THE BANK OF AZAD JAMMU AND KASHMIR

FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

Deloitte.

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

Opinion

We have audited the financial statements of The Bank of Azad Jammu and Kashmir (the Bank), which comprise statement of financial position as at December 31, 2017, 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, 2017 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.

Other Matter

The financial statements of the Bank for the year ended December 31, 2016 were audited by another firm of Chartered Accountants who had expressed unmodified opinion vide their report dated June 07, 2017.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Chartered Accountants

Engagement Partner:

Shahzad Ali

Islamabad

Date: March 28, 2018

THE BANK OF AZAD JAMMU AND KASHMIR STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

		2017	2016
	Note	Rupees in	n '000' n
ASSETS			
Cash and balances with treasury banks	6	1,755,794	1,299,452
Balances with other banks	7	5,748,385	3,843,415
Lending to financial institutions			-
Investments	8	339,791	604,748
Advances	9	2,407,853	2,609,430
Operating fixed assets	10	117,060	115,638
Deferred tax assets	11	22,845	13,386
Other assets	12	448,931	450,252
	-	10,840,659	8,936,321
LIABILITIES			
Bills payable	13	31,808	8,716
Borrowings		-	× 1
Deposits and other accounts	14	9,547,215	7,845,625
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred Government grant		- 1	
Other liabilities	15	198,402	132,659
		9,777,425	7,987,000
NET ASSETS		1,063,234	949,321
REPRESENTED BY			
Share capital	16	848,919	785,977
Reserves			-
Unappropriated profit		223,711	145,225
		1,072,630	931,202
(Deficit)/Surplus on revaluation of assets - net of tax	17	(9,396)	18,119
,		1,063,234	949,321
CONTINGENCIES AND COMMITMENTS	18		
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The annexed notes 1 to 39 form an integral part of these financial statements.

Chairman

Managing Director

Director

THE BANK OF AZAD JAMMU AND KASHMIR PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2017

*		2017	2016
	Note	Rupees in	
Mark-up / return / interest earned	21	842,870	808,798
Mark-up / return / interest expensed	22	327,143	333,382
Net mark-up / interest income	-	515,727	475,416
(Reversal) / provision against non-performing loans and advances - net	9.4	(63,016)	79,711
Provision for diminution in the value of investments - net	2000	- 1	-
Bad debts written off directly		- 11	-
		(63,016)	79,711
Net mark-up / interest income after provisions		578,743	395,705
Non mark-up / interest income			
Fee, commission and brokerage income		16,506	17,315
Dividend income		4,997	10,691
Income from dealing in foreign currencies		-	-
Gain on sale of securities - net	23	27,616	17,113
Unrealized gain / (loss) on revaluation of investments			
classified as held for trading - net	27/02/02/02	-	-
Other income	24	2,383	5,619
Total non-markup / interest income	_	51,502	50,738
Non mark-up / interest expenses		630,245	446,443
VO 1726 S1020			
Administrative expenses	25	363,072	324,969
Other provisions / write offs Other charges		:-	31,866
Total non-markup / interest expenses			
Total Hori-markap / interest expenses	-	363,072	356,835
Extraordinary / unusual items		267,173	89,608
Profit before taxation	-	267 472	90.600
Taxation – current		(99,030)	89,608 (49,892)
– prior year		(5,702)	(5,542)
– deferred		(5,357)	16,532
	26	(110,089)	(38,902)
Profit after taxation			
, Tolk diter taxation	-	157,084	50,706
Unappropriated profit brought forward		66,627	94,519
Profit available for appropriation		223,711	145,225
Basic earnings per share - Rupees	27	1.86	0.65

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

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Managing Director

Director

THE BANK OF AZAD JAMMU AND KASHMIR STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017

2017 2016 Rupees in '000

157,084

50,706

Profit after tax for the year

Other comprehensive income

Chairman

Components of comprehensive income not reflected in equity

(Deficit)/surplus on revaluation of available for sale securities Surplus on revaluation of assets transferred to profit and loss Related deferred tax credit / (expense) Deferred tax expense for the prior period

(42,331)	14,365
18,756	-
8,251	(5,027)
-	-
(15,324)	9,338
141,760	60,044

Comprehensive income transferred to equity - net of tax

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.

Managing Director

Director 4

THE BANK OF AZAD JAMMU AND KASHMIR STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017

	Share Capital	Unappropriated profit Rupees in '000	Total
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	-	-	181
		50,706	50,706
Balance as at January 1, 2017	785,977	145,225	931,202
Transactions with owners during the year			
Issue of share capital - note 16.5	62,942	6 San	62,942
Dividend for the year ended December 31, 2016	-	(78,598)	(78,598)
Total comprehensive income for the year ended December 31, 2017			
Net profit for the year ended December 31, 2017	-	157,084	157,084
Other comprehensive income related to equity		•	•
		157,084	157,084
Balance as at December 31, 2017	848,919	223,711	1,072,630

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

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Chairman

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Managing Director

Director

THE BANK OF AZAD JAMMU AND KASHMIR CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

		2017	2016
70	Note	Rupees in	'000
Cash flow from operating activities			
Profit before taxation		267,173	89,608
Less: dividend income		4,997	10,691
		262,176	78,917
Adjustments:	ş		
Depreciation	- 1	22,019	22,976
Provision against non-performing loans and advances		(63,016)	79,711
Other provisions	1	•	31,866
Gain on sale of fixed assets		(11)	(1,840)
Amortization of deferred government grant	J.		-
	2	(41,008)	132,713
1955 PM 0405 NO D		221,168	211,630
Decrease / (increase) in operating assets	r		
Advances	1	264,593	144,465
Other assets	1.	(2,335)	(120,117)
A COLUMN STAN AND STA		262,258	24,348
Increase / (decrease) in operating liabilities	r		3 000
Bills payable	1	23,092	1,082
Deposits and other accounts		1,701,590	404,748
Other liabilities	7	41,571	11,855
And the second of the second and the	4	1,766,253	417,685
Cash generated from operations		2,249,679	653,663
Income tax paid		(76,904)	(87,794)
Net cash generated from operating activities		2,172,775	565,869
Cash flow from investing activities			
Net investment in available for sale securities		(25,000)	15,000
Net investment in held to maturity securities		247,626	545,082
Dividend income		4,997	10,691
Investments in operating fixed assets		(23,454)	(13,539)
Sale proceeds of operating fixed assets disposed off		24	2,048
Net cash flow from investing activities	÷*	204,193	559,282
Cash flow from financing activities			
Shares/issued during the period	Ī	62,942	12
Dividend paid during the year		(78,598)	- 2
Division point daining the Jose		(15,656)	
Increase in cash and cash equivalents	17	2,361,312	1,125,151
Cash and cash equivalents at beginning of the year		5,142,867	4,017,716
Cash and cash equivalents at end of the year	28	7,504,179	5,142,867
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The annexed notes 1 to 39 form an integral part of these financial statements.

Chairman Managing Director

Director

THE BANK OF AZAD JAMMU AND KASHMIR NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

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 68 branches (2016: 65 branches) in Azad Jammu and Kashmir.

BASIS OF PRESENTATION

2.

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 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2017

Effective date (years beginning on or after)

Amendments to IAS 7 'Statement of Cash Flows' -Amendments as a result of the disclosure initiative January 1, 2017

Amendments to IAS 12 'Income Taxes' - Recognition of deferred tax assets for unrealized losses

January 1, 2017

Certain annual improvements have also been made to a number of IFRSs.

New accounting standards / amendments and IFRS interpretations that are not yet effective

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

Effective date (years beginning on or after)

Amendments to IFRS 2 'Share-based Payment' -Clarification on the classification and measurement of share-based payment transactions.

January 1, 2018

IFRS 9: 'Financial Instruments', This standard contains the requirements for a) the classification and measurement of financial assets and liabilities, b) impairment methodology, and c) general hedge accounting. This standards will supersede IAS 39 "Financial instrument" recognition and measurement upon its effective date.

Effective from accounting period beginning on or after January 01, 2018. (Securities and Exchange Commission of Pakistan (SECP) has adopted for local application from accounting period beginning on or after July 1, 2018)

Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates' and Joint Ventures' - Sale or contribution of assets between an investor and its associate or joint venture.

Effective from accounting period beginning on or after a date to be determined. Earlier application is permitted.

IFRS 15: 'Revenue from Contracts with Customers' This standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretation upon its effective date: IAS 18 Revenue, IAS 11 Construction contracts, IFRIC 13 customer loyalty programmes, IFRIC 15 agreements for the construction of real estate, IFRIC 18 transfers of assets from customers and SIC 31 Revenue-barter transaction involving advertising services.

Effective from accounting period beginning on or after January 01, 2018 (SECP has adopted for local application from accounting period beginning on or after July 1, 2018).

Amendments to IAS 40 'Investment Property': Clarification on transfers of property to or from investment property. Effective from accounting period beginning on or after January 01, 2018. Earlier application is permitted.

IFRIC 22 'Foreign Currency Transactions and Advance Consideration': Provides guidance on transactions where consideration against non-monetary prepaid asset / deferred income is denominated in foreign currency.

Effective from accounting period beginning on or after January 01, 2018. Earlier application is permitted.

IFRIC 23 'Uncertainty over Income Tax Treatments': Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.

Effective from accounting period beginning on or after January 01, 2019.

Certain annual improvements have also been made to a number of IFRSs.

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

- IFRS 1 First Time Adoption of International Financial Reporting Standards
- IFRS 14 Regulatory Deferral Accounts
- IFRS 16 Leases
- IFRS 17 Insurance Contracts

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)
- 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.

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.

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.

5.3 Advances

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

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

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

Capital work-in-progress

Capital work in progress is stated at cost.

Tangible assets

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

Intangible assets

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

Depreciation / amortization

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

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

5.5 Impairment

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

5.6 Deposits

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

5.7 Taxation

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

Current

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

Deferred

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

5.8 Staff retirement benefits

Gratuity scheme

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

Provident fund

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

Leave encashment

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

5.9 Revenue recognition

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

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

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

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

5.10 Government grant

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

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

5.11 Foreign currency transactions

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

5.12 Provisions

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

5.13 Off setting

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

5.14 Appropriations subsequent to the date of statement of financial position

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

5.15 Segment reporting

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

5.15.1 Business segment

Corporate financing

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

Trading and sales

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

Retail banking

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

Commercial banking

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

Payment and settlement

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

Agency service

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

Retail brokerage

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

5.15.2 Geographical segments

The Bank operates in Azad Jammu and Kashmir.

5.16 Earning per share

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

		2017	2016
6.	CASH AND BALANCES WITH TREASURY BANKS	Rupees in	'000
	In hand:		
	Local currency	98,579	70,298
	With National Bank of Pakistan in:		
	Local currency running accounts - note 6.1	357,215	79,154
	Local currency Term deposit accounts - note 6.2	1,300,000	1,150,000
		1,755,794	1,299,452

- 6.1 These include saving deposits carrying markup at the rate of 3.75% (2016: 4% to 5.46%) per annum.
- 6.2 This represents term deposits carrying markup at rates ranging between 5.9% to 6% (2016: 4.00% to 5.90%) per annum with maturities ranging from six months to one year.

7. BALANCES WITH OTHER BANKS

In Pakistan (Azad Jammu and Kashmir)

On current accounts
On deposit accounts - note 7.1 & 7.2

51,118	50,061
5,697,267	3,793,354
5,748,385	3,843,415

- 7.1 These include saving deposits carrying markup at rates ranging between 3.75% to 5.49% (2016: 4% to 5.46%) per annum.
- 7.2 These also include term deposits carrying markup at rates ranging between 5.80% to 19.84% (2016: 5.75% to 19.84%) per annum. Term deposits include an amount of Rs 300 million (2016: Rs 300 million) placed with a bank maturing in 2024. Remaining term deposits have maturities ranging from 3 months to 5 years.

	,	0					
8.	INVESTMENTS		2017			2016	
8.1	Investments by types:	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
0.1	mi soumente ay sypeen			Rupees	in '000		
	Available for sale (AFS) securities						
	Units of open end mutual funds - note 8.4	155,000		155,000	130,000	-	130,000
	Held to maturity securities						
	Pakistan Investment Bonds - note 8.5	199,247	-	199,247	446,873	-	446,873
	Term Finance Certificates - note 8.6	49,940	-	49,940	49,940	-]	49,940
		249,187	-	249,187	496,813		496,813
	Investment at cost	404,187	-	404,187	626,813		626,813
	Provision for diminution in value of investment	(49,940)	-	(49,940)	(49,940)		(49,940)
	Investments (net of provision)	354,247		354,247	576,873	, - · · · -	576,873
	(Deficit)/surplus on revaluation of AFS securities - net	(14,456)		(14,456)	27,875		27,875
	Total investments at market value	339,791	-	339,791	604,748		604,748
						2017	2016
						Rupees i	n 000
8.2	Investments by segments:						
	Pakistan Investment Bonds - Federal Government securi	ties				199,247	446,873
	Units of open end mutual funds - listed					155,000	130,000
	Term Finance Certificates - listed					49,940	49,940
	Total investment at cost					404,187	626,813
	Provision for diminution in value of investment - note 8.3	3				(49,940)	(49,940)
	Investments (net of provision)					354,247	576,873
	(Deficit)/surplus on revaluation of AFS securities - net					(14,456)	27,875
	Total investments at market value					339,791	604,748

8.4 Units of open end mutual funds - listed

No. of u	nits	Paid up value per unit		2017	2016
2017 2016		Rupees	Name of mutual fund	Rupees in '000	
568,408	785,423	87.96	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
4,329,197	2,501,742	11.55	NIT Islamic Equity Fund	50,000	25,000
226,911	227,414	110.18	MCB Dynamic Cash Fund	25,000	25,000
				155,000	130,000

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

8.6 Investments in term finance certificates - listed

No. of certificates			Redeemable value per	2017	2016
2017	2016	Name of company	(Rupees)	Rupees in '000	
10,000	10,000	Pace Pakistan Limited	4,994	49,940	49.94

Paid up value was Rs. 5,000 per certificate, carrying markup at the rate of KIBOR + 1.5% matured in 2017. Considering the non recovery of the balance, full provision has been made in the financial statements.

8.7 Quality of available for sale securities

Rating	Market value Rupees in '000	Rating
	-	
		10
3 - Star	68,756	4 - Star
4 AA	32,353	AA-
AA-	32,097	AA-
) A÷ (f)	24,669	AA+
5	157,875	
(H - H - H - H - H - H - H - H - H - H -	0 A+ (f) 24,669

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.

			Note	Rupees in	n '000
).	ADVANCES	*			
	Loans, cash credits, running fina	ances, etc.			
	In Pakistan (Azad Jammu and K	(ashmir)			
	Running and demand finance	~	9.2	792,386	860,515
	Agriculture finance loans			232,038	327,643
	Micro finance loans			40,253	69,220
	Consumer finance loans			1,416,972	1,499,199
	Staff loans			92,911	82,576
	Advances - gross		-	2,574,560	2,839,153
	Provision for non-performing loa	ans and advances - note 9.4			
	Specific provision		Г	(122,169)	(172,313)
	General provision			(44,538)	(57,410)
			_	(166,707)	(229,723)
	Advances - net of provision		_	2,407,853	2,609,430
9.1	Particulars of advances (Gros	es)			
	In local currency In foreign currency			2,574,560	2,839,153
	in toloigh dancing		-	2,574,560	2,839,153
				2000000	
9.1.1	Short term (for upto one year)			751,129	771,270
	Long term (for over one year)		-	1,823,431	2,067,883
			-	2,574,560	2,839,153
9.1.2	In Pakistan (Azad Jammu and A	Kashmir)		2,574,560	2,839,153
	Outside Pakistan		·	2,574,560	2,839,153
	Outside Pakistan			2,574,560	2,839

^{9.2} Running and demand finance includes advances to a related party amounting to Rs. 305,624 thousand (2016: Rs 250,500 thousand).

Advances include Rs. 295,228 thousand (2016: Rs 397,445 thousand) which have been placed under non-performing status are detailed below: 9.3

				Dece	December 31, 2017				
	Cla	Classified Advances	es	Pro	Provision required			Provision held	
Category of classification	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
				(Ru	(Rupees in '000')				
Other Assets Especially									
Mentioned - note 9.3.1	34,396		34,396		v		٠		·
Substandard	57,714		57,714	9,450		9,450	9,450		9,450
Doubtful	58,925	٠	58,925	12,801		12,801	12,801		12,801
Loss	144,193		144,193	99,918		99,918	99,918		99,918
	295,228		295,228	122,169		122,169	122,169		122,169
				Dece	December 31, 2016				
	Classif	ssified Advances	es	Pro	Provision required			Provision held	
Category of classification	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Other Assets Especially				(Ru	(Rupees in '000')				
Mentioned - note 9.3.1	85,290		85,290	e	r		e	*	
Substandard	111,155		111,155	22,504	•	22,504	22,504	e	22,504
Doubtful	46,195		46,195	22,506		22,506	22,506		22,506
Loss	154,805		154,805	127,303		127,303	127,303		127,303
	397,445		397,445	172,313		172,313	172,313		172,313
	The second secon			THE RESERVE THE PERSON NAMED IN	The state of the last of the l		Control of the last of the las	The second name of the second	The second second second

9.3.1 This represents classification for agricultural finances.

9.4 Particulars of provision against non-performing advances

	Dece	December 31, 2017		Dec	December 31, 2016	9
	Specific	General	Total	Specific	General	Total
	(Ru	Rupees in '000')		R)	Rupees in '000')	
Opening balance	172,313	57,410	229,723	94,059	56,804	150,863
Charge for the year	42,756		42,756	79,105	909	79,711
Reversals	(92,900)	(12,872)	(105,772)		,	
Amounts charged off - agri loans note 9.6				(851)		(851)
Closing balance	122,169	44,538	166,707	172,313	57,410	229,723
In local currency	122,169	44,538	166,707	172,313	57,410	229,723
In foreign currency						,
	122,169	44,538	166,707	172,313	57,410	229,723

The net FSV benefit availed has been increased by Rs 37.49 million, which has resulted in decreased charge for specific provision for the year by the same amount. Had the FSV benefit not increased, before and after tax profit for the year would have been lower by Rs 37.49 million (2016: higher by Rs 44.202 million) and Rs 22.5061 million (2016: (higher by Rs 16.251 million) respectively. Further, at December 31, 2017, cumulative tax benefit availed for Forced Saled Value (FSV) was Rs 14.9839 million (2016: Rs 20.201 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. 9.4.1

- 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.

		2017 Rupees in	2016
9.7	Particulars of write-offs:	Rupees III	000
	Against provisions		
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	15,964	17,366
	Loans granted during the year	284	2,337
	Repayments made during the year	(823)	(3,739)
	Balance at the end of the year	15,425	15,964
	Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
	Balance at the beginning of the year	250,500	304,744
	Loans granted during the year	101,000	-
	Repayments made during the year	(45,876)	(54,244)
	Balance at the end of the year	305,624	250,500
10.	OPERATING FIXED ASSETS		
	Capital work-in-progress - note 10.1	7,086	954
*	Property and equipment - note 10.2	109,974	114,684
	Intangible asset - note 10.5	•	
		117,060	115,638
	-		

10.1 Capital work-in-progress

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

	9	8	COST			DEPRE	DEPRECIATION			, , , , , , , , , , , , , , , , , , , ,
	as at January 1, 2017	additions	deletions / write offs	as at December 31, 2017	as at January 1, 2017	charge for the year	on deletions / write offs	as at December 31, 2017	Book Value as at December 31, 2017	Annual rate or depreciation %
					Rupees in '000					
Land - freehold	40,000			40,000					40,000	0
Building on freehold land	14,407			14,407	5,361	1,441	•	6,802	7,605	10
Leasehold improvements	26,292	1,090	•	27,382	16,891	3,628	•	20,519	6,863	20
Office equipment	18,491	1,823	1	20,314	10,674	3,068	•	13,742	6,572	20
Computers	29,005	2,182	•	31,187	17,855	3,947	•	21,802	9,385	20
Vehicles	24,881	5,249	•	30,130	16,436	4,076		20,512	9,618	20
Furniture and fittings	54,944	6,978	(133)		26,119	5,859	(120)	31,858	29,931	10-20
	208,020	17,322	(133)	225,209	93,336	22,019	(120)	115,235	109,974	
					20	2016				
		5	COST			DEPRE	DEPRECIATION		Dook Waters to	Annual rate of
	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	at December 31, 2016	depreciation
					Rupees in '000			-		
Land - freehold	40,000			40,000	,	,		,	40,000	0
Building on freehold land	14,407			14,407	3,920	1,441	2	5,361	9,046	10
Leasehold improvements	22,021	4,271		26,292	13,014	3,877	•	16,891	9,401	20
Office equipment	16,608	1,883	•	18,491	7,976	2,698		10,674	7,817	20
Computers	27,457	1,548		29,005	13,994	3,861		17,855	11,150	20
Vehicles	28,632	2,319	(6,070)	24,881	17,048	5,250	(5,862)	16,436	8,445	20
Furniture and fittings	20,900	4,044		54,944	20,270	5,849		26,119	28,825	10-20
	200,025	14,065	(6,070)	208,020	76,222	22,976	(5,862)	93,336	114,684	

Property and equipment includes cost of Rs. 5,485 thousand (2016: Rs. 5,485 thousand) and accumulated depreciation amounting to Rs. 5,485 thousand (2016: Rs. 5,485 thousand) in respect of assets donated by the Government of Azad Jammu and Kashmir. 10.2.1

The total cost of fixed assets of Rs. 225,209 thousand includes fixed assets of Rs.46,463 thousand having zero book value on which no depreciation was charged during the year. 10.3

10.4 Detail of disposals of operating fixed assets

Particulars of assets	Original cost	Accumulated depreciation Rupees in '	Book value	Sale proceeds	Mode of disposal	Particulars of buyer
Furniture and fittings 2017	133	120	13	24	Auction	
2017	133	120	13	24		
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		

10.5	Intangible asset		
	The Bank is in the process of implementation of Core Banking Information System (Hon certain branches of the Bank. This software is financed by Kashmir Council (Government)	lelios) which is cur nment of AJK).	rently installed
		2017	2016
1.	DEFERRED TAX ASSETS	Rupees in	1 '000
	Deferred tax arising due to:		
	Tax depreciation	4,947	2,966
	Provision against non-performing advances classified in sub-standard category	_	7,876
	Provision for customer claims	-	8,865
	Other provisions	12,838	3,435
	NO N	17,785	23,142
	Surplus on revaluation of available for sale securities	5,060	(9,756
	-	22,845	13,386
1.1	Movement of deferred tax asset/(liability)		
	Opening deferred tax (asset)	13,386	1,881
	Deferred credits recognised in profit and loss arising due to:		
	Accelerated tax depreciation	1,981	1,547
	Provision against non-performing advances classified in sub-standard category	(7,876)	4,370
	Provision for customer claims	(8,865)	8,865
	Other provisions	9,403	1,750
	Deferred debits recognized in an its advice due to	(5,357)	16,532
	Deferred debits recognised in equity arising due to: Surplus on revaluation of available for sale securities	14 046	/E 007
		14,816	(5,027)
	Closing deferred tax asset	22,845	13,386

1	2.	0	Т	Н	Ε	R	Α	S	S	Ε	T	S

Income / mark-up accrued in local currency - note 12.1 and 12.2	419,527	353,042
Advances, deposits, advance rent and other prepayments	19,324	15,615
Advance taxation - net of provision	-	3,656
Branch adjustment account	-	28,510
Stationery and stamps in hand	4,985	2,691
Others	9,910	51,553
	453,746	455,067
Provision against other assets - note 12.3	(4,815)	(4,815)
Other assets - net of provision	448,931	450,252

- 12.1 This includes an amount of Rs. 2,295 thousand (2016: Rs. 1,872 thousand) on account of interest receivable from related party.
- 12.2 This balance has been arrived at after adjusting interest in suspense of Rs. 53,468 thousand (2016: Rs. 46,366

		2017 Rupees i	2016 n '000
12.3	Provision against other assets		
	Opening balance Charge for the year	4,815	4,815
	Closing balance	4,815	4,815
13.	BILLS PAYABLE		
	In Pakistan (Azad Jammu and Kashmir)	31,808	8,716
14.	DEPOSITS AND OTHER ACCOUNTS		
	Customers		
	Fixed deposit	2,841,960	2,633,125
	Savings deposit	4,303,343	3,521,083
	Current accounts - non remunerative	2,382,571	1,690,694
	Others	19,341	723
		9,547,215	7,845,625
14.1	Particulars of deposits		
	In local currency	9,547,215	7,845,625
	In foreign currency	<u> </u>	-
		9,547,215	7,845,625

14.2 It includes deposits from related parties amounting to Rs. 4,650,389 thousand (2016: Rs. 3,665,349 thousand).

During the year the bank has issued right shares 6,294,200 amounting to Rs. 62,942 thosand to its shareholders, however on dealination by AKLAS all the shares have been issued to Bank's major shareholder that is Government of Azad Jammu and Kashmir as fully paid in cash against settlement of its dividend payable.

6,294,261

84.891.937

78,597,676

Shares issued during the year - note 16.5

Shares at the year end

16.6 Subsequent to year end AKLASC sold its remaining 6% shares of Rs. 55 million to M/S Behbood Fund and Group Insurance - Government autonomous body.

2017 2016

Rupees in '000

17. (DEFICIT) / SURPLUS ON REVALUATION OF ASSE	TS - NET OF TAX
--	-----------------

	(Deficit) / surplus on revaluation of available for sale securities		
	Units of mutual funds - listed	(14,456)	27,875
	Related deferred tax asset / (liability)	5,060	(9,756)
		(9,396)	18,119
18.	CONTINGENCIES AND COMMITMENTS		
18.1	Direct credit substitutes - Guarantees in favour of others	48,643	2,330
18.2	Commitments to extend credit	228,131	283,995
18.3	Bills for collection	27,792	69,963

18.3.1 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.

2	017	2016
	Rupees in	'000

21. MARK-UP / RETURN / INTEREST EARNED

On loans and advances to customers - note 21.1	366,793	406,502
On investment in held to maturity securities	40,694	89,772
On deposits with financial institutions	435,383	312,524
	842,870	808,798

21.1 This includes an amount of Rs. 22,838 thousand (2016: Rs. 27,755 thousand) on account of interest earned on advance given to a related party.

2017 2016 Rupees in '000

22. MARK-UP / RETURN / INTEREST EXPENSED

On deposits	327,143	333,382
On deposits	021,140	000,002

This includes an amount of Rs. 155,472 thousand (2016: Rs. 212,290 thousand) on account of interest expense on deposits received from related parties.

23. GAIN ON SALE OF SECURITIES - NET

It represents gain on disposal of units of listed mutual funds during the year.

(5,702)

(5,702)

(110,089)

(5,542)

(5,542)

(38,902)

24.

25.

Communications

Entertainment

Security charges

Depreciation

Annual audit

TAXATION

For the year current

deferred

current deferred

For prior year(s)

Training

Others

25.1

26.

26.1	Relationship between	tax expense and	accounting profit
------	----------------------	-----------------	-------------------

Profit before taxation	267,173	89,608
Tax at applicable tax rate of 35 percent (2016: 35 percent)	93,511	31,363
Effect of:		
charge for prior year	5,702	5,542
expenses not allowed	10,876	1,997
others		
Tax charge for the year	110,089	38,902

26.2 The Bank is liable to pay super tax @ 4 percent of the taxable income B101 imposed for the Tax year 2016 and extended for the tax year 2017 also.

extended for the tax year 2017 also.			
	_	2017	2016

BASIC/ DILUTED EARNINGS PER SHARE

Profit for the year - Rupees '000	157,084	50,706
Weighted average number of ordinary shares - numbers	84,598,780	78,597,676
Basic earnings per share - Rupees	1.86	0.65

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

2017	201		
Punase	in	'000	

28. CASH AND CASH EQUIVALENTS

	7,504,179	5,142,867
Balances with other banks	5,748,385	3,843,415
Cash and balances with treasury banks	1,755,794	1,299,452

		Numbe	r of employees
29.	STAFF STRENGTH	2017	2016
	Permanent	224	237
	Temporary / on contract basis	163	139
	Daily wages		9
	Bank's own staff strength at the end of the year	387	385
	Outsourced	138	124
	Total staff strength at the end of the year	525	509

30. STAFF RETIREMENT BENEFITS

30.1 Gratuity

27.

The Bank contributed Rs. 7,481 thousand (2016: Rs. 5,616 thousand) during the year towards employees gratuity fund.

30.2 Provident fund

The Bank contributed Rs. 4,472 thousand (2016: Rs. 4,206 thousand) during the year towards employees contributory provident fund.

	Managing Director	tor	Directors	ors	Exec	Executives
	2017	2016	2017	2016	2017	2016
			Rupees in '000	000.		
Fees	E		875	648	•	ti
Managerial remuneration	4,777	4,212	٠		21,525	21,859
Contribution to defined contribution plan			٠		912	973
Contribution to defined gratuity fund	355	351	•		912	973
Rent and house maintenance	1,704	1,846	•		8,643	4,088
Utilities	194	211	•		2,706	1,168
Medical	130	247	•	,	2,706	1,168
Bonus	710	675			3,588	1,947
Leave encashment	2.0	713	•	•		395
Others (fuel vehicle, mobile charges, club membership & travelling)	4,850	1,325	7	11	4,093	3,621
	12,720	9,580	882	629	45,085	36,192
Number of persons	-	-	80		22	21

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 On-balance sheet financial instruments

There are no off-balance sheet financial instruments as at December 31, 2017 (2016: Nil).

	(Curren	t Year)	(Prior	Year)
-	Book value	Fair value	Book value	Fair value
Assets				
Cash balances with treasury banks	1,755,794	1,755,794	1,299,452	1,299,452
Balances with other banks	5,748,385	5,748,385	3,843,415	3,843,415
Lending to financial institutions	-			
Investments	354,247	339,791	576,873	604,748
Advances	2,407,853	2,407,853	2,609,430	2,609,430
Other assets	448,931	448,931	450,252	450,252
	10,715,210	10,700,754	8,779,422	8,807,297
Liabilities				
Bills payable	31,808	31,808	8,716	8,716
Borrowings	-			
Deposits and other accounts	9,547,215	9,547,215	7,845,625	7,845,625
Sub-ordinated loans	-	•		
Liabilities against assets subject to final	-			
Other liabilities	198,402	198,402	132,659	132,659
•	9,777,425	9,777,425	7,987,000	7,987,000

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

		2	017	
	Level 1	Level 2	Level 3	Total
		Rupee	s in '000	
INVESTMENTS - NET				
Financial Assets - on balance sheet				
Available-for-sale securities				
Units of mutual funds	140,544	((= ()	(4)	140,544
		2	016	
	Level 1	Level 2	Level 3	Total
		Rupee	s in '000	
INVESTMENTS - NET				
Financial Assets - on balance sheet				
Available-for-sale securities				
Units of mutual funds	157,875	-	-	157,875

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.

32.5 Off-balance sheet financial instruments

There are no off-balance sheet financial instruments as at December 31, 2017 (2016: Nil).

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
_		į	Rupees in '000 2017		
Total income	239,382	638,564	12,386	4,040	894,372
Total expenses	83,561	536,971	5,028	1,639	627,199
Net income	205,222	52,195	7,356	2,400	267,173
Segment Assets (Gross)	1,528,213	9,309,756	2,028	662	10,840,659
Segment Non Performing Loans	295,228	-		-	295,228
Segment Provision Required	166,707	49,940	4,815	-	221,462
Segment Liabilities	16,376	9,761,021	21	7	9,777,425
Segment Return on net Assets (ROA) (%)	2.42%	6.45%	0.13%	0.04%	•
Segment Cost of funds (%)	0.94%	6.04%	0.06%	0.02%	(c e)
			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	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%	2

Assumptions used:

^{33.1} Administrative expenses, other assets and other liabilities have been allocated to segments based on respective segment income.

34. RELATED PARTY TRANSACTIONS

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

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

	2017	2016
	Rupees in '000	
Balances		
The Government of Azad Jammu and Kashmir and its related departments		
-Advances	305,624	250,500
-Deposits	4,650,389	3,665,349
-Mark-up / return / interest accrued on advances	2,295	1,872
-Mark-up / return / interest payable on deposits	48,115	25,829
Transactions		
The Government of Azad Jammu and Kashmir and its related departments		
- Mark-up/ interest earned	22,838	27,755
- Mark-up/ interest expensed	155,472	212,290
- Ordinary shares issued during the year	62,943	
- Dividend paid during the year	78,598	
Other Related Parties		
Contribution to Staff retirement benefit plans		
- Staff Gratuity Fund	7,481	5,616
- Staff Provident Fund	4,472	4,206

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.

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, 2017. 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 2017 the Bank must meet a Tier 1 to RWA ratio and CAR including CCB of 7.5% and 10.25% respectively.

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

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

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

	Capital Adequacy Ratio	2017 Rupees in '	2016 000
	Common Equity Tier 1 capital (CET1): Instruments and reserves		
	Fully Paid-up Capital/ Capital deposited with SBP	848,919	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	-	145 225
	Unappropriated/unremitted profits	223,711	145,225
	Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank		
	subsidiaries (amount allowed in CET1 capital of the consolidation group)		024 202
	CET 1 before Regulatory Adjustments	1,072,630	931,202
	Total regulatory adjustments applied to CET1 (Note 35.2.2)	(9,396)	931,202
	Common Equity Tier 1	1,063,234	931,202
	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	- 11	
	allowed in group AT 1)	: 1 1	2
	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	<u> </u>	
	Tier 1 Capital (CET1 + admissible AT1)	1,063,234	931,202
	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	44 520	57,410
	Weighted Assets	44,538	57,410
	Revaluation Reserves (net of taxes)		
	of which: Revaluation reserves on fixed assets	(9,396)	18,119
	of which: Unrealized gains/losses on AFS	(9,396)	18,119
	Foreign Exchange Translation Reserves		-
	Undisclosed/Other Reserves (if any)	<u> </u>	-
	T2 before regulatory adjustments	35,142	75,529
	Total regulatory adjustment applied to T2 capital (Note 35.2.4)		
	Tier 2 capital (T2) after regulatory adjustments	35,142	75,529
	Tier 2 capital recognized for capital adequacy	35,142	75,529
	Portion of Additional Tier 1 capital recognized in Tier 2 capital		
	Total Tier 2 capital admissible for capital adequacy	35,142	75,529
	TOTAL CAPITAL (T1 + admissible T2)	1,098,376	1,006,731
	Total Risk Weighted Assets (RWA) - note 35.4	5,034,353	4,755,088
1	Capital Ratios and buffers (in percentage of risk weighted assets)	21.12%	19.58%
	CET1 to total RWA	21.12%	19.58%
	Tier-1 capital to total RWA	21.12%	21.17%
	Total capital to total RWA	21.0270	21.1770
	Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any	6.0%	6.0%
	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)	15.12%	13.58%
	National minimum capital requirements prescribed by SBP CET1 minimum ratio	6.00%	6.00%
		7.50%	7.50%
	Tier 1 minimum ratio	10.00%	10.00%
	Total capital minimum ratio Total capital minimum ratio plus CCB	11.28%	10.65%
	Total Capital Hillimitan 1000 piou 200		
	Liverage Ratio		004 000
	Total Tier 1 Capital	1,063,234	931,202
	Total exposure	2,796,287	3,216,508 29%
	Ratio	38%	2976

35.2.1

Rupees in '000

	YOR DE DESKEN DE SOUDENE WERE SOUNT SE SE			
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	100		
	(net of related tax liability)	s 6		
	Defined-benefit pension fund net assets	2		
	Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	- 1 I		Ī
	Cash flow hedge reserve		l	
	Investment in own shares/ CET1 instruments	- 1		-
		-		-
	Securitization gain on sale	*	1	-
	Capital shortfall of regulated subsidiaries		1	-
	Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	(9,396)		7
	Investments in the capital instruments of banking, financial and insurance entities that are outside the	13		
	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		1	
	outside the scope of regulatory consolidation (amount above 10% threshold)	- 1		-
	Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related	1.0		
	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	- 1		-
	Any other deduction specified by SBP (mention details)	~ [1]		-
	Adjustment to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-		
	Total regulatory adjustments applied to CET1	(9,396)		-
35.2.3	Additional Tier-1 & Tier-1 Capital: regulatory adjustments]		-
	Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]	_ [1]		_
	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	88		
	which, during transitional period, remain subject to deduction from additional tier-1 capital	2		10
	Adjustments to Additional Tier 1 due to insufficient Tier 2 to cover deductions	5 10		Ī
	Total regulatory adjustment applied to AT1 capital			÷
	Total regulatory adjustment applied to ATT 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	- 1		-
	Investment in own Tier 2 capital instrument	- 1		-
				•
	Investments in the capital instruments of banking, financial and insurance entities that are outside the			
	scope of regulatory consolidation, where the bank done not own more than 100/ of the instead above			
	scope of regulatory consolidation, where the bank does not own more than 10% of the issued share	. [7]		
	capital (amount above 10% threshold)	-		-
		-		

		2017	2016
35.2.5	Additional Information	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)	1170	-
	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		
	VI	**	5.
	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)		. 755 000
	Cap on inclusion of provisions in Tier 2 under standardized approach	5,034,353	4,755,088
	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	₹0	-

of which: Defined-benefit pension fund net assets

Total assets

	financial statements	consolidation
*	As at Decem	ber 31, 2017
Your Control of the C	Rupees	in '000
Assets		
Cash and balances with treasury banks	1,755,794	1,755,794
Balances with other banks	5,748,385	5,748,385
Lending to financial institutions Investments	-	•
Advances	339,791	339,791
Operating fixed assets	2,407,853	2,407,853
Deferred tax assets	117,060	117,060
Other assets	22,845	22,845
Total assets	448,931 10,840,659	448,931
Liabilities & Equity	10,040,055	10,840,659
Bills payable	31,808	31,808
Borrowings	31,000	31,000
Deposits and other accounts	9,547,215	9,547,215
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	- 1	-
Deferred tax liabilities	- 1	- 1
Deferred Government grant	- 1	-
Other liabilities	198,402	198,402
Total liabilities	9,777,425	9,777,425
Share capital	848,919	848,919
Unappropriated profit	223,711	223,711
Surplus on revaluation of assets - net	(9,396)	(9,396)
Total liabilities & equity	10,840,659	10,840,659
Assets		
Cash and balances with treasury banks	1,755,794	1,755,794
Balanced with other banks	5,748,385	5,748,385
Lending to financial institutions	- 1	
Investments	339,791	339,791
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	2	
of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)		*
	-	
of which: others (mention details)	-	-
Advances	2,407,853	2,407,853
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB		
	- 11	-
general provisions reflected in Tier 2 capital	44,538	44,538
Fixed Assets	117,060	117,060
Deferred Tax Assets	22,845	22,845
of which: DTAs that rely on future profitability excluding those arising from		
temporary differences	-	- 1
of which: DTAs arising from temporary differences exceeding regulatory threshold		
Other assets	- 110 001	- 440.004
of which: Goodwill	448,931	448,931
of which: Intangibles	-	• .
of which: Defined-henefit pension fund net accets	-	* 1

Balance sheet of

the published

10,840,659

10,840,659

Under regulatory

scope of

Balance sheet of the published financial statements

Under regulatory scope of consolidation

As at December 31, 2017 Rupees in '000

31,808	31,808
	-
9,547,215	9,547,215
-	-
-	
-	
-	-
- 1	
-	
-	24
-	-
-	-
198,402	198,402
9,777,425	9,777,425
848,919	848,919
848,919	848,919
-	-
-	
-	
223,711	223,711
- 1	-
-	
-	
-	
(9,396)	(9,396)
- 1	-
1,063,234	1,063,234
10,840,659	10,840,659

Balance sheet as in published financial statements

As at December 31, 2017 Rupees in '000

1,072,630
223,711
-
-
-
848,919

Liabilities & Equity

Bills payable

Borrowings

Deposits and other accounts

Sub-ordinated loans

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

Liabilities against assets subject to finance lease

Deferred tax liabilities

of which: DTLs related to goodwill

of which: DTLs related to intangible assets

of which: DTLs related to defined pension fund net assets

of which: other deferred tax liabilities

Deferred Government grant

Other liabilities

Total liabilities

Share capital

of which: amount eligible for CET1 of which: amount eligible for AT1

Reserves

of which: portion eligible for inclusion in CET1(provide breakup)

of which: portion eligible for inclusion in Tier 2

Unappropriated profit

Minority Interest

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

Surplus on revaluation of assets

of which: Revaluation reserves on Fixed Assets of which: Unrealized Gains/Losses on AFS

In case of Deficit on revaluation (deduction from CET1)

Total equity

Total liabilities & equity

Basel III Disclosure

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

Fully Paid-up Capital

Balance in Share Premium Account

Reserve for issue of Bonus Shares

General/ Statutory Reserves

Gain/(Losses) on derivatives held as Cash Flow Hedge

Unappropriated/unremitted profits/ (losses)

Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)

CET 1 before Regulatory Adjustments

Balance sheet as in published financial statements

As at December 31, 2017 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	2
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	1,072,630
Additional Tier 1 (AT 1) Capital	
Qualifying Additional Tier-1 instruments plus any related share premium	-
of which: Classified as equity	
of which: Classified as liabilities	
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount	
allowed in group AT 1)	
of which: instrument issued by subsidiaries subject to phase out	
AT1 before regulatory adjustments	

Balance sheet as in published financial statements

35,142

1,107,772

As at December 31, 2017

Rupees in '000 Additional Tier 1 Capital: regulatory adjustments Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment) Investment in own AT1 capital instruments Reciprocal cross holdings in Additional Tier 1 capital instruments Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions Total of Regulatory Adjustment applied to AT1 capital Additional Tier 1 capital Additional Tier 1 capital recognized for capital adequacy Tier 1 Capital (CET1 + admissible AT1) 1,072,630 Tier 2 Capital Qualifying Tier 2 capital instruments under Basel III plus any related share premium Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments) Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2) of which: instruments issued by subsidiaries subject to phase out General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted 44.538 Revaluation Reserves of which: Revaluation reserves on fixed assets of which: Unrealized Gains/Losses on AFS (9,396)Foreign Exchange Translation Reserves Undisclosed/Other Reserves (if any) T2 before regulatory adjustments 35,142 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) 35,142 Tier 2 capital recognized for capital adequacy 35,142 Excess Additional Tier 1 capital recognized in Tier 2 capital Total Tier 2 capital admissible for capital adequacy

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.

			ted assets
2017	2016	2017	2016
	Rupees	in '000	
171 612	119 604	4 746 400	4 400 044
	49 KUNANANA		1,186,941
0.00	93		362,717
			1,381,025
			122,742
			115,638
382,866	361,882	3,828,650	449,752 3,618,815
		 -	
382,866	361,882	3,828,650	3,618,815
28,109	31,575	281,088	315,750
92,462	82,052		820,523
503,437			4,755,088
		-,,	4,100,000
		2016	3
Required	Actual	Required	Actual
6.00%	21.31%	6.00%	19.58%
7.50%			19.58%
		7.0070	13.30 %
10.00%	22.00%	10.00%	21.17%
	171,612 26,919 114,260 9,924 11,706 48,445 382,866 28,109 92,462 503,437	171,612 118,694 26,919 36,272 114,260 138,103 9,924 12,274 11,706 11,564 48,445 44,975 382,866 361,882 28,109 31,575 92,462 82,052 503,437 475,509 2017 Required Actual 6.00% 21.31%	Rupees in '000 171,612

35.5 Main Features Template of Regulatory Capital Instruments

1	Issuer	Dank of Anad January 116
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for	Bank of Azad Jammu and Kashmir
	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	
5	Transitional Basel III rules	Common equity Tier 1
6	Post-transitional Basel III rules	Common equity Tier 1
7	Eligible at solo / group / group & solo Instrument type	Standalone
	Amount recognised in regulatory capital (Currency in PKR	Common Shares
8	thousands, as of reporting date)	848,919
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	(III / A / A / A / A / A / A / A / A / A	
	Coupons / dividends	Not applicable
17	Fixed or floating dividend/coupon	Makasakaski
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Not applicable 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
NESET	Convertible or non-convertible	Not applicable
23	If convertible, conversion trigger (s)	Not applicable
24	If convertible, fully or partially	Not applicable
25	If convertible, conversion rate	Not applicable
26 27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
20	If convertible, specify issuer of instrument it converts into Write-down feature	Not applicable
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 Not applicable
33	1 7/1 (57.4)	
55	If temporary write-down, description of write-up mechanism	Not applicable
	Position in subordination hierarchy in liquidation (specify	
34	instrument type immediately senior to instrument)	Not applicable
35	Non-compliant transitioned features	No
36	If yes, specify non-compliant features	Not applicable
		The same of the sa

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

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.

SEGMENT INFORMATION 36.1.1

36.1.1.1

Segments by class of business			2	2017			
	Advances (Gross)		100000	Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in	Percent	Rupees in '000	Percent	
Agriculture, Forestry, Hunting and Fishing	232,038	9.01					
Construction	17,826	0.69		-			
Power (electricity), Gas, Water, Sanitary	•	•	33,260	0.35			
Wholesale and Retail Trade	509,189	19.78	76,320	0.80			
Services			675,510	7.08			
Individuals	1,416,972	55.04	4,111,736	43.07	48,643	17.6	
Government	305,624	11.87	4,650,389	48.71		-	
Others	92,911	3.61			228,131	82	
	2,574,560	100	9,547,215	100	276,774	100	
	2016						
	Advances	(Gross)	Depo	osits	Contingen Commit		
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent	
Agriculture, Forestry, Hunting and Fishing	327,643	11.54	7.5			-	
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	0.81	
Government	250,500	8.82	3,665,349	46.72	_		
Others	82,576	2.91	A	-	283,995	99.19	
,	2,839,153	100	7,845,625	100	286,325	100	
Segments by sector				1047			
	Advances	(Gross)	Depo	osits	Contingen		

36.1.1.2

Others	62,376	2.91			263,995	99.19
,	2,839,153	100	7,845,625	100	286,325	100
Segments by sector			-	2017		
	Advances	(Gross)		osits	Contingen Commit	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	305,624	11.87	4,650,389	48.71	-	
Private	2,268,936	88.13	4,896,826	51.29	276,774	100
	2,574,560	100	9,547,215	100	276,774	100
			- 2	2016		
	Advances	(Gross)	Dep	osits	Contingen Commit	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public sector/ Government	250,500	8.82	3,665,349	46.72	1.0	
Private	2,588,653	91.18	4,180,276	53.28	286,325	100
	2,839,153	100	7,845,625	100	286,325	100

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

			2017		2016	
				Rupees i	n '000	
	•		Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	Agriculture, Forestry, Hunting and Fishing		88,065	22,539	121,415	10,088
	Construction		-	•		
	Power (electricity), Gas, Water, Sanitary			-	-	-
	Wholesale and Retail Trade	-	110,546	48,783	144,354	68,940
	Services			•	-	-
	Individuals		96,617	50,847	131,676	93,285
	Government				0.5	-
	Others				-	-
			295,228	122,169	397,445	172,313
36.1.1.4	DETAILS OF NON-PERFORMING ADVANCES AND SPECIFIC PROVISIONS BY SECTOR					
	Public / Government		21			
	Private		295,228	122,169	207.445	470.040
	50551800 TX		295,228	122,169	397,445	172,313 172,313
6.1.1.5	GEOGRAPHICAL SEGMENT ANALYSIS				007,440	172,010
0.1.1.5	GEOGRAPHICAL SEGMENT ANALYSIS			2017		
		Profit before taxation	Total assets employed	Net assets employed	Contingenc Commitm	
				Rupees in '000		
	Pakistan (Azad Jammu and Kashmir) Others	267,173	10,840,659	1,063,234		276,774
		267,173	10,840,659	1,063,234		276,774
				2016		
		Profit before taxation	Total assets employed	Net assets employed	Contingenc Commitm	
				Rupees in '000	- 77	
	Pakistan (Azad Jammu and Kashmir)	89,608	8,936,321	949,321		286,325
	Others	-				-
		89,608	8,936,321	949,321		286,325

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+	Á+	A1	A+	2
2	Α	Α	A	A2	Α	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	В	В	В	B2	В	5,6
5	B-	B-	B-	В3	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 Pakistan investment bonds and mutual funds, as stated in note 8.4 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,

						2017						
	Effective			20-00 P. 101 P. 101	Expose	d to yield/ interest	t risk					
	Yield / Interest		Upto 1	Over 1 to 3	Over 3 to 6	Over 6 Months to 1	Over 1 to 2	Over 2 to 3	Over 3 to 5	Over 5 to 10	Above	Non-interest
	rate	Total	Month	Months	Months	Year	Years	Years	Years	Years	10 Years	bearing financia
On-balance sheet financial instruments	10.0	Total	WOLLD	IVIDITIO	WOULD	Rupees in		rears	Tears	rears	10 Years	instruments
Assets												
Cash and balances with treasury banks	5.62%	1,755,794	89,303	239,304	1,089,304	239,304	20					98,579
Balances with other banks	7.14%	5,748,385	343,724	2,171,857	1,144,343	1,312,343	75,000		350,000	300,000		51,118
Lending to financial institution		-	-	-		-						
Investments	15.50%	339,791			-	199,247		- 1		1.2		140,544
Advances	14.08%	2,407,853	40,778	457,118	146,661	428,338	489,324	489,324	296,612	25,153	32,545	
Other assets		448,931	-		-			- 1			02,010	448,931
		10,700,754	473,805	2,868,279	2,380,308	2,179,232	564,324	489,324	648,612	325,153	32,545	739,172
Liabilities												
Bills payable		31,808		-	12.	- 1	-	-	-	-	-	31,808
Borrowings					-			- 1				2000
Deposits and other accounts	3.77%	9,547,215	1,225,238	2,298,240	1,324,240	1,976,439	80,400	162,470	97,617	2 1		2,382,571
Liabilities against assets subject to				- 1				- 1				
finance lease			-	- 1	2	2	-	.	.			
Other liabilities		198,402										198,402
		9,777,425	1,225,238	2,298,240	1,324,240	1,976,439	80,400	162,470	97,617	-	-	2,612,781
On-balance sheet gap		923,329	(751,433)	570,039	1,056,068	202,793	483,924	326,854	550,995	325,153	32,545	(1,873,609)

ate Total Month Months Vear Years Years Years Years Total Month Months Year Years Years Years Years TOYears TOYEARS TO Years TOYEARS TO Years TO Years Years Years TO YEAR YEARS TO YEAR TO YEAR YEARS TO YEAR YEAR YEAR YEAR YEAR YEAR YEAR YEAR	Dpto 1	3	Taled !					ASI ISSUE IN MARK INCOME.	LISK					
228,131 228,131 228,131 228,131 228,131 228,131 228,131 228,131 202,793 483,924 328,854 550,895 325,153 32,545 (979,564) (409,525) 646,543 849,336 1,560,114 2,211,109 2,536,262 2,568,807	1,131 1,056,068 202,783 483,924 326,854 550,995 325,153 32,545 5641 646,543 849,336 1,333,260 1,660,114 2,211,109 2,558,262 2,568,807 contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.	uments	terest 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
228,131 228,131 (979,564) 570,039 1,058,068 202,793 483,924 326,854 550,995 325,153 32,545 (979,564) (409,525) 646,543 849,336 1,333,260 1,660,114 2,211,109 2,536,262 2,568,807	1,564) 570,039 1,058,068 202,783 483,924 326,854 550,995 325,153 32,545 1,564) (409,525) 646,543 849,336 1,333,260 1,660,114 2,211,109 2,536,262 2,568,807 contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.	te and repurchase agreements mmlments to extend credit balance sheet can		. 228,131						14 Y		٠.		
(979,564) 570,039 1,056,068 202,793 483,924 326,854 550,995 325,153 32,545 (979,564) (409,525) 646,543 849,336 1,333,260 1,660,114 2,211,109 2,536,262 2,568,807	1564) 570,039 1,058,068 202,783 483,924 326,854 550,995 325,153 32,545 1,564) (409,525) 646,543 849,336 1,333,260 1,660,114 2,211,109 2,536,262 2,568,807 contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.	Lo	1	228,131					-					
(979,564) (409,525) 646,543 849,336 1,333,260 1,660,114 2,211,109 2,535,262 2,568,807	1,0564) 570,039 1,056,068 202,793 483,924 326,854 550,995 325,153 32,545 (409,525) 646,543 849,336 1,333,260 1,660,114 2,211,109 2,536,262 2,568,807 contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.	al yield / interest risk sensitivity gap			1030501					-	-			
(409,525) 646,543 849,336 1,333,280 1,660,114 2,211,109 2,536,262 2,568,807	contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.	mulative yield / interest risk sensitivity gap			(979,504)	5/0,039	1,058,068	202,793	483,924	326,854	550,995	325,153	32 545	/1 873 6001
	contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.	match of interest rate sensitive assets and liabilities		5 01	(100,004)	(403,973)	646,543	849,336	1,333,260	1,660,114	2,211,109	2,536,262	2,568,807	695,198

	Enective				Expos	Exposed to yield/ interest risk	st risk					
On-balance sheet financial instruments Assets	Yield / Interest rate	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year Rupees in '000	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	to 10 Years	Above 10 Years	Non-interest bearing financial instruments
Cash and balances with treasury banks Balances with other banks Irvestments Advances Other assets	5.72% 8.25% 9.80% 13.96%	1,299,452 3,843,415 604,748 2,609,430 450,252	825,160 99,107	1,000,000	150,000 578,000 319,525	575,000 249,013 568,079	197,860	521,389	350,000	300,000	9,022	149,452 50,061 157,875
Liabilities		187'100'0	924,267	2,389,208	1,047,525	1,392,092	760,973	521,389	630,413	324,768	9,022	807 840
bills payable Borrowings Deposits and other accounts Liabilities against assets subject to finance lease Other labilities	4.56%	8,716	4,096,641	1,224,000	145,000	485,100	65,444	91,370	46,653			8,716
On-balance sheet gap Off-balance sheet financial instruments		820,297	(3,172,374)	1,224,000	145,000	485,100	695,529	91,370	46,653	324,768	9.022	1,832,792
Purchase and rosale agreements Sale and repurchase agreements Commitments to extend credit Off-balance sheet gap		283,995	283,995									
Cumulative yield / interest risk sensitivity gap (3,456,369) 1,165,208 (3,456,369) (2,291,161) (1) (1) (1) (1) (2,456,369) (2,291,161) (1) (1) (1) (1) (1) (1) (1) (1) (1) (ndal instrument will	I controlled	(3,456,369)	(2,291,161)	902,525	906,992 (481,644)	695,529	430,019	1,227,664	324,768	9,022	(1,025,152)

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

2016 In '000	8,807,297	115,638	129,024
2017 20 Rupees in '000	10,700,754	117,060	139,905
Reconciliation of total assets	Total financial assets Add: Non financial assets	Operating fixed assets Deferred tax asset	Balance as per balance sheet

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

	1				20	2017				
			Over 1	Over 3	Over 6	Over 1	Over 2	Over 3	Over 5	
		Upto 1	to 3	to 6	Months to 1	to 2	to 3	to 5	to 10	Above
	Total	Month	Months	Months	Year	Years	Years	Years	Years	10 Years
					Rupees in '000					
Assets									No. of the last of	
Cash and balances with treasury banks	1,755,794	187,882	239,304	1,089,304	239,304	,				
Balances with other banks	5,748,385	394,842	2,171,857	1,144,343	1,312,343	75,000	•	350,000	300,000	•
Lending to financial institution	•				•		•		•	•
Investments	339,791				339,791	,	,			
Advances	2,407,853	40,778	457,118	146,661	428,338	489,324	489,324	298,612	25,153	32,545
Operating fixed assets	117,060		,	ì	29,104	22,019	11,105	13,976	40,856	
Deferred tax assets	22,845				22,845	•		٠		
Other assets	448,931	67,532	71,850	36,947	23,669	7,409	5,142	2,361	234,021	
	10,840,659	691,034	2,940,129	2,417,255	2,395,394	593,752	505,571	664,949	600,030	32,545
Liabilities										
Bills payable	31,808	31,808						,	,	
Borrowings	×		,	,				-		×
Deposits and other accounts	9,547,215	1,820,881	2,893,883	1,919,883	2,572,081	80,400	162,470	97,617		×
Sub-ordinated loans						,	,			6
Liabilities against assets subject to	1		,					2.5		
finance lease									•	•
Deferred tax liabilities		ï			•	3	2	31	22	
Deferred Government grant			•			,	,	,		
Other liabilities	198,402	104,477	20,041	20,356	42,141	31	387	1	11,000	•
	9,777,425	1,957,166	2,913,924	1,940,239	2,614,222	80,400	162,857	97,617	11,000	
Net assets	1,063,234	(1,266,132)	26,205	477,016	(218,828)	513,352	342,714	567,332	589,030	32,545
Share Capital	848,919									
Reserves	•									
Unappropriated profit	223,711									
Surplus on revaluation of assets	(9,396)									
	1,063,234									

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Assots	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year Rupees in '000	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Cash and balances with treasury banks Balances with other banks Lending to financial institution	1,299,452	149,452	1,000,000	150,000	575,000			350.000	300 000	
Investments	604,748	157,878			249,013	197.857	٠,		,	
Operating fixed assets	2,609,430	99,107	224,014	319,525	568,079	563,113	521,389	280,413	24,768	9,022
Other assets	450,252 8 936 321	144,432	63,796	45,926	12,213	5,856	3,065	3,960	174,157	40,000
Liabilities		000,031	4,455,004	1,093,451	1,440,687	788,685	551,277	635,180	498,925	49,022
Bills payable	8,716	8.716		Ī						
Borrowings										
Deposits and other accounts Sub-ordinated loans	7,845,625	5,788,058	1,224,000	145,000	485,100	65,444	91,370	46.653		9.8
Liabilities against assets subject to		()	51		1					
finance lease					1					•
Deferred tax liabilities		. 0		•			•			
Deferred Government grant					iii	, c	e.	•		
Other liabilities	132,659	91,260	12,289	10,825	18.285			25	au ŝ	,
Not assets	7,987,000	5,888,034	1,236,289	155,825	503,385	65,444	91.370	46 653		
	848,321	(4,461,944)	1,216,715	937,626	937,302	723,241	459,907	588,527	498,925	49,022
Share Capital Reserves	785,977					-		_		
Unappropriated profit Surplus on revaluation of assets	145,225									

36.5 Operational risk

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

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

37. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on -- have announced a bonus issue/cash dividend of percent (2016: bonus Nil and cash dividend at the rate of 10%). The appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2017 do not include the effect of the appropriation which will be accounted for in the financial statements for the year ending December 31, 2018.

38. **GENERAL**

Corresponding figures have been rearranged and reclassified where necessary for more appropriate presentation of transactions and balances. 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.

Figures have been rounded off to the nearest thousand rupees, unless otherwise specified. 28 MAR 2018

39. DATE OF AUTHORIZATION

Chairman

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

Managing Director