158,598

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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.

	2014			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan rupee	17,985,397	6,524,069	-	-

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	2014										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											
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	7.00%	779,550	23,885	-	-	-	-	-	-	-	-	-	755,665
Balances with other banks	6.5% to 9.25%	1,240,883	1,224,192	-	-	-	-	-	-	-	-	-	16,691
Lending to financial institutions	9.95%	500,000	-	500,000	-	-	-	-	-	-	-	-	-
Investments	9.94% to 11.25%	2,150,618	510,190	491,418	387,211	-	-	505,514	-	-	-	-	256,285
Advances	10% to 16%	7,975,705	659,143	1,089,914	2,010,096	2,689,078	759,563	393,267	230,689	143,955	-	-	-
Other assets		738,704	-	-	-	-	-	-	-	-	-	-	738,704
Sub-total		13,385,460	2,417,410	2,081,332	2,397,307	2,689,078	759,563	898,781	230,689	143,955	-	-	1,767,345
Liabilities													
Bills payable		27,065	-	-	-	-	-	-	-	-	-	-	27,065
Deposits and other accounts	7% to 10%	3,707,719	2,108,736	19,685	2,954	61,592	6,986	12,384	259,483	-	-	-	1,235,899
Other liabilities		2,789,528	-	-	-	-	-	-	-	-	-	-	2,789,528
Sub-total		6,524,312	2,108,736	19,685	2,954	61,592	6,986	12,384	259,483	-	-	-	4,052,492
On-balance sheet gap		6,861,148	308,674	2,061,647	2,394,353	2,627,486	752,577	886,397	(28,794)	143,955	-	-	(2,285,147)
Total Yield/Interest Risk Sensitivity Gap		6,861,148	308,674	2,061,647	2,394,353	2,627,486	752,577	886,397	(28,794)	143,955	-	-	(2,285,147)
Cumulative Yield/Interest Risk Sensitivity Gap		6,861,148	308,674	2,370,321	4,764,674	7,392,160	8,144,737	9,031,134	9,002,340	9,146,295	9,146,295	-	6,861,148

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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

	2014									
	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 -----										
Assets										
Cash and balances with treasury banks	779,550	779,550	-	-	-	-	-	-	-	-
Balances with other banks	1,240,883	1,240,883	-	-	-	-	-	-	-	-
Lending to financial institutions	500,000	-	500,000	-	-	-	-	-	-	-
Investments	2,150,618	766,475	491,418	387,211	-	-	505,514	-	-	-
Advances	7,975,705	659,143	1,089,914	2,010,096	2,689,078	759,563	393,267	230,689	143,955	-
Other assets	830,326	231,259	490,983	13,427	36,662	2,213	132	55,436	109	105
Operating fixed assets	4,594,887	34,963	2,108	1,307	3,990	1,435	5,996	23,914	1,427	4,519,927
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Sub-total	18,071,969	3,712,273	2,574,423	2,412,041	2,729,730	763,211	904,909	310,039	145,491	4,520,032
Liabilities										
Bills payable	27,065	27,065	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	3,707,719	3,344,635	19,685	2,954	61,592	6,986	12,384	259,483	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,789,285	2,581,216	117	113,344	50,730	642	7,403	-	-	36,012
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Sub-total	6,524,069	5,952,916	19,802	116,298	112,322	7,628	19,787	259,483	-	36,012
Net assets	11,547,900	(2,240,643)	2,554,621	2,295,743	2,617,408	755,583	885,122	50,556	145,491	4,484,020

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.

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39 CREDIT RATING

The 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 15 October 2014 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 restatement / reclassification has been made.
- 41.2** Figures in these financial statements have been rounded off to the nearest thousand rupees.

ZAHID MANSOOR
CHIEF FINANCIAL OFFICER

MUHAMMAD AYUB
PRESIDENT/ CEO