



“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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The President's Message

It gives me immense pleasure to present to you the Annual Audited Accounts of our Bank, Punjab Provincial Cooperative Bank, for the year ended June 30, 2010.

State of Pakistan's Economy

The recently devastating floods that have rampaged the northern areas, parts of central and southern Punjab and the area of Sindh, will adversely impact the economy of Pakistan as donors and investors' concerns are growing over the disaster's impact on an already fragile economy. The country's economic growth target for the fiscal year 2010-11 would have to be revised downwards once the exact extent which as regards direct loss to major crops according to initial estimates is Rs 281 billion

Bank's Performance:

Despite present conditions, by the Grace of Allah your Bank, which is a part of the Punjab Cooperative Movement, has made a slow but steady progress as can be seen from the attached financial statements for the year ended June 30, 2010. The total assets of the Bank stood at Rs 15.3bln, an increase of 11.7% over the corresponding period. The Bank focused and realigned its efforts to recover the loans rather than expanding its loan portfolio. Resultantly the Bank recovered Rs 0.8bln which consequently lead to a drop in its non performing loans fro Rs 4.1bln as at June 30, 2009 to Rs 3.4billion as at June 30, 2010.

The Bank's pretax loss has decreased to Rs 174.8mln for the year ended June 30, 2009 compared to the previous year's loss of Rs 979.1mln for the corresponding period ended June 30, 2009, a reduction by 82.1%. Moreover the Bank has fully provided Rs 158.5mln for its non – performing loans taking the accumulated figure to Rs 1.6bln as at June 30, 2010.

Restructuring Plans

The Bank continues to implement its restructuring plans already submitted to the State Bank of Pakistan. In light of this plan several manuals such as The Operational Manual, Business Continuity Plan, Audit Manual, Risk Management Policy, Anti Audit Framework, Internal Credit Risk Policy and Human Resource Manuals have been prepared and put in place. The preparation of other manuals is in process and is expected to be in place well before June 30, 2011. Moreover, a professional and an experienced banker as its President and three other senior executives viz Head of Business

Development, Head of Recovery and Legal and the Chief Financial Officer have been hired and are expected to guide and steer the Bank towards stability and progress.

Future Outlook

In addition to rolling out an impressive non- performing loan's strategy for recovery of stuck up loans the litigation process has been vigorously initiated. To show great resilience in future to infected portfolio, all stuck up loans have been referred to the concerned courts and almost 75% verdicts have been awarded in the Bank's favour. Execution is in progress to get the defaulter's properties transferred in the Bank's name. The Management is quite hopeful that in the coming financial year a good majority of the infected portfolio will be cleaned up.

One of our key initiatives is that the Bank has geared up the process of automation and has come to the stage of striking a deal with a renowned but local based software house for providing a complete Banking solution both for its Management Information System and customer needs with the state of art technology such as providing Online Banking, ATM's, Telephone Banking etc.

Moreover to equip and expand our human resource we have undertaken a Management Trainee Program in which the Bank will hire post graduates who will be trained on a fast track level and placed in the Bank. This will help to plug in the gap in the area of human resources requirements of the Bank.

Finally, I take this opportunity to extend our sincere gratitude to the Government of Punjab, State Bank of Pakistan and the Cooperative Societies for their support and continued guidance and to our valued customers for their trust and support. Last but not the least I extend my sincere appreciation to our dear staff members and the Cooperative Department staff for their devotion & sincere efforts.

Dated :October 27, 2010

Liaqat Durrani
President/CEO

AUDITORS' REPORT TO THE REGISTRAR COOPERATIVE SOCIETIES PUNJAB

We have audited the annexed balance sheet of The Punjab Provincial Cooperative Bank Limited (the Bank) as at June 30, 2010 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, 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:

The Bank does not have proper title of ownership of properties as well as possession thereof, which are also litigated, pending adjudication; and even untraceable, having book value in the sum of Rs. 43.662 million in aggregate (Note 19.6). Accordingly the amount of these properties as appearing in these financial statements remained unverified to that extent.

These financial statements have been prepared on the accrual basis this year as against the previous hybrid basis of accounting; but such change in the accounting policy has not been disclosed in accordance with the provisions of IAS – 8, “Accounting Policies, Changes in Accounting Estimates & Errors”.

The Bank has neither conducted actuarial valuation of defined benefit obligations nor complied with the disclosure requirements of Para 120 of International Accounting Standard –19, “Employees Benefits”.

The Provision for Deferred Taxation has never been computed and incorporated in the financial statements.

No provision for doubtful and bad debts has been made in these financial statements against certain long outstanding / stuck-up receivables from dissolved banks amounting

to Rs. 55.871 million; and therefore the loss to that extent has been understated, whereas the “Other Assets” have been overstated by the same amount.

As being constantly reported by the previous auditors in their 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 non-performing loans and advances, as required under SBP Prudential Regulations, remained unverified to that extent.

The Bank has not complied with BSD Circular No. 6 dated March 03, 2008 and BSD Circular No 07 dated May 27, 2004 for the implementation and disclosure of the efficacy of internal controls in the financial statements.

We report that:

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;

in our opinion:

the balance sheet 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 except for the changes as described in note 6, with which we concur, except for our reservations given in the paragraph 2 above;

the expenditure incurred during the year was for the purpose of the Bank’s business; and

the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank;

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 7 above, the balance sheet, 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, 2010 and of the loss, its comprehensive income, its cash flows and changes in equity for the year then ended; and

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.

Without qualifying our report, we draw attention of the Registrar Cooperative Societies Punjab towards note 19.7 of the financial statements, which refers to the fraud committed by the staff of Bank Alfalah Limited causing a loss of Rs. 101.413 million to the Bank. Although the case has been registered with FIA as well as the Banking Mohtasib, pending adjudication at the terminal date, the outcome of the same cannot be determined with any degree of certainty.

Lahore:

Date: October 27, 2010

HYDER BHIMJI & CO.
CHARTERED ACCOUNTANTS
(Syed Aftab Hameed, FCA)



PPCBL
Financials



THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
BALANCE SHEET AS AT JUNE 30, 2010

	<u>Note</u>	2010 <u>Rupees in '000'</u>	2009
ASSETS			
Cash and balances with treasury banks	7	814,147	601,882
Balances with other banks	8	1,709,436	2,017,990
Lending to financial institutions		-	-
Investments	9	799,673	451,012
Advances	10	5,779,753	6,733,775
Operating fixed assets	11	3,700,872	3,705,253
Deferred tax assets		-	-
Other assets	12	2,441,992	202,010
		15,245,873	13,711,922
LIABILITIES			
Bills payable	13	21,777	44,305
Borrowings	14	5,250,000	8,000,000
Deposits and other accounts	15	3,820,343	1,837,175
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	16	263,270	134,690
		9,355,390	10,016,170
NET ASSETS		5,890,483	3,695,752
REPRESENTED BY:			
Share capital	17	435,060	434,647
Reserves		2,797,793	401,727
Unappropriated profit / (loss)		(928,639)	(749,013)
		2,304,214	87,361
Fair value reserve - investments		121,868	143,990
Surplus on revaluation of assets	18	3,464,401	3,464,401
		5,890,483	3,695,752
CONTINGENCIES AND COMMITMENTS		19	-

The annexed notes from 1 to 37 form an integral part of these financial statements.

SAMUEL JAMES
CHIEF FINANCIAL OFFICER

LIAQAT DURRANI
PRESIDENT/CEO

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 2010

	2010	2009	
Note	Rupees in '000'		
Mark-up/return/interest earned	20	1,553,750	1,193,637
Mark-up/return/interest expensed	21	965,655	1,570,956
Net mark-up/ interest (expense) / income		588,095	(377,319)
Provision against non-performing loans and advances		158,452	-
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		158,452	-
Net mark-up/ interest (expense)/ income after provisions		429,643	(377,319)
Non mark-up/interest income			
Fee, commission and brokerage income		30,930	30,223
Dividend income		14,772	7,386
Income from dealing in foreign currencies		-	-
Gain / (loss) on sale of securities		-	-
Other income	22	31,128	39,785
Total non-mark-up/interest (expense)/income		76,830	77,394
		506,473	(299,925)
Non mark-up/ interest expenses			
Administrative expenses	23	680,681	678,896
Other provisions/write offs		-	-
Other charges	24	618	250
Total non-markup/interest expenses		681,299	679,146
Extra ordinary/ unusual items		-	-
(Loss)/profit before taxation		(174,826)	(979,071)
Taxation			
- Current	25	(2,877)	-
- Prior years		(1,923)	-
- Deferred		-	-
		(4,800)	-
(Loss)/profit after taxation		(179,626)	(979,071)
Unappropriated profit / (loss) brought forward		(749,013)	230,058
(Loss) / profit available for appropriation		(928,639)	(749,013)
(Loss)/earnings per share	26	(41.41)	(225.80)

The annexed notes from 1 to 37 form an integral part of these financial statements.

SAMUEL JAMES
CHIEF FINANCIAL OFFICER

LIAQAT DURRANI
PRESIDENT/CEO

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2010

	<u>Note</u>	2010	2009
		<u>Rupees in '000'</u>	
(Loss)/Profit after taxation		(179,626)	(979,071)
Other comprehensive income		-	-
Comprehensive income transferred to equity		<u>(179,626)</u>	<u>(979,071)</u>
Components of comprehensive income not reflected in equity			
Surplus / (Deficit) on revaluation of investments		(22,122)	(45,698)
		<u>(201,748)</u>	<u>(1,024,769)</u>

The annexed notes from 1 to 37 form an integral part of these financial statements.



SAMUEL JAMES
CHIEF FINANCIAL OFFICER

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LIAQAT DURRANI
PRESIDENT/CEO

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2010

	<u>Note</u>	2010 <u>Rupees in '000'</u>	2009
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss)/Profit before taxation		(174,826)	(979,071)
Less: Dividend income		(14,772)	(7,386)
		<u>(189,598)</u>	<u>(986,457)</u>
Adjustments for non-cash items:			
Depreciation		11,173	10,980
Amortization		159	159
Provision Against Non-performing Advances		158,452	-
Provision for Diminution in value of investments		-	-
Gain on sale of fixed assets		(1,768)	(22)
		<u>168,016</u>	<u>11,117</u>
		<u>(21,582)</u>	<u>(975,340)</u>
(Increase)/ Decrease in operating assets			
Advances		792,042	805,531
Others assets (excluding advance taxation)		(2,238,743)	(46,205)
		<u>(1,446,701)</u>	<u>759,326</u>
Increase/ (Decrease) in operating liabilities			
Bills Payable		(22,528)	(30,881)
Borrowings from financial institutions		(2,750,000)	-
Deposits		1,983,168	(92,010)
Other liabilities (excluding current taxation)		128,581	25,165
		<u>(660,779)</u>	<u>(97,726)</u>
		<u>(2,129,062)</u>	<u>(313,740)</u>
Income tax paid		(6,198)	(8,216)
Net cash flow from operating activities		<u>(2,135,260)</u>	<u>(321,956)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Dividend income		14,772	7,386
Investments in operating fixed assets		(8,056)	(3,593)
Investment in NBFIs		(370,782)	-
Change in capital work in progress		-	12,447
Sale proceeds on disposal of operating fixed assets		3,030	243
Net cash flow from investing activities		<u>(361,036)</u>	<u>16,483</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of share capital		413	492
Dividend paid		-	-
Funds from the Government of Punjab		2,400,000	-
Medical aid to employees from Common Good Fund		(406)	(572)
Net cash flow from financing activities		<u>2,400,007</u>	<u>(80)</u>
		<u>(96,289)</u>	<u>(305,553)</u>
Increase/(Decrease) in cash and cash equivalents		<u>2,619,872</u>	<u>2,925,425</u>
Cash and cash equivalents at beginning of the year		<u>2,523,583</u>	<u>2,619,872</u>
Cash and cash equivalents at end of the year	27	<u>2,523,583</u>	<u>2,619,872</u>

The annexed notes from 1 to 37 form an integral part of these financial statements

SAMUEL JAMES
CHIEF FINANCIAL OFFICER

LIAQAT DURRANI
PRESIDENT/CEO

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2010

	Reserves					Unappropriated/ profit/(loss)	Total
	Share capital	Statutory reserve	Common Good Fund	Reserve for Consumer Finance	Other Reserve		
	Rupees in '000'						
Balance as on June 30, 2008	434,155	394,278	4,493	3,528	-	230,058	1,066,512
Total comprehensive income for the year	-	-	-	-	-	(979,071)	(979,071)
Transfer to statutory reserve	-	-	-	-	-	-	-
Transfer to reserve for Common Good Fund	-	-	-	-	-	-	-
Issue of share capital	492	-	-	-	-	-	492
Medical aid to staff	-	-	(572)	-	-	-	(572)
Balance as on June 30, 2009	434,647	394,278	3,921	3,528	-	(749,013)	87,361
Total comprehensive income for the year	-	-	-	-	-	(179,626)	(179,626)
Transfer to statutory reserve	-	-	-	-	-	-	-
Transfer to Bad & Doubtful Advances	-	-	-	(3,528)	-	-	(3,528)
Transfer to reserve for Common Good Fund	-	-	-	-	-	-	-
Transfer to other reserve - Funds from the Govt of Punjab	-	-	-	-	2,400,000	-	2,400,000
Issue of share capital	413	-	-	-	-	-	413
Medical aid to staff	-	-	(406)	-	-	-	(406)
Balance as on June 30, 2010	435,060	394,278	3,515	-	2,400,000	(928,639)	2,304,214

The annexed notes from 1 to 37 form an integral part of these financial statements.

SAMUEL JAMES
CHIEF FINANCIAL OFFICER

LIAQAT DURRANI
PRESIDENT/CEO

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2010

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.

4 BASIS OF MEASUREMENT

These financial statements have been prepared on historical cost convention (receipt basis) 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 and dividend are recognized on receipt basis, whereas mark up on advances & on deposits with other banks and mark up paid on deposits with the bank 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-to-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 for investments in Pakistan Investment Bonds and Government Securities, and the difference between the carrying value (representing cost adjusted for amortization of premium or accretion of discount) and the revalued amount is recognized in the surplus/deficit on revaluation account as required under BSD circular No. 10 dated July 13, 2004. Investments in unquoted securities are accounted for at cost. Gain or loss on disposal is charged to current year's profit and loss account.

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, in which case it 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. Profit or loss on disposal of fixed assets is charged to current year's income.

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. The gratuity is also paid to the employees on the basis of maximum period of service and last basic pay drawn subject to a maximum of Rs. 125,000 at the end of service.

- 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 except deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If such indication exists, the assets' recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense in profit and loss account.

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 the industry practice.

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. CHANGE IN ACCOUNTING POLICIES

6.1 Starting July 01, 2009, the Bank has changed its accounting policy in respect of 'Presentation of financial statements'

IAS - 1 (Revised) 'Presentation of financial statements' prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from 'owner changes in equity' in a statement of comprehensive income. Further, under the revised standard, an equity may present the components of profit or loss either as a part of a single statement of comprehensive income or in a separate income statement. The Bank has opted to present the components of profit or loss in a separate statements while a statements of comprehensive income is presented separately as permitted under revised IAS - 1.

Comparative information has also been re-presented so it is in conformity with the revised standard. As this change only impacts presentation aspects, there is no impact on earning per share for the year or the corresponding period.

- 6.2 The Bank has changed its policy this year to make accruals of markup / interest on advances port-folio as against accounting for the same on receipt basis in the previous year. Had this policy been not changed, the "loss for the year" would have been increased by Rs. 256.493 million.

7 CASH AND BALANCES WITH TREASURY BANKS	Note	2010	2009
		Rupees in '000'	
In hand			
Local currency		135,069	111,961
With State Bank of Pakistan in			
Local currency current account	7.1	241,577	174,018
With National Bank of Pakistan in			
Local currency current account	7.1	95,544	269,412
Local currency deposit account (NIDA)	7.1	341,957	46,491
		<u>814,147</u>	<u>601,882</u>

7.1 These accounts are maintained under the requirements of BSD Circulars No.16 and 18 dated August 10, 2002 and March 31, 2001 respectively, issued by the SBP. The NIDA account bears profit @ 2.50% per annum (2009 : 2.50% per annum).

8 BALANCES WITH OTHER BANKS

In Pakistan

On current account

On deposit account

- -

8.1 1,709,436 2,017,990

1,709,436 2,017,990

8.1 Deposit accounts maintained with the banks bear profit @ 5.00% to 13.00% per annum (2009 :3.00% to 13.00% per annum).

9 INVESTMENTS	Note	2010			2009		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
----- Rupees in '000' -----							
9.1 Investment by types:							
Available-for-sale securities							
Share of Listed Companies	9.4	7,023	-	7,023	7,022	-	7,022
Share of Cooperative Institutions	9.5	3,551	-	3,551	3,551	-	3,551
Held-to-maturity securities							
Pakistan Investment Bonds	9.6	300,000	-	300,000	300,000	-	300,000
Investment with NBFIs	9.7	370,782	-	370,782	-	-	-
Investment at cost		681,356	-	681,356	310,573	-	310,573
Less: Provision for Diminution in value of Investments		(3,551)	-	(3,551)	(3,551)	-	(3,551)
Investments (Net of Provisions)		677,805	-	677,805	307,022	-	307,022
Add: Surplus on revaluation on Available-for-sale securities		121,868	-	121,868	143,990	-	143,990
Total investments at market value		<u>799,673</u>	<u>-</u>	<u>799,673</u>	<u>451,012</u>	<u>-</u>	<u>451,012</u>

	<u>Note</u>	<u>2010</u>	<u>2009</u>
		<u>Rupees in '000'</u>	
9.2 Investment by Segments:			
Federal Government Securities:			
Pakistan Investment Bonds		300,000	300,000
Investment with other Banks		370,782	-
Fully Paid up Ordinary Shares:			
Listed Companies		7,023	7,022
Cooperative Institutions		3,551	3,551
Total investment at cost		681,356	310,573
Less: Provision for diminution in value of investment		(3,551)	(3,551)
Investments (Net of Provisions)		677,805	307,022
Add: Surplus on revaluation on Available-for-sale securities		121,868	143,990
Total investments at market value		799,673	451,012

9.3 Quality of Available for Sale Securities

Securities (At market value)

Shares of listed companies

	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>Rating</u>	<u>Amount</u>	<u>Rating</u>
	----- Rs. in '000 -----			
Security Papers Limited	126,181	AAA	148,457	AAA
NIB Bank Limited	666	A+	1,061	AA-
Dawood Lawrencepur Limited	2,030	Unrated	1,481	Unrated
PICIC Insurance Limited	14	A-	14	A-
	<u>128,891</u>		<u>151,013</u>	

9.4 Shares of Listed Companies

2010	2009	Name of Company	2010	2009
Number of Shares Ordinary share of Rs. 10 each			At Cost Rupees in '000'	
2,954,362	2,051,641	Security Papers Limited	6,708	6,708
218,287	68,644	NIB Bank Limited	-	-
42,357	35,007	Dawood Lawrencepur Limited	315	315
2,314	2,314	PICIC Insurance Limited	-	-
			7,023	7,023

9.5 Shares of Cooperative Institutions

2010	2009	Face Value of Shares Rs.	Name of Cooperative Institution	2010	2009
Number of shares				At Cost Rupees in '000'	
191,876	191,876	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

9.5. 1 The shares of Cooperative institutions showing nil value is due to amounts rounded off to the nearest thousand rupees.

9.6 Pakistan Investment Bonds are purchased for a period of 10 years, starting from December 14, 2000 with a yield of 14% per annum (2009: 14% per annum).

9.7 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

2010 2009

Rupees in '000'

10 ADVANCES

Loans, cash credits, running finances, etc. In Pakistan	7,385,463	8,177,505
Bills discounted and purchased (excluding treasury bills) Payable in Pakistan	184	184
Advances - gross	7,385,647	8,177,689
Provision for non-performing advances	(1,605,894)	(1,443,914)
Advances - net of provision	5,779,753	6,733,775

10.1 Particulars of advances (Gross)

In local currency	7,385,647	8,177,689
Short Term (for upto one year)	4,531,046	4,592,171
Long Term (for over one year)	2,854,601	3,585,518
	7,385,647	8,177,689

10.2 Advances include Rs. 3,430,614 (thousand) (2009 : 4,115,735 thousand) which have been placed under non-performing status as detailed below:-

	2010			Provision Required	Provision Held
	Domestic	Overseas	Total		
	----- Rupees in '000' -----				
Other Assets Especially Mentioned	150,020	-	150,020	-	-
Substandard	156,188	-	156,188	30,441	30,441
Doubtful	166,813	-	166,813	14,634	14,634
Loss	2,957,593	-	2,957,593	1,557,291	1,557,291
	3,430,614	-	3,430,614	1,602,366	1,602,366

10.3 Position is calculated as of 30.06.2010 after taking benefit of collateral in agricultural loans as per Prudential Regulations on Agricultural Loans & Advances after approval of the President.

10.4 Particulars of provision against non-performing advances

	2010			2009		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000' -----					
Opening balance	1,443,914	-	1,443,914	1,443,914	-	1,443,914
Charge for the year	158,452	-	158,452	-	-	-
Transfer from consumer finance	-	3,528	3,528	-	-	-
Closing balance	1,602,366	3,528	1,605,894	1,443,914	-	1,443,914

Particulars of provisions against non-performing advances

	2010			2009		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000' -----					
In local currency	1,602,366	3,528	1,605,894	1,443,914	-	1,443,914

10.5 Particulars of write off:

	2010	2009
	Rupees in '000'	
Against Provisions	-	-
Directly charged to Profit & Loss account	-	-
	-	-
Write Offs of Rs. 500,000 and above	-	-
Write Offs of Below Rs. 500,000	-	-
	-	-

10.6 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, 2010 is NIL.(2009: NIL).

11 OPERATING FIXED ASSETS

Capital work-in-progress (Civil works)
Property and equipment

(Note - 11.1)

12,447	12,447
3,688,425	3,692,806
<u>3,700,872</u>	<u>3,705,253</u>

11.1 Property and equipment

	COST			DEPRECIATION			Revaluation Surplus	Book value As At 30-06-10	Rate of depreciation %
	Opening Balance As At 01-07-09	Additions/ (Deletions)	Closing Balance As At 30-06-10	Opening Balance As At 01-07-09	Charge/ (Deletion)	Closing Balance As At 30-06-10			
Free hold land	116,907	-	116,907	-	-	-	3,464,401	3,581,308	-
Lease hold land	-	-	-	-	-	-	-	-	-
Building on free hold land	131,550	1,843	133,393	45,936	2,252	48,188	-	85,205	2.50-20
Building on lease hold land	4,286	-	4,286	1,772	-	1,772	-	2,514	-
Furniture and fixtures	21,607	1,046	22,553	14,793	1,594	16,387	-	6,166	20.00
		(100)			-				
Electrical, office and computer equipment	7,868	3,993	11,848	4,949	1,402	6,351	-	5,497	20.00
		(13)			-				
Vehicles	47,825	1,173	45,320	34,400	5,886	37,758	-	7,562	20.00
		(3,678)			(2,528)				
Telephone Exchange & Conference system	887	-	887	694	39	733	-	154	20.00
Arms & Ammunitions	94	1	94	76	-	76	-	18	-
		(1)			-				
Library	1	-	1	-	-	-	-	1	-
	<u>331,025</u>	<u>8,056</u>	<u>335,289</u>	<u>102,620</u>	<u>11,173</u>	<u>111,265</u>	<u>3,464,401</u>	<u>3,688,425</u>	
		(3,792)			(2,528)				
2010 - Rs. 000s	<u>331,025</u>	<u>4,264</u>	<u>335,289</u>	<u>102,620</u>	<u>8,645</u>	<u>111,265</u>	<u>3,464,401</u>	<u>3,688,425</u>	
2009 - Rs. 000s	<u>325,269</u>	<u>5,756</u>	<u>331,025</u>	<u>91,865</u>	<u>10,755</u>	<u>102,620</u>	<u>3,464,401</u>	<u>3,692,806</u>	

11.2 The lands of Bank were revalued by independent professional valuers in March 2008 (duly approved by the Pakistan Banks Association) on the basis of professional assesment of present market values. Had there been no revaluation, the carrying amount of the land would have been Rs.116.906 millions (2009: Rs.116.906 million).

11.3 Restriction on disposal of assets

As discussed in Note 35 to the financial statements of the previous year, the Government of Punjab vide Clause 1, sub-clause (v), of the agreement dated September 16, 2009 has restricted the bank from selling immovable properties. The Additonal 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>2010</u> <u>Rupees in '000</u>	<u>2009</u>
12 OTHER ASSETS			
Advances, deposits, advance rent and others prepayments		1,190	1,778
Income / markup accrued on loan and advances in local currency		256,493	-
Advance taxation (payments less provisions)		42,146	40,748
Suspense Account - Sundry Debtors		42,929	50,659
Deferred Costs		-	159
Dissolved bank recoverable		55,871	55,992
Insurance recoverable		-	22,829
Profit recoverable from banks		39,811	10,362
Receivable from the Government of Punjab		1,962,000	-
Others		41,552	19,483
		<u>2,441,992</u>	<u>202,010</u>
13 BILLS PAYABLE			
In Pakistan		21,777	44,305
14 BORROWINGS			
In Pakistan		<u>5,250,000</u>	<u>8,000,000</u>
14.1 Particulars of borrowings with respect to Currencies			
In local currency from State Bank of Pakistan	14.3	<u>5,250,000</u>	<u>8,000,000</u>
14.2 Details of borrowings Secured / Unsecured			
Secured			
Borrowings from State Bank of Pakistan (S.B.P)			
Under agriculture credit portfolio		<u>5,250,000</u>	<u>8,000,000</u>
14.3 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 are secured against the Guarantee of Government of the Punjab. Mark up payable on this borrowing is 8.9017% per annum (2009: ranges from 7.9677% to 8.9017% per annum).			
14.4 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 for its revamping. The bank was unable to repay the loan and interest accrued thereon due to unavailability of surplus funds. Government of Punjab being the guarantor has agreed to repay the debt of the bank in terms of the agreements dated September 16, 2009 entered with the Bank and SBP.			



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

15 DEPOSITS AND OTHER ACCOUNTS

Fixed deposits		2,084,231	162,720
Savings deposits		1,327,958	1,211,328
Current Accounts - Non-remunerative		346,349	370,230
Call Deposits		2,803	6,111
Term Deposits		-	12,062
Other deposits	15.1	59,002	74,724
		<u>3,820,343</u>	<u>1,837,175</u>

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

15.2 Particulars of deposits

In local currency	<u>3,820,343</u>	<u>1,837,175</u>
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16 OTHER LIABILITIES

Mark-up/ Return/ Interest payable in local currency	26,422	26,129
Accrued expenses	1,356	815
Branch adjustment account	33,123	31,222
Sundry creditors	35,721	31,277
Dissolved bank payable	37,427	37,427
Others	129,221	7,820
	<u>263,270</u>	<u>134,690</u>

17 SHARE CAPITAL**17.1 Authorized Capital**

2010 **2009**
(Number of shares)

<u>Unlimited</u>	<u>Unlimited</u>	Ordinary shares of Rs.100 each	<u>Unlimited</u>	<u>Unlimited</u>
-------------------------	-------------------------	--------------------------------	-------------------------	-------------------------

17.2 Issued, subscribed and paid up capital

3,974,870	3,970,740	Ordinary shares of Rs. 100 each, fully paid in cash	397,487	397,074
375,730	375,730	Issued as bonus shares	37,573	37,573
<u>4,350,600</u>	<u>4,346,470</u>		<u>435,060</u>	<u>434,647</u>

State Bank of Pakistan has exempted the Bank from meeting the minimum capital requirement as prescribed vide BPRD Circular no.36 dated November 4, 1997 through exemption letter no. BPRD (RU-43)512-09(B)/x/1516/98 dated September 8, 1998.

18 SURPLUS ON REVALUATION OF ASSETS**Surplus on revaluation of Fixed Assets**

Land	<u>3,464,401</u>	<u>3,464,401</u>
------	-------------------------	-------------------------

2010 2009
Rupees in '000'

19 CONTINGENCIES AND COMMITMENTS

- 19.1** The Bank has total of 120 cases under litigation in different courts.
 The total amount involved in such outstanding cases aggregate to -

	<u>40,434</u>	<u>40,434</u>
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19.2 Guarantee Acceptances

	<u>445</u>	<u>445</u>
--	------------	------------

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 fulfil 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. Now the case is pending adjudication in the Civil Court, Lahore.

19.3 Show cause notices by sales tax-under appeal

	<u>5,041</u>	<u>5,041</u>
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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 is still pending in Lahore High Court.

- 19.4** The Income Tax Returns upto the tax year 2009 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.

The assessment orders for the Tax Years 2004 to 2008 were amended by the Tax Department that were challenged by the Bank in appeals before Commissioner Inland Revenue (Appeals). The appeals for the tax years 2004 & 2008 had been decided in favour of the Bank, against which the Department has preferred appeals before the Appellate Tribunal Inland Revenue (ATIR). The Bank has also filed appeals for the tax years 2005, 2006 and 2007 before the CIR(A), pending adjudication at the terminal date. However, the quantum of income tax involved in these appeals is as under:

<u>Tax Years</u>	<u>Amount Rupees in 000</u>
2005	77,642
2006	113,119
2007	163,415
2008	435,226

The Bank has also filed an appeal before ATIR for the tax year 2008, wherein status of a company has been assigned to this Bank.

Tax Advisor of the Bank has strong opinion that by following the normal assessment procedures as well as history of the case, the above appeals may be decided in favour of the Bank, but nothing can be concluded until decision by the appellate forums.

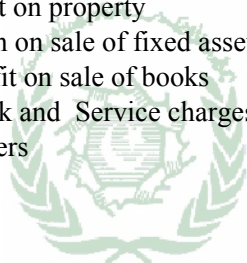
The appeals for the assessment year 1999-2000 to 2002-2003 are also pending with Income Tax Appellate Tribunal (ITAT), the outcome of which cannot be ascertained. The Department has also filed counter appeals against the Bank for the above said years.

	<u>2010 Rupees in '000'</u>	<u>2009 Rupees in '000'</u>
19.5 Commitment against construction and repair of building	<u>14,594</u>	<u>9,849</u>
19.6 The value of land and buildings include properties:		
for which Bank holds neither the titles nor possession (dissolved bank) which are not traceable	<u>43,524</u> <u>138</u> <u>43,662</u>	<u>43,530</u> <u>141</u> <u>43,671</u>
under litigation / disputes re: possession and revenue therefrom	<u>137,307</u>	<u>137,311</u>

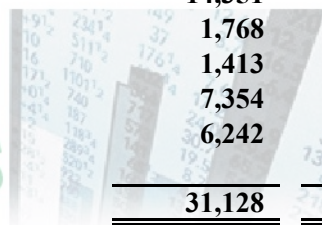
19.7 BANK ALFALAH TOWN SHIP FRAUD OF ROYAL PROFIT ACCOUNT No. 02905313

During November 2003, the bank opened a Royal Profit Account in Bank Alfalah Limited, Town ship Branch. In July 2010, it revealed that during the year under audit, 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 in these cases 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 writ petition in this regard has also been filled with the Banking Mohtasib, the first hearing of which was fixed on 29th September 2010, whereas the next date of hearing has been fixed for November 12, 2010. The management of the Bank is hopeful that the matter will be resolved in its favour: and the whole amount is recovered.

	<u>Note</u>	2010	2009
		<u>Rupees in '000</u>	
20 MARK-UP/RETURN/INTEREST EARNED			
On loans and advances to customers		1,275,592	886,996
On Investments in 'Held to Maturity' Securities		42,000	43,054
On Deposits with financial institutions		236,158	263,587
		<u>1,553,750</u>	<u>1,193,637</u>
21 MARK-UP/RETURN/INTEREST EXPENSED			
Deposits		71,219	70,953
Other short term borrowings		894,436	1,500,003
		<u>965,655</u>	<u>1,570,956</u>
22 OTHER INCOME			
Rent on property		14,351	12,194
Gain on sale of fixed assets		1,768	22
Profit on sale of books		1,413	1,073
Bank and Service charges		7,354	12,238
Others		6,242	14,258
		<u>31,128</u>	<u>39,785</u>
23 ADMINISTRATIVE EXPENSES			
Salaries, allowances and benefits		542,657	546,212
Charge for defined benefit plan		30,113	30,090
Contribution to defined contribution plan		344	207
Non-executive directors' fees, allowances and other expenses		36	65
Rent, taxes, insurance, electricity, etc.		27,049	28,475
Legal and professional charges		3,444	1,257
Communications		11,056	9,796
Repairs and maintenance		797	5,636
Stationery and printing		2,221	2,455
Advertisement and publicity		997	1,414
Subscription		51	512
Auditors' remuneration	23.1	930	300
General Charges		12,947	10,429
Vehicles expenses		15,049	16,492
Others		21,658	14,417
Depreciation	11.1	11,173	10,980
Amortization		159	159
		<u>680,681</u>	<u>678,896</u>



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23.1 Auditors' remuneration

Hyder Bhimji & Co. (accrued)
Annual audit
Half yearly review

300 -
30 -

Avais Haider Liqat Nauman & Co. (paid)
Annual audit
Half yearly review

600 300
- -

930 300

24 OTHER CHARGES

Penalties imposed by State Bank of Pakistan

618 250

25 TAXATION

For the year

2,877 -

For the prior year(s)

1,923 -

4,800 -

25.1 In view of loss incurred for the year ended June 30, 2010, provision has been made only against dividend and rental income.

26 (LOSS)/EARNINGS PER SHARE - BASIC

(Loss) / Profit for the year

(179,626) (979,071)

Weighted average number of ordinary shares (Numbers)

4,337,440 4,335,068

Basic (loss)/earnings per share (Rupees)

(41.41) (225.80)

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

27 CASH AND CASH EQUIVALENTS

Cash and Balance with Treasury Banks

814,147 601,882

Balance with other banks

1,709,436 2,017,990

2,523,583 2,619,872

28 STAFF STRENGTH

(Number)

Permanent

1,432 1,513

Temporary/ on contractual basis

152 151

Daily wages

272 375

Total Staff Strength

1,856 2,039

29 COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	----- Rupees in '000' -----					
Fees	1,885,484	-	-	-	-	-
Managerial remuneration	-	-	-	-	-	-
Charge for defined benefit plan	-	-	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	-	-
Rent and house maintenance	538,710	-	-	-	-	-
Utilities	105,048	-	-	-	-	-
Medical	17,073	-	-	-	-	-
Conveyance	-	-	-	-	-	-
	2,546,315	-	-	-	-	-
Number of persons	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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

	2010		2009	
	Book value	Fair value	Book value	Fair value
	----- Rupees in '000 -----			
Assets				
Cash balances with treasury banks	814,147	814,147	601,882	601,882
Balances with other banks	1,709,436	1,709,436	2,017,990	2,017,990
Lending to financial institutions	-	-	-	-
Investments	799,673	799,673	451,012	451,012
Advances	5,779,753	5,779,753	6,733,775	6,733,775
Other assets	2,343,975	2,343,975	105,111	105,111
	<u>11,446,984</u>	<u>11,446,984</u>	<u>9,909,770</u>	<u>9,909,770</u>
Liabilities				
Bills payable	21,777	21,777	44,305	44,305
Borrowings	5,250,000	5,250,000	8,000,000	8,000,000
Deposits and other accounts	3,820,343	3,820,343	1,837,175	1,837,175
Sub-ordinated loans	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-
Other liabilities	263,270	263,270	134,690	134,690
	<u>9,355,390</u>	<u>9,355,390</u>	<u>10,016,170</u>	<u>10,016,170</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 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 made during the year.

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

	2010	2009
	Rupees in '000	
Regulatory Capital Base		
Tier I Capital		
Shareholders Capital/Assigned Capital	435,060	434,647
Reserves	2,797,793	257,738
Unappropriated / unremitted profits (Net of Losses)	(928,639)	(749,013)
	2,304,214	(56,628)
Less: Adjustments		
Shortfall in provisions required against classified assets	-	(279,223)
Total Tier I Capital	2,304,214	(335,851)
Tier II Capital		
Subordinated Debt (upto 50% of total Tier I Capital)	-	-
General Provisions subject to 1.25% of Total Risk Weighted Assets	3,528	-
Revaluation Reserve (upto 50%)	1,793,135	1,804,196
	1,796,663	1,804,196
Total Tier II Capital (restricted upto the amount of total tier I capital)	1,796,663	(335,851)
Eligible Tier III Capital	-	-
Total Regulatory Capital (a)	4,100,876	(671,702)

Risk-Weighted Exposures

	2010		2009	
	Rupees in '000			
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
Credit Risk				
Balance Sheet Items:-				
Cash and balances with treasury banks	814,137	-	285,979	-
Balances with other banks	1,709,436	341,887	2,333,893	466,779
Investments	799,673	503,226	451,012	-
Advances	7,385,647	4,661,890	8,177,689	6,045,209
Operating fixed assets	3,700,872	3,700,872	3,705,253	3,705,253
Other assets	2,441,992	437,846	202,010	148,627
	16,851,757	9,645,721	15,155,836	10,365,868
Off Balance Sheet items				
Loan Repayment Guarantees				
Purchase and Resale Agreements				
Guarantee acceptance	445	445	445	445
Revolving underwriting Commitments				
Stand By Letters of Credit				
Outstanding Foreign Exchange Contracts				
-Purchase				
-Sale				
	445	445	445	445
Credit risk-weighted exposures		9,646,166		10,366,313
Market Risk				
General market risk		-		-
Specific market Risk		-		-
Market risk-weighted exposures		-		-
Total Risk-Weighted exposures (b)		9,646,166		10,366,313
Capital Adequacy Ratio [(a) / (b) x 100]		42.51		(6.48)

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. It has therefore been decided to discontinue the submission of capital adequacy return under Basel I framework.

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	2010					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees	%age	Rupees	%age	Rupees	%age
Agriculture, Forestry, Hunting and Fishing	6,777,593	92	129,920	3	-	-
Mining and Quarrying	-	-	-	-	-	-
Textile	1,244	-	44	-	-	-
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	-	-	358	-	-	-
Services	-	-	-	-	-	-
Individuals	63,994	1	1,508,227	39	-	-
Others	542,816	7	2,181,794	57	60,514	100
	<u>7,385,647</u>	<u>100</u>	<u>3,820,343</u>	<u>100</u>	<u>60,514</u>	<u>100</u>

Segment by sector

	2010					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000'	Percent	Rupees in '000'	Percent	Rupees in '000'	Percent
Public/ Government	-	-	-	-	-	-
Private	7,385,647	100	3,820,343	100	60,514	100.00
	<u>7,385,647</u>	<u>100</u>	<u>3,820,343</u>	<u>100</u>	<u>60,514</u>	<u>100.00</u>

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

	2010		2009	
	----- Rupees in '000 -----			
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Agriculture, Forestry, Hunting and Fishing	3,333,423	1,508,703	4,000,596	1,328,775
Mining and Quarrying	-	-	-	-
Textile	1,244	1,244	1,347	1,347
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	24,214	20,686	27,174	27,174
Others	71,733	71,733	86,618	86,618
	<u>3,430,614</u>	<u>1,602,366</u>	<u>4,115,735</u>	<u>1,443,914</u>

Details of non-performing advances and specific provisions by sector

Public/ Government	-	-	-	-
Private	3,430,614	1,602,366	4,115,735	1,443,914
	<u>3,430,614</u>	<u>1,602,366</u>	<u>4,115,735</u>	<u>1,443,914</u>

GEOGRAPHICAL SEGMENT ANALYSIS

	2010			
	Profit / (Loss) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000'			
Pakistan	(174,826)	15,245,873	5,890,483	60,514
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>(174,826)</u>	<u>15,245,873</u>	<u>5,890,483</u>	<u>60,514</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.

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- Rupees in '000 -----			
Pakistan rupee	15,245,873	9,355,390	-	-

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	2010											
	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	Non-interest bearing financial instruments	
	----- Rupees in '000' -----											
On-balance sheet financial instruments												
<u>Assets</u>												
Cash and balances with treasury banks	5.00%	814,147	814,147	-	-	-	-	-	-	-	-	-
Balances with other banks	12.25%	1,709,436	646,289	50,000	790,781	222,366	-	-	-	-	-	-
Lending to financial institutions		-	-	-	-	-	-	-	-	-	-	-
Investments	10.50%	799,673	125,340	-	300,000	370,782	-	-	-	-	-	3,551
Advances	14.00%	5,779,753	618,709	130,873	748,364	1,510,189	678,576	549,601	1,117,212	415,294	10,751	184
Other assets		2,441,992	-	-	-	-	-	-	-	-	-	2,441,992
		<u>11,545,001</u>	<u>2,204,485</u>	<u>180,873</u>	<u>1,839,145</u>	<u>2,103,337</u>	<u>678,576</u>	<u>549,601</u>	<u>1,117,212</u>	<u>415,294</u>	<u>10,751</u>	<u>2,445,727</u>
<u>Liabilities</u>												
Bills payable		21,777	-	-	-	-	-	-	-	-	-	21,777
Borrowings	8.82%	5,250,000	250,000	555,556	833,334	1,666,668	1,944,442	-	-	-	-	-
Deposits and other accounts	3.75%	3,820,343	1,689,296	306	4,000	1,969,050	7,205	23,997	11,683	90,296	24,510	-
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		263,270	-	-	-	-	-	-	-	-	-	263,270
		<u>9,355,390</u>	<u>1,939,296</u>	<u>555,862</u>	<u>837,334</u>	<u>3,635,718</u>	<u>1,951,647</u>	<u>23,997</u>	<u>11,683</u>	<u>90,296</u>	<u>24,510</u>	<u>285,047</u>
On-balance sheet gap		<u>2,189,611</u>	<u>265,189</u>	<u>(374,989)</u>	<u>1,001,811</u>	<u>(1,532,381)</u>	<u>(1,273,071)</u>	<u>525,604</u>	<u>1,105,529</u>	<u>324,998</u>	<u>(13,759)</u>	<u>2,160,680</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>2,189,611</u>	<u>265,189</u>	<u>(374,989)</u>	<u>1,001,811</u>	<u>(1,532,381)</u>	<u>(1,273,071)</u>	<u>525,604</u>	<u>1,105,529</u>	<u>324,998</u>	<u>(13,759)</u>	<u>2,160,680</u>
Cumulative Yield/Interest Risk Sensitivity Gap	<u>2,189,611</u>	<u>265,189</u>	<u>(109,800)</u>	<u>892,011</u>	<u>(640,370)</u>	<u>(1,913,441)</u>	<u>(1,387,837)</u>	<u>(282,308)</u>	<u>42,690</u>	<u>28,931</u>	<u>2,189,611</u>



PPCBL Financials



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 Company's assets and liabilities is summarized below:

33.3.1 Maturities of Assets and Liabilities

	2010									
	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	814,147	814,147	-	-	-	-	-	-	-	-
Balances with other banks	1,709,436	646,289	50,000	790,781	222,366	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	799,673	128,891	-	300,000	370,782	-	-	-	-	-
Advances	5,779,753	618,893	130,873	748,364	1,510,189	678,576	549,601	1,117,212	415,294	10,751
Other assets	2,441,992	2,069,729	15,640	10,900	305,785	12,664	2,269	24,614	-	391
Operating fixed assets	3,700,872	-	-	-	-	-	12,602	-	13,059	3,675,211
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
	<u>15,245,873</u>	<u>4,277,949</u>	<u>196,513</u>	<u>1,850,045</u>	<u>2,409,122</u>	<u>691,240</u>	<u>564,472</u>	<u>1,141,826</u>	<u>428,353</u>	<u>3,686,353</u>
Liabilities										
Bills payable	21,777	-	-	21,777	-	-	-	-	-	-
Borrowings	5,250,000	250,000	555,556	833,334	1,666,668	1,944,442	-	-	-	-
Deposits and other accounts	3,820,343	1,689,296	306	4,000	1,969,050	7,205	23,997	11,683	90,296	24,510
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	263,270	181,020	30	-	-	22	35,544	-	40,100	6,554
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
	<u>9,355,390</u>	<u>2,120,316</u>	<u>555,892</u>	<u>859,111</u>	<u>3,635,718</u>	<u>1,951,669</u>	<u>59,541</u>	<u>11,683</u>	<u>130,396</u>	<u>31,064</u>
Net assets	<u>5,890,483</u>	<u>2,157,633</u>	<u>(359,379)</u>	<u>990,934</u>	<u>(1,226,596)</u>	<u>(1,260,429)</u>	<u>504,931</u>	<u>1,130,143</u>	<u>297,957</u>	<u>3,655,289</u>
Share capital	435,060									
Reserves	2,797,793									
Fair value	121,868									
Unappropriated loss	(928,639)									
Surplus on revaluation of assets	3,464,401									
	<u>5,890,483</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 Messrs JCR-VIS Credit Rating Company Limited has assigned the medium to long term rating of the bank at CCC (Triple C) while short term rating is revised to C on July 23, 2008 (Previously: BB+ / B). 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 EVENT AFTER BALANCE SHEET DATE

Although all the crop loans are 100% insured, yet keeping in mind the current flood situation in Punjab it may cause some hurdle / delays in timely recovery of the crop loans given by the PPCB to its customers and member societies, the financial impact of which cannot be determined at this stage.

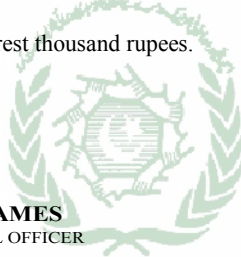
36 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 27,Oct 2010 by the Administrator of the Bank.

37 GENERAL

37.1 The correspondence figures have been reclassified wherever necessary to achieve better comparison. However no material restatement /realisation have been made.

37.2 Figures have been rounded off to the nearest thousand rupees.



SAMUEL JAMES
CHIEF FINANCIAL OFFICER

PPCBL
Financials



LIAQAT DURRANI
PRESIDENT/CEO