

**THE BANK OF AZAD JAMMU AND KASHMIR**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2013**

	Notes	2013 Rupees in '000	2012
<b>ASSETS</b>			
Cash and balances with treasury banks	6	306,368	367,469
Balances with other banks	7	3,628,344	3,434,016
Lending to financial institutions	8	-	-
Investments	9	203,549	225,397
Advances	10	1,678,147	1,101,286
Operating fixed assets	11	97,983	91,156
Deferred tax assets		-	-
Other assets	12	290,032	182,009
		6,204,423	5,401,333
<b>LIABILITIES</b>			
Bills payable	13	4,460	6,218
Borrowings		-	-
Deposits and other accounts	14	5,367,895	4,599,756
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	15	3,280	3,322
Deferred Government grant	16	18	27
Other liabilities	17	86,248	98,496
		5,461,901	4,707,819
<b>NET ASSETS</b>		<b>742,522</b>	<b>693,514</b>
<b>REPRESENTED BY</b>			
Share capital	18	654,981	525,938
Advance against issue of shares	19	-	50,152
Reserves		-	-
Unappropriated profit		75,347	107,810
		730,328	683,900
Surplus on revaluation of assets - net	20	12,194	9,614
		742,522	693,514

**CONTINGENCIES AND COMMITMENTS**

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

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**Chairman**

**Managing Director**

**Director**

**Director**

**THE BANK OF AZAD JAMMU AND KASHMIR**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Notes	2013 Rupees in '000	2012
<b>Mark-up / return / interest earned</b>	24	561,905	555,254
<b>Mark-up / return / interest expensed</b>	25	319,836	292,931
Net mark-up / interest income		242,069	262,323
Provision against non-performing loans and advances	10.6	26,174	15,192
Reversal of provision against lending to financial institution	8.1	(8,000)	(6,000)
Provision for diminution in the value of investment	9.3	-	-
Bad debts written off directly		-	-
		18,174	9,192
Net mark-up / interest income after provisions		223,895	253,131
<b>NON MARK-UP / INTEREST INCOME</b>			
Fee, commission and brokerage income		15,078	10,150
Dividend income		6,810	3,463
Income from dealing in foreign currencies		-	-
Gain on sale of securities - net	26	21,258	29,908
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	27	2,217	2,714
Total non-markup / interest income		45,363	46,235
		269,258	299,366
<b>NON MARK-UP / INTEREST EXPENSES</b>			
Administrative expenses	28	206,658	158,856
Other provisions / write offs		-	-
Other charges		-	-
Total non-markup / interest expenses		206,658	158,856
		62,600	140,510
Extraordinary / unusual items		-	-
<b>PROFIT BEFORE TAXATION</b>		62,600	140,510
Taxation – current		16,501	44,077
– prior years		-	-
– deferred		(329)	619
	29	16,172	44,696
<b>PROFIT AFTER TAXATION</b>		46,428	95,814
Basic / diluted earnings per share - Rupees (restated)	30	0.72	1.58

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

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**Chairman**

**Managing Director**

**Director**

**Director**

**THE BANK OF AZAD JAMMU AND KASHMIR  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>2013</b>	<b>2012</b>
	<b>Rupees in '000</b>	
<b>Profit after taxation</b>	<b>46,428</b>	<b>95,814</b>
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>
<b>Comprehensive income transferred to equity - net of tax</b>	<b><u>46,428</u></b>	<b><u>95,814</u></b>

Surplus / (deficit) arising on revaluation of "Available for sale securities" are presented under a separate head below equity as "Surplus / (deficit) on revaluation of assets" in accordance with the requirements specified by the State Bank of Pakistan vide its BSD Circular No. 20 dated 04 August 2000.

*M. A. L.*

**Chairman**

**Managing Director**

**Director**

**Director**

**THE BANK OF AZAD JAMMU AND KASHMIR**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**2013                      2012**  
**Rupees in '000**

**CASH FLOW FROM OPERATING ACTIVITIES**

Profit before taxation	62,600	140,510
Less: Dividend income	6,810	3,463
	<u>55,790</u>	<u>137,047</u>

**Adjustments for non-cash charges:**

Depreciation	10,770	7,387
Provision against non-performing loans and advances	26,174	15,192
Reversal of provision against lending to financial institution	(8,000)	(6,000)
Provision for diminution in the value of investment	-	-
Loss / (gain) on sale of fixed assets	-	(262)
Amortization of deferred government grant	(9)	(9)
	<u>28,935</u>	<u>16,308</u>
	<u>84,725</u>	<u>153,355</u>

**(Increase) / decrease in operating assets**

Advances	(603,035)	(163,598)
Lending to financial institution	8,000	12,334
Other assets	(107,106)	(60,856)
	<u>(702,141)</u>	<u>(212,120)</u>

**Increase / (decrease) in operating liabilities**

Bills payable	(1,758)	2,862
Deposits and other accounts	768,139	716,721
Other liabilities	(4,651)	14,157
	<u>761,730</u>	<u>733,740</u>
	<u>144,314</u>	<u>674,975</u>

Income tax paid	<u>(25,015)</u>	<u>(24,402)</u>
<b>Net cash inflow from operating activities</b>	<b>119,299</b>	<b>650,573</b>

**CASH FLOW FROM INVESTING ACTIVITIES**

Net investment in available for sale securities	(30,000)	45,000
Net investment in held-to-maturity securities	54,715	27,217
Dividend income	6,810	3,463
Investments in operating fixed assets	(17,597)	(15,596)
Sale proceeds of property and equipment disposed-off	-	418
<b>Net cash flow from investing activities</b>	<b>13,928</b>	<b>60,502</b>

	Notes	2013 Rupees in '000	2012
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Advance against issue of shares		-	-
Net cash inflow from financing activities		-	-
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		133,227	711,075
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		3,801,485	3,090,410
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	31	3,934,712	3,801,485

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Chairman

Managing Director

Director

Director

**THE BANK OF AZAD JAMMU AND KASHMIR**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

	Share capital	Advance against issue of shares	Statutory reserve Rupees in '000	Unappropriated profit	Total
<b>Balance as at January 1, 2012</b>	478,125	-	-	59,809	537,934
<b>Transactions with owners recorded directly in equity</b>					
Issue of bonus shares @ 25%	47,813	-	-	(47,813)	-
Advance against issue of shares	-	50,152	-	-	50,152
<b>Comprehensive income</b>					
Profit after tax for the year	-	-	-	95,814	95,814
Other comprehensive income	-	-	-	-	-
	-	-	-	95,814	95,814
<b>Balance as at December 31, 2012</b>	525,938	50,152	-	107,810	683,900
<b>Transactions with owners recorded directly in equity</b>					
Issue of bonus share @ 15%	78,891	-	-	(78,891)	-
Advance against issue of shares	50,152	(50,152)	-	-	-
<b>Comprehensive income</b>					
Profit after tax for the year	-	-	-	46,428	46,428
Other comprehensive income	-	-	-	-	-
	-	-	-	46,428	46,428
<b>Balance as at December 31, 2013</b>	654,981	-	-	75,347	730,328

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

M P B L

**Chairman**

**Managing Director**

**Director**

**Director**

**THE BANK OF AZAD JAMMU AND KASHMIR**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**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 52 branches (2012: 52 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 and The Bank of Azad Jammu and Kashmir Act, 2005 (the Act) and its Bye-Laws.

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

**3. STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with the requirements of The Bank of Azad Jammu and Kashmir Act, 2005 and its Bye-Laws 2007 and are in accordance with the approved accounting standards as applicable in Pakistan, for Banking Companies. Bye-Laws 2007 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 and Section 34 of the Banking Companies Ordinance, 1962.

The SBP, vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for banking companies till further instructions. Further, according to a notification of SECP dated April 28, 2008, IFRS 7 "Financial Instruments: Disclosure" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, advances and investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars issued by the SBP.

IFRS 8, 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

### **3.1 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2013**

**3.1.1** The following standards, amendments and interpretations are effective for the year ended December 31, 2013. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

	<b>Effective from accounting period beginning on or after</b>
Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information	January 01, 2013
Amendments to IAS 19 - Employee Benefits	January 01, 2013
Amendments to IAS 32 - Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction	January 01, 2013
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	January 01, 2013

### **3.2 New accounting standards and IFRS interpretations that are not yet effective**

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

	<b>Effective from accounting period beginning on or after</b>
Amendments to IAS 32 - Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	January 01, 2014
IAS 36 - Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	January 01, 2014
IFRIC 21 - Levies	January 01, 2014



Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 27 (Revised 2011) – Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to non- adoption of IFRS 10 and IFRS 11

#### **4. BASIS OF MEASUREMENTS**

##### **4.1 Accounting convention**

These financial statements have been prepared under the historical cost convention as modified for certain investments which are shown at revalued amounts.

##### **4.2 Significant Accounting Estimates And Judgments**

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies are as follows:

###### **4.2.1 Classification of investments**

In classifying investments as "held-for-trading" the Bank has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days of acquisition.

In classifying investments as "held-to-maturity" the Bank follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

The investments which are not classified as "held-for-trading" or "held-to-maturity" are classified as "available-for-sale".

#### **4.2.2 Impairment of available-for-sale equity investments**

The Bank determines that "available-for-sale" equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolong requires management to exercise judgment. In making this judgment, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

#### **4.2.3 Provision against non-performing loans and advances and debt securities classified as investments.**

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.

#### **4.2.4 Income taxes & Deferred tax**

While making the estimates for income taxes currently payable by the Bank, management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making provision for deferred taxes, estimates of the Bank's future taxable profits and expected reversal of deductible temporary differences are taken into account.

#### **4.2.5 Operating fixed assets, depreciation and amortization**

In making estimates of the depreciation / amortization method, management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

### **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **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 Lending to financial institution**

These represent transactions of placement of fund with financial institutions at contracted rates for a specified period of time.

#### **5.3 Investments**

Investments of the Bank are classified into following categories:

### ***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 is taken to profit and loss account in accordance with the requirements of the State Bank of Pakistan'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 State Bank of Pakistan's BSD Circular No. 20 dated August 04, 2000, 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 kept in a separate account and is shown below the shareholders' equity in the Statement of Financial Position. Foreign securities are carried at fair value, based on their current bid price in active markets. Where the markets are not active or the securities are unlisted, fair value is estimated by using valuation techniques.

### ***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 the State Bank of Pakistan's BSD Circular No. 14 dated September 24, 2004.

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.

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.

## **5.4 Advances**

Advances are stated net of provisions for non-performing advances. Provision for advances is determined in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan from time to time.

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.

## **5.5 Capital work in progress and property and equipment**

Capital work in progress is stated at cost.

Property and equipment are stated at cost less accumulated depreciation and impairment losses if any. Depreciation is computed over the estimated useful life of the related assets at the rates set out in note 11.2. The cost of assets is depreciated on straight line method except for vehicles which are depreciated on a diminishing balance method.

Depreciation is charged for the full month on purchase / acquisition of an asset while no depreciation 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 property and equipment are taken to the profit and loss account.

### ***Intangible assets***

Intangible assets are amortized using the straight line method over their estimated useful life but restricted to a maximum period of five years.

## **5.6 Impairment**

### ***Impairment of assets other than 'available for sale' equity investments***

The carrying amount of the Bank's assets are reviewed at date of statement of financial position 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 recognised 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 amortisation, if no impairment loss had been recognised.

### ***Impairment of 'available for sale' equity investments***

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

## **5.7 Taxation**

### ***Current***

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

### ***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 substantially enacted at the date of statement of financial position, expected to be applicable at the time of its reversal. A deferred tax asset is recognized only to the extent that it is probable that 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.

## **5.8 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.

## **5.9 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.

## **5.10 Revenue recognition**

Return / mark-up on bank placements, advances and investments is recognized on accrual basis, except for the interest on non-performing advances and investments that is recognised on receipt basis.

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.

## **5.11 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

## **5.12 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.

### **5.13 Impairment of non-financial assets**

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. Recoverable amount is the greater of net selling price and value in use. The resulting impairment loss is taken to the profit and loss account except for the impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

### **5.14 Provisions**

Provisions other than provision on Advances (stated in note 5.4) 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.

### **5.15 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.

### **5.16 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.

### **5.17 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.

#### **5.17.1 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.

## **5.17.2 Geographical segments**

The Bank operates in Azad Jammu and Kashmir.

## **5.18 Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. These financial statements are presented in Pakistan rupees, which is the Bank's functional currency.

## **5.19 Earnings per share**

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

**2013                      2012**  
**Rupees in '000**

## **6. CASH AND BALANCES WITH TREASURY BANKS**

In hand:

Local currency

44,457                      44,596

Foreign currency

-                              -

National Prize Bonds

-                              -

With National Bank of Pakistan in:

Local currency current account

61,911                      72,873

Local currency deposit account - note 6.1

200,000                      250,000

306,368                      367,469

- 6.1** The term deposits carries markup at rates ranging between 8.95% to 11.95% (2012: 11.25% to 12.85%) per annum with maturities upto eight months.

## 7. BALANCES WITH OTHER BANKS

### In Pakistan (Azad Jammu and Kashmir)

On current account	50,000	-
On deposit account - note 7.1 & 7.2	3,578,344	3,434,016
	<u>3,628,344</u>	<u>3,434,016</u>

7.1 The saving deposits carries markup at rates ranging between 6% to 9% (2012: 5% to 9.5%).

7.2 The term deposits carries markup at rates ranging between 9.1% to 13% (2012: 10.2% to 14%) per annum with maturities upto twenty months.

## 8. LENDING TO FINANCIAL INSTITUTIONS

### Particulars of lending to financial institution - gross

In local currency	4,666	12,666
In foreign currency	-	-
	<u>4,666</u>	<u>12,666</u>
Provision against lending to financial institution note 8.1	(4,666)	(12,666)
	<u>-</u>	<u>-</u>

### 8.1 Movement of provision

Opening balance	12,666	18,666
Charge for the year	-	-
Reversal of provision	(8,000)	(6,000)
Closing balance	<u>4,666</u>	<u>12,666</u>

8.2 This represents placement of funds in certificate of Musharakah managed by Invest Capital Investment Bank Limited (ICIBL) at mark-up rate of 17% per annum having maturity on September 23, 2011. During December 2011, the Bank entered into an agreement to reschedule such placement. As per the agreement, the Bank allowed ICIBL to repay Rs. 5 million at the signing of the agreement and the remaining principal amount in 30 equal monthly installments beginning from January 31, 2012. Further, the Bank has also waived the mark-up on such investment for the period September 23, 2011 till the repayment of total outstanding principal i.e. June 30, 2014. During the year, the Bank has received cash receipts of Rs. 8 million against outstanding balances and a reversal of the provision of the same amount has been made.

8.3 The Bank allows rescheduling only under limited and rare circumstances. Loan rescheduling is not allowed as a means of delaying an imminent bad debt situation; a loan can be rescheduled solely if a genuine and acceptable reason can be demonstrated and rescheduling terms must clearly show that the borrower will subsequently be able to meet the loan repayments. Significant financial difficulties of the debtor, probability that the borrower will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the debt is impaired. The Bank has not received nor given any security as collateral.



## 9. INVESTMENTS

### 9.1 Investments by type:

#### Available for sale securities

##### *Mutual Funds*

	2013		2012	
	Held by Bank	Given as collateral	Total	Held by Bank
	Rupees in '000			Given as collateral
				Total
Alfalsh GHP Cash Fund	10,000	-	10,000	10,000
Pak Oman Government Securities Fund	-	-	-	-
National Investment Unit Trust Fund	30,000	-	30,000	25,000
HBL Money Market Fund	-	-	-	10,000
National Investment Trust Income Fund	10,000	-	10,000	-
Pakistan Income Enhancement Fund	15,000	-	15,000	-
Pakistan Cash Management Fund	10,000	-	10,000	-
NIT Government Bond Fund	10,000	-	10,000	-
KASB Cash Fund	25,000	-	25,000	-
UBL Liquidity Fund Plus	15,000	-	15,000	-
AKD Cash Fund	25,000	-	25,000	-
MCB Dynamic Cash Fund	30,000	-	30,000	-
Faysal Money Market Fund	190,000	-	190,000	160,000
				10,000
				25,000
				25,000
				10,000
				10,000
				15,000
				10,000
				10,000
				15,000
				-
				30,000
				160,000

#### Held to maturity securities

##### *Term Finance Certificates*

Pace Pakistan Limited  
Pakarab Fertilizers Limited  
Pakistan Mobile Communications Limited

49,940	-	49,940	49,940	-	49,940
-	-	-	5,170	-	5,170
-	-	-	49,545	-	49,545
49,940	-	49,940	104,655	-	104,655
239,940	-	239,940	264,655	-	264,655
(49,940)	-	(49,940)	(49,940)	-	(49,940)
190,000	-	190,000	214,715	-	214,715
13,549	-	13,549	10,682	-	10,682
203,549	-	203,549	225,397	-	225,397

#### Investment at cost

Less : Provision for diminution in value of investment - note 9.3

#### Investments (net of provision)

Surplus on revaluation of securities - note 20.1

#### Total investments at market value

9.2

*Investments by segments:*

*Listed:*

Units of Mutual Funds - note 9.2.1

Term Finance Certificates - note 9.2.2

Investment at cost

Less : Provision for diminution in value of investment - note 9.3

Investments (net of provision)

Surplus on revaluation of securities - note 20.1

Total investments at market value

2013	2012
Rupees in '000	Rupees in '000
190,000	160,000
49,940	104,655
239,940	264,655
(49,940)	(49,940)
190,000	214,715
13,549	10,682
203,549	225,397

9.2.1

*Investments in listed mutual funds*

Paid up value per unit  
(Rupees)

No. of units		Paid up value per unit (Rupees)		Name of mutual fund	Rupees in '000	
2013	2012	2013	2012		2013	2012
20,000	20,000	500.00	500.00	Alfalah GHP Cash Fund	10,000	10,000
-	517,384	48.32	48.32	Pak Oman Government Securities Fund	-	25,000
695,088	896,700	43.16	27.88	National Investment Unit Trust Fund	30,000	25,000
-	103,532	96.59	96.59	HBL Money Market Fund	-	10,000
963,206	-	10.38	10.38	National Investment Trust Income Fund	10,000	-
326,113	297,988	46.00	50.34	Pakistan Income Enhancement Fund	15,000	15,000
218,255	201,409	45.82	49.65	Pakistan Cash Management Fund	10,000	10,000
978,206	1,165,605	10.22	8.58	NIT Government Bond Fund	10,000	10,000
97,767	97,767	102.28	102.28	KASB Cash Fund	25,000	10,000
267,556	-	93.44	93.44	UBL Liquidity Fund Plus	15,000	-
329,883	303,902	45.47	49.36	AKD Cash Fund	25,000	15,000
247,637	-	100.95	100.95	MCB Dynamic Cash Fund	30,000	-
321,192	293,600	93.40	102.18	Faysal Money Market Fund	190,000	160,000
				Surplus on revaluation of securities - note 20.1	13,549	10,682
					203,549	170,682

9.2.2

*Investments in term finance certificates - listed*

No. of certificates		Company's name	Redeemed value per certificate (Rupees)	Interest rate	Maturity	Rupees in '000	
2013	2012					2013	2012
10,000	10,000	Pace Pakistan Limited	4.994	Kibor + 1.5	2017	49,940	49,940
-	3,447	Pakarab Fertilizers Limited	-	-	-	-	5,170
-	10,000	Pakistan Mobile Communications Limited	-	-	-	-	49,545
		Investments at cost				49,940	104,655
		Less: Provision for diminution in value of securities				(49,940)	(49,940)
		Investments (net of provisions)				-	54,715

9.2.2.1

Paid up value of each security held was Rs. 5,000 per certificate.

2013 2012  
Rupees in '000

9.3 Movement of provision

Opening balance	49,940	49,940
Charge for the year	-	-
Closing	<u>49,940</u>	<u>49,940</u>

9.3.1 Particulars of provision in respect of type and segment  
Held-to-maturity securities

Term finance certificates

	<u>49,940</u>	<u>49,940</u>
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9.4 Quality of available for sale securities

	2013	2012	
	Market value	Market value	Rating
	Rupees in '000	Rupees in '000	
Alfalsh GHP Cash Fund	10,010	10,014	AA(f)
Pak Oman Government Securities Fund	-	27,226	A+(f)
National Investment Unit Trust Fund	34,571	29,761	AM2-
HBL Money Market Fund	-	10,478	AM3-
National Investment Trust Income Fund	10,177	-	-
Pakistan Income Enhancement Fund	16,571	15,305	AA-(f)
Pakistan Cash Management Fund	10,918	10,098	AAA(f)
NIT Government Bond Fund	10,186	12,258	AM2-
KASB Cash Fund	9,999	10,029	2-Star
UBL Liquidity Fund Plus	26,909	-	-
AKD Cash Fund	16,506	15,296	AM3-
MCB Dynamic Cash Fund	25,030	-	-
Faysal Money Market Fund	32,672	30,217	AA+(f)
	<u>203,549</u>	<u>170,682</u>	

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.

**10. ADVANCES**

**Loans, cash credits, running finances, etc.**

Running finance - note 10.4	470,135	510,045
Demand finance	151,009	57,694
Staff loans	42,985	28,660
Agriculture loan	59,626	-
Micro finance	72,669	93,504
Consumer finance		
- Car finance	32,555	33,303
- Finance against salary	611,736	283,954
- Personal loans	85,288	109,746
- Student loans	67,178	5,000
- Gold loans	131,760	-
	<u>1,724,941</u>	<u>1,121,906</u>
Margin financing	-	-
Advances - gross	<u>1,724,941</u>	<u>1,121,906</u>
Provision for non-performing loans and advances - note 10.6		
Specific provision	(15,372)	(3,645)
General provision	(31,422)	(16,975)
	(46,794)	(20,620)
Advances - net of provision	<u><u>1,678,147</u></u>	<u><u>1,101,286</u></u>

**10.1 Particulars of advances**

In local currency	1,724,941	1,121,906
In foreign currency	-	-
	<u><u>1,724,941</u></u>	<u><u>1,121,906</u></u>

**10.2 Short term (for upto one year)**  
**Long term (for over one year)**

470,135	706,957
1,254,806	414,949
<u><u>1,724,941</u></u>	<u><u>1,121,906</u></u>

**10.3 In Pakistan**  
**Outside Pakistan**

1,724,941	1,121,906
-	-
<u><u>1,724,941</u></u>	<u><u>1,121,906</u></u>

**10.4 Advances include advance to related party amounting to Rs. 417.84 million (2012 : 465.185 million).**

**10.5 Advances which have been placed under non-performing status are detailed below:**

Category of classification	December 31, 2013 (Rupees in '000)						
	Classified Advances			Provision Required		Provision Held	
	Domestic	Overseas	Total	Domestic	Overseas	Total	Total
Substandard	6,141	-	6,141	1,439	-	1,439	1,439
Doubtful	7,377	-	7,377	3,629	-	3,629	3,629
Loss	10,549	-	10,549	10,304	-	10,304	10,304
	24,067	-	24,067	15,372	-	15,372	15,372

Category of classification	December 31, 2012 (Rupees in '000)						
	Classified Advances			Provision Required		Provision Held	
	Domestic	Overseas	Total	Domestic	Overseas	Total	Total
Substandard	1,198	-	1,198	250	-	250	250
Doubtful	3,477	-	3,477	1,738	-	1,738	1,738
Loss	2,340	-	2,340	1,657	-	1,657	1,657
	7,015	-	7,015	3,645	-	3,645	3,645

**10.6 Particulars of provision against non-performing loans and advances**

	December 31, 2013 (Rupees in '000)			December 31, 2012 (Rupees in '000)		
	Specific	General	Total	Specific	General	Total
Opening balance	3,645	16,975	20,620	-	5,428	5,428
Charge for the year	11,727	14,447	26,174	3,645	11,547	15,192
Reversals	-	-	-	-	-	-
	11,727	14,447	26,174	3,645	11,547	15,192
Closing balance	15,372	31,422	46,794	3,645	16,975	20,620
In local currency	15,372	31,422	46,794	3,645	16,975	20,620
In foreign currency	-	-	-	-	-	-

**10.7** General provision is created at the rate of 1.5% of secured and 5% of unsecured consumer portfolio respectively. General provision also includes provision against Micro Finance portfolio at the rate of 1% of outstanding principal as required by the Prudential Regulations issued by State Bank of Pakistan.

**10.8** There were no loans / advances written off during the year. (2012: Nil)

**2013                      2012**  
**Rupees in '000**

**10.9** **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	6,860	3,590
Loans granted during the year	9,512	4,600
Repayments made during the year	(69)	(1,330)
Balance at the end of the year	<u>16,303</u>	<u>6,860</u>

**Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties**

Balance at the beginning of the year	465,185	500,000
Loans granted during the year	-	-
Repayments made during the year	(47,350)	(34,815)
Balance at the end of the year	<u>417,835</u>	<u>465,185</u>

## **11. OPERATING FIXED ASSETS**

Capital work-in-progress - note 11.1	3,204	5,182
Property and equipment - note 11.2	94,779	85,974
Intangible asset - note 11.3	-	-
	<u>97,983</u>	<u>91,156</u>

### **11.1 Capital work in progress**

Civil works	-	-
Advances to suppliers and contractors	3,204	5,182
	<u>3,204</u>	<u>5,182</u>

**11.1.1** This relates to advance to suppliers in respect of purchase of vehicles.

## 11.2 Property and equipment

	2013							Annual rate of depreciation %
	COST			DEPRECIATION			Book Value as at December 31, 2013	
	as at January 1, 2013	additions/ (write-off)	as at December 31, 2013	as at January 1, 2013	charge for the year (write-off)	as at December 31, 2013		
	Rupees in '000							
Land-freehold - note 11.2.1	40,000	-	40,000	-	-	-	40,000	0
Building on freehold land - note 11.2.1	10,152	-	10,152	-	-	-	10,152	5
Leasehold improvements	13,952	3,333	17,285	6,750	2,736	9,486	7,799	20
Office equipment	5,049	3,237	8,286	3,224	945	4,169	4,117	20
Computers	11,438	2,040	13,478	7,375	1,517	8,892	4,586	20
Vehicles	16,474	5,864	22,338	7,003	2,941	9,944	12,394	20
Furniture and fittings	21,359	4,996	26,355	8,376	2,513	10,889	15,466	10
Books	26	5	31	2	3	5	26	10
Carpets	844	100	944	590	115	705	239	20
	119,294	19,575	138,869	33,320	10,770	44,090	94,779	

	2012							Annual rate of depreciation %
	COST			DEPRECIATION			Book Value as at December 31, 2012	
	as at January 1, 2012	additions/ (write-off)	as at December 31, 2012	as at January 1, 2012	charge for the year (write-off)	as at December 31, 2012		
	Rupees in '000							
Land-freehold - note 11.2.1	-	40,000	40,000	-	-	-	40,000	0
Building on freehold land - note 11.2.1	-	10,152	10,152	-	-	-	10,152	10
Leasehold improvements	12,270	1,682	13,952	5,450	1,300	6,750	7,202	20
Office equipment	4,031	1,018	5,049	2,820	404	3,224	1,825	20
Computers	9,563	1,875	11,438	5,485	1,890	7,375	4,063	20
Vehicles	12,309	5,384 (1,219)	16,474	6,493	1,573 (1,063)	7,003	9,471	20
Furniture and fittings	17,828	3,531	21,359	6,271	2,105	8,376	12,983	10
Books	-	26	26	-	2	2	24	10
Carpets	777	67	844	477	113	590	254	20
	56,778	63,735 (1,219)	119,294	26,996	7,387 (1,063)	33,320	85,974	

11.2.1 Government of the State of Azad Jammu and Kashmir had allotted land and building at Bank Square, Chattar, Muzaffarabad to the Bank through notification dated July 24, 2009 issued by Services and General Administration Department. The value of land and building have been recorded at cost of Rs. 50.152 million in the Bank books of accounts. The land and building of the Bank is valued by independent valuers M/s Unit-3 Consultants as of December 31, 2012 on the basis of market value keeping in view its location, size, shape and marketability. The Bank is in the process of transferring of the land title on Bank's name.

11.2.2 Property and equipment includes cost of Rs. 5,485 thousand (2012: Rs. 5,485 thousand) and accumulated depreciation amounting to Rs. 5,467 thousand (2012: Rs. 5,458 thousand) in respect of assets donated by the Government of Azad Jammu and Kashmir.

## 11.3 Intangible asset

Bank is in a 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). The software has not been recognised in the financial statements because the development and implementation of this software is currently in progress.

2013                      2012  
Rupees in '000

## 12. OTHER ASSETS

Income / mark-up accrued on advances and investments in local currency - note 12.1	259,065	170,804
Advances, deposits, advance rent and other prepayments	11,244	5,632
Stationary and stamps in hand	2,015	1,801
Advance taxation-net of provision	917	-
Branch adjustment account	16,678	473
Others	113	3,299
	<u>290,032</u>	<u>182,009</u>

12.1 This includes an amount of Rs. 4,210 thousand (2012: Rs. 4,419 thousand) on account of interest receivable from related party.

## 13. BILLS PAYABLE

This represents bills payable in Azad Jammu and Kashmir.

## 14. DEPOSITS AND OTHER ACCOUNTS

### Customers

Fixed deposits	2,064,416	1,701,025
Savings deposits	2,407,862	2,183,431
Current accounts-non remunerative	892,707	710,192
Others	2,910	5,108
	<u>5,367,895</u>	<u>4,599,756</u>

### 14.1 Particulars of deposits

In local currency	5,367,895	4,599,756
In foreign currency	-	-
	<u>5,367,895</u>	<u>4,599,756</u>

14.2 This includes deposits from related parties amounting to Rs 2,373,153 thousand (2012: Rs. 2,147,837 thousand).

## 15. DEFERRED TAX LIABILITIES

The net balance of deferred tax is in respect of the following temporary differences:

- Accelerated depreciation	1,925	2,254
-Surplus on revaluation of investment-available for sale	1,355	1,068
	<u>3,280</u>	<u>3,322</u>

### 15.1 Deferred tax liability-net

	Balance at January 1, 2012	Recognized in profit and loss account	Recognized in equity	Balance at December 31, 2012	Recognized in profit and loss Account	Recognized in in equity	Balance at December 31, 2013
Rupees in '000							
<u>Deferred tax liability arising in respect of:</u>							
Accelerated tax depreciation	1,635	619	-	2,254	(329)	-	1,925
Surplus on revaluation on investment	-	-	1,068	1,068	-	287	1,355
Deferred tax liability-net	<u>1,635</u>	<u>619</u>	<u>1,068</u>	<u>3,322</u>	<u>(329)</u>	<u>287</u>	<u>3,280</u>

2013                      2012  
Rupees in '000

## 16. DEFERRED GOVERNMENT GRANT

Grant from the Government of Azad Jammu and Kashmir

- Operating fixed assets - note 11.2.2	5,485	5,485
- Prepayment included in other assets	490	490
	<u>5,975</u>	<u>5,975</u>
Less: Amortization transferred to income - note 27	(5,957)	(5,948)
	<u>18</u>	<u>27</u>



**2013**                      **2012**  
**Rupees in '000**

**17. OTHER LIABILITIES**

Mark-up / return / interest payable in local currency - note 17.1	61,545	73,608
Accrued expenses	11,097	1,567
Provision for bonus to employees	8,000	8,000
Provision for education cess	809	2,982
Provision for taxation - net	-	7,597
Others	4,797	4,742
	<u>86,248</u>	<u>98,496</u>

**17.1** This includes an amount of Rs. 19,504 thousand (2012: Rs. 51,951 thousand) on account of interest payable to related parties.

**18. SHARE CAPITAL**

**Authorised Capital**

<b>2013</b>	<b>2012</b>		<b>2013</b>	<b>2012</b>
<i>Number of shares</i>			<i>Rupees in '000</i>	
<u>200,000,000</u>	<u>200,000,000</u>	Ordinary shares of Rs. 10 each	<u>2,000,000</u>	<u>2,000,000</u>

**Issued, subscribed and paid up**

<i>Number of shares</i>		Ordinary shares of Rs. 10 each		
		<b>Fully paid in cash</b>		
20,000,000	20,000,000	Government of Azad Jammu and Kashmir	200,000	200,000
5,500,000	5,500,000	Azad Kashmir Logging and Saw Mills Corporation	55,000	55,000
		<b>Issued as bonus shares</b>		
27,437,500	21,250,000	Government of Azad Jammu and Kashmir	274,375	212,500
7,545,363	5,843,800	Azad Kashmir Logging and Saw Mills Corporation	75,454	58,438
		<b>Issued for consideration other than cash - note 19</b>		
5,015,200	-	Government of Azad Jammu and Kashmir	50,152	-
<u>65,498,063</u>	<u>52,593,800</u>		<u>654,981</u>	<u>525,938</u>

**2013**                      **2012**  
**No of Shares**

**18.1 Reconciliation of number of ordinary shares**

Shares at the beginning of the year	52,593,800	47,812,500
Shares issued during the year	12,904,263	4,781,300
Shares at the year end	<u>65,498,063</u>	<u>52,593,800</u>

**18.2 Capital risk management**

The Bank's objectives when managing capital risks are to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns to shareholders and benefits for other stakeholders. It is the policy of the Bank to achieve a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

**19. ADVANCE AGAINST ISSUE OF SHARES**

Government of the State of Azad Jammu and Kashmir had allotted land and building at Bank Square, Chattar, Muzaffarabad to the Bank through notification dated July 24, 2009 issued by Services and General Administration Department against contribution as share capital in kind of total value of Rs. 50.152 million. The Bank issued shares equivalent to the value of building after necessary approval to the Government of Azad Jammu and Kashmir.

2013	2012
Rupees in '000	

## 20. SURPLUS ON REVALUATION OF ASSETS - NET

### Surplus on revaluation of available for sale securities

Units of mutual funds - listed

12,194	9,614
--------	-------

## 20.1 Surplus on revaluation of available for sale securities

Units of mutual funds - listed - note 9

Add: Related deferred tax liability

13,549	10,682
(1,355)	(1,068)
12,194	9,614

## 21. CONTINGENCIES AND COMMITMENTS

### 21.1 Direct credit substitutes

- Guarantees in favour of  
Government  
Others

-	-
9,953	16,661
9,953	16,661

### 21.2 Commitments to extend credit

148,315	42,080
---------	--------

### 21.3 Bills for collection

22,901	22,901
--------	--------

Bills for collection represent bills drawn in favour of various financial institutions on behalf of 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.

## 22. 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 instruments at the year end.

## 23. DERIVATIVE INSTRUMENTS

The Bank does not deal in derivative instruments.

2013	2012
Rupees in '000	

## 24. MARK-UP / RETURN / INTEREST EARNED

On loans and advances to

-Customers - note 24.1

-Financial institution

184,406	132,304
-	2,553

On investment in

-Available for sale securities

-Held to maturity securities

-	-
5,123	8,147

On deposits with financial institutions

372,376	412,250
561,905	555,254

24.1 This includes an amount of Rs. 51,182 thousand (2012: Rs. 61,500 thousand) on account of interest earned on advance given to related party.

## 25. MARK-UP / RETURN / INTEREST EXPENSED

On deposits - note 25.1

319,836	292,931
---------	---------

25.1 This includes an amount of Rs. 174,649 thousand (2012: Rs. 152,951 thousand) on account of interest expense on deposits received from related parties.

**26. GAIN ON SALE OF SECURITIES - NET**

Units of mutual funds - listed

21,258      29,908

**27. OTHER INCOME**

Amortization of deferred Government grant  
Net profit on sale of property and equipment  
Others

9      9  
-      262  
2,208      2,443  
2,217      2,714

**28. ADMINISTRATIVE EXPENSES**

Salaries, allowances, etc.  
Gratuity - note 34.1  
Contribution to provident fund - note 34.2  
Rent, taxes, insurance and electricity, etc  
Legal and professional charges  
Communications  
Repairs and maintenance  
Stationery and printing  
Advertisement and publicity  
Auditors' remuneration - note 28.1  
Donation  
Entertainment  
Depreciation - note 11.2  
Travel and conveyance  
Training  
Education cess  
Security charges  
Other expenditures (travelling and vehicle running expenses etc.)

113,443      89,055  
3,631      4,021  
2,736      2,555  
16,641      12,612  
1,799      3,344  
6,995      5,370  
10,337      2,342  
5,168      4,130  
1,816      2,508  
1,210      1,074  
-      60  
3,716      3,548  
10,770      7,387  
7,706      2,917  
7,841      714  
29      1,180  
7,994      6,841  
4,826      9,198  
206,658      158,856

**28.1 Auditors' remuneration**

Annual Audit  
Review of Condensed Interim Financial Information  
Out of pocket expenses

825      750  
275      235  
110      89  
1,210      1,074

**29. TAXATION**

For the year  
Current  
Deferred

16,501      44,077  
(329)      619  
16,172      44,696

**29.1 Relationship between tax expense and accounting profit**

Profit before taxation	62,600	140,510
Tax at applicable tax rate of 35 percent (2012: 35 percent)	21,910	49,179
Effect of:		
Income chargeable to tax at lower rates	(5,738)	(4,483)
Income exempt from tax	-	-
Other	-	-
Tax at applicable tax rate	<u>16,172</u>	<u>44,696</u>

**30. BASIC/ DILUTED EARNINGS PER SHARE**

Profit for the year	<u>46,428</u>	<u>95,814</u>
---------------------	---------------	---------------

**Number of shares**

Weighted average number of Ordinary Shares

<u>64,662,196</u>	<u>60,482,863</u>
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Basic/ diluted earnings per share - Rupees

<u>0.72</u>	<u>1.58</u>
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**31. CASH AND CASH EQUIVALENTS**

Cash and balances with treasury banks  
Balances with other banks

306,368	367,469
3,628,344	3,434,016
<u>3,934,712</u>	<u>3,801,485</u>

**Number of employees**

**32. STAFF STRENGTH**

Permanent  
Temporary / on contract basis  
Daily wages  
Bank's own staff strength at the end of the year  
Outsourced  
Total staff strength at the end of the year

231	175
81	67
8	8
<u>320</u>	<u>250</u>
69	68
<u>389</u>	<u>318</u>

**33. STAFF RETIREMENT BENEFITS**

**33.1 Gratuity**

The Bank contributed Rs. 3,631 thousand (2012: Rs. 4,021 thousand) during the year towards employees gratuity fund.

**33.2 Provident fund**

The Bank contributed Rs. 2,736 thousand (2012: Rs. 2,555 thousand) during the year towards employees contributory provident fund.

### 34. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Managing Director		Directors		Executives	
	2013	2012	2013	2012	2013	2012
	Rupees in '000					
Fees	-	-	469	644	-	-
Managerial remuneration	2,880	2,880	-	-	10,226	5,987
Contribution to defined contribution plan	-	-	-	-	372	274
Contribution to defined gratuity fund	240	240	-	-	464	274
Rent and house maintenance	1,260	1,260	-	-	3,069	1,997
Utilities	288	288	-	-	887	571
Medical	164	176	-	-	893	571
Bonus	480	480	-	-	1,183	805
Others	1,242	985	-	-	3,225	1,902
	<u>6,554</u>	<u>6,309</u>	<u>469</u>	<u>644</u>	<u>20,319</u>	<u>12,381</u>
Number of persons	<u>1</u>	<u>1</u>	<u>9</u>	<u>9</u>	<u>13</u>	<u>10</u>

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 Bank's maintained cars.

### 35. FAIR VALUE OF FINANCIAL INSTRUMENTS

#### 35.1 On-balance sheet financial instruments

	2013		2012	
	Book value	Fair value	Book value	Fair value
	Rupees in '000			
<b>Assets</b>				
Cash and balances with treasury banks	306,368	306,368	367,469	367,469
Balances with other banks	3,628,344	3,628,344	3,434,016	3,434,016
Lending to financial institution	-	-	-	-
Investments	203,549	203,549	225,397	225,397
Advances				
Term loans	1,180,399	1,180,399	566,226	566,226
Staff loans	42,985	42,985	28,660	28,660
Other advances	454,763	470,135	506,400	510,045
Other assets	259,178	259,178	174,103	174,103
	<u>6,075,586</u>	<u>6,090,958</u>	<u>5,302,271</u>	<u>5,305,916</u>
<b>Liabilities</b>				
Bills payable	4,460	4,460	6,218	6,218
Deposits and other accounts				
Current and saving accounts	3,303,479	3,303,479	2,898,731	2,898,731
Term deposits	2,064,416	2,064,416	1,701,025	1,701,025
Other liabilities	85,439	85,439	87,917	87,917
	<u>5,457,794</u>	<u>5,457,794</u>	<u>4,693,891</u>	<u>4,693,891</u>

The fair value of quoted investments other than those classified as held to maturity is based on quoted market prices.

The fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to the absence of current and active market for these 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 5.4.

The maturity and repricing profile and effective rates are stated in notes 39.4.1

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 assets and liabilities are either short-term in nature or in the case of customer loans and deposits, are frequently repriced.

### 36. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Retail Brokerage
	Rupees in '000						
	2013						
Total income	-	-	100,181	491,733	11,372	3,982	-
Total expenses	-	-	52,494	449,029	2,988	1,047	-
Net income (loss)	-	-	47,686	42,704	8,384	2,937	-
Segment Assets (Gross)	-	-	992,901	5,255,803	2,429	851	-
Segment Non Performing Loans	-	-	24,067	-	-	-	-
Segment Provision Required	-	-	46,794	-	-	-	-
Segment Liabilities	-	-	4,040	5,457,559	10	3	-
Segment Return on net Assets (ROA) (%)	-	-	1.72%	8.44%	0.20%	0.07%	-
Segment Cost of funds (%)	-	-	1.03%	8.83%	0.06%	0.02%	-
	2012						
Total income	-	-	46,603	544,511	6,583	3,792	-
Total expenses	-	-	25,238	476,863	2,267	1,306	-
Net income (loss)	-	-	21,365	67,648	4,316	2,486	-
Segment Assets (Gross)	-	-	468,594	4,951,594	1,120	645	-
Segment Non Performing Loans	-	-	7,015	-	-	-	-
Segment Provision Required	-	-	20,620	-	-	-	-
Segment Liabilities	-	-	2,151	4,705,660	5	3	-
Segment Return on net Assets (ROA) (%)	-	-	0.95%	11.05%	0.13%	0.08%	-
Segment Cost of funds (%)	-	-	0.58%	11.09%	0.05%	0.03%	-

Assumptions used:

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

### 37. 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.

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

as follows:	2013	2012
	Rupees in '000	
<b>Balances</b>		
The Government of Azad Jammu and Kashmir and its related departments		
-Advances	417,835	465,185
-Deposits	2,373,153	2,147,837
-Deferred Government grant	18	27
-Mark-up / return / interest accrued on advances	4,210	4,419
-Mark-up / return / interest payable on deposits	19,504	51,951
<b>Transactions</b>		
The Government of Azad Jammu and Kashmir and its related departments		
- Mark-up/ interest earned	51,182	61,500
- Mark-up/ interest expensed	174,649	152,951
- Bonus shares issued during the year	78,891	47,813



## 38. CAPITAL ADEQUACY

### 38.1 Scope of Applications

The capital adequacy framework applies on all banks both at standalone as well as at consolidated level.

### 38.2 Capital Structure

The State Bank of Pakistan through BPRD Circular No. 6 of 2013 has decided to implement the Basel III reforms issued by the Basel Committee on Banking Supervision (BCBS) to further strengthen the capital related rules. The major changes under the Basel III reform package pertain to numerator of the Capital Adequacy Ratio (CAR) i.e., eligible capital. The instructions have become effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019.

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

- Common Equity Tier 1 capital (CET1), which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves, statutory reserves as per the financial statements, minority interest and net unappropriated profits after all regulatory adjustments applicable on CET1.

- Additional Tier 1 Capital (AT1), which includes perpetual non-cumulative preference shares and Share premium resulting from the issuance of preference shares balance in share premium account after all regulatory adjustments applicable on AT1.

- Tier 2 capital, which includes Subordinated debt/ Instruments, share premium of issuance of Subordinated debt/ Instruments, general provisions for loan losses (up to a maximum of 1.25 % of credit risk weighted assets), net of tax reserves on revaluation of fixed assets and equity investments and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2.

Detail of Bank's eligible capital (on an unconsolidated basis) is as follows:

2013		2012
Amount	Amounts subject to Pre Basel III treatment	
(-----Rupees in thousand-----)		

#### Common Equity Tier 1 capital: instruments and reserves

1	Fully Paid up Capital	654,981	525,938
2	Balance in Share Premium Account	-	-
3	Reserve for issue of Bonus Shares	-	-
4	General/Statutory Reserves	-	-
5	Gain/(Losses) on derivatives held as Cash Flow Hedge	-	-
6	Unappropriated Profits	75,347	107,810
	<b>CET 1 before Regulatory Adjustments</b>	<b>730,328</b>	<b>633,748</b>

	<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
7	Goodwill (net of related deferred tax liability)	-	-
8	All other intangibles (net of associated deferred tax liability)	-	-
9	Shortfall of provisions against classified assets	-	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
11	Defined-benefit pension fund net assets	-	-
12	Reciprocal cross-holdings in common equity	-	-
13	Cash-flow hedge reserve	-	-
14	Investment in own shares/CET 1 instruments	-	-
15	Securitisation gain on sale	-	-
16	Capital shortfall of regulated subsidiaries	-	-
17	Deficit on account of revaluation from bank's holdings of property/ AFS investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
18	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
19	Deferred tax assets arising from temporary differences (amount above 10% threshold)	-	-
20	Amount exceeding the 15% threshold	-	-
21	of which: significant investments in the common stock of financials	-	-
22	of which: mortgage servicing rights	-	-
23	National specific regulatory adjustments applied to CET 1 capital	-	-
24	Investment in TFCs of other banks exceeding the prescribed limit	-	-
25	Any other deduction specified by SBP (mention details)	-	-
26	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-
27	<b>Total regulatory adjustments to Common equity Tier 1</b>	-	-
	<b>Common Equity Tier 1 capital (CET1)</b>	(a) <b>730,328</b>	<b>633,748</b>
	<b>Additional Tier 1 capital: instruments</b>		
28	Qualifying Additional Tier 1 instruments plus related share premium	-	-
29	of which: classified as equity	-	-
30	of which: classified as liabilities	-	-
31	Additional Tier 1 instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT1)	-	-
32	of which: instruments issued by subsidiaries subject to phase out	-	-
33	<b>Additional Tier 1 before regulatory adjustments</b>	-	-
	<b>Additional Tier 1 capital: regulatory adjustments</b>		
34	Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	-
35	Investments in own Additional Tier 1 instruments	-	-
36	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
37	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
38	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-

39	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	-	-
40	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
41	Total regulatory adjustments to Additional Tier 1 capital	-	-
42	Additional Tier 1 capital (AT1)	(b) -	-
43	<b>Additional Tier 1 capital recognized for capital adequacy</b>	(b) -	-
	<b>Tier 1 capital (CET1 + admissible AT1)</b>	(c=a+b) 730,328	633,748
	<b>Tier 2 capital</b>		
44	Qualifying Tier 2 capital instruments under Basel III	-	-
45	Capital instruments subject to phased out arrangement from tier 2 (Pre Basel III instruments)	-	-
46	Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	-
47	of which: instruments issued by subsidiaries subject to phase out	-	-
48	General provision or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	31,422	16,975
49	Revaluation Reserves	-	-
50	of which: Revaluation reserves on Property	-	-
51	of which: Unrealized Gain/losses on AFS	12,194	4,326
52	Foreign Exchange Translation Reserves	-	-
53	Undisclosed/Other Reserves (if any)	-	-
54	<b>Tier 2 capital before regulatory adjustments</b>	43,616	21,301
	<b>Tier 2 capital: regulatory adjustments</b>		
55	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	-	-
56	Reciprocal cross-holdings in Tier 2 instruments	-	-
57	Investments in own Tier 2 instruments	-	-
58	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 common share capital of the entity (amount above 10%	-	-
59	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
60	Amount of regulatory Adjustment applied to T 2 Capital	-	-
61	Tier 2 capital (T2)	43,616	21,301
62	Tier 2 Capital recognized for capital adequacy	43,616	21,301
63	Excess Additional Tier 1 capital recognized in Tier 2 capital	-	-
64	<b>Total Tier 2 capital admissible for capital adequacy</b>	(d) 43,616	21,301
	<b>TOTAL CAPITAL (T1 + admissible T2)</b>	(e=c+d) 773,944	655,049
	<b>Total Risk Weighted Assets (RWA)</b>	(i=f+g+h) 3,409,338	2,831,164
65	Total Credit Weighted Assets	(f) 2,495,892	2,017,729
66	Risk Weighted Assets in respect of amounts subject to Pre-Basel III Treatment	-	-
67	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	-	-
68	of which: deferred tax assets	-	-
69	of which: Defined-benefit pension fund net assets	-	-

70	of which: others		-	-
71	Total Market Risk Weighted Assets	(g)	407,098	341,364
72	Total Operational Risk Weighted Assets	(h)	506,349	472,071
<b>Capital Ratios and buffers ( in percentage of risk weighted assets)</b>				
73	CET 1 to total RWA	(a/i)	21.42%	22.38%
74	Tier 1 capital to total RWA	(c/i)	21.42%	22.38%
75	Total Capital to RWA	(e/i)	22.70%	23.14%
76	Bank specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus any other buffer requirement)			
77	of which: capital conservation buffer requirement		-	-
78	of which: counter cyclical buffer requirement		-	-
79	of which: D-SIB or G-SIB buffer requirement		-	-
80	CET 1 available to meet buffers (as a percentage of risk weighted assets)		-	-
<b>National minimum requirement prescribed by SBP</b>				
81	Common Equity Tier 1 minimum ratio		5%	-
82	Tier 1 minimum ratio		6.5%	-
83	Total capital minimum ratio		10%	10%
<b>Amounts below the thresholds for deduction (before risk weighting)</b>				
84	Non-significant investments in the capital of other financials		-	-
85	Significant investments in the common stock of financials		-	-
86	Deferred tax assets arising from temporary differences (net of related tax liability)		-	-
<b>Applicable caps on the inclusion of provisions in Tier 2</b>				
87	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)		-	-
88	Cap on inclusion of provisions in Tier 2 under standardised approach		-	-
89	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		-	-
90	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		-	-

### 38.3 Capital Structure Reconciliation

#### Step 1

Under Step 1, Bank is required to disclose the reported balance sheet under the regulatory scope of consolidation. There is no difference between the regulatory consolidation and the accounting consolidation. Accordingly, Step 1 is skipped.

#### Step 2

	As Per published financial statements	Under regulatory scope of consolidation	Reference
	2013	2013	
	(Rupees in thousand)		
<b>ASSETS</b>			
Cash and balances with treasury banks	306,368	306,368	
Balances with other banks	3,628,344	3,628,344	
Lending to financial institutions	-	-	
Investments	203,549	203,549	
Advances	1,678,147	1,678,147	
<i>general provisions reflected in tier 2 capital</i>	31,422	31,422	a
Operating fixed assets	97,983	97,983	
Deferred tax assets	-	-	
Other assets	290,032	290,032	
<b>Total Assets</b>	<b>6,204,423</b>	<b>6,204,423</b>	
<b>LIABILITIES</b>			
Bills payable	4,460	4,460	
Borrowings	-	-	
Deposits and other accounts	5,367,895	5,367,895	
Sub-ordinated loans	-	-	
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	3,280	3,280	
Deferred Government grant	18	18	
Other liabilities	86,248	86,248	
	5,461,901	5,461,901	
<b>NET ASSETS</b>	<b>742,522</b>	<b>742,522</b>	
<b>REPRESENTED BY</b>			
Share capital	654,981	654,981	
<i>of which amount eligible for CET 1</i>	654,981	654,981	b
Advance against issue of shares	-	-	
Reserves	-	-	
Unappropriated profit	75,347	75,347	c
	730,328	730,328	
Surplus on revaluation of assets - net	12,194	12,194	
<i>of which unrealized gain and losses on AFS</i>	12,194	12,194	d
	<b>742,522</b>	<b>742,522</b>	

#### Step 3

Under Step 3, Bank is required to map each of the components that are disclosed in step 2 to the composition of capital disclosures. Since no new information is added by this step and the information produced in step 2 can easily be linked with amount of capital used in capital adequacy ratio, Step 3 is skipped.

### 38.4 Main Features Template Of Regulatory Capital Instruments

1	Issuer	Bank of Azad Jammu and Kashmir
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Bank of Azad Jammu and Kashmir
3	Governing law(s) of the instrument	Laws applicable in State of Azad Jammu and Kashmir
	<b>Regulatory treatment</b>	
4	Transitional Basel III rules	Common equity Tier 1
5	Post-transitional Basel III rules	Common equity Tier 1
6	Eligible at solo / group / group & solo	Standalone
7	Instrument type	Common Shares
8	Amount recognised in regulatory capital (Currency in PKR thousands, as of reporting date)	654,981
9	Par value of instrument	PKR 10
10	Accounting classification	Shareholder equity
11	Original date of issuance	2006
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	<b>Coupons / dividends</b>	
17	Fixed or floating dividend/coupon	Not applicable
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Not applicable
23	<b>Convertible or non-convertible</b>	Not applicable
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	<b>Write-down feature</b>	Not applicable
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

### 38.5 Capital Adequacy

The capital adequacy ratio is a measure of the amount of a Bank's capital expressed as a percentage of its risk weighted assets. Measuring risk weighted assets requires risk mitigants to be applied to the amount of assets shown on a Bank's balance sheet. These assets are then applied weightages according to the degree of inherent risk.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operational risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of potential future exposure.

The total risk-weighted exposures comprise of credit risk, market risk and operational risk.

	Capital requirements		Risk weighted assets	
	2013	2012	2013	2012
	Rupees in '000			
<b>Credit Risk</b>				
Portfolios subject to standardized approach (simple or comprehensive)				
<b>On-Balance sheet</b>				
Claims on banks	121,991	124,787	1,219,907	1,247,873
Past due loans	2,137	522	21,368	5,219
Claims on Corporate	-	1,294	-	12,943
Claims categorized as retail portfolio	81,113	45,317	811,129	453,165
Claims fully secured by residential property	4,552	870	45,520	8,703
All other assets	38,801	27,317	388,014	273,165
	<u>248,594</u>	<u>200,107</u>	<u>2,485,939</u>	<u>2,001,068</u>
<b>Off balance sheet items</b>				
<u>Non-market related</u>	995	1,666	9,953	16,661
Direct credit substitute	-	-	-	-
Other commitments	<u>995</u>	<u>1,666</u>	<u>9,953</u>	<u>16,661</u>
	<u>249,589</u>	<u>201,773</u>	<u>2,495,892</u>	<u>2,017,729</u>
<b>Total credit risk (f)</b>				
Market risk				
<b>Capital requirement for portfolios subject to standardized approach</b>				
Equity position risk	40,710	34,136	407,098	341,364
<b>Total market risk (g)</b>	<u>40,710</u>	<u>34,136</u>	<u>407,098</u>	<u>341,364</u>
<b>Operational risk</b>				
Basic indicator approach-total of operational risk (h)	50,635	47,207	506,349	472,071
	<u>340,934</u>	<u>283,116</u>	<u>3,409,338</u>	<u>2,831,164</u>
<b>Total (f+g+h)</b>	(i)			
<b>Capital Adequacy Ratio</b>				
			2013	2012
			Rupees in '000	
Total eligible regulatory capital held (Rupees in '000)	(e)		773,944	655,049
Total risk weighted assets (Rupees in '000)	(i)		3,409,338	2,831,164
Capital adequacy ratio	(e) / (i)		22.70%	23.14%

The Capital adequacy ratio of prior year is based on the Basel II framework as applicable on that date.

### 39. FINANCIAL RISK MANAGEMENT OBJECTIVES

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.

#### 39.1 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Bank's credit risk is primarily attributable to balances with other banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. All financial assets except cash in hand are subject to credit risk.

##### 39.1.1 Segments by class of business

		2013					
		Advances		Deposits		Contingencies and Commitments	
		Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Individuals		1,057,003	63	2,994,742	56	158,268	100
Others		621,144	37	2,373,153	44	-	-
		<u>1,678,147</u>	<u>100</u>	<u>5,367,895</u>	<u>100</u>	<u>158,268</u>	<u>100</u>

  

		2012					
		Advances		Deposits		Contingencies and Commitments	
		Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Individuals		533,546	48	2,451,910	53	58,706	99.9%
Others		567,740	52	2,147,846	47	35	0.1%
		<u>1,101,286</u>	<u>100</u>	<u>4,599,756</u>	<u>100</u>	<u>58,741</u>	<u>100%</u>

##### 39.1.2 Segments by sector

		2013					
		Advances		Deposits		Contingencies and Commitments	
		Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government		417,835	25	2,373,153	44	-	0%
Private		1,260,312	75	2,994,742	56	158,268	100%
		<u>1,678,147</u>	<u>100</u>	<u>5,367,895</u>	<u>100</u>	<u>158,268</u>	<u>100%</u>



Public sector/ Government  
Private

2012					
Advances		Deposits		Contingencies and Commitments	
Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
465,185	42	2,147,846	47	35	0.1%
636,101	58	2,451,910	53	58,706	99.9%
1,101,286	100	4,599,756	100	58,741	100%

### 39.1.3 Geographical Segment Analysis

Pakistan (Azad Jammu and Kashmir)  
Asia Pacific (including South Asia)  
Europe  
United States of America and Canada  
Middle East  
Others

2013			
Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
Rupees in '000			
62,600	6,204,423	742,522	158,268
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
62,600	6,204,423	742,522	158,268

Pakistan (Azad Jammu and Kashmir)  
Asia Pacific (including South Asia)  
Europe  
United States of America and Canada  
Middle East  
Others

2012			
Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
Rupees in '000			
140,510	5,401,333	693,514	58,741
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
140,510	5,401,333	693,514	58,741

39.1.3.1 Contingencies and commitments include amounts given in note 21 except bills for collection.

### 39.2 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.

#### 39.2.1 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.

Exposures	JCR-VIS	PACRA
Corporate	Yes	Yes
Banks	Yes	Yes
SME's	Yes	Yes

## Long Term Ratings Grades Mapping

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

**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.

## 39.3.1

**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.

## 39.3.2

**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.

## 39.3.3

**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.

## 39.3.4

**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.

	Effective Yield / Interest rate	2013									Non-interest bearing financial instruments	
		Exposed to yield/ interest risk										
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
Rupees in '000												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	9.45%	306,368	261,911	-	395,836	-	110,836	200,000	-	-	-	44,457
Balances with other banks	10.15%	3,628,344	1,985,836	935,836	-	-	-	-	-	-	-	-
Lending to financial institution		-	-	-	-	-	-	-	-	-	-	-
Investments	11.54%	203,549	-	13,549	190,000	-	-	-	-	-	-	-
Advances	13.33%	1,678,147	76,522	63,616	152,825	652,859	229,934	246,570	12,687	7,182	259,178	
Other assets		259,178	-	-	-	-	-	-	-	-	-	-
		6,075,586	2,324,269	1,013,001	738,661	763,695	435,952	229,934	246,570	12,687	7,182	303,635
Liabilities												
Bills payable		4,460	-	-	-	-	-	-	-	-	-	4,460
Borrowings		-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	7.00%	5,367,895	1,419,564	1,220,158	757,257	677,036	386,868	6,150	8,155	-	-	892,707
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-
Other liabilities		86,248	-	-	-	-	-	-	-	-	-	86,248
		5,438,603	1,419,564	1,220,158	757,257	677,036	386,868	6,150	8,155	-	-	983,415
On-balance sheet gap		616,983	904,705	(207,157)	(18,596)	86,659	49,084	223,784	238,415	12,687	7,182	(679,780)

Purchase and resale agreements	-	-	-	-	-	-
Sale and repurchase agreements	-	-	-	-	-	-
Commitments to extend credit	148,315	148,315	-	-	-	-
Off-balance sheet gap	148,315	148,315	-	-	-	-
Total yield / interest risk sensitivity gap	756,390	(207,157)	(18,596)	86,659	49,084	223,784
						238,415
						12,687
						7,182
						(679,780)
Cumulative yield / interest risk sensitivity gap	756,390	549,233	530,637	617,296	666,380	890,164
						1,128,579
						1,141,566
						1,148,448
						468,668

Value of instrument with carrying charge for on-balance sheet instruments is based on settlement date. Value of instrument with carrying charge for off-balance sheet instruments is based on maturity date.

2012											
Effective Yield / Interest rate		Exposed to yield/ interest risk							Over 5 to 10 Years	Above 10 Years	Non-interest bearing financial instruments
		Up to 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			
	Total	Rupees in '000									
	<b>On-balance sheet financial instruments</b>										
	<b>Assets</b>										
11.90%	Cash and balances with treasury banks	367,469	322,873	-	496,542	-	921,541	-	200,000	-	44,596
12.79%	Balances with other banks	3,434,016	1,294,391	521,542	89,178	40,000	578,357	-	31,423	-	-
17.22%	Investments	225,397	51,049	45,170	-	-	-	-	-	-	-
12.57%	Advances	1,101,286	30,572	18,231	76,151	-	-	-	304,658	11,061	182,009
-	Other assets	182,009	-	-	-	-	-	-	-	-	226,665
		5,310,177	1,698,885	584,943	661,871	1,539,898	50,833	304,658	11,061	-	-
	<b>Liabilities</b>										
-	Bills payable	6,218	-	-	-	-	-	-	-	-	6,218
-	Borrowings	-	-	-	-	-	-	-	-	-	-
7.00%	Deposits and other accounts	4,599,756	1,273,610	1,173,610	634,310	794,484	3,250	5,530	-	-	710,192
-	Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
-	Other liabilities	98,496	-	-	-	-	-	-	-	-	98,496
		4,704,470	1,273,610	1,173,610	634,310	794,484	3,250	5,530	-	-	814,906
	On-balance sheet gap	605,707	425,275	(588,667)	27,561	745,414	47,583	299,128	11,061	-	(588,301)
	<b>Off-balance sheet financial instruments</b>										
-	Purchase and resale agreements	-	-	-	-	-	-	-	-	-	-
-	Sale and repurchase agreements	-	-	-	-	-	-	-	-	-	-
-	Commitments to extend credit	42,080	42,080	-	-	-	-	-	-	-	-
	Off-balance sheet gap	42,080	42,080	-	-	-	-	-	-	-	-
	Total yield / interest risk sensitivity gap	383,195	(588,667)	27,561	745,414	47,583	299,128	11,061	-	-	(588,301)
	Cumulative yield / interest risk sensitivity gap	383,195	(205,472)	(177,911)	567,503	615,086	841,739	1,140,867	1,151,928	1,151,928	563,627

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

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

	2013	2012
	Rs. in '000	Rs. in '000
<b>Reconciliation of total assets</b>		
Total financial assets	6,075,586	5,310,177
Add: Non financial assets		
Operating fixed assets	97,983	91,156
Other assets	30,854	-
	128,837	91,156
	6,704,423	5,401,333
<b>Reconciliation of total liabilities</b>		
Total financial liabilities	5,458,603	4,704,470
Add: Non financial liabilities		
Deferred tax liabilities	3,280	3,322
Deferred govt. grant	18	27
	3,298	3,349
Balance as per balance sheet	5,461,901	4,707,819

### 39.4 Liquidity Risk

Liquidity risk reflects an enterprises inability in raising funds to meet commitments. The Bank's liquidity position is managed by the Asset and Liability Management Committee (ALCO). ALCO monitors the maintenance of balance sheet liquidity ratios, depositors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits and liquidity contingency plans. Moreover, core retail deposits (current accounts and saving accounts) form a considerable part of the Bank's overall funding and significant importance is attached to the stability and growth of these deposits.

#### 39.4.1 Maturities of Assets and Liabilities

2013

	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
<b>Assets</b>										
Cash and balances with treasury banks	306,368	306,368	-	-	-	-	-	-	-	-
Balances with other banks	3,628,344	1,985,836	935,836	395,836	110,836	200,000	-	-	-	-
Lending to financial institution	-	-	-	-	-	-	-	-	-	-
Investments	203,549	-	13,549	190,000	-	-	-	-	-	-
Advances	1,678,147	76,522	63,616	152,825	652,859	235,952	229,934	246,570	12,687	7,182
Operating fixed assets	97,983	3,204	-	-	9,677	9,677	9,677	19,399	6,348	40,001
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	290,032	165,703	54,811	25,944	8,530	35,013	31	-	-	-
	6,204,423	2,537,633	1,067,812	764,605	781,902	480,642	239,642	265,969	19,035	47,183
<b>Liabilities</b>										
Bills payable	4,460	4,460	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	5,367,895	2,312,270	1,220,158	757,257	677,036	386,868	6,150	8,155	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	3,280	-	-	-	-	-
Deferred tax liabilities	3,280	-	-	-	9	-	-	-	-	-
Deferred Government grant	18	-	-	-	-	-	-	-	-	-
Other liabilities	86,248	76,324	400	4,908	4,616	-	-	-	-	-
	5,461,901	2,393,054	1,220,558	762,165	684,941	386,877	6,150	8,155	-	-
<b>Net assets</b>	742,522	144,579	(152,746)	2,440	96,961	93,765	233,492	257,814	19,035	47,183

Share Capital	654,981
Reserves	-
Unappropriated profit	75,347
Surplus on revaluation of assets	12,194
	<u>742,522</u>

Assets										
Cash and balances with treasury banks	367,469	367,469	-	-	921,541	-	-	-	-	-
Balances with other banks	3,434,016	1,294,391	521,542	496,542	-	-	200,000	-	-	-
Lending to financial institution	-	-	-	-	-	-	-	-	-	-
Investments	225,397	51,049	45,170	89,178	40,000	-	-	-	-	-
Advances	1,101,286	30,572	18,231	76,151	578,357	50,833	31,423	304,658	11,061	-
Operating fixed assets	91,156	867	-	-	6,976	6,976	6,976	13,951	55,410	-
Other assets	182,009	103,927	30,380	33,965	2,422	302	10,988	25	-	-
	5,401,333	1,848,275	615,323	695,836	1,549,296	58,111	249,387	318,634	66,471	-
Liabilities										
Bills payable	6,218	6,218	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	4,599,756	1,451,158	1,351,158	811,857	972,032	3,250	4,770	5,531	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	3,322	-	-	-	-	-
Deferred tax liabilities	3,322	-	-	-	-	-	-	-	-	-
Deferred Government grant	27	27	-	-	-	-	-	-	-	-
Other liabilities	98,496	81,500	200	4,825	11,971	-	-	-	-	-
	4,707,819	1,538,903	1,351,358	816,682	987,325	3,250	4,770	5,531	-	-
Net assets	693,514	309,372	(736,035)	(120,846)	561,971	54,861	244,617	313,103	66,471	-
Share Capital										
Share Capital	525,938	-	-	-	-	-	-	-	-	-
Reserves	-	-	-	-	-	-	-	-	-	-
Unappropriated profit	107,810	-	-	-	-	-	-	-	-	-
Advance against issue of shares	50,152	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets	9,614	-	-	-	-	-	-	-	-	-
	693,514	309,372	(736,035)	(120,846)	561,971	54,861	244,617	313,103	66,471	-

### 39.5 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.

**40. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE**

The Board of Directors in its meeting held on ----- have announced a bonus issue of \_\_ percent (2012: 15 percent). The appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2013 do not include the effect of the appropriation which will be accounted for in the financial statements for the year ending December 31, 2014 as follows:

	2013	2012
	Rupees '000	
Transfer from unappropriated profit to:	-	78,891

**41. DATE OF AUTHORIZATION**

These financial statements were authorised for issue by the Board of Directors of the Bank on -----.

*MVA*

**Chairman**

**Managing Director**

**Director**

**Director**