



“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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Message from the President

It is my pleasure to present the Annual Audited Financial Statements of the Bank for the year ended June 30, 2012.

State of Pakistan's Economy

During the year 2011-12, state of Pakistan's Economy remained depressed due to devastating floods, lack of external financing, energy crises and prevailing law and order conditions. Although during the year, economy has shown some recovery in terms of GDP growth from 3.0% to 3.7% but the key economic indicators still remained weak. However, this performance of increase in GDP growth is notable under the circumstances of considerable damage to the cotton crop due to floods in August 2011, ongoing energy shortages, rise in international oil prices and security concerns. The Agriculture Sector is holding up well with an estimated 3.1 percent growth as it struggles with the spill over effects of the floods.

Operational highlights

Bank is operating with paid up capital of Rs.436 million and State Bank of Pakistan has granted exemption to meet the requirement of minimum paid up capital which otherwise should have been Rs 8 billion by the end of year 2011. Government of Punjab (GOPb) has paid off the Bank's liability amounting to Rs 7.449 billion to State Bank of Pakistan and the decision with regard to its repayment by the Bank or conversion in to GOPb equity is to be decided yet. The amount has been accordingly shown as reserves of the Bank for the year ended June 30, 2012.

Despite financial constraints, the bank has been able to disburse an amount of Rs 9.9 billion during the year 2011-12 as compared to amount of Rs 8.7 billion during the corresponding year. Thus the gross portfolio of loans & advances has increased from Rs 7.6 billion to Rs 9.4 billion. Although the Banking Sector in Pakistan is confronting with the huge amount of Non- Performing Loans (NPL's) which have surpassed the ever high level of Rs 650 billion, your Bank has been able to reduce the NPL's from 33% to 23% of gross portfolio. Consequently the net assets of the bank have increased from Rs 9.7 billion in 2010-11 to Rs 11.8 billion in 2011-12.

In the back drop of depressed economic conditions, energy crises and security concerns, your bank by the Grace of Allah Almighty, managed to move gradually towards stability and growth. During the year, bank generated operational income of Rs 1,667 million and incurred operational expenses of Rs 1,264 million including expense of Rs 260 million as provision against doubtful assets.

Restructuring Plans:

The Bank's commitment to implement its restructuring plans already submitted to the State Bank of Pakistan is on track and necessary amendments in the bye laws and election rules for constitution of Board of Directors have been made. Management level committees are functional at the Head Office and majority of the manuals of different departments covered under this plan have been prepared. The results of hiring professional and experienced bankers as President and four other senior executives viz Head of Business Development, Head of SAM, Chief Financial Officer and Head of Information Technology and implementing the restructured reforms have started to bear fruit as can be evidenced from the Bank's financial results for the year ended June 30, 2012. Moreover, professionally qualified postgraduate officers inducted through Institute of Bankers Pakistan have been placed in the bank both in the branches and head office.

Bank signed an agreement with a software house for providing a complete Banking solution both for its Management Information System and customers needs with the state of art technology such as providing Online Banking, ATM's, Telephone Banking etc. Automation process has been started in all the branches and up till now Faisal Abad, Multan and main branch Lahore have been interlinked for online banking services. Bank has entered in to an agreement with other commercial banks for provisioning of online banking services like money transfers, ATM facilities and disbursement to beneficiaries of Benazir Income Support Programme. In order to rationalize the branch network, eight loss making branches have been merged into other branches. For diversifying its existing portfolio the Bank is developing products in the area of both non-agriculture and allied agriculture financing and also enhancing its range of liability products to fulfill the end to end needs of its customers.

Future Outlook

Management is cognizant of the fact of agriculture being back bone of the economy and its financing needs. Punjab Provincial Cooperative Bank owes very vital role to play and fulfill the financing needs of agricultural sector in the province of Punjab. Management is confident that through increase in paid up capital of the bank and with the implementation of Restructuring Plan, the future operations of the bank can be continued on self-sustainable basis. Consequently, this will enable the bank to cater the financial needs of the agricultural sector.

Finally, I take this opportunity to extend our sincere gratitude to the Government of Punjab, State Bank of Pakistan and the Cooperative Department for their continued guidance and support and also to our valued customers for their loyalty and support. I would also like to appreciate the services of our devoted staff members and the field staff of the Cooperative Department for their commitment & support.

AUDITORS' 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, 2012** 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 'financial statements') for the year then ended in which are incorporated the unaudited certified returns from the branches except for 25 branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

1. The funds received from the Government of Punjab in the sum of Rs. 7,448.573 million upto the terminal date, for the repayment of borrowings from the State Bank of Pakistan, have been shown as "Reserve Fund" and grouped along with the Equity and Other Reserves of the Bank, in view of the explanation given in the footnote on the "Statement of Changes in Equity". However, the necessary approval / consent of the Government of Punjab for such treatment was not available with the Bank. Accordingly, the same remained unverified to that extent.
2. There was a short provision of Rs. 529.099 million towards the defined benefit obligations – Employees Pension Fund as per the actuarial valuation carried out as on December 31, 2010 in accordance with the provisions of IAS – 19, "Employees Benefits", which has not been incorporated in these financial statements. Had this provision been made in the books of account, the profit after tax for the year would have been reduced by Rs. 529.099 million, to depict loss for the year after tax in the sum of Rs. 145.769 million.
3. As being constantly reported in the previous audit reports, complete independent portfolio audit of loans and advances have not been carried out by the Bank so far, due to which the provision of NPLs and advances, as required under SBP Prudential Regulations, remained unverified to that extent.

We report that:

- a) in our opinion, proper books of account have been kept by the Bank as required by the Co-operative 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 audit;
- b) in our opinion:
 - i. the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the requirements of BSD Circular No. 4

dated February 17, 2006 of the State Bank of Pakistan , 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;
- c) in our opinion and to the best of our information and according to the explanations given to us and except for the matters discussed in paragraphs 1 to 4 above, 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 approved accounting standards as applicable in Pakistan, and, give the information required by BSD Circular No. 4 dated February 17, 2006 of the State Bank of Pakistan, 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, 2012 and of its true balance of profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Bank and deposited into the Central Zakat Fund established under Section 7 of that Ordinance.

Lahore: September 26, 2012

HYDER BHIMJI & CO.
CHARTERED ACCOUNTANTS
Engagement Partner - Syed Aftab Hameed, FCA

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2012

| | <u>Note</u> | 2012 <u>Rupees in '000'</u> | 2011 |
|---|-------------|--------------------------------|------------------|
| ASSETS | | | |
| Cash and balances with treasury banks | 6 | 533,867 | 468,879 |
| Balances with other banks | 7 | 923,473 | 2,123,846 |
| Lending to financial institutions | | - | - |
| Investments | 8 | 1,108,617 | 1,503,620 |
| Advances | 9 | 7,810,420 | 6,020,046 |
| Operating fixed assets | 10 | 3,445,150 | 3,736,444 |
| Deferred tax assets | | - | - |
| Other assets | 11 | 730,999 | 506,363 |
| | | 14,552,526 | 14,359,198 |
| LIABILITIES | | | |
| Bills payable | 12 | 30,845 | 11,994 |
| Borrowings | 13 | - | 1,944,442 |
| Deposits and other accounts | 14 | 2,409,075 | 2,443,098 |
| Sub-ordinated loans | | - | - |
| Liabilities against assets subject to finance lease | | - | - |
| Deferred tax liabilities | | - | - |
| Other liabilities | 15 | 303,843 | 255,714 |
| | | 2,743,763 | 4,655,248 |
| NET ASSETS | | 11,808,763 | 9,703,950 |
| REPRESENTED BY: | | | |
| Share capital | 16 | 436,148 | 435,584 |
| Reserves | | 7,941,588 | 6,103,037 |
| Unappropriated profit / (loss) | | 77,033 | (448,866) |
| | | 8,454,769 | 6,089,755 |
| Fair value reserve - investments | | 126,437 | 114,548 |
| Surplus on revaluation of assets | 17 | 3,227,557 | 3,499,647 |
| | | 11,808,763 | 9,703,950 |
| CONTINGENCIES AND COMMITMENTS | 18 | | |

The annexed notes from 1 to 36 form an integral part of these financial statements.

MEHBOOB HUSSAIN
CHIEF FINANCIAL OFFICER

MUHAMMAD AYUB
ACTING PRESIDENT/ CEO

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2012

| | 2012 | 2011 | |
|--|------------------------|-----------------------|----------------|
| Note | <u>Rupees in '000'</u> | | |
| Mark-up/return/interest earned | 19 | 1,580,867 | 1,647,318 |
| Mark-up/return/interest expended | 20 | <u>126,469</u> | <u>386,027</u> |
| Net mark-up/ interest income | | 1,454,398 | 1,261,291 |
| Provision against non-performing loans and advances | | - | - |
| Provision for diminution in the value of investments | 8.7 | 88,059 | - |
| Bad debts written off directly | | - | - |
| | | <u>88,059</u> | - |
| Net mark-up/ interest income after provisions | | 1,366,339 | 1,261,291 |
| Non mark-up/interest income | | | |
| Fee, commission and brokerage income | | 25,052 | 24,820 |
| Dividend income | | 14,829 | 14,772 |
| Income from dealing in foreign currencies | | - | - |
| Gain / (loss) on sale of securities | | - | - |
| Other income | 21 | 46,015 | 34,314 |
| Total non-mark-up/interest income | | <u>85,896</u> | <u>73,906</u> |
| | | 1,452,235 | 1,335,197 |
| Non mark-up/ interest expenses | | | |
| Administrative expenses | 22 | 877,831 | 826,662 |
| Other provisions/write offs | 23 | 171,413 | - |
| Other charges | 24 | - | 132 |
| Total non-markup/interest expenses | | 1,049,244 | 826,794 |
| Extra ordinary/ unusual items | | - | - |
| Profit before taxation | | 402,991 | 508,403 |
| Taxation | | | |
| - Current | 25 | 19,661 | 20,630 |
| - Prior years | | - | 8,000 |
| - Deferred | | - | - |
| | | 19,661 | 28,630 |
| Profit after taxation | | <u>383,330</u> | <u>479,773</u> |
| Basic / diluted earning per share | 26 | <u>88.24</u> | <u>110.53</u> |

The annexed notes from 1 to 36 form an integral part of these financial statements.

MEHBOOB HUSSAIN
CHIEF FINANCIAL OFFICER

MUHAMMAD AYUB
ACTING PRESIDENT/ CEO

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Note</u> | 2012 | 2011 |
|--|-------------|------------------------|-----------------------|
| | | <u>Rupees in '000'</u> | |
| Profit after taxation | | 383,330 | 479,773 |
| Other comprehensive income | | - | - |
| Total comprehensive income transferred to equity | | <u><u>383,330</u></u> | <u><u>479,773</u></u> |
| Components of comprehensive income not reflected in equity | | | |
| Surplus / (deficit) on revaluation of investments, transferred to Fair Value Reserve | | <u><u>11,889</u></u> | <u><u>(7,320)</u></u> |

The annexed notes from 1 to 36 form an integral part of these financial statements.

MEHBOOB HUSSAIN
CHIEF FINANCIAL OFFICER

ACTING PRESIDENT/ CEO
-

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Note</u> | 2012 <u>Rupees in '000'</u> | 2011 |
|--|-------------|--------------------------------|-------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Profit before taxation | | 402,991 | 508,403 |
| Less: Dividend income | | <u>(14,829)</u> | <u>(14,772)</u> |
| | | 388,162 | 493,631 |
| Adjustments for non-cash items: | | | |
| Depreciation | | 9,199 | 10,606 |
| Amortization | | - | - |
| Provision against non-performing advances | | - | - |
| Provision for diminution in the value of investments | | 88,059 | - |
| Other provisions | | 70,000 | - |
| Gain on sale of fixed assets | | <u>(5,401)</u> | <u>(764)</u> |
| | | <u>161,857</u> | <u>9,842</u> |
| | | 550,019 | 503,473 |
| (Increase)/ Decrease in operating assets | | | |
| Advances | | <u>(1,650,374)</u> | <u>(185,121)</u> |
| Others assets (excluding advance taxation) | | <u>(226,014)</u> | <u>1,863,319</u> |
| | | <u>(1,876,388)</u> | <u>1,678,198</u> |
| Increase/ (Decrease) in operating liabilities | | | |
| Bills payable | | <u>18,851</u> | <u>(9,783)</u> |
| Borrowings | | <u>(1,944,442)</u> | <u>(3,305,558)</u> |
| Deposits and other accounts | | <u>(34,023)</u> | <u>(1,377,245)</u> |
| Other liabilities | | <u>(21,871)</u> | <u>(7,556)</u> |
| | | <u>(1,981,485)</u> | <u>(4,700,142)</u> |
| | | <u>(3,307,854)</u> | <u>(2,518,471)</u> |
| Income tax paid | | <u>(18,283)</u> | <u>(11,491)</u> |
| Net cash outflow from operating activities | | <u>(3,326,137)</u> | <u>(2,529,962)</u> |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Dividend income | | <u>14,829</u> | <u>14,772</u> |
| Investments in operating fixed assets | | <u>(14,662)</u> | <u>(12,563)</u> |
| Investment in NBFIs / T.Bills | | <u>178,833</u> | <u>(711,267)</u> |
| Net change in capital work in progress | | <u>1,220</u> | <u>3,723</u> |
| Advances to suppliers of Banking System Module | | <u>(3,240)</u> | <u>(2,160)</u> |
| Sale proceeds on disposal of operating fixed assets | | <u>270,490</u> | <u>831</u> |
| Net cash inflow / (outflow) from investing activities | | <u>447,470</u> | <u>(706,664)</u> |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Issue of share capital | | <u>564</u> | <u>524</u> |
| Dividend paid | | - | - |
| Funds from the Government of Punjab | | <u>1,743,016</u> | <u>3,305,557</u> |
| Medical aid to employees from Common Good Fund | | <u>(298)</u> | <u>(313)</u> |
| Net cash inflow from financing activities | | <u>1,743,282</u> | <u>3,305,768</u> |
| | | <u>(1,135,385)</u> | <u>69,142</u> |
| (Decrease) / Increase in cash and cash equivalents | | <u>(1,135,385)</u> | <u>69,142</u> |
| Cash and cash equivalents at beginning of the year | | <u>2,592,725</u> | <u>2,523,583</u> |
| Cash and cash equivalents at end of the year | 27 | <u><u>1,457,340</u></u> | <u><u>2,592,725</u></u> |

The annexed notes from 1 to 36 form an integral part of these financial statements.

MEHBOOB HUSSAIN
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, 2012

| | Reserves | | | | Unappropriated/ profit / (loss) | Total |
|--|--------------------------|------------------------------|---------------------------------|-----------------------------------|--|------------------|
| | Share capital | Statutory reserve | Common Good Fund | Other Reserve Note | | |
| | Rupees in '000' | | | | | |
| Balance as on June 30, 2010 | 435,060 | 394,278 | 3,515 | 2,400,000 | (928,639) | 2,304,214 |
| Total comprehensive income for the year | - | - | - | | 479,773 | 479,773 |
| Transfer to other reserve - Funds from the Govt of Punjab | - | - | - | 3,305,557 | - | 3,305,557 |
| Issue of share capital | 524 | - | - | | - | 524 |
| Medical aid to staff | - | - | (313) | | - | (313) |
| Balance as on June 30, 2011 | 435,584 | 394,278 | 3,202 | 5,705,557 | (448,866) | 6,089,755 |
| Total comprehensive income for the year | - | - | - | | 383,330 | 383,330 |
| Transfer to statutory reserve | - | 95,833 | - | | (95,833) | |
| Transfer of surplus on revaluation of asset realised on disposal | - | - | - | - | 238,402 | 238,402 |
| Transfer to other reserve - Funds from the Govt of Punjab | - | - | - | 1,743,016 | - | 1,743,016 |
| Issue of share capital | 564 | - | - | | - | 564 |
| Medical aid to staff | - | - | (298) | | - | (298) |
| Balance as on June 30, 2012 | 436,148 | 490,111 | 2,904 | 7,448,573 | 77,033 | 8,454,769 |

Note :

As per the 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 regularity requirements or financial position of the Bank. Accordingly, this amount has been shown and grouped under this head of account / statement.

The annexed notes from 1 to 36 form an integral part of these financial statements.

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

1 STATUS AND NATURE OF BUSINESS

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 w.e.f. November 07, 1955. The Bank is operating under the supervision of Cooperative Department and State Bank of Pakistan. 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 159 branches in Punjab. Its Head Office is located at Bank Square, The Mall, Lahore.

2 BASIS OF PRESENTATION

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

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the International Accounting Standards (IAS), as applicable in Pakistan, directives issued by the State Bank of Pakistan, Cooperative Societies Act, 1925 and Cooperative Societies Rules 1927. Wherever, the requirements of the Act, Rules, or the directives issued by the State Bank of Pakistan differ with the requirements of these IAS, the requirements of Act, Rules, or the requirements of the said directives shall prevail.

Two statement approach i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' has been adopted as required under BSD Circular Letter No 7 of 2010. Surplus / (Deficit) on revaluation of available for sale securities only, has been included in the 'Statement of Comprehensive Income' and shown separately in the Statement of Financial Position below equity.

4 BASIS OF MEASUREMENT

These financial statements have been prepared on historical cost convention in accordance with the Cooperative Societies Rules 1927, except that free hold land and securities (available for sale) have been recognized in these financial statements at revalued amounts.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash and balances with treasury banks and balances with other banks in current and deposit accounts.

5.2 Revenue recognition

Fees, commission, brokerage, dividend 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 paid on customer's deposits are recognized on accrual basis.

5.3 Advances

Advances are stated at net of general and specific provisions. General and specific provision is calculated as per the Prudential Regulations issued by the State Bank of Pakistan and is charged to profit and loss account.

5.4 Investments

Investments are classified on the basis of the intended purpose of holding such investments, which is 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 investment securities with fixed or determinable payments and fixed maturity and the Bank has the positive intent and ability to hold them till maturity.

Available-for-sale securities

These are investments, which do not fall under the held-for-trading or held-to-maturity categories.

Investments in quoted securities 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 is recognized in the surplus/deficit on revaluation account. Investments in unquoted securities are accounted for at cost. Gain or loss on disposal is charged to current year's profit and loss account.

Impairment loss in respect of investments classified as available for sale (except for quoted securities) and held to maturity is recognised 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.

5.5 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 11.1 on diminishing balance method, except vehicles which are being depreciated on straight line method. Full year depreciation is charged on additions while no depreciation is charged on assets deleted during the year.

5.6 Taxation

Provision for taxation is based on the assessable income for the year after taking into account tax credits available, if any, and any under/over provisions in respect of prior years.

5.7 Staff retirement benefits

- Defined benefit plan

The bank operates a funded pension scheme for all its permanent employees. Retirement benefits are payable to the members of the scheme on completion of prescribed qualifying period of service under the pension scheme. Monthly contributions of 15% of the basic salary is being made by the bank.

- Defined contribution plan

The bank also operates a recognized provident fund scheme for all its regular employees, which is administered by the board of trustees. Equal monthly contributions of 10% of the basic salary are made in accordance with the terms of the scheme (only for those staff members who have not opted the pension scheme).

5.8 Impairment of assets

The carrying amount of 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.

5.9 Transactions with related parties

The transactions with related parties are entered into at arm's length prices using the comparable uncontrolled price method except for advances to the employees which are extended in accordance with rules and regulations of the Bank.

5.10 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.

5.11 Provision

A provision is recognized in the balance sheet when the company 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.

5.12 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 CASH AND BALANCES WITH TREASURY BANKS | Note | 2012 | 2011 |
|--|-------------|------------------------|----------------|
| | | Rupees in '000' | |
| In hand | | | |
| Local currency | | 219,346 | 186,653 |
| With State Bank of Pakistan in | | | |
| Local currency current account | 6.1 | 185,917 | 159,274 |
| With National Bank of Pakistan in | | | |
| Local currency current account | 6.1 | 97,068 | 98,320 |
| Local currency deposit account (NIDA) | 6.1 | 31,536 | 24,632 |
| | | 533,867 | 468,879 |

6.1 These accounts are maintained under the requirements of BSD Circular No.26 dated October 17, 2008 issued by the SBP. The NIDA account bears profit @ 9.00% per annum (2011 : 6.00% per annum).

7 BALANCES WITH OTHER BANKS

| | | | |
|--|-------------|------------------|------------------|
| In Pakistan | | | |
| On current accounts | | 241,865 | 268,550 |
| On deposit accounts | 7.1 | | |
| Consider good | | 681,608 | 1,855,296 |
| Consider doubtful | | 101,413 | - |
| | | 783,021 | 1,855,296 |
| Less: provision for balance doubtful of recovery | 18.7 | (101,413) | - |
| | | 681,608 | 1,855,296 |
| | | 923,473 | 2,123,846 |

7.1 Deposit accounts maintained with the banks bear profit @ 6.00% to 13.30% (2011 : 6.00% to 13.50%) per annum.

| 8 INVESTMENTS | 2012 | | | 2011 | | |
|--|-----------------------------|----------------------------|------------------|---------------------|----------------------------|--------------|
| | Held by bank | Given as collateral | Total | Held by bank | Given as collateral | Total |
| | ----- Rupees in '000' ----- | | | | | |
| 8.1 Investment by types: | | | | | | |
| Available-for-sale securities | | | | | | |
| Ordinary shares of listed companies | 7,023 | - | 7,023 | 7,023 | - | 7,023 |
| Ordinary shares of cooperative institutions | 3,551 | - | 3,551 | 3,551 | - | 3,551 |
| Held-to-maturity securities | | | | | | |
| Market Treasury Bills | 975,157 | - | 975,157 | 1,153,990 | - | 1,153,990 |
| Non-banking financial institutions | 88,059 | - | 88,059 | 228,059 | - | 228,059 |
| Investment at cost | 1,073,790 | - | 1,073,790 | 1,392,623 | - | 1,392,623 |
| Less: Provision for diminution in value of Investments | (91,610) | - | (91,610) | (3,551) | - | (3,551) |
| Investments (net of provisions) | 982,180 | - | 982,180 | 1,389,072 | - | 1,389,072 |
| Add: Surplus on revaluation on available-for-sale securities | 126,437 | - | 126,437 | 114,548 | - | 114,548 |
| Total investments at market value | 1,108,617 | - | 1,108,617 | 1,503,620 | - | 1,503,620 |

| | <u>Note</u> | <u>2012</u> <u>Rupees in '000'</u> | 2011 |
|--|-------------|---------------------------------------|-----------|
| 8.2 Investment by Segments: | | | |
| Federal Government Securities | | | |
| Market Treasury Bills | 8.4 | 975,157 | 1,153,990 |
| Investment with other Banks | | | |
| Non-banking financial institutions | 8.5 | 88,059 | 228,059 |
| Fully Paid up Ordinary Shares: | | | |
| Listed Companies | 8.6 | 7,023 | 7,023 |
| Cooperative Institutions | 8.7 | 3,551 | 3,551 |
| | | 10,574 | 10,574 |
| Total investment at cost | | 1,073,790 | 1,392,623 |
| Less: Provision for diminution in value of investments | 8.8 | (91,610) | (3,551) |
| Investments (net of provisions) | | 982,180 | 1,389,072 |
| Add: Surplus on revaluation on Available-for-sale securities | | 126,437 | 114,548 |
| Total investments at market value | | 1,108,617 | 1,503,620 |

8.3 Quality of Available for Sale Securities

| | <u>2012</u> | | <u>2011</u> | |
|-------------------------------------|-----------------------------------|---------------|-----------------------------------|---------------|
| | <u>Amount</u> <u>Rs. '000'</u> | <u>Rating</u> | <u>Amount</u> <u>Rs. '000'</u> | <u>Rating</u> |
| Securities (At market value) | | | | |
| Shares of listed companies | | | | |
| Security Papers Limited | 129,992 | AAA | 119,652 | AAA |
| NIB Bank Limited | 435 | AA- | 329 | A+ |
| Dawood Lawrencepur Limited | 3,021 | Unrated | 1,559 | Unrated |
| PICIC Insurance Limited | 12 | A- | 31 | A- |
| | 133,460 | | 121,571 | |

8.4 These securities have a maturity period of six months to one year (2011: six months to one year) with yield ranging between 11.85% to 12.58% (2011 : 13.00% to 13.60%) per annum.

8.5 This represents investment made in the Certificate of Investment / Deposit of Trust Investment Bank Limited, Gulberg, Lahore for a period of six months, commencing from 01-03-2010, carrying profit rate of 12.55% percent per annum. During the year, the Bank accepted a swap proposal of Rs. 140 million in loans granted to M/s Vital enterprises (Pvt) Ltd by Trust Investment Bank. This was a funded facility against mortgaged 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 as well as dictated by prudence, a provision for diminution in the value of this investment in the sum of Rs. 88.059 million has been made in these financial statements.

8.6 Shares of Listed Companies

| 2012 | 2011 | | 2012 | 2011 |
|-------------------------------|-----------|----------------------------|-----------------|--------------|
| Number of Shares | | Name of Company | At Cost | |
| Ordinary share of Rs. 10 each | | | Rupees in '000' | |
| 2,954,362 | 2,954,362 | Security Papers Limited | 6,708 | 6,708 |
| 218,287 | 218,287 | NIB Bank Limited | - | - |
| 48,710 | 48,710 | Dawood Lawrencepur Limited | 315 | 315 |
| 2,314 | 2,314 | PICIC Insurance Limited | - | - |
| | | | 7,023 | 7,023 |

8.7 Shares of Cooperative Institutions

| 2012 | 2011 | Face Value | | 2012 | 2011 |
|------------------|------------|------------|---|-----------------|--------------|
| Number of shares | | of Shares | Name of Cooperative Institution | At Cost | |
| | | Rs. | | Rupees in '000' | |
| 21,791,370 | 21,791,370 | 10 | Coop: Insurance Society of Pakistan | 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 |
| | | | | 3,551 | 3,551 |

8.7.1 The shares of Cooperative institutions showing nil value is due to amounts rounded off to the nearest thousand rupees.

8.8 Particulars of provision for diminution in value of investments

| | | |
|---------------------------------------|---------------|--------------|
| Opening balance | 3,551 | 3,551 |
| Charge for the year | 88,059 | - |
| Provision written off during the year | - | - |
| Closing balance | 91,610 | 3,551 |

2012 2011
Rupees in '000'

8.9 Particulars of provision for diminution in value of investments by type and segment

Available-for-sale securities

Fully paid up ordinary shares

Cooperative Institutions

3,551 3,551

Held-to-maturity securities

Investments with other banks

Non-banking financial institutions

88,059 -

91,610 **3,551**

9 ADVANCES

Loans, cash credits, running finances, etc.

In Pakistan

9,416,129 7,625,755

Bills discounted and purchased (excluding treasury bills)

Payable in Pakistan

184 184

Advances - gross

9,416,313 7,625,939

Provision for non-performing advances

(1,605,893) (1,605,893)

Advances - net of provision

7,810,420 **6,020,046**

9.1 Particulars of advances (Gross)

In local currency

9,416,313 7,625,939

Short Term (for up to one year)

6,929,824 5,345,129

Long Term (for over one year)

2,486,489 2,280,810

9,416,313 **7,625,939**

9.2 Advances include Rs. 2,189,476 (thousand) (2011 : Rs. 2,498,221 thousand) which have been placed under non-performing status as detailed below:-

| Category of classification | 2012 | | | | |
|-----------------------------------|---------------------|----------|------------------|------------------|------------------|
| | Classified Advances | | | Provision | Provision Held |
| | Domestic | Overseas | Total | Required | |
| ----- Rupees in '000' ----- | | | | | |
| Other Assets Especially Mentioned | 258,173 | - | 258,173 | - | - |
| Substandard | 54,512 | - | 54,512 | 10,988 | 10,988 |
| Doubtful | 28,228 | - | 28,228 | 3,016 | 3,016 |
| Loss | 1,848,563 | - | 1,848,563 | 871,127 | 1,588,361 |
| | 2,189,476 | - | 2,189,476 | 885,131 | 1,602,365 |
| | 2011 | | | | |
| Category of classification | Classified Advances | | | Provision | Provision Held |
| | Domestic | Overseas | Total | Required | |
| ----- Rupees in '000' ----- | | | | | |
| Other Assets Especially Mentioned | 103,206 | - | 103,206 | - | - |
| Substandard | 57,494 | - | 57,494 | 2,798 | 2,798 |
| Doubtful | 33,910 | - | 33,910 | 7,232 | 7,232 |
| Loss | 2,303,611 | - | 2,303,611 | 1,175,092 | 1,592,335 |
| | 2,498,221 | - | 2,498,221 | 1,185,122 | 1,602,365 |

9.3 Position is calculated as of 30.06.2012 after taking benefit of collateral in agricultural loans as per Prudential Regulations on Agricultural Loans & Advances after approval of the President.

9.4 Particulars of provision against non-performing advances

| | 2012 | | | 2011 | | |
|--------------------------------|-----------------------------|--------------|------------------|------------------|--------------|------------------|
| | Specific | General | Total | Specific | General | Total |
| | ----- Rupees in '000' ----- | | | | | |
| Opening balance | 1,602,365 | 3,528 | 1,605,893 | 1,602,365 | 3,528 | 1,605,893 |
| Charge for the year | - | - | - | - | - | - |
| Transfer from consumer finance | - | - | - | - | - | - |
| Closing balance | <u>1,602,365</u> | <u>3,528</u> | <u>1,605,893</u> | <u>1,602,365</u> | <u>3,528</u> | <u>1,605,893</u> |

Particulars of provisions against non-performing advances

| | 2012 | | | 2011 | | |
|-------------------|-----------------------------|--------------|------------------|------------------|--------------|------------------|
| | Specific | General | Total | Specific | General | Total |
| | ----- Rupees in '000' ----- | | | | | |
| In local currency | <u>1,602,365</u> | <u>3,528</u> | <u>1,605,893</u> | <u>1,602,365</u> | <u>3,528</u> | <u>1,605,893</u> |

9.5 Particulars of write off:

| | 2012 | 2011 |
|---|-----------------|----------|
| | Rupees in '000' | |
| Against Provisions | - | - |
| Directly charged to Profit & Loss account | - | - |
| | <u>-</u> | <u>-</u> |
| Write Offs of Rs. 500,000 and above | - | - |
| Write Offs of Below Rs. 500,000 | - | - |
| | <u>-</u> | <u>-</u> |

9.6 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, 2012 is NIL.(2011: NIL).

10 OPERATING FIXED ASSETS

| | (Note - 10.1) | 2012 Rupees in '000' | 2011 |
|--|---------------|-------------------------|------------------|
| Property and equipment | | 3,432,246 | 3,725,560 |
| Capital work-in-progress (Civil works) | | 7,504 | 8,724 |
| Advances to suppliers of Banking System Module | | 5,400 | 2,160 |
| | | 3,445,150 | 3,736,444 |

10.1 Property and equipment

| | COST / REVALUATION | | | DEPRECIATION | | | Net Book value As At 30-06-12 | Rate of depreciation % | | |
|---|---|-----------------------------------|----------------------------|---|---|--------------------------------|-------------------------------------|------------------------------|------------------|-----|
| | Opening Balance As At 01-07-11 | Additions/ (Deletions) | Transfer | Closing Balance As At 30-06-12 | Opening Balance As At 01-07-11 | Charge/ (Deletion) | | | Transfer | |
| Free hold land | 116,907 | (6,428) | - | 110,479 | - | - | - | 110,479 | - | |
| Revaluation | 3,499,647 | (272,089) | - | 3,227,558 | - | - | - | 3,227,558 | - | |
| | 3,616,554 | (278,517) | - | 3,338,037 | - | - | - | 3,338,037 | - | |
| Building on free hold land | 139,359 | 3,204 (29,278) | - | 113,285 | 50,371 | 1,779 (9,382) | - (184) | 42,584 | 70,701 | 2.5 |
| Building on lease hold land | 4,286 | - | - | 4,286 | 1,772 | 58 | 184 | 2,014 | 2,272 | - |
| Furniture and fixtures | 24,720 | 5,033 (261) | (2,966) | 26,526 | 18,131 | 2,099 (17) | - (2,966) | 17,247 | 9,279 | 20 |
| Electrical, office and computer equipment | 12,832 | 3,226 (29) | - (4) | 16,025 | 7,771 | 1,664 | - (4) | 9,431 | 6,594 | 20 |
| Vehicles | 47,127 | 3,134 (90) | - | 50,171 | 41,607 | 3,527 | - | 45,134 | 5,037 | 20 |
| Telephone Exchange & Conference system | 1,020 | - | - | 1,020 | 790 | 46 | - | 836 | 184 | 20 |
| Arms & Ammunitions | 185 | 65 (1) | - | 249 | 81 | 26 | - | 107 | 142 | - |
| Library | - | - | - | - | - | - | - | - | - | - |
| | 3,846,083 | 14,662 (308,176) | - (2,970) | 3,549,599 | 120,523 | 9,199 (9,399) | 184 (3,154) | 117,353 | 3,432,246 | |
| 2012 - Rs. 000s | 3,846,083 | (293,514) | (2,970) | 3,549,599 | 120,523 | (200) | (2,970) | 117,353 | 3,432,246 | |
| 2011 - Rs. 000s | 3,834,935 | 11,148 | - | 3,846,083 | 111,265 | 9,258 | - | 120,523 | 3,725,560 | |

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

| Description | Cost / Revaluation | Accumulated depreciation | Net book Value | Sale proceeds | Mode of disposal | Particulars of purchaser |
|--|-----------------------|-----------------------------|-------------------|------------------|---------------------|-----------------------------|
| ----- Rupees in '000' ----- | | | | | | |
| Items having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 | | | | | | |
| Free hold land | | | | | | |
| Villa at Murree | 184,000 | - | 184,000 | 184,000 | Settlement | Government of Punjab |
| Land at Gujranwala | 60,750 | - | 60,750 | 66,900 | Negotiation | State Bank of Pakistan |
| Bungalow Land | 20,000 | - | 20,000 | - | Written off | - |
| Bungalow Land | 300 | - | 300 | - | Written off | - |
| Agri Land | 3,820 | - | 3,820 | - | Written off | - |
| Bungalow Land | 300 | - | 300 | - | Written off | - |
| Branch Land | 1,000 | - | 1,000 | - | Written off | - |
| Agri Land | 6,650 | - | 6,650 | - | Written off | - |
| Agri Land | 1,617 | - | 1,617 | - | Written off | - |
| | 278,437 | - | 278,437 | 250,900 | | |
| Building on free hold land | | | | | | |
| Villa at Murree | 28,836 | 9,210 | 19,626 | 17,427 | Settlement | Government of Punjab |
| | 307,273 | 9,210 | 298,063 | 268,327 | | |
| Items having cost of less than Rs. 1,000,000 or net book value of Rs. 250,000 | | | | | | |
| Free hold land | 80 | - | 80 | - | Written off | - |
| Building on free hold land | 442 | 172 | 270 | 1,739 | Auction | Various parties |
| Furniture and fixtures | 261 | 17 | 244 | 279 | Auction | Various parties |
| Electrical, office and computer equipment | 29 | - | 29 | 53 | Auction | Various parties |
| Vehicles | 90 | - | 90 | 92 | Auction | Various parties |
| Arms & Ammunitions | 1 | - | 1 | - | Auction | Various parties |
| | 903 | 189 | 714 | 2,163 | | |
| 2012 - Rs. 000s | 308,176 | 9,399 | 298,777 | 270,490 | | |
| 2011 - Rs. 000s | 1,415 | 1,347 | 68 | 831 | | |

10.3 Certain lands of Bank were revalued by independent professional valuers in September 2010 (duly approved by the Pakistan Banks Association) on the basis of professional assessment of present market values. Had there been no revaluation, the carrying amount of the land would have been Rs.110.479 million (2011: Rs.116.907 million).

10.4 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.

| | <u>Note</u> | <u>2012</u> <u>Rupees in '000'</u> | <u>2011</u> |
|--|-------------|---------------------------------------|------------------|
| 11 OTHER ASSETS | | | |
| Advances, deposits, advance rent and others prepayments | | 1,798 | 1,516 |
| Income / markup accrued on loan and advances in local currency | | 511,912 | 330,472 |
| Advance taxation (payments less provisions) | | 23,629 | 25,007 |
| Suspense account - Sundry debtors | | 111,338 | 70,011 |
| Profit recoverable from banks | | 6,242 | 26,932 |
| Others | | 76,080 | 52,425 |
| | | <u>730,999</u> | <u>506,363</u> |
| 12 BILLS PAYABLE | | | |
| In Pakistan | | <u>30,845</u> | <u>11,994</u> |
| 13 BORROWINGS | | | |
| In Pakistan | | <u>-</u> | <u>1,944,442</u> |
| 13.1 Particulars of borrowings with respect to Currencies | | | |
| In local currency from State Bank of Pakistan | 13.3 | <u>-</u> | <u>1,944,442</u> |
| 13.2 Details of borrowings Secured / Unsecured | | | |
| Secured | | | |
| Borrowings from State Bank of Pakistan (S.B.P) Under agriculture credit portfolio | 13.4 | <u>-</u> | <u>1,944,442</u> |
| 13.3 This loan had been sanctioned by the State Bank of Pakistan under Section 17 (6) of the State Bank of Pakistan Act, 1956 for disbursement of agricultural credit. These were secured against the Guarantee of Government of the Punjab. Mark up payable on this borrowing is ranging from 8.4869% to 8.9017% per annum (2011: 8.4869% to 8.9017% per annum). | | | |
| 13.4 The bank had been providing agriculture credit to small farmers by borrowing funds from State Bank of Pakistan since 2001. On July 31, 2007, State Bank of Pakistan (SBP) declined further sanction of credit line of Rs. 8 billion due to failure of the bank to carry reforms. The bank was unable to repay the loan and interest accrued thereon due to unavailability of surplus funds. The Government of Punjab being the guarantor has paid off the debt of the bank in terms of the agreement dated September 16, 2009 entered with the Bank and SBP. | | | |
| 14 DEPOSITS AND OTHER ACCOUNTS | | | |
| Fixed deposits | | 212,349 | 205,100 |
| Savings deposits | | 1,609,179 | 1,722,882 |
| Current Accounts - Non-remunerative | | 496,415 | 437,948 |
| Call Deposits | | 28,315 | 5,514 |
| Other deposits | 14.1 | 62,817 | 71,654 |
| | | <u>2,409,075</u> | <u>2,443,098</u> |
| 14.1 Others deposits include staff provident fund and staff security deposits. | | | |
| 14.2 Particulars of deposits | | | |
| In local currency | | <u>2,409,075</u> | <u>2,443,098</u> |

Note 2012 2011
Rupees in '000'

15 OTHER LIABILITIES

| | | |
|---|-----------------------|----------------|
| Mark-up/ Return/ Interest payable in local currency | 34,808 | 35,537 |
| Accrued expenses | 2,778 | 31,988 |
| Branch adjustment account | 80,763 | 47,846 |
| Sundry creditors | 37,323 | 42,497 |
| Dissolved bank payable | 37,427 | 37,427 |
| Others | 110,744 | 60,419 |
| | <u>303,843</u> | <u>255,714</u> |

16 SHARE CAPITAL**16.1 Authorized Capital**

| | | | | |
|--------------------|------------------|--------------------------------|------------------|------------------|
| 2012 | 2011 | | | |
| (Number of shares) | | | | |
| <u>Unlimited</u> | <u>Unlimited</u> | Ordinary shares of Rs.100 each | <u>Unlimited</u> | <u>Unlimited</u> |

16.2 Issued, subscribed and paid up capital

| | | | | |
|-------------------------|------------------|--|-----------------------|----------------|
| 3,985,750 | 3,980,110 | Ordinary shares of Rs. 100 each, fully paid in cash | 398,575 | 398,011 |
| 375,730 | 375,730 | Issued as bonus shares | 37,573 | 37,573 |
| <u>4,361,480</u> | <u>4,355,840</u> | | <u>436,148</u> | <u>435,584</u> |

17 SURPLUS ON REVALUATION OF ASSETS

| | | |
|--|-------------------------|------------------|
| As at July 01, | 3,499,647 | 3,464,401 |
| Recognised during the year | - | 57,246 |
| Reversal of deficit on account of properties written off | (33,688) | (22,000) |
| Transfer to unappropriated profit on disposal | (238,402) | - |
| As at June 30, | <u>3,227,557</u> | <u>3,499,647</u> |

18 CONTINGENCIES AND COMMITMENTS

18.1 The Bank has total of 249 cases under litigation in different courts.
The total amount involved in such outstanding cases aggregate to -

| | |
|-----------------------|----------------|
| <u>280,504</u> | <u>201,739</u> |
|-----------------------|----------------|

2012 2011
Rupees in '000'

18.2 Guarantee Acceptances

- 445

Mr. Fazal-ur-Rehman deposited Rs. 100,000 & Rs. 200,000 (Total Rs. 300,000) on 12-07-1990 & 14.07.1990 through DDs at Head Office as bid money in auction of land measuring 187(A) - 02(K)-17(M) situated at Muza Nadha Tehseel & Distt. Gujranwala. Mr. Fazal-ur-Rehman did not fulfill the conditions of Land Committee, resultantly Bank confiscated the Bid Money. He filed Civil Suit No.156/1 in 1993 titled as Fazal-ur-Rehman v/s PPCBL at Gujranwala, which was decreed in favour of plaintiff. Bank filed an appeal No.RFA 243/95 in Lahore High Court, which has also decided against Bank and Lahore High Court directed Bank to furnish a guarantee No.2096/92 dated 15.09.1995 amounting to Rs.444,939 through Main Branch from NBP for the satisfaction of the Court. The case has been decided against the bank on 02.06.2012 by Civil Court , Lahore. Accordingly, an amount of Rs. 638,195 has been paid by the Bank during the year to close the matter.

18.3 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.

18.4 Income tax status / exposure:

- o The Income Tax Returns up to the tax year 2011 have been filed under Self Assessment Scheme whereby the Income Tax Returns filed with the Department become the "deemed assessment order" unless selected for Audit.
- o The Bank is in litigation with the Income Tax Department where appeals and cross appeals for the assessment years 1999-2000 to 2002-2003 as well as tax years for 2003-2008 on account of orders passed under section 62 of the Income Tax Ordinance, 1979 and 122(1) / 122(5A) of the Income Tax Ordinance, 2001 are pending adjudication before the Appellate Tribunal Inland Revenue. The management of the Bank as well as its tax advisor consider that the Bank has fair chance to get the decision of these appeals in its favour. Accordingly, no provision of tax demands raised through above said assessment orders has not been made in these financial statements.

- o The Bank has applied for the refund of wealth tax amounting to Rs. 12.274 million, that was erroneously levied and paid by the Bank for the assessment years 1991-92 to 2000-2001. Further, the application for the refund of CVT paid in the sum of Rs. 6.909 million for the assessment years 1995-96 to 1996-97 has also been filed with the department. The management of the Bank has decided to account for these refunds in its books of account on receipt.
- o The Bank is contingently liable to a tax demand of Rs. 100.687 million u/s 161/205 of the Income Tax Ordinance, 2001 for the tax year 2010. Against this demand a rectification application has been filed, pending adjudication, so far. Further, an appeal if required will also be filed after obtaining the revised assessment order. Accordingly, no liability has been advised to be booked against this demand by the legal advisor of the Bank.

| | 2012 | 2011 |
|--|------------------------|-----------------------|
| | Rupees in '000' | |
| 18.5 Commitment against construction and repair of building | <u>6,168</u> | <u>6,202</u> |
| 18.6 The value of land and buildings include properties: | | |
| for which Bank holds neither the titles nor possession (dissolved bank) | - | 33,770 |
| which are not traceable | <u>-</u> | <u>137</u> |
| | <u>-</u> | <u>33,907</u> |
| <i>[The cost / value of these properties have been written off during the year (note - 10.2)].</i> | | |
| under litigation / disputes re: possession alongwith revenue there from | <u>80,444</u> | <u>145,377</u> |

18.7 BANK ALFALAH TOWN SHIP FRAUD OF ROYAL PROFIT ACCOUNT No. 02905313

During November 2003, the bank opened a Royal Profit Account in Bank Alfalah Limited, Town Ship Branch. In July 2010, it revealed that some cheques were forged by the staff members of Bank Alfalah Limited who had routed the proceeds of these cheques through their associates and family members' accounts. The total misappropriated amount comes to Rs. 101.413 Million (i.e. Principal Rs. 97.250 Million and Mark up Rs.4.163 Million) as reported by the Bank to the FIA, which matter is under its investigation at the terminal date. A petition in this regard was filled with the Banking Mohtasib, which was fixed on 29th September 2010 but Bank Alfalah Limited filed a civil suit against the bank due to which Banking Mohtasib returned the case on March 03, 2011. Aggrieved upon, the bank filed a writ petition No.7170/11 in the Lahore High Court, titled PPCBL v/s Banking Mohtasib which has been disposed off on 22.06.2012 with the direction to Governor State Bank of Pakistan to decide the matter within 6 weeks. However, based on prudence and as recommended by the SBP Inspection Team, a provision of Rs. 101.413 million has been incorporated in these accounts (note - 7).

| | <u>Note</u> | 2012 | 2011 |
|---|--------------------|------------------------------|-------------------------|
| | | <u>Rupees in '000</u> | |
| 19 MARK-UP / RETURN / INTEREST EARNED | | | |
| On loans and advances to customers | | 1,323,999 | 1,323,907 |
| On Investments in' Held to Maturity' Securities | | 101,675 | 92,269 |
| On Deposits with financial institutions | | 155,193 | 231,142 |
| | | <u>1,580,867</u> | <u>1,647,318</u> |

| | 2012 | 2011 |
|--|-----------------------|----------------|
| | <u>Rupees in '000</u> | |
| 20 MARK-UP/RETURN/INTEREST EXPENSED | | |
| Deposits | 83,470 | 81,297 |
| Other short term borrowings | 42,999 | 304,730 |
| | <u>126,469</u> | <u>386,027</u> |
| 21 OTHER INCOME | | |
| Rent on property | 18,798 | 13,932 |
| Gain on sale of fixed assets | 5,401 | 764 |
| Profit on sale of books | 3,713 | 1,965 |
| Bank and service charges | 4,528 | 9,738 |
| Others | 13,575 | 7,915 |
| | <u>46,015</u> | <u>34,314</u> |
| 22 ADMINISTRATIVE EXPENSES | | |
| Salaries, allowances and benefits | 702,132 | 647,337 |
| Charge for defined benefit plan | 29,296 | 29,592 |
| Contribution to defined contribution plan | 268 | 555 |
| Rent, taxes, insurance, electricity, etc. | 32,710 | 33,332 |
| Legal and professional charges | 2,807 | 3,668 |
| Communications | 13,136 | 12,359 |
| Repairs and maintenance | 3,237 | 1,518 |
| Stationery and printing | 3,047 | 2,689 |
| Advertisement and publicity | 1,221 | 1,072 |
| Subscription | 2,125 | 179 |
| Auditors' remuneration | 22.1 537 | 527 |
| General Charges | 18,853 | 15,455 |
| Vehicles expenses | 23,172 | 18,607 |
| Incentive paid to field staff | 25,711 | 40,608 |
| Others | 10,380 | 8,558 |
| Depreciation | 11.1 9,199 | 10,606 |
| | <u>877,831</u> | <u>826,662</u> |
| 22.1 Auditors' remuneration | | |
| Audit fee | 450 | 450 |
| Half yearly review | 42 | 32 |
| Out of pocket expenses | 45 | 45 |
| | <u>537</u> | <u>527</u> |

| | 2012 | 2011 |
|---|-----------------------|------------------|
| | Rupees in '000 | |
| 23 OTHER PROVISIONS / WRITE OFFS | | |
| Provision against deposit with Bank Alfalah | 101,413 | - |
| Provision for staff retirement benefits | 70,000 | - |
| | <u>171,413</u> | <u>-</u> |
| 24 OTHER CHARGES | | |
| Penalties imposed by State Bank of Pakistan | - | 132 |
| 25 TAXATION | | |
| For the year | 19,661 | 20,630 |
| For the prior year(s) | - | 8,000 |
| | <u>19,661</u> | <u>28,630</u> |
| 26 EARNINGS PER SHARE - BASIC | | |
| Profit for the year | <u>383,330</u> | <u>479,773</u> |
| Weighted average number of ordinary shares (Numbers) | <u>4,343,958</u> | <u>4,340,625</u> |
| Basic earnings per share (Rupees) | <u>88.24</u> | <u>110.53</u> |
| There is no dilutive effect on earning per share during the year. | | |
| 27 CASH AND CASH EQUIVALENTS | | |
| Cash and Balance with Treasury Banks | 533,867 | 468,879 |
| Balance with other banks | 923,473 | 2,123,846 |
| | <u>1,457,340</u> | <u>2,592,725</u> |
| 28 STAFF STRENGTH | | |
| | (Number) | |
| Permanent | 1,292 | 1,375 |
| Temporary/ on contractual basis | 345 | 233 |
| Daily wages | 76 | 254 |
| Total Staff Strength | <u>1,713</u> | <u>1,862</u> |

29 COMPENSATION OF DIRECTORS AND EXECUTIVES

| | President / Chief Executive | | Directors | | Executives | |
|---|-----------------------------|--------------|-------------|-------------|---------------|--------------|
| | <u>2012</u> | <u>2011</u> | <u>2012</u> | <u>2011</u> | <u>2012</u> | <u>2011</u> |
| | ----- Rupees in '000' ----- | | | | | |
| Fees | 2,205 | 2,100 | - | - | - | - |
| Managerial remuneration | | | - | - | 7,623 | 5,046 |
| Charge for defined benefit plan | | | - | - | - | - |
| Contribution to defined contribution plan | | | - | - | - | - |
| Rent and house maintenance | 600 | 600 | - | - | 2,857 | 1,360 |
| Utilities | 117 | 117 | - | - | 303 | 240 |
| Medical | 57 | 39 | - | - | 1,184 | 524 |
| Conveyance | - | - | - | - | 1,264 | 847 |
| Others | 69 | - | - | - | 2,886 | - |
| | <u>3,048</u> | <u>2,856</u> | <u>-</u> | <u>-</u> | <u>16,117</u> | <u>8,017</u> |
| Number of persons | <u>1</u> | <u>1</u> | <u>-</u> | <u>-</u> | <u>11</u> | <u>5</u> |

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

30 FAIR VALUE OF FINANCIAL INSTRUMENTS

30.1 On-balance sheet financial instruments

| | 2012 | | 2011 | |
|---|----------------------------|-------------------|-------------------|-------------------|
| | Book value | Fair value | Book value | Fair value |
| | ----- Rupees in '000 ----- | | | |
| Assets | | | | |
| Cash balances with treasury banks | 533,867 | 533,867 | 468,879 | 468,879 |
| Balances with other banks | 923,473 | 923,473 | 2,123,846 | 2,123,846 |
| Lending to financial institutions | - | - | - | - |
| Investments | 1,108,617 | 1,108,617 | 1,503,620 | 1,503,620 |
| Advances | 7,810,420 | 7,810,420 | 6,020,045 | 6,020,045 |
| Other assets | 707,370 | 707,370 | 481,356 | 481,356 |
| | <u>11,083,747</u> | <u>11,083,747</u> | <u>10,597,746</u> | <u>10,597,746</u> |
| Liabilities | | | | |
| Bills payable | 30,845 | 30,845 | 11,994 | 11,994 |
| Borrowings | - | - | 1,944,442 | 1,944,442 |
| Deposits and other accounts | 2,409,075 | 2,409,075 | 2,443,098 | 2,443,098 |
| Sub-ordinated loans | - | - | - | - |
| Liabilities against assets subject to finance lease | - | - | - | - |
| Other liabilities | 303,843 | 303,843 | 255,714 | 255,714 |
| | <u>2,743,763</u> | <u>2,743,763</u> | <u>4,655,248</u> | <u>4,655,248</u> |

30.2 The fair value of available for sale investments other than those classified as held to maturity is based on quoted market price.

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

31 RELATED PARTY TRANSACTIONS

Related parties comprise of key bank executives, member societies, Registrar Co-operative Societies, Punjab and the Government of Punjab. The transactions and contracts with related parties, other than those under the terms of employment, are carried out on an Arm's length basis. However, no material related party transaction was carried out during the year.

32 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:

| | 2012 | 2011 |
|--|-----------------------|---------------------|
| | Rupees in '000 | |
| Regulatory Capital Base | | |
| Tier I Capital | | |
| Shareholders Capital/Assigned Capital | 436,148 | 435,584 |
| Reserves | 7,941,588 | 6,103,037 |
| Unappropriated / unremitted profits (Net of Losses) | 77,033 | (448,866) |
| Total Tier I Capital | 8,454,769 | 6,089,755 |
| 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%) | 1,676,997 | 1,807,098 |
| Total Tier II Capital (restricted up to the amount of total tier I capital) | 1,680,525 | 1,810,626 |
| Eligible Tier III Capital | - | - |
| Total Regulatory Capital (a) | 10,135,294 | 7,900,381 |
| Risk-Weighted Exposures | | |
| | 2012 | 2011 |
| | Rupees in '000 | |
| | Book Value | Risk Adjusted Value |
| | Book Value | Risk Adjusted Value |
| Credit Risk | | |
| Balance Sheet Items:- | | |
| Cash and balances with treasury banks | 533,867 | - |
| Balances with other banks | 923,473 | 184,695 |
| Investments | 1,108,617 | 133,460 |
| Advances | 7,810,420 | 7,463,735 |
| Operating fixed assets | 3,445,150 | 3,445,150 |
| Other assets | 730,999 | 726,005 |
| | 14,552,526 | 11,953,045 |
| 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 | | |
| | - | - |
| | 445 | 445 |
| Credit risk-weighted exposures | 11,953,045 | 10,644,866 |
| Market Risk | | |
| General market risk | - | - |
| Specific market Risk | - | - |
| Market risk-weighted exposures | - | - |
| Total Risk-Weighted exposures (b) | 11,953,045 | 10,644,866 |
| Capital Adequacy Ratio [(a) / (b) x 100] | 84.79 | 74.22 |

The Bank has obtained exemption from The State Bank of Pakistan for the implementation of Basel II requirements vide letter no.RCS/PA/2242 dated December 16, 2008.

33 RISK MANAGEMENT

33.1 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:

Segmental Information

| Segments by class of business | 2012 | | | | | |
|--|------------------|------------|------------------|------------|-------------------------------|------------|
| | Advances (Gross) | | Deposits | | Contingencies and Commitments | |
| | Rupees | %age | Rupees | %age | Rupees | %age |
| Agriculture, Forestry, Hunting and Fishing | 8,567,253 | 91 | 185,348 | 8 | - | - |
| Mining and Quarrying | - | - | - | - | - | - |
| Textile | 712 | - | 33 | - | - | - |
| 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 | - | - | 415 | - | - | - |
| Services | - | - | - | - | - | - |
| Individuals | 36,184 | - | 1,932,124 | 80 | - | - |
| Others | 812,164 | 9 | 291,155 | 12 | 285,545 | 100 |
| | <u>9,416,313</u> | <u>100</u> | <u>2,409,075</u> | <u>100</u> | <u>285,545</u> | <u>100</u> |

Segment by sector

| | 2012 | | | | | |
|--------------------|------------------|------------|------------------|------------|-------------------------------|------------|
| | Advances | | Deposits | | Contingencies and Commitments | |
| | Rupees in '000' | Percent | Rupees in '000' | Percent | Rupees in '000' | Percent |
| Public/ Government | - | - | - | - | - | - |
| Private | 9,416,313 | 100 | 2,409,075 | 100 | 285,545 | 100 |
| | <u>9,416,313</u> | <u>100</u> | <u>2,409,075</u> | <u>100</u> | <u>285,545</u> | <u>100</u> |

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

| | 2012 | | 2011 | |
|--|----------------------------|--------------------------------|------------------------|--------------------------------|
| | ----- Rupees in '000 ----- | | | |
| | Classified Advances | Specific Provisions Held | Classified Advances | Specific Provisions Held |
| Agriculture, Forestry, Hunting and Fishing | 2,070,156 | 1,508,702 | 2,375,313 | 1,508,702 |
| Mining and Quarrying | - | - | - | - |
| Textile | 712 | 1,244 | 1,117 | 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 | 13,958 | 20,686 | 15,356 | 20,686 |
| Others | 104,650 | 71,733 | 106,435 | 71,733 |
| | <u>2,189,476</u> | <u>1,602,365</u> | <u>2,498,221</u> | <u>1,602,365</u> |

Details of non-performing advances and specific provisions by sector

| | | | | |
|--------------------|------------------|------------------|------------------|------------------|
| Public/ Government | - | - | - | - |
| Private | 2,189,476 | 1,602,365 | 2,498,221 | 1,602,365 |
| | <u>2,189,476</u> | <u>1,602,365</u> | <u>2,498,221</u> | <u>1,602,365</u> |

GEOGRAPHICAL SEGMENT ANALYSIS

| | 2012 | | | |
|-------------------------------------|---------------------------|--------------------------|------------------------|----------------------------------|
| | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| | Rupees in '000' | | | |
| Pakistan | 402,991 | 14,552,526 | 11,808,763 | 291,713 |
| Asia Pacific (including South Asia) | - | - | - | - |
| Europe | - | - | - | - |
| United States of America and Canada | - | - | - | - |
| Middle East | - | - | - | - |
| Others | - | - | - | - |
| | <u>402,991</u> | <u>14,552,526</u> | <u>11,808,763</u> | <u>291,713</u> |

33.2 Market Risk

FOREIGN EXCHANGE RISK

Foreign Exchange is the risk that the earnings and or 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.

| | 2012 | | | |
|----------------|----------------------------|-------------|-------------------------|-------------------------------|
| | Assets | Liabilities | Off-balance sheet items | Net foreign currency exposure |
| | ----- Rupees in '000 ----- | | | |
| Pakistan rupee | 14,552,526 | 2,743,763 | - | - |

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 reprice 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 | 2012 | | | | | | | | | | Non-interest bearing financial instruments |
|---|---------------------------------|-------------------|------------------|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|--------------------|----------------|--|
| | | Total | Upto 1 month | Over 1 to 3 months | Over 3 to 6 months | Over 6 to 1 years | 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 | | | | | | | | | | | | |
| <u>Assets</u> | | | | | | | | | | | | |
| Cash and balances with treasury banks | 9% | 533,867 | 250,882 | - | - | - | - | - | - | - | - | 282,985 |
| Balances with other banks | 13% | 923,473 | 389,220 | 292,388 | - | - | - | - | - | - | - | 241,865 |
| Lending to financial institutions | | - | - | - | - | - | - | - | - | - | - | - |
| Investments | 12% | 1,108,617 | 133,460 | - | 382,754 | 588,852 | - | - | - | - | - | 3,551 |
| Advances | 16% | 7,810,420 | 843,493 | 220,367 | 1,121,875 | 1,341,423 | 2,464,345 | 454,893 | 961,517 | 288,620 | 113,703 | 184 |
| Other assets | | 707,370 | - | - | - | - | - | - | - | - | - | 707,370 |
| | | <u>11,083,747</u> | <u>1,617,055</u> | <u>512,755</u> | <u>1,504,629</u> | <u>1,930,275</u> | <u>2,464,345</u> | <u>454,893</u> | <u>961,517</u> | <u>288,620</u> | <u>113,703</u> | <u>1,235,955</u> |
| <u>Liabilities</u> | | | | | | | | | | | | |
| Bills payable | | 30,845 | - | - | - | - | - | - | - | - | - | 30,845 |
| Borrowings | | - | - | - | - | - | - | - | - | - | - | - |
| Deposits and other accounts | 6.00% | 2,409,075 | 1,603,704 | 331,567 | 6,671 | 235,868 | 9,685 | 12,634 | 149,630 | 18,916 | 40,400 | - |
| Sub-ordinated loans | | - | - | - | - | - | - | - | - | - | - | - |
| Liabilities against assets subject to finance lease | | - | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | | 303,843 | - | - | - | - | - | - | - | - | - | 303,843 |
| | | <u>2,743,763</u> | <u>1,603,704</u> | <u>331,567</u> | <u>6,671</u> | <u>235,868</u> | <u>9,685</u> | <u>12,634</u> | <u>149,630</u> | <u>18,916</u> | <u>40,400</u> | <u>334,688</u> |
| On-balance sheet gap | | <u>8,339,984</u> | <u>13,351</u> | <u>181,188</u> | <u>1,497,958</u> | <u>1,694,407</u> | <u>2,454,660</u> | <u>442,259</u> | <u>811,887</u> | <u>269,704</u> | <u>73,303</u> | <u>901,267</u> |

Off-balance sheet financial instruments

| | | | | | | | | | | | |
|--|------------------|---------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.) | - | - | - | - | - | - | - | - | - | - | - |
| Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.) | - | - | - | - | - | - | - | - | - | - | - |
| Off-balance sheet gap | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Yield/Interest Risk Sensitivity Gap | <u>8,339,984</u> | <u>13,351</u> | <u>181,188</u> | <u>1,497,958</u> | <u>1,694,407</u> | <u>2,454,660</u> | <u>442,259</u> | <u>811,887</u> | <u>269,704</u> | <u>73,303</u> | <u>901,267</u> |
| Cumulative Yield/Interest Risk Sensitivity Gap | <u>8,339,984</u> | <u>13,351</u> | <u>194,539</u> | <u>1,692,497</u> | <u>3,386,904</u> | <u>5,841,564</u> | <u>6,283,823</u> | <u>7,095,710</u> | <u>7,365,414</u> | <u>7,438,717</u> | <u>8,339,984</u> |

33.3 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:

33.3.1 Maturities of Assets and Liabilities

| | 2012 | | | | | | | | | |
|---|-------------------|------------------|--------------------|--------------------|-------------------------|-------------------|-------------------|-------------------|--------------------|------------------|
| | Total | Upton 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 | 533,867 | 533,867 | - | - | - | - | - | - | - | - |
| Balances with other banks | 923,473 | 631,085 | 292,388 | - | - | - | - | - | - | - |
| Lending to financial institutions | - | - | - | - | - | - | - | - | - | - |
| Investments | 1,108,617 | 133,460 | - | 382,754 | 588,852 | - | 3,551 | - | - | - |
| Advances | 7,810,420 | 843,493 | 220,367 | 1,121,875 | 1,341,423 | 2,464,345 | 454,893 | 961,517 | 288,620 | 113,887 |
| Other assets | 730,999 | 707,370 | - | - | - | - | - | - | - | - |
| Operating fixed assets | 3,445,150 | - | - | - | - | - | - | - | - | 3,445,150 |
| Deferred tax assets | - | - | - | - | - | - | - | - | - | - |
| | <u>14,552,526</u> | <u>2,849,275</u> | <u>512,755</u> | <u>1,504,629</u> | <u>1,930,275</u> | <u>2,464,345</u> | <u>458,444</u> | <u>961,517</u> | <u>288,620</u> | <u>3,559,037</u> |
| Liabilities | | | | | | | | | | |
| Bills payable | 30,845 | 30,845 | - | - | - | - | - | - | - | - |
| Borrowings | - | - | - | - | - | - | - | - | - | - |
| Deposits and other accounts | 2,409,075 | 1,603,704 | 331,567 | 6,671 | 235,868 | 9,685 | 12,634 | 149,630 | 18,916 | 40,400 |
| Sub-ordinated loans | - | - | - | - | - | - | - | - | - | - |
| Liabilities against assets subject to finance lease | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | 303,843 | 303,843 | - | - | - | - | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | - |
| | <u>2,743,763</u> | <u>1,938,392</u> | <u>331,567</u> | <u>6,671</u> | <u>235,868</u> | <u>9,685</u> | <u>12,634</u> | <u>149,630</u> | <u>18,916</u> | <u>40,400</u> |
| Net assets | <u>11,808,763</u> | <u>910,883</u> | <u>181,188</u> | <u>1,497,958</u> | <u>1,694,407</u> | <u>2,454,660</u> | <u>445,810</u> | <u>811,887</u> | <u>269,704</u> | <u>3,518,637</u> |
| Share capital | 436,148 | | | | | | | | | |
| Reserves | 7,941,588 | | | | | | | | | |
| Unappropriated profit | 77,033 | | | | | | | | | |
| Fair value reserve - investments | 126,437 | | | | | | | | | |
| Surplus on revaluation of assets | 3,227,557 | | | | | | | | | |
| | <u>11,808,763</u> | | | | | | | | | |

33.3.2 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.

34 CREDIT RATING

The S.B.P 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.

35 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on September 26, 2012 by the Administrator of the Bank.

36 GENERAL

36.1 The figures of the corresponding period have been reclassified wherever necessary to achieve better comparison. However no material restatement / reclassification has been made.

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

MEHBOOB HUSSAIN
CHIEF FINANCIAL OFFICER

MUHAMMAD AYUB
ACTING PRESIDENT/CEO