

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE BANK OF AZAD JAMMU AND KASHMIR**

Opinion

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

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

Basis for opinion

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

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

A handwritten signature in blue ink, likely of the auditor, located below the main text.

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad-44000, Pakistan
Tel: +92 (51) 2273457-60/2604934-37; Fax: +92 (51) 2277924, 2206473; < www.pwc.com/pk >

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

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

A handwritten signature in blue ink, appearing to be "AF" followed by a stylized flourish.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

A handwritten signature in blue ink, appearing to read 'S. Haider Abbas'.

Chartered Accountants
Islamabad: June 7, 2017

Engagement Partner: S. Haider Abbas

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

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

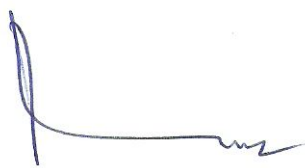
The annexed notes 1 to 39 form an integral part of these financial statements.



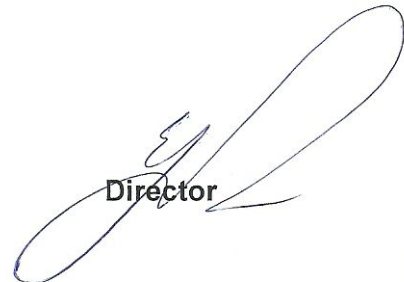
Chairman



Managing Director




Director



Director

THE BANK OF AZAD JAMMU AND KASHMIR
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2016

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

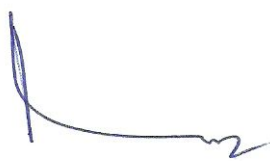
The annexed notes 1 to 39 form an integral part of these financial statements.



Chairman



Managing Director



Director



Director



**THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016**

	2016	2015
	Rupees in '000	
Profit after taxation	50,206	70,165
Other comprehensive income		
Components of comprehensive income not reflected in equity		
Surplus / (deficit) on revaluation of available for sale securities	14,365	(3,048)
Related deferred tax (expense) / credit	(5,027)	1,067
Deferred tax expense for the prior period	-	(4,140)
	9,338	(6,121)
Comprehensive income transferred to equity - net of tax	59,544	64,044

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

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

mt

P. Isha

Chairman

[Signature]

Managing Director

[Signature]
Director

[Signature]
Director

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

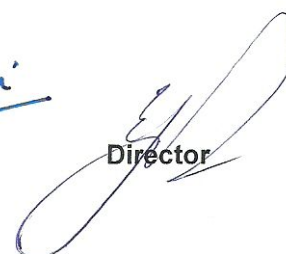
	Share Capital	Unappropriated profit Rupees in '000	Total
Balance as at January 1, 2015	654,981	155,350	810,331
Total comprehensive income for the year ended December 31, 2015			
Net profit for the year ended December 31, 2015	-	70,165	70,165
Other comprehensive income related to equity	-	-	-
	-	70,165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

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


Chairman


Managing Director

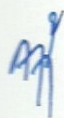

Director


Director

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

	Note	2016 Rupees in '000	2015 Rupees in '000
Cash flow from operating activities			
Profit before taxation		89,608	125,440
Less: dividend income		10,691	2,235
		<u>78,917</u>	<u>123,205</u>
Adjustments:			
Depreciation		22,976	17,705
Provision against non-performing loans and advances		79,711	46,558
Other provisions		31,866	4,815
Gain on sale of fixed assets		(1,840)	(97)
Amortization of deferred government grant		-	(9)
		<u>132,713</u>	<u>68,972</u>
		211,630	192,177
Decrease / (increase) in operating assets			
Advances		144,465	(623,257)
Other assets		(120,117)	28,487
		<u>24,348</u>	<u>(594,770)</u>
Increase / (decrease) in operating liabilities			
Bills payable		1,082	2,082
Deposits and other accounts		404,748	797,928
Other liabilities		11,855	(10,884)
		<u>417,685</u>	<u>789,126</u>
Cash generated from operations		<u>653,663</u>	<u>386,533</u>
Income tax paid		(87,794)	(27,706)
Net cash generated from operating activities		<u>565,869</u>	<u>358,827</u>
Cash flow from investing activities			
Net investment in available for sale securities		15,000	25,000
Net investment in held to maturity securities		545,082	(6,321)
Dividend income		10,691	2,235
Investments in operating fixed assets		(13,539)	(31,634)
Sale proceeds of operating fixed assets disposed off		2,048	97
Net cash flow from investing activities		<u>559,282</u>	<u>(10,623)</u>
Cash flow from financing activities			
Increase in cash and cash equivalents		<u>1,125,151</u>	<u>348,204</u>
Cash and cash equivalents at beginning of the year		<u>4,017,716</u>	<u>3,669,512</u>
Cash and cash equivalents at end of the year	28	<u><u>5,142,867</u></u>	<u><u>4,017,716</u></u>

The annexed notes 1 to 39 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, 2016

1. STATUS AND NATURE OF BUSINESS

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

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

2. BASIS OF PRESENTATION

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

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

3. STATEMENT OF COMPLIANCE

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

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

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

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

		Effective date (annual periods beginning on or after)
IFRS 5	Non- Current Assets Held for Sale and Discounted Operations (Amendments)	January 1, 2016
IFRS 11	Joint Arrangements (Amendments)	January 1, 2016
IAS 1	Presentation of Financial Statements (Amendments)	January 1, 2016
IAS 16	Property, Plant and Equipment (Amendments)	January 1, 2016
IAS 19	Employee Benefits (Amendments)	January 1, 2016
IAS 247	Separate financial statements (Amendments)	January 1, 2016
IAS 38	Intangible Assets (Amendments)	January 1, 2016



- b) Following standards have been issued by the International Accounting Standards Board (IASB), which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of their applicability in Pakistan:

Effective date (annual periods
beginning on or after)

IFRS 1 First-Time Adoption of International Financial Reporting Standards

July 1, 2009

IFRS 14 Regulatory Deferral accounts

January 1, 2016

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

Effective date (annual periods
beginning on or after)

IFRS 1 First time Adoption of International Financial Reporting Standards
(Amendments)

January 1, 2018

IFRS 2 Share Based payments (Amendments)

January 1, 2018

IFRS 4 Insurance Contracts

January 1, 2018

IFRS 7 Financial Instruments (Amendments)

January 1, 2018

IFRS 12 Disclosure of Interest in Other entities (Amendments)

January 1, 2017

IFRS 15 Revenue from Contracts with Customers

January 1, 2018

IFRS 16 Leases

January 1, 2019

IAS 12 Income taxes (amendments)

January 1, 2017

IAS 39 Financial Instruments : Recognition and Measurement (Amendments)

January 1, 2018

IAS 40 Investment Property (Amendments)

July 1, 2018

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

4. BASIS OF MEASUREMENT

4.1 Accounting convention

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

Use of critical accounting estimates and judgments

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Cash and cash equivalents

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

5.2 Investments

Investments are classified as follows:

Held for trading

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

Available for sale

These represent securities which do not fall under 'held for trading' or 'held to maturity' categories. In accordance with the requirements of the SBP's BSD Circular No. 20 dated August 04, 2000 and BPRD circular 06 dated June 26, 2014, available for sale securities for which ready quotations are available on Reuters Page (PKRV) or Stock Exchanges are valued at market value and the resulting surplus / deficit is taken through "Statement of Comprehensive Income" and is shown below the shareholders' equity in the statement of financial position. Where the decline in prices of available for sale equity securities is significant and prolonged, it is considered impaired and included in profit and loss account. Impairment loss on available for sale debt securities is determined in accordance with the requirements of Prudential Regulations issued by SBP.

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

Held to maturity

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

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

5.3 Advances

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

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



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

Capital work-in-progress

Capital work in progress is stated at cost.

Tangible assets

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

Intangible assets

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

Depreciation / amortization

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

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

5.5 **Impairment**

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

5.6 **Deposits**


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

5.7 **Taxation**

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

Current

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



Deferred

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

5.8 Staff retirement benefits

Gratuity scheme

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

Provident fund

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

Leave encashment

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

5.9 Revenue recognition

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

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

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

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

5.10 Government grant

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


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

5.11 Foreign currency transactions

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

5.12 Provisions

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



5.13 Off setting

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

5.14 Appropriations subsequent to the date of statement of financial position

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

5.15 Segment reporting

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

5.15.1 Business segment

Corporate financing

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

Trading and sales

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

Retail banking

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

Commercial banking

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

Payment and settlement

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

Agency service

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

Retail brokerage

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

5.15.2 Geographical segments

The Bank operates in Azad Jammu and Kashmir.

5.16 Earning per share

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

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

- 6.1 These include saving deposits carrying markup at rates ranging between 4.00% to 5.46 % (2015: 4% to 6.15%) per annum.
- 6.2 This represents term deposits carrying markup at rates ranging between 4.00% to 5.90% (2015: 4.00% to 6.25%) per annum with maturities upto three months.

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

- 7.1 These include saving deposits carrying markup at rates ranging between 4.00% to 5.46 % (2015: 4% to 6.15%) per annum.
- 7.2 These also include term deposits carrying markup at rates ranging between 5.75% to 19.84% (2015: 6.00% to 19.84%) per annum. Term deposits include an amount of Rs 300 million (2015: Rs 300 million) placed with a bank maturing in 2024. Remaining term deposits have maturities upto twelve months.

8. INVESTMENTS

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

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

	2016	2015
	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	<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	2016	2015
2016	2015			Rupees in '000	
785,423	891,458	63.66	National Investment Unit Trust Fund	50,000	50,000
3,184,047	3,184,047	9.42	NIT Government Bond Fund	30,000	30,000
2,501,742	2,501,712	9.99	NIT Islamic Equity Fund	25,000	25,000
-	373,677	-	AKD Cash Fund	-	15,000
227,414	228,959	109.93	MCB Dynamic Cash Fund	25,000	25,000
				<u>130,000</u>	<u>145,000</u>

8.5 Pakistan Investment Bonds carry markup at rates ranging between 11.25% to 11.50% (2015: 11.25% to 11.50%) per annum with semi annual coupon payments and principal repayment maturing between July 2017 to July 2018.

8.6 Investments in term finance certificates - listed

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

Paid up value was Rs. 5,000 per certificate, carrying markup at the rate of KIBOR + 1.5% maturing in 2017.

8.7 Quality of available for sale securities

	2016		2015	
	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	68,756	4 - Star	56,376	4 - Star
NIT Government Bond Fund	32,353	AA-	33,183	AA-
NIT Islamic Equity Fund	32,097	AA-	24,667	AA-
AKD Cash Fund	-	AA+	19,254	AA+
MCB Dynamic Cash Fund	24,669	AA+	25,030	AA+
	<u>157,875</u>		<u>158,510</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.

2016 2015
Rupees in '000

9. ADVANCES

Loans, cash credits, running finances, etc.

In Pakistan (Azad Jammu and Kashmir)

Running and demand finance - note 9.2

Agriculture finance loans

Micro finance loans

Consumer finance loans

Staff loans

Advances - gross

Provision for non-performing loans and advances - note 9.4

Specific provision

General provision

Advances - net of provision

860,515	850,572
327,643	414,246
69,220	109,617
1,499,199	1,532,973
82,576	77,061
<u>2,839,153</u>	<u>2,984,469</u>
(172,313)	(94,059)
(57,410)	(56,804)
(229,723)	(150,863)
<u>2,609,430</u>	<u>2,833,606</u>

9.1 Particulars of advances (Gross)

In local currency

In foreign currency

2,839,153	2,984,469
-	-
<u>2,839,153</u>	<u>2,984,469</u>

9.1.1 Short term (for upto one year)

Long term (for over one year)

771,270	837,900
2,067,883	2,146,569
<u>2,839,153</u>	<u>2,984,469</u>

9.1.2 In Pakistan (Azad Jammu and Kashmir)

Outside Pakistan

2,839,153	2,984,469
-	-
<u>2,839,153</u>	<u>2,984,469</u>

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

Handwritten signature

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

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

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

9.3.1 This represents classification for agricultural finances.

9.4 Particulars of provision against non-performing advances

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

9.4.1 The net FSV benefit already availed has been decreased by Rs 44,202 million, which has resulted in increased charge for specific provision for the year by the same amount. Had the FSV benefit not decreased, before and after tax profit for the year would have been higher by Rs 44,202 million (2015: lower by Rs 71,334 million) and Rs 16,251 million (2015: lower by Rs 31,591 million) respectively. Further, at December 31, 2016, cumulative net of tax benefit availed for Forced Sold Value (FSV) was Rs 20,201 million (2015: Rs 36,452 million) under BSD circular No. 1 of 2011 dated October 21, 2011. Reserves and un-appropriated profit to that extent are not available for distribution by way of cash or stock dividend..

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

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

	2016	2015
	Rupees in '000	
9.7 Particulars of write-offs:		
Against provisions	-	-
Directly charged to profit and loss account - 9.7.1	-	460
	<u>-</u>	<u>460</u>

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

	2016	2015
	Rupees in '000	
9.8 Particulars of loans and advances to executives, directors, associated companies etc.		

Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons

Balance at the beginning of the year	17,366	18,885
Loans granted during the year	2,337	1,721
Repayments made during the year	(3,739)	(3,240)
Balance at the end of the year	<u>15,964</u>	<u>17,366</u>

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

Balance at the beginning of the year	304,744	364,668
Loans granted during the year	-	-
Repayments made during the year	(54,244)	(59,924)
Balance at the end of the year	<u>250,500</u>	<u>304,744</u>

10. OPERATING FIXED ASSETS

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

10.1 Capital work-in-progress

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

Y
Am

10.2 Property and equipment

	2016				2015			
	COST		DEPRECIATION		COST		DEPRECIATION	
	as at January 1, 2016	additions	deletions / write offs	as at December 31, 2016	as at January 1, 2016	charge for the year	on deletions / write offs	as at December 31, 2016
					Rupees in '000			
Land - freehold	40,000	-	-	40,000	-	-	-	40,000
Building on freehold land	14,407	-	-	14,407	3,920	1,441	-	5,361
Leasehold improvements	22,021	4,271	-	26,292	13,014	3,877	-	16,891
Office equipment	16,608	1,883	-	18,491	7,976	2,698	-	10,674
Computers	27,457	1,548	-	29,005	13,994	3,861	-	17,855
Vehicles	28,632	2,319	(6,070)	24,881	17,048	5,250	(5,862)	16,436
Furniture and fittings	49,913	3,902	-	53,815	19,381	5,785	-	25,166
Carpets	987	142	-	1,129	889	64	-	953
	<u>200,025</u>	<u>14,065</u>	<u>(6,070)</u>	<u>208,020</u>	<u>76,222</u>	<u>22,976</u>	<u>(5,862)</u>	<u>93,336</u>
								<u>114,684</u>

	2015				2015			
	COST		DEPRECIATION		COST		DEPRECIATION	
	as at January 1, 2015	additions	deletions / write offs	as at December 31, 2015	as at January 1, 2015	charge for the year	on deletions / write offs	as at December 31, 2015
					Rupees in '000			

Land - freehold	40,000	-	-	40,000	-	-	-	40,000
Building on freehold land	14,407	-	-	14,407	2,479	1,441	-	3,920
Leasehold improvements	14,297	7,724	-	22,021	10,152	2,862	-	13,014
Office equipment	13,365	3,243	-	16,608	5,731	2,245	-	7,976
Computers	20,758	6,699	-	27,457	11,266	2,728	-	13,994
Vehicles	24,065	5,536	(969)	28,632	14,618	3,399	(969)	17,048
Furniture and fittings	39,341	10,572	-	49,913	14,436	4,945	-	19,381
Books	31	-	(31)	-	8	2	(10)	-
Carpets	970	17	-	987	806	83	-	889
	<u>167,234</u>	<u>33,791</u>	<u>(1,000)</u>	<u>200,025</u>	<u>59,496</u>	<u>17,705</u>	<u>(979)</u>	<u>76,222</u>
								<u>123,803</u>

10.2.1 Property and equipment includes cost of Rs. 5,485 thousand (2015: Rs. 5,485 thousand) and accumulated depreciation amounting to Rs. 5,485 thousand (2015: Rs. 5,485 thousand) in respect of assets donated by the Government of Azad Jammu and Kashmir.

10.3 Intangible asset

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

99

10.4 Detail of disposals of operating fixed assets

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

11. DEFERRED TAX ASSETS

Deferred tax arising due to:

Tax depreciation	(2,966)	(1,419)
Provision against non-performing advances classified in sub-standard category	(7,876)	(3,506)
Provision for customer claims	(8,865)	-
Other provisions	(3,435)	(1,685)
	(23,142)	(6,610)
Surplus on revaluation of available for sale securities	9,756	4,729
	(13,386)	(1,881)

11.1 Movement of deferred tax (asset) / liability

Opening deferred tax (asset) / liability	(1,881)	488
Deferred credits recognised in profit and loss arising due to:		
Accelerated tax depreciation	(1,547)	(251)
Provision against non-performing advances classified in sub-standard category	(4,370)	(3,506)
Provision for customer claims	(8,865)	-
Other provisions	(1,750)	(1,685)
	(16,532)	(5,442)
Deferred debits recognised in equity arising due to:		
Surplus on revaluation of available for sale securities	5,027	3,073
Closing deferred tax asset	(13,386)	(1,881)

12. OTHER ASSETS

Income / mark-up accrued in local currency - note 12.1 and 12.2	353,042	295,549
Advances, deposits, advance rent and other prepayments	15,615	17,804
Advance taxation - net of provision	3,656	-
Branch adjustment account	28,510	5,101
Stationary and stamps in hand	2,691	1,419
Others	51,553	11,421
	455,067	331,294
Provision against other assets - note 12.3	(4,815)	(4,815)
Other assets - net of provision	450,252	326,479

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

12.2 This balance has been arrived at after adjusting interest in suspense of Rs. 46,366 thousand (2015: Rs. 30,186 thousand).

12.3 Provision against other assets

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

13. BILLS PAYABLE

In Pakistan (Azad Jammu and Kashmir)	8,716	7,634
--------------------------------------	-------	-------

		2016	2015
		Rupees in '000	
14. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		2,633,125	2,469,382
Savings deposits		3,521,083	3,506,606
Current accounts - non remunerative		1,690,694	1,464,776
Others		723	113
		<u>7,845,625</u>	<u>7,440,877</u>
14.1 Particulars of deposits			
In local currency		7,845,625	7,440,877
In foreign currency		-	-
		<u>7,845,625</u>	<u>7,440,877</u>

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

		2016	2015
		Rupees in '000	
15. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency - note 15.1		53,649	61,924
Accrued expenses		5,599	5,310
Provision for bonus to employees		12,000	9,000
Provision against customer claims		31,866	-
Income tax payable		-	28,704
Others		29,545	12,704
		<u>132,659</u>	<u>117,642</u>

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

16. SHARE CAPITAL

16.1 Authorised Capital

2016	2015	2016	2015
Number of shares		Rupees in '000	
<u>200,000,000</u>	<u>200,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
Ordinary shares of Rs. 10 each			

16.2 Issued, subscribed and paid up

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

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

		2016	2015
		Number of shares	
16.4 Reconciliation of number of ordinary shares			
Shares at the beginning of the year		78,597,676	65,498,063
Shares issued during the year		-	13,099,613
Shares at the year end		<u>78,597,676</u>	<u>78,597,676</u>

Handwritten signature

	2016	2015
	Rupees in '000	
17. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX		
Surplus on revaluation of available for sale securities		
Units of mutual funds - listed	27,875	13,510
Related deferred tax liability	(9,756)	(4,729)
	<u>18,119</u>	<u>8,781</u>
18. CONTINGENCIES AND COMMITMENTS		
18.1 Direct credit substitutes		
- Guarantees in favour of others	<u>2,330</u>	<u>-</u>
18.2 Commitments to extend credit	<u>283,995</u>	<u>236,323</u>
18.3 Bills for collection	<u>69,963</u>	<u>5,552</u>
Bills for collection represent bills drawn in favour of various financial institutions on behalf of the Bank's customers. These are accepted by the Bank as an agent and the Bank does not carry any credit risk in respect of these bills.		
19. OFF BALANCE SHEET FINANCIAL INSTRUMENTS		
Off balance sheet financial instruments, referred to as derivatives are contracts the characteristics of which are derived from those of underlying assets. These include forwards and swaps in money and foreign exchange markets. The Bank has no off balance sheet financial instrument at the year end.		
20. DERIVATIVE INSTRUMENTS		
The Bank at present does not offer any derivative product.		
	2016	2015
	Rupees in '000	
21. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to customers - note 21.1	406,502	367,786
On investment in held to maturity securities	89,772	119,317
On deposits with financial institutions	<u>312,524</u>	<u>307,601</u>
	<u>808,798</u>	<u>794,704</u>
21.1 This includes an amount of Rs.27,755 thousand (2015: Rs. 37,524 thousand) on account of interest earned on advance given to a related party.		
	2016	2015
	Rupees in '000	
22. MARK-UP / RETURN / INTEREST EXPENSED		
On deposits	<u>333,382</u>	<u>375,948</u>
This includes an amount of Rs. 186,461 thousand (2015: Rs. 287,424 thousand) on account of interest expense on deposits received from related parties.		
23. GAIN ON SALE OF SECURITIES - NET		
This represents gain on disposal of units of listed mutual funds.		
	2016	2015
	Rupees in '000	
24. OTHER INCOME		
Amortization of deferred Government grant	-	9
Gain on sale of fixed asset	1,840	97
Site visits and fee collection charges	<u>3,779</u>	<u>4,954</u>
	<u>5,619</u>	<u>5,060</u>

25. ADMINISTRATIVE EXPENSES

2016 2015
Rupees in '000

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

25.1 Auditors' remuneration

Annual audit	1,200	850
Half yearly review	600	350
Out of pocket expenses	180	120
	<u>1,980</u>	<u>1,320</u>

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

26. TAXATION

2016 2015
Rupees in '000

For the year

current	49,892	48,497
deferred	(16,532)	(3,891)
	<u>33,360</u>	<u>44,606</u>

For prior year(s)

current	5,542	12,220
deferred	-	(1,551)
	<u>5,542</u>	<u>10,669</u>
	<u>38,902</u>	<u>55,275</u>

26.1 Relationship between tax expense and accounting profit

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

17/11/15

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

27. BASIC/ DILUTED EARNINGS PER SHARE

Profit for the year - Rupees '000

Weighted average number of ordinary shares - numbers

Basic earnings per share - Rupees

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

2016	2015
50,206	70,165
78,597,676	78,597,676
0.64	0.89

28. CASH AND CASH EQUIVALENTS

Cash and balances with treasury banks

Balances with other banks

2016	2015
Rupees in '000	
1,299,452	873,616
3,843,415	3,144,100
5,142,867	4,017,716

29. STAFF STRENGTH

Permanent

Temporary / on contract basis

Daily wages

Bank's own staff strength at the end of the year

Outsourced

Total staff strength at the end of the year

Number of employees	
2016	2015
237	227
139	130
9	8
385	365
124	123
509	488

30. STAFF RETIREMENT BENEFITS

30.1 Gratuity

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

30.2 Provident fund

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

31. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Managing Director		Directors		Executives	
	2016	2015	2016	2015	2016	2015
	Rupees in '000					
Fees	-	-	648	408	-	-
Managerial remuneration	4,212	3,888	-	-	21,859	12,273
Contribution to defined contribution plan	-	-	-	-	973	722
Contribution to defined gratuity fund	351	324	-	-	973	723
Rent and house maintenance	1,846	1,704	-	-	4,088	3,035
Utilities	211	194	-	-	1,168	867
Medical	247	208	-	-	1,168	867
Bonus	675	648	-	-	1,947	1,639
Leave encashment	713	570	-	-	395	-
Others (fuel vehicle, mobile charges, club membership & travelling)	1,325	1,574	11	21	3,621	3,383
	9,580	9,110	659	429	36,192	23,509
Number of persons	1	1	8	8	21	13

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

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

32.2 Off-balance sheet financial instruments

There are no off-balance sheet financial instruments as at December 31, 2016 (2015: Nil).

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

The different levels have been defined as follows:

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

32.4 On-balance sheet financial instruments

-----2016-----				
Level 1	Level 2	Level 3	Total	
Rupees in '000				
INVESTMENTS - NET				
Financial Assets - on balance sheet				
Available-for-sale securities				
Units of mutual funds	157,875	-	-	157,875
-----2015-----				
Level 1	Level 2	Level 3	Total	
Rupees in '000				
INVESTMENTS - NET				
Financial Assets - on balance sheet				
Available-for-sale securities				
Units of mutual funds	158,510	-	-	158,510

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

a) Financial instruments in level 1

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

b) Financial instruments in level 2

Currently, no financial instruments are classified in level 2.

c) Financial instruments in level 3

Currently, no financial instruments are classified in level 3.

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

33. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

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

Assumptions used:

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

AM

34. RELATED PARTY TRANSACTIONS

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

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

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

35. CAPITAL ADEQUACY

35.1 Scope of Applications

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

35.2 Capital Management

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

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

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

Tier II capital under Basel III is subject to a maximum of 2.5% of total Risk Weighted Assets as of December 31, 2016. It includes subordinated debt issued prior to January 1, 2013 phasing out at an annual rate of 10%, Basel III compliant Tier II instruments, general provisions for loan losses (up to a maximum of 1.25 % of credit risk weighted assets), reserves on the revaluation of fixed assets and available for sale investments (on an after tax basis up to a maximum of 45 percent), foreign exchange translation reserves etc. Basel III rules however do allow for the inclusion of the remaining 55% of the revaluation reserves into Tier II capital at an inclusion rate equal to the rate of deduction specified under the transitional arrangements for the coming years uptill 2018. Tier II capital deductions comprise of the remaining 50% other deductions noted above, reciprocal cross holdings in Tier II instruments of Banking, Financial or Insurance entities etc.

As of December 2016 the Bank must meet a Tier 1 to RWA ratio and CAR including CCB of 7.5% and 10.25%

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.



35.2.1 Capital Adequacy Ratio

Common Equity Tier 1 capital (CET1): Instruments and reserves2016
Rupees in '000

2015

785,977 785,977

- -

- -

- -

- -

144,725 94,519

- -

- -

- -

930,702 880,496

- -

930,702 880,496

CET 1 before Regulatory Adjustments

Total regulatory adjustments applied to CET1 (Note 35.2.2)

Common Equity Tier 1**Additional Tier 1 (AT 1) Capital**

Qualifying Additional Tier-1 capital instruments plus any related share premium

of which: Classified as equity

of which: Classified as liabilities

Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)

of which: instrument issued by subsidiaries subject to phase out

AT1 before regulatory adjustments

Total regulatory adjustment applied to AT1 capital (Note 35.2.3)

Additional Tier 1 capital after regulatory adjustments

Additional Tier 1 capital recognized for capital adequacy**Tier 1 Capital (CET1 + admissible AT1)****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

Revaluation Reserves (net of taxes)

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

Total regulatory adjustment applied to T2 capital (Note 35.2.4)

Tier 2 capital (T2) after regulatory adjustments

Tier 2 capital recognized for capital adequacy

Portion of Additional Tier 1 capital recognized in Tier 2 capital

Total Tier 2 capital admissible for capital adequacy**TOTAL CAPITAL (T1 + admissible T2)****Total Risk Weighted Assets (RWA) - note 35.4****Capital Ratios and buffers (in percentage of risk weighted assets)**

CET1 to total RWA

Tier-1 capital to total RWA

Total capital to total RWA

Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)

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)

National minimum capital requirements prescribed by SBP

CET1 minimum ratio

Tier 1 minimum ratio

Total capital minimum ratio

19.57% 21.73%

19.57% 21.73%

21.16% 23.35%

5.50% 5.50%

- -

- -

- -

14.07% 16.23%

6.00% 6.00%

7.50% 7.50%

10.00% 10.00%

2016
2015
Rupees in '000

35.2.2 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	-	-

35.2.3 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-1 capital	-	-
Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
Total regulatory adjustment applied to AT1 capital	-	-

35.2.4 Tier 2 Capital: regulatory adjustments

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	-	-

Attn

35.2.5 Additional Information

2016 2015
Rupees in '000

Risk Weighted Assets subject to pre-Basel III treatment

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

of which: deferred tax assets

of which: Defined-benefit pension fund net assets

of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity

of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity

Amounts below the thresholds for deduction (before risk weighting)

Non-significant investments in the capital of other financial entities

Significant investments in the common stock of financial entities

Deferred tax assets arising from temporary differences (net of related tax liability)

Applicable caps on the inclusion of provisions in Tier 2

Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)

Cap on inclusion of provisions in Tier 2 under standardized approach

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

4,755,088 4,052,115

35.3 Capital Structure Reconciliation

Balance sheet of the published financial statements
Under regulatory scope of consolidation
As at December 31, 2016
Rupees in '000

Assets

Cash and balances with treasury banks
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

1,299,452	1,299,452
3,843,415	3,843,415
-	-
604,748	604,748
2,609,430	2,609,430
115,638	115,638
13,386	13,386
449,752	449,752
8,935,821	8,935,821
8,716	8,716
-	-
7,845,625	7,845,625
-	-
-	-
-	-
-	-
132,659	132,659
7,987,000	7,987,000
785,977	785,977
144,725	144,725
18,119	18,119
8,935,821	8,935,821
1,299,452	1,299,452
3,843,415	3,843,415
-	-
604,748	604,748
-	-
-	-
-	-
-	-
-	-
-	-
2,609,430	2,609,430
-	-
57,410	57,410
115,638	115,638
13,386	13,386
-	-
-	-
449,752	449,752
-	-
-	-
-	-
8,935,821	8,935,821

**Balance sheet of
the published
financial
statements
As at December 31, 2016
Rupees in '000**

Liabilities & Equity

Bills payable	8,716
Borrowings	-
Deposits and other accounts	7,845,625
Sub-ordinated loans	-
of which: eligible for inclusion in AT1	-
of which: eligible for inclusion in Tier 2	-
Liabilities against assets subject to finance lease	-
Deferred tax liabilities	-
of which: DTLs related to goodwill	-
of which: DTLs related to intangible assets	-
of which: DTLs related to defined pension fund net assets	-
of which: other deferred tax liabilities	-
Deferred Government grant	-
Other liabilities	132,659

8,716	8,716
-	-
7,845,625	7,845,625
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
-	-
132,659	132,659
7,987,000	7,987,000

Total liabilities

Share capital	785,977
of which: amount eligible for CET1	785,977
of which: amount eligible for AT1	-
Reserves	-
of which: portion eligible for inclusion in CET1(provide breakup)	-
of which: portion eligible for inclusion in Tier 2	-
Unappropriated profit	144,725
Minority Interest	-
of which: portion eligible for inclusion in CET1	-
of which: portion eligible for inclusion in AT1	-
of which: portion eligible for inclusion in Tier 2	-
Surplus on revaluation of assets	-
of which: Revaluation reserves on Fixed Assets	-
of which: Unrealized Gains/Losses on AFS	18,119
In case of Deficit on revaluation (deduction from CET1)	-

785,977	785,977
785,977	785,977
-	-
-	-
-	-
144,725	144,725
-	-
-	-
-	-
-	-
-	-
-	-
18,119	18,119
-	-
948,821	948,821
8,935,821	8,935,821

Total equity

Total liabilities & equity

Basel III Disclosure

**Balance sheet as
in published
financial
statements**

As at December 31, 2016
Rupees in '000

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

Fully Paid-up Capital	785,977
Balance in Share Premium Account	-
Reserve for issue of Bonus Shares	-
General/ Statutory Reserves	-
Gain/(Losses) on derivatives held as Cash Flow Hedge	-
Unappropriated/unremitted profits/ (losses)	144,725
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

930,702

Handwritten signature

Balance sheet as
in published
financial
statements

As at December 31, 2016
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

930,702

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	-

Handwritten signature

Balance sheet as
in published
financial
statements

As at December 31, 2016
Rupees in '000

Additional Tier 1 Capital: regulatory adjustments

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

Investment in own AT1 capital instruments

Reciprocal cross holdings in Additional Tier 1 capital instruments

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

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

930,702

Tier 1 Capital (CET1 + admissible AT1)

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

57,410

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

18,119

Foreign Exchange Translation Reserves

Undisclosed/Other Reserves (if any)

75,529

T2 before regulatory adjustments

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

75,529

75,529

75,529

1,006,231

TOTAL CAPITAL (T1 + admissible T2)

35.4 Capital Adequacy

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

Risk-weighted exposures	Capital requirements		Risk weighted assets	
	2016	2015	2016	2015
	Rupees in '000			
Credit Risk				
Portfolios subject to standardized approach (simple or comprehensive)				
On-Balance sheet				
Claims on banks	118,694	84,141	1,186,941	841,410
Past due loans	36,272	17,590	362,717	175,902
Claims categorized as retail portfolio	138,103	138,592	1,381,025	1,385,918
Claims fully secured by residential property	12,274	20,706	122,742	207,065
Operating Fixed Assets	11,564	12,528	115,638	125,283
All other assets	44,975	32,836	449,752	328,360
	<u>361,882</u>	<u>306,393</u>	<u>3,618,815</u>	<u>3,063,938</u>
Off balance sheet items				
Non-market related				
Direct credit substitute	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total credit risk	<u>361,882</u>	<u>306,393</u>	<u>3,618,815</u>	<u>3,063,938</u>
Market risk				
Portfolios subject to standardized approach				
Equity position risk	31,575	47,300	315,750	317,020
	82,052	56,414	820,523	671,157
Operational risk				
Total	<u>475,509</u>	<u>410,107</u>	<u>4,755,088</u>	<u>4,052,115</u>
Capital Adequacy Ratios				
	2016		2015	
	Required	Actual	Required	Actual
CET1 to total RWA	6.00%	19.57%	6.00%	21.73%
Tier-1 capital to total RWA	7.50%	19.57%	7.50%	21.73%
Total capital to total RWA	10.00%	21.16%	10.00%	23.35%

35.5 Main Features Template of Regulatory Capital Instruments

1	Issuer	Bank of Azad Jammu and Kashmir
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Bank of Azad Jammu and Kashmir
3	Governing law(s) of the instrument	Laws applicable in State of Azad Jammu and Kashmir
	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	
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

MP

36. RISK MANAGEMENT

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

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

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

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

36.1 Credit risk

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

36.1.1 SEGMENT INFORMATION

36.1.1.1 Segments by class of business

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

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

36.1.1.2 Segments by sector

	2016					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	250,500	8.82	3,665,349	46.72	-	-
Private	2,588,653	91.18	4,180,276	53.28	286,325	100.00
	<u>2,839,153</u>	<u>100</u>	<u>7,845,625</u>	<u>100</u>	<u>286,325</u>	<u>100</u>

	2015					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public sector/ Government	364,668	12.22	3,279,865	44.08	-	-
Private	2,619,801	87.78	4,161,012	55.92	247,559	100.00
	<u>2,984,469</u>	<u>100</u>	<u>7,440,877</u>	<u>100</u>	<u>247,559</u>	<u>100</u>

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

Agriculture, Forestry, Hunting and Fishing
Construction
Power (electricity), Gas, Water, Sanitary
Wholesale and Retail Trade
Services
Individuals
Government
Others

2016		2015	
Rupees in '000			
Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
121,415	-	73,812	9,421
-	-	-	-
-	-	-	-
144,354	-	36,872	34,201
-	-	-	-
131,676	-	129,536	50,437
-	-	-	-
-	-	-	-
397,445	-	240,220	94,059

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

Public / Government
Private

	-	-	-	-
	397,445	-	240,220	94,059
	397,445	-	240,220	94,059

36.1.1.5 **GEOGRAPHICAL SEGMENT ANALYSIS**

Pakistan (Azad Jammu and Kashmir)
Others

	2016			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	Rupees in '000			
	88,838	8,935,821	948,821	286,325
	-	-	-	-
	88,838	8,935,821	948,821	286,325

	2015			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	Rupees in '000			
	125,440	8,455,430	889,277	247,559
	-	-	-	-
	125,440	8,455,430	889,277	247,559

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

36.2 **Credit Risk-general disclosures**

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

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

Under standardized approach, the capital requirement is based on the credit rating assigned to the counter parties by the External Credit Assessment Institutions (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

36.3 Market Risk:

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

36.3.1 Foreign exchange risk

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

36.3.2 Equity position risk

It is the risk of loss to earnings or capital as a result from unfavorable fluctuations in prices of shares in which the Bank carries long and / or short positions, in its trading book.

ALCO is responsible for making investment decisions in the capital market and setting limits that are a component of the risk management framework. Portfolio limits are assigned by the ALCO to guard against concentration risk and these limits are reviewed and revised periodically. Limit monitoring is done on daily basis. Limit breaches if any are promptly reported to ALCO with proper reason and justification.

36.3.3 Yield / interest rate risk

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

36.3.4 Mismatch of interest rate sensitive assets and liabilities

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

	Effective Yield / Interest rate	2016											
		Total	Upto 1 Month	Exposed to yield/ interest risk					Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financial instruments
				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					
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	5.72%	1,299,452	-	1,000,000	150,000	-	-	-	-	-	-	-	149,452
Balances with other banks	8.25%	3,843,415	825,160	1,165,194	578,000	575,000	-	-	-	350,000	300,000	-	50,061
Lending to financial institution		-	-	-	-	-	-	-	-	-	-	-	-
Investments	9.80%	604,748	-	-	-	249,013	197,860	-	-	-	-	-	157,875
Advances	13.96%	2,609,430	99,107	224,014	319,525	568,079	563,113	521,389	280,413	24,768	9,022	-	450,252
Other assets		450,252	-	-	-	-	-	-	-	-	-	-	-
		8,807,297	924,267	2,389,208	1,047,525	1,392,092	760,973	521,389	630,413	324,768	9,022	-	807,640
Liabilities													
Bills payable		8,716	-	-	-	-	-	-	-	-	-	-	8,716
Borrowings		-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	4.56%	7,845,625	4,096,641	1,224,000	145,000	485,100	65,444	91,370	46,653	-	-	-	1,691,417
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities		132,659	-	-	-	-	-	-	-	-	-	-	132,659
		7,987,000	4,096,641	1,224,000	145,000	485,100	65,444	91,370	46,653	-	-	-	1,832,792
On-balance sheet gap		820,297	(3,172,374)	1,165,208	902,525	906,992	695,529	430,019	583,760	324,768	9,022	-	(1,025,152)

af

2015

Effective Yield / Interest rate	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financial instruments
Purchase and resale agreements	-	-	-	-	-	-	-	-	-	-	-
Sale and repurchase agreements	-	-	-	-	-	-	-	-	-	-	-
Commitments to extend credit	283,995	283,995	-	-	-	-	-	-	-	-	-
Off-balance sheet gap	283,995	283,995	-	-	-	-	-	-	-	-	-
Total yield / Interest risk sensitivity gap	(3,456,369)	1,165,208	902,525	906,992	695,529	430,019	583,760	324,768	9,022	(1,025,652)	
Cumulative yield / Interest risk sensitivity gap	(3,456,369)	(2,291,161)	(1,388,636)	(481,644)	213,885	643,904	1,227,664	1,552,432	1,561,454	535,802	

Mismatch of interest rate sensitive assets and liabilities

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

2015

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

On-balance sheet financial instruments**Assets**

Cash and balances with treasury banks	873,616	99,777	700,000	-	-	-	-	-	-	-	73,839
Balances with other banks	3,144,100	870,018	949,019	195,019	-	-	-	-	-	-	50,025
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	326,479
Other assets	326,479	-	-	-	-	-	-	-	-	-	-
	8,328,266	1,077,455	1,891,137	700,628	1,397,339	1,603,663	566,383	304,612	326,905	9,801	450,343

Liabilities

Bills payable	7,634	-	-	-	-	-	-	-	-	-	7,634
Borrowings	7,440,877	1,678,554	1,628,053	1,131,254	1,422,387	244	92,020	23,477	-	-	1,464,888
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	117,642	-	-	-	-	-	-	-	-	-	117,642
Other liabilities	7,566,153	1,678,554	1,628,053	1,131,254	1,422,387	244	92,020	23,477	-	-	1,590,164
	762,113	(601,099)	263,084	(430,626)	(25,048)	1,603,419	474,363	281,135	326,905	9,801	(1,139,821)

On-balance sheet gap**Off-balance sheet financial instruments**

Purchase and resale agreements	-	-	-	-	-	-	-	-	-	-	-
Sale and repurchase agreements	-	-	-	-	-	-	-	-	-	-	-
Commitments to extend credit	236,323	236,323	-	-	-	-	-	-	-	-	-
Off-balance sheet gap	236,323	236,323	-	-	-	-	-	-	-	-	-
Total yield / Interest risk sensitivity gap	(837,422)	263,084	(430,626)	(25,048)	1,603,419	474,363	281,135	326,905	1,665,810	9,801	(1,139,821)
Cumulative yield / Interest risk sensitivity gap	(837,422)	(574,338)	(1,004,964)	(1,030,012)	573,407	1,047,770	1,328,905	1,655,810	1,665,811	525,790	

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

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

2016 2015
Rupees in '000

Reconciliation of total assets

Total financial assets 8,806,797 8,328,266

Add: Non financial assets

Operating fixed assets 115,638 125,283

Deferred tax asset 13,386 1,881

Balance as per balance sheet 8,935,821 8,455,430

Reconciliation of total liabilities

Total financial liabilities 7,987,000 7,566,153

Add: Non financial liabilities

Deferred tax liabilities - -

Deferred govt. grant - -

Balance as per balance sheet 7,987,000 7,566,153

36.4 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.

36.4.1 Maturities of Assets and Liabilities

2016										
	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	
Total				Rupees in '000						
1,299,452	149,452	1,000,000	150,000	-	-	-	-	-	-	
3,843,415	875,221	1,165,194	578,000	575,000	-	-	350,000	300,000	-	
-	-	-	-	-	-	-	-	-	-	
604,748	157,878	-	-	249,013	197,857	-	-	-	-	
2,609,430	99,107	224,014	319,525	568,079	563,113	521,389	280,413	24,768	9,022	
115,638	-	-	-	22,996	21,859	26,823	3,960	-	40,000	
13,386	-	-	-	13,386	-	-	-	-	-	
449,752	144,432	63,296	45,926	12,213	5,856	3,065	807	174,157	-	
8,935,821	1,426,090	2,452,504	1,093,451	1,440,687	788,685	551,277	635,180	498,925	49,022	
8,716	8,716	-	-	-	-	-	-	-	-	
7,845,625	5,788,058	1,224,000	145,000	485,100	65,444	91,370	46,653	-	-	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	
132,659	91,260	12,289	10,825	18,285	-	-	-	-	-	
7,987,000	5,888,034	1,236,289	155,825	503,385	65,444	91,370	46,653	-	-	
948,821	(4,461,944)	1,216,215	937,626	937,302	723,241	459,907	588,527	498,925	49,022	
785,977	-	-	-	-	-	-	-	-	-	
144,725	-	-	-	-	-	-	-	-	-	
18,119	-	-	-	-	-	-	-	-	-	
948,821	-	-	-	-	-	-	-	-	-	

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
					Rupees in '000					
Assets										
Cash and balances with treasury banks	873,616	173,616	700,000	-	-	-	-	-	-	-
Balances with other banks	3,144,100	920,043	949,019	195,019	780,019	-	-	-	300,000	-
Lending to financial institution	-	-	-	-	-	-	-	-	-	-
Investments	1,150,465	-	-	158,510	-	991,955	-	-	-	-
Advances	2,833,606	107,660	242,118	347,099	617,320	611,708	566,383	304,612	26,905	9,801
Operating fixed assets	125,283	-	-	-	17,280	15,801	15,801	31,580	4,821	40,000
Other assets	326,479	96,447	77,248	10,582	19,559	4,039	2,912	1,055	114,637	-
	8,455,430	1,297,766	1,968,365	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	-	-
Net assets	889,277	(799,340)	(33,286)	(838,583)	(365,783)	1,623,259	493,076	313,770	446,363	49,801
Share Capital	785,977									
Reserves	-									
Unappropriated profit	94,519									
Surplus on revaluation of assets	8,781									
	889,277									

36.5 Operational risk

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

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

APF

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

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

38. **GENERAL**

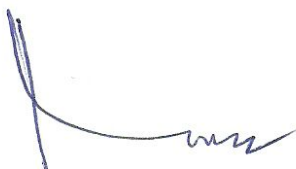
Captions as prescribed by BSD Circular No. 4 dated February 17, 2006 issued by the SBP in respect of which there are no amounts have not been reproduced in these financial statements except for the statement of financial position and profit and loss account.

39. **DATE OF AUTHORIZATION**

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



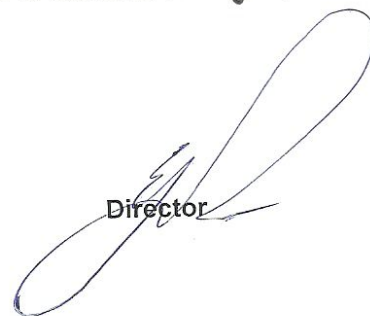
Chairman



Managing Director



Director



Director

