

AUDITORS' REPORT TO THE MEMBERS**Introduction**

We have audited the accompanying financial statements of The Bank of Azad Jammu and Kashmir (the Bank), which comprise the statement of financial position as at December 31, 2015, and the profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information (here-in-after referred to as the financial statements).

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the approved accounting standards as applicable in Pakistan and the requirements of The Bank of Azad Jammu and Kashmir Act, 2005 (the Act) and its Bye-Laws 2007 (the Bye-Laws), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Bank of Azad Jammu and Kashmir as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Act and the Bye-Laws.

Other matter

The financial statements of the Bank for the year ended December 31, 2014 were audited by another firm of Chartered Accountants, who expressed an unqualified opinion thereon vide their report dated June 10, 2015.



Chartered Accountants
Islamabad: June 27, 2016

Engagement partner: S. Haider Abbas

THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015

	Note	2015 Rupees in '000	2014
ASSETS			
Cash and balances with treasury banks	6	873,616	300,844
Balances with other banks	7	3,144,100	3,368,668
Lending to financial institutions		-	-
Investments	8	1,150,465	1,172,192
Advances	9	2,833,606	2,256,907
Operating fixed assets	10	125,283	111,354
Deferred tax assets	11	1,881	-
Other assets	12	326,479	364,087
		<u>8,455,430</u>	<u>7,574,052</u>
LIABILITIES			
Bills payable	13	7,634	5,551
Borrowings		-	-
Deposits and other accounts	14	7,440,877	6,642,949
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	11	-	488
Deferred Government grant	15	-	9
Other liabilities	16	117,642	99,822
		<u>7,566,153</u>	<u>6,748,819</u>
NET ASSETS		<u>889,277</u>	<u>825,233</u>
REPRESENTED BY			
Share capital	17	785,977	654,981
Reserves		-	-
Unappropriated profit		94,519	155,350
		<u>880,496</u>	<u>810,331</u>
Surplus on revaluation of assets - net of tax	18	8,781	14,902
		<u>889,277</u>	<u>825,233</u>
CONTINGENCIES AND COMMITMENTS	19		

The annexed notes 1 to 40 form an integral part of these financial statements.



Chairman

Managing Director

Director

Director

THE BANK OF AZAD JAMMU AND KASHMIR
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2015

	Note	2015 Rupees in '000	2014
Mark-up / return / interest earned	22	794,704	723,400
Mark-up / return / interest expensed	23	375,948	377,681
Net mark-up / interest income		418,756	345,719
Provision against non-performing loans and advances - net	9.4	46,558	57,511
Reversal of provision against lending to financial institution		-	(4,666)
Provision for diminution in the value of investments - net		-	-
Bad debts written off directly		460	-
		47,018	52,845
Net mark-up / interest income after provisions		371,738	292,874
Non mark-up / interest income			
Fee, commission and brokerage income		22,602	19,605
Dividend income		2,235	4,433
Income from dealing in foreign currencies		-	-
Gain on sale of securities - net	24	9,065	29,712
Unrealized gain / (loss) on revaluation of investments classified as held for trading - net		-	-
Other income	25	5,060	2,745
Total non-markup / interest income		38,962	56,495
		410,700	349,369
Non mark-up / interest expenses			
Administrative expenses	26	280,424	243,351
Other provisions / write offs		4,836	-
Other charges		-	-
Total non-markup / interest expenses		285,260	243,351
		125,440	106,018
Extraordinary / unusual items		-	-
Profit before taxation		125,440	106,018
Taxation – current		(48,497)	(29,108)
– prior year		(12,220)	-
– deferred		5,442	3,093
	27	(55,275)	(26,015)
Profit after taxation		70,165	80,003
Unappropriated profit brought forward		155,350	75,347
Profit available for appropriation		225,515	155,350
Basic earnings per share - Rupees	28	0.89	1.22

The annexed notes 1 to 40 form an integral part of these financial statements.



Chairman

Managing Director

Director

Director

**THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015	2014
	Rupees in '000	
Profit after taxation	70,165	80,003
Other comprehensive income		
Components of comprehensive income not reflected in equity		
(Deficit) / surplus on revaluation of available for sale securities	(3,048)	3,009
Related deferred tax credit / (expense)	1,067	(301)
Deferred tax expense for the prior period	(4,140)	-
	(6,121)	2,708
Comprehensive income transferred to equity - net of tax	<u>64,044</u>	<u>82,711</u>

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

The annexed notes 1 to 40 form an integral part of these financial statements.



Chairman

Managing Director

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THE BANK OF AZAD JAMMU AND KASHMIR
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2015

	Note	2015 Rupees in '000	2014 Rupees in '000
Cash flow from operating activities			
Profit before taxation		125,440	106,018
Less: dividend income		2,235	4,433
		<u>123,205</u>	<u>101,585</u>
Adjustments:			
Depreciation		17,705	15,406
Provision against non-performing loans and advances		46,558	57,511
Provision against other receivables		4,815	-
Reversal of provision against lending to financial institutions		-	(4,666)
Charge for defined benefit plan		6,186	5,259
Gain on sale of fixed assets		(97)	-
Amortization of deferred government grant		(9)	(9)
		<u>75,158</u>	<u>73,501</u>
		<u>198,363</u>	<u>175,086</u>
(Increase) / decrease in operating assets			
Advances		(623,257)	(636,271)
Lending to financial institutions		-	4,666
Other assets		28,487	(85,973)
		<u>(594,770)</u>	<u>(717,578)</u>
Increase / (decrease) in operating liabilities			
Bills payable		2,082	1,091
Deposits and other accounts		797,928	1,275,054
Other liabilities		(10,884)	24,575
		<u>789,126</u>	<u>1,300,720</u>
Cash generated from operations		<u>392,719</u>	<u>758,228</u>
Payment made to defined benefit plan		(6,186)	(5,259)
Income tax paid		(27,706)	(28,191)
Net cash generated from operating activities		<u>358,827</u>	<u>724,778</u>
Cash flow from investing activities			
Net investment in available for sale securities		25,000	20,000
Net investment in held to maturity securities		(6,321)	(985,634)
Dividend income		2,235	4,433
Investments in operating fixed assets		(31,634)	(28,777)
Sale proceeds of operating fixed assets disposed off		97	-
Net cash flow from investing activities		<u>(10,623)</u>	<u>(989,978)</u>
Cash flow from financing activities			
Increase / (decrease) in cash and cash equivalents		<u>348,204</u>	<u>(265,200)</u>
Cash and cash equivalents at beginning of the year		3,669,512	3,934,712
Cash and cash equivalents at end of the year	29	<u><u>4,017,716</u></u>	<u><u>3,669,512</u></u>

The annexed notes 1 to 40 form an integral part of these financial statements.



Chairman

Managing Director

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Director

**THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Share capital	Unappropriated profit	Total
	Rupees in '000		
Balance as at January 1, 2014	654,981	75,347	730,328
Total comprehensive income for the year ended December 31, 2014			
Net profit for the year ended December 31, 2014	-	80,003	80,003
Other comprehensive income related to equity	-	-	-
	-	80,003	80,003
Balance as at January 1, 2015	654,981	155,350	810,331
Total comprehensive income for the year ended December 31, 2015			
Net profit for the year ended December 31, 2015	-	70,165	70,165
Other comprehensive income related to equity	-	-	-
	-	70,165	70,165
Transactions with owners, recorded directly in equity			
Issue of bonus shares @ 20% of paid up capital	130,996	(130,996)	-
Balance as at December 31, 2015	<u>785,977</u>	<u>94,519</u>	<u>880,496</u>

The annexed notes 1 to 40 form an integral part of these financial statements.



Chairman

Managing Director

Director

Director

THE BANK OF AZAD JAMMU AND KASHMIR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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 64 branches (2014: 59 branches) in Azad Jammu and Kashmir.

2. BASIS OF PRESENTATION

These financial statements have been presented in accordance with the requirements of format prescribed by the State Bank of Pakistan's BSD Circular No 4 dated February 17, 2006, The Bank of Azad Jammu and Kashmir Act, 2005 (the Act) and its Bye-Laws 2007 (the Bye-Laws).

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

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Act and its Bye-Laws. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) as are notified under the Companies Ordinance 1984, provisions of and directives issued under the Companies Ordinance 1984 and the Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan (SBP). In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962 and the directives issued by SBP shall prevail. Bye-Laws require that the statement of financial position and profit and loss account of the Bank shall be drawn up in conformity with the rules and regulations of the State Bank of Pakistan and Section 34 of the Banking Companies Ordinance, 1962.

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

3.1 Standards, interpretations and amendments to approved accounting standards that are not yet effective

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

		Effective date (annual periods beginning on or after)
IFRS 3	Business Combinations (Amendments)	July 1, 2014
IFRS 8	Operating Segments (Amendments)	July 1, 2014
IAS 1	Presentation of Financial Statements (Amendments)	July 1, 2014
IAS 16	Property, Plant and Equipment (Amendments)	July 1, 2014
IAS 19	Employee Benefits (Amendments)	July 1, 2014
IAS 24	Related Party Disclosures (Amendments)	July 1, 2014
IAS 38	Intangible Assets (Amendments)	July 1, 2014



- b) The following standard has been issued by the International Accounting Standards Board (IASB), which is yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of its applicability in Pakistan:

	Effective date (annual periods beginning on or after)
IFRS 1 First-Time Adoption of International Financial Reporting Standards	July 1, 2009

- c) Following standards and amendments were notified by SECP for the purpose of their applicability in Pakistan from annual periods beginning on or after January 1, 2015.

IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurement
IAS 27 Separate Financial Statements
IAS 28 Investments in Associates and Joint Ventures
IFRS 10 Consolidated Financial Statements (Amendments)
IFRS 12 Disclosure of Interests in Other Entities (Amendments)
IFRS 13 Fair Value Measurement (Amendments)
IAS 27 Separate Financial Statements (Amendments)

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

	Effective date (annual periods beginning on or after)
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (Amendments)	January 1, 2016
IFRS 7 Financial Instruments: Disclosures (Amendments)	January 1, 2016
IFRS 9 Financial Instruments	January 1, 2018
IFRS 10 Consolidated Financial Statements (Amendments)	January 1, 2016
IFRS 11 Joint Arrangements (Amendments)	January 1, 2016
IFRS 12 Disclosure of interests in Other Entities (Amendments)	January 1, 2016
IFRS 14 Regulatory Deferral Accounts	January 1, 2016
IFRS 15 Revenue from Contracts with Customers	January 1, 2017
IAS 1 Presentation of Financial Statements (Amendments)	January 1, 2016
IAS 16 Property, Plant and Equipment (Amendments)	January 1, 2016
IAS 19 Employee Benefits (Amendments)	January 1, 2016
IAS 27 Separate Financial Statements (Amendments)	January 1, 2016
IAS 28 Investments in Associates and Joint Ventures (Amendments)	January 1, 2016
IAS 34 Interim Financial Reporting (Amendments)	January 1, 2016
IAS 38 Intangible Assets (Amendments)	January 1, 2016

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

4. BASIS OF MEASUREMENT

4.1 Accounting convention

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

Use of critical accounting estimates and judgments

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

- i) classification of investments (note 5.2)
- ii) provision against investments (note 5.2), advances (note 5.3), operating fixed assets (note 5.4) and other assets (note 5.5)
- iii) valuation and impairment of available for sale securities (note 5.2)
- iv) useful life of property and equipment, intangible assets and revaluation of land (note 5.4)
- v) taxation (note 5.7)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Cash and cash equivalents

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

5.2 Investments

Investments are classified as follows:

Held for trading

These represent securities acquired with the intention to trade by taking advantage of short-term market / interest rate movements. These are marked to market and surplus / deficit arising on revaluation of 'held for trading' investments is taken to profit and loss account in accordance with the requirements of the 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 SBP's BSD Circular No. 20 dated August 04, 2000 and BPRD circular 06 dated June 26, 2014, available for sale securities for which ready quotations are available on Reuters Page (PKRV) or Stock Exchanges are valued at market value and the resulting surplus / deficit is taken through "Statement of Comprehensive Income" and is shown below the shareholders' equity in the statement of financial position. Where the decline in prices of available for sale equity securities is significant and prolonged, it is considered impaired and included in profit and loss account. Impairment loss on available for sale debt securities is determined in accordance with the requirements of Prudential Regulations issued by the SBP.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee as per the latest audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

Held to maturity

These represent securities acquired with the intention and ability to hold them upto maturity. These are carried at amortized cost in accordance with the requirements of the State Bank of Pakistan's BSD Circular No. 14 dated September 24, 2004.

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



5.3 **Advances**

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

The provisions against non-performing advances are charged to the profit and loss account. Advances are written off when there is no realistic prospect of recovery.

5.4 **Capital work-in-progress, operating fixed assets and depreciation**

Capital work-in-progress

Capital work in progress is stated at cost less impairment losses if any.

Tangible assets

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

Intangible assets

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

Depreciation / amortization

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

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

5.5 **Impairment**

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

5.6 **Deposits**

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

5.7 **Taxation**

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



Current

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

Deferred

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

5.8 Staff retirement benefits

Gratuity scheme

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

Provident fund

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

5.10 Revenue recognition

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

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

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

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

5.11 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 incurred.

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 Provisions

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



5.14 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.

5.15 Financial assets and liabilities

Financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provision of the instrument. Financial assets are de-recognized when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognized when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognized in the profit and loss account of the current period. The particular recognition and subsequent measurement methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

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 Earning per share

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



	2015	2014
	Rupees in '000	
6. CASH AND BALANCES WITH TREASURY BANKS		
<i>In hand:</i>		
Local currency	73,839	58,828
<i>With National Bank of Pakistan in:</i>		
Local currency saving accounts	99,777	42,016
Local currency deposit accounts - note 6.1	700,000	200,000
	<u>873,616</u>	<u>300,844</u>

6.1 This represents term deposits carrying markup at rates ranging between 4.00% to 6.25% (2014: 9.00% to 9.95%) per annum with maturities upto three months.

	2015	2014
	Rupees in '000	
7. BALANCES WITH OTHER BANKS		
<i>In Pakistan (Azad Jammu and Kashmir)</i>		
On current accounts	50,025	150,000
On deposit accounts - note 7.1 & 7.2	3,094,075	3,218,668
	<u>3,144,100</u>	<u>3,368,668</u>

7.1 These include saving deposits carrying markup at rates ranging between 4.00% to 6.15% (2014: 7% to 9.25%) per annum.

7.2 These also include term deposits carrying markup at rates ranging between 6.00% to 19.84% (2014: 9.25% to 19.84%) per annum. Term deposits include an amount of Rs 300 million (2014: Rs 300 million) placed with a bank maturing in 2024. Remaining term deposits have maturities upto twelve months.

	2015			2014		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
8. INVESTMENTS						
8.1 Investments by types:						
	Rupees in '000					
Available for sale (AFS) securities						
Units of open end mutual funds - note 8.4	145,000	-	145,000	170,000	-	170,000
Held to maturity securities						
Pakistan Investment Bonds - note 8.5	991,955	-	991,955	985,634	-	985,634
Term Finance Certificates - note 8.6	49,940	-	49,940	49,940	-	49,940
	<u>1,041,895</u>	<u>-</u>	<u>1,041,895</u>	<u>1,035,574</u>	<u>-</u>	<u>1,035,574</u>
Investment at cost	1,186,895	-	1,186,895	1,205,574	-	1,205,574
Provision for diminution in value of investment	(49,940)	-	(49,940)	(49,940)	-	(49,940)
Investments (net of provision)	1,136,955	-	1,136,955	1,155,634	-	1,155,634
Surplus on revaluation of AFS securities-net	13,510	-	13,510	16,558	-	16,558
Total investments at market value	<u>1,150,465</u>	<u>-</u>	<u>1,150,465</u>	<u>1,172,192</u>	<u>-</u>	<u>1,172,192</u>

	2015	2014
	Rupees in '000	
8.2 Investments by segments:		
Pakistan Investment Bonds	991,955	985,634
Units of open end mutual funds	145,000	170,000
Term Finance Certificates - listed	49,940	49,940
Total investment at cost	1,186,895	1,205,574
Provision for diminution in value of investment - note 8.3	(49,940)	(49,940)
Investments (net of provision)	1,136,955	1,155,634
Surplus on revaluation of AFS securities - net	13,510	16,558
Total investments at market value	<u>1,150,465</u>	<u>1,172,192</u>

	2015	2014
	Rupees in '000	
8.3 Particulars of provision for diminution in value of investments		
Opening balance	49,940	49,940
Charge for the year	-	-
Closing balance	<u>49,940</u>	<u>49,940</u>

8.3.1 Particulars of provision in respect of type and segment

Held-to-maturity securities		
Term finance certificates - listed	<u>49,940</u>	<u>49,940</u>

8.4 Units of open end mutual funds - listed

No. of units		Paid up value per unit Rupees	Name of mutual fund	2015	2014
2015	2014			Rupees in '000	
891,458	1,710,355	63.24	National Investment Unit Trust Fund	50,000	100,000
3,184,047	2,801,748	10.42	NIT Government Bond Fund	30,000	30,000
2,501,712	-	9.86	NIT Islamic Equity Fund	25,000	-
373,677	344,440	51.53	AKD Cash Fund	15,000	15,000
228,959	231,906	109.32	MCB Dynamic Cash Fund	25,000	25,000
				<u>145,000</u>	<u>170,000</u>

8.5 Pakistan Investment Bonds carry markup at rates ranging between 11.25% to 11.50% (2014: 11.25% to 11.50%) per annum with semi annual coupon payments and principal repayment maturing between July 2016 to July 2018.

8.6 Investments in term finance certificates - listed

No. of certificates		Name of company	Redeemable value per certificate	2015	2014
2015	2014			Rupees in '000	
10,000	10,000	Pace Pakistan Limited	4,994	49,940	49,940

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

8.7 Quality of available for sale securities

	2015		2014	
	Market value Rupees in '000	Rating	Market value Rupees in '000	Rating
Local securities				
Units of open end mutual funds				
National Investment Unit Trust Fund	56,376	4 - Star	112,935	4 - Star
NIT Government Bond Fund	33,183	AA-	30,495	AA-
NIT Islamic Equity Fund	24,667	AA-	-	-
AKD Cash Fund	19,254	AA+	18,017	AA+
MCB Dynamic Cash Fund	25,030	AA+	25,111	AA+
	<u>158,510</u>		<u>186,558</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.

	2015	2014
	Rupees in '000	
9. ADVANCES		
Loans, cash credits, running finances, etc. In Pakistan (Azad Jammu and Kashmir) Running and demand finance - note 9.2	850,572	665,784
Agriculture finance loans	414,246	207,493
Micro finance loans	109,617	96,425
Consumer finance loans	1,532,973	1,320,478
Staff loans	77,061	71,032
Advances - gross	2,984,469	2,361,212
Provision for non-performing loans and advances - note 9.4		
Specific provision	(94,059)	(57,245)
General provision	(56,804)	(47,060)
	(150,863)	(104,305)
Advances - net of provision	2,833,606	2,256,907
9.1 Particulars of advances (Gross)		
In local currency	2,984,469	2,361,212
In foreign currency	-	-
	2,984,469	2,361,212
9.1.1 Short term (for upto one year)	837,900	804,892
Long term (for over one year)	2,146,569	1,556,320
	2,984,469	2,361,212
9.1.2 In Pakistan (Azad Jammu and Kashmir)	2,984,469	2,361,212
Outside Pakistan	-	-
	2,984,469	2,361,212
9.2 These include advances to a related party amounting to Rs. 304,744 thousand (2014: Rs 364,668 thousand).		

9.3 Advances include Rs 240,220 thousand (2014: Rs 123,333 thousand) which have been placed under non-performing status are detailed below:

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

Category of classification	December 31, 2014					
	Classified Advances		Provision Required		Provision Held	
	Domestic	Overseas	Total	Domestic	Overseas	Total
(Rupees in '000)						
Substandard	39,882	-	39,882	4,431	-	4,431
Doubtful	32,316	-	32,316	7,818	-	7,818
Loss	51,135	-	51,135	44,996	-	44,996
	123,333	-	123,333	57,245	-	57,245

9.3.1 This represents classification for agricultural finances.

9.4 Particulars of provision against non-performing advances

	December 31, 2015			December 31, 2014		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)			(Rupees in '000)		
Opening balance	57,245	47,060	104,305	15,372	31,422	46,794
Charge for the year - net	36,814	9,744	46,558	41,873	15,638	57,511
Closing balance	94,059	56,804	150,863	57,245	47,060	104,305
In local currency	94,059	56,804	150,863	57,245	47,060	46,794
In foreign currency	-	-	-	-	-	-
	94,059	56,804	150,863	57,245	47,060	46,794

9.4.1 The FSV benefit already availed has been increased by Rs 71,334 million, which has resulted in decreased charge for specific provision for the year by the same amount. Had the FSV benefit not increased, before and after tax profit for the year would have been lower by Rs 71,334 million (2014: Rs 13,920 million) and Rs 46,367 million (2014: Rs 9,048 million) respectively. Further, at December 31, 2015, cumulative net of tax benefit availed for Forced Sale Value (FSV) was Rs 57,888 million (December 31, 2014: Rs 11,521 million) under BSD circular No. 1 of 2011 dated October 21, 2011. Reserves and un-appropriated profit to that extent are not available for distribution by way of cash or stock dividend.

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- 9.5 General provision is maintained at the rate of 1.5% of secured and 5% of unsecured consumer loans respectively. General provision also includes provision against micro finance loans at the rate of 1% of outstanding principal as required by Prudential Regulations issued by State Bank of Pakistan.

	2015	2014
	Rupees in '000	
9.6 Particulars of write-offs:		
Against provisions	-	-
Directly charged to profit and loss account - 9.6.1	460	-
	<u>460</u>	<u>-</u>

- 9.6.1 Represents Rs. 460 thousand advance to staff for car financing written off during the year.

	2015	2014
	Rupees in '000	
9.7 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	18,885	16,303
Loans granted during the year	1,721	5,566
Repayments made during the year	(3,240)	(2,984)
Balance at the end of the year	<u>17,366</u>	<u>18,885</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at the beginning of the year	364,668	417,835
Loans granted during the year	-	-
Repayments made during the year	(59,924)	(53,167)
Balance at the end of the year	<u>304,744</u>	<u>364,668</u>

10. OPERATING FIXED ASSETS

Capital work-in-progress - note 10.1	1,480	3,616
Property and equipment - note 10.2	123,803	107,738
Intangible asset - note 10.3	-	-
	<u>125,283</u>	<u>111,354</u>

10.1 *Capital work in progress*

Civil works	-	-
Advances to suppliers and contractors	1,480	3,616
	<u>1,480</u>	<u>3,616</u>

- 10.1.1 This relates to advance to suppliers in respect of purchase of office equipment, computers and furniture.

10.2 Property and equipment

2015

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

2014

	COST		DEPRECIATION			Book Value as at December 31, 2014	Annual rate of depreciation %
	as at January 1, 2014	additions	deletions / write offs	as at December 31, 2014	charge for the year	as at December 31, 2014	
							Rupees in '000
Land - freehold	40,000	-	-	-	-	-	0
Building on freehold land	14,407	-	-	-	1,441	2,479	10
Leasehold improvements	13,030	1,267	-	14,297	1,704	10,152	20
Office equipment	8,286	5,079	-	13,365	1,562	5,731	20
Computers	13,478	7,280	-	20,758	2,374	11,266	20
Vehicles	22,338	1,727	-	24,065	4,674	14,618	20
Furniture and fittings	26,355	12,986	-	39,341	3,547	24,905	10
Books	31	-	-	31	3	8	10
Carpets	944	26	-	970	101	806	20
	<u>138,869</u>	<u>28,365</u>	<u>-</u>	<u>167,234</u>	<u>15,406</u>	<u>59,496</u>	<u>107,738</u>

10.2.1 Property and equipment includes cost of Rs. 5,485 thousand (2014: Rs. 5,485 thousand) and accumulated depreciation amounting to Rs. 5,485 thousand (2014: Rs. 5,476 thousand) in respect of assets donated by the Government of Azad Jammu and Kashmir.

10.3 Intangible asset

The Bank is in a process of implementation of Core Banking Information System (Helios) installed on certain branches of the Bank. This software is financed by Kashmir Council (Government of A.J.K.).

10.4 Detail of disposals of operating fixed assets

Particulars of assets	Original cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of buyer
	Rupees in '000					
Vehicles						Ex-employee
Toyota Corolla	969	969	-	97	As per Bank's policy	Raja Muhammad Hanif
2015	969	969	-	97		
2014	-	-	-	-		

11. DEFERRED TAX (ASSETS) / LIABILITIES

Deferred tax arising due to:

Tax depreciation	(1,419)	(1,168)
Provision against other receivables	(1,685)	-
Provision against non-performing advances classified in sub-standard category	(3,506)	-
	(6,610)	(1,168)
Surplus on revaluation of available for sale securities	4,729	1,656
	(1,881)	488

11.1 Movement of deferred tax (asset) / liability

Opening deferred tax liability	488	3,280
Deferred (credits) / debits recognised in profit and loss arising due to:		
Accelerated tax depreciation	(251)	(3,093)
Provision against other receivables	(1,685)	-
Provision against non-performing advances classified in sub-standard category	(3,506)	-
	(5,442)	(3,093)
Deferred (credits) / debits recognised in equity arising due to:		
Surplus on revaluation of available for sale securities	3,073	301
Closing deferred tax (asset) / liability	(1,881)	488

12. OTHER ASSETS

Income / mark-up accrued in local currency - note 12.1 and 12.2	295,549	335,836
Advances, deposits, advance rent and other prepayments	17,804	20,259
Advance taxation - net of provision	-	4,306
Branch adjustment account	5,101	-
Stationary and stamps in hand	1,419	1,681
Others	11,421	2,005
	331,294	364,087
Provision against other assets - note 12.3	(4,815)	-
Other assets - net of provision	326,479	364,087

12.1 This includes an amount of Rs. 3,069 thousand (2014: Rs. 3,673 thousand) on account of interest receivable from related party.

12.2 This balance has been arrived at after adjusting interest in suspense of Rs. 30,186 thousand (2014: Rs. 11,000 thousand).

12.3 Provision against other assets

Opening balance	-	-
Charge for the year	4,815	-
Closing balance	4,815	-

13. BILLS PAYABLE

In Pakistan (Azad Jammu and Kashmir)	7,634	5,551
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		2015	2014
		Rupees in '000	
14. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		2,469,382	2,458,194
Savings deposits		3,506,606	2,942,607
Current accounts - non remunerative		1,464,776	1,241,732
Others		113	416
		<u>7,440,877</u>	<u>6,642,949</u>
14.1 Particulars of deposits			
In local currency		7,440,877	6,642,949
In foreign currency		-	-
		<u>7,440,877</u>	<u>6,642,949</u>
14.2	This includes deposits from related parties amounting to Rs. 3,279,865 thousand (2014: Rs. 3,143,140 thousand).		
15. DEFERRED GOVERNMENT GRANT			
Grant from the Government of Azad Jammu and Kashmir			
- Operating fixed assets		5,485	5,485
- Prepayment included in other assets		490	490
		<u>5,975</u>	<u>5,975</u>
Amortization transferred to income		<u>(5,975)</u>	<u>(5,966)</u>
		<u>-</u>	<u>9</u>
16. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency - note 16.1		61,924	80,832
Accrued expenses		5,310	1,957
Provision for bonus to employees		9,000	10,000
Branch adjustment account		-	434
Income tax payable		28,704	-
Others		12,704	6,599
		<u>117,642</u>	<u>99,822</u>
16.1	This includes an amount of Rs. 31,022 thousand (2014: Rs. 33,940 thousand) on account of interest payable to related parties.		
17. SHARE CAPITAL			
17.1 Authorised Capital			
		2015	2014
		Rupees in '000	
		<u>2,000,000</u>	<u>2,000,000</u>
	200,000,000	200,000,000	Ordinary shares of Rs. 10 each
17.2 Issued, subscribed and paid up			
		2015	2014
		Rupees in '000	
		<u>255,000</u>	<u>255,000</u>
	25,500,000	25,500,000	Ordinary shares of Rs. 10 each:
	48,082,476	34,982,863	Fully paid in cash
	5,015,200	5,015,200	Issued as bonus shares
			Issued for consideration other than cash
	<u>78,597,676</u>	<u>65,498,063</u>	
17.3	The Government of Azad Jammu and Kashmir and Azad Kashmir Saw Mills Corporation own 100% percent of ordinary shares of the Bank as on December 31, 2015 in proportion of 80% and 20% respectively.		
		2015	2014
		Number of shares	
17.4 Reconciliation of number of ordinary shares			
Shares at the beginning of the year		65,498,063	65,498,063
Shares issued during the year		<u>13,099,613</u>	-
Shares at the year end		<u>78,597,676</u>	<u>65,498,063</u>

	2015	2014
	Rupees in '000	
18. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX		
Surplus on revaluation of available for sale securities		
Units of mutual funds - listed	13,510	16,558
Related deferred tax liability	(4,729)	(1,656)
	<u>8,781</u>	<u>14,902</u>

19. CONTINGENCIES AND COMMITMENTS

19.1 Direct credit substitutes		
- Guarantees in favour of Government	-	-
Others	-	1,300
	<u>-</u>	<u>1,300</u>
19.2 Commitments to extend credit	<u>236,323</u>	<u>167,628</u>
19.3 Bills for collection	<u>11,236</u>	<u>35,542</u>

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.

20. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

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

21. DERIVATIVE INSTRUMENTS

The Bank at present does not offer any derivative product.

	2015	2014
	Rupees in '000	
22. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to customers - note 22.1	367,786	275,290
On investment in held to maturity securities	119,317	73,639
On deposits with financial institutions	<u>307,601</u>	<u>374,471</u>
	<u>794,704</u>	<u>723,400</u>

22.1 This includes an amount of Rs. 37,524 thousand (2014: Rs. 46,197 thousand) on account of interest earned on advance given to a related party.

	2015	2014
	Rupees in '000	
23. MARK-UP / RETURN / INTEREST EXPENSED		
On deposits - note 23.1	<u>375,948</u>	<u>377,681</u>

23.1 This includes an amount of Rs. 287,424 thousand (2014: Rs. 186,104 thousand) on account of interest expense on deposits received from related parties.

24. GAIN ON SALE OF SECURITIES - NET

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

	2015	2014
	Rupees in '000	
25. OTHER INCOME		
Amortization of deferred Government grant	9	9
Gain on sale of fixed asset	97	-
Site visits and fee collection charges	<u>4,954</u>	<u>2,736</u>
	<u>5,060</u>	<u>2,745</u>

2015 2014
Rupees in '000

26. ADMINISTRATIVE EXPENSES

Salaries, allowances, etc.	145,222	135,363
Gratuity - note 31.1	6,186	5,259
Contribution to provident fund - note 31.2	3,761	3,226
Fee to Non Executive Directors	429	440
Rent, taxes, insurance and electricity, etc.	30,977	21,584
Legal and professional charges	1,454	169
Communications	10,112	8,061
Repairs and maintenance	18,392	19,026
Stationery and printing	8,017	6,090
Advertisement and publicity	1,224	1,878
Auditors' remuneration - note 26.1	1,320	1,320
Donation - note 26.2	10	25
Entertainment	5,695	4,051
Depreciation - note 10.2	17,705	15,406
Travel and conveyance	4,814	6,109
Training	76	331
Security charges	14,271	8,653
Others	10,759	6,360
	<u>280,424</u>	<u>243,351</u>

26.1 Auditors' remuneration

Annual Audit	850	900
Half yearly review	350	300
Out of pocket expenses	120	120
	<u>1,320</u>	<u>1,320</u>

26.2 Donation was not given to any donee in which the Bank or any of its directors or their spouses had any interest.

27. TAXATION

For the year

current	48,497	29,108
deferred	(3,891)	(3,093)
	<u>44,606</u>	<u>26,015</u>

For prior year(s)

current	12,220	-
deferred	(1,551)	-
	<u>10,669</u>	<u>-</u>
	<u>55,275</u>	<u>26,015</u>

27.1 Relationship between tax expense and accounting profit

Profit before taxation	<u>125,440</u>	<u>106,018</u>
Tax at applicable tax rate of 35 percent (2014: 35 percent)	43,904	37,106
Effect of:		
Charge for prior year	10,669	-
Income chargeable to tax at lower rates	-	(7,656)
Others	702	(3,435)
Tax charge for the year	<u>55,275</u>	<u>26,015</u>

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27.2 In terms of the Finance Act, 2015 income of the Bank derived from dividend and capital gains is now taxed at the normal tax rate instead of previously applicable reduced rates. Further, a one time super tax at the rate of 4 percent of the taxable income has also been levied for the tax year 2015. The effect of the above amendments incorporated in these financial statements include prior year tax charge of Rs. 3,013 thousand (December 31, 2014: Nil) in respect of super tax and Rs. 7,656 thousand (December 31, 2014: Nil) in respect of increased tax rates on dividend income and capital gains.

	2015	2014
28. BASIC/ DILUTED EARNINGS PER SHARE		
Profit for the year - Rupees '000	70,165	80,003
Weighted average number of ordinary shares - numbers	78,597,676	65,498,063
Basic earnings per share - Rupees	0.89	1.22

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

	2015	2014
	Rupees in '000	
29. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	873,616	300,844
Balances with other banks	3,144,100	3,368,668
	4,017,716	3,669,512

	Number of employees	
30. STAFF STRENGTH		
Permanent	227	222
Temporary / on contract basis	130	107
Daily wages	8	11
Bank's own staff strength at the end of the year	365	340
Outsourced	123	95
Total staff strength at the end of the year	488	435

31. STAFF RETIREMENT BENEFITS

31.1 Gratuity

The Bank contributed Rs. 6,186 thousand (2014: Rs. 5,259 thousand) during the year towards employees gratuity fund.

31.2 Provident fund

The Bank contributed Rs. 3,761 thousand (2014: Rs. 3,226 thousand) during the year towards employees contributory provident fund.

31.2.1 The details of size and investment of the provident fund is as follows:

	2015	2014
	Un-audited	Audited
	Rupees in '000	
Size of the Fund	43,890	34,220
Cost of investments	43,730	34,002
Fair value of investment	43,890	34,220
Percentage of investments	100%	99%

31.2.2 Breakup of provident fund investments

	2015		2014	
	Rupees in '000	Percentage	Rupees in '000	Percentage
Balances with banks	24,583	56%	17,303	51%
Margin financing for eligible securities	19,147	44%	16,699	49%
	43,730	100%	34,002	100%

All investments out of provident fund trust have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.



32. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Managing Director		Directors		Executives	
	2015	2014	2015	2014	2015	2014
	Rupees in '000					
Fees	-	-	408	440	-	-
Managerial remuneration	3,888	3,888	-	-	12,273	10,377
Contribution to defined contribution plan	-	-	-	-	722	518
Contribution to defined gratuity fund	324	324	-	-	723	644
Rent and house maintenance	1,704	1,704	-	-	3,035	3,658
Utilities	194	194	-	-	867	1,064
Medical	208	157	-	-	867	1,064
Bonus	648	648	-	-	1,639	783
Leave encashment	570	1,239	-	-	-	-
Others (vehicle running expenses, club membership fee, fuel, etc.)	1,574	1,290	21	-	3,383	2,259
	<u>9,110</u>	<u>9,444</u>	<u>429</u>	<u>440</u>	<u>23,509</u>	<u>20,367</u>
Number of persons	<u>1</u>	<u>1</u>	<u>9</u>	<u>9</u>	<u>13</u>	<u>13</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.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Effective interest rates and the maturity and repricing profile are stated in notes 37.3.4 and 37.4.1. In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since these assets and liabilities are either short-term in nature or, in the case of financings and deposits, are periodically repriced.

33.2 Off-balance sheet financial instruments

There are no off-balance sheet financial instruments as at December 31, 2015 (2014: Nil).

33.3 The table below analyses the financial and non-financial assets carried at fair values, by valuation methods. The Bank essentially carries its investments in debt and equity securities at fair values. Valuation of investments is carried out as per guidelines specified by the SBP.

The different levels have been defined as follows:

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

33.1 On-balance sheet financial instruments

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

	-----2014-----			
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
INVESTMENTS - NET				
Financial assets - on balance sheet				
Available for sale securities				
Units of open end mutual funds	186,558	-	-	186,558



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

a) Financial instruments in level 1

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

b) Financial instruments in level 2

Currently, no financial instruments are classified in level 2.

c) Financial instruments in level 3

Currently, no financial instruments are classified in level 3.

Valuation techniques and inputs used in determination of fair values within level 2.

34. 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						
	2015						
Total income	-	-	220,501	590,618	18,622	3,925	-
Total expenses	-	-	126,025	574,617	6,264	1,320	-
Net income	-	-	94,476	16,001	12,358	2,605	-
Segment Assets (Gross)	-	-	1,594,547	6,856,657	3,490	736	-
Segment Non Performing Loans	-	-	240,220	-	-	-	-
Segment Provision Required	-	-	98,874	-	-	-	-
Segment Liabilities	-	-	10,693	7,555,432	23	5	-
Segment Return on net Assets (ROA) (%)	-	-	2.75%	7.37%	0.23%	0.05%	-
Segment Cost of funds (%)	-	-	1.76%	8.03%	0.09%	0.02%	-
	2014						
Total income	-	-	175,372	584,970	15,742	3,810	-
Total expenses	-	-	107,566	560,210	4,912	1,189	-
Net income	-	-	67,807	24,760	10,830	2,621	-
Segment Assets (Gross)	-	-	1,375,897	6,194,649	2,823	683	-
Segment Non Performing Loans	-	-	123,333	-	-	-	-
Segment Provision Required	-	-	57,245	-	-	-	-
Segment Liabilities	-	-	3,450	6,745,356	10	3	-
Segment Return on net Assets (ROA) (%)	-	-	2.54%	8.53%	0.23%	0.06%	-
Segment Cost of funds (%)	-	-	1.16%	8.51%	0.06%	0.02%	-

Assumptions used:

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

35. 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. 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:

	2015	2014
	Rupees in '000	
Balances at year end		
The Government of Azad Jammu and Kashmir and its related departments		
-Advances	304,744	364,668
-Deposits	3,279,865	3,143,140
-Deferred Government grant	-	9
-Mark-up / return / interest accrued on advances	3,069	3,673
-Mark-up / return / interest payable on deposits	31,022	33,940
Transactions during the year		
The Government of Azad Jammu and Kashmir and its related departments		
- Mark-up/ interest earned	37,524	46,295
- Mark-up/ interest expensed	287,424	186,104
- Bonus shares issued during the year	130,996	-



36. CAPITAL ADEQUACY

36.1 Scope of Applications

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

36.2 Capital Management

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

Bank's regulatory capital is analysed into two tiers:

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

Tier II capital under Basel III is subject to a maximum of 2.5% of total Risk Weighted Assets as of December 31, 2015. It includes subordinated debt issued prior to January 1, 2013 phasing out at an annual rate of 10%, Basel III compliant Tier II instruments, general provisions for loan losses (up to a maximum of 1.25 % of credit risk weighted assets), reserves on the revaluation of fixed assets and available for sale investments (on an after tax basis up to a maximum of 45 percent), foreign exchange translation reserves etc. Basel III rules however do allow for the inclusion of the remaining 55% of the revaluation reserves into Tier II capital at an inclusion rate equal to the rate of deduction specified under the transitional arrangements for the coming years uptill 2018. Tier II capital deductions comprise of the remaining 50% other deductions noted above, reciprocal cross holdings in Tier II instruments of Banking, Financial or Insurance entities etc.

As of December 2015 the Bank must meet a Tier 1 to RWA ratio and CAR including CCB of 7.5% and 10.25%

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

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

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



36.2.1 Capital Adequacy Ratio

	2015	2014
	Rupees in '000	
Common Equity Tier 1 capital (CET1): Instruments and reserves		
Fully Paid-up Capital/ Capital deposited with SBP	785,977	654,981
Balance in Share Premium Account	-	-
Reserve for issue of Bonus Shares	-	-
General/ Statutory Reserves	-	-
Gain/(Losses) on derivatives held as Cash Flow Hedge	-	-
Unappropriated/unremitted profits	94,519	155,350
Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
CET 1 before Regulatory Adjustments	880,496	810,331
Total regulatory adjustments applied to CET1 (Note 36.2.2)	-	-
Common Equity Tier 1	880,496	810,331
Additional Tier 1 (AT 1) Capital		
Qualifying Additional Tier-1 capital instruments plus any related share premium	-	-
of which: Classified as equity	-	-
of which: Classified as liabilities	-	-
Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)	-	-
of which: instrument issued by subsidiaries subject to phase out	-	-
AT1 before regulatory adjustments	-	-
Total regulatory adjustment applied to AT1 capital (Note 36.2.3)	-	-
Additional Tier 1 capital after regulatory adjustments	-	-
Additional Tier 1 capital recognized for capital adequacy	-	-
Tier 1 Capital (CET1 + admissible AT1)	880,496	810,331
Tier 2 Capital		
Qualifying Tier 2 capital instruments under Basel III plus any related share premium	-	-
Tier 2 capital instruments subject to phase-out arrangement issued under pre-Basel III rules	-	-
Tier 2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group tier 2)	-	-
of which: instruments issued by subsidiaries subject to phase out	-	-
General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	56,804	47,060
Revaluation Reserves (net of taxes)	-	-
of which: Revaluation reserves on fixed assets	-	-
of which: Unrealized gains/losses on AFS	8,781	14,902
Foreign Exchange Translation Reserves	8,781	14,902
Undisclosed/Other Reserves (if any)	-	-
T2 before regulatory adjustments	65,585	61,962
Total regulatory adjustment applied to T2 capital (Note 36.2.4)	-	-
Tier 2 capital (T2) after regulatory adjustments	65,585	61,962
Tier 2 capital recognized for capital adequacy	65,585	61,962
Portion of Additional Tier 1 capital recognized in Tier 2 capital	-	-
Total Tier 2 capital admissible for capital adequacy	65,585	61,962
TOTAL CAPITAL (T1 + admissible T2)	946,081	872,293
Total Risk Weighted Assets (RWA) - note 36.4	4,052,115	3,906,731
Capital Ratios and buffers (in percentage of risk weighted assets)		
CET1 to total RWA	21.73%	20.74%
Tier-1 capital to total RWA	21.73%	20.74%
Total capital to total RWA	23.35%	22.33%
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	5.50%	5.00%
of which: capital conservation buffer requirement	-	-
of which: countercyclical buffer requirement	-	-
of which: D-SIB or G-SIB buffer requirement	-	-
CET1 available to meet buffers (as a percentage of risk weighted assets)	16.23%	15.74%
National minimum capital requirements prescribed by SBP		
CET1 minimum ratio	6.00%	5.00%
Tier 1 minimum ratio	7.50%	6.50%
Total capital minimum ratio	10.00%	10.00%

2015
Rupees in '000

2014

36.2.2 Common Equity Tier 1 capital: Regulatory adjustments

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

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

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

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2015 2014
Rupees in '000

36.2.4 Tier 2 Capital: regulatory adjustments

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

36.2.5 Additional Information

Risk Weighted Assets subject to pre-Basel III treatment

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

of which: deferred tax assets	-	-
of which: Defined-benefit pension fund net assets	-	-
of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital	-	-
of 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	-	-

Amounts below the thresholds for deduction (before risk weighting)

Non-significant investments in the capital of other financial entities	-	-
Significant investments in the common stock of financial entities	-	-
Deferred tax assets arising from temporary differences (net of related tax liability)	-	-

Applicable caps on the inclusion of provisions in Tier 2

Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-	-
Cap on inclusion of provisions in Tier 2 under standardized approach	4,052,115	3,906,731
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

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36.3 Capital Structure Reconciliation

Assets

Cash and balances with treasury banks
Balances with other banks
Lending to financial institutions
Investments
Advances
Operating fixed assets
Deferred tax assets
Other assets

Total assets

Liabilities & Equity

Bills payable
Borrowings
Deposits and other accounts
Sub-ordinated loans
Liabilities against assets subject to finance lease
Deferred tax liabilities
Deferred Government grant
Other liabilities

Total liabilities

Share capital
Unappropriated profit
Surplus on revaluation of assets - net

Total liabilities & equity

Assets

Cash and balances with treasury banks
Balanced with other banks
Lending to financial institutions
Investments
of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold
of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold
of which: Mutual Funds exceeding regulatory threshold
of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)
of which: others (mention details)

Advances
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB
general provisions reflected in Tier 2 capital

Fixed Assets

Deferred Tax Assets

of which: DTAs that rely on future profitability excluding those arising from temporary differences
of which: DTAs arising from temporary differences exceeding regulatory threshold

Other assets

of which: Goodwill
of which: Intangibles
of which: Defined-benefit pension fund net assets

Total assets

Balance sheet of the published financial statements

As at December 31, 2015
Rupees in '000

873,616	873,616
3,144,100	3,144,100
-	-
1,150,465	1,150,465
2,833,606	2,833,606
125,283	125,283
1,881	1,881
326,479	326,479
8,455,430	8,455,430
7,634	7,634
-	-
7,440,877	7,440,877
-	-
-	-
-	-
-	-
117,642	117,642
7,566,153	7,566,153
785,977	785,977
94,519	94,519
8,781	8,781
8,455,430	8,455,430
873,616	873,616
3,144,100	3,144,100
-	-
1,150,465	1,150,465
-	-
-	-
-	-
-	-
-	-
2,833,606	2,833,606
-	-
56,804	56,804
125,283	125,283
1,881	1,881
-	-
-	-
326,479	326,479
-	-
-	-
-	-
8,455,430	8,455,430

Liabilities & Equity

Bills payable
Borrowings
Deposits and other accounts
Sub-ordinated loans
 of which: eligible for inclusion in AT1
 of which: eligible for inclusion in Tier 2
Liabilities against assets subject to finance lease
Deferred tax liabilities
 of which: DTLs related to goodwill
 of which: DTLs related to intangible assets
 of which: DTLs related to defined pension fund net assets
 of which: other deferred tax liabilities
Deferred Government grant
Other liabilities

Total liabilities

Share capital
 of which: amount eligible for CET1
 of which: amount eligible for AT1
Reserves
 of which: portion eligible for inclusion in CET1 (provide breakup)
 of which: portion eligible for inclusion in Tier 2

Unappropriated profit

Minority Interest

 of which: portion eligible for inclusion in CET1
 of which: portion eligible for inclusion in AT1
 of which: portion eligible for inclusion in Tier 2

Surplus on revaluation of assets

 of which: Revaluation reserves on Fixed Assets
 of which: Unrealized Gains/Losses on AFS
In case of Deficit on revaluation (deduction from CET1)

Total equity

Total liabilities & equity

Basel III Disclosure

Common Equity Tier 1 capital (CET1): Instruments and reserves

Fully Paid-up Capital
Balance in Share Premium Account
Reserve for issue of Bonus Shares
General/ Statutory Reserves
Gain/(Losses) on derivatives held as Cash Flow Hedge
Unappropriated/unremitted profits/ (losses)
Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)

CET 1 before Regulatory Adjustments

Balance sheet of the published financial statements
Under regulatory scope of consolidation
As at December 31, 2015
Rupees in '000

7,634	7,634
-	-
7,440,877	7,440,877
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
117,642	117,642
7,566,153	7,566,153
785,977	785,977
785,977	785,977
-	-
-	-
-	-
94,519	94,519
-	-
-	-
-	-
-	-
8,781	8,781
-	-
889,277	889,277
8,455,430	8,455,430

Balance sheet as in published financial statements

As at December 31, 2015
Rupees in '000

785,977
-
-
-
-
94,519
-
-
880,496

Balance sheet as
in published
financial
statements

As at December 31, 2015
Rupees in '000

Common Equity Tier 1 capital: Regulatory adjustments

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

Common Equity Tier 1

880,496

Additional Tier 1 (AT 1) Capital

Qualifying Additional Tier-1 instruments plus any related share premium	-
of which: Classified as equity	-
of which: Classified as liabilities	-
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-
of which: instrument issued by subsidiaries subject to phase out	-
AT1 before regulatory adjustments	-

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Balance sheet as
in published
financial
statements

As at December 31, 2015
Rupees in '000

Additional Tier 1 Capital: regulatory adjustments

Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)

Investment in own AT1 capital instruments

Reciprocal cross holdings in Additional Tier 1 capital instruments

Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount

Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation

Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital

Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions

Total of Regulatory Adjustment applied to AT1 capital

Additional Tier 1 capital

Additional Tier 1 capital recognized for capital adequacy

Tier 1 Capital (CET1 + admissible AT1)

880,496

Tier 2 Capital

Qualifying Tier 2 capital instruments under Basel III plus any related share premium

Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)

Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2) of which: instruments issued by subsidiaries subject to phase out

General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Revaluation Reserves

of which: Revaluation reserves on fixed assets

of which: Unrealized Gains/Losses on AFS

Foreign Exchange Translation Reserves

Undisclosed/Other Reserves (if any)

T2 before regulatory adjustments

65,585

Tier 2 Capital: regulatory adjustments

Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital

Reciprocal cross holdings in Tier 2 instruments

Investment in own Tier 2 capital instrument

Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)

Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation

Amount of Regulatory Adjustment applied to T2 capital

Tier 2 capital (T2)

Tier 2 capital recognized for capital adequacy

Excess Additional Tier 1 capital recognized in Tier 2 capital

Total Tier 2 capital admissible for capital adequacy

TOTAL CAPITAL (T1 + admissible T2)

65,585

65,585

-

65,585

946,081

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36.4 Capital Adequacy

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

Risk-weighted exposures	Capital requirements		Risk weighted assets	
	2015	2014	2015	2014
	Rupees in '000			
Credit Risk				
Portfolios subject to standardized approach (simple or comprehensive)				
On-Balance sheet				
Claims on banks	84,141	97,624	841,410	976,240
Past due loans	17,590	8,944	175,902	89,442
Claims categorized as retail portfolio	138,592	122,935	1,385,918	1,229,352
Claims fully secured by residential property	20,706	9,782	207,065	97,822
Operating Fixed Assets	12,528	11,135	125,283	111,354
All other assets	32,836	37,509	328,360	364,087
	306,393	287,929	3,063,938	2,868,297
Off balance sheet items				
Non-market related				
Direct credit substitute	-	130	-	1,300
	-	130	-	1,300
Total credit risk	306,393	288,059	3,063,938	2,869,597
Market risk				
Portfolios subject to standardized approach				
Equity position risk	31,702	47,300	317,020	472,996
Operational risk	67,116	56,414	671,157	564,138
Total	405,211	391,773	4,052,115	3,906,731
Capital Adequacy Ratios				
	2015		2014	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	21.73%	5.50%	20.68%
Tier-1 capital to total RWA	7.50%	21.73%	7.00%	20.68%
Total capital to total RWA	10.00%	23.35%	10.00%	22.27%

36.5 Main Features Template of Regulatory Capital Instruments

1	Issuer	The Bank of Azad Jammu and Kashmir
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	The Bank of Azad Jammu and Kashmir
3	Governing law(s) of the instrument	Laws applicable in State of Azad Jammu and Kashmir
	Regulatory treatment	
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)	785,977
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
	Coupons / dividends	
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
	Convertible or non-convertible	
23	If convertible, conversion trigger (s)	Not applicable
24	If convertible, fully or partially	Not applicable
25	If convertible, conversion rate	Not applicable
26	If convertible, mandatory or optional conversion	Not applicable
27	If convertible, specify instrument type convertible into	Not applicable
28	If convertible, specify issuer of instrument it converts into	Not applicable
	Write-down feature	
30	If write-down, write-down trigger(s)	Not applicable
31	If write-down, full or partial	Not applicable
32	If write-down, permanent or temporary	Not applicable
33	If temporary write-down, description of write-up mechanism	Not applicable
34	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
35	Non-compliant transitioned features	No
36	If yes, specify non-compliant features	Not applicable

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37. RISK MANAGEMENT

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

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

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

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

37.1 Credit risk

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

37.1.1 SEGMENT INFORMATION

37.1.1.1 Segments by class of business

	2015					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	414,246	13.88	-	-	-	-
Construction	28,252	0.95	-	-	-	-
Power (electricity), Gas, Water, Sanitary	-	-	6,379	0.09	-	-
Wholesale and Retail Trade	567,269	19.01	51,442	0.69	-	-
Services	-	-	56,444	0.76	-	-
Individuals	1,532,973	51.37	4,046,747	54.39	-	-
Government	364,668	12.22	3,279,865	44.08	-	-
Others	77,061	2.58	-	-	247,559	100
	<u>2,984,469</u>	<u>100</u>	<u>7,440,877</u>	<u>100</u>	<u>247,559</u>	<u>100</u>
	2014					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	211,669	8.96	-	-	-	-
Construction	31,071	1.32	-	-	-	-
Power (electricity), Gas, Water, Sanitary	-	-	5,868	0.09	-	-
Wholesale and Retail Trade	361,476	15.31	35,770	0.54	-	-
Services	-	-	33,823	0.51	-	-
Individuals	1,313,377	55.62	3,424,348	51.55	1,300	0.64
Government	364,668	15.44	3,143,140	47.32	-	-
Others	78,951	3.34	-	-	203,170	99.36
	<u>2,361,212</u>	<u>100</u>	<u>6,642,949</u>	<u>100</u>	<u>204,470</u>	<u>100</u>

37.1.1.2 Segments by sector

	2015					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	304,744	10.21	3,279,865	44.08	-	-
Private	<u>2,679,725</u>	<u>89.79</u>	<u>4,161,012</u>	<u>55.92</u>	<u>247,559</u>	<u>100.00</u>
	<u>2,984,469</u>	<u>100</u>	<u>7,440,877</u>	<u>100</u>	<u>247,559</u>	<u>100</u>
	2014					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public sector/ Government	364,668	15.44	3,143,140	47.32	-	-
Private	<u>1,996,544</u>	<u>84.56</u>	<u>3,499,809</u>	<u>52.68</u>	<u>204,470</u>	<u>100.00</u>
	<u>2,361,212</u>	<u>100</u>	<u>6,642,949</u>	<u>100</u>	<u>204,470</u>	<u>100</u>

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

	2015		2014	
	Rupees in '000			
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Agriculture, Forestry, Hunting and Fishing	73,812	9,421	3,298	555
Construction	-	-	-	-
Power (electricity), Gas, Water, Sanitary	-	-	-	-
Wholesale and Retail Trade	36,872	34,201	32,636	6,593
Services	-	-	-	-
Individuals	129,536	50,437	93,369	52,823
Government	-	-	-	-
Others	-	-	-	-
	240,220	94,059	129,303	59,971

37.1.1.4 **DETAILS OF NON-PERFORMING ADVANCES AND SPECIFIC PROVISIONS BY SECTOR**

Public / Government	-	-	-	-
Private	240,220	94,059	129,303	59,971
	<u>240,220</u>	<u>94,059</u>	<u>129,303</u>	<u>59,971</u>

37.1.1.5 **GEOGRAPHICAL SEGMENT ANALYSIS**

	2015			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	Rupees in '000			
Pakistan (Azad Jammu and Kashmir)	125,440	8,455,430	889,277	247,559
Others	-	-	-	-
	<u>125,440</u>	<u>8,455,430</u>	<u>889,277</u>	<u>247,559</u>
	2014			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	Rupees in '000			
Pakistan (Azad Jammu and Kashmir)	106,018	7,574,052	825,233	204,470
Others	-	-	-	-
	<u>106,018</u>	<u>7,574,052</u>	<u>825,233</u>	<u>204,470</u>

37.1.1.5.1 Contingencies and commitments include amounts given in note 19 except bills for collection.

37.2 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.

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

Short Term Ratings Grades Mapping

SBP	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

37.3 Market Risk:

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

37.3.1 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.

37.3.2 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 breaches if any are promptly reported to ALCO with proper reason and justification.

37.3.3 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.

37.3.4 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	2015									
		Exposed to yield/ interest risk									
		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	Non-interest bearing financial instruments
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	6.41%	873,616	99,777	700,000	-	-	-	-	-	-	73,839
Balances with other banks	10.23%	3,144,100	870,018	949,019	195,019	780,019	-	-	-	300,000	50,025
Lending to financial institution		-	-	-	-	-	-	-	-	-	-
Investments	10.47%	1,150,465	-	-	158,510	-	991,955	-	-	-	-
Advances	13.77%	2,833,606	107,660	242,118	347,099	617,320	611,708	566,383	304,612	26,905	-
Other assets		326,479	-	-	-	-	-	-	-	-	326,479
		8,328,266	1,077,455	1,891,137	700,628	1,397,339	1,603,663	566,383	304,612	326,905	450,343
Liabilities											
Bills payable		7,634	-	-	-	-	-	-	-	-	7,634
Borrowings		-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	5.55%	7,440,877	1,678,554	1,628,053	1,131,254	1,422,387	244	92,020	23,477	-	1,464,888
Subordinated loans		-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-
Other liabilities		117,642	-	-	-	-	-	-	-	-	117,642
		7,566,153	1,678,554	1,628,053	1,131,254	1,422,387	244	92,020	23,477	-	1,590,164
On-balance sheet gap		762,113	(601,099)	263,084	(430,626)	(25,046)	1,603,419	474,363	281,135	326,905	(1,139,821)

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2015

Effective Yield / Interest rate	Total	Exposed to yield/ interest risk							Non-interest bearing financial instruments
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 to 24 Months	Over 24 to 36 Months	Over 36 to 60 Months	
Off-balance sheet financial instruments									
Purchase and resale agreements	-	-	-	-	-	-	-	-	-
Sale and repurchase agreements	-	-	-	-	-	-	-	-	-
Commitments to extend credit	236,323	236,323	-	-	-	-	-	-	-
Off-balance sheet gap	236,323	236,323	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap	(837,422)	283,084	(430,626)	(25,048)	1,603,419	474,363	281,135	326,905	(1,139,821)
Cumulative yield / interest risk sensitivity gap	(837,422)	(574,338)	(1,004,964)	(1,030,012)	573,407	1,047,770	1,328,905	1,655,810	1,665,611

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.

2014

Effective Yield / Interest rate	Total	Exposed to yield/ interest risk							Non-interest bearing financial instruments
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 to 24 Months	Over 24 to 36 Months	Over 36 to 60 Months	
On-balance sheet financial instruments									
Assets									
Cash and balances with treasury banks	300,844	142,016	-	100,000	-	-	-	-	58,828
Balances with other banks	3,368,668	1,063,668	580,000	470,000	805,000	-	-	300,000	150,000
Investments	1,172,192	-	-	101,556	85,000	-	-	-	-
Advances	2,256,907	62,941	37,534	164,283	1,172,804	64,693	627,224	22,774	-
Other assets	364,087	-	-	-	-	-	-	-	364,087
	7,462,698	1,288,625	617,534	835,841	2,062,804	310,042	822,298	322,774	572,915
Liabilities									
Bills payable	5,551	-	-	-	-	-	-	-	5,551
Borrowings	-	-	-	-	-	-	-	-	-
Deposits and other accounts	6,642,949	781,653	2,094,891	1,311,290	1,114,359	84,220	13,844	-	1,242,148
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-
Other liabilities	99,822	-	-	-	-	-	-	-	-
	6,748,322	781,653	2,094,891	1,311,290	1,114,359	84,220	13,844	-	99,822
Off-balance sheet gap	714,376	486,972	(1,477,357)	(475,449)	948,445	225,822	808,454	322,774	(774,606)

Off-balance sheet financial instruments

Purchase and resale agreements	-	-	-	-	-	-	-	-	-
Sale and repurchase agreements	-	-	-	-	-	-	-	-	-
Commitments to extend credit	167,628	167,628	-	-	-	-	-	-	-
Off-balance sheet gap	167,628	167,628	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap	319,344	(1,477,357)	(475,449)	948,445	649,321	225,822	808,454	322,774	(774,606)
Cumulative yield / interest risk sensitivity gap	319,344	(1,158,013)	(1,633,462)	(685,017)	(35,696)	190,126	998,580	1,321,354	546,748

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

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

	2015	2014
	Rupees in '000	
Reconciliation of total assets		
Total financial assets	8,328,266	7,462,698
Add: Non financial assets		
Operating fixed assets	125,283	111,354
Deferred tax asset	1,881	-
	127,164	111,354
Balance as per balance sheet	8,455,430	7,574,052

	2015	2014
	Rupees in '000	
Reconciliation of total liabilities		
Total financial liabilities	7,566,153	6,748,322
Add: Non financial liabilities		
Deferred tax liabilities	-	488
Deferred govt. grant	-	9
	-	497
Balance as per balance sheet	7,566,153	6,748,819

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37.4 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.

37.4.1 Maturities of Assets and Liabilities

	2015									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Assets										
Cash and balances with treasury banks	873,616	173,616	700,000	-	-	-	-	-	-	-
Balances with other banks	3,144,100	920,043	949,019	195,019	780,019	-	-	-	300,000	-
Lending to financial institution	-	-	-	-	-	-	-	-	-	-
Investments	1,150,465	-	-	158,510	-	991,955	-	-	-	-
Advances	2,833,606	107,660	242,118	347,099	617,320	611,708	566,383	304,612	26,905	9,801
Operating fixed assets	125,283	-	-	-	17,280	15,801	15,801	31,580	4,821	40,000
Deferred tax assets	1,881	-	-	-	1,881	-	-	-	-	-
Other assets	326,479	96,447	77,248	10,582	19,559	4,039	2,912	1,055	114,637	-
	8,455,430	1,297,766	1,968,385	711,210	1,436,059	1,623,503	585,096	337,247	446,363	49,801
Liabilities										
Bills payable	7,634	7,634	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	7,440,877	2,044,776	1,994,275	1,497,476	1,788,609	244	92,020	23,477	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Deferred Government grant	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	-	-
	117,642	44,696	7,396	52,317	13,233	-	-	-	-	-
	7,566,153	2,097,106	2,001,671	1,549,793	1,801,842	244	92,020	23,477	-	-
	889,277	(799,340)	(33,286)	(838,583)	(365,783)	1,623,259	493,076	313,770	446,363	49,801
Net assets										

37.5 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.

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38. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on ----- have announced a bonus issue of ___ percent (2014: Nil). The appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2015 do not include the effect of the appropriation which will be accounted for in the financial statements for the year ending December 31, 2016.

39. GENERAL

Captions as prescribed by BSD Circular No. 4 dated February 17, 2006 issued by the SBP in respect of which there are no amounts have not been reproduced in these financial statements except for the statement of financial position and profit and loss account.

40. DATE OF AUTHORIZATION

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

A handwritten signature in black ink, appearing to be 'AAT' with a small flourish at the end.

Chairman

Managing Director

Director

Director

THE BANK OF AZAD JAMMU AND KASHMIR

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2015**