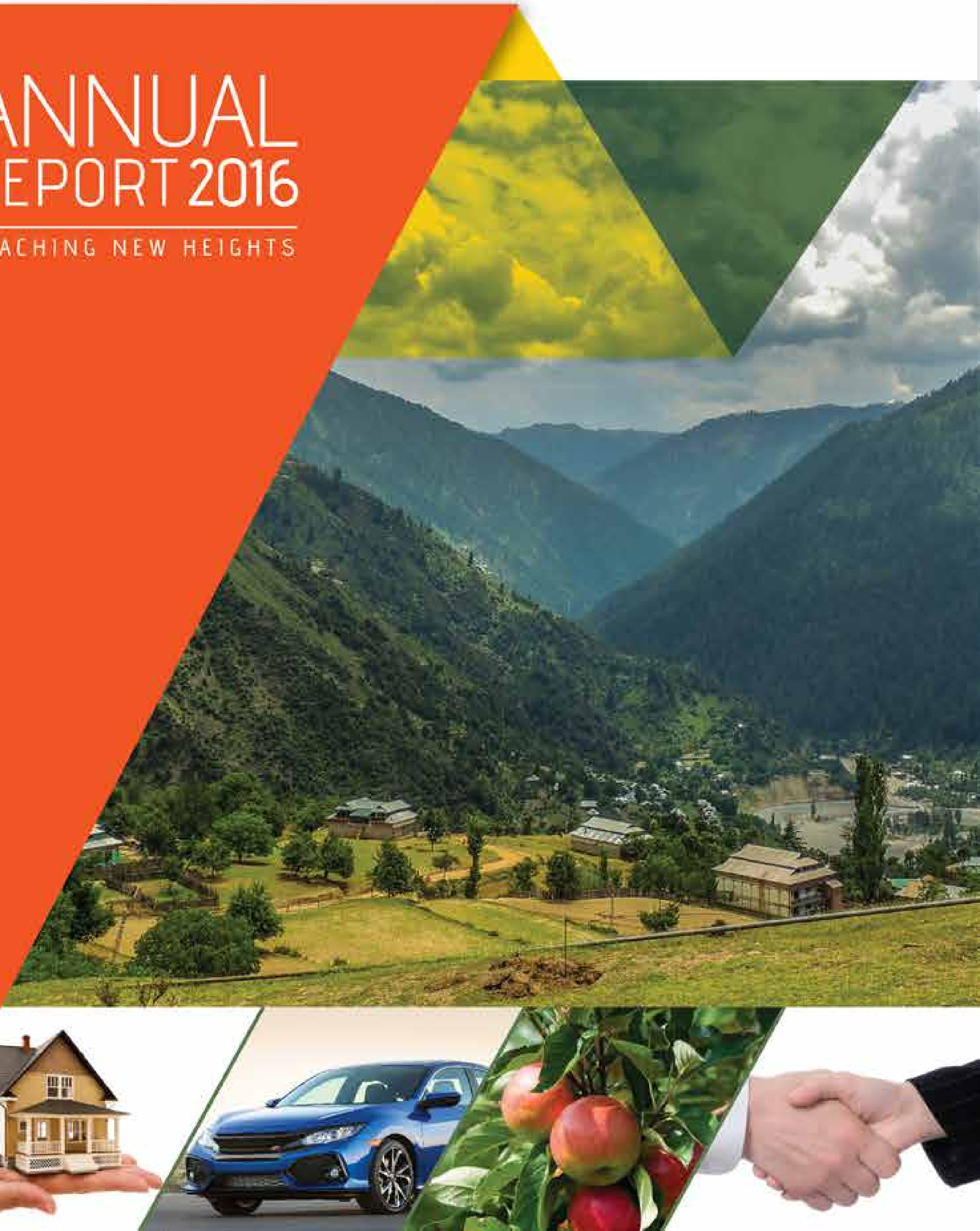
BAJK
Bank of Azad Jammu & Kashmir
آپ کی پہچان
بینک آف آزاد جموں و کشمیر

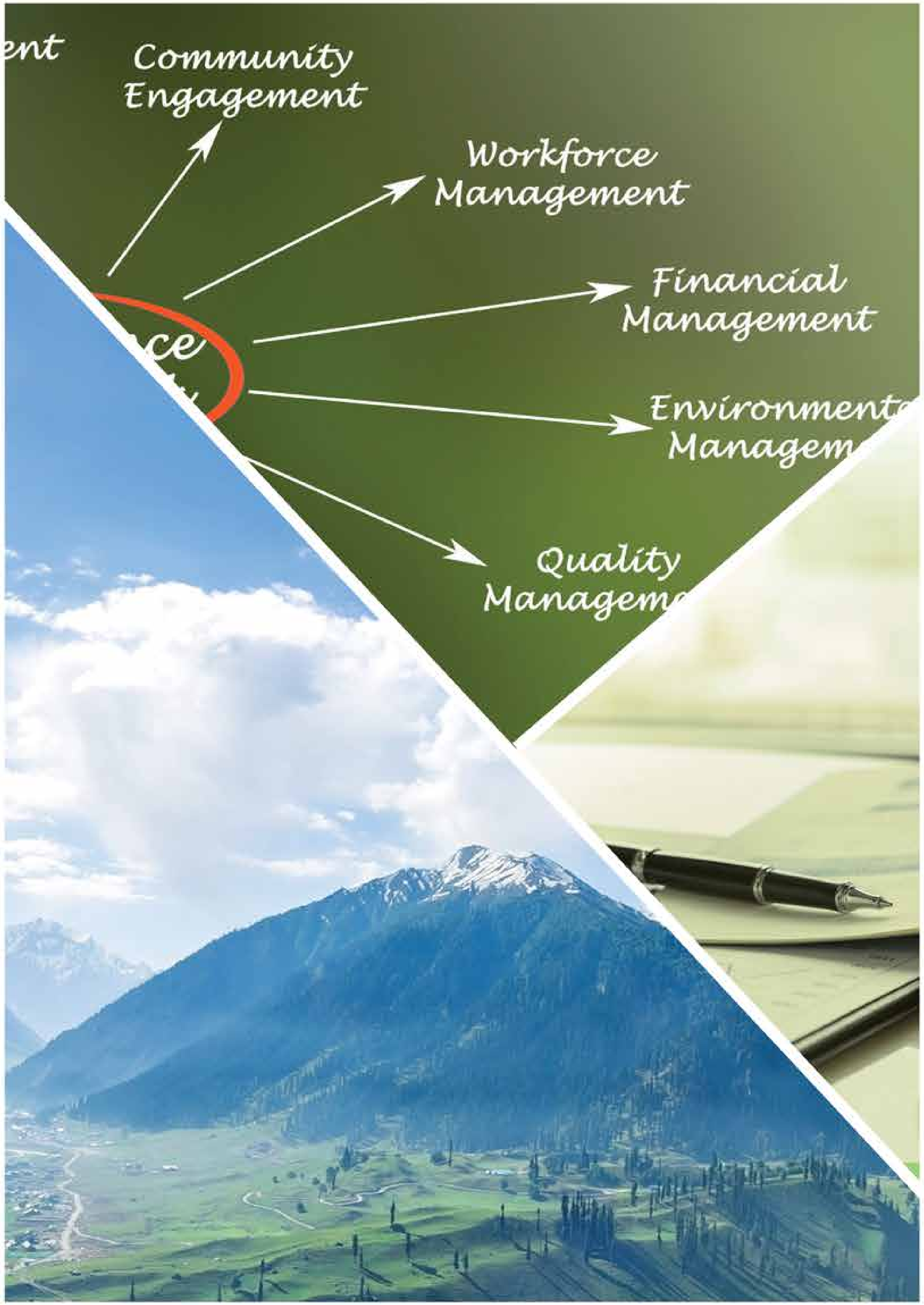
ANNUAL REPORT 2016

REACHING NEW HEIGHTS




one
BANK
one TEAM

CONTENT



Community Engagement
Workforce Management
Financial Management
Quality

Vision

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

Together We Dream

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 AJK

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 bearucracy not to interfere in the affairs of the bank, thereby, ousting 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. Addedly, 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 rhymes, 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 untapped 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 the achievement of the Bank, at its infancy stage, is taken as an indicator, the forth coming 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 sturdily 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 AJK 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 AJK, 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 Munir
Chief Secretary AJK/Chairman

Dr. Ijaz Munir 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 Bank of Azad Jammu & Kashmir on November 29, 2016 as the CEO & Managing Director. He has been associated with the banking profession for over three decades. After his MBA, he started his career with PICIC 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, SME , Micro Credit, etc. over the years in various banks has earned him a repute 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 had been associated in turning around The Bank of Khyber in the capacity of Group Head, CMG, 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 trainings/ courses on audit and accounts including 20th Senior Management Course(Lahore), Course on Social Safety Nets(Washington DC at World Bank Headquarters),Economic Policy and Management(International Unit, National Institute of Public Administration, Kualalumpur, 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 did his M.B.B.S(King Edward Medical College, Lahore), MBA Finance (Institute of Business Administration University of Punjab) and MSC Accounting & Finance, Manchester Business School, University of Manchester, UK.

BOARD PROFILE

Fayyaz Ali Abbasi
Director

Mr. Fayyaz Ali Abbasi holds a Masters Degree in Development Management from London School of Economics and Politicle 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 Senior Member 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/ Commissioner to Government of Azad Jammu and Kashmir.

Syed Zahoor-ul-Hassan Gillani
Director

Syed Zahoor-ul-Hassan Gilani is Secretary to the Government of Azad Jammu and Kashmir, heading the Forests, Wildlife, Fisheries and AKLASC Departments. He has served on various important administrative positions in the state. He is also on the board of Directors of Azad Kashmir Logging and Sawmills Corporation (AKLASC).

Amjad Pervaiz Ali khan
Director

Mr. Amjad Pervaiz Ali Khan is Secretay 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

Ejaz Hussain Rathore
Director

Mr. Ejaz Hussain Rathore is a fellow Member of the Institute of Chartered Accountants of Pakistan. He is in public practice since 1990, and is Partner-in-charge of Islamabad Office of PKF F.R.A.N.T.S. Pakistan & Afghanistan Chartered Accountants, a member firm of PKF International providing professional services in the fields of audit, accounting, tax and business management consultancy, Transaction advisory, merger and acquisition, IT Audits, Internet based trading system audits, penetration testing, to a wide range of clientele. 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.

Raja Mumtaz Ali
Director

Raja Mumtaz Ali has been recently placed as Director on the Board of the Bank by Govt. of AJK. He is a Law Graduate and also obtained Diploma in Banking from Institute of Bankers Pakistan (IBP). He has rich and diversified experience in Banking and held Middle and Top Management positions at Allied Bank Ltd. His experience in Banking spreads over a period of four decades.

He has the honor to be the pioneer, first Managing Director/Chief Executive of BAJK. During initial critical period of the Bank he successfully erected the structure of the Bank on sound footing and in a very short span made it a viable and profitable Bank of the state. He served the Bank for five years (i.e., from September 2006 to August 2011), leaving behind the record of success and score of significant achievements. His presence on the Board shall prove highly beneficial to provide valuable guidance in evolving workable strategies for further development and growth of the Bank.

Naveed Sadiq
Director

Mr. Naveed Sadiq has been recently placed as Director on the Board of the Bank by Govt. of AJK. He is a reputable business man bringing with him rich and diversified experience in the fields of construction, import export and real estate in international business hub of Dubai. After coming to Pakistan way back in 2009 he has further diversified his entrepreneurial pursuits by including marketing and tourism development in his business domain. Presently, he is CEO of Trans Freight and Industrial Power Pvt. Ltd. He is a well travelled person having innovative mind and entrepreneurial insight.

CORPORATE INFORMATION

Board of Directors

Dr. Ijaz Munir, Chief Secretary, AJ&K	Chairman
Imran Samad, CEO, BAJK	Managing Director
Farid Ahmad Tarar, Secretary Finance, AJ&K	Director
Fayaz Ali Abbasi, SMBR, AJ&K	Director
Zahoor-ul-Hassan Gilani, Secretary Forests,Wildlife, Fishries & AKLASC, AJ&K	Director
Raja Amjad Pervaiz Ali Khan, Secretary Industries, Commerce, Mineral Resources & Labour, AJ&K	Director
Ejaz Hussain Rathore, Chartered Accountant	Director
Raja Mumtaz Ali, Banker	Director
Naveed Sadiq, Businessman	Director

Executive Committee of BoD

Farid Ahmad Tarar	Chairman
Imran Samad	Member
Raja Amjad Pervaiz Ali Khan	Member

Audit Committee of BoD

Fayyaz Ali Abbasi	Chairman
Farid Ahmad Tarar	Member
Ejaz Hussain Rathore	Member

IT Committee

Raja Amjad Pervaiz Ali Khan	Chairman
Imran Samad	Member
Syed Zahoor-ul-Hassan Gillani	Member
Ejaz Hussain Rathore	Member

Company Secretary

Maazullah Khan

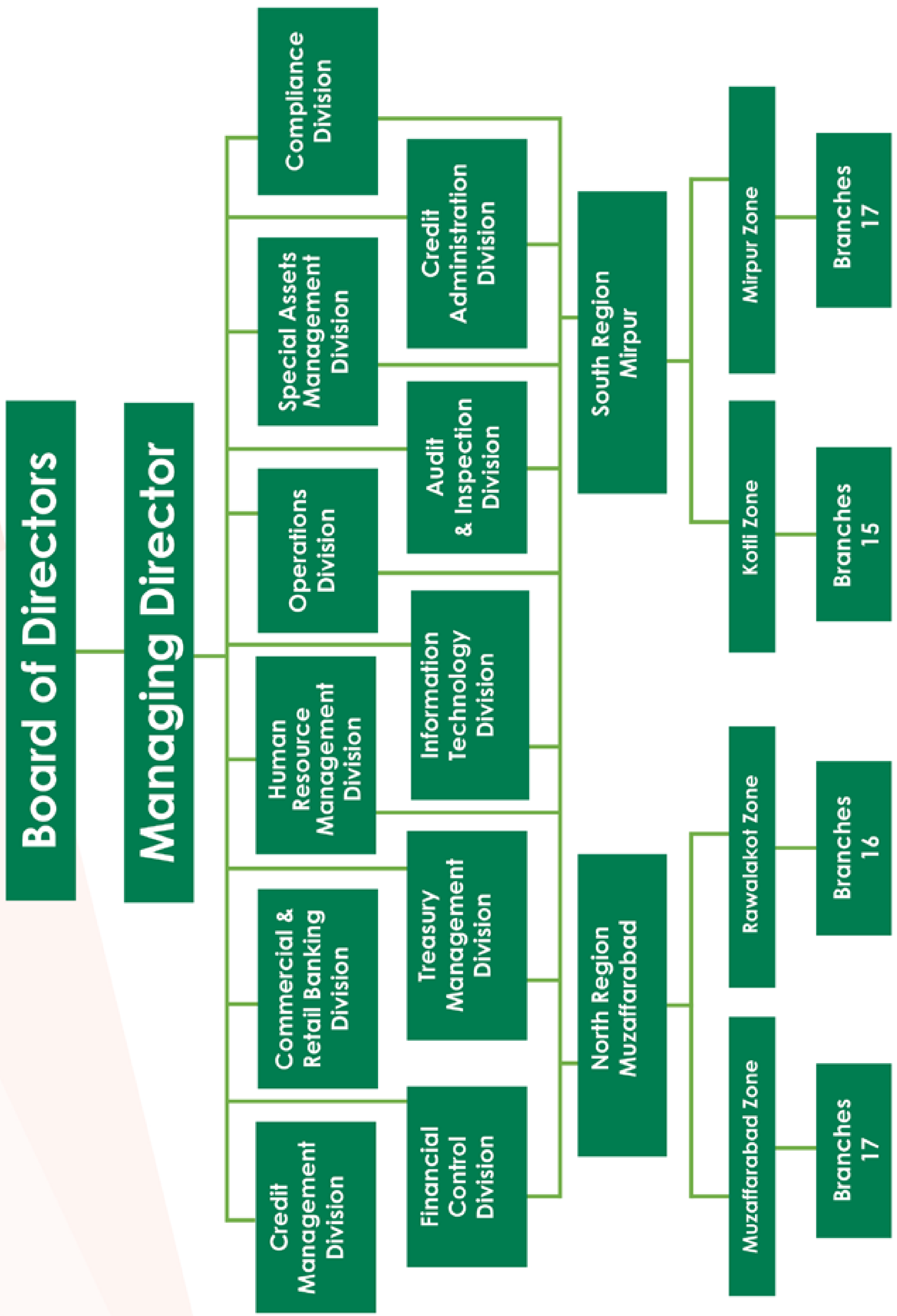
Auditors

A.F.Ferguson & Co.
Chartered Accountants

Registered Office

Bank Square, Chattar Domel, Muzaffarabad AJK

GOVERNANCE FRAMEWORK



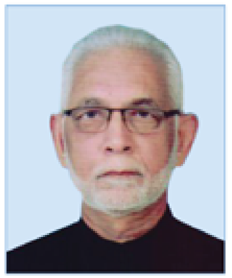
BAJK

Management Team

Muhammad Hanif
Divisional Head Operations

Maazullah Khan
Divisional Head CMD

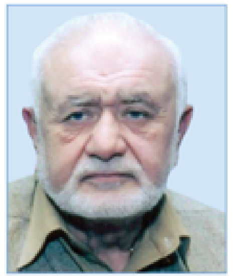
Abdul Hameed Raja
Chief Compliance Officer



Muhammad Afsar
Divisional Head HRMD

Syed Aftab Hussain Gilani
Divisional Head SAMD

Muhammad Akram Awan
Divisional Head CAD



Khalid Sardar
Divisional Head A&ID

Shahid Shahzad Mir
CFO

Ahtasham Malik
Divisional Head IT

Zamurrad Hussain
Regional Controller North

Shahid Farooq
Regional Controller South

Management Functionaries

Managing Director's Secretariat

Mr. Imran Samad
Managing Director/CEO
Email: md@bankajk.com

Mr. Naveed Ahmad
Private Secretary /PSO
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Mr. Jalil Muhammad
Manager Operations
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Mr. Ali Turab
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Operations Division

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Mr. Tashfeen Gilani
General Manager
Ph: 05822-921563
Email: tashfeen.gilani@bankajk.com)

Credit Management Division

Mr. Maazullah Khan
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Mr. Shahid Khan
Manager Credit,
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Special Assets Management Division

Syed Aftab Hussain Gillani
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Mr. Akhtar Hussain
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Raja Ghulam Mustafa
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Mr. Liaqat Awan
General Manager (Commercial & Recovery)
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Credit Administration Division

Mr. Muhammad Akram Awan
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Financial Control Division

Mr. Shahid Shahzad Mir
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Mr. Liaqat Ali Khan
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Treasury Management Division

Mr. Shahid Shehzad Mir
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Information Technology Division

Mr. Ahtasham Malik
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Audit & Inspection Division

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Mr. Khalid Sardar
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Compliance Division

Abdul Hameed Raja
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Mrs. Raheela Javed
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Human Resource Management Division

Mr. Muhammad Afsar
Divisional Head
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Mr. Basharat Hussain
Manager HR
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Email: manager_hrd@bankajk.com

REGIONS

Regional Office North
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Muzaffarabad

Mr. Zamurrad Hussain
Regional Controller
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Zonal Office Muzaffarabad
Bank Square Chatter Domail, Muzaffarabad

Raja Ghulam Mustafa
Zonal Chief
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Email: zone.mzd@bankajk.com

Regional Office South
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Mr. Shahid Farooq
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Mr . Muhammad Arif Chaudhary
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Zonal Office Rawalakot
PDA Housing Society, Bank Road Rawalakot
(Ex-Mong Road)

Mr. Muhammad Imtiaz Shaheen
Zonal Chief
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Zonal Office Kotli
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TEN YEARS AT A GLANCE
(2007 to 2016)

TEN YEARS AT A GLANCE
(2006 to 2015)

Ruppees in ("ooo")

Balance Sheet	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total Assets	8,936,321	8,455,430	7,585,052	6,204,423	5,401,333	4,513,683	3,416,518	2,747,618	2,129,870	1,642,820
Advances (net)	2,609,430	2,833,606	2,256,907	1,678,147	1,101,286	952,880	330,283	163,095	55,077	5,623
Investment	604,748	1,150,465	1,172,192	203,549	225,397	297,877	239,164	286,640	203,650	165,742
Equity	931,202	880,496	810,331	730,328	683,900	537,934	484,086	392,602	322,051	285,220
Deposits	7,845,625	7,440,877	6,642,949	5,367,895	4,599,756	3,883,035	2,876,846	2,308,897	1,837,480	1,338,077
Operating Results										
Mark-up / return / interest earned	808,798	794,704	723,400	561,905	555,254	425,887	347,278	295,081	193,986	130,182
Mark-up / return / interest expensed	333,382	375,948	377,681	319,836	292,931	176,427	145,644	114,882	85,573	58,044
Net Markup Based Income	475,416	418,756	345,719	242,069	262,323	249,460	201,634	180,199	108,413	72,138
Non Markup Based Income	50,738	38,962	56,495	45,363	46,235	18,702	26,757	8,039	13,755	7,570
Non Markup Based Expenses	324,969	285,260	243,351	206,658	158,856	118,238	94,477	69,325	48,782	28,737
Operating Profit	201,185	172,458	158,863	80,774	149,702	149,924	133,914	118,913	73,386	50,971
Provision	111,577	47,018	52,845	18,174	9,192	72,689	997	7,624	13,958	55
Net Profit/(Loss) Before Tax	89,608	125,440	106,018	62,600	140,510	77,235	132,917	111,289	59,428	50,916
Net Profit/(Loss) After Tax	50,706	70,165	80,003	46,428	95,814	52,848	92,484	70,551	36,831	28,498
Other Information										
Earning per share (Rupees)	0.65	0.89	1.22	0.72	1.66	1.00	1.93	1.46	1.44	1.12
Number of Branches	65	64	59	52	52	50	45	35	22	9

FINANCIAL HIGHLIGHTS **2016**

Deposit Mix

- Current Deposits 22%
- Saving Dposits 33%
- Term Deposits 45%

Advances Mix

- Commercial 30%
- Consumers 53%
- Micro 2%
- Agriculture 12%
- Staff 3%

Assets Mix

- Balances with other banks 43%
- Investments 7%
- Advances 29%
- Operating fixed assets 1.0%
- Deffered Tax 1.0%
- Other assets 5%
- Cash and balance with treasury banks 14%

DEPOSITS RS. IN "000"

2007	1,338,077
2008	1,837,480
2009	2,308,897
2010	2,876,846
2011	3,88,,035
2012	4,599,756
2013	5,367,895
2014	6,642,945
2015	7,440,877
2016	7,845,625

ADVANCES RS. IN "000"

2007	5,623
2008	55,077
2009	163,095
2010	330,283
2011	952,880
2012	1,101,286
2013	1,678,147
2014	2,256,907
2015	2,833,606
2016	2,609,430

ASSETS

2007	1,642,820
2008	2,129,870
2009	2,747,618
2010	3,416,518
2011	4,513,683
2012	5,401,333
2013	6,204,423
2014	7,589,052
2015	8,455,430
2016	8,936,321

INVESTMENTS

2007	165,742
2008	203,650
2009	286,640
2010	239,164
2011	297,877
2012	225,397
2013	203,549
2014	1,172,192
2015	1,150,465
2016	604,748

EARNING PER SHARE

2007	1.12
2008	1.44
2009	1.46
2010	1.93
2011	1.00
2012	1.66
2013	0.72
2014	1.22
2015	0.89
2016	0.65

NO. OF BRANCHES

2007	9
2008	22
2009	35
2010	45
2011	50
2012	52
2013	52
2014	59
2015	64
2016	65

EQUITY

2007	285,220
2008	322,051
2009	392,602
2010	484,086
2011	537,934
2012	683,900
2013	730,328
2014	810,331
2015	880,496
2016	931,202

PROFIT BEFORE TAX

2007	50,916
2008	59,428
2009	111,289
2010	132,917
2011	77,235
2012	140,510
2013	62,600
2014	106,018
2015	125,440
2016	89,608

PROFIT AFTER TAX

2007	28,498
2008	36,831
2009	70,551
2010	92,484
2011	52,848
2012	95,814
2013	46,428
2014	80,003
2015	70,165
2016	50,706

BAJK

CUSTOMIZED PRODUCTS

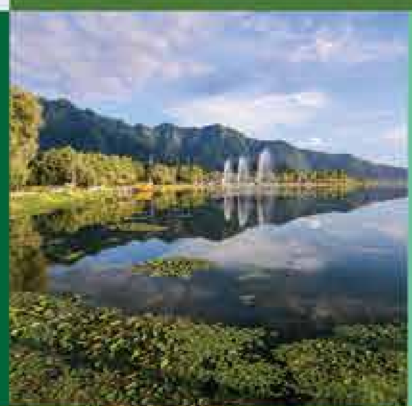



- AGRICULTURE FINANCE
- SME FINANCE / CREDIT TO BUSINESSMEN & BUSINESS ENTERPRISES
- MICRO FINANCE
- LOAN FOR PROMOTION OF DESI-MURGHBANI AT HOUSEHOLD LEVEL
- RUNNING FINANCE
- HEALTH CARE SERVICES FINANCE
- AUTO FINANCE
- PROMOTION OF COMMERCIAL POULTRY FARMS AND HATCHERIES
- PROJECT FINANCING FOR CONSTRUCTION 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






DIRECTORS'
REVIEW REPORT

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 impetus and grew by 4.7 percent during fiscal 2016. Government expenditure on infrastructure projects and low interest rates provided a break to domestic demand while industrial performance was helped by easing energy supply situation. The enhancement in macro numbers was also supported by successful completion of the IMF program, year's low inflation; supported by subdued commodity prices, stable exchange rate, and greater investors' confidence as observed through Pakistan's improved ratings and carriage 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 oil 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 since early 70s. The sharp reduction in the cost of borrowing in recent years and favorable business environment created demand for bank credit. In absolute terms, 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 rise 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, though endowed with enormous human and natural resources is the least 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-supportive 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 issues.

In reality the State has vast opportunities for productive investment in various sectors of the economy including minerals, water resources, tourism, livestock, 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. Resultantly, the advances to deposits ratio (ADR) of the banks operating in this region continues to remain around 4% 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 Rs11.2 trillion in December 2016, the highest level in three years, which indicated well for the financial sector. Bank deposits came in at Rs.9.3 trillion in December 2015. 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 savings rate and imposition of withholding tax on banking transactions. A 20% year-on-year growth in deposits is significantly higher than historical average growth of 12% during the last three years. Analysts are unanimous that banks must increase their efforts for deposit mobilization, which are the major source of their funding. The advances to the private sector rose 17% to 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 pick up in credit demand from businesses amid broad consensus about the country's cheery 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 fuelled surge in advances from banks during the last year. Banks are also focusing on high-yielding consumer (product) growth to support their margins and profitability. As per SBP, the private sector credit is expected to take a boost from improving demand conditions as implied by growth in manufacturing sector, better 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 yield 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 yielding business of lending. The banking sector remains sound and resilient on an overall basis. However, the expected growth in the private sector credit will increase the quantum of risk 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 hovering 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 conventionally postponed as a regular practice. This short term approach compromised/ defeated the long term sustainability of the Bank with the result a sizeable number of branches 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 and after tax decreased 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 Provisions/write Off . The Non-Performing Loans (NPL) in 2016 were increased by Rs.157 million (65%) and reached at Rs.397 million from Rs.240 million in 2015.

Rs in Million

Particulars	2016	2015	Growth	
			Amount	%age
Income	859	834	25	3
Deposit Cost	333	376	(43)	(11)
Admin Expenses	325	281	44	16
Operating Profit	201	177	24	14
Provisioning	111	52	59	111
Profit Before Tax	90	125	(35)	(28)
Taxation	39	55	(16)	(29)
Profit After Tax	51	70	(19)	(27)
Earnings per Share	0.65	0.89	(0.24)	(27)

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 2015 continued throughout 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. 7.846 billion on December 31, 2016 from Rs. 7.441 billion at the close of previous year, an increase of 5%. Gross Advances decreased by Rs. 145 million or 5% to close at Rs. 2.839 billion at the end of 2016.

Capital Adequacy Ratio (CAR) and Earning Per share

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-III stood at 21.16%, 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. The 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 as compare to Rs.0.89 last year. During the year under review, various improvements were made to the CAR reporting systems to facilitate the Basel-III 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 stake 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 up-gradation, 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 earningassets 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 SBP Prudential Regulations.

3. It will be ensured that all bank operations are in compliance of SBP 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 inbuilt 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 home 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

Statements under Section 52(4) Of Bank's By-laws 2007

The Board of Directors is fully cognizant of its responsibility under the Bank's By-laws 2007. The following statements are a demonstration of its commitment towards continuous organizational improvement.

- The financial statements prepared by the management of the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts have been maintained by the Bank.
- Appropriate accounting policies have been consistently applied in preparation of these financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards as applicable in Pakistan have been followed and any departure there form has been adequately disclosed.
- The system of internal controls is sound in design and has been effectively implemented and monitored.

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 their 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 all the time. I also acknowledge the unremitting 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

Leepa Valley

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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.

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
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KARACHI LAHORE ISLAMABAD

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Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these 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 relating 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.

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- 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. Haider Abbas

FINANCIAL STATEMENTS

THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016

	Note	December 31, 2016	December 31, 2015
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	6	1,299,452	873,616
Balances with other banks	7	3,843,415	3,144,100
Lending to financial institutions		-	-
Investments	8	604,748	1,150,465
Advances	9	2,609,430	2,833,606
Operating fixed assets	10	115,638	125,283
Deferred tax assets	11	13,386	1,881
Other assets	12	450,252	326,479
		8,936,321	8,455,430
LIABILITIES			
Bills payable	13	8,716	7,634
Borrowings		-	-
Deposits and other accounts	14	7,845,625	7,440,877
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred Government grant		-	-
Other liabilities	15	132,659	117,642
		7,987,000	7,566,153
NET ASSETS		949,321	889,277
REPRESENTED BY			
Share capital	16	785,977	785,977
Reserves		-	-
Unappropriated profit		145,225	94,519
		931,202	880,496
Surplus on revaluation of assets - net of tax	17	18,119	8,781
		949,321	889,277
CONTINGENCIES AND COMMITMENTS	18		

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
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2016

	Note	2016	2015
		Rupees in '000	
Mark-up / return / interest earned	21	808,798	794,704
Mark-up / return / interest expensed	22	333,382	375,948
Net mark-up / interest income		475,416	418,756
Provision against non-performing loans and advances - net	9.4	79,711	46,558
Provision for diminution in the value of investments - net		-	-
Bad debts written off directly		-	460
		79,711	47,018
Net mark-up / interest income after provisions		395,705	371,738
Non mark-up / interest income			
Fee, commission and brokerage income		17,315	22,602
Dividend income		10,691	2,235
Income from dealing in foreign currencies		-	-
Gain on sale of securities - net	23	17,113	9,065
Unrealized gain / (loss) on revaluation of investments classified as held for trading - net		-	-
Other income	24	5,619	5,060
Total non-markup / interest income		50,738	38,962
		446,443	410,700
Non mark-up / interest expenses			
Administrative expenses	25	324,969	280,424
Other provisions / write offs		31,866	4,836
Other charges		-	-
Total non-markup / interest expenses		356,835	285,260
		89,608	125,440
Extraordinary / unusual items		-	-
Profit before taxation		89,608	125,440
– current		(49,892)	(48,497)
– prior year		(5,542)	(12,220)
– deferred		16,532	5,442
	26	(38,902)	(55,275)
Profit after taxation		50,706	70,165
Unappropriated profit brought forward		94,519	155,350
Profit available for appropriation		145,225	225,515
Basic earnings per share - Rupees	27	0.65	0.89

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 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	(3,048)
Related deferred tax credit / (expense)	(5,027)	1,067
Deferred tax expense for the prior period	-	(4,140)
	9,338	(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		89,608	125,440
Less: dividend income		10,691	2,235
		78,917	123,205
Adjustments:			
Depreciation		22,976	17,705
Provision against non-performing loans and advances		79,711	46,558
Other provisions		31,866	4,815
Gain on sale of fixed assets		(1,840)	(97)
Amortization of deferred government grant		-	(9)
		132,713	68,972
		211,630	192,177
Decrease / (increase) in operating assets			
Advances		144,465	(623,257)
Other assets		(120,117)	28,487
		24,348	(594,770)
Increase in operating liabilities			
Bills payable		1,082	2,082
Deposits and other accounts		404,748	797,928
Other liabilities		11,855	(10,884)
		417,685	789,126
Cash generated from operations		653,663	386,533
Income tax paid		(87,794)	(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		545,082	(6,321)
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	3,669,512
Cash and cash equivalents at end of the year		5,142,867	4,017,716

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

	Share capital	Unappropriated profit	Total
		Rupees in '000	
Balance as at January 1, 2015	654,981	155,350	810,331
Total comprehensive income for the year ended December 31, 2015			
Net profit for the year ended December 31,2015	-	70,165	70,165
Other comprehensive income related to equity	-	-	-
	-	70,165	70,165
Transactions with owners, recorded directly in equity			
Issue of bonus shares @ 20% of paid up capital	130,996	(130,996)	-
Balance as at January 1, 2016	785,977	94,519	880,496
Total comprehensive income for the year ended December 31, 2016			
Net profit for the year ended December 31, 2016	-	50,706	50,706
Other comprehensive income related to equity	-	-	-
	-	50,706	50,706
Balance as at December 31, 2016	785,977	145,225	931,202

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

Chairman **Management Director** **Director** **Director**

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

1. STATUS AND NATURE OF BUSINESS

The Bank of Azad Jammu and Kashmir (the Bank) was established under The Bank of Azad Jammu and Kashmir Act, 2005 (the Act) and is principally engaged in commercial banking and related services as a non-scheduled bank in Azad Jammu and Kashmir State. The registered office of the Bank is situated at Bank Square, Chatter, Muzaffarabad, Azad Jammu and Kashmir. The Government of Azad Jammu and Kashmir holds directly and indirectly Bank's entire share capital at the year end.

The Bank has 65 branches (2015: 64 branches) in Azad Jammu and Kashmir.

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 BSD 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 Pak Rupee, 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)

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

IFRS 5	Non- Current Assets Held for Sale and Discounted Operations (Amendments)	January 1, 2016
IFRS 11	Joint Arrangements (Amendments)	January 1, 2016
IAS 1	Presentation of Financial Statements (Amendments	January 1, 2016
IAS 16	Property, Plant and Equipment (Amendments)	January 1, 2016
IAS 19	Employee Benefits (Amendments)	January 1, 2016
IAS 247	Separate financial statements (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)
IFRS 1	First-Time Adoption of International Financial Reporting Standards	July 1, 2009
IFRS 14	Regulatory Deferral accounts	January 1, 2016

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

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 estimate 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 follow:

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 SBP's BSD 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 SBP's BSD Circular No. 20 dated August 04, 2000 and BPRD circular 06 dated June 26, 2014, available for sale securities for which ready quotations are available on Reuters Page (PKRV) 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 prices 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 SBP.

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 upto maturity. These are carried at amortized cost in accordance with the requirements of SBP's BSD 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 freehold / 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 live 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 effect the carrying amounts of the respective 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 or 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 its 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 encahsment 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 at 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

The Bank operates in Azad Jammu and Kashmir.

5.16 Earning 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.

		2016	2015
		Rupees in '000	
6.	**CASH AND BALANCES WITH TREASURY BANKS**		
	In hand:		
	Local currency	70,298	73,839
	With National Bank of Pakistan in:		
	Local currency saving accounts - note 6.1	79,154	99,777
	Local currency deposit accounts - note 6.2	1,150,000	700,000
		1,299,452	873,616

6.1 These include saving 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 6.25%) per annum with maturities upto three months.

		2016	2015
		Rupees in '000	
7.	**BALANCES WITH OTHER BANKS**		
	In Pakistan (Azad Jammu and Kashmir)		
	On current accounts	50,061	50,025
	On deposit accounts - note 7.1 & 7.2	3,793,354	3,094,075
		3,843,415	3,144,100

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

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 upto twelve months.

8. INVESTMENTS

8.1 *Investments by types:*

	2016 Held by Bank	2016 Given as collateral	2016 Total	2015 Held by Bank	2015 Given as collateral	2015 Total
	Rupees in '000					
Available for sale (AFS) securities						
Units of open end mutual funds - note 8.4	130,000	-	130,000	145,000	-	145,000
Held to maturity securities						
Pakistan Investment Bonds - note 8.5	446,873	-	446,873	991,955	-	991,955
Term Finance Certificates - note 8.6	49,940	-	49,940	49,940	-	49,940
	496,813	-	496,813	1,041,895	-	1,041,895
Investment at cost	626,813	-	626,813	1,186,895	-	1,186,895
Provision for diminution in value of investment	(49,940)	-	(49,940)	(49,940)	-	(49,940)
Investments (net of provision)	576,873	-	576,873	1,136,955	-	1,136,955
Surplus on revaluation of securities - net	27,875	-	27,875	13,510	-	13,510
Total investments at market value	604,748	-	604,748	1,150,465	-	1,150,465

8.2 *Investments by segments:*

	2016	2015
	Rupees in '000	
Pakistan Investment Bonds - Federal Government securities	446,873	991,955
Units of open end mutual funds	130,000	145,000
Term Finance Certificates - listed	49,940	49,940
Total investment at cost	626,813	1,186,895
Provision for diminution in value of investment - note 8.3	(49,940)	(49,940)
Investments (net of provision)	576,873	1,136,955
Surplus on revaluation of AFS securities - net	27,875	13,510
Total investments at market value	604,748	1,150,465

8.3 *Particulars of provision for diminution in value of investments*

	2016	2015
	Rupees in '000	
Opening balance	49,940	49,940
Charge for the year	-	-
Closing balance	49,940	49,940

8.3.1 *Particulars of provision in respect of type and segment*

	2016	2015
Held-to-maturity securities		
Term finance certificates	49,940	49,940

8.4 *Units of open end mutual funds - listed*

No. of units 2016	No. of units 2015	Paid up value per unit Rupees	Name of mutual fund	2016 Rupees in '000	2015 Rupees in '000
785,423	891,458	63.66	National Investment Unit Trust Fund	50,000	50,000
3,184,047	3,184,047	9.42	NIT Government Bond Fund	30,000	30,000
2,501,742	2,501,712	9.99	NIT Islamic Equity Fund	25,000	25,000
-	373,677	-	AKD Cash Fund	-	15,000
227,414	228,959	109.93	MCB Dynamic Cash Fund	25,000	25,000
				130,000	145,000

8.5 'Pakistan Investment Bonds carry markup 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 2017 to July 2018.

8.6 *Investments in term finance certificates - listed*

No. of certificates 2016	No. of certificates 2015	Name of company	Redeemable value per certificate (Rupees)	2016 Rupees in '000	2015 Rupees in '000
10,000	10,000	Pace Pakistan Limited	4,994	49,940	49,940

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

8.7 *Quality of available for sale securities*

	2016 Market value Rupees in '000	2016 Rating	2015 Market value Rupees in '000	2015 Rating
Local securities				
Units of open end mutual funds				
National Investment Unit Trust Fund	68,756	4 - Star	56,376	4 - Star
NIT Government Bond Fund	32,353	AA-	33,183	AA-
NIT Islamic Equity Fund	32,097	AA-	24,667	AA-
AKD Cash Fund	-	AA+	19,254	AA+
MCB Dynamic Cash Fund	24,669	AA+	25,030	AA+
	157,875		158,510	

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.

	2016	2015
	Rupees in '000	

9. ADVANCES

	2016	2015
Loans, cash credits, running finances, etc.		
In Pakistan (Azad Jammu and Kashmir)		
Running and demand finance - note 9.2	860,515	850,572
Agriculture finance loans	327,643	414,246
Micro finance loans	69,220	109,617
Consumer finance loans	1,499,199	1,532,973
Staff loans	82,576	77,061
Advances - gross	2,839,153	2,984,469
Provision for non-performing loans and advances - note 9.4		
Specific provision	(172,313)	(94,059)
General provision	(57,410)	(56,804)
	(229,723)	(150,863)
Advances - net of provision	2,609,430	2,833,606

9.1 Particulars of advances (Gross)

	2016	2015
In local currency	2,839,153	2,984,469
In foreign currency	-	-
	2,839,153	2,984,469

9.1.1

	2016	2015
Short term (for upto one year)	771,270	837,900
Long term (for over one year)	2,067,883	2,146,569
	2,839,153	2,984,469

9.1.2

	2016	2015
In Pakistan (Azad Jammu and Kashmir)	2,839,153	2,984,469
Outside Pakistan	-	-
	2,839,153	2,984,469

9.2 Running and demand finance includes advances to a related party amounting to Rs.250,500 thousand (2015: Rs 304,744 thousand).

9.3 Advances include Rs. 397,445 thousand (2015: Rs 240,221 thousand) which have been placed under non-performing status are detailed below:

	December 31, 2016								
	Classified Advances			Provision Required			Provision Held		
Category of classification	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Other Assets Especially Mentioned - note 9.3.1	85,290	-	85,290	-	-	-	-	-	-
Substandard	111,155	-	111,155	22,504	-	22,504	22,504	-	22,504
Doubtful	46,195	-	46,195	22,506	-	22,506	22,506	-	22,506
Loss	154,805	-	154,805	127,303	-	127,303	127,303	-	127,303
	397,445	-	397,445	172,313	-	172,313	172,313	-	172,313

	December 31, 2015								
	Classified Advances			Provision Required			Provision Held		
Category of classification	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Other Assets Especially Mentioned - note 9.3.1	23,471	-	23,471	-	-	-	-	-	-
Substandard	64,642	-	64,642	10,017	-	10,017	10,017	-	10,017
Doubtful	28,352	-	28,352	2,704	-	2,704	2,704	-	2,704
Loss	123,755	-	123,755	81,338	-	81,338	81,338	-	81,338
	240,220	-	240,220	94,059	-	94,059	94,059	-	94,059

9.3.1 This represents classification for agricultural finances.

9.4 Particulars of provision against non-performing advances

	December 31, 2016			December 31, 2015		
	Specific	General	Total	Specific	General	Total
	Rupees in '000			Rupees in '000		
Opening balance	94,059	56,804	150,863	57,245	47,060	104,305
Charge for the year - net	79,105	606	79,711	36,814	9,744	46,558
Amounts charged off - agri loans - note 9.6	(851)	-	(851)	-	-	-
Closing balance	172,313	57,410	229,723	94,059	56,804	150,863
In local currency	172,313	57,410	229,723	94,059	56,804	150,863
In foreign currency	-	-	-	-	-	-
	172,313	57,410	229,723	94,059	56,804	150,863

9.4.1 The net FSV benefit already availed has been decreased by Rs 44.202 million, which has resulted in increased charge for specific provision for the year by the same amount. Had the FSV benefit not decreased, before and after tax profit for the year would have been higher by Rs 44.202 million (2015: lower by Rs 71.334 million) and Rs 16.251 million (2015: lower by Rs 31.591 million) respectively. Further, at December 31, 2016, cumulative net of tax benefit availed for Forced Saled Value (FSV) was Rs 20.201 million (2015: Rs 36.452 million) under BSD circular No. 1 of 2011 dated October 21, 2011. Reserves and un-appropriated profit to that extent are not available for distribution by way of cash or stock dividend.

9.5 General provision on consumer finance and micro finance loans is maintained in accordance with the requirements of Prudential Regulations issued by State Bank of Pakistan.

9.6 This represents agriculture loans charged off as per time based criteria prescribed by the State Bank of Pakistan in Annexure II of regulation R - 11 or Prudential Regulations for Agricultural Financing.

	2016	2015
	Rupees in '000	
9.7 Particulars of write-offs:		
Against provisions	-	-
Directly charged to profit and loss account - 9.5.1	-	460
	-	460

9.7.1 This represented advance to staff for car financing written off in prior year.

	2016	2015
	Rupees in '000	
9.8 Particulars of loans and advances to executives, directors, associated companies etc.		
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons		
Balance at the beginning of the year	17,366	18,885
Loans granted during the year	2,337	1,721
Repayments made during the year	(3,739)	(3,240)
Balance at the end of the year	15,964	17,366
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at the beginning of the year	304,744	364,668
Loans granted during the year	-	-
Repayments made during the year	(54,244)	(59,924)
Balance at the end of the year	250,500	304,744

10. OPERATING FIXED ASSETS

Capital work-in-progress - note 10.1	954	1,480
Property and equipment - note 10.2	114,684	123,803
Intangible asset - note 10.3	-	-
	115,638	125,283

10.1 Capital work in progress

This represents advance to suppliers in respect of purchase of office equipment, computers and furniture.

10.2 Property and equipment

2016

	COST				DEPRECIATION				Book Value as at December 31, 2016	Annual rate of depreciation
	as at January 1, 2016	additions	deletions / write offs	as at December 31, 2016	as at January 1, 2016	charge for the year	on deletions / write offs	as at December 31, 2016		%
	Rupees in '000									
Land - freehold	40,000	-	-	40,000	-	-	-	-	40,000	0
Building on freehold land	14,407	-	-	14,407	3,920	1,441	-	5,361	9,046	10
Leasehold improvements	22,021	4,271	-	26,292	13,014	3,877	-	16,891	9,401	20
Office equipment	16,608	1,883	-	18,491	7,976	2,698	-	10,674	7,817	20
Computers	27,457	1,548	-	29,005	13,994	3,861	-	17,855	11,150	20
Vehicles	28,632	2,319	(6,070)	24,881	17,048	5,250	(5,862)	16,436	8,445	20
Furniture and fittings	49,913	3,902	-	53,815	19,381	5,785	-	25,166	28,649	10
Carpets	987	142	-	1,129	889	64	-	953	176	20
	200,025	14,065	(6,070)	208,020	76,222	22,976	(5,862)	93,336	114,684	

2015

	COST				DEPRECIATION				Book Value as at December 31, 2015	Annual rate of depreciation
	as at January 1, 2015	additions	deletions / write offs	as at December 31, 2015	as at January 1, 2015	charge for the year	on deletions / write offs	as at December 31, 2015		%
	Rupees in '000									
Land - freehold	40,000	-	-	40,000	-	-	-	-	40,000	0
Building on freehold land	14,407	-	-	14,407	2,479	1,441	-	3,920	10,487	10
Leasehold improvements	14,297	7,724	-	22,021	10,152	2,862	-	13,014	9,007	20
Office equipment	13,365	3,243	-	16,608	5,731	2,245	-	7,976	8,632	20
Computers	20,758	6,699	-	27,457	11,266	2,728	-	13,994	13,463	20
Vehicles	24,065	5,536	(969)	28,632	14,618	3,399	(969)	17,048	11,584	20
Furniture and fittings	39,341	10,572	-	49,913	14,436	4,945	-	19,381	30,532	10
Books	31	-	(31)	-	8	2	(10)	-	-	10
Carpets	970	17	-	987	806	83	-	889	98	20
	167,234	33,791	(1,000)	200,025	59,496	17,705	(979)	76,222	123,803	

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 (Helios) 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

Particulars of assets	Original cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of buyer
		Rupees in '000				
Vehicles						
Toyota Prado	2,688	2,688	-	1,710	Auction	Usman Zahid Awan
Toyota Corolla	1,300	1,300	-	130	As per policy	Maazullah Khan, Employee
Honda Civic	2,082	1,874	208	208	As per policy	Fazal-ur-Rehman, Ex- MD
2016	6,070	5,862	208	2,048		
2015	969	969	-	97		

		2016	2015
		Rupees in '000	
11.	**DEFERRED TAX ASSETS**		
	Deferred tax arising due to:		
	Tax depreciation	(2,966)	(1,419)
	Provision against non-performing advances classified in sub-standard category	(7,876)	(3,506)
	Provision for customer claims	(8,865)	-
	Other provisions	(3,435)	(1,685)
		(23,142)	(6,610)
	Surplus on revaluation of available for sale securities	9,756	4,729
		(13,386)	(1,881)
11.1	***Movement of deferred tax (asset) / liability***		
	Opening deferred tax liability	(1,881)	488
	Deferred credits recognised in profit and loss arising due to:		
	Accelerated tax depreciation	(1,547)	(251)
	Provision against non-performing advances classified in sub-	(4,370)	(3,506)
	Provision for customer claims	(8,865)	-
	Other provisions	(1,750)	(1,685)
		(16,532)	(5,442)
	Deferred debits recognised in equity arising due to:		
	Surplus on revaluation of available for sale securities	5,027	3,073
	Closing deferred tax asset	(13,386)	(1,881)
12.	**OTHER ASSETS**		
	Income / mark-up accrued in local currency - note 12.1 and 12.2	353,042	295,549
	Advances, deposits, advance rent and other prepayments	15,615	17,804
	Advance taxation - 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
		455,067	331,294
	Provision against other assets - note 12.3	(4,815)	(4,815)
	Other assets - net of provision	450,252	326,479

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. 46,366 thousand (2015: Rs. 30,186 thousand).

		2016	2015
		Rupees in '000	
12.3	***Provision against other assets***		
	Opening balance	4,815	4,815
	Charge for the year	-	-
	Closing balance	4,815	4,815
13.	**BILLS PAYABLE**		
	In Pakistan (Azad Jammu and Kashmir)	8,716	7,634

		2016	2015
		Rupees in '000	
14.	**DEPOSITS AND OTHER ACCOUNTS**		
	Customers		
	Fixed 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
		7,845,625	7,440,877
14.1	***Particulars of deposits***		
	In local currency	7,845,625	7,440,877
	In foreign currency	-	-
		7,845,625	7,440,877

14.2 This includes deposits from related parties amounting to Rs. 3,665,349 thousand (2015: Rs. 3,279,865 thousand).

15 .	**OTHER LIABILITIES**		
	Mark-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
		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

2016	2015		Note	2016	2015
Number of shares				Rupees in '000	
200,000,000	200,000,000	Ordinary shares of Rs. 10 each		2,000,000	2,000,000

16.2 *Issued, subscribed and paid up*

2016	2015			
Number of shares		Ordinary shares of Rs. 10 each:		
25,500,000	25,500,000	Fully paid in cash	255,000	255,000
48,082,476	48,082,476	Issued as bonus shares	480,825	480,825
5,015,200	5,015,200	Issued for consideration other than cash	50,152	50,152
78,597,676	78,597,676		785,977	785,977

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*

	2016	2015
	Number of shares	
Shares at the beginning of the year	78,597,676	65,498,063
Shares issued during the year	-	13,099,613
Shares at the year end	78,597,676	78,597,676

17. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

	2016	2015
	Rupees in '000	
Surplus on revaluation of available for sale securities		
Units of mutual funds - listed	27,875	13,510
Related deferred tax liability	(9,756)	(4,729)
	18,119	8,781

18. CONTINGENCIES AND COMMITMENTS

		2016	2015
18.1	Direct credit substitutes		
	- Guarantees in favour of Others	2,330	-
18.2	Commitments to extend credit	283,995	236,323
18.3	Bills for collection	69,963	5,552

Bills for collection represent bills drawn in favour of various financial institutions on behalf of the Bank's customers. These are accepted by the Bank as an agent and the Bank does not carry any credit risk in respect of these bills.

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

	2016	2015
	Rupees in '000	
On loans and advances to customers - note 22.1	406,502	367,786
On investment in		
held to maturity securities	89,772	119,317
On deposits with financial institutions	312,524	307,601
	808,798	794,704

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

	2016	2015
	Rupees in '000	
On deposits	333,382	375,948

This includes an amount of Rs. 186,461 thousand (2015: Rs. 287,424 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

	2016	2015
	Rupees in '000	
Amortization of deferred Government grant	-	9
Gain on sale of fixed asset	1,840	1,840
Site visits and fee collection charges	3,779	4954
	5,619	5,060

25. ADMINISTRATIVE EXPENSES

	2016	2015
	Rupees in '000	
Salaries, allowances, etc.	167,160	145,222
Gratuity - note 30.1	5,616	6,186
Contribution to provident fund - note 30.2	4,206	3,761
Fee to non executive directors	659	429
Rent, taxes, insurance and electricity, etc.	31,981	30,977
Legal and professional charges	4,442	1,454
Communications	10,780	10,112
Repairs and maintenance	18,585	18,392
Stationery and printing	8,936	8,017
Advertisement and publicity	1,459	1,224
Auditors' remuneration - note 25.1	1,980	1,320
Donation	-	10
Entertainment	5,806	5,695
Depreciation	22,976	17,705
Travel and conveyance	6,458	4,814
Training	9	76
Security charges	16,479	14,271
Others	17,437	10,759
	324,969	280,424

25.1 Auditors' remuneration

	2016	2015
	Rupees in '000	
Annual Audit	1,200	850
Half yearly review	600	350
Out of pocket expenses	180	120
	1,980	1,320

25.2 No donation was given to any donee in which the bank or any of its directors or their spouses had any interest

	2016	2015
	Rupees in '000	
26. TAXATION		
For the year		
current	49,892	48,497
deferred	(16,532)	(3,891)
	33,360	44,606
For prior year(s)		
current	5,542	12,220
deferred	-	(1,551)
	5,542	10,669
	38,902	55,275

26.1 *Relationship between tax expense and accounting profit*

	2016	2015
Profit before taxation	89,608	125,440
Tax at applicable tax rate of 35 percent (2015 : 35 percent	31,363	43,904
Effect of:		
charge for prior year	5,542	10,669
expenses not allowed	1,997	1,063
Other		(361)
	-	
Tax charge for the year	38,902	55,275

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

	2016	2015
Profit for the year - Rupees '000	50,706	70,165
Weighted average number of ordinary shares - numbers	78,597,676	78,597,676
Basic earnings per share - Rupees	0.65	0.89

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

28. CASH AND CASH EQUIVALENTS

	2016	2015
	Rupees in '000	
Cash and balances with treasury banks	1,299,452	873,616
Balances with other banks	3,843,415	3,144,100
	5,142,867	4,017,716

29. STAFF STRENGTH

	Number of employees	
Permanent	237	227
Temporary / on contract basis	139	130
Daily wages	9	8
Bank's own staff strength at the end of the year	385	365
Outsourced	124	123
Total staff strength at the end of the year	509	488

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

	Managing Director		Director		Executives	
	2016	2015	2016	2015	2016	2015
			Rupees in '000			
Fees	-	-	648	408	-	-
Managerial remuneration	4,212	3,888	-	-	21,859	12,273
Contribution to defined contribution plan	-	-	-	-	973	722
Contribution to defined gratuity fund	351	324	-	-	973	723
Rent and house maintenance	1,846	1,704	-	-	4,088	3,035
Utilities	211	194	-	-	1,168	867
Medical	247	208	-	-	1,168	867
Bonus	675	648	-	-	1,947	1,639
Leave Encashment	713	570	-		395	-
Others (Fuel Vehicle, Mobile charges, club Membership & Trevelling)	1,325	1,574	11	21	3,621	3,383
	9,580	9,110	659	429	36,192	23,509
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 reliable 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 repricing 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 repriced.

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

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	Rupees in '000			
INVESTMENTS - NET				
Financial Assets - on balance sheet				
Available-for-sale securities				
Units of mutual funds	157,875	-	-	157,875

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
	Rupees in '000			
INVESTMENTS - NET				
Financial Assets - on balance sheet				
Available-for-sale securities				
Units of mutual funds	158,510	-	-	158,510

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.

33. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Retail Banking	**Commercial Banking**	**Payment and Settlement**	**Agency Services**	**Total**
			Rupees in '000		
			2016		
Total income	248,639	593,551	13,655	3,691	859,536
Total expenses	205,374	557,990	5,167	1,397	769,928
Net income (loss)	43,265	35,561	8,488	2,294	89,608
Segment Assets (Gross)	1,643,155	7,568,533	8,196	915	9,220,799
Segment Non Performing Loans	397,445	-	-	-	397,445
Segment Provision Required	229,723	49,940	4,815	-	284,478
Segment Liabilities	14,020	7,972,942	30	8	7,987,000
Segment Return on net Assets (ROA) (%)	2.85%	6.83%	0.16%	0.04%	-
Segment Cost of funds (%)	2.64%	7.18%	0.07%	0.02%	-
			2015		
Total income	220,501	590,618	18,622	3,925	833,666
Total expenses	126,025	574,617	6,264	1,320	708,226
Net income (loss)	94,476	16,001	12,358	2,605	125,440
Segment Assets (Gross)	1,651,352	7,000,656	8,304	736	8,661,048
Segment Non Performing Loans	240,220	-	-	-	240,220
Segment Provision Required	150,863	49,940	4,815	-	205,618
Segment Liabilities	10,624	7,555,471	53	5	7,566,153
Segment Return on net Assets (ROA) (%)	2.75%	7.37%	0.23%	0.05%	-
Segment Cost of funds (%)	2.79%	7.97%	0.10%	0.02%	-

Assumptions used:

- Administrative expenses have been allocated to segments based on respective segment income.

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 at the year end, therefore all of 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:

	2016	2015
	Rupees in '000	
Balances		
The Government of Azad Jammu and Kashmir and its related departments		
-Advances	250,500	304,744
-Deposits	3,665,349	3,279,865
-Mark-up / return / interest accrued on advances	1,872	3,069
-Mark-up / return / interest payable on deposits	25,829	31,022
Transactions		
The Government of Azad Jammu and Kashmir and its related departments		
- Mark-up/ interest earned	27,755	37,524
- Mark-up/ interest expensed	212,290	287,424
- Bonus shares issued during the year	-	130,996
Other Related Parties		
Contribution to Staff retirement benefit plans		
- Staff Gratuity Fund	5,616	6,186
- Staff Provident Fund	4,206	3,761

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 afresh 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 afresh 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 phasing 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 55% 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 uptill 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 RWA ratio and CAR including CCB of 7.5% and 10.25% respectively.

Banking 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 requirement. External ratings for assets, where available, are applied using the assessments by various External Credit Assessment Institutions (ECAIs) 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 militant 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, lien on deposits, 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

	2016	2015
	Rupees in '000	
Common Equity Tier 1 capital (CET1): Instruments and reserves		
Fully Paid-up Capital/ Capital deposited with SBP	785,977	785,977
Balance in Share Premium Account	-	-
Reserve for issue of Bonus Shares	-	-
General/ Statutory Reserves	-	-
Gain/(Losses) on derivatives held as Cash Flow Hedge	-	-
Unappropriated/unremitted profits	145,225	94,519
Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
CET 1 before Regulatory Adjustments	931,202	880,496
Total regulatory adjustments applied to CET1 (Note 35.2.2)	-	-
Common Equity Tier 1	931,202	880,496
Additional Tier 1 (AT 1) Capital		
Qualifying Additional Tier-1 capital instruments plus any related share premium	-	-
of which: Classified as equity	-	-
of which: Classified as liabilities	-	-
Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount	-	-
allowed in group AT 1)	-	-
of which: instrument issued by subsidiaries subject to phase out	-	-
AT1 before regulatory adjustments		
Total regulatory adjustment applied to AT1 capital (Note 35.2.3)	-	-
Additional Tier 1 capital after regulatory adjustments	-	-
Additional Tier 1 capital recognized for capital adequacy	-	-
Tier 1 Capital (CET1 + admissible AT1)	931,202	880,496
Tier 2 Capital		
Qualifying Tier 2 capital instruments under Basel III plus any related share premium		
Tier 2 capital instruments subject to phase-out arrangement issued under pre-Basel III rules	-	-
Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in	-	-
group tier 2)	-	-
of which: instruments issued by subsidiaries subject to phase out	-	-
General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk	57,410	56,804
Weighted Assets	-	-
Revaluation Reserves (net of taxes)	-	-
of which: Revaluation reserves on fixed assets	18,119	8,781
of which: Unrealized gains/losses on AFS	18,119	8,781
	-	-
Foreign Exchange Translation Reserves	-	-
Undisclosed/Other Reserves (if any)	75,529	65,585
T2 before regulatory adjustments	-	-
Total regulatory adjustment applied to T2 capital (Note 35.2.4)	75,529	65,585
Tier 2 capital (T2) after regulatory adjustments		
Tier 2 capital recognized for capital adequacy	75,529	65,585
Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
Total Tier 2 capital admissible for capital adequacy	75,529	65,585
TOTAL CAPITAL (T1 + admissible T2)	1,006,731	946,081
Total Risk Weighted Assets (RWA) - note 35.4	4755,088	4,052,115
Capital Ratios and buffers (in percentage of risk weighted assets)		
CET1 to total RWA	19.58%	21.73%
Tier-1 capital to total RWA	19.58%	21.73%
Total capital to total RWA	21.17%	23.35%
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer	-	5.50%
plus any other buffer requirement)	-	-
of which: capital conservation buffer requirement	-	-
of which: countercyclical buffer requirement	14.01%	-
of which: D-SIB or G-SIB buffer requirement		16.23%
CET1 available to meet buffers (as a percentage of risk weighted assets)		
National minimum capital requirements prescribed by SBP	6.00%	
CET1 minimum ratio	7.50%	6.00%
Tier 1 minimum ratio	10.00%	7.50%
Total capital minimum ratio		10.00%

35.2.2 Common Equity Tier 1 capital: Regulatory adjustments

	2016	2015
	Rupees in '000	
Goodwill (net of related deferred tax liability)	-	-
All other intangibles (net of any associated deferred tax liability)	-	-
Shortfall in provisions against classified assets	-	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
Defined-benefit pension fund net assets	-	-
Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	-	-
Cash flow hedge reserve	-	-
Investment in own shares/ CET1 instruments	-	-
Securitization gain on sale	-	-
Capital shortfall of regulated subsidiaries	-	-
Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of	-	-
related tax liability)		
Amount exceeding 15% threshold	-	-
of which: significant investments in the common stocks of financial entities	-	-
of which: deferred tax assets arising from temporary differences	-	-
National specific regulatory adjustments applied to CET1 capital	-	-
Investments in TFCs of other banks exceeding the prescribed limit	-	-
Any other deduction specified by SBP (mention details)	-	-
Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	-
Total regulatory adjustments applied to CET1	-	-

35.2.3 Additional Tier-1 & Tier-1 Capital: regulatory adjustments

	2016	2015
Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	-
Investment in own AT1 capital instruments	-	-
Reciprocal cross holdings in Additional Tier 1 capital instruments of banking, financial and insurance entities	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from additional tier-1 capital	-	-
Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
Total regulatory adjustment applied to AT1 capital	-	-

35.2.4 Tier 2 Capital: regulatory adjustments

	2016	2015
Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	-
Reciprocal cross holdings in Tier 2 instruments of banking, financial and insurance entities	-	-
Investment in own Tier 2 capital instrument	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
Total regulatory adjustment applied to T2 capital	-	-

35.2.5 Additional Information

	2016	2015
	Rupees in '000	
Risk Weighted Assets subject to pre-Basel III treatment		
Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	-	-
of which: deferred tax assets	-	-
of which: Defined-benefit pension fund net assets	-	-
of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	-	-
of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	-
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financial entities	-	-
Significant investments in the common stock of financial entities	-	-
Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Applicable caps on the inclusion of provisions in Tier 2		
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-	-
Cap on inclusion of provisions in Tier 2 under standardized approach	**4,755,588**	**4,052,115**
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

35.3 Capital Structure Reconciliation

	Balance sheet of the published financial statements	Under regulatory scope of consolidation
	As at December 31, 2016	
	Rupees in '000	
Assets		
Cash and balances with treasury banks	1,299,452	1,299,452
Balances with other banks	3,843,415	3,843,415
Lending to financial institutions	-	-
Investments	604,748	604,748
Advances	2,609,430	2,609,430
Operating fixed assets	115,638	115,638
Deferred tax assets	13,386	13,386
Other assets	450,252	450,252
Total assets	**8,936,321**	**8,936,321**
Liabilities & Equity		
Bills payable	8,716	8,716
Borrowings	-	-
Deposits and other accounts	7,845,625	7,845,625
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Deferred Government grant	-	-
Other liabilities	132,659	132,659
Total liabilities	**7,987,000**	**7,987,000**
Share capital	785,977	785,977
Unappropriated profit	145,225	145,225
Surplus on revaluation of assets - net	18,119	18,119
Total liabilities & equity	**8,936,321**	**8,936,321**

Assets		
Cash and balances with treasury banks	1,299,452	1,299,452
Balanced with other banks	3,843,415	3,843,415
Lending to financial institutions	-	-
Investments	604,748	604,748
of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold	-	-
of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold	-	-
of which: Mutual Funds exceeding regulatory threshold	-	-
of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)	-	-
of which: others (mention details)	-	-
Advances	2,609,430	2,609,430
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-
general provisions reflected in Tier 2 capital	57,410	57,410
Fixed Assets	115,638	115,638
Deferred Tax Assets	13,386	13,386
of which: DTAs that rely on future profitability excluding those arising from temporary differences	-	-
of which: DTAs arising from temporary differences exceeding regulatory threshold	-	-
Other assets	450,252	450,252
of which: Goodwill	-	-
of which: Intangibles	-	-
of which: Defined-benefit pension fund net assets	-	-
Total assets	**8,936,321**	**8,936,321**

	Balance sheet of the published financial statements	Under regulatory scope of consolidation
	As at December 31, 2016	
	Rupees in '000	
Liabilities & Equity		
Bills payable	8,716	8,716
Borrowings	-	-
Deposits and other accounts	7,845,625	7,845,625
Sub-ordinated loans	-	-
of which: eligible for inclusion in AT1	-	-
of which: eligible for inclusion in Tier 2	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
of which: DTLs related to goodwill	-	-
of which: DTLs related to intangible assets	-	-
of which: DTLs related to defined pension fund net assets	-	-
of which: other deferred tax liabilities	-	-
Deferred Government grant	-	-
Other liabilities	132,659	132,659
Total liabilities	**7,987,000**	**7,987,000**
Share capital	785,977	785,977
of which: amount eligible for CET1	785,977	785,977
of which: amount eligible for AT1	-	-
Reserves	-	-
of which: portion eligible for inclusion in CET1(provide breakup)	-	-
of which: portion eligible for inclusion in Tier 2	-	-
Unappropriated profit	145,225	145,225
Minority Interest	-	-
of which: portion eligible for inclusion in CET1	-	-
of which: portion eligible for inclusion in AT1	-	-
of which: portion eligible for inclusion in Tier 2	-	-
Surplus on revaluation of assets	-	-
of which: Revaluation reserves on Fixed Assets	-	-
of which: Unrealized Gains/Losses on AFS	18,119	18,119
In case of Deficit on revaluation (deduction from CET1)	-	-
Total equity	**949,321**	**949,321**
Total liabilities & equity	**8,936,321**	**8,936,321**

	Balance sheet of the published financial statements
	As at December 31, 2016
	Rupees in '000
Common Equity Tier 1 capital (CET1): Instruments and reserves	
Fully Paid-up Capital	785,977
Balance in Share Premium Account	-
Reserve for issue of Bonus Shares	-
General/ Statutory Reserves	-
Gain/(Losses) on derivatives held as Cash Flow Hedge	-
Unappropriated/unremitted profits/ (losses)	145,225
Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-
CET 1 before Regulatory Adjustments	**931,202**
Common Equity Tier 1 capital: Regulatory adjustments	-
Goodwill (net of related deferred tax liability)	-
All other intangibles (net of any associated deferred tax liability)	-
Shortfall of provisions against classified assets	-
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
Defined-benefit pension fund net assets	-
Reciprocal cross holdings in CET1 capital instruments	-
Cash flow hedge reserve	-
Investment in own shares/ CET1 instruments	-
Securitization gain on sale	-
Capital shortfall of regulated subsidiaries	-
Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
Amount exceeding 15% threshold	-
of which: significant investments in the common stocks of financial entities	-
of which: deferred tax assets arising from temporary differences	-
National specific regulatory adjustments applied to CET1 capital	-
of which: Investment in TFCs of other banks exceeding the prescribed limit	-
of which: Any other deduction specified by SBP (mention details)	-
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-
Total regulatory adjustments applied to CET1	
Common Equity Tier 1	931,202
Additional Tier 1 (AT 1) Capital	
Qualifying Additional Tier-1 instruments plus any related share premium	
of which: Classified as equity	-
of which: Classified as liabilities	-
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-
of which: instrument issued by subsidiaries subject to phase out	-
AT1 before regulatory adjustments	-

	Balance sheet of the published financial statements As at December 31, 2016 Rupees in '000
Additional Tier 1 Capital: regulatory adjustments	
Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-
Investment in own AT1 capital instruments	-
Reciprocal cross holdings in Additional Tier 1 capital instruments	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
Total of Regulatory Adjustment applied to AT1 capital	-
Additional Tier 1 capital	-
Additional Tier 1 capital recognized for capital adequacy	
Tier 1 Capital (CET1 + admissible AT1)	931,202
Tier 2 Capital	
Qualifying Tier 2 capital instruments under Basel III plus any related share premium	-
Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-
Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-
of which: instruments issued by subsidiaries subject to phase out	-
General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	57,410
Revaluation Reserves	-
of which: Revaluation reserves on fixed assets	-
of which: Unrealized Gains/Losses on AFS	18,119
Foreign Exchange Translation Reserves	-
Undisclosed/Other Reserves (if any)	-
T2 before regulatory adjustments	75,529
Tier 2 Capital: regulatory adjustments	
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-
Reciprocal cross holdings in Tier 2 instruments	-
Investment in own Tier 2 capital instrument	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
Amount of Regulatory Adjustment applied to T2 capital	-
Tier 2 capital (T2)	**75,529**
Tier 2 capital recognized for capital adequacy	**75,529**
Excess Additional Tier 1 capital recognized in Tier 2 capital	-
Total Tier 2 capital admissible for capital adequacy	**75,529**
TOTAL CAPITAL (T1 + admissible T2)	**1,006,731**

BAJK

35.4 Capital Adequacy

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

	Capital requirements		Risk weighted assets	
	2016	**2015**	**2016**	**2015**
Risk-weighted exposures	Rupees in '000			
Credit Risk				
Portfolios subject to standardized approach (simple or comprehensive)				
On-Balance sheet				
Claims on banks	118,694	84,141	1,186,941	841,410
Past due loans	36,272	17,590	362,717	175,902
Claims categorized as retail portfolio	138,103	138,592	1,381,025	1,385,918
Claims fully secured by residential property	12,274	20,706	122,742	207,065
Operating Fixed Assets	11,564	12,528	115,638	125,283
All other assets	44,975	32,836	450,252	328,360
	361,882	306,393	3,618,815	449,752
Off balance sheet items				
Non-market related				
Direct credit substitute	-	-	-	-
	-	-	-	-
Total credit risk	361,882	306,393	3,618,815	3,063,938
Market risk				
Portfolios subject to standardized approach				
Equity position risk	31,575	47,300	315,750	317,020
Operational risk	82,052	56,414	820,523	671,157
Total	475,509	410,107	4,755,088	4,052,115

Capital Adequacy Ratios	2016		2015	
	Required	**Actual**	**Required**	**Actual**
CET1 to total RWA	6.00%	19.58%	6.00%	21.73%
Tier-1 capital to total RWA	7.50%	19.58%	7.50%	21.73%
Total capital to total RWA	10.00%	21.17%	10.00%	23.35%

BAJK

35.5 Main Features Template of Regulatory Capital Instruments

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

36. 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 mix between the various sources of finance to minimize risk.

Taken 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.

36.1 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.

36.1.1 SEGMENT INFORMATION

36.1.1.1 Segments by class of business

	2016					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	327,643	11.54	-	-	-	-
Construction	27,940	0.98	-	-	-	-
Power (electricity), Gas, Water, Sanitary	-	-	6,725	0.09	-	-
Wholesale and Retail Trade	651,195	22.94	54,240	0.69	-	-
Services	-	-	59,514	0.76	-	-
Individuals	1,499,299	52.81	4,059,797	51.75	2,330	0.8
Government	250,500	8.82	3,665,349	46.72	-	-
Others	82,576	2.91	-	-	283,995	99
	2,839,153	100	7,845,625	100	286,325	100

	2015					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	414,246	13.88	-	-	-	-
Construction	28,252	0.95	-	-	-	-
Power (electricity), Gas, Water, Sanitary	-	-	6,379	0.09	-	-
Wholesale and Retail Trade	567,269	19.01	51,442	0.69	-	-
Services	-	-	56,444	0.76	-	-
Individuals	1,532,973	51.37	4,046,747	54.39	-	-
Government	364,668	12.22	3,279,865	44.08	-	-
Others	77,061	2.58	-	-	247,559	100.00
	2,984,469	100	7,440,877	100	247,559	100

36.1.1.2 *Segments by sector*

2016

	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	250,500	8.82	3,665,349	46.72	-	-
Private	2,588,653	91.18	4,180,276	53.28	286,325	100.00
	2,839,153	100	7,845,625	100	286,325	100

2015

	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	364,668	12.22	3,279,865	44.08	-	-
Private	2,619,801	87.78	4,161,012	55.92	247,559	100.00
	2,984,469	100	7,440,877	100	247,559	100

36.1.1.3 *DETAILS OF NON-PERFORMING ADVANCES AND SPECIFIC PROVISIONS BY CLASS OF BUSINESS SEGMENT*

	2016		2015	
	Rupees in '000			
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Agriculture, Forestry, Hunting and Fishing	121,415	-	73,812	9,421
Construction	-	-	-	-
Power (electricity), Gas, Water, Sanitary	-	-	-	-
Wholesale and Retail Trade	144,354	-	36,872	34,201
Services	-	-	-	-
Individuals	131,676	-	129,536	50,437
Government	-	-	-	-
Others	-	-	-	-
	397,445	-	240,220	94,059

36.1.1.4 *DETAILS OF NON-PERFORMING ADVANCES AND SPECIFIC*

PROVISIONS BY SECTOR

Public / Government	-	-	-	-
Private	397,445	-	240,220	94,059
	397,445	-	240,220	94,059

36.1.1.5 *GEOGRAPHICAL SEGMENT ANALYSIS*

2016

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commit-ments
	Rupees in '000			
Pakistan (Azad Jammu and Kashmir)	89,608	8,936,321	949,321	286,325
Others	-	-	-	-
	89,608	8,936,321	949,321	286,325

2015

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commit-ments
	Rupees in '000			
Pakistan (Azad Jammu and Kashmir)	125,440	8,455,430	889,277	247,559
Others	-	-	-	-
	125,440	8,455,430	889,277	247,559

36.1.1.5.1Contingencies 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 (ECAIs) duly recognized by SBP for capital adequacy purposes. Bank utilizes, wherever available, the credit ratings assigned by the SBP recognized ECAIs, viz. PACRA (Pakistan Credit Rating Agency), JCR-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

SBP Rating	PACRA	JCR-VIS	Fitch	Moody's	S&P	ECA Scores
1	AAA	AAA	AAA	Aaa	AAA	1
1	AA+	AA+	AA+	Aa1	AA+	1
1	AA	AA	AA	Aa2	AA	1
1	AA-	AA-	AA-	Aa3	AA-	1
2	A+	A+	A+	A1	A+	2
2	A	A	A	A2	A	2
2	A-	A-	A-	A3	A-	2
3	BBB+	BBB+	BBB+	Baa1	BBB+	3
3	BBB	BBB	BBB	Baa2	BBB	3
3	BBB-	BBB-	BBB-	Baa3	BBB-	3
4	BB+	BB+	BB+	Ba1	BB+	4
4	BB	BB	BB	Ba2	BB	4
4	BB-	BB-	BB-	Ba3	BB-	4
5	B+	B+	B+	B1	B+	5,6
5	B	B	B	B2	B	5,6
5	B-	B-	B-	B3	B-	5,6
6	CCC+ and above	CCC+ and above	CCC+ and above	Caa1 and above	CCC+ and above	7

Short Term Ratings Grades Mapping

SBP Rating	PACRA	JCR-VIS	Fitch	Moody's	S&P
S1	A-1	A-1	F1	P-1	A-1+,A-1
S2	A-2	A-2	F2	P-2	A-2
S3	A-3	A-3	F3	P-3	A-3
S4	Others	Others	Others	Others	Others

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 maintain 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 monitor and maintain 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.

36.3.1 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.

36.3.2 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.

36.3.3 Yield / interest rate risk

Yield curve 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.

36.3.4 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

On-balance sheet financial instruments	Effective Yield / Interest rate	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financia instruments
			Exposed to yield/ interest risk — Rupees in '000									
Assets												
Cash and balances with treasury banks	5.72%	1,299,452	-	1,000,000	150,000	-	-	-	-	-	-	149,452
Balances with other banks	8.25%	3,843,415	825,160	1,165,194	578,000	575,000	-	-	350,000	300,000	-	50,061
Lending to financial institution		-	-	-	-	-	-	-	-	-	-	-
Investments	9.80%	604,748	-	-	-	249,013	197,860	-	-	-	-	157,875
Advances	13.96%	2,609,430	99,107	224,014	319,525	568,079	563,113	521,389	280,413	24,768	9,022	-
Other assets		450,252	-	-	-	-	-	-	-	-	-	450,252
		8,807,297	924,267	2,389,208	1,047,525	1,392,092	760,973	521,389	630,413	324,768	9,022	807,640
Liabilities												
Bills payable		8,716	-	-	-	-	-	-	-	-	-	8,716
Borrowings		-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	4.56%	7,845,625	4,096,641	1,224,000	145,000	485,100	65,444	91,370	46,653	-	-	1,691,417
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		132,659	-	-	-	-	-	-	-	-	-	132,659
		7,987,000	4,096,641	1,224,000	145,000	485,100	65,444	91,370	46,653	-	-	1,832,792
On-balance sheet gap		820,297	(3,172,374)	1,165,208	902,525	906,992	695,529	430,019	583,760	324,768	9,022	(1,025,152)

2016

Off-balance sheet financial instruments	Effective Yield / Interest rate	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financia instruments
			Exposed to yield/ interest risk									
Purchase and resale agreements		-	-	-	-	-	-	-	-	-	-	-
Sale and repurchase agreements		-	-	-	-	-	-	-	-	-	-	-
Commitments to extend credit		283,995	283,995	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		283,995	283,995	-	-	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap			(3,456,369)	1,165,208	902,525	906,992	695,529	430,019	583,760	324,768	9,022	(1,025,152)
Cumulative yield / interest risk sensitivity gap			(3,456,369)	(2,291,161)	(1,388,636)	(481,644)	213,885	643,904	1,227,664	1,552,432	1,561,454	536,302

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.

2015

On-balance sheet financial instruments	Effective Yield / Interest rate	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financia instruments
			Exposed to yield/ interest risk — Rupees in '000									
Assets												
Cash and balances with treasury banks	6.41%	873,616	99,777	700,000	-	-	-	-	-	-	-	73,839
Balances with other banks	10.23%	3,144,100	870,018	949,019	195,019	780,019	-	-	-	300,000	-	50,025
Investments	10.47%	1,150,465	-	-	158,510	-	991,955	-	-	-	-	-
Advances	13.77%	2,833,606	107,660	242,118	347,099	617,320	611,708	566,383	304,612	26,905	9,801	-
Other assets		326,479	-	-	-	-	-	-	-	-	-	326,479
		8,328,266	1,077,455	1,891,137	700,628	1,397,339	1,603,663	566,383	304,612	326,905	9,801	450,343
Liabilities												
Bills payable		7,634	-	-	-	-	-	-	-	-	-	7,634
Borrowings		-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	5.55%	7,440,877	1,678,554	1,628,053	1,131,254	1,422,387	244	92,020	23,477	-	-	1,464,888
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		117,642	-	-	-	-	-	-	-	-	-	117,642
		7,566,153	1,678,554	1,628,053	1,131,254	1,422,387	244	92,020	23,477	-	-	1,590,164
On-balance sheet gap		762,113	(601,099)	263,084	(430,626)	(25,048)	1,603,419	474,363	281,135	326,905	9,801	(1,139,821)
Off-balance sheet financial instruments												
Purchase and resale agreements		-	-	-	-	-	-	-	-	-	-	-
Sale and repurchase agreements		-	-	-	-	-	-	-	-	-	-	-
Commitments to extend credit		236,323	236,323	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		236,323	236,323	-	-	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap			(837,422)	263,084	(430,626)	(25,048)	1,603,419	474,363	281,135	326,905	9,801	(1,139,821)
Cumulative yield / interest risk sensitivity gap			(837,422)	(574,338)	(1,004,964)	(1,030,012)	573,407	1,047,770	1,328,905	1,655,810	1,665,611	525,790

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

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

Reconciliation of total assets	2016	2015
	Rupees in '000	
Total financial assets	8,807,297	8,328,266
Add: Non financial assets		
Operating fixed assets	115,638	125,283
Deferred tax asset	13,386	1,881
	129,024	127,164
Balance as per balance sheet	8,936,321	8,455,430

Reconciliation of total liabilities	2016	2015
	Rupees in '000	
Total financial liabilities	7,987,000	7,566,153
Add: Non financial liabilities		
Deferred tax liabilities	-	-
Deferred govt. grant	-	-
	-	-
Balance as per balance sheet	7,987,000	7,566,153

36.4.1 Maturities of Assets and Liabilities

2016 (Rupees in '000)

	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Assets										
Cash and balances with treasury banks	1,299,452	149,452	1,000,000	150,000	-	-	-	-	-	-
Balances with other banks	3,843,415	875,221	1,165,194	578,000	575,000	-	-	350,000	300,000	-
Lending to financial institution	-	-	-	-	-	-	-	-	-	-
Investments	604,748	157,878	-	-	249,013	197,857	-	-	-	-
Advances	2,609,430	99,107	224,014	319,525	568,079	563,113	521,389	280,413	24,768	9,022
Operating fixed assets	115,638	-	-	-	22,996	21,859	26,823	3,960	-	40,000
Deferred tax assets	13,386	-	-	-	13,386	-	-	-	-	-
Other assets	450,252	144,432	63,296	45,926	12,213	5,856	3,065	807	174,157	-
	8,936,321	1,426,090	2,452,504	1,093,451	1,440,687	788,685	551,277	635,180	498,925	49,022
Liabilities										
Bills payable	8,716	8,716	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	7,845,625	5,788,058	1,224,000	145,000	485,100	65,444	91,370	46,653	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Deferred Government grant	-	-	-	-	-	-	-	-	-	-
Other liabilities	132,659	91,260	12,289	10,825	18,285	-	-	-	-	-
	7,987,000	5,888,034	1,236,289	155,825	503,385	65,444	91,370	46,653	-	-
	949,321	(4,461,944)	1,216,215	937,626	937,302	723,241	459,907	588,527	498,925	49,022

Share Capital	785,977
Reserves	-
Unappropriated profit	145,225
Surplus on revaluation of assets	18,119
	949,321

2015 (Rupees in '000)

	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Assets										
Cash and balances with treasury banks	873,616	173,616	700,000	-	-	-	-	-	-	-
Balances with other banks	3,144,100	920,043	949,019	195,019	780,019	-	-	-	300,000	-
Lending to financial institution	-	-	-	-	-	-	-	-	-	-
Investments	1,150,465	-	-	158,510	-	991,955	-	-	-	-
Advances	2,833,606	107,660	242,118	347,099	617,320	611,708	566,383	304,612	26,905	9,801
Operating fixed assets	125,283	-	-	-	17,280	15,801	15,801	31,580	4,821	40,000
Other assets	326,479	96,447	77,248	10,582	19,559	4,039	2,912	1,055	114,637	-
	8,455,430	1,297,766	1,968,385	711,210	1,436,059	1,623,503	585,096	337,247	446,363	49,801
Liabilities										
Bills payable	7,634	7,634	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	7,440,877	2,044,776	1,994,275	1,497,476	1,788,609	244	92,020	23,477	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Deferred Government grant	-	-	-	-	-	-	-	-	-	-
Other liabilities	117,642	44,696	7,396	52,317	13,233	-	-	-	-	-
	7,566,153	2,097,106	2,001,671	1,549,793	1,801,842	244	92,020	23,477	-	-
	889,277	(799,340)	(33,286)	(838,583)	(365,783)	1,623,259	493,076	313,770	446,363	49,801

Share Capital	785,977
Reserves	-
Unappropriated profit	94,519
Surplus on revaluation of assets	8,781
	889,277

36.5 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes and system 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 organizational 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 (2015: Nil). 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.

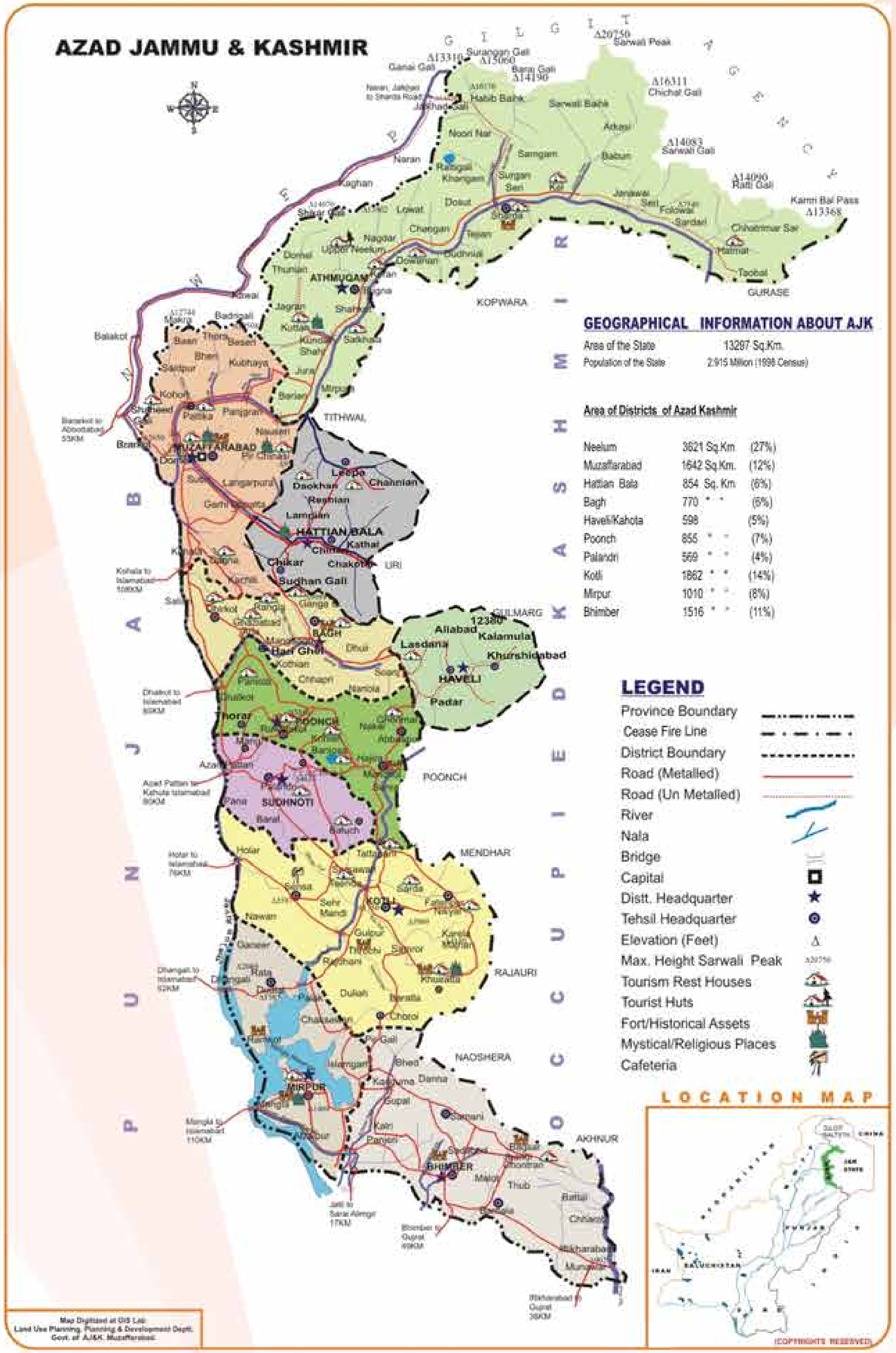
38. GENERAL

Captions as prescribed by BSD Circular No. 4 dated February 17, 2006 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	Director



DISTRICT-WISE LOCATION OF BRANCHES

REGION	ZONE	DISTRICT	S. NO.	BRANCHES
North Region (Muzaffarabad)	Muzaffarabad	Muzaffarabad	1	Main Branch Mzd
			2	Garhi-Dupatta
			3	Lower Plate Mzd
			4	Chatter Klass
			5	Pathika
			6	Madina Market Mzd
			7	District Complex Mzd
			8	Ladies Branch Mzd
			9	Upper Ada
		Neelum	1	Athmuqam
			2	Sharda
			3	Joora
			4	Kutton
		Hattian	1	Chakaar
			2	Hattian
			3	Chakothi
			4	Chathian
	Rawalakot	Poonch	1	Rawalakot
			2	Hajeera
			3	Abbaspur
			4	Khaigala
			5	Paniola
			6	Thorar
			7	CMH Road Rawalakot
			8	Banbekh
		Sudhnoti	1	Palandri
			2	Tararkhal
			3	Baloch
			4	Talian
		Bagh	1	Bagh
			2	Arja
			3	Dheerkot
		Havali	1	Kahutta
South Region (Mirpur)	Mirpur	Mirpur	1	Main Branch Mirpur
			2	Dadyal
			3	Chaksawari
			4	Islamgarh
			5	F-3 Mirpur
			6	Pulmanda
			7	Jatlan
			8	Mian Mohammad Town
			9	Jhatti Dhari Cross
			10	Ladies Branch Mirpur
			11	Saranda
			12	Ratta
		Bhimber	1	Bhimber
			2	Barnala
			3	Chowki
			4	Poona
			5	Moil
	Kotli	Kotli	1	Kotli
			2	Shensa
			3	Nar
			4	Bratla
			5	Khoi Ratta
			6	Sarsawa
			7	Khud Gujran
			8	Charoi
			9	Tata Pani
			10	Darbar Mai Totli
			11	Dhanna
			12	Juna
			13	Seharmandi
			14	Gui
			15	Jarahi

BRANCH NETWORK
(Together We Reach)

ZONE WISE ADDRESSES/CONTACTS OF BRANCHES

Muzaffarabad Zone

Main Branch Muzaffarabad (0001)
Bank Square, Chattar, Muzaffarabad
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Athmuqam Branch (0008)
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Gari-Dupata Branch (0017)
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Chatter Klass Branch (0019)
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Chakar Branch (0022)
Main Bazar Chakar, District Hattian, AJK
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Pathika Branch (0024)
Main Bazar Pathika,
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Madina Market Branch (0028)
Madina Market, Muzaffarabad, AJK
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Chakothi Branch (0037)
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District Complex Muzaffarabad Branch (0040)
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Rawalakot Zone

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Bagh Branch (0010)
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Pallandri Branch (0013)
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Hajeera Branch (0016)
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Dheerkot Branch (0023)
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Bandi Abbaspur Branch (0025)
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Kahutta Branch (0038)
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Paniola Branch (0039)
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Bloch Branch (0041)
Main Bazar Bloch, District Pallandri, AJK
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Talian Branch (0049)
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Thorar Branch (0050)
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Chaksawari Branch (0004)
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Islamgarh Branch (0009)
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Khui Ratta Branch (0021)
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Charhoi Branch (0036)
Main Bazar Charhoi, District Kotli, AJK
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Tatta-Pani Branch (0042)
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Mi-Toti Branch (0044)
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Dhanna Bazar, District Kotli, AJK
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FAX: 05826-921761
E-mail: manager0048@bankajk.com

Juna Branch (0051)
Main Bazar Juna, District Kotli, AJK
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E-mail: manager0051@bankajk.com

Seharmandi Branch (0055)
Main Bazar Seharmandi,
Tehsil Sehensa, District Kotli, AJK
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Jarahi Branch (0064)
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EVENT GALLERY

Board of Director's Meeting

BAJK

Audit Committee Meeting

Management Committee Meeting

Managers' Conference Muzaffarabad

Managers' Conference Mirpur

Trainings and Workshops

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 desired 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, mutatis 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 those 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 persons under whose jurisdiction, superintendence 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 gains from those doing business or seeking business from BOAJK, or accept any gains if offered. He shall not accept any sort of gifts, favor, benefits, frequency of which exceeds normal business contact from a customer, constituent likely to have dealing 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
c. 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 cont1ict 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/correspondences.

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, deters 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:

a. 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

b. 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.

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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 employee 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 person's 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 record in this area. 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 benefits 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 stipendiary 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.

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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 colors, 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 garishly 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 scripts 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

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