



INDEPENDENT AUDITOR'S REPORT

To the Administrator of The Punjab Provincial Cooperative Bank Limited

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the annexed financial statements of The Punjab Provincial Cooperative Bank Limited (the "Bank"), which comprise the statement of financial position as at June 30, 2021, and the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended (based on audited financial statements of the branches component auditors) and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that, except for the matters described in paragraphs e) to g) of Basis for Adverse Opinion section below, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and the explanations given to us, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our report, the statement of financial position, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof do not conform with the accounting and reporting standards as applicable in Pakistan, and do not give the information as required by the Banking Companies Ordinance, 1962 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively do not give a true and fair view of the state of the Bank's affairs as at June 30, 2021, and of the profit and other comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Adverse Opinion

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

b) The Bank has a provision of Rs. 1,703.27 million (June 30, 2020: Rs. 1,605.89 million) which is held against non-performing loans as required by the Prudential Regulations issued by the State Bank of Pakistan and accrued mark-up on advances remained unverified due to underlying



records/supporting workings only being available at the individual branch level, which the engagement team was not able to obtain as part of this audit engagement.

c) The Bank has recognized surplus on revaluation of available for sale investments amounting to Rs. 12.82 million directly in statement of changes in equity rather than showing its movement through statement of comprehensive income. This is in contravention to the Bank's policy as disclosed in note 4.3 to the financial statements and Prudential Regulations issued by the State Bank of Pakistan. Had the Bank recognized surplus through statement of comprehensive income and restated its financial statements for the prior years, the other comprehensive income for the current and comparative year would have been higher by Rs.12.82 million and Rs. 207.44 million respectively.

d) The Bank has not yet implemented the following accounting standards:

- IFRS 15 "Revenue from contracts with customers" which became effective for reporting periods on or after January 1, 2018.
- IFRS 16 "Leases" which become effective for reporting periods beginning on or after January 1, 2019.

The Bank is currently working with its consultants to identify the nature and quantum of the impact of adoption of the aforementioned standards on the Bank's financial statements. In the absence of consultants' report(s), the resultant adjustments and disclosures required to be presented in the interim financial statements remain unascertained.

e) The Bank has not recognized deferred tax assets in the financial statements to the extent of available taxable profits in accordance with requirements of IAS 12. The Bank has taxable profits amounting to Rs. 46.76 million and Rs. 121.25 million for the year ended June 30, 2021 and 2020 respectively as per the confirmation received from tax consultant of the Bank and income tax return filed for the year ended June 30, 2021 respectively. In the absence of relevant workings and management' expectations for the availability of future taxable profits and tax planning opportunities, resultant adjustments and consequential quantification effects thereof, if any, on the financial statements remains unascertained.

f) Other assets as disclosed in note 12 to the financial statements include a provision of Rs. 66.48 million, which remains unsubstantiated. In the absence of reasonable explanation and assumptions used by the management, resultant adjustments and consequential impact thereof, if any, on the financial statements remains unascertained.

g) Bank has a balance of Rs. 51.81 million (June 30, 2020: Rs. 51.87 million) included in "Advances" and a balance of Rs. 35.43 million (June 30, 2020: Rs. 37.43 million) included in "Other liabilities". These balances have been inherited from Central Bank at the time of its dissolution in 1976. For the purposes of this audit engagement, we were unable to determine the plausibility of these figures due to lack of information on these balances. The Bank intends to seek Board's consultation and approval (once the Board is reconstituted) on whether these balances should be removed from Bank's statement of financial position.



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

Emphasis of Matters

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

- a) As referred in note 8.4 to the financial statements, the Bank has not adjusted its non-performing loans amounting to Rs. 704.97 million (2020: Rs. 704.97 million) including mark-up thereon against properties decreed in favor of the Bank due to pending possession disputes.
- b) As referred in note 9.1.4 to the financial statements, the ultimate outcome of disputed properties amounting to Rs. 175.687 million (2020: Rs. 175.687 million) cannot be presently determined, and hence no impairment in this context has been made in these financial statements.
- c) As referred in note 17.3 to the financial statements regarding the status of compliance to the terms and conditions of SBP's letter relaxing Minimum Capital Requirements (MCR) to Rs. 6 billion, these terms and conditions are stated to be in process of implementation although compliance date has passed.
- d) As referred in note 4.5.1 to the financial statements, the "Fixed Assets" for which the Bank has chosen the policy to carry at revalued amounts rather than cost, have not been revalued since fiscal 2017. In the absence of latest valuation report, the resultant adjustments in the financial statements remain unascertained.
- e) As referred in note 37.1 to the financial statements, for the time being CAR is being reported under Basel I instead of BASEL III.

Key Audit Matters

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

**Following are the key audit matters:**

S. No	Key audit matter	How the matter was addressed in our audit
1	<p>As per Note 1 of the financial statements Bank does not have a Board of Directors since 2005.</p> <p>As per the Bye Law 32 of the Punjab Provincial Cooperative Bank Limited Bye Laws 2010: “<i>The BOD shall consist of:</i> <i>a) Registrar, who shall be its Chairman; b) President;</i> <i>c) Two non-official professionals nominated by the Registrar under Bye-law 6(b); and</i> <i>d) Three elected members, who are qualified to be elected as Director under the election rules.</i>”</p>	<p>We reviewed and understood the requirements of the Punjab Provincial Cooperative Bank Limited Bye Laws 2010. Our audit procedures included the following:</p> <ul style="list-style-type: none">• considered the management’s response over the absence of BOD;• obtained relevant underlying supports for appointment of the Administrator by the Government of Punjab and ensured their appropriateness for the sufficient audit evidence;• determined the powers and duties of the Administrator and ensured appropriateness of the requirements as to the management of the Bank;

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

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

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

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

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

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



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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

-)] Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
-)] Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
-)] Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
-)] Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.



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

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

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

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

Report on Other Legal and Regulatory Requirements

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

- a) Except for the effects of the matters described in Basis for Adverse Opinion paragraph, proper books of account have been kept by the Bank as required by the Companies Act, 2017 (XIX of 2017) and the returns referred above from the branches have been found adequate for the purpose of our audit;
- b) Because of the significance of the matters described in Basis for Adverse Opinion section, the statement of financial position, the profit and loss account and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows, together with the notes thereon, have not been drawn up in conformity with the Banking Companies Ordinance, 1962 and the Companies Act, 2017(XIX of 2017), however are in agreement with the books of account and returns;
- c) Except for the effects of the matters discussed in the Basis for Adverse Opinion paragraph, investments made, expenditure incurred and guarantees extended during the year were in accordance with the objects and powers of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank; and
- d) No zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).



We confirm that for the purpose of our audit, we have covered more than sixty per cent of the total Loans and Advances of the Bank.

Other Matters

a) The annual financial statements of the Bank for the year ended June 30, 2020 were audited by another firm of chartered accountants whose audit report dated September 29, 2020, expressed an adverse opinion and a matter of emphasis.

b) The audit of financial statements for the year ended June 30, 2021 comprising 151 branches had been allotted by the Registrar, Co-operative Societies, Punjab, to four different component auditors. Thus, for the purpose of consolidation, the audited financial statements furnished by the component auditors have been relied upon.

The engagement partner on the audit resulting in this independent auditor's report is Muhammad Aslam Khan.

IECnet S.K.S.S.S.
Chartered Accountants
Lahore

Date:

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2021

	Note	2021	2020
Rupees in '000'			
ASSETS			
Cash and balances with treasury banks	5	682,512	840,207
Balances with other banks	6	894,125	1,088,417
Investments	7	3,540,871	2,093,150
Advances	8	8,885,150	10,373,331
Fixed assets	9	7,155,960	7,159,766
Intangible assets	10	11,420	13,589
Deferred tax assets	11	-	-
Other assets	12	3,717,940	3,757,408
		24,887,978	25,325,868
LIABILITIES			
Bills payable	14	21,537	22,921
Deposits and other accounts	15	4,154,591	4,620,648
Other liabilities	16	6,008,966	6,072,752
		10,185,094	10,716,321
NET ASSETS		14,702,884	14,609,547
REPRESENTED BY			
Share capital	17	7,885,471	7,885,449
Reserves		922,701	848,179
Surplus on revaluation of assets	18	7,486,456	7,473,639
Accumulated loss		(1,591,744)	(1,597,720)
		14,702,884	14,609,547
CONTINGENCIES AND COMMITMENTS	19	-	-

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

President / CEO

Chief Financial Officer

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
		Rupees in '000'	
Mark-up / return / interest earned	20	1,875,090	2,043,486
Mark-up / return / interest expensed	21	235,704	315,340
Net mark-up / interest income		1,639,386	1,728,146
NON MARK-UP / INTEREST INCOME			
Fee and commission income	22	76,661	71,924
Dividend income		38,513	31,022
Other income	23	349,329	60,040
Total non mark-up / interest income		464,503	162,986
Total income		2,103,889	1,891,132
NON MARK-UP / INTEREST EXPENSES			
Operating expenses	24	1,592,440	1,677,666
Other charges	25	91,730	30
Total non mark-up / interest expenses		1,684,170	1,677,696
PROFIT BEFORE PROVISIONS AND TAXATION		419,719	213,436
Provisions and write offs - net	26	(97,333)	-
PROFIT BEFORE TAXATION		322,386	213,436
Taxation	27	19,473	64,136
PROFIT AFTER TAXATION		302,913	149,300
Basic and diluted earnings per share	28	3.84	1.89

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

President / CEO

Chief Financial Officer

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2021

	2021	2020
	Rupees in '000'	
Profit after taxation	302,913	149,300
Other comprehensive income / (loss)		
Items that may be reclassified to profit and loss account in subsequent periods:		
Movement in surplus / (deficit) on revaluation of investments - net of tax	-	-
	<u>-</u>	<u>-</u>
Items that will not be reclassified to profit and loss account in subsequent periods:		
Remeasurement (loss) / gain on defined benefit obligations - net of tax	(221,209)	55,065
	<u>(221,209)</u>	<u>55,065</u>
Total comprehensive income	<u><u>81,704</u></u>	<u><u>204,365</u></u>

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

President / CEO

Chief Financial Officer

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2021

	Share capital	Statutory reserve	Surplus / (deficit) on revaluation of		Common good fund	Accumulated loss	Total
			Investments	Fixed / non banking assets			
Rupees in '000'							
Balance as at July 1, 2019	7,885,490	803,213	397,428	6,868,774	5,936	(1,762,760)	14,198,081
Profit after taxation for the prior year	-	-	-	-	-	149,300	149,300
Other comprehensive income - net of tax	-	-	-	-	-	55,065	55,065
Transfer to statutory reserve	-	37,325	-	-	-	(37,325)	-
Transfer to common good fund	-	-	-	-	2,000	(2,000)	-
Medical aid to staff	-	-	-	-	(295)	-	(295)
Deficit on revaluation of assets	-	-	207,437	-	-	-	207,437
Transactions with owners, recorded directly in equity							
Refund of shares	(41)	-	-	-	-	-	(41)
Balance as at July 1, 2020	7,885,449	840,538	604,865	6,868,774	7,641	(1,597,720)	14,609,547
Profit after taxation for the current year	-	-	-	-	-	302,913	302,913
Other comprehensive loss - net of tax	-	-	-	-	-	(221,209)	(221,209)
Transfer to statutory reserve	-	75,728	-	-	-	(75,728)	-
Transfer to common good fund	-	-	-	-	-	-	-
Medical aid to staff	-	-	-	-	(1,206)	-	(1,206)
Surplus on revaluation of assets	-	-	12,817	-	-	-	12,817
Transactions with owners, recorded directly in equity							
Issue of shares	22	-	-	-	-	-	22
Balance as at June 30, 2021	7,885,471	916,266	617,682	6,868,774	6,435	(1,591,744)	14,702,884

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

President / CEO

Chief Financial Officer

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
		Rupees in '000'	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		322,386	213,436
Less: Dividend income		(38,513)	(31,022)
		283,873	182,414
Adjustments:			
Depreciation	9.1	14,979	18,279
Amortization	10.2	-	1,778
Charge for defined benefit plan	24.1	368,242	418,961
		383,221	439,018
		667,094	621,432
(Increase) / decrease in operating assets			
Advances		1,488,181	(511,563)
Others assets		39,468	(2,923,624)
		1,527,649	(3,435,187)
Increase / (decrease) in operating liabilities			
Bills payable		(1,384)	(29,714)
Deposits		(466,057)	40,666
Other liabilities (excluding current taxation and defined benefits)		(60,829)	2,493,427
		(528,270)	2,504,379
Income tax paid		(66,647)	(50,855)
Defined benefits and contribution paid		(543,016)	(422,403)
Medical aid paid to employees from common good fund		(1,206)	(295)
Net cash flow generated from/(used in) operating activities		1,055,604	(782,929)
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in held-to-maturity securities		(1,434,904)	990,685
Dividends received		38,513	31,022
Net additions of fixed assets		(11,222)	(11,898)
Net cash flow (used in) / generated from investing activities		(1,407,613)	1,009,809
CASH FLOW FROM FINANCING ACTIVITIES			
Issues / (refund) of share capital		22	(41)
Net cash flow generated from/ (used in) financing activities		22	(41)
(Decrease) / increase in cash and cash equivalents		(351,987)	226,839
Cash and cash equivalents at beginning of the year	29	1,928,624	1,701,785
Cash and cash equivalents at end of the year	29	1,576,637	1,928,624

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

President / CEO

Chief Financial Officer

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

1 STATUS AND NATURE OF BUSINESS

The Punjab Provincial Cooperative Bank Limited (the Bank) was incorporated in 1924 as a Cooperative Bank under the Cooperative Societies Act, 1912 (repealed) (now the Cooperative Societies Act, 1925). It was given the status of a scheduled bank by the State Bank of Pakistan (SBP) with effect from November 07, 1955. The Bank is operating under the supervision of the Cooperative Department, Government of Punjab and the State Bank of Pakistan (SBP). The principal activity of the Bank is to carry out the business of agriculture credit and other activities as defined in the Cooperative Societies Act, 1925 and its Rules. The Bank operates through its 151 (2020: 151) branches in the whole province of Punjab. The registered office of the Bank is located at the Bank Square, The Mall, Lahore, Pakistan.

The Bank currently does not have a Board of Directors. Board was dissolved in 2005 by Registrar and the Bank is currently in the process of formulating a new Board.

2 BASIS OF PRESENTATION

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

2.1 Statement of compliance

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

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

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

-Directives issued by the SBP.

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

The State Bank of Pakistan vide BPRD circular Letter No. 24 of 2021 dated 05.07.2021 has decided to implement the IFRS-9 from 01.01.2022 instead of 01.01.2021. In case of PPCBL the financial year is closed on 30th June therefore, the implementation date would be considered as 01.07.2022.

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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

The work with regard to IFRS-16 is in progress and the bidding process has been completed. After necessary approval from Competent Authority the Consultancy Services will be hired.

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

The following other standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 1, 2022:

Standard	Effective Date
IAS-37 Onerous Contracts (Amendments)	January 01, 2022
IAS-16 Proceeds Before Intended Use (Amendments)	January 01, 2022
IAS-1 Classification of Liabilities as Current or Non-Current (January 01, 2022
IFRS-9 Financial instruments	June 30, 2022

2.4 Critical accounting estimates and judgments

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

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

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

i) Classification and provisioning against investment	note 7.1, 7.3 & 4.3
ii) Impairment of 'available for sale' equity investments	note 7.3.1 & 4.3
iii) Income taxes	note 11, 27 & 4.7
iv) Classification and provisioning against advances	note 8.2, 8.3 & 4.4
v) Depreciation and revaluation of operating fixed assets	note 9.1 & 4.5.1
vi) Amortisation of intangible assets	note 10.2 & 4.5.2
vii) Staff retirement benefits	note 31, 32 & 4.6

3 BASIS OF MEASUREMENT

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Cash and cash equivalents

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

4.2 Deposits

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

4.3 Investments

The Bank classifies its investments as follows:

4.3.1 Held-to-maturity

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

4.3.2 Available-for-sale

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

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

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

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified as 'held to maturity', are subsequently re-measured to market value. Surplus / deficit arising on revaluation of quoted securities which are classified as 'available for sale', is taken to surplus / deficit on revaluation of investments through statement of comprehensive income in equity till disposal at which time it is recorded in profit and loss account.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee as per the latest available financial statements. Investments classified as 'held to maturity' are carried at amortized cost less accumulated impairment losses, if any.

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

Provision for impairment in the value of securities is made currently. The Bank determines that 'available for sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the investee and sector performance, changes in technology and operational / financial cash flows.

4.4 Advances

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

4.5 Fixed assets and depreciation

4.5.1 Property and equipments (owned)

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

Depreciation on all property and equipments (excluding land) is charged using diminishing balance method at the rates specified in note 9.1 to these financial statements, except vehicles which are being depreciated on straight line method. Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off. The residual values (in case of vehicles), useful lives (in case of vehicles), depreciation rates and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

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

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

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

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

4.5.2 Intangible assets

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

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

4.6 Staff retirement benefits

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

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

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

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

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

4.6.1 Actuarial gains and losses

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

4.6.2 Past Service Cost

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

4.7 Taxation

a) Current

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

b) Deferred

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

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

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

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

4.8 Revenue recognition and other items

Mark-up income / interest on advances and returns on investments are recognized on a time proportion basis except that mark-up income / interest on non-performing advances and investments recognized is on receipt basis in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Interest / returns / mark-up on rescheduled / restructured advances and investments are recognized as permitted by the State Bank of Pakistan.

Fees, commission, brokerage, and other income is recognized at amount that reflects consideration to which the Bank expects to be entitled in exchange for providing the services. The Bank recognizes fees earned on transaction based arrangements at point in time, when the Bank has provided the services to customer. where the contract requires services to be provided over time, income is recognized on systematic basis over the period of arrangement.

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

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

4.9 Assets acquired in satisfaction of claims

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

4.10 Impairment of assets

The carrying amount of the assets are reviewed at each date of statement of financial position for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to profit and loss account except for impairment loss on revalued assets which is adjusted against the revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

4.11 Financial instruments

4.11.1 Financial assets and financial liabilities

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

4.11.2 Derivative financial instruments

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

4.11.3 Off setting

Financial assets and financial liabilities are off set and the net amount is reported in these financial statements when there is a legally enforceable right to set off and the Bank intends either to settle on a net basis, or to realize the assets and settle the liabilities, simultaneously.

4.12 Provision

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

4.13 Share capital

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

4.14 Contingencies & commitments

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

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

4.15 Business Segment reporting

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

a. Retail banking

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

b. Retail finance lending

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

c. Others

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

4.16 Geographical segment reporting

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

4.17 Earnings per share

The Bank presents basic and diluted earnings per share (EPS). Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
Rupees in '000'			
5 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		195,488	325,149
With State Bank of Pakistan in			
Local currency current account	5.1	369,455	366,479
With National Bank of Pakistan in			
Local currency current account		61,823	92,833
Local currency deposit account (NIDA)	5.2	55,746	55,746
		117,569	148,579
		682,512	840,207

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

5.2 This represents deposit accounts maintained with the National Bank of Pakistan. Rate of profit on NIDA account is at 5.50% per annum (June 30, 2020: 6.50% per annum).

6 BALANCES WITH OTHER BANKS

	Note	2021	2020
Rupees in '000'			
In Pakistan			
In current accounts		16,527	8,297
In deposit accounts	6.1	877,598	1,080,120
		894,125	1,088,417

6.1 These represent deposit accounts which carry profit rates ranging from 5.50% to 6.15% per annum (June 30, 2020: 6.50% to 6.75% per annum).

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

7 INVESTMENTS

7.1 Investments by type:

	2021				2020			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
Rupees in '000'								
Available-for-sale securities:								
Shares	10,574	(1,589)	617,682	626,667	10,574	(1,589)	604,865	613,850
	10,574	(1,589)	617,682	626,667	10,574	(1,589)	604,865	613,850
Held-to-maturity securities:								
Federal Government securities	2,914,204	-	-	2,914,204	1,479,300	-	-	1,479,300
Non-Government debt securities	88,059	(88,059)	-	-	88,059	(88,059)	-	-
	3,002,263	(88,059)	-	2,914,204	1,567,359	(88,059)	-	1,479,300
Total Investments	3,012,837	(89,648)	617,682	3,540,871	1,577,933	(89,648)	604,865	2,093,150

7.2 Investments by segments:

	2021				2020			
	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost / amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
Rupees in '000'								
Federal Government Securities:								
- Market Treasury Bills	2,914,204	-	-	2,914,204	1,479,300	-	-	1,479,300
Non-Government debt securities:								
- Unlisted	88,059	(88,059)	-	-	88,059	(88,059)	-	-
Shares:								
- Listed	7,023	-	617,682	624,705	7,023	-	604,865	611,888
- Unlisted	3,551	(1,589)	-	1,962	3,551	(1,589)	-	1,962
	10,574	(1,589)	617,682	626,667	10,574	(1,589)	604,865	613,850
Total Investments	3,012,837	(89,648)	617,682	3,540,871	1,577,933	(89,648)	604,865	2,093,150

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

7.3 Provision for diminution in value of investments

	2021	2020
	Rupees in '000'	
7.3.1 Opening balance	89,648	89,648
Charge / reversals		
Charge for the year	-	-
Reversals for the year	-	-
Reversal on disposals	-	-
	-	-
Transfers - net	-	-
Amounts written off	-	-
Closing balance	89,648	89,648

7.3.2 Particulars of provision against debt securities
Category of classification

	2021		2020	
	Rupees in '000'			
	NPI	Provision	NPI	Provision
Domestic				
Other assets especially mentioned	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	88,059	88,059	88,059	88,059
	88,059	88,059	88,059	88,059

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

7.4 Quality of Available for Sale Securities

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

	2021	2020
	Cost	
	Rupees in '000'	
Shares		
Listed Companies		
Paper and board	6,708	6,708
Commercial bank	-	-
Insurance	-	-
Textile composite	315	315
	7,023	7,023

	2021		2020	
	Cost	Breakup value	Cost	Breakup value
	Rupees in '000'			
Unlisted Companies				
Coop: Insurance Society of Pakistan	1,919	10	1,919	10
National Coop. Supply Corporation	43	100	43	100
Coop: Investment & Management Agency	341	100	341	100
Oberoi Coop: Society Sialkot	71	1,000	71	1,000
Shahdara Pioneer Coop: M.P. Society	300	100	300	100
Lahore Central Coop: Store	536	100	536	100
Jhelum Distt. Coop: Society	1	100	1	100
All Pakistan Coop: Multi Purpose Society	11	1,000	11	1,000
Punjab Prov. Coop: Cotton Corp.	65	500	65	500
Pakistan Product Coop: Marketing	-	100	-	100
Anjuman Imdad-e-Bahami M.P. Society	12	100	12	100
Pioneer Coop: Leather & Rubber Society	30	1,000	30	1,000
Punjab Prov. Coop: Marketing	2	500	2	500
West Pakistan Coop: Consumer Society	1	100	1	100
Sargodha Distt. Coop: Society	18	500	18	500
Sialkot Central Coop: Multi Purpose Society	-	100	-	100
Multan Distt. Coop: Multi Purpose Society	8	50	8	50
Lyalpur Distt. Coop: Multi Purpose Society	10	100	10	100
Lyalpur Distt. Coop: Store	1	100	1	100
Montgomery Coop: Society	102	100	102	100
Bahawalpur Coop: Society	25	100	25	100
Arifwala Mills Society	45	100	45	100
Jhang Coop: Supervising	-	10	-	10
Rawalpindi Multi Purpose Union	10	50	10	50
	3,551		3,551	

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

	Note	2021	2020
		Cost	
		Rupees in '000'	
Federal Government Securities - Government guaranteed			
Market Treasury Bills		2,914,204	1,479,300
Non Government Debt Securities			
Unlisted	7.5.1	88,059	88,059

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

8 ADVANCES

	Performing		Non Performing		Total	
	2021	2020	2021	2020	2021	2020
Rupees in '000'						
Loans, cash credits, running finances, etc.	8,030,693	9,427,639	2,557,878	2,551,779	10,588,571	11,979,418
Bills discounted and purchased	-	-	184	184	184	184
Advances - gross	8,030,693	9,427,639	2,558,062	2,551,963	10,588,755	11,979,602
Provision against advances						
- Specific	-	-	1,703,227	1,605,893	1,703,227	1,605,893
- General	-	-	378	378	378	378
	-	-	1,703,605	1,606,271	1,703,605	1,606,271
Advances - net of provision	8,030,693	9,427,639	854,457	945,692	8,885,150	10,373,331

8.1 Particulars of advances (gross)	2021	2020
	Rupees in '000'	
In local currency	10,588,755	11,979,602
In foreign currencies	-	-
	10,588,755	11,979,602

8.2 Advances include Rs. 2,557,878 thousand (2020: Rs. 2,551,779 thousand) which have been placed under non performing status as detailed below:

Category of Classification	2021		2020	
	Non Performing Loans	Provision	Non Performing Loans	Provision
	Rupees in '000'			
Domestic				
Other Assets Especially Mentioned	317,563	101	432,250	-
Substandard	330,597	426	318,698	11,648
Doubtful	194,341	12,396	197,429	22,170
Loss	1,715,377	1,690,682	1,603,402	1,572,453
Total	2,557,878	1,703,605	2,551,779	1,606,271

8.3 Particulars of provision against advances

	2021			2020		
	Specific	General	Total	Specific	General	Total
Rupees in '000'						
Opening balance	1,605,893	378	1,606,271	1,605,893	378	1,606,271
Exchange adjustments	-	-	-	-	-	-
Charge for the year	97,333	-	97,333	-	-	-
Reversals	-	-	-	-	-	-
	1,703,227	378	1,703,604	1,605,893	378	1,606,271
Amounts written off	-	-	-	-	-	-
Closing balance	1,703,227	378	1,703,605	1,605,893	378	1,606,271

8.3.1 Particulars of provision against advances

	2021			2020		
	Specific	General	Total	Specific	General	Total
Rupees in '000'						
In local currency	1,703,227	378	1,703,605	1,605,893	378	1,606,271
In foreign currencies	-	-	-	-	-	-
	1,703,227	378	1,703,605	1,605,893	378	1,606,271

8.4 The Bank has not adjusted its non performing loans amounting to Rs. 704,975 thousand (2020: Rs. 704,975 thousand) including mark-up thereon, against properties decreed in favor of the Bank due to pending possession disputes.

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

9 FIXED ASSETS	Note	2021	2020
		Rupees in '000'	
Capital work in progress		19,274	31,251
Property and equipment	9.1	7,136,686	7,128,515
		<u>7,155,960</u>	<u>7,159,766</u>

9.1 Property and Equipment

	2021									
	Freehold land	Leasehold land	Building on Freehold land	Building on Leasehold land	Furniture and fixtures	Electrical, office and computer equipment	Vehicles	Telephone exchange and conference system	Arms and ammunitions	Total
	Rupees '000'									
At July 1, 2020										
Cost / revalued amount	6,402,535	576,719	155,838	5,524	53,286	78,536	78,703	1,221	277	7,352,639
Accumulated depreciation	-	-	(61,221)	(2,555)	(43,646)	(50,031)	(65,311)	(1,116)	(244)	(224,124)
Net book value	<u>6,402,535</u>	<u>576,719</u>	<u>94,617</u>	<u>2,969</u>	<u>9,640</u>	<u>28,505</u>	<u>13,392</u>	<u>105</u>	<u>33</u>	<u>7,128,515</u>
Year ended June 30, 2021										
Opening net book value	6,402,535	576,719	94,617	2,969	9,640	28,505	13,392	105	33	7,128,515
Additions	775	-	2,164	790	923	19,275	-	-	-	23,927
Disposals	-	-	-	-	(29)	(19)	-	-	-	(48)
Depreciation charge	-	-	(2,419)	(94)	(3,101)	(5,193)	(4,139)	(29)	(4)	(14,979)
Other adjustments / transfers	-	-	-	-	(256)	(52)	(421)	-	-	(729)
Closing net book value	<u>6,403,310</u>	<u>576,719</u>	<u>94,362</u>	<u>3,665</u>	<u>7,177</u>	<u>42,516</u>	<u>8,832</u>	<u>76</u>	<u>29</u>	<u>7,136,686</u>
At June 30, 2021										
Cost / revalued amount	6,403,310	576,719	158,002	6,314	54,180	97,792	78,703	1,221	277	7,376,518
Accumulated depreciation	-	-	(63,640)	(2,649)	(47,003)	(55,276)	(69,871)	(1,145)	(248)	(239,832)
Net book value	<u>6,403,310</u>	<u>576,719</u>	<u>94,362</u>	<u>3,665</u>	<u>7,177</u>	<u>42,516</u>	<u>8,832</u>	<u>76</u>	<u>29</u>	<u>7,136,686</u>
Rate of depreciation (percentage)	-	-	2.5%	2.5%	20%	20%	20%	20%	20%	

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

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

9.1.2 Freehold land was revalued on February 10, 2017 by Star Tech Consultants, an independent professional valuer firm, on the basis of fair market value. This revaluation resulted in surplus of Rs. 1,941,268 thousand in respect of freehold land. However, without the effect of revaluation, the carrying amount of the land would have been Rs.110.479 million (2020: Rs.110.479 million). Fair value has been assessed under Fair value hierarchy: level 3.

9.1.3 Leasehold land was revalued on February 10, 2017 by Star Tech Consultants, an independent professional valuer firm, on the basis of fair market value. This revaluation resulted in surplus of Rs. 576,719 thousand in respect of leasehold land. However, without the effect of revaluation, the carrying amount of the land would have been Rs. Nil (2020: Rs. Nil). Fair value has been assessed under fair value hierarchy: level 3.

9.1.4 The value of land and buildings include properties under litigation / disputes amounts to Rs. 175.687 million (2020: Rs. 175.687 million) for which legal title has been acquired but the physical possession is under dispute. The ultimate outcome of disputes cannot be determined properly and management is of the view that no impairment is required to be recognised in these financial statements.

9.1.5 Fair value of property and equipment excluding land and buildings is not expected to be materially different from their carrying amount.

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
10 INTANGIBLE ASSETS		Computer software	
		Rupees in '000'	
Capital work-in-progress	10.1	13,589	13,589
Capital work-in-progress transferred to fixed assets		(2,169)	
	10.2	11,420	13,589
		11,420	13,589
10.1 This relates to advances given to supplier for development of intangible asset.			
10.2 At July 1			
Cost		10,787	10,787
Accumulated amortisation	10.3	(10,787)	(9,009)
Net book value		-	1,778
		-	1,778
Year ended June			
Opening net book value		22,207	1,778
Amortisation charge		-	(1,778)
Closing net book value		22,207	-
		22,207	-
At June 30			
Cost		22,207	10,787
Accumulated amortisation and impairment		(10,787)	(10,787)
Net book value		11,420	-
		11,420	-
Rate of amortisation (percentage)		20%	20%
		20%	20%

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

11 DEFERRED TAX ASSETS

	2021			
	At July 1, 2020	Recognised in P&L	Recognised in OCI	At June 30, 2021
	Rupees in '000'			
Deductible Temporary Differences on				
Post retirement benefits	2,905,725	-	-	2,952,148
Provision against other assets	66,479	-	-	66,478
Provision for salary payable	264,285	-	-	-
Decelerated tax amortisation	2,146	-	-	7,994
Provision against advances	1,606,271	-	-	1,703,605
	4,844,906	-	-	4,730,225
Taxable Temporary Differences on				
Accelerated tax depreciation	38,777	-	-	54,529
Surplus on revaluation of investments	515,217	-	-	528,034
	553,994	-	-	582,563
Temporary differences for which no deferred tax is recognized	4,290,912	-	-	4,147,662
Tax Rate	35%			35%
Deffered Tax Assets	1,501,819			1,451,682
	2020			
	At July 1, 2019	Recognised in P&L	Recognised in OCI	At June 30, 2020
	Rupees in '000'			
Deductible Temporary Differences on				
Post retirement benefits	2,964,230	-	-	2,905,725
Provision against other assets	66,479	-	-	66,479
Provision for salary payable	264,285	-	-	264,285
decelerated tax amortisation	-	-	-	2,146
Provision against advances	1,606,271	-	-	1,606,271
	4,901,265	-	-	4,844,906
Taxable Temporary Differences on				
Accelerated tax depreciation	36,192	-	-	38,777
Surplus on revaluation of investments	395,839	-	-	515,217
	432,031	-	-	553,994
Temporary differences for which no deferred tax is recognized	4,469,234	-	-	4,290,912

In the absence of future taxable profit projections due to unanticipated circumstances, amount of Rs.1,451,682 thousand (2020: Rs. 1,501,819 thousand) has not been recognized as deferred tax asset.

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
		Rupees in '000'	
12 OTHER ASSETS			
Income / mark-up accrued in local currency		762,828	837,107
Advances, deposits, advance rent and other prepayments		1,147	2,349
Sundry debtors		2,448	1,444
Crop insurance recoverable		96,845	111,393
Live stock insurance recoverable		6,142	7,575
Branch adjustment		8,436	71,849
Memorandum account		2,778,043	2,590,002
Others		128,530	202,168
		<u>3,784,419</u>	<u>3,823,887</u>
Less: Provision held against other assets	12.1	<u>(66,479)</u>	<u>(66,479)</u>
Other assets (net of provision)		<u>3,717,940</u>	<u>3,757,408</u>
12.1 Provision held against other assets			
Others	12.1.1	<u>(66,479)</u>	<u>(66,479)</u>
12.1.1 Movement in provision held against other assets			
Opening balance		(66,479)	(66,479)
Charge for the year		-	-
Reversals		-	-
Amount written off		-	-
Closing balance		<u>(66,479)</u>	<u>(66,479)</u>
13 CONTINGENT ASSETS			
The Bank has 102 cases pending with authorities for recoveries and settlement of properties. However, inflow of economic benefits from such cases are not probable and therefore are not being disclosed here.			
14 BILLS PAYABLE			
In Pakistan		<u>21,537</u>	<u>22,921</u>

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

15 DEPOSITS AND OTHER ACCOUNTS

Note	2021			2020		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
Rupees in '000'						
Customers						
	805,221	-	805,221	1,239,856	-	1,239,856
	2,931,517	-	2,931,517	3,063,609	-	3,063,609
	261,292	-	261,292	239,523	-	239,523
	2,363	-	2,363	2,342	-	2,342
15.1	154,198	-	154,198	75,318	-	75,318
	4,154,591	-	4,154,591	4,620,648	-	4,620,648

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

2021 2020
Rupees in '000'

15.2 Composition of deposits

Individuals	3,592,646	3,918,249
Government (Federal and Provincial)	118,406	249,172
Private sector	443,539	453,227
	<u>4,154,591</u>	<u>4,620,648</u>

15.3 The above deposits include eligible deposits amounting to Rs. 3,995,418 thousand (2020: Rs. 4,221,396 thousand) vide DPC Circular No. 04 of 2018 dated 22 June 2018.

2021 2020
Rupees in '000'

16 OTHER LIABILITIES

Mark-up / return / interest payable in local currency	49,285	61,189
Accrued expenses	15,104	6,704
Provision for salary payable / VSS Package	-	264,285
Sundry creditors	73,558	69,620
Advance taxation (payments less provisions)	57,614	105,815
Dissolved bank payable	37,427	37,427
Provision for employees' gratuity	107,657	98,651
Provision for employees' pension fund	2,553,732	2,618,962
Provision for employees' compensated absences	290,759	188,112
Withholding tax payable	7,536	6,509
Memorandum account	2,778,043	2,590,002
Others	38,251	25,476
	<u>6,008,966</u>	<u>6,072,752</u>

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

17 SHARE CAPITAL

17.1 Authorized Capital

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

17.2 Issued, subscribed and paid up capital

2021	2020		Note	2021	2020
Number of Shares				Rupees in '000'	
Ordinary shares of Rs. 100 each					
78,492,691	78,492,691	Fully paid in cash		7,849,269	7,849,269
<u>375,730</u>	<u>375,730</u>	Issued as bonus shares		<u>37,573</u>	<u>37,573</u>
78,868,421	78,868,421			7,886,842	7,886,842
(13,712)	(13,932)	Shares refunded	17.2.1	(1,371)	(1,393)
<u>78,854,709</u>	<u>78,854,489</u>			<u>7,885,471</u>	<u>7,885,449</u>

17.2.1 Shares refunded

13,932	13,520	As at July, 1	1,393	1,352
-	412	Refunded during the year	-	41
(220)	-	Reissued during the year	(22)	-
<u>13,712</u>	<u>13,932</u>	As at June, 30	<u>1,371</u>	<u>1,393</u>

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

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

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

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

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

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

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
Rupees in '000'			
18 SURPLUS ON REVALUATION OF ASSETS			
Surplus on revaluation of			
Available for sale securities	7.1	617,682	604,865
Fixed assets	18.1	6,868,774	6,868,774
		7,486,456	7,473,639
Deferred tax on surplus on revaluation of:			
Available for sale securities	11	-	-
Fixed assets	11	-	-
		-	-
		7,486,456	7,473,639
18.1 Surplus on revaluation of fixed assets			
Surplus on revaluation of fixed assets as at July 1	18.2	6,868,774	6,868,774
Surplus on revaluation of fixed assets as at June 30		6,868,774	6,868,774
18.2 There is no movement during the year in surplus on revaluation of fixed assets.			
19 CONTINGENCIES AND COMMITMENTS			
Commitments	19.1	25,955	9,760
Other contingent liabilities	19.2	9,000	9,000
		34,955	18,760
19.1 Commitments			
Civil work		19,582	3,530
Intangible assets		6,373	6,230
		25,955	9,760
19.2 Other contingent liabilities			
		9,000	9,000

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

19.2.1 Sales tax notice

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

19.2.2 Income tax status / exposure:

The Income Tax Returns up to the tax year 2020 have been filed under Self Assessment Scheme with the Income Tax Department of Federal Board of Revenue (FBR) which are "deemed assessment orders" unless selected for Audit or revised under respective sections of Income Tax Ordinance by the FBR Authorities.

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

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

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

19.2.6 In case of assessment years 2012, 2013 and 2014, Additional CIR passed an order u/s 122(5A) dated 30.05.2018 and created liability of Rs. 544 thousand, Rs. 16,855 thousand and Rs. 725 thousand respectively. Appeal has been filed before CIR and stay order has been obtained from Lahore High Court, against the notice u/s 138(2) in all respective years.

19.2.7 In case of tax year 2014, the Bank has filed an appeal against an order passed by CIR u/s 182(1) amounting Rs. 463 thousand on account of filing of late return for tax year 2014 before Appellate Tribunal Inland Revenue.

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

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

19.2.10 PRA had conducted the audit of PST, resultantly liability of Rs. 685 thousand was created. Bank filed an appeal before Punjab Revenue Appellate Authority, but not heard. In parallel PPCBL has obtained stay order against recovery of the said amount from Honorable Lahore High Court till the decision of the case by PRA Appellate Authority.

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
Rupees in '000'			
20 MARK-UP/RETURN/INTEREST EARNED			
On:			
a) Loans and advances		1,646,650	1,712,550
b) Investments		156,394	217,320
c) Balances with banks		72,046	113,616
		<u>1,875,090</u>	<u>2,043,486</u>
21 MARK-UP/RETURN/INTEREST EXPENSED			
Deposits		<u>235,704</u>	<u>315,340</u>
22 FEE AND COMMISSION INCOME			
Branch banking customer fees		5,965	-
Commission on utility bills Collection		9,697	9,791
Advances & guarantees Fee		59,749	9,280
Commission on remittances including home remittances		-	-
Commission received on deposit category		-	1,961
Bank and service charges		-	3,335
Consumer finance related fees		-	34,954
Profit on books for sale		-	8,036
Rent on lockers		1,141	841
Others		109	3,726
		<u>76,661</u>	<u>71,924</u>
23 OTHER INCOME			
Reversal of provisions for salary payable		264,285	-
Rent on property		85,044	60,040
		<u>349,329</u>	<u>60,040</u>
24 OPERATING EXPENSES			
Total compensation expense	24.1	<u>1,337,960</u>	<u>1,442,384</u>
Property expense			
Rent and taxes		39,790	49,768
Building Repair and maintenance (including janitorial charges)		2,264	3,731
Depreciation		2,513	2,502
		<u>44,567</u>	<u>56,001</u>
Intangible assets			
Amortisation	10.2	<u>-</u>	<u>1,778</u>

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
		Rupees in '000'	
Other operating expenses			
Legal and professional charges		8,847	12,456
Travelling and Conveyance		24,884	-
Depreciation		12,466	15,777
Traning & Development		980	-
Postage and courier charges		4,896	5,638
Communication		16,854	16,210
Stationery and printing		2,401	3,074
Marketing, advertisement and publicity		2,526	1,202
Donations		-	93
Insurance		6,522	8,630
Utilities cost		27,610	28,308
Security (including guards)		245	37
Repair and maintenance (Furniture & Electrical)		640	-
Auditors' remuneration	24.2	5,380	4,710
Others		95,662	81,368
		209,913	177,503
		1,592,440	1,677,666

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

2021 2020
Rupees in '000'

24.1 Total compensation expense

Salary and allowances	968,828	966,628
Managerial remuneration	-	18,148
Fees and allowances etc	890	854
Charge for defined benefit plan	368,242	418,961
Contribution to defined contribution plan	-	9,680
Conveyance	-	24,972
Others	-	3,141
	<u>1,337,960</u>	<u>1,442,384</u>

24.2 Auditors' remuneration

	M/s IEC Net S.K.S.S.S & Co	M/s Kreston Hyder Bhimjee & Co.	M/s Naveed Zafar Ashfaq Jaffery & Co.	M/s Ale Imran & Co.	Total	Total
	Rupees in '000'					
Audit fee	1,520	1,560	1,050	870	5,000	4,665
IT Audit fee	-	-	-	-	380	45
Fee for other statutory certifications	-	-	-	-	-	-
Fee for audit of employee funds	-	-	-	-	-	-
Special certifications and sundry advisory services	-	-	-	-	-	-
Tax services	-	-	-	-	-	-
Out-of-pocket expenses	-	-	-	-	-	-
	<u>1,520.00</u>	<u>1,560.00</u>	<u>1,050.00</u>	<u>870.00</u>	<u>5,380</u>	<u>4,710</u>

25 OTHER CHARGES

Note 2021 2020
Rupees in '000'

Penalties imposed by State Bank of Pakistan	<u>91,730</u>	<u>30</u>
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26 PROVISIONS & WRITE OFFS - NET

Provisions against loans and advances	<u>97,333</u>	-
	<u>97,333</u>	<u>-</u>

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
Rupees in '000'			
27 TAXATION			
Current		36,329	64,136
Prior years		(16,856)	-
Deferred	11	-	-
		<u>19,473</u>	<u>64,136</u>
27.1 Relationship between tax expense and accounting profit		2021	2020
Profit before taxation		<u>322,386</u>	<u>213,436</u>
Tax on income at 35% (2020: 35%)		112,835	74,702
Tax on separate block of income		5,777	21,700
Others		(99,139)	(32,267)
		<u>19,473</u>	<u>64,135</u>
28 BASIC AND DILUTED EARNINGS PER SHARE		2021	2020
Profit after taxation		<u>302,913</u>	<u>149,300</u>
Weighted average number of ordinary shares		<u>78,854,709</u>	<u>78,854,489</u>
Basic and diluted earnings per share		<u>3.84</u>	<u>1.89</u>
There is no dilutive effect on basic earnings per share during the year.			
29 CASH AND CASH EQUIVALENTS		2021	2020
Cash and balance with treasury banks		682,512	840,207
Balance with other banks		894,125	1,088,417
		<u>1,576,637</u>	<u>1,928,624</u>

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

	2021				
	Rupees in '000'				
	Liabilities	Equity			
Other liabilities	Share capital	Reserves	Accumulated loss		
Balance as at July 01	6,072,752	7,885,449	8,321,818	(1,597,720)	
Changes from financing cash flows					
Cash based					
Issue of shares	-	22	-	-	
Refund of shares	-	-	-	-	
Medical aid to staff	-	-	(1,206)	-	
Non-cash based/revaluation	-	-	88,545	5,976	
	-	22	87,339	5,976	
Liability-related					
Cash based	(3,210,071)	-	-	-	
- Non-cash based	3,146,285	-	-	-	
	(63,786)	-	-	-	
Balance as at June 30	<u>6,008,966</u>	<u>7,885,471</u>	<u>8,409,157</u>	<u>(1,591,744)</u>	

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

	2021	2020
	(Number)	
30 STAFF STRENGTH		
Permanent	881	963
On bank contract	665	666
Others (Daily wages)	158	158
Bank's own staff strength at the end of the year	<u>1,704</u>	<u>1,787</u>

31 DEFINED BENEFIT PLAN

31.1 General description

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

31.2 Number of employees under the scheme

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

	2021	2020
	(Number)	
Pension fund	635	709
- Total number of Pensioners	1,212	1,144
Gratuity fund	232	245
Leave encashment scheme	635	709

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

31.3 Principal actuarial assumptions

The actuarial valuations were carried out for June 30, 2021 based on the Projected Unit Credit Method, using the following significant assumptions:

	Pension Fund		Gratuity Fund		Compensated Absence	
	2021	2020	2021	2020	2021	2020
Discount rate	10.25%	9.25%	10.25%	8.50%	10.25%	9.25%
Short term salary increase rate	5.25%	4.25%	5.25%	3.50%	5.25%	4.25%
Long term salary increase rate	9.25%	7.25%	9.25%	6.50%	9.25%	7.25%
Pension indexation rate	1.50%	1.50%	-	-	-	-
Expected return on plan asset	9.25%	9.25%	-	-	-	-

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

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

	Pension Fund		Gratuity Fund		Compensated Absence	
	2021	2020	2021	2020	2021	2020
Rupees in '000'						
Present value of obligations	5,014,636	4,599,282	107,656	98,650	290,761	188,112
Fair value of plan assets	(2,460,904)	(1,980,320)	-	-	-	-
Net payable / (receivable) at the year end	2,553,732	2,618,962	107,656	98,650	290,761	188,112

31.5 Movement in defined benefit obligations

	Pension Fund		Gratuity Fund		Compensated Absence	
	2021	2020	2021	2020	2021	2020
Rupees in '000'						
Obligations at the beginning of the year	4,599,282	4,407,072	98,650	80,393	188,112	189,975
Current/past service cost	22,538	40,042	2,971	3,289	8,984	369
Interest cost	412,462	619,893	8,159	11,315	145,947	26,670
Benefits paid by the Bank	(280,475)	(263,891)	(5,333)	(1,978)	(13,899)	(5,641)
Re-measurement loss / (gain)	260,830	(203,834)	3,211	5,631	(38,383)	(23,261)
Impact of Pension increase / past payments	-	-	-	-	-	-
Obligations at the end of the year	5,014,637	4,599,282	107,658	98,650	290,761	188,112

31.6 Movement in fair value of plan assets

	Pension Fund		Gratuity Fund		Compensated Absence	
	2021	2020	2021	2020	2021	2020
Rupees in '000'						
Fair value at the beginning of the year	1,980,320	1,713,209	-	-	-	-
Interest income on plan assets	194,433	259,355	-	-	-	-
Contribution by the Bank - net	523,794	414,785	-	-	-	-
Benefit payments from plan	(280,475)	(263,891)	-	-	-	-
Re-measurements: Net return on plan assets (excluding interest income)	42,832	(143,138)	-	-	-	-
Fair value at the end of the year	2,460,904	1,980,320	-	-	-	-

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

	Pension Fund		Gratuity Fund		Compensated Absence	
	2021	2020	2021	2020	2021	2020
Rupees in '000'						
Present value of defined benefit	2,618,962	2,693,863	98,650	80,392	188,112	189,975
Charge for the year	240,566	400,580	11,129	14,604	116,548	3,777
Contributions paid	(523,794)	(414,785)	-	-	-	-
Benefits paid	-	-	(5,333)	(1,978)	(13,899)	(5,640)
Re-measurement loss / (gain) recognised in OCI	217,998	(60,696)	3,211	5,631	-	-
Present value as at June 30	2,553,732	2,618,962	107,657	98,649	290,771	188,112

31.8 Charge for defined benefit plans

31.8.1 Cost recognised in profit and loss

	Pension Fund		Gratuity Fund		Compensated Absence	
	2021	2020	2021	2020	2021	2020
Rupees in '000'						
Current service cost	22,538	40,042	2,971	3,289	8,984	369
Net interest on defined benefit asset / liability	218,028	360,538	8,158	11,315	145,947	26,669
Past service cost	-	-	-	-	-	-
Actuarial (gain) / loss	-	-	-	-	(38,383)	(23,261)
	240,566	400,580	11,129	14,604	116,548	3,777

31.8.2 Re-measurements recognised in OCI during the year

	Pension Fund		Gratuity Fund		Compensated Absence	
	2021	2020	2021	2020	2021	2020
Rupees in '000'						

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

Loss / (gain) on obligation						
- Experience adjustment	260,830	(203,834)	3,211	5,631	-	-
Return on plan assets over interest income	(42,832)	143,138	-	-	-	-
Total re-measurements recognised in OCI	217,998	(60,696)	3,211	5,631	-	-

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

	2021 Pension fund Rupees in '000'
31.9 Components of plan assets	
Cash and cash equivalents	26,795
Government Securities	2,434,109
	2,460,904

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

31.10 Sensitivity analysis

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

	2021		
	Pension fund	Gratuity fund	Compensated absence
	Rupees in '000'		
Defined benefit obligation	5,014,637	107,658	290,761
1% increase in discount rate	4,562,890	100,605	276,103
1% decrease in discount rate	5,549,173	115,726	306,732
1% increase in expected rate of salary increase	5,182,910	115,901	306,909
1% decrease in expected rate of salary increase	4,857,751	100,329	275,687
1% increase in expected rate of pension increase	5,408,276	-	0
1% decrease in expected rate of pension increase	4,676,698	-	0
1% increase in expected rate of mortality set back	5,057,359	-	0
1% decrease in expected rate of mortality set forward	4,931,903	-	0

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

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

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

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

Based on actuarial advice, management estimates that the charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2022 would be as follows:

	2022		
	Pension fund	Gratuity fund	Compensated absence
	Rupees in '000'		
Expected charge / (reversal for the year)	286,606	14,310	39,708

31.13 Maturity profile

	Pension fund	Gratuity fund	Compensated absence
The weighted average duration of the obligation (in years)	10	7	5

31.14 Funding policy

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

31.15 Risks associated with defined benefit plans

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

Longevity risk

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

Investment risk

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

Salary increase risk

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

Withdrawal rate

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

32 DEFINED CONTRIBUTION PLAN

The Bank operates an approved contributory provident fund scheme for 232 (2020: 245) employees who did not opt for pension in lieu of gratuity. The employer and employee each contribute 10.00% of the basic salary to the scheme every month.

33 COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

33.1 Total compensation expense

Items	2021			Members Shariah Board	President / CEO	Key Management Personnel	Other Material Risk Takers/ Controllers
	Chairman	Directors Executives (other than CEO)	Non- Executives				
	Rupees in '000'						
Fees and allowances etc	-	-	-	-	-	-	-
Managerial Remuneration							
i) Fixed	-	-	-	-	1,605	16,238	-
ii) Total Variable	-	-	-	-	-	-	-
of which							
a) Cash bonus / awards	-	-	-	-	-	-	-
b) Bonus & awards in shares	-	-	-	-	-	-	-
Charge for defined benefit plan	-	-	-	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	-	-	-
Rent & house maintenance	-	-	-	-	247	2,369	-
Utilities	-	-	-	-	13	141	-
Medical	-	-	-	-	124	1,097	-
Conveyance	-	-	-	-	-	97	-
Others	-	-	-	-	606	6,842	-
Total	-	-	-	-	2,595	26,784	-
Number of persons	-	-	-	-	1	15	-

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

33.3

Items	2020						
	Directors			Members Shariah Board	President / CEO	Key Management Personnel	Other Material Risk Takers/ Controllers
	Chairman	Executives (other than CEO)	Non- Executives				
Fees and allowances etc.	-	-	-	-	1,562	16,586	-
Managerial remuneration							
i) Fixed	-	-	-	-	-	-	-
ii) Total Variable	-	-	-	-	-	-	-
of which							
a) Cash bonus / awards	-	-	-	-	-	-	-
b) Bonus & awards in Shares	-	-	-	-	-	-	-
Charge for defined benefit plan	-	-	-	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	-	-	-
Rent & house maintenance	-	-	-	-	247	2,406	-
Utilities	-	-	-	-	13	147	-
Medical	-	-	-	-	124	1,116	-
Conveyance	-	-	-	-	-	143	-
Others	-	-	-	-	606	7,199	-
Total	-	-	-	-	2,552	27,597	-
Number of Persons	-	-	-	-	1	15	-

34 FAIR VALUE MEASUREMENTS

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

34.1 Fair value of financial assets

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

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

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

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

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

June 30, 2021					
Carrying Value	Level 1	Level 2	Level 3	Total	
On balance sheet financial instruments					
Rupees in '000'					
Financial assets - measured at fair value					
Investments					
Shares	624,705	624,705	-	-	624,705
Financial assets - disclosed but not measured at fair value					
Cash and balances with treasury banks	682,512	-	-	-	682,512
Balances with other banks	894,125	-	-	-	894,125
Investments	2,916,166	-	-	-	2,916,166
Advances	8,885,150	-	-	-	8,885,150
Other assets	3,717,940	-	-	-	3,717,940
Financial liabilities - measured at fair value					
	-	-	-	-	-
Financial liabilities - disclosed but not measured at fair value					
Bills payable	21,537	-	-	-	21,537
Deposits and other accounts	4,154,591	-	-	-	4,154,591
Other liabilities	6,008,966	-	-	-	6,008,966

June 30, 2020					
Carrying Value	Level 1	Level 2	Level 3	Total	
On balance sheet financial instruments					
Rupees in '000'					
Financial assets - measured at fair value					
Investments					
Shares	611,888	611,888	-	-	611,888
Financial assets - disclosed but not measured at fair value					
Cash and balances with treasury banks	840,207	-	-	-	840,207
Balances with other banks	1,088,417	-	-	-	1,088,417
Investments	1,481,262	-	-	-	1,481,262
Advances	10,373,331	-	-	-	10,373,331
Other assets	3,757,408	-	-	-	3,757,408
Financial liabilities - measured at fair value					
	-	-	-	-	-
Financial liabilities - disclosed but not measured at fair value					
Bills payable	22,921	-	-	-	22,921
Deposits and other accounts	4,620,648	-	-	-	4,620,648
Other liabilities	6,072,752	-	-	-	6,072,752

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

35 SEGMENT INFORMATION

35.1 Segment details with respect to business activities

	2021			
	Retail banking	Retail finance lending	Others	Total
	Rupees in '000'			
Profit and loss				
Net mark-up / return / profit	72,046	1,646,650	156,394	1,875,090
Non mark-up / return / interest income	76,661	-	387,842	464,503
Total Income	148,707	1,646,650	544,236	2,339,593
Segment direct expenses	327,434	-	1,592,440	1,919,874
Total expenses	327,434	-	1,592,440	1,919,874
Provisions	(97,333)	-	-	(97,333)
Profit before tax	(276,060)	1,646,650	(1,048,204)	322,386

	Retail banking	Retail finance lending	Others	Total
	Rupees in '000'			
Balance sheet				
Cash and bank balances	-	-	1,576,637	1,576,637
Investments	-	-	3,540,871	3,540,871
Advances - performing	-	8,030,693	-	8,030,693
Advances - non performing	-	854,457	-	854,457
Others	3,838	3,537,033	7,344,449	10,885,320
Total assets	3,838	12,422,183	12,461,957	24,887,978
Bills payable	21,537	-	-	21,537
Deposits and other accounts	4,154,591	-	-	4,154,591
Net inter segment borrowing	-	-	-	-
Others	49,285	2,778,043	3,181,638	6,008,966
Total liabilities	4,225,413	2,778,043	3,181,638	10,185,094
Equity	-	-	14,702,884	14,702,884
Total equity and liabilities	4,225,413	2,778,043	17,884,522	24,887,978
Contingencies & Commitments	-	-	-	-

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

2020			
Retail financing	Commercial banking	Others	Total

Rupees in '000'

Profit and loss

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

Retail financing	Commercial banking	Others	Total
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Rupees in '000'

Balance sheet

Cash and bank balances	-	-	1,928,624	1,928,624
Investments	-	-	2,093,150	2,093,150
Advances - performing	-	9,427,639	-	9,427,639
Advances - non performing	-	945,692	-	945,692
Others	3,605	3,423,504	7,503,654	10,930,763
Total assets	3,605	13,796,835	11,525,428	25,325,868
Bills payable	22,921	-	-	22,921
Deposits and other accounts	4,620,648	-	-	4,620,648
Net inter segment borrowing	-	-	-	-
Others	61,189	2,590,002	3,421,561	6,072,752
Total liabilities	4,704,758	2,590,002	3,421,561	10,716,321
Equity	14,609,547	-	-	14,609,547
Total equity and liabilities	19,314,305	2,590,002	3,421,561	25,325,868

Contingencies & Commitments

- - - -

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

36 RELATED PARTY TRANSACTIONS

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

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

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

	2021			2020		
	Key management personnel	Provident fund trust	Pension fund trust	Key management personnel	Provident fund trust	Pension fund trust
	Rupees in '000'					
Advances						
Opening balance	10,914	-	-	6,094	-	-
Addition during the year	9,105	-	-	10,205	-	-
Repaid during the year	(10,691)	-	-	(5,385)	-	-
Transfer in / (out) - net	-	-	-	-	-	-
Closing balance	9,328	-	-	10,914	-	-
Other liabilities						
Payable to staff retirement fund	-	-	2,553,732	-	-	2,399,966
	-	-	2,553,732	-	-	2,399,966
Income						
Mark-up / return / interest earned	1,265	-	-	933	-	-
	1,265	-	-	933	-	-
Expense						
Total compensation expense	29,378	-	-	30,262	-	-
Contribution for the year	-	7,631	523,794	-	9,680	414,785
	29,378	7,631	523,794	30,262	9,680	414,785

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

	2021	2020
	Rupees in '000'	
37 CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS		
Minimum Capital Requirement (MCR):		
Paid-up capital (net of losses)	<u>6,000,000</u>	<u>6,000,000</u>
Capital Adequacy Ratio (CAR):		
Eligible Common Equity Tier 1 (CET 1) Capital	7,215,335	7,122,319
Eligible Additional Tier 1 (ADT 1) Capital	-	-
Total Eligible Tier 1 Capital	<u>7,215,335</u>	<u>7,122,319</u>
Eligible Tier 2 Capital	<u>2,878,150</u>	<u>2,814,721</u>
Total Eligible Capital (Tier 1 + Tier 2)	<u>10,093,485</u>	<u>9,937,040</u>
Risk Weighted Assets (RWAs):		
Credit Risk	16,137,144	20,020,929
Market Risk	1,249,410	1,318,937
Operational Risk	3,131,826	3,125,934
Total	<u>20,518,380</u>	<u>24,465,800</u>
Common Equity Tier 1 Capital Adequacy ratio	<u>35.17</u>	<u>29.11</u>
Tier 1 Capital Adequacy Ratio	<u>35.17</u>	<u>29.11</u>
Total Capital Adequacy Ratio	<u>49.19</u>	<u>40.62</u>
37.1 State Bank of Pakistan (SBP) vide Letter No. BPRD/BACPD/629/023472/15 dated 26.10.2015 required from Bank to have a minimum paid up capital (net of losses) of Rs. 6 billion. Further, the bank is required to maintain a Capital Adequacy Ratio of 16% at all times. As of June 30, 2021, the paid up capital of the Bank net of losses amounts to Rs. 6,293,727 thousand which is in agreement with regulatory requirements (refer to note 17.3). The management is in the process of implementation of Basel III and in the meanwhile have applied for obtaining further extension in this regard. For the time being CAR is being reported under Basel I and Basel III (on parallel run basis) as per instructions issued under circular No. 12 of 2004 as allowed by SBP.		
Standardized Approach is used for calculating the Credit and Market risk, whereas, Basic Indicator Approach is used for Operational Risk in the Capital Adequacy Calculation.		
Leverage Ratio (LR):		
Eligible Tier-1 Capital	7,215,335	7,122,319
Total Exposures	22,093,224	25,325,868
Leverage Ratio	<u>32.66</u>	<u>28.12</u>
Liquidity Coverage Ratio (LCR):		
Total High Quality Liquid Assets	802,994	1,147,132
Total Net Cash Outflow	109,249	136,544
Liquidity Coverage Ratio	<u>7.35</u>	<u>8.40</u>
Net Stable Funding Ratio (NSFR):		
Total Available Stable Funding	12,073,036	12,588,241
Total Required Stable Funding	5,532,302	6,434,890
Net Stable Funding Ratio	<u>218</u>	<u>196</u>

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

38 RISK MANAGEMENT

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

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

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

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

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

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

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

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

38.1 Credit Risk

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

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

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

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

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

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

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

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

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

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

38.1 Credit Risk

38.1.1 Advances

Credit risk by industry sector	Gross advances		Non performing advances		Provision held	
	2021	2020	2021	2020	2021	2020
	Rupees in '000'					
Agriculture, Forestry, Hunting and Fishing	10,151,206	11,538,813	2,454,359	2,446,021	1,601,014	1,509,888
Individuals	341,333	339,668	16,401	17,123	48,799	20,811
Others	96,213	101,121	87,118	88,635	53,792	75,572
	10,588,752	11,979,602	2,557,878	2,551,779	1,703,605	1,606,271

Credit risk by public / private sector	Gross advances		Non performing advances		Provision held	
	2021	2020	2021	2020	2021	2020
Public / Government	1,000,000	950,000	-	-	-	-
Private	9,588,752	11,029,602	2,557,878	2,551,779	1,703,605	1,606,271
	10,588,752	11,979,602	2,557,878	2,551,779	1,703,605	1,606,271

38.1.2 Contingencies and Commitments

Credit risk by industry sector	2021	2020
	Rupees in '000'	
Others	9,000	9,000
	9,000	9,000
Credit risk by public / private sector		
Public / Government	-	-
Private	9,000	9,000
	9,000	9,000

38.1.3 Advances - Province / Region-wise Disbursement & Utilization

Province / Region	2021					
	Disbursements	Utilization				
		Punjab	Sindh	KPK including FATA	Balochistan	Islamabad
	Rupees in '000'					
Punjab	8,450,721	8,450,721	-	-	-	-
Sindh	-	-	-	-	-	-
KPK including FATA	-	-	-	-	-	-
Balochistan	-	-	-	-	-	-
Islamabad	-	-	-	-	-	-
AJK including Gilgit-Baltistan	-	-	-	-	-	-
Total	8,450,721	8,450,721	-	-	-	-

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

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

38.2 Market Risk

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

38.2.1 Balance sheet split by trading and Banking books

	2021			2020		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	Rupees in '000'					
Cash and balances with treasury banks	682,512	-	682,512	840,207	-	840,207
Balances with other banks	894,125	-	894,125	1,088,417	-	1,088,417
Investments	2,914,204	626,667	3,540,871	1,479,300	613,850	2,093,150
Advances	8,885,150	-	8,885,150	10,373,331	-	10,373,331
Fixed assets	7,155,960	-	7,155,960	7,159,766	-	7,159,766
Intangible assets	11,420	-	11,420	13,589	-	13,589
Other assets	3,717,940	-	3,717,940	3,757,408	-	3,757,408

38.2.2 Foreign Exchange Risk

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

38.2.3 Equity position Risk

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

	2021		2020	
	Banking book	Trading book	Banking book	Trading book
	Rupees in '000'			
Impact of 1% change in equity prices on				
- Other comprehensive income				
+1% change		6,247	-	6,119
-1% change		(6,247)	-	(6,119)

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

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

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

2021		2020	
Banking book	Trading book	Banking book	Trading book

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

Impact of 1% change in interest rates on

- Profit and loss account				
+1% change	16,394	-	17,027	-
-1% change	(16,394)	-	(17,027)	-

38.2.5 Mismatch of Interest Rate Sensitive Assets and Liabilities

Effective Yield / Interest Rate	Total	2021									Non-interest bearing financial instruments	
		Exposed to Yield/ Interest risk										
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
Rupees in '000'												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	5.5% to 5.5	682,512	-	-	55,746	-	-	-	-	-	-	626,766
Balances with other banks	5.5% to 6.15%	894,125	877,598	-	-	-	-	-	-	-	-	16,527
Investments	7.25% to 7.50%	3,540,871	-	2,912,615	-	-	-	-	-	-	-	628,256
Advances	8.5% to 20%	8,885,150	698,711	161,883	2,440,014	2,370,550	998,446	446,545	1,132,720	636,281	-	-
Other assets		3,717,940	-	-	-	-	-	-	-	-	-	3,717,940
		17,720,598	1,576,309	3,074,498	2,495,760	2,370,550	998,446	446,545	1,132,720	636,281	-	4,989,489
Liabilities												
Bills payable		21,537	-	-	-	-	-	-	-	-	-	21,537
Deposits and other accounts	5.50% to 11.55%	4,154,591	2,024,881	193,968	90,856	843,308	235,386	363,948	188,720	213,524	-	-
Other liabilities		6,008,966	-	-	-	-	-	-	-	-	-	6,008,966
		10,185,094	2,024,881	193,968	90,856	843,308	235,386	363,948	188,720	213,524	-	6,030,503
On-balance sheet gap		7,535,504	(448,572)	2,880,530	2,404,904	1,527,242	763,060	82,597	944,000	422,757	-	(1,041,014)

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

Off-balance sheet financial instruments

Off-balance sheet gap

Total Yield/Interest Risk Sensitivity Gap

Cumulative Yield/Interest Risk Sensitivity Gap

-	-	-	-	-	-	-	-	-	-	-	-
(448,572)	2,880,530	2,404,904	1,527,242	763,060	82,597	944,000	422,757	-	(1,041,014)		
(448,572)	2,431,958	4,836,862	6,364,104	7,127,164	7,209,761	8,153,761	8,576,518	8,576,518	7,535,504		

Effective Yield/Interest Rate	Total	2020									
		Exposed to Yield/ Interest risk									
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financial instruments

On-balance sheet financial instruments

Rupees in '000'

Assets

Cash and balances with treasury banks	10.25%	840,207	-	-	55,746	-	-	-	-	-	-	784,461
Balances with other banks	8.75% to 11.25%	1,088,417	1,080,120	-	-	-	-	-	-	-	-	8,297
Investments	11.16% to 12.66%	2,093,150	-	397,435	-	1,081,865	-	-	-	-	-	613,850
Advances	9% to 18%	10,373,331	638,657	130,949	1,686,756	4,356,214	1,704,956	364,101	606,644	838,041	47,013	-
Other assets		3,757,408	-	-	-	-	-	-	-	-	-	3,757,408
		18,152,513	1,718,777	528,384	1,742,502	5,438,079	1,704,956	364,101	606,644	838,041	47,013	5,164,016

Liabilities

Bills payable		22,921	-	-	-	-	-	-	-	-	-	22,921
Deposits and other accounts	4.50% to 8.00%	4,620,648	3,137,648	154,103	129,318	401,596	123,283	29,049	273,046	33,369	64,493	274,743
Other liabilities		6,072,752	-	-	-	-	-	-	-	-	-	6,072,752
		10,716,321	3,137,648	154,103	129,318	401,596	123,283	29,049	273,046	33,369	64,493	6,370,416
On-balance sheet gap		7,436,192	(1,418,871)	374,281	1,613,184	5,036,483	1,581,673	335,052	333,598	804,672	(17,480)	(1,206,400)

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

Off-balance sheet financial instruments

Off-balance sheet gap

Total Yield / Interest Risk Sensitivity Gap

Cumulative Yield / Interest Risk Sensitivity Gap

	-	-	-	-	-	-	-	-	-	-
	(1,418,871)	374,281	1,613,184	5,036,483	1,581,673	335,052	333,598	804,672	(17,480)	(1,206,400)
	(1,418,871)	(1,044,590)	568,594	5,605,077	7,186,750	7,521,802	7,855,400	8,660,072	8,642,592	7,436,192

Reconciliation of total assets	June 30, 2021	June 30, 2020	Reconciliation of total liabilities	June 30, 2021	June 30, 2020
	Rupees in '000'			Rupees in '000'	
Balance as per balance sheet	24,887,978	25,325,868	Balance as per balance sheet	10,185,094	10,716,321
Less: Non-financial assets			Less: Non-financial liabilities		
Fixed assets	7,155,960	7,159,766			
Intangible assets	11,420	13,589			
Other assets	3,717,940	3,757,408	Other liabilities	6,008,966	6,072,752
	10,885,320	10,930,763			
Total financial assets	14,002,658	14,395,105	Total financial liabilities	4,176,128	4,643,569

38.3 Operational Risk

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

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

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

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

38.3.1 Operational Risk-Disclosures Basel II Specific

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

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

	2020									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000'										
Assets										
Cash and balances with treasury banks	840,207	784,461	-	55,746	-	-	-	-	-	-
Balances with other banks	1,088,417	1,088,417	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	2,093,150	613,850	397,435	-	1,081,865	-	-	-	-	-
Advances	10,373,331	638,657	130,949	1,686,756	4,356,214	1,704,956	364,101	606,644	838,041	47,013
Fixed assets	7,159,766	5,151	3,746	2,039	2,138	3,504	24,615	10,040	-	7,108,533
Intangible assets	13,589	-	-	-	-	-	-	13,589	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	3,757,408	137,024	729,679	8,999	140,034	123,414	7,273	9,209	5,800	2,595,976
	25,325,868	3,267,560	1,261,809	1,753,540	5,580,251	1,831,874	395,989	639,482	843,841	9,751,522
Liabilities										
Bills payable	22,921	18,448	4,473	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	4,620,648	2,959,530	514,653	91,465	454,879	129,237	33,901	156,730	140,100	140,153
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	6,072,752	214,707	25,382	1,197	168,802	33,281	7,254	2,599,277	4,104	3,018,748
	10,716,321	3,192,685	544,508	92,662	623,681	162,518	41,155	2,756,007	144,204	3,158,901
Net assets	14,609,547	74,875	717,301	1,660,878	4,956,570	1,669,356	354,834	(2,116,525)	699,637	6,592,621
Share capital	7,885,449									
Reserves	848,179									
Accumulated loss	(1,597,720)									
Surplus on revaluation of assets	7,473,639									
	14,609,547									

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

THE PUNJAB PROVINCIAL COOPERATIVE BANK LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2021

39 EVENTS AFTER THE REPORTING DATE

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

40 IMPACT OF COVID-19 (CORONA VIRUS)

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

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

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

41 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 04.02.2022 by the Administrator of the Bank.

President / CEO

Chief Financial Officer