one BANK one TEAM
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Vision

To emerge as a premier financial institution, fostering socio-economic development of the people of AJK.
Mission Statement

To acquire market leadership through quality banking services, customized products, best business practices, merit and performance culture and participation in development process of the state for the well being of its people.
Raja Muhammad Farooq Haider Khan
Prime Minister AJ&K

Message

At the Bank of Azad Jammu and Kashmir, we have always been committed to build sustainable long-term partnerships with customers and adopt an innovative banking approach while remaining loyal to our nation's heritage and contributing to the overall development of the AJ&K.

The entire responsibility of policy formulation and management has been placed, under the law, with the Board of Directors. Further, I have given special instructions to the politicians and bureaucracy not to interfere in the affairs of the bank, thereby, curtailing the possibility of any pressure which may be put on the bank's management in respect to recruitment of staff and provision of credit. We are happy to say that these instructions have become an essential part of the culture of the bank.

Like as the Government of Azad Kashmir adheres to following a policy based on merit, social justice and equity, I would like to impress upon the Bank's management to place premium on efficiency and professionalism. At the same time, it is my desire that all branches of the bank should be placed in ideal environments for maximum output and must be equipped in accordance with good standards providing highly pleasant atmosphere for efficient working. Additionally, the Bank must set strategically to disperse its credit on a fair and equitable basis with a view to, inter-alia, easing the socio-economic tensions.

Certainly, development and sustaining economic growth of any country is the responsibility of its government. To me, it is the prime liability particularly for the State of Azad Kashmir because unless all our efforts are dedicated towards economic development of the State, betterment of the lot of the poor and the establishment of a society on a self-sustaining basis will continue to remain a vision.

I must comment that a large chunk of economic activity takes place with in geographical boundaries of Azad Kashmir. It is, therefore, obvious that tremendous business potential exists in the State and thus the scope of the Bank of Azad Jammu & Kashmir will be extensive. For all reasons or otherwise, I am certainly convinced that the Bank of Azad Jammu & Kashmir is likely to play a vital role in the economy of the State through mobilization of hitherto unexplored local resources, promoting savings and providing funds for investment in trade, commerce, industry and agriculture with primary emphasis on accelerated development of agro-based industry. If this achievement of the Bank, at its infancy stage, is taken as an indicator, the forthcoming years will Insha Allah witness tremendous expansion and herald a new era of progressive banking and professional competence, aiding in the economic development of the State and thereby of Pakistan.
A WORD FROM THE
MANAGING DIRECTOR

Bank of Azad Jammu and Kashmir is a fast growing commercial bank and emerging brand on the financial landscape of AJ&K state treading steadily with a mission of fostering the socio-economic development of people of the region. In view of growing trust of its customers and high vision of stakeholders in the backdrop of stated policy of the government of AJ&K, the bank has a bright future going forward.

A lot has changed since BAJK started its operations in 2005 with its 1st Branch in Muzaffarabad. The Bank has expanded its outreach to 65 locations in all districts of State, some in far off places where other commercial banks are not present; one thing which has never changed is its focus to change the socio economic conditions of the people of the State. Ever since its inception, we have remained committed to serve the people with enthusiasm, dedication and highest sense of responsibility. During this period we have been able to earn the trust of our valued customers, who by choice established their banking relationship with us.

Historically, the State of Azad Jammu and Kashmir due to its immense potential for deposits and home remittances has remained an attractive place for banks and financial institutions for doing business. Due to its scenic beauty, lush green forests and gushing rivers, its valleys are attracting thousands of tourists each year from all over the world. The region due to its geography and climate has also lot of potential for growing medicinal herbs, nuts, silkworms, honey bee farming, fruits and vegetables besides core agro-activities including poultry, livestock, and farming. However, the existing banking and financial infrastructure despite its visible presence and sizeable operations has not been able to support the state economy. Here, the Bank of AJK despite its smaller size is vigorously concentrating on supporting the people in doing business in agriculture, SMEs, poultry, livestock, tourism, healthcare sectors. In a way unlike other commercial banks operating in AJ&K whatever savings are mobilized by BAJK are channelized here in the state economy to develop entrepreneurship within the territory.

Our financials for the year 2016 on account of its customer franchise and lending activities depict encouraging sign for the bank to foresee a prosperous future. Here I would like to avail this opportunity to thank the Prime Minister Government of AJ&K, the Chairman and the Board for providing guidance and support to the Bank wherever it was required. During the year the team also worked with lot of dedication, commitment and devotion to materialize the results for which they deserve compliments. The Bank going forward, is endeavoring to concentrate on technology upgrade, training and development of human capital, product innovation and service quality all directed to enrich competitiveness and sustainability of operations. All this can be materialized with unequivocal reaffirmation by us at all levels for emerging as “one bank one team”.

Imran Samad
BOARD PROFILE

Dr. Ijaz Munk
Chief Secretary AJK/Chairman

Mr. Ijaz Munk is Chief Secretary to the Government of Azad Jammu and Kashmir and Chairman BAJK. He is a senior civil servant belonging to the DMG Group. He has vast experience in management and administration at his credit which includes various top hierarchy administrative positions. He served as Additional Secretary at the Prime Minister's Secretariat Government of Pakistan and Secretary to Government of Punjab before his new assignment. He holds a Masters Degree in Business Administration and Management, from Imperial College, London.

Imran Samad
Managing Director/CEO

Mr. Imran Samad has joined the Board of Directors of BAJK, as the COO & Managing Director. He has been associated with the banking profession for over three decades. After his MBA, he started his career with PNCIC as a financial analyst and worked in various capacities dealing with industry and finance. He has rich experience of dealing with local banks and multilateral agencies. His expertise in Corporate Finance, Retail Banking, Consumer Finance, Islamic Banking, Agriculture Finance, MFI, Micro Credit, etc. over the years in various banks has earned him a respected role in areas of business development and organizational turnaround. Recognized as an effective team leader he has authored various articles and is also known as a leading resource person on banking and finance. He has served NIB Bank as a Senior Executive and has been associated in turning around the Bank of Khyber in the capacity of Group Head, DMG, Group Head, Business Management and also as Managing Director.

Farid Ahmad Tarar
Director

Mr. Farid Ahmad Tarar is Secretary to the Government of Azad Jammu and Kashmir heading the Finance Department. Mr. Tarar is a senior civil servant belonging to the Pakistan Audit and Accounts Group. He has worked in different senior positions including Commercial Counselor, Embassy of Pakistan, Rome, Italy. He has attended various training courses on audit and accounts including 20th Senior Management Course, Lahore, Course on Social Safety Net, Washington DC at World Bank Headquarters, Economic Policy and Management International Unit, National Institute of Public Administration, Kuala Lumpur, Malaysia, Seminar/Workshop on Public Private Partnership as an Instrument of Economic Growth and Productivity, International Finance Commission Headquarters Dubai, Project Management (Business Management Consultants, USA) and much more. He has more than 20 years of experience in public sector encompassing areas of Public Policy, Finance, Taxation, Trade, Fiscal, Monetary, Economic & Investment Policy's design, development and implementation. Mr. Tarar hold M.B.A (Sociology) (Edward II Medical College, Lahore), M.B.A (Finance) (Institute of Business Administration University of Punjab), and M.Sc. Accounting & Finance, Manchester Business School, University of Manchester, UK.

Fayyaz Ali Abbasi
Director

Mr. Fayyaz Ali Abbasi holds a Masters Degree in Development Management from London School of Economics and Political Science and also a Masters of Philosophy (M. Phil) Degree in International Relations and Affairs from Quaid-e-Azam University, Islamabad. He is currently serving as Secretary to Board of Revenue, Government of Azad Jammu and Kashmir. Mr. Abbasi has vast experience in management, administration and planning to his credit which includes various top hierarchy administrative positions. He headed various departments as Secretary to Government of Azad Jammu and Kashmir.

Syed Zahoor-ul-Hassan Gillani
Director

Syed Zahoor-ul-Hassan Gillani is Secretary to the Government of Azad Jammu and Kashmir heading the Industries, Commerce, Mineral Resources and Labor Departments. He has served in various important positions. Mr. Khan actively pursued expanding his knowledge base while in service. He holds a masters degree in Public Administration (MPA) from reputed Punjab University.

Amjad Pervaiz Ali Khan
Director

Mr. Amjad Pervaiz Ali Khan is Secretary to the Government of Azad Jammu and Kashmir heading the Industries, Commerce, Mineral Resources and Labor Departments. He has served in various important positions. Mr. Khan actively pursued expanding his knowledge base while in service. He holds a masters degree in Public Administration (MPA) from reputed Punjab University.
BOARD PROFILE

Mr. Ejaz Hussain Rathore is a fellow member of the Institute of Chartered Accountants of Pakistan. He is a public practice since 1990 and is partner-in-charge of Islamabad Office of PFR International providing professional services in the fields of audit, accounting, tax and business management consultancy, transaction advisory, merger and acquisition. If Audit, Internet based trading system audits, knowledge testing to a wide range of clients. Taxation and business consultancy are the fields of his special interest. Mr. Rathore has served on the board of directors of various organizations, representing the government interests. He has also participated as a delegate in many national and international events.

Mr. Naveed Sadiq has been recently appointed as director on the board of the bank by Govt. of AJ&K. He has a law degree and also obtained diploma in Banking from Institute of Bankers Pakistan (IBP). He has rich and diversified experience in banking and holds middle and top management positions at Allied Bank Ltd. His experience in banking and trade over a period of four decades have seen the need to be the pioneers of the board executive of BAJK. During initial critical period of the bank, Mr. Rathore successfully integrated the structure of the bank on sound footing and in a very short span, the bank became one of the leading banks in the state. He served the bank for five years (i.e. from September 2006 to August 2011), leaving behind the record of success and achievements.

CORPORATE INFORMATION

Board of Directors
- Dr. Ijaz Munir, Chief Secretary, AJ&K  
- Imran Samad, CEO, BAJK
- Farid Ahmad Iqar, Secretary Finance, AJ&K
- Fayaz Ali Abbasi, SMB, AJ&K
- Zahirur-Rehman Gillani, Secretary Forest, Wildlife, Fisheries & AEC, AJ&K
- Raof Amjad Pervaiz Ali Khan, Secretary Industries, Commerce, Mineral Resources & Labour, AJ&K
- Ejaz Hussain Rathore, Chartered Accountant
- Raof Mumtaz Ali, Banker
- Naveed Sadiq, Businessman

Executive Committee of BoD
- Farid Ahmad Iqar  
- Imran Samad  
- Raof Amjad Pervaiz Ali Khan

Audit Committee of BoD
- Fayaz Ali Abbasi  
- Farid Ahmad Iqar  
- Ejaz Hussain Rathore

IT Committee
- Raof Amjad Pervaiz Ali Khan  
- Imran Samad  
- Syed Zahirur-Rehman Gillani

Company Secretary
- Marzukah Khan

Auditors
- AJ Ferguson & Co., Chartered Accountants

Registered Office
- Bank Square, Chaklala Daman, Muzaffarabad AJ&K
Management Functionaries

Special Assets Management Division
Syed Afzal Hussain Gillani
Divisional Head
Ph: 05822-921483
Fax: 05822-921483
Email: dh_samd@bankajk.com

Mr. Aftab Hussain
General Manager (Micro & Agri Credit)
Ph: 05822-921062
Fax: 05822-921483
Email: gm_samc.agri@bankajk.com

Raja Ghulam Mustafa
General Manager (Commercial & Recovery)
Ph: 05822-921444
Fax: 05822-921483
Email: gm_samc.com@bankajk.com

Mr. Asaad Awan
General Manager (Commercial & Recovery)
Ph: 05822-924241
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Email: gm_samc.com@bankajk.com

Credit Administration Division
Mr. Muhammad Akram Awan
Divisional Head
Ph: 05822-921362
Fax: 05822-921562
Email: dh_cad@bankajk.com

Financial Control Division
Mr. Shahid Shahzad Mtr
Divisional Head
Ph: 05822-921372
Fax: 05822-921363
Email: cfo@bankajk.com

Mr. Uqail All Khan
Manager Finance
Ph: 05822-921379
Fax: 05822-921363
Email: finance@bankajk.com

Treasury Management Division
Mr. Shahid Shehzad Mtr
Divisional Head
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Fax: 05822-921363
Email: cfo@bankajk.com

Information Technology Division
Mr. Aftab Amin Molik
Divisional Head
Ph: 05822-921118
Fax: 05822-921983
Email: dh_it@bankajk.com

Mr. Awais Nisar Abbasi
Manager IT
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Fax: 05822-921983
Email: itwarehouse@bankajk.com

Audit & Inspection Division
Nihalani Center, Allahabad Road, Mipur,
Mr. Qasim Saeed
Divisional Head
Ph: 05822-921400
Fax: 05822-921983
Email: dh_amid@bankajk.com

Compliance Division
Abdul Hamid Raja
Chief Compliance Officer
Ph: 05822-921512
Fax: 05822-921983
Email: gm_compliance@bankajk.com

Human Resource Management Division
Mr. Muhammad Afsar
Divisional Head
Ph: 05822-921425
Fax: 05822-921983
Email: dh_hr@bankajk.com

Mr. Basharat Hussain
Manager HR
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Fax: 05822-921983
Email: manager_hr@bankajk.com

Managing Director’s Secretariat
Mr. Irfan Samad
Managing Director/CEO
Email: md@bankajk.com

Mr. Naveed Ahmad
Private Secretary/AO
Ph: 05822-921366
Fax: 05822-921344
Email: naveedahmad@bankajk.com

Operations Division
Mr. Muhammad Harif
Divisional Head
Ph: 05822-921427
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Email: dh_operations@bankajk.com

Mr. Tashfeen Gillani
General Manager
Ph: 05822-921363
Email: tashfeen.gillani@bankajk.com

Mr. Jaffar Muhammad
Manager Operations
Ph: 05822-924247
Fax: 05822-921983
Email: manager_ops@bankajk.com

Mr. Ali Usama
Manager HR
Ph: 05822-924247
Fax: 05822-921983
Email: ali@bankajk.com

Credit Management Division
Mr. Muzzafir Khan
Divisional Head
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Fax: 05822-921983
Email: dh_credit@bankajk.com

Mr. Shahid Khan
Manager Credit
Ph: 05822-921625
Fax: 05822-921983
Email: credit@bankajk.com
REGIONS

Regional Office North
Near Shah Anayat Darbar, Upper Adda
Muzaffarabad

Mr. Tasnimad Hussain
Regional Controller
P/o: 05822-923209-10
F/o: 05822-921063
Email: rc_n@bankajk.com

Regional Office South
Nishat Center, Allama Iqbal Road, Mirpur

Mr. Shafiq Farooq
Regional Controller
P/o: 05827-92032-40
F/o: 05827-921484
Email: rc_s@bankajk.com

Zonal Office Muzaffarabad
Bank Square Chaattar Dowali, Muzaffarabad

Raja Ghaus Mufta
Zonal Chief
P/o: 05822-447053, 920584
Email: zone.mf@bankajk.com

Zonal Office Mirpur
Nishat Center, Allama Iqbal Road, Mirpur

Mr. Muhammad Anil Choudhary
Zonal Chief
P/o: 05827-921449
F/o: 05827-921033
Email: zone.mc@bankajk.com

Zonal Office Rawalakot
POA Housing Society, Bank Road Rawalakot
(Ex-Mong Road)

Mr. Muhammad Imtiaz Shaheen
Zonal Chief
P/o: 05824-920522
F/o: 05822-920522
Email: zone.rk@bankajk.com

Zonal Office Kotli
Opposite GPO, Rawalnaki Road Kotli

Mr. Muhammad Javed Iqbal
Zonal Chief
P/o: 05826-920266
F/o: 05826-920346
Email: zone.kl@bankajk.com

TEN YEARS AT A GLANCE
(2007 to 2016)
## Balance Sheet

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</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>8,936,321</td>
<td>8,455,430</td>
<td>7,585,592</td>
<td>6,204,423</td>
<td>5,401,333</td>
<td>4,513,483</td>
<td>3,416,518</td>
<td>2,747,618</td>
<td>2,179,870</td>
<td>1,442,820</td>
</tr>
<tr>
<td>Advances (net)</td>
<td>2,699,439</td>
<td>2,833,626</td>
<td>2,254,907</td>
<td>1,678,147</td>
<td>1,101,286</td>
<td>952,880</td>
<td>330,283</td>
<td>183,095</td>
<td>55,077</td>
<td>5,423</td>
</tr>
<tr>
<td>Investment</td>
<td>624,748</td>
<td>1,150,465</td>
<td>1,722,922</td>
<td>2,034,599</td>
<td>2,255,177</td>
<td>297,877</td>
<td>297,877</td>
<td>297,877</td>
<td>297,877</td>
<td>297,877</td>
</tr>
<tr>
<td>Equity</td>
<td>931,202</td>
<td>800,496</td>
<td>610,331</td>
<td>730,329</td>
<td>663,990</td>
<td>537,934</td>
<td>484,556</td>
<td>392,602</td>
<td>322,031</td>
<td>265,220</td>
</tr>
<tr>
<td>Deposits</td>
<td>7,845,623</td>
<td>7,440,877</td>
<td>6,642,497</td>
<td>5,387,895</td>
<td>4,599,756</td>
<td>3,883,035</td>
<td>2,876,846</td>
<td>2,338,697</td>
<td>1,837,459</td>
<td>1,328,077</td>
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## Operating Results

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</tr>
</thead>
<tbody>
<tr>
<td>Make-up / Return / Interest earned</td>
<td>806,798</td>
<td>794,704</td>
<td>723,400</td>
<td>561,905</td>
<td>555,264</td>
<td>452,867</td>
<td>947,270</td>
<td>295,081</td>
<td>193,986</td>
<td>130,182</td>
</tr>
<tr>
<td>Net Profit / Income</td>
<td>473,416</td>
<td>418,758</td>
<td>345,719</td>
<td>242,222</td>
<td>177,583</td>
<td>89,171</td>
<td>56,328</td>
<td>48,561</td>
<td>37,261</td>
<td>33,505</td>
</tr>
<tr>
<td>Non-Operating Income</td>
<td>51,738</td>
<td>50,962</td>
<td>56,495</td>
<td>45,363</td>
<td>44,265</td>
<td>13,702</td>
<td>7,575</td>
<td>6,039</td>
<td>13,753</td>
<td>7,320</td>
</tr>
<tr>
<td>Non-Operating Expenses</td>
<td>32,699</td>
<td>286,260</td>
<td>243,351</td>
<td>226,438</td>
<td>206,856</td>
<td>188,768</td>
<td>174,072</td>
<td>114,844</td>
<td>85,573</td>
<td>58,044</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>201,185</td>
<td>172,458</td>
<td>152,063</td>
<td>110,778</td>
<td>90,492</td>
<td>43,293</td>
<td>40,333</td>
<td>32,487</td>
<td>51,202</td>
<td>29,543</td>
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<tr>
<td>Provision</td>
<td>111,577</td>
<td>47,018</td>
<td>52,845</td>
<td>43,174</td>
<td>9,192</td>
<td>7,269</td>
<td>5,997</td>
<td>1,624</td>
<td>4,958</td>
<td>65</td>
</tr>
<tr>
<td>Net Profit / Loss Before Tax</td>
<td>89,608</td>
<td>125,440</td>
<td>104,218</td>
<td>62,800</td>
<td>81,300</td>
<td>34,388</td>
<td>34,333</td>
<td>30,863</td>
<td>56,244</td>
<td>54,585</td>
</tr>
<tr>
<td>Net Profit / Loss After Tax</td>
<td>70,706</td>
<td>70,163</td>
<td>80,003</td>
<td>46,408</td>
<td>52,848</td>
<td>29,948</td>
<td>26,333</td>
<td>30,333</td>
<td>56,244</td>
<td>54,585</td>
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## Other Information

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<tbody>
<tr>
<td>Earning per Share (Rs)</td>
<td>0.63</td>
<td>0.89</td>
<td>1.22</td>
<td>0.72</td>
<td>1.66</td>
<td>1.00</td>
<td>1.93</td>
<td>1.46</td>
<td>1.44</td>
<td>1.12</td>
</tr>
<tr>
<td>Number of Branches</td>
<td>65</td>
<td>64</td>
<td>59</td>
<td>52</td>
<td>52</td>
<td>50</td>
<td>45</td>
<td>35</td>
<td>22</td>
<td>9</td>
</tr>
</tbody>
</table>
CUSTOMIZED PRODUCTS

- Agriculture Finance
- SME Finance / Credit to Businessmen & Business Enterprises
- Micro Finance
- Loan for Promotion of Desi-Murghani at Household Level
- Running Finance
- Health Care Services Finance
- Auto Finance
- Promotion of Commercial Poultry Farms and Hatcheries
- Project Financing for Construction of Commercial Buildings/Shopping Malls

- Financing for Dairy, Goat & Sheep Farming
- Loans for Enterprising Women for Setting Up of Business at Cottage Level
- Advance Salary Loan
- Personal Loan
- Car Loan
- Home Appliances Finance
- Gold Loan
- Tourism Promotion Loan
Dear Shareholders,

Your board of Directors have the pleasure to present the 11th Annual Report together with Audited Statement of Financial Position, Profit and Loss Account and report on business and operations of the bank for the year ended 31st December 2016.

Economy

National economy maintained its imprints and performance during fiscal 2016. Government expenditure on infrastructure projects and low interest rates provided a breakthrough. Domestic demand which was negatively impacted was helped by easing energy supply situation. The enhancement in macro numbers was also supported by successful completion of the IMF program, years low inflation supported by subdued commodity prices, stable exchange rate, and greater investors’ confidence as observed through Pakistan’s improved ratings and carry of China Pakistan-Economic Corridor (CPEC), evident improvement in the security situation augmented these policy measures. The stable exchange rate, along with the decline in all prices, helped drag CPI inflation down to 2.9 percent in fiscal 2016. These growth-prone developments enabled largely sustained policy rate at 5.75 percent, lowest bank rate in last 70s. The sharp reductions in the cost of borrowing in recent years and favorable business environment created demand for bank credit. In the year 2015-16, credit to private sector expanded by Rs. 461 billion during the year – more than double the level of expansion seen since last fiscal year. Encouragingly, the expansion was fairly broad-based, as all the major sectors: textile, power, fertilizer, construction and transport resorted to bank borrowing. In addition, consumer financing also gained traction, with strong demand for auto loans. Looking ahead, the recent gradual rise in oil prices is a concern given that the non-oil imports are expected to remain high while exports are yet to show any recognizable recovery; the exchange rate will be tested as the repayment phase approaches and any currency depreciation will further burden the balance of payments with higher external debt service payments. However, higher foreign investments including those associated with CPEC related projects are likely to offset the risks in import bill. The economy is expected to perform better on back of higher public spending and service sector growth and we are optimistic on the domestic demand owing to higher expected public sector spending pre-election year, and greater pace of development projects particularly those related to CPEC.

The economy of Azad Jammu and Kashmir, although endowed with enormous human and natural resources is left behind developed part of the country and depicts a challenging state of affairs especially with regards to its infrastructure and access to financial resources. The public sector is confronted with an acute resource crunch whereas the private sector is not coming forward to play its due role of entrepreneurship development in the area, mainly due to non-competitive outlook of banking sector. The fact of the matter is that the private sector which is the engine of growth and socio economic development cannot flourish efficiently without the support of banking sector.

The banking sector in AJK, though stable and self-sufficient in financial resources (deposits and home remittances) yet has been found as hesitant and indifferent in channelizing the private sector savings for generating the economic activities in the area. The usual stance of commercial banks operating in the region that there are no investment opportunities is an oversimplification of the situation.

In reality the State has vast opportunities for productive investment in various sectors of the economy including minerals, water resources, tourism, horticulture, poultry, vegetables, fruit orchards, forests, cottage industry and traditional Kashmiri handicrafts etc., Unfortunately, the banking sector is not giving attention to AJK territory in their business plans and financing strategies. Resolutely, the advances to deposits ratio (ADR) of the banks operating in this region continues to remain around 45% as against overall ratio of 60%. As against this the BAJK due to its policy of national economic consideration posted an ADR (advances to deposits ratio) of 36% during the year setting an example for other banks.

Banking Sector

Deposits of banks, rose to Rs.1.2 trillion in December 2016, the highest level in three years, which indicated well for the financial sector, bank deposits grew nearly 2% in December. 2016. Deposits are increasing gradually after experiencing withdrawal following the increase in withholding tax on cash transactions last year. Deposits fell in the last couple of years due to monetary easing and consequent fall in minimum saving rate and imposition of withholding tax on banking transactions. A 20% year-on-year growth in deposits is significantly higher than historical growth of 12% of the last three years. Analysts are unanimous that banks must increase their efforts for deposit mobilization, which are also the major source of their funding. The advances to private sector rose from 15% to 24% in December 2016. Loans in the public sector have increased by 15% from Rs. 5.6 trillion in December last year from Rs. 4.8 trillion in the corresponding month of the previous year. Investments were up 8% to Rs. 7.2 trillion. Improvement in bank loans showed up in credit demand from businesses amid broad consensus about the country’s healthy economic prospects. The increased pace of work on infrastructure and CPEC-related projects would boost the appetite for bank lending in 2017. The SBP key policy rate stands at 5.75%, which is at a 42-year low. Soft interest rate fueled surge in advances to banks during the last year. Banks are also focusing on high-earning consumer (product) growth to support their margins and profits. Growth in corporate sector credit was expected to take a boost from improving demand conditions as implied by growth in manufacturing sector and energy supplies, especially to the manufacturing sector growing momentum of CPEC-related activities, and the lagged impact of easy monetary policy.

The spread between lending and deposit rate is shrinking in the wake of easy monetary conditions. This coupled with falling yields on treasury investments were already taking a toll on the sector’s profitability, however, it is expected that the decelerating profitability may further push banks towards their core - and high yield areas of business of lending. The banking sector remains sound and resilient on an overall basis. However, the expected growth in the private sector credit will not push the quantum of bank weighted assets. At the same time, the slowdown in profitability may hamper the banks’ ability to plough back profits and support capital base. This might put downward pressure on the capital adequacy ratio.

Bank’s Performance Review

At the outset I would like to suggest the members to review performance in the backdrop of the fact that the bank started its operations 11 years ago and the banking activities remained hobbled around collection of savings and other deposit accounts and their placement with other banks over a period of five years. Along the course of bank’s operational life, it was also necessary to pave the way for the bank to play its role in the socio economic development of state and well being of people.

This dimension was unfortunately missing in the bank’s corporate strategy. In the previous strategy, the essential investment in most critical areas like human resource, information technology and other operational infrastructure was according to industry benchmarks and long term sustainability was not conventionally followed as a strategic practice. This short term approach compromised/ defeated the long term sustainability of the Bank with the result a state of financial instability opened hurriedly without adequate support of IT and other infrastructure and could not be converted into profitable units.

BAJK results for 2016 reflect another year of satisfactory performance in terms of operating profit, whereas the banking industry continued to be challenged by low interest margins, bank’s operating profit grew by 24 million or 14 percent during full year 2016 to reach at Rs. 201 million while the profit before tax grew by 35 million and 19 million respectively, due to increase in provisioning of Rs. 32 million against Non-Performing loans and Rs. 27 million against other Provision/write Off , the Non-Performing Loans (NPL) in 2016 were increased by Rs.157 million (65%) and reduced at Rs.397 million. The Rs.240 million in 2015.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2016 Amount</th>
<th>2015 Amount</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>325</td>
<td>314</td>
<td>3.3</td>
</tr>
<tr>
<td>Deposit Cost</td>
<td>333</td>
<td>376</td>
<td>-11.5</td>
</tr>
<tr>
<td>Admin Expenses</td>
<td>303</td>
<td>281</td>
<td>7.5</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>201</td>
<td>24</td>
<td>754</td>
</tr>
<tr>
<td>Provisioning</td>
<td>111</td>
<td>52</td>
<td>111</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>90</td>
<td>135</td>
<td>-33.3</td>
</tr>
<tr>
<td>Ratio</td>
<td>39</td>
<td>49</td>
<td>-21.4</td>
</tr>
<tr>
<td>Profit after Tax</td>
<td>91</td>
<td>161</td>
<td>-43.4</td>
</tr>
<tr>
<td>Earning after Tax</td>
<td>0.65</td>
<td>0.83</td>
<td>-21.7</td>
</tr>
</tbody>
</table>

The Total Income increased by 25 million or 3% mainly contributed by markup income, net markup income increased by 57 million or 14% despite low interest rate environment of 2016 continued through 2016. The aggregate cost of funds declined by 11% in line with the trend of interest rates. Administrative and other operating expenses increased to Rs. 325 million from Rs. 281 million, a rise of 16%.

The deposit base of the Bank grew to Rs.7,486 billion on December 31, 2016 from Rs.7,441 billion at the close of previous year 2015. Gross Cross Advances decreased by Rs. 145 million or 5% to close at Rs.2,639 billion at the end of 2016.
The Net Worth of the Bank increased to Rs.949 million. In the year 2016, from Rs.889 million of 2015.

The Capital Adequacy Ratio (CAR) under Basel-II stood at 10.14% as on 31st December 2016, which is much above the norm of 10% stipulated by the State Bank of Pakistan. The Tier-I component of CAR stood at 19.57%, as on 31st December, 2016 which is much above the norm of 6% stipulated by the State Bank of Pakistan. This advantage has stemmed mainly due to healthy assets and high rated Investment. The Earnings Per Share for the year 2016 stood at Rs.0.65 decreased by Rs.0.24 on comparison to Rs.0.89 last year. During the year under review, various improvements were made to the CAR reporting systems to facilitate the Basel-II reporting framework requirement.

Customer Services and Operations

The Bank remained committed to offer banking services, maintain improved outlook and improve internal environment of branches while ensuring effective implementation of systems and internal controls. Systems and procedures were upgraded to facilitate and guide the field functionaries to achieve operational efficiency and effectiveness.

Future Outlook

The BAJK is committed to its vision to emerge as a premier financial institution for fostering socio-economic development for the people of AJK. Going forward, the priorities of BAJK will be positioning in the market by acquiring the scheduled status. In this pursuit, concerted efforts will be made for making a convincing business case for the state holders to muster their support in all directions including legal and financial.

Going forward the management will adopt a strategy of consolidation of existing operations, technology upgradation, improving the quality of human resource for long term sustainability and competitiveness of the Institution. Secondly, on the business side an aggressive strategy will be adopted to enhance the outreach of the bank to all segments of customers and emerge as a catalyst of change in the socio-economic conditions by generating economic activities with focus on the low income groups of society through viable lending policies.

The bank’s focus during 2017 will be among other things on the following:

1. Efforts will be made in all directions including persuading the AJK Council. AJK Commercial Departments, potential private sector investors both from within and outside the country for equity participation for meeting the minimum capital requirement (MCR) to the maximum possible extent.

2. All lending activities will be driven by the only consideration of creating quality and earning assets for ensuring the sustainability of the operations and meeting the minimum requirements relating to risk management, corporate governance, customer due diligence (CDD) and anti-money laundering (AML) as laid down in SIR Prudential Regulations.

3. It will be ensured that all bank operations are in compliance of SIR Prudential Regulations and generally accepted banking norms and principles.

4. Professionals and competent management is the key requirement to remain competitive and ensure sustainability, hence, corporate professionals with broader outlook and impeccable record will be integrated in the management team.

5. For strengthening the earning capacity of the bank on strong footing, existing products will be reviewed and new products added matching the regional requirements. In asset products, cash flow capacity along with other requisites of sound lending will be made integral features for ensuring the future earnings as well as performing status of assets.

6. Systems and controls play vital role in risk management, transparency and effectiveness of the operations besides cost effectiveness and customer service. In this regard strong technology support will be arranged to remain competitive in the market. All functional areas of the bank will be equipped with MIS for better management.

7. For supporting the socio-economic development of the state, private sector initiatives in all potential sectors particularly hydropower, forestry, tourism, traditional handicrafts, health and education, having commercial viability will be fully supported.

8. To facilitate the customers in pan Pakistan inward remittances, the bank has agency arrangements in place with other banks. However, efforts are underway to have more banks as our correspondents. The Bank has supportive arrangements and extensive network of its branches to facilitate payment of inward remittances at fast track level with convenience and speed. Agency arrangements with leading exchange companies such as Money Gram have been strengthened and further streamlined. These arrangements will facilitate the payment of foreign inward remittances to account holders and walk in customers.

9. Improved technology will continue to remain corner stone of priorities for achieving operational efficiency, organizational effectiveness, better management, focus on growth and customer service.

10. Strengthen compliance and risk management system for enhancing the depth of the organization.

Acknowledgements

On behalf of the Board of Directors of the Bank, I would like to express my tremendous gratitude to the Honorable Prime Minister of Azad Kashmir for taking keen interest in patronizing BAJK for issuing directives to all Government functionaries for extending full cooperation in promoting the bank’s activities. I am also indebted to the Government of Azad Jammu & Kashmir for its support specially Chief Secretary AJK for his guidance and support to promote the activities of the Bank. I owe sincere gratitude to the valued customers for their continued patronage and reposing trust on the Bank. I also acknowledge the unrelenting efforts of the entire BAJK team for hard work, dedication and commitment.

May Allah Almighty bestow His blessings upon us.

For and on behalf of the Board of Directors

(Imran Samad)

Managing Director/CEO

BAJK
INDEPENDENT AUDITOR’S REPORT
TO THE MEMBERS OF THE BANK OF AZAD JAMMU AND KASHMIR

Opinion
We have audited the financial statements of The Bank of Azad Jammu and Kashmir (the Bank), which comprise statement of financial position as at December 31, 2016, profit and loss account for the year then ended, statement of other comprehensive income for the year then ended, statement of changes in equity for the year then ended, cash flow statement for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the Bank present fairly, in all material respects, the financial position of the Bank as at December 31, 2016 and of its financial performance and its cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan and the requirements of The Bank of Azad Jammu and Kashmir Act, 2005 (the Act) and its Bye-Laws 2007 (the Bye-Laws).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of financial statements in Pakistan and we have fulfilled our other responsibilities in accordance with the requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
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. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of those financial statements in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Act and the Bye-Laws, 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 intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are 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 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, 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.

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC Network
PIA Building, 3rd Floor, 4th Blue Area, Faisal-Boat Road, P.O. Box 3003, Islamabad 04500, Pakistan
Tel: +92 (51) 4277887-8/4273748-6/4273740-4/4273738-9, 4265808-9
Fax: +92 (51) 4277884, 4265827-9 < www.pwc.com/pk>
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.

We communicate with those charged with governance 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.

Chartered Accountants
Islamabad: June 7, 2017

Engagement Partner: S. Haidar Abbas
### THE BANK OF AZAD JAMMU AND KASHMIR

#### STATEMENT OF FINANCIAL POSITION

**ASSETS**

<table>
<thead>
<tr>
<th>Note</th>
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<td>9</td>
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<td>125,283</td>
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<td>11</td>
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<td>1,981</td>
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#### LIABILITIES

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<td>869,277</td>
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#### NET ASSETS

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<td></td>
<td>931,202</td>
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<td></td>
<td>18,119</td>
<td>8,791</td>
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<td>869,277</td>
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</table>

#### CONTINGENCIES AND COMMITMENTS

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<tr>
<th>Note</th>
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<th>2015</th>
</tr>
</thead>
<tbody>
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<td>794,704</td>
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<tr>
<td>22</td>
<td>333,382</td>
<td>375,948</td>
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<tr>
<td>23</td>
<td>475,416</td>
<td>418,756</td>
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<tr>
<td>24</td>
<td>79,711</td>
<td>46,558</td>
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<td></td>
<td>465</td>
<td>465</td>
</tr>
<tr>
<td></td>
<td>79,711</td>
<td>47,018</td>
</tr>
<tr>
<td></td>
<td>395,705</td>
<td>371,738</td>
</tr>
</tbody>
</table>

#### THE BANK OF AZAD JAMMU AND KASHMIR

#### PROFIT AND LOSS ACCOUNT

**FOR THE YEAR ENDED DECEMBER 31, 2016**

<table>
<thead>
<tr>
<th>Note</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>608,798</td>
<td>794,704</td>
</tr>
<tr>
<td>22</td>
<td>333,382</td>
<td>375,948</td>
</tr>
<tr>
<td>23</td>
<td>475,416</td>
<td>418,756</td>
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<tr>
<td>24</td>
<td>79,711</td>
<td>46,558</td>
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<tr>
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<td>465</td>
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<td></td>
<td>79,711</td>
<td>47,018</td>
</tr>
<tr>
<td></td>
<td>395,705</td>
<td>371,738</td>
</tr>
</tbody>
</table>

#### Non-mark-up / Interest income

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee, commission and brokerage income</td>
<td>17,313</td>
<td>22,462</td>
</tr>
<tr>
<td>Dividend income</td>
<td>10,691</td>
<td>2,235</td>
</tr>
<tr>
<td>Income from dealing in foreign currencies</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gain on sale of securities - net</td>
<td>17,113</td>
<td>9,065</td>
</tr>
<tr>
<td>Unrealized gain / (loss) on revaluation of investments classified as held for trading - net</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other income</td>
<td>5,619</td>
<td>5,060</td>
</tr>
<tr>
<td><strong>Total non-mark-up / interest income</strong></td>
<td>50,738</td>
<td>38,962</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>446,443</td>
<td>410,700</td>
</tr>
</tbody>
</table>

#### Non-mark-up / Interest expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative expenses</td>
<td>324,969</td>
<td>280,424</td>
</tr>
<tr>
<td>Other provisions / write offs</td>
<td>31,864</td>
<td>4,036</td>
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<tr>
<td><strong>Total non-mark-up / interest expenses</strong></td>
<td>356,833</td>
<td>284,460</td>
</tr>
<tr>
<td><strong>Profit before taxation</strong></td>
<td>89,608</td>
<td>125,440</td>
</tr>
<tr>
<td>Extraordinary / unusual items</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Profit before taxation</strong></td>
<td>89,608</td>
<td>125,440</td>
</tr>
<tr>
<td>- current</td>
<td>49,892</td>
<td>48,497</td>
</tr>
<tr>
<td>- prior year</td>
<td>16,537</td>
<td>12,220</td>
</tr>
<tr>
<td>- deferred</td>
<td>16,537</td>
<td>5,442</td>
</tr>
<tr>
<td><strong>Profit after taxation</strong></td>
<td>50,706</td>
<td>70,165</td>
</tr>
<tr>
<td>Unappropriated profit brought forward</td>
<td>94,519</td>
<td>153,320</td>
</tr>
<tr>
<td>Profit available for appropriation</td>
<td>145,555</td>
<td>295,515</td>
</tr>
</tbody>
</table>

#### Basic earnings per share - Rupees

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.65</td>
<td>0.39</td>
</tr>
</tbody>
</table>

The annexed notes 1 to 39 form an integral part of these financial statements.
THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016

2016  2015
Rupees in '000    

Profit after taxation  50,706  70,165

Other comprehensive income

Components of comprehensive income not reflected in equity

Surplus / (deficit) on revaluation of available for sale securities  14,365  (3,046)
Related deferred tax credit / (expense)  (5,027)  1,067
Deferred tax expense for the prior period  9,398  (6,121)

Comprehensive income transferred to equity - net of tax  60,044  64,044

Surplus / (deficit) arising on revaluation of "available for sale securities - net of tax" has been shown in the Statement of Comprehensive Income in order to comply with the revised "Prudential Regulations for Corporate / Commercial Banking" issued by the State Bank of Pakistan.

The annexed notes 1 to 39 form an integral part of these financial statements.

Chairman  Management Director  Director  Director

THE BANK OF AZAD JAMMU AND KASHMIR
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2016

Note  2016  2015
Rupees in '000    

Cash flow from operating activities

Profit before taxation  89,468  125,440
Less: dividend income  10,491  2,235

Adjustments:
Depreciation  22,976  17,705
Provision against non-performing loans and advances  79,711  46,538
Other provisions  31,864  4,815
Gain on sale of fixed assets  (1,840)  (921)
Amortization of deferred government grant  -  (9)

192,713  68,972

211,430  192,177

Decrease / (increase) in operating assets
Advances  144,463  (623,257)
Other assets  (120,117)  26,487

24,346  (594,770)

Increase in operating liabilities
Bills payable  1,082  2,082
Deposits and other accounts  404,748  797,928
Other liabilities  11,855  (10,864)

417,685  789,126

Cash generated from operations  653,663  386,533

Income tax paid  (40,779)  (27,706)
Net cash generated from operating activities  565,869  358,827

Cash flow from investing activities
Net Investment in available for sale securities  15,000  25,000
Net Investment in held to maturity securities  548,082  (6,371)
Dividend Income  10,691  2,235
Investments in operating fixed assets  (13,539)  (31,634)
Sale proceeds of operating fixed assets disposed off  2,048  97
Net cash flow from investing activities  559,282  (10,623)

Cash flow from financing activities
Increase in cash and cash equivalents  1,125,151  348,204
Cash and cash equivalents at beginning of the year  28  4,017,716
Cash and cash equivalents at end of the year  3,142,867  3,665,912

The annexed notes 1 to 39 form an integral part of these financial statements.

Chairman  Management Director  Director  Director
THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Unappropriated profit</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rupees in '000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance as at January 1, 2015</td>
<td>654,981</td>
<td>155,390</td>
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<tr>
<td>Total comprehensive income for the year ended December 31, 2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit for the year ended December 31, 2015</td>
<td>70,165</td>
<td>70,165</td>
</tr>
<tr>
<td>Other comprehensive income related to equity</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transactions with owners, recorded directly in equity</td>
<td>-</td>
<td>70,165</td>
</tr>
<tr>
<td>Issue of bonus shares @ 20% of paid up capital</td>
<td>130,996</td>
<td>130,996</td>
</tr>
<tr>
<td>Balance as at January 1, 2016</td>
<td>785,977</td>
<td>94,519</td>
</tr>
<tr>
<td>Total comprehensive income for the year ended December 31, 2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit for the year ended December 31, 2016</td>
<td>-</td>
<td>50,706</td>
</tr>
<tr>
<td>Other comprehensive income related to equity</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance as at December 31, 2016</td>
<td>785,977</td>
<td>145,225</td>
</tr>
</tbody>
</table>

The anned notes 1 to 39 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

1. STATUS AND NATURE OF BUSINESS


2. BASIS OF PRESENTATION

These financial statements have been presented in accordance with the requirements of format prescribed by the State Bank of Pakistan’s BS 13 Circular No 4 dated February 17, 2006, the Act and its Bye-Laws 2007 (the Bye-Laws).

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in PKR, Rupees, which is the Bank’s functional and presentation currency. Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirements of the Act, its Bye-Laws and approved accounting standards as applicable in Pakistan, for Banking Companies. Bye-Laws require that the statement of financial position and profit and loss account of the Bank shall be drawn up in conformity with the rules and regulations of the State Bank of Pakistan (SBP) and Section 34 of the Banking Companies Ordinance, 1962.

International Accounting Standard 39, “Financial Instruments: Recognition and Measurement”, International Accounting Standard 40, “Investment Property” and International Financial Reporting Standard 7, “Financial Instruments: Disclosure” are not applicable to banking companies in Pakistan. Accordingly, the requirements of these Standards have not been considered in the preparation of these financial statements. Accordingly, Investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

3.1 Adoption of new / revised standards, interpretations and amendments to approved accounting standards

(a) The following amendments to published accounting standards were effective during the year and have been adopted by the Bank:

Effective date (annual periods beginning on or after):

- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations (Amendments) January 1, 2016
- IFRS 11 Joint Arrangements (Amendments) January 1, 2016
- IAS 1 Presentation of Financial Statements (Amendments) January 1, 2016
- IAS 19 Employee Benefits (Amendments) January 1, 2016
- IAS 38 Intangible Assets (Amendments) January 1, 2016
b) Following standards have been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of their applicability in Pakistan:

Effective date (annual period beginning on or after)

<table>
<thead>
<tr>
<th>IFRS</th>
<th>Standard</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 1</td>
<td>First-time Adoption of International Financial Reporting Standards</td>
<td>July 1, 2009</td>
</tr>
<tr>
<td>IFRS 14</td>
<td>Regulatory Deferral accounts</td>
<td>January 1, 2016</td>
</tr>
</tbody>
</table>

c) Following standards and amendments to published accounting standards will be effective in future periods and have not been early adopted by the Bank.

Effective date (annual period beginning on or after)

<table>
<thead>
<tr>
<th>IFRS</th>
<th>Standard</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 1</td>
<td>First time Adoption of International Financial Reporting Standards (Amendments)</td>
<td>January 1, 2018</td>
</tr>
<tr>
<td>IFRS 2</td>
<td>Share Based payments (Amendments)</td>
<td>January 1, 2018</td>
</tr>
<tr>
<td>IFRS 4</td>
<td>Insurance Contracts</td>
<td>January 1, 2018</td>
</tr>
<tr>
<td>IFRS 7</td>
<td>Financial Instruments (Amendments)</td>
<td>January 1, 2018</td>
</tr>
<tr>
<td>IFRS 12</td>
<td>Disclosure of Interest in Other entities (Amendments)</td>
<td>January 1, 2017</td>
</tr>
<tr>
<td>IFRS 15</td>
<td>Revenue from Contracts with Customers</td>
<td>January 1, 2018</td>
</tr>
<tr>
<td>IFRS 16</td>
<td>Leases</td>
<td>January 1, 2019</td>
</tr>
<tr>
<td>IAS 12</td>
<td>Income taxes (amendments)</td>
<td>January 1, 2017</td>
</tr>
<tr>
<td>IAS 39</td>
<td>Financial Instruments : Recognition and Measurement (Amendments)</td>
<td>January 1, 2018</td>
</tr>
<tr>
<td>IAS 40</td>
<td>Investment Property (Amendments)</td>
<td>July 1, 2018</td>
</tr>
</tbody>
</table>

The management anticipates that adoption of above standards and amendments in future periods will have no material impact on the Bank’s financial statements other than in presentation disclosure.

4. BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention as modified for certain investments which are carried at fair values.

Use of critical accounting estimates and judgments

The preparation financial statements in conformity with approved accounting standards as applicable in Pakistan requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. The Bank uses estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

i) classification of investments (note 5.2)

ii) provision against Investments (note 5.2), advances (note 5.3), operating fixed assets (note 5.4) and other assets (note 5.5)

iii) valuation and impairment of available for sale securities (note 5.2)

iv) useful life of property and equipment (note 5.4)

v) taxation (note 5.7)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury banks, balances with other banks, call lendings and placements with financial institutions having maturities of three months or less.

5.2 Investments

Investments are classified as follows:

Held for trading

These represent securities acquired with the intention to trade by taking advantage of short-term market / interest rate movements. These are marked to market and surplus / deficit arising on revaluation of “held for trading” investments is taken to profit and loss account in accordance with the requirements of the SIF’s BSC Circular No. 10 dated July 13, 2004.

Available for sale

These represent securities which do not fall under “held for trading” or “held to maturity” categories, in accordance with the requirements of the SIF’s BSC Circular No. 20 dated August 04, 2000 and BPKD circular 56 dated June 26, 2014, available for sale securities for which ready quotations are available on Reuters Page (PKRX) or Stock Exchanges are valued at market value and the resulting surplus / deficit is taken through “Statement of Comprehensive Income” and is shown below the shareholders’ equity in the statement of financial position. Where the decline in price of available for sale equity securities is significant and prolonged, it is considered impaired and included in profit and loss account, impairment loss on available for sale debt securities is determined in accordance with the requirements of Prudential Regulations issued by SIFP.

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 audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

Held to maturity

These represent securities acquired with the intention and ability to hold them up to maturity. These are carried at amortized cost in accordance with the requirements of SIF’s BSC Circular No. 14 dated September 24, 2004.

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

5.3 Advances

Advances are stated net of provisions for non-performing advances. The Bank reviews its loan portfolio and debt securities classified as investments to assess the amount of non-performing loans and advances and debt securities and provision required there-against. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, the forced sale value of securities and requirements of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances, the Bank follows the general provision requirement set out in Prudential Regulations.

The provisions against non-performing advances are charged to the profit and loss account. Advances are written off when there is no realistic prospect of recovery.
5.4 Capital work-in-progress, operating fixed assets and depreciation

Capital work-in-progress

Capital work-in-progress is stated at cost.

Tangible assets

Fixed assets are stated at cost less impairment losses and accumulated depreciation except for freework / leasehold land which is not depreciated.

Intangible assets

Intangible assets are carried at cost less accumulated amortization and impairment losses if any.

Depreciation / amortization

Depreciation / amortization is computed on monthly basis over the estimated useful life of the related assets at the rates set out in note 10.2 on monthly basis. The cost of assets is depreciated / amortized on a straight line basis. Depreciation / amortization is charged for the full month of purchase / acquisition / availability for use of an asset while no depreciation / amortization is charged in the month of disposal of an asset. Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized. Gains and losses on disposal of operating fixed assets are taken to the profit and loss account.

In making estimates of the depreciation / amortization, the management uses useful life and residual value which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The useful life and the residual value are reviewed at each financial year end and any change in these estimates in future years might affect the carrying amounts of class specific item of operating fixed assets with the corresponding effect on depreciation / amortization charge.

5.5 Impairment

The carrying amount of the Bank’s assets are reviewed at the reporting date to determine whether there is any indication of impairment. If such indications exist, the asset’s recoverable amount is estimated in order to determine the extent of the impairment loss. If any, Impairment loss is recognized as expense in the profit and loss account. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation / amortization, if no impairment loss had been recognized.

5.6 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up accrued on deposits is recognized separately as part of other liabilities and is charged to the profit and loss account on a time proportion basis.

5.7 Taxation

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

Current

Provision for current tax is the expected tax payable on the taxable profit for the year using tax rates applicable at the date of statement of financial position and any adjustment to tax payable for previous years.

Deferred

Deferred tax is provided for by using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the date of statement of financial position. A deferred tax asset is recognized only to the extent that it is probable that the future taxable profit will be available and credits can be utilized. Deferred tax assets are reduced to the extent it is no longer probable that the related tax benefit will be realized. Deferred tax on revaluation of investments, if any, is recognized as an adjustment to surplus / (deficit) arising on such revaluation.

5.8 Staff retirement benefits

Gratuity scheme

The Bank operates funded defined contributory gratuity scheme for all permanent employees. Contributions are made by the Bank on monthly basis at the rate of one month last drawn basic pay for each completed year of service. However, no contribution will be made for those employees who are on deputation in the Bank or on extraordinary leave. Gratuity for service rendered during any part of the year shall be payable proportionately.

Provident fund

The Bank operates funded defined contributory provident fund scheme for all its permanent employees. Equal monthly contributions are made by the Bank and the employees at the rate of 8.33% of basic pay.

Leave encashment

The Bank provides compensated absences to all its employees. Provision for compensated absence is recognized based on the entitlement for leave encashment as per policy of the Bank.

5.9 Revenue recognition

Mark-up / Interest on advances and return on investments is recognized on accrual basis except on classified advances and investments which is recognized on receipt basis. Mark-up / Interest on rescheduled / restructured advances and investments is recognized as permitted by the regulations of the SBP, except where in the opinion of the management it would not be prudent to do so.

Fee, commission, etc. are recognized at the time of performance of service.

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

Purchase and sale of investments are recorded on the dates of contracts. Gains / losses on sale of Investments are also recorded on those dates and are included in income currently.

5.10 Government grant

Government grant related to assets are reflected in the Statement of Financial Position as deferred government grant which is recognized as income over the useful life of the depreciable assets equivalent to related depreciation charge.

Revenue grants are recognized as income necessary to match these grants with the related expenses incurred.

5.11 Foreign currency transactions

Assets and liabilities in foreign currencies are translated into Pak Rupees of the exchange rates prevailing at the date of statement of Financial position.

5.12 Provisions

Provisions other than provision on advances (stated in note 5.3) are recognized when the Bank has a present legal and constructive obligation arising as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

5.13 Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legal 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.

5.14 Appropriations subsequent to the date of statement of financial position

Appropriations subsequent to year end are recognised during the year in which those appropriations are made.

5.15 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) or in providing product or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank’s primary format of reporting is based on business segments.

5.15.1 Business segment

Corporate financing

Corporate financing includes corporate and investment banking activities such as mergers and acquisition, underwriting, privatization, research, debt (government, high yield), equity, syndications, initial public offers and secondary private placements.

Trading and sales

Trading and sales includes the Bank’s fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

Retail banking

Retail banking segment provides retail lending and deposits, banking services, trust and estates, investment advice, merchant / commercial / corporate cards and private labels and retail.

Commercial banking

Commercial banking segment provides services related to project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees and bills of exchange to corporate customers.

Payment and settlement

Payment and settlement includes income from payments and collections, funds transfer, clearing and settlement.

Agency service

Agency service include escrow, depository receipts, securities lending (customers) corporate actions and issuing and paying agents.

Retail brokerage

All brokerage services provided by the Bank are included in this line of business.

5.15.2 Geographical segments


5.16 Earnings per share

The Bank presents earnings per share (EPS) data for its ordinary shares. 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.

6. CASH AND BALANCES WITH TREASURY BANKS

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rupees in '000</td>
<td></td>
</tr>
<tr>
<td>In hand:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local currency</td>
<td>70,298</td>
<td>73,839</td>
</tr>
<tr>
<td>With National Bank of Pakistan in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local currency saving accounts - note 6.1</td>
<td>79,154</td>
<td>99,777</td>
</tr>
<tr>
<td>Local currency deposit accounts - note 6.2</td>
<td>1,150,000</td>
<td>700,000</td>
</tr>
<tr>
<td></td>
<td>1,299,452</td>
<td>873,616</td>
</tr>
</tbody>
</table>

6.1 These include savings deposits carrying markup at rates ranging between 4.00% to 5.46% (2015: 4% to 6.15%) per annum.

6.2 This represents term deposits carrying markup at rates ranging between 4.00% to 5.90% (2015: 4.00% to 6.23%) per annum with maturities up to three months.

7. BALANCES WITH OTHER BANKS

In Pakistan (Azad Jammu and Kashmir)

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rupees in '000</td>
<td></td>
</tr>
<tr>
<td>On current accounts</td>
<td>50,061</td>
<td>50,025</td>
</tr>
<tr>
<td>On deposit accounts</td>
<td>3,793,354</td>
<td>3,094,075</td>
</tr>
<tr>
<td></td>
<td>3,843,415</td>
<td>3,144,100</td>
</tr>
</tbody>
</table>

7.1 These include saving deposits carrying markup at rates ranging between 4.00% to 5.46% (2015: 4% to 6.15%) per annum.

7.2 These also include term deposits carrying markup at rates ranging between 5.75% to 19.84% (2015: 6.00% to 19.84%) per annum. Term deposits include an amount of Rs 300 million (2015: Rs 300 million) placed with a bank maturing in 2024. Remaining term deposits have maturities up to twelve months.
8. INVESTMENTS

8.1 Investments by types:

<table>
<thead>
<tr>
<th>Held by</th>
<th>Given as collateral</th>
<th>Total</th>
<th>Held by</th>
<th>Given as collateral</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td></td>
<td></td>
<td>Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rupees in ‘000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Available for sale (ATS) securities
- Units of open end mutual funds - note 8.4
  - 130,000
  - 130,000
  - 260,000
- Held to maturity securities
  - Pakistan Investment Bonds - note 8.5
    - 446,873
    - 446,873
    - 993,746
  - Term Finance Certificates - note 8.6
    - 49,940
    - 49,940
    - 99,880
- Total
  - 516,813
  - 516,813
  - 1,033,626

Investment cost
- 626,813
- 626,813
- 1,253,626

Provision for diminution in value of investment
- (49,940)
- (49,940)
- (99,880)

Investments (net of provision)
- 576,873
- 576,873
- 1,153,746

Provision on revaluation of securities - net
- 27,875
- 27,875
- 33,750

Total investments at market value
- 604,748
- 604,748
- 1,237,500

8.2 Investments by segments:

<table>
<thead>
<tr>
<th>Held by</th>
<th>Given as collateral</th>
<th>Total</th>
<th>Held by</th>
<th>Given as collateral</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td></td>
<td></td>
<td>Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rupees in ‘000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Pakistan Investment Bonds - Federal Government securities
- 446,873
- 446,873
- 993,746

Units of open end mutual funds
- 130,000
- 130,000
- 260,000

Term Finance Certificates - listed
- 49,940
- 49,940
- 99,880

Total investment cost
- 626,813
- 626,813
- 1,253,626

Provision for diminution in value of investment - note 8.3
- (49,940)
- (49,940)
- (99,880)

Investments (net of provision)
- 576,873
- 576,873
- 1,153,746

Provision on revaluation of ATS securities - net
- 27,875
- 27,875
- 33,750

Total investments at market value
- 604,748
- 604,748
- 1,237,500

8.3 Particulars of provision for diminution in value of Investments:

<table>
<thead>
<tr>
<th>Held by</th>
<th>Given as collateral</th>
<th>Total</th>
<th>Held by</th>
<th>Given as collateral</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td></td>
<td></td>
<td>Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rupees in ‘000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Opening balance
- 49,940
- 49,940

Closing balance
- 49,940
- 49,940

8.3.1 Particulars of provision in respect of type and segment

<table>
<thead>
<tr>
<th>Held to maturity securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term finance certificates</td>
</tr>
<tr>
<td>49,940</td>
</tr>
</tbody>
</table>

8.4 Units of open end mutual funds - listed

<table>
<thead>
<tr>
<th>No. of units</th>
<th>Paid up value per unit</th>
<th>Name of mutual fund</th>
<th>Held by</th>
<th>Given as collateral</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2015</td>
<td>2016</td>
<td>2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>755,423</td>
<td>891,458</td>
<td>63.66</td>
<td>National Investment Unit Trust Fund</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>3,184,047</td>
<td>3,184,047</td>
<td>9.42</td>
<td>NIB Government Bond Fund</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>2,501,742</td>
<td>2,501,712</td>
<td>9.99</td>
<td>NIB Islamic Equity Fund</td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>373,677</td>
<td>-</td>
<td>AKD Cash Fund</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>227,414</td>
<td>226,939</td>
<td>109.93</td>
<td>MCB Dynamic Cash Fund</td>
<td>25,000</td>
<td></td>
</tr>
</tbody>
</table>

8.5 Pakistan Investment Bonds carry mark-up at rates ranging between 11.25% to 11.50% (2015: 11.25% to 11.50%) per annum with semi-annual coupon payments and principal repayment maturing between July 1977 to July 2018.

8.6 Investments in term finance certificates - listed

<table>
<thead>
<tr>
<th>No. of certificates</th>
<th>Redeemable value per certificate (Rupees)</th>
<th>Held by</th>
<th>Given as collateral</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2015</td>
<td>2016</td>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>10,000</td>
<td>10,000</td>
<td>4,794</td>
<td>49,940</td>
<td>49,940</td>
</tr>
</tbody>
</table>

8.6.1 Paid up value of each security held was Rs. 5,000 per certificate, carrying mark-up of KIBOR + 1.5% maturing in 2017.

8.7 Quality of available for sale securities

<table>
<thead>
<tr>
<th>Held by</th>
<th>Given as collateral</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rupees in ‘000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Local securities
- Units of open end mutual funds
  - National Investment Unit Trust Fund
  - 48,756
  - 48,756
  - 97,512
  - 4 - Star
  - 56,376
  - 4 - Star
  - 32,353
  - 32,353
  - 64,706
  - AA-
  - 23,183
  - AA-
  - 32,097
  - 32,097
  - 64,194
  - AA-
  - 24,667
  - 24,667
  - 59,334
  - AA-
  - 19,254
  - 19,254
  - 38,508
  - AA-
  - 25,030
  - 25,030
  - 50,060
  - AA-

Ratings for these equity securities represent “Funds Ratings”. Local securities have either been rated by “The Pakistan Credit Rating Agency Limited (PACRA)” or “JCR-VIS Credit Rating Company Limited (JCR-VIS)”. These ratings reflect independent credit risk assessment by respective credit rating entities.
### Advances Include Rs. 397,445 thousand (2015: Rs 240,221 thousand) which have been placed under non-performing status are detailed below:

<table>
<thead>
<tr>
<th>Category of classification</th>
<th>December 31, 2016</th>
<th>Provision Required</th>
<th>Provision Held</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic</td>
<td>Overseas</td>
<td>Total</td>
</tr>
<tr>
<td>Rupees in '000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Assets Especially</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mentioned - note 9.3.1</td>
<td>85,290</td>
<td>-</td>
<td>85,290</td>
</tr>
<tr>
<td>Substandard</td>
<td>111,185</td>
<td>-</td>
<td>111,185</td>
</tr>
<tr>
<td>Doubtful</td>
<td>46,916</td>
<td>-</td>
<td>46,916</td>
</tr>
<tr>
<td>Loss</td>
<td>154,805</td>
<td>-</td>
<td>154,805</td>
</tr>
<tr>
<td></td>
<td>397,445</td>
<td>-</td>
<td>397,445</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category of classification</th>
<th>December 31, 2015</th>
<th>Provision Required</th>
<th>Provision Held</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic</td>
<td>Overseas</td>
<td>Total</td>
</tr>
<tr>
<td>Rupees in '000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Assets Especially</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mentioned - note 9.3.1</td>
<td>23,471</td>
<td>-</td>
<td>23,471</td>
</tr>
<tr>
<td>Substandard</td>
<td>64,642</td>
<td>-</td>
<td>64,642</td>
</tr>
<tr>
<td>Doubtful</td>
<td>28,352</td>
<td>-</td>
<td>28,352</td>
</tr>
<tr>
<td>Loss</td>
<td>123,755</td>
<td>-</td>
<td>123,755</td>
</tr>
</tbody>
</table>

### 9.3.1 This represents classification for agricultural finances.

#### 9.4 Particulars of provision against non-performing advances

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Specific Ruppes in '000</td>
<td>General Ruppes in '000</td>
</tr>
<tr>
<td>Opening balance</td>
<td>94,059</td>
<td>56,804</td>
</tr>
<tr>
<td>Charge for the year - net</td>
<td>79,105</td>
<td>606</td>
</tr>
<tr>
<td>Amounts charged off - agri loans - note 9.6</td>
<td>851</td>
<td>-</td>
</tr>
<tr>
<td>Closing balance</td>
<td>172,313</td>
<td>57,410</td>
</tr>
<tr>
<td>In local currency</td>
<td>172,313</td>
<td>57,410</td>
</tr>
<tr>
<td>In foreign currency</td>
<td>172,313</td>
<td>57,410</td>
</tr>
</tbody>
</table>
### 10.2 Property and equipment

#### 2016

<table>
<thead>
<tr>
<th></th>
<th>COST as at January 1, 2016</th>
<th>additions</th>
<th>deletions / write offs</th>
<th>as at December 31, 2016</th>
<th>DEPRECIATION charge for the year</th>
<th>as at December 31, 2016</th>
<th>Book Value as at December 31, 2016</th>
<th>Annual rate of depreciation %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land - freehold</td>
<td>40,000</td>
<td>-</td>
<td>-</td>
<td>40,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>Building on freehold land</td>
<td>14,407</td>
<td>-</td>
<td>-</td>
<td>14,407</td>
<td>3,390</td>
<td>1,441</td>
<td>14,407</td>
<td>9,046</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>22,021</td>
<td>4,271</td>
<td>-</td>
<td>26,292</td>
<td>13,014</td>
<td>3,877</td>
<td>26,292</td>
<td>9,401</td>
</tr>
<tr>
<td>Office equipment</td>
<td>16,608</td>
<td>1,883</td>
<td>-</td>
<td>18,491</td>
<td>7,976</td>
<td>2,698</td>
<td>18,491</td>
<td>7,817</td>
</tr>
<tr>
<td>Computers</td>
<td>27,457</td>
<td>1,548</td>
<td>-</td>
<td>29,005</td>
<td>13,994</td>
<td>3,861</td>
<td>29,005</td>
<td>11,150</td>
</tr>
<tr>
<td>Vehicles</td>
<td>28,432</td>
<td>2,319</td>
<td>(6,070)</td>
<td>24,881</td>
<td>17,048</td>
<td>5,250</td>
<td>17,048</td>
<td>8,445</td>
</tr>
<tr>
<td>Furniture and fittings</td>
<td>49,913</td>
<td>3,902</td>
<td>-</td>
<td>53,815</td>
<td>19,381</td>
<td>5,785</td>
<td>19,381</td>
<td>17,468</td>
</tr>
<tr>
<td>Carpets</td>
<td>97</td>
<td>142</td>
<td>-</td>
<td>1,129</td>
<td>889</td>
<td>64</td>
<td>889</td>
<td>17,167</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>200,025</strong></td>
<td><strong>14,065</strong></td>
<td>(6,070)</td>
<td><strong>208,020</strong></td>
<td><strong>75,222</strong></td>
<td><strong>22,976</strong></td>
<td><strong>75,222</strong></td>
<td><strong>93,336</strong></td>
</tr>
</tbody>
</table>

#### 2015

<table>
<thead>
<tr>
<th></th>
<th>COST as at January 1, 2015</th>
<th>additions</th>
<th>deletions / write offs</th>
<th>as at December 31, 2015</th>
<th>DEPRECIATION charge for the year</th>
<th>as at December 31, 2015</th>
<th>Book Value as at December 31, 2015</th>
<th>Annual rate of depreciation %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land - freehold</td>
<td>40,000</td>
<td>-</td>
<td>-</td>
<td>40,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>Building on freehold land</td>
<td>14,407</td>
<td>-</td>
<td>-</td>
<td>14,407</td>
<td>2,479</td>
<td>1,441</td>
<td>14,407</td>
<td>10,487</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>14,297</td>
<td>7,724</td>
<td>-</td>
<td>22,021</td>
<td>10,152</td>
<td>2,662</td>
<td>22,021</td>
<td>9,067</td>
</tr>
<tr>
<td>Office equipment</td>
<td>13,345</td>
<td>3,243</td>
<td>-</td>
<td>16,608</td>
<td>7,531</td>
<td>2,245</td>
<td>16,608</td>
<td>8,432</td>
</tr>
<tr>
<td>Computers</td>
<td>20,758</td>
<td>6,699</td>
<td>-</td>
<td>27,457</td>
<td>11,266</td>
<td>2,728</td>
<td>27,457</td>
<td>13,663</td>
</tr>
<tr>
<td>Vehicles</td>
<td>24,065</td>
<td>5,336</td>
<td>(969)</td>
<td>28,323</td>
<td>14,618</td>
<td>3,399</td>
<td>28,323</td>
<td>11,584</td>
</tr>
<tr>
<td>Furniture and fittings</td>
<td>39,341</td>
<td>10,572</td>
<td>-</td>
<td>49,913</td>
<td>14,436</td>
<td>4,945</td>
<td>49,913</td>
<td>19,381</td>
</tr>
<tr>
<td>Books</td>
<td>51</td>
<td>31</td>
<td>-</td>
<td>82</td>
<td>8</td>
<td>2</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td>Carpets</td>
<td>970</td>
<td>17</td>
<td>-</td>
<td>987</td>
<td>806</td>
<td>83</td>
<td>806</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>167,234</strong></td>
<td><strong>33,791</strong></td>
<td>(1,000)</td>
<td><strong>200,025</strong></td>
<td><strong>59,496</strong></td>
<td><strong>17,705</strong></td>
<td><strong>59,496</strong></td>
<td><strong>76,222</strong></td>
</tr>
</tbody>
</table>
10.2.1 Property and equipment includes cost of Rs.5,485 thousand (2015: Rs.5,485 thousand) and accumulated depreciation amounting to Rs.5,485 thousand (2015: Rs.5,485 thousand) in respect of assets donated by the Government of Azad Jammu and Kashmir.

10.3 Intangible asset

The Bank is in the process of implementation of Core Banking Information System (Holos) which is currently installed on certain branches of the Bank. This software is financed by Kashmir Council (Government of AJK).

10.4 Detail of disposals of operating fixed assets

<table>
<thead>
<tr>
<th>Particulars of assets</th>
<th>Original cost</th>
<th>Accumulated depreciation</th>
<th>Book value</th>
<th>Sale proceeds</th>
<th>Mode of disposal</th>
<th>Particulars of buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toyota Prado</td>
<td>2,688</td>
<td>2,688</td>
<td>-</td>
<td>1,710</td>
<td>Auction</td>
<td>Yoon Salt Asher</td>
</tr>
<tr>
<td>Toyota Corolla</td>
<td>1,300</td>
<td>1,300</td>
<td>-</td>
<td>130</td>
<td>As per policy</td>
<td>Masroor Khan, Employee</td>
</tr>
<tr>
<td>Honda Civic</td>
<td>2,082</td>
<td>1,874</td>
<td>208</td>
<td>208</td>
<td>As per policy</td>
<td>Masroor Khan, Ex MD</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicles</td>
<td>6,070</td>
<td>5,862</td>
<td>208</td>
<td>204</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>969</td>
<td>969</td>
<td>-</td>
<td>72</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. Deferred tax asset

Deferred tax arising due to:

- Tax depreciation: (2,956) (1,419)
- Provision against non-performing advances classified in sub-standard category: (7,397) (3,506)
- Provision for customer claims: (8,865) -
- Other provisions: (3,435) (1,659)

Surplus on revaluation of available for sale securities: 9,756 4,729

(13,386) (1,861)

11.1 Movement of deferred tax (asset) / liability

Opening deferred tax liability: (1,861) 468

Deferred credits recognised in profit and loss arising due to:

- Accelerated tax depreciation: (1,547) (251)
- Provision against non-performing advances classified in sub-standard category: (4,370) (3,506)
- Provision for customer claims: (8,865) -
- Other provisions: (1,750) (1,659)

(6,532) (5,442)

Deferred credits recognised in equity arising due to:

Surplus on revaluation of available for sale securities: 5,007 3,073

(13,386) (1,861)

12. OTHER ASSETS

- Income / mark-up accrued in local currency - note 12.1 and 12.2: 350,042 295,549
- Advances, deposits, advance rent and other prepayments: 15,615 17,804
- Advance tax - net of provision: 3,656 -
- Branch adjustment account: 28,510 5,101
- Stationary and stamps in hand: 2,691 1,419
- Others: 51,553 11,421

Total: 455,067 331,294

Provision against other assets - note 12.3: (4,818) (4,818)

Other assets - net of provision: 450,249 326,476

12.1 This includes an amount of Rs.1,872 thousand (2015: Rs.3,069 thousand) on account of interest receivable from related party.

12.2 This balance has been arrived at after adjusting interest in suspense of Rs. 46,566 thousand (2015: Rs. 30,186 thousand).

12.3 Provision against other assets

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>4,815</td>
<td>4,815</td>
</tr>
<tr>
<td>Charge for the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td>4,815</td>
<td>4,815</td>
</tr>
</tbody>
</table>

13. Bills Payable

- In Pakistan (Azad Jammu and Kashmir): 8,716 7,624

14. Deposits and Other Accounts

- Customers: Fix deposits: 2,633,125 2,469,382
- Savings deposits: 3,521,083 3,506,606
- Current accounts - non-remunerative: 1,690,694 1,464,776
- Others: 723 113

Total: 7,845,625 7,440,877

14.1 Particulars of deposits

- In local currency: 7,845,625 7,440,877
- In foreign currency: -

Total: 7,845,625 7,440,877

14.2 This includes deposits from related parties amounting to Rs. 3,665,349 thousand (2015: Rs. 3,279,965 thousand).

15. OTHER LIABILITIES

- Make-up / return / interest payable in local currency - note 15.1: 53,649 61,924
- Accrued expenses: 5,599 5,310
- Provision for bonus to employees: 12,000 9,000
- Provision against customer claims: 31,866 -
- Income tax payable: - 28,704
- Others: 29,545 12,704

Total: 132,659 117,642

15.1 This includes an amount of Rs. 25,829 thousand (2015: Rs. 31,022 thousand) on account of interest payable to related parties.

16. Share Capital

16.1 Authorised Capital

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares</td>
<td>200,000,000</td>
<td>200,000,000</td>
</tr>
<tr>
<td>Ordinary shares of Rs. 10 each</td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
</tbody>
</table>

2016 2015 Rupees in '000
16.2 Issued, subscribed and paid up

<table>
<thead>
<tr>
<th>Number of shares</th>
<th>Ordinary shares of Rs. 10 each:</th>
</tr>
</thead>
<tbody>
<tr>
<td>25,500,000</td>
<td>25,500,000 fully paid in cash</td>
</tr>
<tr>
<td>48,082,476</td>
<td>48,082,476 issued as bonus shares</td>
</tr>
<tr>
<td>5,015,300</td>
<td>5,015,300 issued for consideration other than cash</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>78,597,676</strong></td>
</tr>
</tbody>
</table>

16.3 The Government of Azad Jammu and Kashmir and Azad Kashmir Saw Mills Corporation own 100% percent of ordinary shares of the Bank as on December 31, 2016 in proportion of 80% and 20% respectively.

16.4 Reconciliation of number of ordinary shares

| Shares at the beginning of the year | 78,597,676 |
| Shares issued during the year | 65,498,063 |
| Shares at the year end | 13,099,613 |
| **Total** | **78,597,676** |

17. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

Surplus on revaluation of available for sale securities

Units of mutual funds - listed | 22,805 |
Relaxed deferred tax liability | 13,510 |
| **Total** | **36,315** |

18. CONTINGENCIES AND COMMITMENTS

18.1 Direct credit substitutes

- Guarantees in favour of Others | 2,300 |
| **Total** | **2,300** |

18.2 Commitments to extend credit | 289,995 |

18.3 Bills for collection | 59936 |

| **Total** | **59,552** |

19. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Off balance sheet financial instruments referred to as derivatives are contracts the characteristics of which are derived from those of underlying assets. These include forwards and swaps in money and foreign exchange markets. The Bank has no off balance sheet financial instrument at the year end.

20. DERIVATIVE INSTRUMENTS

The Bank at present does not offer any derivative product.

21. MARK-UP / RETURN / INTEREST EARNED

<table>
<thead>
<tr>
<th>Rupees in '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>On loans and advances to customers - note 22.1</td>
</tr>
<tr>
<td>On investment held to maturity securities</td>
</tr>
<tr>
<td>On deposits with financial institutions</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

21.1 This includes an amount of Rs.27,755 thousand (2015: Rs. 37,524 thousand) on account of interest earned on advance given to a related party.

22. MARK-UP / RETURN / INTEREST EXPENSED

<table>
<thead>
<tr>
<th>Rupees in '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>On deposits</td>
</tr>
</tbody>
</table>

22.1 This includes an amount of Rs. 166,661 thousand (2015: Rs. 267,424 thousand) on account of interest expense on deposits received from related parties.

23. GAIN ON SALE OF SECURITIES - NET

This represents gain on disposal of units of listed mutual funds.

24. OTHER INCOME

Amortization of deferred Government grant | 1,840 |
Gain on sale of fixed asset | 1,840 |
Site visits and fee collection charges | 5,779 |
| **Total** | **5,519** |

25. ADMINISTRATIVE EXPENSES

Salaries, allowances, etc. | 167,160 |
Gratuity - note 30.1 | 5,616 |
Contribution to provident fund - note 30.2 | 4,206 |
Fine to non executive directors | 659 |
Rent, taxes, insurance and electricity, etc. | 34,981 |
Legal and professional charges | 4,444 |
Communications | 10,790 |
Repairs and maintenance | 18,585 |
Stationery and printing | 2,086 |
Advertisement and publicity | 1,459 |
Auditors’ remuneration - note 25.1 | 1,980 |
Donation | 10 |
Entertainment | 5,806 |
Depreciation | 22,976 |
Travel and conveyance | 6,458 |
Training | 9 |
Security charges | 16,429 |
| **Total** | **265,759** |

26.1 Auditors’ remuneration

Annual Audit | 1,200 |
Half yearly review | 600 |
Out of pocket expenses | 180 |
| **Total** | **1,980** |

26.2 No donation was given to any donee in which the bank or any of its directors or their spouses had any interest.
26. TAXATION

For the year:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>current</td>
<td>46,892</td>
<td>48,497</td>
</tr>
<tr>
<td>deferred</td>
<td>16,532</td>
<td>3,891</td>
</tr>
<tr>
<td></td>
<td>33,360</td>
<td>44,606</td>
</tr>
</tbody>
</table>

For prior year(s):

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>current</td>
<td>5,542</td>
<td>12,220</td>
</tr>
<tr>
<td>deferred</td>
<td>-</td>
<td>(1,551)</td>
</tr>
<tr>
<td></td>
<td>5,542</td>
<td>10,669</td>
</tr>
</tbody>
</table>

26.1 Relationship between tax expense and accounting profit

Profit before taxation: 89,408
Tax at applicable tax rate of 35 percent (2015: 35 percent): 31,363
Effect of:
- charge for prior year: 5,542
- expenses not allowed: 1,997
- Other: (861)
Tax charge for the year: 38,902

26.2 The Bank is liable to pay super tax @ 4 percent of the taxable income initially imposed for the Tax year 2015 and extended for the tax year 2016 also.

27. BASIC/ DILUTED EARNINGS PER SHARE

Profit for the year - Rupees ‘000: 50,706
Weighted average number of ordinary shares - numbers: 78,597,676
Basic earnings per share - Rupees: 0.63

There is no dilutive effect on the basic earnings per share of the Bank.

28. CASH AND CASH EQUIVALENTS

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and balances with treasury banks</td>
<td>1,299,455</td>
<td>873,616</td>
</tr>
<tr>
<td>Balances with other banks</td>
<td>3,643,415</td>
<td>3,144,100</td>
</tr>
<tr>
<td></td>
<td>5,142,867</td>
<td>4,017,716</td>
</tr>
</tbody>
</table>

Number of employees:

- Permanent: 237
- Temporary / on contract basis: 139
- Daily wages: 9
- Bank’s own staff strength at the end of the year: 385
- Outsourced: 124
- Total staff strength at the end of the year: 509

29. STAFF STRENGTH

30. STAFF RETIREMENT BENEFITS

30.1 Gratuity

The Bank contributed Rs.5,616 thousand (2015: Rs. 6,186 thousand) during the year towards employees gratuity fund.

30.2 Provident fund

The Bank contributed Rs. 4,206 thousand (2015: Rs. 3,761 thousand) during the year towards employees contributory provident fund.

31. COMPENSATION OF DIRECTORS AND EXECUTIVES

<table>
<thead>
<tr>
<th>Managing Director</th>
<th>Director</th>
<th>Executives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees</td>
<td>-</td>
<td>648</td>
</tr>
<tr>
<td>Managerial remuneration</td>
<td>4,212</td>
<td>3,888</td>
</tr>
<tr>
<td>Contribution to defined contribution plan</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Contribution to defined gratuity fund</td>
<td>351</td>
<td>324</td>
</tr>
<tr>
<td>Rent and house maintenance</td>
<td>1,846</td>
<td>1,704</td>
</tr>
<tr>
<td>Utilities</td>
<td>211</td>
<td>194</td>
</tr>
<tr>
<td>Medical</td>
<td>247</td>
<td>208</td>
</tr>
<tr>
<td>Bonus</td>
<td>675</td>
<td>648</td>
</tr>
<tr>
<td>Leave Encashment</td>
<td>713</td>
<td>570</td>
</tr>
<tr>
<td>Others (Fuel Vehicle, Mobile charges, club membership &amp; Travelling)</td>
<td>1,105</td>
<td>1,574</td>
</tr>
<tr>
<td></td>
<td></td>
<td>9,580</td>
</tr>
</tbody>
</table>

Number of persons: 1 1 8 8 21 13

Executives mean employees, other than the chief executive and directors, whose basic salary exceeds five hundred thousand rupees in a financial year. The managing director and some executives are also provided with the Bank’s maintained cars.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

32.1 Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

The fair values of traded investments are based on quoted market prices, except for tradable securities classified as ‘held-to-maturity’ which are carried at amortised cost.

Fair value of fixed-term loans and deposits, other assets and other liabilities cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and resultant data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank’s accounting policy as stated in note 5.3 to these financial statements.

The maturity and replicating profile and effective rates are stated in note 36.4.1. In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since these assets and liabilities are either short-term in nature or, in the case of financings and deposits, are periodically repaid.

32.2 Off-balance sheet financial instruments

There are no off-balance sheet financial instruments as at December 31, 2016 (2015: Nil).
32.3 The table below analyses the financial and non-financial assets carried at fair values, by valuation methods. The Bank essentially carries its investments in debt and equity securities at fair values. Valuation of investments is carried out as per guidelines specified by the SBP.

The different levels have been defined as follows:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the assets or liabilities that are not based on observable market data (i.e., unobservable inputs e.g. estimated future cash flows) (level 3).

32.4 On-balance sheet financial instruments

<table>
<thead>
<tr>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rupees in ‘000</td>
<td>Rupees in ‘000</td>
<td>Rupees in ‘000</td>
<td>Rupees in ‘000</td>
</tr>
<tr>
<td>INVESTMENTS - NET</td>
<td>INVESTMENTS - NET</td>
<td>INVESTMENTS - NET</td>
<td>INVESTMENTS - NET</td>
</tr>
<tr>
<td>Available-for-sale securities</td>
<td>Available-for-sale securities</td>
<td>Available-for-sale securities</td>
<td>Available-for-sale securities</td>
</tr>
<tr>
<td>Units of mutual funds</td>
<td>Units of mutual funds</td>
<td>Units of mutual funds</td>
<td>Units of mutual funds</td>
</tr>
<tr>
<td>157,875</td>
<td>-</td>
<td>-</td>
<td>157,875</td>
</tr>
<tr>
<td>2015</td>
<td>2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rupees in ‘000</td>
<td>Rupees in ‘000</td>
<td>Rupees in ‘000</td>
<td>Rupees in ‘000</td>
</tr>
<tr>
<td>INVESTMENTS - NET</td>
<td>INVESTMENTS - NET</td>
<td>INVESTMENTS - NET</td>
<td>INVESTMENTS - NET</td>
</tr>
<tr>
<td>Available-for-sale securities</td>
<td>Available-for-sale securities</td>
<td>Available-for-sale securities</td>
<td>Available-for-sale securities</td>
</tr>
<tr>
<td>Units of mutual funds</td>
<td>Units of mutual funds</td>
<td>Units of mutual funds</td>
<td>Units of mutual funds</td>
</tr>
<tr>
<td>156,510</td>
<td>-</td>
<td>-</td>
<td>156,510</td>
</tr>
</tbody>
</table>

The Bank’s policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred. There were no transfers between fair value hierarchy levels 1 and 2 during the year.

a) Financial instruments in level 1

Financial instruments included in level 1 comprise of investments in units of open end mutual funds.

b) Financial instruments in level 2

Currently, no financial instruments are classified in level 2.

c) Financial instruments in level 3

Currently, no financial instruments are classified in level 3.

Valuation techniques and inputs used in determination of fair values within level 2.
34. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. The Government of Azad Jammu and Kashmir holds directly and indirectly bank’s entire share capital of the year end, therefore all its departments are related parties of the Bank. Also the Bank has related party relationships with its directors, key management personnel, entities over which the directors are able to exercise significant influence. Transaction with and balances due to/from such related parties have been disclosed in respective notes to the financial statements.

Details of balances due to/from related parties at the year end and transactions with them during the year are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Advances</td>
<td>250,500</td>
<td>304,744</td>
</tr>
<tr>
<td>- Deposits</td>
<td>3,663,349</td>
<td>3,279,865</td>
</tr>
<tr>
<td>- Mark-up/return/interest accrued on advances</td>
<td>1,872</td>
<td>3,069</td>
</tr>
<tr>
<td>- Mark-up/return/interest payable on deposits</td>
<td>25,829</td>
<td>31,022</td>
</tr>
<tr>
<td><strong>Transactions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Mark-up/interest earned</td>
<td>22,755</td>
<td>37,924</td>
</tr>
<tr>
<td>- Mark-up/interest expended</td>
<td>212,990</td>
<td>267,424</td>
</tr>
<tr>
<td>- Bonus shares issued during the year</td>
<td>-</td>
<td>130,996</td>
</tr>
<tr>
<td><strong>Other Related Parties</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution to Staff retirement benefit plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Staff Gratuity Fund</td>
<td>5,416</td>
<td>6,186</td>
</tr>
<tr>
<td>- Staff Provident Fund</td>
<td>4,205</td>
<td>3,761</td>
</tr>
</tbody>
</table>

35. CAPITAL ADEQUACY

35.1 Scope of Applications

Standardized Approach is used for calculating the Capital Adequacy for Market and Credit risk while Basic Indicator Approach (BIA) is used for Operational Risk.

35.2 Capital Management

The objective of managing capital is to safeguard the Bank’s ability to continue as a going concern, so that it could continue to provide adequate returns to shareholders by pricing products and services commensurately with the level of risk. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder’s return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Banks Bank’s regulatory capital is analysed into two tiers:

Tier I capital includes fully paid-up capital, share premium, reserves (excluding foreign exchange translation reserves) and unappropriated profits (net of losses) etc. after deductions for certain specified items such as book value of intangibles, reciprocal cross holdings in CET 1 instruments of Banking, Financial or Insurance entities, investments in mutual funds exceeding prescribed limits and 50% of other deductions e.g. majority and significant minority investments in insurance and other financial entities. Deductions that have come aresh as part of the Basel III rules such as those on account of Deferred Tax Assets are also required to be made. Banking, Financial or Insurance entities, investments in mutual funds exceeding prescribed limits and 50% of other deductions e.g. majority and significant minority investments in insurance and other financial entities. Deductions that have come aresh as part of the Basel III rules such as those on account of Deferred Tax Assets are also required to be made.

Tier II capital under Basel III is subject to a maximum of 2.5% of Total Risk Weighted Assets as of December 31, 2016. It includes subordinated debt issued prior to January 1, 2013 phased out at an annual rate of 10% Basel III compliant Tier II Instruments, general provisions for loan losses (up to a maximum of 1.25% of credit risk weighted assets), reserves on the revaluation of fixed assets and available for sale investments (on an after tax basis up to a maximum of 45 percent), foreign exchange translation reserves etc. Basel III rules however do allow for the inclusion of the remaining 50% of the revaluation reserves into Tier II capital at an inclusion rate equal to the rate of deduction specified under the transitional arrangements for the coming years up till 2018. Tier II capital deductions comprise of the remaining 50% other deductions noted above, reciprocal cross holdings in Tier II Instruments of banking, Financial or Insurance entities etc.

As of December 2016 the Bank must meet a Tier 1 to Tier 1A ratio of 7.5% and 10.25% respectively.

Banks operations are categorised as either trading book or banking book and risk-weighted assets are determined according to specified requirements of State Bank of Pakistan that seek to reflect the varying levels of risk attached to on-balance sheet and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk, market risk and operational risk.

On and off-balance sheet assets in the banking book are broken down to various asset classes for calculation of credit risk control. External ratings for assets, where available, are applied using the assessments by various External Credit Assessment Institutions (ECAs) and aligned with appropriate risk buckets. Otherwise, the exposures are treated as unrated and relevant risk weights are applied. In addition, there are fixed risk weights for certain types of exposures such as retail portfolio and residential mortgage finance for which external ratings are not applicable. Collaterals if any, are used as credit risk mitigants after applying appropriate haircuts under the Comprehensive Approach. Risk weights notified, are hence applied at adjusted exposures, wherever credit risk mitigation is available. Collaterals used include Government of Pakistan guarantees, cash, letter of credits, shares, government securities, bank and corporate guarantees and other debt securities that fall within the definition of eligible collaterals and also fulfill other specified criteria under the relevant capital adequacy guidelines.

The calculation of Capital Adequacy enables the Bank to assess the long-term soundness. As the Bank carries on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across the entire organisation and aggregate the risks so as to take an integrated approach view.
### 35.2.1 Capital Adequacy Ratio

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity Tier 1 Capital (CET1) instruments and reserves</td>
<td>753,977</td>
<td>753,977</td>
</tr>
<tr>
<td>Balance in Trade Premium Account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Reserve for Issue of Bonus Shares</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>General (Statutory) Reserves</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capital/(or) on derivatives within Cash Flow Hedge</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unappropriated/unrealised profits</td>
<td>14,225</td>
<td>94,519</td>
</tr>
<tr>
<td>Minority interests arising from CET1 capital instruments issued to their parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>CET1 before Regulatory Adjustments</td>
<td>931,222</td>
<td>890,496</td>
</tr>
<tr>
<td>Total regulatory adjustment applied to CET1 (Note 35.2.3)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Common Equity Tier 1</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Additional Tier 1 Capital instruments plus any related share premium (of which: Classified as equity) (of which: Classified as liabilities) (Amount of which: Additional Tier 1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group A1)) (Amount of which: Instrument issued by subsidiaries subject to phase out) (At fair value through regulatory adjustments) (At fair value through regulatory adjustments applied to CET1 capital (Note 35.2.3)) (Amount of additional Tier 1 capital deducted for capital adequacy) (Tier 1 Capital (CET1 + equivalent A1))</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>TIER 2 CAPITAL</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tier 2 Capital instruments under Basel II (plus any related share premium)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tier 2 capital instruments subject to phase-out arrangement issued under perpetual issuances (Amount of which: Tier 2 instruments issued to third parties by consolidated subsidiaries (amount allowed in group A2)) (Amount of which: Movements issued to subsidiaries subject to phase out) (General provisions or general reserves for loan losses up to maximum of 1% of Credit Risk) (Tier 2 Capital (allTier 2 capital instruments)) (Net of total) (Net of which: Issued and outstanding capital instruments (net of total) (Net of which: Issued and outstanding capital instruments (amount allowed in group A1)) (Foreign Exchange Translation Reserves) (Unallocated other reserves (if any))</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Tier 2 Before Regulatory Adjustments</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total regulatory adjustment applied to Tier 2 capital (Note 35.2.4)</td>
<td>75,529</td>
<td>65,585</td>
</tr>
<tr>
<td>Tier 2 capital (after regulatory adjustments)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tier 2 capital recognized for capital adequacy</td>
<td>75,529</td>
<td>65,585</td>
</tr>
<tr>
<td>Portion of Additional Tier 1 capital recognized under Tier 2 capital</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Tier 2 capital deductible for capital adequacy</td>
<td>75,529</td>
<td>65,585</td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL (Tier 1 + equivalent A1 + Tier 2)</strong></td>
<td>1,006,751</td>
<td>946,081</td>
</tr>
<tr>
<td><strong>Total Risk-Weighted Assets (RWA) – note 24.1</strong></td>
<td>4,072,088</td>
<td>3,071,115</td>
</tr>
</tbody>
</table>

### 35.2.2 Common Equity Tier 1 capital: Regulatory adjustments

- Common Equity Tier 1 (CET1) instruments and reserves
- Balance in Trade Premium Account
- Reserve for Issue of Bonus Shares
- General (Statutory) Reserves
- Capital/(or) on derivatives within Cash Flow Hedge
- Unappropriated/unrealised profits
- Minority interests arising from CET1 capital instruments issued to their parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)
- CET1 before Regulatory Adjustments
- Total regulatory adjustment applied to CET1 (Note 35.2.3)
- Common Equity Tier 1
  - Additional Tier 1 Capital instruments plus any related share premium
    - of which: Classified as equity
    - of which: Classified as liabilities
    - of which: Additional Tier 1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group A1)
    - of which: Instrument issued by subsidiaries subject to phase out
- Tier 1 Capital (CET1 + equivalent A1)
- Tier 2 Capital
  - Tier 2 capital instruments under Basel II (plus any related share premium)
  - Tier 2 capital instruments subject to phase-out arrangement issued under perpetual issuances
  - Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group A2)
  - of which: Movements issued to subsidiaries subject to phase out
  - General provisions or general reserves for loan losses up to maximum of 1% of Credit Risk
  - Tier 2 Capital (all Tier 2 capital instruments)
  - Net of total
  - Net of which: Issued and outstanding capital instruments (net of total)
  - Net of which: Issued and outstanding capital instruments (amount allowed in group A1)
  - Foreign Exchange Translation Reserves
  - Unallocated other reserves (if any)
- Tier 2 Before Regulatory Adjustments
- Total regulatory adjustment applied to Tier 2 capital (Note 35.2.4)
- Tier 2 Capital (after regulatory adjustments)
- Tier 2 capital recognized for capital adequacy
- Tier 2 capital (Equivalent Tier 2 capital)
- Total Tier 2 capital deductible for capital adequacy
- TOTAL CAPITAL (Tier 1 + equivalent A1 + Tier 2)
- Total Risk-Weighted Assets (RWA) – note 24.1
- Capital ratios and buffers (in percentage of risk-weighted assets)
  - CET1 Tier 1 Finis
  - Tier 1 capital to total RWA
  - Total capital to total RWA
  - Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer requirement)
  - of which: capital conservation buffer requirement
  - of which: countercyclical buffer requirement
  - of which: 0.5% or 1.25% buffer requirement
  - CET1 available to meet buffers (as a percentage of risk-weighted assets)
  - Reference minimum capital requirements prescribed by SBI
  - CET1 minimum ratio
  - Tier 1 minimum ratio
  - Tier 2 minimum ratio
  - Total capital minimum ratio

### 35.2.3 Additional Tier 1 & Tier 1 Capital: Regulatory adjustments

- Additional Tier 1 Capital instruments
- Tier 1 capital instruments
- Tier 2 capital instruments
- Tier 2 capital instruments subject to phase-out arrangement issued under perpetual issuances
- Tier 2 capital instruments issued to third parties by consolidated subsidiaries
- General provisions or general reserves for loan losses up to maximum of 1% of Credit Risk
- Tier 2 Capital (all Tier 2 capital instruments)
- Net of total
- Net of which: Issued and outstanding capital instruments (net of total)
- Net of which: Issued and outstanding capital instruments (amount allowed in group A1)
- Foreign Exchange Translation Reserves
- Unallocated other reserves (if any)
- Tier 2 Before Regulatory Adjustments
- Total regulatory adjustment applied to Tier 2 capital (Note 35.2.4)
- Tier 2 Capital (after regulatory adjustments)
- Tier 2 capital recognized for capital adequacy
- Tier 2 capital (Equivalent Tier 2 capital)
- Total Tier 2 capital deductible for capital adequacy
- Tier 2 Capital (all Tier 2 capital instruments)
- Net of total
- Net of which: Issued and outstanding capital instruments (net of total)
- Net of which: Issued and outstanding capital instruments (amount allowed in group A1)
- Foreign Exchange Translation Reserves
- Unallocated other reserves (if any)
- Tier 2 Before Regulatory Adjustments
- Total regulatory adjustment applied to Tier 2 capital (Note 35.2.4)
- Tier 2 Capital (after regulatory adjustments)
- Tier 2 capital recognized for capital adequacy
- Tier 2 capital (Equivalent Tier 2 capital)
- Total Tier 2 capital deductible for capital adequacy
- Tier 2 Capital (all Tier 2 capital instruments)
- Net of total
- Net of which: Issued and outstanding capital instruments (net of total)
- Net of which: Issued and outstanding capital instruments (amount allowed in group A1)
- Foreign Exchange Translation Reserves
- Unallocated other reserves (if any)
- Tier 2 Before Regulatory Adjustments
- Total regulatory adjustment applied to Tier 2 capital (Note 35.2.4)
- Tier 2 Capital (after regulatory adjustments)
- Tier 2 capital recognized for capital adequacy
- Tier 2 capital (Equivalent Tier 2 capital)
- Total Tier 2 capital deductible for capital adequacy
- Tier 2 Capital (all Tier 2 capital instruments)
- Net of total
- Net of which: Issued and outstanding capital instruments (net of total)
- Net of which: Issued and outstanding capital instruments (amount allowed in group A1)
- Foreign Exchange Translation Reserves
- Unallocated other reserves (if any)
- Tier 2 Before Regulatory Adjustments
- Total regulatory adjustment applied to Tier 2 capital (Note 35.2.4)
- Tier 2 Capital (after regulatory adjustments)
- Tier 2 capital recognized for capital adequacy
- Tier 2 capital (Equivalent Tier 2 capital)
- Total Tier 2 capital deductible for capital adequacy
- Tier 2 Capital (all Tier 2 capital instruments)
- Net of total
- Net of which: Issued and outstanding capital instruments (net of total)
- Net of which: Issued and outstanding capital instruments (amount allowed in group A1)
- Foreign Exchange Translation Reserves
- Unallocated other reserves (if any)
- Tier 2 Before Regulatory Adjustments
- Total regulatory adjustment applied to Tier 2 capital (Note 35.2.4)
- Tier 2 Capital (after regulatory adjustments)
- Tier 2 capital recognized for capital adequacy
- Tier 2 capital (Equivalent Tier 2 capital)
- Total Tier 2 capital deductible for capital adequacy
- Tier 2 Capital (all Tier 2 capital instruments)
- Net of total
- Net of which: Issued and outstanding capital instruments (net of total)
- Net of which: Issued and outstanding capital instruments (amount allowed in group A1)}
35.2.5 Additional Information

Risk Weighted Assets subject to the Basel 3.1 Treatment

Risk-weighted assets in respect of deduction from items (which during the transitional period will be risk-weighted) subject to the Basel 3.1 Treatment:

- Amounts below the thresholds for deductions (before risk weighting):
  - Non-significant investments in the capital of other financial entities
  - Significant investment in the common stock of financial entities
  - Deferred tax assets arising from temporary differences (net of undistributed profits)

Applicable caps on the inclusion of provisions in Tier 2

Provisions eligible for inclusion in Tier 2 in respect of measures subject to standardized approach prior to applicability:

Capped at the provisions in Tier 2 under standardized approach

Provisions eligible for inclusion in Tier 2 in respect of measures subject to internal capital adequacy approach (ratio application of cap)

- Capped at the provisions in Tier 2 under internal capital adequacy approach

Capital Structure - Recent Changes

<table>
<thead>
<tr>
<th>Balance sheet of the published financial statements</th>
<th>Under regulatory scope of consolidation</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at December 31, 2019</td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents with treasury banks</td>
<td>2,991,452</td>
</tr>
<tr>
<td><strong>Loan and advances</strong></td>
<td>2,843,410</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td>658,410</td>
</tr>
<tr>
<td><strong>Deposits and other accounts</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Net profit before tax</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Liabilities &amp; Equity</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Bank deposits</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Common Equity</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Total equity &amp; capital</strong></td>
<td>8,532,321</td>
</tr>
</tbody>
</table>

Balance Sheet of the Published Financial Statements at December 31, 2019

<table>
<thead>
<tr>
<th>Balance sheet of the published financial statements</th>
<th>Under regulatory scope of consolidation</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at December 31, 2019</td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents with treasury banks</td>
<td>2,991,452</td>
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</tr>
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</tr>
<tr>
<td><strong>Net profit before tax</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
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</tr>
<tr>
<td><strong>Liabilities &amp; Equity</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Bank deposits</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Common Equity</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Total equity &amp; capital</strong></td>
<td>8,532,321</td>
</tr>
</tbody>
</table>

Balance Sheet of the Published Financial Statements at December 31, 2019

<table>
<thead>
<tr>
<th>Balance sheet of the published financial statements</th>
<th>Under regulatory scope of consolidation</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at December 31, 2019</td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents with treasury banks</td>
<td>2,991,452</td>
</tr>
<tr>
<td><strong>Loan and advances</strong></td>
<td>2,843,410</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td>658,410</td>
</tr>
<tr>
<td><strong>Deposits and other accounts</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Net profit before tax</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Liabilities &amp; Equity</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Bank deposits</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Common Equity</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Total equity &amp; capital</strong></td>
<td>8,532,321</td>
</tr>
</tbody>
</table>

Balance Sheet of the Published Financial Statements at December 31, 2019

<table>
<thead>
<tr>
<th>Balance sheet of the published financial statements</th>
<th>Under regulatory scope of consolidation</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at December 31, 2019</td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
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<tr>
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<td>658,410</td>
</tr>
<tr>
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</tr>
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</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Liabilities &amp; Equity</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Bank deposits</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>358,410</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Common Equity</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8,532,321</td>
</tr>
<tr>
<td><strong>Total equity &amp; capital</strong></td>
<td>8,532,321</td>
</tr>
</tbody>
</table>
### Capital Adequacy

The capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan’s guidelines on capital adequacy, using standardized approaches for credit and market risks and basic indicator approach for operational risk is presented below.

#### Risk-weighted exposures

#### Credit Risk

#### Portfolios subject to standardized approach (simple or comprehensive)

#### On-balance sheet

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims on banks</td>
<td>118,694</td>
<td>84,141</td>
</tr>
<tr>
<td>Past due loans</td>
<td>36,272</td>
<td>17,590</td>
</tr>
<tr>
<td>Claims categorized as retail portfolio</td>
<td>138,103</td>
<td>136,592</td>
</tr>
<tr>
<td>Claims fully secured by residential property</td>
<td>12,274</td>
<td>20,706</td>
</tr>
<tr>
<td>Operating Fixed Assets</td>
<td>11,564</td>
<td>12,528</td>
</tr>
<tr>
<td>All other assets</td>
<td>44,975</td>
<td>32,836</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>361,880</td>
<td>306,393</td>
</tr>
</tbody>
</table>

#### Off balance sheet items

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-market related</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct credit substitute</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total credit risk</strong></td>
<td>361,880</td>
<td>306,393</td>
</tr>
</tbody>
</table>

#### Market risk

#### Portfolios subject to standardized approach

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity position risk</td>
<td>31,575</td>
<td>31,492</td>
</tr>
<tr>
<td>Operational risk</td>
<td>82,023</td>
<td>65,742</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>475,509</td>
<td>410,107</td>
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</tbody>
</table>

#### Capital Adequacy Ratios

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>CETI to total RWAs</td>
<td>6.00%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Tier 1 capital to total RWAs</td>
<td>7.50%</td>
<td>7.50%</td>
</tr>
<tr>
<td>Total capital to total RWAs</td>
<td>10.00%</td>
<td>10.00%</td>
</tr>
</tbody>
</table>
36.5 Main Features Template of Regulatory Capital Instruments

<table>
<thead>
<tr>
<th>Feature</th>
<th>Bank of Azad Jammu and Kashmir</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unique identifier (e.g. CUSIP, ISIN or Bloomberg) identifier for private placement</td>
<td></td>
</tr>
<tr>
<td>Regulatory treatment</td>
<td>Common equity Tier 1</td>
</tr>
<tr>
<td>Transitional Basel II rules</td>
<td>Common equity Tier 1</td>
</tr>
<tr>
<td>Post-transitional Basel III rules</td>
<td>Standalone</td>
</tr>
<tr>
<td>Eligible at solo / group / group &amp; solo</td>
<td>Common Shares 785,977</td>
</tr>
<tr>
<td>Instrument type</td>
<td>PFR 10 Shareholder equity 2006</td>
</tr>
<tr>
<td>Amount recognized in regulatory capital</td>
<td>Perpetual</td>
</tr>
<tr>
<td>(Currency In PKR thousands, as of reporting</td>
<td>No maturity</td>
</tr>
<tr>
<td>date)</td>
<td>No</td>
</tr>
<tr>
<td>Par value of instrument</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Accounting classification</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Original date of issuance</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Perpetual or dated</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Original maturity date</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Issuer call subject to prior supervisory</td>
<td>Not applicable</td>
</tr>
<tr>
<td>approval</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Optional call date, contingent call dates</td>
<td>Not applicable</td>
</tr>
<tr>
<td>and redemption amount</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Subsequent call dates, if applicable</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Coupons / dividends</td>
<td>Fully discretionary</td>
</tr>
<tr>
<td>Fixed or floating dividend/coupon</td>
<td>No</td>
</tr>
<tr>
<td>Coupon rate and any related index</td>
<td>Fully discretionary</td>
</tr>
<tr>
<td>Evident of a dividend stopper</td>
<td>No</td>
</tr>
<tr>
<td>Fully discretionary, partially discretionary</td>
<td>Not applicable</td>
</tr>
<tr>
<td>or mandatory</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Evidence of step up or other incentive to</td>
<td>Not applicable</td>
</tr>
<tr>
<td>redeem</td>
<td>No</td>
</tr>
<tr>
<td>Noncumulative or cumulative</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Convertible or non-convertible</td>
<td>Not applicable</td>
</tr>
<tr>
<td>If convertible, conversion trigger [s]</td>
<td>Not applicable</td>
</tr>
<tr>
<td>If convertible, fully or partially</td>
<td>Not applicable</td>
</tr>
<tr>
<td>If convertible, conversion rate</td>
<td>Not applicable</td>
</tr>
<tr>
<td>If convertible, mandatory or optional</td>
<td>Not applicable</td>
</tr>
<tr>
<td>conversion</td>
<td>Not applicable</td>
</tr>
<tr>
<td>If convertible, specify instrument type</td>
<td>Not applicable</td>
</tr>
<tr>
<td>convertible into</td>
<td>Not applicable</td>
</tr>
<tr>
<td>If convertible, specify issuer of instrument</td>
<td>Not applicable</td>
</tr>
<tr>
<td>If convertible, if it converts into</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Write-down feature</td>
<td>Write-down, write-down trigger(s)</td>
</tr>
<tr>
<td>If write-down, full or partial</td>
<td>No</td>
</tr>
<tr>
<td>If write-down, permanent or temporary</td>
<td>Not applicable</td>
</tr>
<tr>
<td>If temporary write-down, description of</td>
<td>“Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)”</td>
</tr>
<tr>
<td>write-up mechanism</td>
<td>Non-compliant transitioned features</td>
</tr>
<tr>
<td>If yes, specify non-compliant features</td>
<td></td>
</tr>
</tbody>
</table>

36.6 RISK MANAGEMENT

The Bank’s activities expose it to a variety of financial risks, including the credit and interest rate risk associated with various financial assets and liabilities respectively.

The Bank finances its operations through equity, deposits and management of working capital with a view to maintaining a reasonable risk between the various sources of finance to minimize risk.

Tackled as a whole, risk arising from the Bank’s financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

Bank regularly reviews and updates policy manuals and procedures in accordance with domestic regulatory environment and international standards.

36.6.1 Credit risk

Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability is impaired resulting in economic loss to the Bank. The Bank takes necessary measures to control such risk by monitoring credit exposures, limiting transactions with specific counter parties with increased likelihood of default and continually assessing the creditworthiness of counter parties.

36.6.1.1 Segment Information

36.6.1.1.1 Segments by class of business

<table>
<thead>
<tr>
<th>Segment</th>
<th>Advances (Gross)</th>
<th>Deposits</th>
<th>Contingencies and Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rupees in ’000</td>
<td>Percent</td>
<td>Rupees in ’000</td>
</tr>
<tr>
<td>Agriculture, forestry, hunting and</td>
<td>537,640</td>
<td>11.54</td>
<td>-</td>
</tr>
<tr>
<td>fishing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>27,940</td>
<td>0.68</td>
<td>-</td>
</tr>
<tr>
<td>Power (electricity), Gas, Water,</td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Sanitary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>65,115</td>
<td>22.94</td>
<td>54,240</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Individuals</td>
<td>1,499,296</td>
<td>52.81</td>
<td>4,059,757</td>
</tr>
<tr>
<td>Government</td>
<td>250,500</td>
<td>8.02</td>
<td>3,665,349</td>
</tr>
<tr>
<td>Others</td>
<td>82,576</td>
<td>2.91</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2,639,152</td>
<td>100</td>
<td>7,845,625</td>
</tr>
</tbody>
</table>

2015

| Segment                                | Advances (Gross) | Deposits | Contingencies and Commitments |
|                                        | Rupees in ’000  | Percent | Rupees in ’000  | Percent | Rupees in ’000  | Percent |
| Agriculture, forestry, hunting and     | 414,246          | 13.88    | -                      | -       | -                      | -       |
| fishing                                 |                  |          |                        |          |                        |          |
| Construction                            | 28,292           | 0.95     | -                      | -       | -                      | -       |
| Power (electricity), Gas, Water,       |                  |          | -                      | -       | -                      | -       |
| Sanitary                                |                  |          |                        |          |                        |          |
| Wholesale and retail trade             | 567,269          | 19.01    | 51,442                | 0.69    | -                      | -       |
| Services                                |                  |          | -                      | -       | -                      | -       |
| Individuals                             | 1,532,973        | 51.37    | 4,064,747             | 54.39   | -                      | -       |
| Government                              | 346,668          | 12.32    | 3,279,865             | 44.08   | -                      | -       |
| Others                                  | 77,081           | 2.88     | -                      | -       | 247,559                | 100.02  |
|                                        | 2,984,469        | 100      | 7,440,877              | 100     | 247,559                | 100.02  |
### 36.1.2 Segments by sector

<table>
<thead>
<tr>
<th></th>
<th>Advances (Gross)</th>
<th>Deposits</th>
<th>Contingencies and Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rupees in '000</td>
<td>Rupees in '000</td>
<td>Rupees in '000</td>
</tr>
<tr>
<td></td>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
</tr>
<tr>
<td>Public / Government</td>
<td>290,500</td>
<td>3,655,349</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>8.02</td>
<td>46.72</td>
<td>-</td>
</tr>
<tr>
<td>Private</td>
<td>2,588,453</td>
<td>4,180,276</td>
<td>286,325</td>
</tr>
<tr>
<td></td>
<td>91.18</td>
<td>53.28</td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td>7,843,457</td>
<td>100</td>
<td>286,325</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

### 36.1.3 Details of Non-Performing Advances and Specific Provisions by Class of Business Segment

<table>
<thead>
<tr>
<th></th>
<th>Classified Advances</th>
<th>Specific Provisions Held</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rupees in '000</td>
<td>Classi ed Advances</td>
</tr>
<tr>
<td></td>
<td>Percent</td>
<td>Percent</td>
</tr>
<tr>
<td>Agriculture, Forestry, Hunting and Fishing</td>
<td>121,415</td>
<td>73,812</td>
</tr>
<tr>
<td>Construction</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Power (Electricity), Gas, Water, Sanitary</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Wholesale and Retail Trade</td>
<td>144,254</td>
<td>36,872</td>
</tr>
<tr>
<td>Services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Individuals</td>
<td>131,567</td>
<td>129,536</td>
</tr>
<tr>
<td>Government</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>397,445</td>
<td>240,230</td>
</tr>
</tbody>
</table>

### 36.1.6 Geographical Segment Analysis

<table>
<thead>
<tr>
<th></th>
<th>Profit before taxation</th>
<th>Total assets employed</th>
<th>Net assets employed</th>
<th>Contingencies and Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rupees in '000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pakistan (Azad Jammu and Kashmir)</td>
<td>BP 401</td>
<td>8,936,321</td>
<td>949,221</td>
<td>286,323</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>BP 401</td>
<td>8,936,321</td>
<td>949,221</td>
<td>286,323</td>
</tr>
</tbody>
</table>

### 36.1.5 Details of Non-Performing Advances and Specific Provisions by Sector

<table>
<thead>
<tr>
<th></th>
<th>Public / Government</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rupees in '000</td>
<td>Rupees in '000</td>
</tr>
<tr>
<td></td>
<td>Percent</td>
<td>Percent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>397,445</td>
<td>240,230</td>
</tr>
</tbody>
</table>

### 36.1.6.1 Contingencies and commitments include amounts given in note 20 except bills for collection.

### 36.2 Credit Risk: general disclosures

The Bank has adopted Standardized approach of Basel II for calculation of capital charge against credit risk in line with the SBP’s requirements.

### 36.2.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

Under standardized approach, the capital requirement is based on the credit rating assigned to the counter parties by the External Credit Assessment Institutions (ECAs) duly recognized by SBP for capital adequacy purposes, Bank utilizes, wherever available, the credit ratings assigned by the SBP recognized ECAs, viz. PACRA (Pakistan Credit Rating Agency), JCIR-Vis (Japan Credit Rating Company- Vital Information Systems). Credit rating data for advances is obtained from recognized External Credit Assessment Institutions and then mapped to State Bank of Pakistan’s Rating Grades.

Type of Exposures for which the ratings from the External Credit Rating Agencies are used by the Bank.
### Long Term Ratings Grades Mapping

<table>
<thead>
<tr>
<th>SBP Rating</th>
<th>PACRA</th>
<th>JCR-VIS</th>
<th>Fitch</th>
<th>Moody's</th>
<th>S&amp;P</th>
<th>ECA Scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AAA+</td>
<td>AAA+</td>
<td>AAA</td>
<td>Aa1</td>
<td>AAA</td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>AAA+</td>
<td>AAA+</td>
<td>AAA</td>
<td>Aa2</td>
<td>AA</td>
<td>1</td>
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<tr>
<td>1</td>
<td>AAA+</td>
<td>AAA+</td>
<td>AA</td>
<td>Aa3</td>
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<td>AAA+</td>
<td>AAA+</td>
<td>AA</td>
<td>Aa3</td>
<td>AA</td>
<td>1</td>
</tr>
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<td>AA+</td>
<td>A1</td>
<td>A+</td>
<td>A</td>
<td>2</td>
</tr>
<tr>
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<td>A+</td>
<td>AA+</td>
<td>AA</td>
<td>A1</td>
<td>A</td>
<td>2</td>
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<td>Baa1</td>
<td>Baa3</td>
<td>Ba3</td>
<td>Ba3</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Baa1</td>
<td>Baa1</td>
<td>Baa3</td>
<td>Ba3</td>
<td>Ba3</td>
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<tr>
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<td>Baa1</td>
<td>Baa3</td>
<td>Ba3</td>
<td>Ba3</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Ba1</td>
<td>Ba1</td>
<td>Ba1</td>
<td>Ba1</td>
<td>Ba1</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>Ba1</td>
<td>Ba1</td>
<td>Ba1</td>
<td>Ba1</td>
<td>Ba1</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Ba1</td>
<td>Ba1</td>
<td>Ba1</td>
<td>Ba1</td>
<td>Ba1</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Ba1</td>
<td>Ba1</td>
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<td>Ba1</td>
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</tr>
<tr>
<td>6</td>
<td>CCC+</td>
<td>CCC+</td>
<td>CCC+</td>
<td>CCC+</td>
<td>CCC+</td>
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</tr>
</tbody>
</table>

### Short Term Ratings Grades Mapping

<table>
<thead>
<tr>
<th>SBP Rating</th>
<th>PACRA</th>
<th>JCR-VIS</th>
<th>Fitch</th>
<th>Moody's</th>
<th>S&amp;P</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1</td>
<td>A-1</td>
<td>A-1</td>
<td>F1</td>
<td>F-1</td>
<td>A-1</td>
</tr>
<tr>
<td>S2</td>
<td>A-2</td>
<td>A-2</td>
<td>F2</td>
<td>F-2</td>
<td>A-2</td>
</tr>
<tr>
<td>S3</td>
<td>A-3</td>
<td>A-3</td>
<td>F3</td>
<td>F-3</td>
<td>A-3</td>
</tr>
<tr>
<td>S4</td>
<td>Others</td>
<td>Others</td>
<td>Others</td>
<td>Others</td>
<td>Others</td>
</tr>
</tbody>
</table>

Bank uses credit assessments for constantly monitoring initial credit screening and overall risk profile of the entire credit portfolio.

The credit portfolio of the Bank is restricted to operations in State of Azad Jammu and Kashmir which mainly comprise exposures to Government or Semi-Govt. departments. The exposures other than Government relates to Consumer, Microfinances or non-corporate entities.

Bank maintains high quality investments and exposure to other Banks. The investments in Term Finance Certificates are made in high quality bonds and mutual funds, as stated in note 9.4 to these financial statements.

The Bank also monitors and maintains its exposure to other banks with quality credit rating which are not lower than "A" category.

#### 36.3 Market Risk

Market risk is the risk that the value of on and off-balance sheet positions of the Bank will be adversely affected by movements in interest rates, foreign exchange rates and equity prices resulting in a loss to earnings and capital. The Bank's interest rates exposure comprises those originating from investing and lending activities. The Asset and Liability Management Committee of the Bank monitors and manages the interest rates risk with the objective of limiting the potential adverse effect on the profitability of the Bank.

#### 36.4.1 Foreign exchange risk

Foreign exchange risk / currency risk is defined as risk of loss to earnings and capital arising from adverse movements in currency exchange rates. The Bank is not exposed to the foreign exchange risk since all the Bank’s assets and liabilities are held in the local currency i.e. Pak Rupees.

#### 36.4.2 Equity position risk

It is the risk of loss to earnings or capital as a result from unfavorable fluctuations in prices of shares in which the Bank carries long and / or short positions. In its trading book, ALCO is responsible for making investment decisions in the capital market and setting limits that are a component of the risk management framework. Portfolio limits are assigned by the ALCO to guard against concentration risk and these limits are reviewed and revised periodically. Limit monitoring is done on daily basis. Limit breaches if any are promptly reported to ALCO with proper reason and justification.

#### 36.4.3 Yield / Interest rate risk

Yield / Interest rate risk is the risk that a financial instrument will suffer either a decline because future changes in prevailing interest rates impact assets more or less than they impact liabilities. Risk is addressed by ALCO that reviews the interest rate dynamics at regular intervals and decides re-pricing of assets and liabilities to ensure that the spread of the Bank remains at an acceptable level.

#### 36.4.4 Mismatch of interest rate sensitive assets and liabilities

Yield / Interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.
## 2016

### Effective vs. exposed to yield interest risk

<table>
<thead>
<tr>
<th>Yield / Interest rate</th>
<th>Over 1</th>
<th>Over 2</th>
<th>Over 6</th>
<th>Over 1</th>
<th>Over 2</th>
<th>Over 3</th>
<th>Over 5</th>
<th>Non-interest bearing financial instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Rs. 1,299,452</td>
<td>Rs. 1,090,000</td>
<td>Rs. 575,000</td>
<td>Rs. 575,000</td>
<td>Rs. 300,000</td>
<td>Rs. 300,000</td>
<td>Rs. 300,000</td>
<td>Rs. 300,000</td>
</tr>
<tr>
<td>Months</td>
<td>676,000</td>
<td>1,090,000</td>
<td>575,000</td>
<td>575,000</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Assets</td>
<td>19,428</td>
<td>50,543</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>8,716</td>
<td>8,716</td>
<td>8,716</td>
<td>8,716</td>
<td>8,716</td>
<td>8,716</td>
<td>8,716</td>
<td>8,716</td>
</tr>
</tbody>
</table>

### On-balance sheet financial instruments

#### Cash and balances with treasury banks

- 19,428

#### Balances with other banks

- 50,543

#### Lending to financial institutions

- 300,000

#### Investments

- 300,000

#### Advances

- 8,716

#### Other assets

- 8,716

### Liabilities

#### Bills payable

- 8,716

#### Borrowings

- 8,716

#### Deposits and other accounts

- 8,716

#### Liabilities against assets subject to finance lease

- 8,716

#### Other liabilities

- 8,716

### On-balance sheet gap

- 8,716

### 2015

#### Effective yield / interest rate

<table>
<thead>
<tr>
<th>Over 1</th>
<th>Over 2</th>
<th>Over 6</th>
<th>Over 1</th>
<th>Over 2</th>
<th>Over 3</th>
<th>Over 5</th>
<th>Non-interest bearing financial instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Rs. 283,995</td>
<td>Rs. 283,995</td>
<td>Rs. 283,995</td>
<td>Rs. 283,995</td>
<td>Rs. 283,995</td>
<td>Rs. 283,995</td>
<td>Rs. 283,995</td>
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<tr>
<td>Months</td>
<td>146,000</td>
<td>146,000</td>
<td>146,000</td>
<td>146,000</td>
<td>146,000</td>
<td>146,000</td>
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<tr>
<td>Assets</td>
<td>283,995</td>
<td>283,995</td>
<td>283,995</td>
<td>283,995</td>
<td>283,995</td>
<td>283,995</td>
<td>283,995</td>
</tr>
<tr>
<td>Liabilities</td>
<td>283,995</td>
<td>283,995</td>
<td>283,995</td>
<td>283,995</td>
<td>283,995</td>
<td>283,995</td>
<td>283,995</td>
</tr>
</tbody>
</table>

#### Off-balance sheet financial instruments

#### Purchase and resale agreements

- 283,995

#### Sales and repurchase agreements

- 283,995

#### Commitments to extend credit

- 283,995

#### Off-balance sheet gap

- 283,995

#### Total yield / interest rate sensitivity gap

- 283,995

#### Cumulative yield / interest rate sensitivity gap

- 283,995

### 2015

#### Effective yield / interest rate

<table>
<thead>
<tr>
<th>Over 1</th>
<th>Over 2</th>
<th>Over 6</th>
<th>Over 1</th>
<th>Over 2</th>
<th>Over 3</th>
<th>Over 5</th>
<th>Non-interest bearing financial instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Rs. 7,999,500</td>
<td>Rs. 7,009,500</td>
<td>Rs. 6,305,500</td>
<td>Rs. 6,305,500</td>
<td>Rs. 6,305,500</td>
<td>Rs. 6,305,500</td>
<td>Rs. 6,305,500</td>
</tr>
<tr>
<td>Months</td>
<td>3,545,000</td>
<td>3,545,000</td>
<td>3,545,000</td>
<td>3,545,000</td>
<td>3,545,000</td>
<td>3,545,000</td>
<td>3,545,000</td>
</tr>
<tr>
<td>Assets</td>
<td>7,999,500</td>
<td>7,009,500</td>
<td>6,305,500</td>
<td>6,305,500</td>
<td>6,305,500</td>
<td>6,305,500</td>
<td>6,305,500</td>
</tr>
<tr>
<td>Liabilities</td>
<td>7,999,500</td>
<td>7,009,500</td>
<td>6,305,500</td>
<td>6,305,500</td>
<td>6,305,500</td>
<td>6,305,500</td>
<td>6,305,500</td>
</tr>
</tbody>
</table>

#### Off-balance sheet financial instruments

#### Purchase and resale agreements

- 7,999,500

#### Sales and repurchase agreements

- 7,999,500

#### Commitments to extend credit

- 7,999,500

#### Off-balance sheet gap

- 7,999,500

#### Total yield / interest rate sensitivity gap

- 7,999,500

#### Cumulative yield / interest rate sensitivity gap

- 7,999,500

### Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

### 31.3.5 Reconciliation of assets and liabilities exposed to yield / interest rate risk with total assets and liabilities

<table>
<thead>
<tr>
<th>2014</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconciliation of total assets</td>
<td>Reconciliation of total liabilities</td>
<td>Reconciliation of total liabilities</td>
</tr>
<tr>
<td>Total financial assets</td>
<td>8,927,297</td>
<td>8,328,296</td>
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<tr>
<td>Add: Non financial assets</td>
<td>115,589</td>
<td>125,283</td>
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<tr>
<td>Operating lease assets</td>
<td>129,525</td>
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<tr>
<td>Balance as per balance sheet</td>
<td>8,328,296</td>
<td>8,328,296</td>
</tr>
</tbody>
</table>

### 31.4.2 Balance as per balance sheet

- 8,328,296
### 36.4.1 Maturities of Assets and Liabilities

#### 2016

<table>
<thead>
<tr>
<th>Assets</th>
<th>Total</th>
<th>Upto 1 Month</th>
<th>Over 1 to 3 Months</th>
<th>Over 3 to 6 Months</th>
<th>Over 6 Months to 1 Year</th>
<th>Over 1 Year to 2 Years</th>
<th>Over 2 Years to 3 Years</th>
<th>Over 3 Years to 5 Years</th>
<th>Over 5 Years to 10 Years</th>
<th>Above 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and balances with treasury banks</td>
<td>1,299,452</td>
<td>146,452</td>
<td>1,097,000</td>
<td>160,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Balances with other banks</td>
<td>3,843,415</td>
<td>575,211</td>
<td>1,165,194</td>
<td>578,000</td>
<td>575,000</td>
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<td>350,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Lending to financial institution</td>
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<td>-</td>
<td>249,013</td>
<td>197,857</td>
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<tr>
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<td>2,929,430</td>
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<td>224,014</td>
<td>319,252</td>
<td>588,079</td>
<td>593,113</td>
<td>521,289</td>
<td>280,413</td>
<td>24,768</td>
<td>9,022</td>
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<td>21,859</td>
<td>26,823</td>
<td>3,960</td>
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<tr>
<td>Operating fixed assets</td>
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<td>13,389</td>
<td>13,389</td>
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<tr>
<td>Deferred tax assets</td>
<td>450,252</td>
<td>144,432</td>
<td>63,298</td>
<td>45,926</td>
<td>12,213</td>
<td>5,856</td>
<td>3,005</td>
<td>807</td>
<td>174,157</td>
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</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Total</th>
<th>Upto 1 Month</th>
<th>Over 1 to 3 Months</th>
<th>Over 3 to 6 Months</th>
<th>Over 6 Months to 1 Year</th>
<th>Over 1 Year to 2 Years</th>
<th>Over 2 Years to 3 Years</th>
<th>Over 3 Years to 5 Years</th>
<th>Over 5 Years to 10 Years</th>
<th>Above 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills payable</td>
<td>8,716</td>
<td>8,716</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Borrowings</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deposits and other accounts</td>
<td>7,865,255</td>
<td>5,788,098</td>
<td>1,224,003</td>
<td>145,000</td>
<td>485,100</td>
<td>65,444</td>
<td>91,370</td>
<td>46,693</td>
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<tr>
<td>Subordinated loans</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Liabilities against assets subject to finance lease</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>Deferred tax liabilities</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deferred Government grant</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Other liabilities</td>
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<td>91,290</td>
<td>21,293</td>
<td>10,028</td>
<td>18,285</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

| Share Capital                      | 785,977 | | | | | | | | | |
| Reserves                            | - | | | | | | | | | |
| Unappropriated profit               | 145,225 | | | | | | | | | |
| Surplus on revaluation of assets    | 8,811 | | | | | | | | | |

| Total                               | 8,906,321 | 1,240,000 | 2,482,520 | 1,063,451 | 1,440,687 | 789,685 | 519,277 | 636,150 | 498,928 | 49,022 |

#### 2015

<table>
<thead>
<tr>
<th>Assets</th>
<th>Total</th>
<th>Upto 1 Month</th>
<th>Over 1 to 3 Months</th>
<th>Over 3 to 6 Months</th>
<th>Over 6 Months to 1 Year</th>
<th>Over 1 Year to 2 Years</th>
<th>Over 2 Years to 3 Years</th>
<th>Over 3 Years to 5 Years</th>
<th>Over 5 Years to 10 Years</th>
<th>Above 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and balances with treasury banks</td>
<td>873,619</td>
<td>173,816</td>
<td>709,000</td>
<td>-</td>
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<tr>
<td>Balances with other banks</td>
<td>3,144,100</td>
<td>920,043</td>
<td>949,019</td>
<td>195,019</td>
<td>760,019</td>
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</tr>
<tr>
<td>Lending to financial institution</td>
<td>1,150,465</td>
<td>-</td>
<td>-</td>
<td>158,510</td>
<td>-</td>
<td>991,550</td>
<td>-</td>
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</tr>
<tr>
<td>Investments</td>
<td>2,833,608</td>
<td>107,690</td>
<td>242,118</td>
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<td>611,320</td>
<td>611,078</td>
<td>566,383</td>
<td>304,612</td>
<td>26,906</td>
<td>9,891</td>
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<td>17,280</td>
<td>15,801</td>
<td>15,801</td>
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<td>10,592</td>
<td>18,599</td>
<td>4,039</td>
<td>2,912</td>
<td>1,055</td>
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<td>1,297,766</td>
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<td>1,436,059</td>
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<td>585,095</td>
<td>337,247</td>
<td>446,368</td>
<td>49,891</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Total</th>
<th>Upto 1 Month</th>
<th>Over 1 to 3 Months</th>
<th>Over 3 to 6 Months</th>
<th>Over 6 Months to 1 Year</th>
<th>Over 1 Year to 2 Years</th>
<th>Over 2 Years to 3 Years</th>
<th>Over 3 Years to 5 Years</th>
<th>Over 5 Years to 10 Years</th>
<th>Above 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills payable</td>
<td>7,834</td>
<td>7,834</td>
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<td>-</td>
<td>-</td>
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<td>-</td>
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</tr>
<tr>
<td>Borrowings</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Deposits and other accounts</td>
<td>7,640,877</td>
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<td>1,788,656</td>
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</tr>
<tr>
<td>Subordinated loans</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Liabilities against assets subject to finance lease</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Deferred tax liabilities</td>
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<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Deferred Government grant</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Other liabilities</td>
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<td>13,333</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

| Total                               | 8,566,153 | 2,001,076 | 2,001,671 | 1,549,783 | 1,820,842 | 244 | 92,020 | 23,477 | - | - |

889,277 | (769,340) | (33,286) | (838,583) | (365,783) | 1,623,259 | 493,076 | 313,770 | 442,363 | 49,801 | - |

| Share Capital                      | 785,977 | | | | | | | | | |
| Reserves                            | - | | | | | | | | | |
| Unappropriated profit               | 84,519 | | | | | | | | | |
| Surplus on revaluation of assets    | 8,781 | | | | | | | | | |

| Total                               | 889,277 | | | | | | | | | |
34.5 Operational risk

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

The Bank’s operational risk management framework, as laid down in the operational risk policy, duly approved by BOD, is flexible enough to implement in stages and permits the overall risk management approach to evolve in the light of organisational learning and the future needs of the Bank. Operational loss events are reviewed and appropriate corrective actions taken on an ongoing basis, including measures to improve control procedures with respect to design and operative effectiveness.

37. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on May 08, 2017 have announced dividend @10 percent (2016: @8%). The appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2015 do not include the effect of the appropriation which will be accounted for in the financial statements for the year ending December 31, 2016.

38. GENERAL

Capitols as prescribed by BOD Circular No. 4 dated February 17, 2016 issued by the SBP in respect of which there are no amounts have not been reproduced in these financial statements except for the statement of financial position and profit and loss account.

39. DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on May 08, 2017.

Chairman
Management Director
Director

www.bankajk.com
## BRANCH NETWORK
(Together We Reach)

## ZONE WISE ADDRESSES/CONTACTS OF BRANCHES

### Muzaffarabad Zone

- **Main Branch Muzaffarabad (0001)**
  - Bank Square, Chattaar, Muzaffarabad
  - TEL: 05822-922154
  - FAX: 05822 921365
  - E-mail: manager0001@bankajk.com

- **Alim Branch Muzaffarabad (0002)**

- **Gahri Dupatta Branch (0003)**

- **Lower Plate Branch (0004)**

- **Chatta Klass (0005)**

- **Pathole (0006)**

- **Mardano Market Branch (0007)**

- **District Complex Muzaffarabad (0008)**

- **Taxila Branch Muzaffarabad (0009)**

- **Lower Plate Ada (0010)**

- **Alim Branch (0011)**

- **Shabaz (0012)**

- **Saan (0013)**

- **Nisar (0014)**

- **Usman (0015)**

### Madina Markazi Branch (0020)

- **Madina Markazi, Muzaffarabad, AJK**
  - TEL: 05822-923126
  - FAX: 05822 923127
  - E-mail: manager0020@bankajk.com

### Atlhan Branch (0030)

- **Main Bazar Atlhaan, District Atlhaan, AJK**
  - TEL: 05822-922631
  - FAX: 05822 922632
  - E-mail: manager0030@bankajk.com

### Ghari-Dupatta Branch (0017)

- **Main Bazar Ghari-Dupatta, Muzaffarabad, AJK**
  - TEL: 05822-922503
  - FAX: 05822 922502
  - E-mail: manager0017@bankajk.com

### Garhi-Dupatta Branch (0017)

- **Main Bazar Garhi-Dupatta, Muzaffarabad, AJK**
  - TEL: 05822-922503
  - FAX: 05822 922502
  - E-mail: manager0017@bankajk.com

### Lower Plate Branch (0018)

- **Near City Hospital Lower Plate, Muzaffarabad, AJK**
  - TEL: 05822-924466
  - FAX: 05822 442664
  - E-mail: manager0018@bankajk.com

### District Complex Muzaffarabad Branch (0040)

- **Old Secretariat, District Complex, Muzaffarabad**
  - TEL: 05822-923007
  - FAX: 05822-930043
  - E-mail: manager0040@bankajk.com

### Sharada Branch (0043)

- **Main Bazar Sharada, District Neelum, AJK**
  - TEL: 05821-920002
  - FAX: 05821-920082
  - E-mail: manager0043@bankajk.com

### Jocara Branch (0052)

- **Jocara, District Neelum, AJK**
  - TEL: 05821-920002
  - FAX: 05821-930092
  - E-mail: manager0052@bankajk.com

### Ladies Branch, Muzaffarabad (0063)

- **Hashim Plaza, Poultry Farm Road, Muzaffarabad, AJK**
  - TEL: 05822-922007-008
  - FAX: 05822-922007
  - E-mail: manager0063@bankajk.com
Upper Adda Branch (0061)
Near AK University, Campus-Muzaffarnagar,
TIL: 0822-920746
FAX: 0822-940747
E-mail: manager0061@bankajk.com

Chathing Branch (0042)
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Kutlan Branch (0063)
Kutlan, Tehsil Almora, District Nainital
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Rawalakot Zone

Rawalakot Branch (0006)
Gulf Shopping Complex, Katrai Road, Rawalakot
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Bagh Branch (0010)
Main Bazar Bagh, AJK
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Ajia Branch (0011)
Bagh Rawalakot Chowk, Ajia, District Bagh, AJK
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Pallandi Branch (0013)
Main Bazar Pallandi, AJK
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Hajera Branch (0014)
Main Bazar Hajera, District Rawalakot, Azad Kashmir
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Dheerkot Branch (0023)
Main Bazar Dheerkot, District Bagh, AJK
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Bandi Abbaspur Branch (0025)
Pul Bazar Bandi Abbaspur,
District Poonch, AJK
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Khal-i-gala Branch (0030)
Main Bazar Khal-i-gala, District Poonch, AJK
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Tran-khal Branch (0032)
Main Bazar Tran-khal, District Pallandi, AJK
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Kathota Branch (0038)
Main Bazar Kathota, District Harial, AJK
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Talban Branch (0049)
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Thor Branch (0050)
Main Bazar Thorar, District Rawalakot, AJK
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CMH Road Branch (0056)
CMH Road, Rawalakot, AJK
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Banbehel Branch (0040)
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Mirpur Zone

Main Branch Mirpur (002)
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Bhimber Branch (0012)
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Jallin Branch (0045)
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Mian Muhammad Town Branch (0046)
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Jhulli Dheri Branch (0047)
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Tatta-Panni Branch (0042)
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Gul Branch (0065)
District Kotli, AJK
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E-mail: manager0065@bankajk.com
Managers’ Conference Mirpur

Trainings and Workshops
Trainings and Workshops
Trainings and Workshops

Code of Conduct
Discipline & Business Practices
1.1 Introduction

The employees entering into the service of Bank, both permanent and on contract shall have to abide by the rules, regulations and are expected to display highest standards of ethics, honesty, integrity, efficiency, obedience, allegiance to the institution, faithfulness, adherence to business practices and code of conduct. All employees must ensure that their actions and conduct protect and promote the reputation and image of the Bank. Whatever an employee does or says should not cause the Bank embarrassment or bring the Bank into disrepute in the public eye, especially as regards the impartiality and fairness of the Bank.

This Code:

a. is mandatory for compliance by all employees, whether full or part time, employed, directly or indirectly through a service contract and wherever located.

b. Also applies as a general guideline to the Directors, mutuals mutandis.

c. Sets out maximum standards of good banking practices and lays down core values relating to the lawful and ethical conduct of our business activities and provides guidance to all. While the Code provides guidance on the aspects of integrity and impartiality, it cannot and does not cover every situation an employee may encounter. If an employee is uncertain about what to do in a particular situation, guidance should be sought from the Reporting Officer or the concerned Manager.

d. Does not alter or replace the duties and responsibilities of some of the employees as specifically defined in Banking and Corporate Laws applicable to the Bank.

e. May be amended or varied generally or specifically with the approval of the Board of Directors for changes due to regulations, laws and practices.

f. Is not meant to be a complete record of our relationship with customers. Specific products and services have their own terms and conditions, and these will continue to govern customer relationships with regard to the use of these products and services.

Each employee must be fully aware of the provisions of this Code.

1.2 General Guidelines

Every employee shall:

- Conform to and abide by the Bank’s rules and obey all lawful orders and directives which may, from time to time, be given by any person or person under whose jurisdiction, supervision or control he may, for time being, be placed. He shall undertake at all times to comply with all applicable laws, regulations and policies of the Bank.

- Stand firmly against supporting the activities of any group or individual that unlawfully threatens public order & safety. He shall not be a member of any political party, take part in, subscribe in aid of or assist in any way, any political movement in and out of Azad Jammu & Kashmir/Pakistan or relating to the affairs of Azad Jammu & Kashmir/Pakistan. He shall not express views detrimental to the ideology, sovereignty of state of Azad Jammu & Kashmir/Pakistan.

- Not confess or otherwise interfere or use his influence in connection with or take part in any election as a candidate of legislative/local body or issue statement or address the electorate or in any manner announce or allow to be announced publicly as a candidate or prospective candidate whether in Azad Jammu & Kashmir/Pakistan or elsewhere. He may, however, exercise his right to vote.

- Not bring or attempt to bring political or other pressure/influence directly or indirectly to bear on the authorities/superior officers or indulge in derogatory pamphleteering, contribute, or write letters to news papers, anonymously or in his name with an intent to induce the authority/superior officers to act in a manner inconsistent with the rules, in respect of any matters relating to appointment, promotion, transfer, retirement, or for any other conditions of service employment.

1.3 Integrity

Every employee shall:

- Conduct the highest standards of ethics, professional integrity and dignity in all dealings with public, clients, investors, employees of the Bank. He shall not engage in acts of discrediting the Bank. If he becomes aware of any irregularity that might affect the interest of the Bank, he will inform the Bank immediately.

- Avoid all such circumstances in which there is conflict of personal interest or appears to be in conflict with the interests of the Bank or its customers.

- Not use his status to seek personal gain from those doing business or seeking business from BOAJK, or accept any gifts if offered. He shall not accept any sort of gifts, favor, benefits, frequency of which exceeds normal business contact from a customer, consultant likely to have dealings with BOAJK and candidates for employment in the bank.

- Not accept any benefit from the estate of or a trust created by a customer or from an estate or trust of which Bank’s company or business unit is an executor, administrator or trustee.

1.4 Conflict of Interest

Circumstances should be avoided in which personal interest conflicts or may appear to conflict with the interest of the Bank or its customers.

Circumstances may arise where an employee, his / her spouse or family member directly or indirectly holds a business interest which conflicts or may conflict with the Bank’s interest. In order to ensure that the Bank makes objective decisions, employee must declare in advance such interest to the Management through the Reporting Officer.

Any involvement in an outside activity or any external position held by an employee:

a. Must not give rise to any real or apparent conflict with a customer’s interest
b. Must not adversely reflect on the Bank

- Must not interfere with an employee’s job performance

Employees must not negotiate or contract on behalf of the Bank with an enterprise in which they have a direct or indirect interest.

Employees on the payroll of BOAJK must not undertake any other employment, whether part time, temporary or other, or act as consultant, director or partner of another enterprise except with the prior permission of the Managing Director of the Bank.

In case of doubt about whether a particular circumstance / situation would create conflict of interest, employees should first consult their Reporting Officer or the concerned Manager for seeking guidance before taking action.

1.5 Professionalism

Every employee shall:

- Serve the Bank honestly and faithfully and shall strictly serve Bank’s affairs and the affairs of its constituents. He shall use his utmost endeavor to promote the interest and goodwill of the Bank and will show courtesy and attention in all acts/transactions/communications.
1.6 Know Your Customer

Commonly referred to as KYC, is the process to ensure that the Bank is not used for any unlawful transactions. This is achieved by obtaining sufficient information about the customers to reasonably satisfy us as to their reputation, their standing and the nature of their business activities.

Effective use of “Know Your Customer” and customer’s due diligence discourages money laundering, which uses banks as vehicles to disguise or “launder” the proceeds of criminal activities. Involvement in such activities undermines Bank’s integrity, damages its reputation, deter’s honest customers and leads the bank to severe sanctions.

All employees, particularly working in the customer services areas, must establish the identity of every new customer from reliable identifying documents. For existing customers, they must remain vigilant and aware of:

a. Activities not consistent with customer’s business
b. Unusual characteristics or activities
c. Attempts to avoid reporting or record keeping requirement
d. Unusual or erratic movement of funds

A suspicion that funds transacted with the bank stems from illegal activities, must be reported internally to the Reporting Officer or concerned Manager.

1.7 Personal Investments

Personal transactions actual or intended transactions, usually in marketable investments, by employees for their own account or in which employees have direct power to make decisions or influence the decisions of persons connected with them by reason of family or business relationship,

Employees must ensure that no conflict of interest arises between their personal transactions and corporate and customer responsibilities. Employees must never attempt to use their position in BOAJK to obtain an advantage to buy and sell investments.

Employees in doubt about the propriety of any proposed personal transaction should consult their Reporting Officer or the concerned Manager.

Employees shall not, at any time, carry out:

1. Short sales of marketable securities or currencies or any other form of trading which is speculative in nature in their own account or for the account of their spouse or family members
2. Trading in shares, securities or currencies which involve improper use of unpublished, price sensitive information for personal benefit

1.8 Relations with Regulators

Relationship with Regulators is one of the most important relations, which BOAJK maintains with the aim of developing mutual confidence and trust.

All employees must comply in letter and spirit, with legal and regulatory requirements applicable to the activities in which we engage.

In case a regulation appears to conflict with the provision of any other regulation or laws, or compliance appears to be impractical or against the general banking ethics, it must be reported to the competent authority for appropriate action. Under no circumstances a violation of a regulation should be committed.

1.9 Relationship with Competitors

Except in situations where the Bank is participating in a transaction with other Bank(s), no employee shall have any agreement, understanding or arrangement with any competitor with respect to pricing of services, profit rates and/or marketing policies, which may adversely affect the Bank’s business.

1.10 Gifts and Entertainment

Gifts, business entertainment or other benefits from a customer or a supplier/vendor, which appear or may appear to compromise commercial relationships must not be accepted by the employees.

Employees may, however, accept normal business entertainment or promotional items appropriate to the circumstances with prior intimation to the Reporting Officer or the Manager.

In the event that a gift must be accepted for reason of customer’s insistence and sensitivity of relationship, such gifts must be surrendered to the Head of Human Resources Division along with reasons of acceptance.

Under no circumstances an employee shall either directly or indirectly accept any amount of money, however small, as gift, gratuity, subscription or reward from any employees of the Bank, customer, supplier or vendor.

Customers who wish to express gratitude for the services of BOAJK should be requested to send a letter of appreciation.

1.11 Office Attendance

Every employee shall attend the office in time and shall not leave the office before closing hours. An employee coming late shall hold himself liable for disciplinary action and to the debit of one earned leave from his leave account.

1.12 Corporate Culture

The Bank recognizes its staff members’ personal behavior and interaction with others as a vital part of their duties in a particular position. In order to achieve the desired level of performance and corporate objectives, preservation of congenial and professional working environment is encouraged.

BOAJK seeks to create an environment where all persons are treated equally and with respect, where persons’ rights are respected; efforts of staff encouraged and their achievements given due recognition.

1.13 Customer Relationship

Knowing our customers and their needs is the key to our business success. Fairness, truthfulness and transparency govern our customer relationships in determining the transactional terms, conditions, rights and obligations.

All employees must be committed to the continued development of excellence in service culture in which BOAJK consistently seeks to exceed customers’ expectations. Employees should seek to understand customers’ financial circumstances and needs to be able to provide them with the most suitable products and services.

All employees must ensure that any advice given to the customer is honest and fairly expressed and restricted only to those services or products where the Bank has the relevant expertise and authority.
1.14 Business/Work Ethics/Discipline

Every employee shall:

- Respect colleagues and work as a team. He shall at all times be courteous and not let any personal differences affect his work. He shall treat every customer of BOAJK with respect and courtesy.
- Make sure of good attendance and punctuality and demonstrate a consistently good level of work. For any absence during work hours during his placement to BOAJK clients, he shall obtain written permission of his immediate supervisor.
- Maintain standard of personal hygiene and dress appropriately for attendance at work. Appearance must inspire confidence and convey a sense of professionalism.
- In person responsible for safe guarding both tangible and intangible assets of BOAJK that are under his personal control. He shall not use Bank’s asset for his personal benefit except where permissible and customary.
- Help in maintaining a healthy and productive work environment. Shall not engage in selling, distributing, using any illegal substance or being under influence of illegal drugs while on job.
- Ensure strict adherence to all health and safety policies as may be implemented from time to time by the Bank.
- Intimate BOAJK of any changes in the personal circumstances relating to his employment or benefits.
- Not accept or seek any outside employment or office whether stipendary or honorary.
- Not undertake part time work for a private or public body or private person, or accept fee thereof, during the service of the Bank.

1.15 Women at Work Place

BOAJK is destined to provide its employees, irrespective of gender and without prejudices, a working environment where they feel completely secured and satisfied to perform at the optimum level. Being an equal opportunity employer, the Bank provides a progressive environment for all its employees to progress and contribute regardless of their cast, creed, religion or gender. Female employees form a formidable work force of the Bank and essentially deserve complete protection. They are mutually respected and protected by the fellow employees and the complaints of mistreatment, bias or prejudices are rare. However, in order to benefit them from State’s commitment to effectively safeguard them from perpetrators, the Bank has decided to adopt and enforce provisions of ‘The Protection against Harassment of Women at the Workplace Act 2010’, in all the branches and offices, forthwith.

1.16 Maintaining Confidentiality

Confidential information comprises of:

a. any non-public, written or oral information received directly or indirectly from a customer, prospective customer or a third party with the expectation that such information shall be kept confidential and used solely for the business purposes of the customer, prospective customer or the third party.

b. BOAJK’s proprietary information that includes any analyses or plans created or obtained by any BOAJK Division, Department or Branch.

All BOAJK employees have a duty to safeguard confidential information, which may come to their possession during their day-to-day work. Respect for customer’s private affairs, requires the same care as does the protection of the Bank’s own affairs or other interests.

This duty of confidentiality involves not divulging information to third parties other than in the following circumstances:

i. Where the customer concerned has given permission to do so
ii. Where the Bank is legally compelled to do so
iii. Where there is a duty to disclose information to public
iv. Where it is necessary for the Bank to present its case - e.g. in court or in other circumstances of a related nature.

Confidentiality applies whether the information has been obtained from those to whom the Bank does business or from sources within the Bank. All such information should only be used for the purpose for which it is intended and must not be used for the personal benefit of an employee, his/her spouse or family member.

All employees must sign a declaration of confidentiality / secrecy and must comply with the procedures and regulations.

1.17 Dress Code

In order to keep the office environment professional, it is mandatory for all employees to follow a strict dress code.

1.17.1 Male

The following dress code is permissible for all male employees of the organization.

1. Dress Shirt and Trouser – in neutral color, which must be clean and neatly pressed. Shirts should be properly buttoned. Ties shall be properly knotted.

2. Shalwar Kameez – Although Shalwar Kameez is our national dress and people should be encouraged to wear the national dress, extra care should be taken when opting to wear Shalwar Kameez, as it can look very shabby if not properly maintained. Shalwar Kameez should be in neutral colors, it must be clean and immaculately pressed. Kameez should be properly buttoned along with waistcoats.

1.17.2 Female

The following dress code is permissible for all female employees of the organization.

Shalwar, Kameez and Dupatta - in subtle color, clean and neatly pressed. Female staff should avoid dressing gaudily by avoiding jewellery and hair clips as much as possible. Small sized ear-rings are permissible as part of jewellery.

1.18 Compliance

All BOAJK employees are fully committed to ensuring that all business decisions and actions comply with all applicable laws and regulations and to observe good standards of behavior and practice in accordance with the industry practices. Accordingly, all employees must acquaint themselves with all applicable laws and regulations.

Senior Management will ensure that:

a. All employees are aware of this Code
b. No employee shall be asked to do anything that would contravene this Code
c. Queries and concerns arising under this Code will be dealt with properly and may be addressed to the Human Resource Management Division at Head office.
1.19 Special Conditions

Every employee shall not indulge in any of the following:

- Borrow money from or in any way place himself under pecuniary obligations to a broker, moneylender, client, employee of the Bank or of any firm or person having dealing with the Bank.
- Buy or sell stocks, shares or securities of any description without funds to meet the full cost in the case of purchase or scrips for delivery in the case of sale. However he can make a bonafide investment of his own funds in such stocks, shares and securities as he may wish to buy.
- Lend money in his private capacity to a constituent of the Bank or have personal dealings with a constituent in the purchase or sale of bills of exchange, Government papers or any other securities.
- Act as an agent for insurance company otherwise than as an agent for or on behalf of the Bank.

1.20 Certification

Each employee in the Bank shall be required to read/review this Code each year and certify in writing that he/she understands his/her responsibilities to comply with the provisions set forth herein.