

THE BANK OF AZAD JAMMU AND KASHMIR

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

**THE BANK OF AZAD JAMMU AND KASHMIR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 70 branches (2017: 68 branches) in Azad Jammu and Kashmir.

2. BASIS OF PRESENTATION

These financial statements have been presented in accordance with the requirements of format prescribed by the State Bank of Pakistan's BPRD Circular No 02 dated January 25, 2018, 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.

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirement of the Act, its bye laws and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as applicable for banking companies in Pakistan, Provisions of and directives issued under the Banking Companies Ordinance, 1962 and the Act and Directive issued by the State Bank of Pakistan (SBP).

Where the requirements of the Banking Companies Ordinance, 1962, or the directives issued by the SBP differ with the requirements of IFRS, the requirements of the Banking Companies Ordinance and the said directives shall prevail.

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

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

2.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2018

The following standards, amendments and interpretations are effective for the year ended December 31, 2018. These standards, interpretations and 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:

- Amendments to IFRS 2 'Share-based Payment': Clarification of the classification and measurement of share-based payment transactions. Effective from accounting period beginning on or after January 01, 2018.
- 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.

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 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 from accounting period beginning on or after
IFRS 15 'Revenue from Contracts with Customers'	July 01, 2018 as per directives issued by the SECP
IFRS 16 'Leases'	January 01, 2019
Amendments to IFRS 10 '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 date is deferred indefinitely earlier adoption is permitted
Amendments to IAS 28 'Investments in Associates and Joint Ventures' Long-term interests in Associates and Joint Ventures	January 01, 2019
Amendments to IAS 19 'Employee Benefits'. Plan amendment, curtailment or settlement	January 01, 2019
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'.	January 01, 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle amendments to: IFRS 3 Business Combinations; IFRS 11 Joint Arrangements; IAS 12 Income Taxes; and IAS 23 Borrowing Costs.	January 01, 2019
Amendments to References to the Conceptual Framework in IFRS	January 01, 2020
Amendments to IFRS 3 'Business Combinations' Amendment in the definition of business'	January 01, 2020
Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Clarify the definition of 'Material' and align the definition used in the Conceptual Framework and the Standards.	January 01, 2020

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

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 17 – Insurance Contracts

2.2.2 The management anticipates that these new standards, interpretations and amendments will be adopted in the Bank's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the financial statements of the Bank in the period of initial application.

The management anticipates that IFRS 9, IFRS 15 and IFRS 16 will be adopted in the Bank's financial statements in the future periods. The application of IFRS 15, IFRS 9 and IFRS 16 may have significant impact on amounts reported and disclosures made in the Bank's financial statements in respect of non mark-up / interest income, the Bank's financial assets and financial liabilities and its leases respectively.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Bank performs a detailed review.

2.3 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 4.2)
- ii) Provision against investments (note 4.2), advances (note 4.3), operating fixed assets (note 4.4)
- iii) Valuation and impairment of available for sale securities (note 4.5)
- iv) Useful life of property and equipment (note 4.4)
- v) Taxation (note 4.7)

3 BASIS OF MEASUREMENT

3.1 Accounting convention

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- 4.1** The SBP vide BPRD Circular No. 02 of 2018 dated January 25, 2018 has amended the format of annual financial statements of banks. All banks are directed to prepare their annual financial statements on the revised format effective from the accounting year ending December 31, 2018. Accordingly, the Bank has prepared these financial statements on the new format prescribed by the State Bank of Pakistan. The adoption of new format contains recognition requirements, reclassification of comparative information and additional disclosures and accordingly a third statement of financial position as at the beginning of the preceding period (i.e. December 31, 2016) has been presented in accordance with the requirements of International Accounting Standard 1 – Presentation of Financial Statements. The amended format also introduced certain new disclosures and has resulted change in deficit / (surplus) on revaluation of investment (note 16) amounting to Rs 18.9 million as at December 31, 2018 (2017: Rs 9.4 million, 2016: Rs. (18,119) million) which were previously shown below equity has now been included as part of Equity.

4.2 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.

4.3 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.

4.4 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.

4.5 Capital work-in-progress, property and equipment, 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 land which is not depreciated.

Intangible assets

Intangible assets are carried at cost less accumulated amortization and impairment losses, if any. Kashmir Council of Government of AJK acquired and donated Core Banking Information System (Helios) to the Bank. This system is currently installed in certain branches. The Bank has initially recorded this system at nominal value, all subsequent maintenance charges are expense out.

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 9.2 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.

4.6 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.

4.7 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.

4.8 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.

4.9 Staff retirement benefits

Gratuity scheme

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

Provident fund

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

Leave encashment

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

4.10 Revenue recognition

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

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

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

4.11 Government grant

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

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

4.12 Foreign currency transactions

Transactions in foreign currencies are translated to Pakistan Rupees at the exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange prevailing on the date of the statement of financial position.

4.13 Provisions

Provisions other than provision on advances (stated in note 4.3) 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.

4.14 Off setting

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

4.15 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.

4.16 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.

4.16.1 Business segment

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.

4.16.2 Geographical segments

The Bank only operates in Azad Jammu and Kashmir.

4.17 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.

5 CASH AND BALANCES WITH TREASURY BANKS

In hand		
Local currency	118,620	98,579
With National Bank of Pakistan in		
Local currency current account	30,449	9,801
Local currency deposit account - note 5.1	95,234	347,414
Local currency Term deposit accounts - note 5.2	2,060,000	1,300,000
	2,185,683	1,657,215
Prize bonds	1,284	-
	2,305,587	1,755,794

5.1 This represents saving accounts carrying markup at the rate of 8% (2017: 3.75%) per annum.

5.2 This represents term deposits carrying markup at rates ranging between 6.15% to 10.05% (2017: 5.9% to 6%) per annum with maturities ranging from six months to one year.

6 BALANCES WITH OTHER BANKS

2018 2017
Rupees in '000

In Pakistan (Azad Jammu and Kashmir)		
In current account	50,696	51,118
In deposit account - note 6.1 & 6.2	7,050,376	5,697,267
	7,101,072	5,748,385

6.1 This include saving accounts carrying markup at rates ranging between 8% to 8.5% (2017: 3.75% to 5.49%) per annum.

6.2 This include term deposits carrying markup at rates ranging between 6.08% to 19.84% (2017: 5.80% to 19.84%) per annum. Term deposits include an amount of Rs. 300 million (2017: Rs. 300 million) placed with a bank maturing in 2024. Remaining term deposits have maturities ranging from 3 months to 5 years.

7 INVESTMENTS

7.1 Investments by type

	2018				2017			
	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
	Rupees in '000							
Available-for-sale securities								
Units of open ended mutual funds - note 7.5	205,000	-	(29,131)	175,869	155,000	-	(14,456)	140,544
Held-to-maturity securities								
Pakistan investment bonds - note 7.6	-	-	-	-	199,247	-	-	199,247
Term finance certificates - note 7.4	49,940	(49,940)	-	-	49,940	(49,940)	-	-
	49,940	(49,940)	-	-	249,187	(49,940)	-	199,247
Total Investments	254,940	(49,940)	(29,131)	175,869	404,187	(49,940)	(14,456)	339,791

7.2 Investments by segments

Federal Government Securities

Pakistan investment bonds - note 7.6

	2018				2017			
	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
	'Rupees in '000							
Pakistan investment bonds - note 7.6	-	-	-	-	199,247	-	-	199,247
Shares								
Units of open ended mutual funds - note 7.5	205,000	-	(29,131)	175,869	155,000	-	(14,456)	140,544
Non Government debt Securities								
Term finance certificates	49,940	(49,940)	-	-	49,940	(49,940)	-	-
Total Investments	254,940	(49,940)	(29,131)	175,869	404,187	(49,940)	(14,456)	339,791

7.3 Particulars of held to maturity investment

2018	No. of certificates 2017	Name of company	Redeemable value per certificate (Rupees)	2018 Rupees in '000	2017 Rupees in '000	Credit rating
10,000	10,000	Pace Pakistan Limited	4.994	49,940	49,940	Un-rated

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.

	2018 Rupees in '000	2017 Rupees in '000
7.4 Particulars of provision for diminution in value of investments		
7.4.1 Opening balance	49,940	49,940
Charge for the year	-	-
Closing Balance	49,940	49,940

7.4.2 Particulars of provision against debt securities Category of classification

	2018 NPI	2018 Provision Rupees in '000	2017 NPI	2017 Provision Rupees in '000
Domestic				
Loss	49,940	49,940	49,940	49,940
Total	49,940	49,940	49,940	49,940

7.5 Quality of available for sale securities

	2018				2017			
	No. of units	Cost (Rupees in '000)	Market value (Rupees in '000)	Market value per unit (Rupees)	No. of units	Cost (Rupees in '000)	Market value (Rupees in '000)	Market value per unit (Rupees)
Local securities								
Units of open end mutual funds								
National Investment Unit Trust Fund	568,408	100,000	82,751	145.58	568,408	50,000	40,113	70.57
NIT Government Bond Fund	3,184,047	30,000	32,680	10.26	3,184,047	30,000	32,514	10.21
NIT Islamic Equity Fund	4,329,197	50,000	36,019	8.32	4,329,197	50,000	43,249	9.99
MCB Dynamic Cash Fund	222,131	25,000	24,419	109.93	226,911	25,000	24,668	108.71
		205,000	175,869			155,000	140,544	

7.6 Particulars relating to held to maturity securities are as follows:

	2018 Rupees in '000	2017 Rupees in '000
Pakistan Investment Bonds - note 7.6.1	-	199,247

7.6.1 The amortized cost of securities classified as held-to-maturity as at December 31, 2018 is Nil (December 31, 2017: Rs. 199,247 thousand).

8 ADVANCES

	Performing		Non Performing		Total	
	2018	2017	2018	2017	2018	2017
Rupees in '000						
Loans, cash credits, running finances, etc.	1,936,543	2,279,332	252,690	295,228	2,189,233	2,574,560
Advances - gross	1,936,543	2,279,332	252,690	295,228	2,189,233	2,574,560
Provision against advances						
- Specific	-	-	(112,203)	(122,169)	(112,203)	(122,169)
- General	(48,092)	(44,538)	-	-	(48,092)	(44,538)
	(48,092)	(44,538)	(112,203)	(122,169)	(160,295)	(166,707)
Advances - net of provision	1,888,451	2,234,794	140,487	173,059	2,028,938	2,407,853

8.1 Particulars of advances (Gross)

	2018	2017
	Rupees in '000	
In local currency	2,189,233	2,574,560
In foreign currencies	-	-
	2,189,233	2,574,560

8.2 Advances include Rs. 252,690 thousand (2017: 295,228 thousand) which have been placed under non-performing status as detailed below:-

Category of classification	2018		2017	
	Non performing loans	Provision	Non performing loans	Provision
Rupees in '000				
Domestic				
Other Assets Especially Mentioned	37,792	-	34,396	-
Substandard	43,468	8,586	57,714	9,450
Doubtful	17,936	7,706	58,925	12,801
Loss	153,494	95,911	144,193	99,918
Total	252,690	112,203	295,228	122,169

8.3 Particulars of provision against advances

	2018			2017		
	Specific	General	Total	Specific	General	Total
Rupees in '000						
Opening balance	122,169	44,538	166,707	172,313	57,410	229,723
Charge for the year	21,397	3,554	24,951	42,756	-	42,756
Reversals	(31,363)	-	(31,363)	(92,900)	(12,872)	(105,772)
	(9,966)	3,554	(6,412)	(50,144)	(12,872)	(63,016)
Closing balance	112,203	48,092	160,295	122,169	44,538	166,707

8.3.1 Particulars of provision against advances

	2018			2017		
	Specific	General	Total	Specific	General	Total
Rupees in '000						
In local currency	112,203	48,092	160,295	122,169	44,538	166,707
	112,203	48,092	160,295	122,169	44,538	166,707

8.3.2 The net FSV benefit availed has been increased by Rs 7.624 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 7.624 million (2017: lower by Rs 37.49 million) and Rs 4.651 million (2017: (lower by Rs 22.51 million) respectively. Further, at December 31, 2018, cumulative tax benefit availed for Forced Saled Value (FSV) was Rs 2.97 million (2017: Rs 14.98 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 FIXED ASSETS

	Note	2018	2017
		Rupees in '000	
Capital work-in-progress	9.1	1,234	7,086
Property and equipment	9.2	128,961	109,974
		130,195	117,060

9.1 Capital work-in-progress

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

8 ADVANCES

	Performing		Non Performing		Total	
	2018	2017	2018	2017	2018	2017
	Rupees in '000					
Loans, cash credits, running finances, etc.	1,936,543	2,279,332	252,690	295,228	2,189,233	2,574,560
Advances - gross	1,936,543	2,279,332	252,690	295,228	2,189,233	2,574,560
Provision against advances						
- Specific	-	-	(112,203)	(122,169)	(112,203)	(122,169)
- General	(48,092)	(44,538)	-	-	(48,092)	(44,538)
	(48,092)	(44,538)	(112,203)	(122,169)	(160,295)	(166,707)
Advances - net of provision	1,888,451	2,234,794	140,487	173,059	2,028,938	2,407,853

8.1 Particulars of advances (Gross)	2018	2017
	Rupees in '000	
In local currency	2,189,233	2,574,560
In foreign currencies	-	-
	2,189,233	2,574,560

8.2 Advances include Rs. 252,690 thousand (2017: 295,228 thousand) which have been placed under non-performing status as detailed below:-

Category of classification	2018		2017	
	Non performing loans	Provision	Non performing loans	Provision
	Rupees in '000			
Domestic				
Other Assets Especially Mentioned	37,792	-	34,396	-
Substandard	43,468	8,586	57,714	9,450
Doubtful	17,936	7,706	58,925	12,801
Loss	153,494	95,911	144,193	99,918
Total	252,690	112,203	295,228	122,169

8.3 Particulars of provision against advances

	2018			2017		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	122,169	44,538	166,707	172,313	57,410	229,723
Charge for the year	21,397	3,554	24,951	42,756	-	42,756
Reversals	(31,363)	-	(31,363)	(92,900)	(12,872)	(105,772)
	(9,966)	3,554	(6,412)	(50,144)	(12,872)	(63,016)
Closing balance	112,203	48,092	160,295	122,169	44,538	166,707

8.3.1 Particulars of provision against advances

	2018			2017		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	112,203	48,092	160,295	122,169	44,538	166,707
	112,203	48,092	160,295	122,169	44,538	166,707

8.3.2 The net FSV benefit availed has been increased by Rs 7.624 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 7.624 million (2017: lower by Rs 37.49 million) and Rs 4.651 million (2017: (lower by Rs 22.51 million) respectively. Further, at December 31, 2018, cumulative tax benefit availed for Forced Saled Value (FSV) was Rs 2.97 million (2017: Rs 14.98 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 FIXED ASSETS

	Note	2018	2017
		Rupees in '000	
Capital work-in-progress	9.1	1,234	7,086
Property and equipment	9.2	128,961	109,974
		130,195	117,060

9.1 Capital work-in-progress

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

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, 2018, and profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018 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 for the audit of the financial statements 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.

9.2 Property and equipment

2018							
Freehold land	Building on freehold land	Leasehold improvements	Furniture and fixture	Office equipment	Computers	Vehicles	Total
Rupees '000							
At January 1, 2018							
Cost	40,000	14,407	27,382	61,789	20,314	31,187	225,209
Accumulated depreciation	-	(6,802)	(20,519)	(31,858)	(13,742)	(21,802)	(115,235)
Net book value	40,000	7,605	6,863	29,931	6,572	9,385	109,974
Year ended December 2018							
Opening net book value	40,000	7,605	6,863	29,931	6,572	9,385	109,974
Additions	400	-	21,507	15,246	4,687	2,031	43,871
Disposals	-	-	-	-	-	-	-
Cost	-	-	-	(2,512)	-	-	(2,512)
Accumulated depreciation	-	-	-	2,417	-	-	2,417
Depreciation charge	-	(1,441)	(5,627)	(7,364)	(3,197)	(4,068)	(24,789)
Closing net book value	40,400	6,164	22,743	37,718	8,062	7,348	128,961
At December 31, 2018							
Cost	40,400	14,407	48,889	74,523	25,001	33,218	266,568
Accumulated depreciation	-	(8,243)	(26,146)	(36,805)	(16,939)	(25,870)	(137,607)
Net book value	40,400	6,164	22,743	37,718	8,062	7,348	128,961
Rate of depreciation (percentage)	0	10	20	10-20	20	20	20

2017							
Free hold land	Building on freehold land	Leasehold improvements	Furniture and fixture	Office equipment	Computers	Vehicles	Total
Rupees '000							
At January 1, 2017							
Cost	40,000	14,407	26,292	54,944	18,491	29,005	208,020
Accumulated depreciation	-	(5,361)	(16,891)	(26,119)	(10,674)	(17,855)	(93,336)
Net book value	40,000	9,046	9,401	28,825	7,817	11,150	114,684
Year ended December 2017							
Opening net book value	40,000	9,046	9,401	28,825	7,817	11,150	114,684
Additions	-	-	1,090	6,978	1,823	2,182	17,322
Disposals	-	-	-	(133)	-	-	(133)
Cost	-	-	-	120	-	-	120
Accumulated depreciation	-	-	-	(5,859)	(3,068)	(3,947)	(22,019)
Depreciation charge	-	(1,441)	(3,628)	(5,859)	(3,068)	(3,947)	(22,019)
Closing net book value	40,000	7,605	6,863	29,931	6,572	9,385	109,974
At December 31, 2017							
Cost	40,000	14,407	27,382	61,789	20,314	31,187	225,209
Accumulated depreciation	-	(6,802)	(20,519)	(31,858)	(13,742)	(21,802)	(115,235)
Net book value	40,000	7,605	6,863	29,931	6,572	9,385	109,974
Rate of depreciation (percentage)	0	10	20	10-20	20	20	20

9.2.1 Property and equipment includes cost of Rs. 5,485 thousand (2017: Rs. 5,485 thousand) and accumulated depreciation amounting to Rs. 5,485 thousand (2017: Rs. 5,485 thousand) in respect of assets donated by the Government of Azad Jammu and Kashmir.

9.3 The total cost of fixed assets of Rs. 266,568 thousand includes fixed assets of Rs.59,457 thousand having zero book value on which no depreciation was charged during the year.

9.4 Detail of disposals of operating fixed assets

Particulars of assets

2018

Furniture and fixture
Carpet and blinds

2017

Furniture and fixture

cost	Accumulated depreciation	Book value	Sale proceeds
Rupees in '000			
2,220	2,126	93	102
292	291	1	2
2,512	2,417	94	104
133	120	13	24
133	120	13	24

The above fixed assets were disposed off through auction.

	In local currency	2018 In foreign currencies	Total	In local currency Rupees in '000	2017 In foreign currencies	Total
Customers						
Current deposits	2,558,831	-	2,558,831	2,382,571	-	2,382,571
Savings deposit	5,553,347	-	5,553,347	4,303,343	-	4,303,343
Term deposits	2,828,559	-	2,828,559	2,841,960	-	2,841,960
Call deposits	113,982	-	113,982	-	-	-
Others	8,484	-	8,484	19,341	-	19,341
	11,063,203	-	11,063,203	9,547,215	-	9,547,215

	2018 Rupees in '000	2017 Rupees in '000
13.1 Composition of deposits	5,942,651	4,820,506
- Individuals	5,068,975	4,650,389
- Government	51,577	76,320
- Private Sector	11,063,203	9,547,215
14 OTHER LIABILITIES	82,339	82,199
Mark-up/ return/ interest payable in local currency - note 14.1	2,945	3,388
Accrued expenses	8,482	24,172
Income tax payable	-	10,745
Branch adjustment account	15,000	14,000
Provision for bonus to employees	9,461	22,505
Provision against customer claims	21,000	11,000
Leave encashment	6,784	10,033
Education cess	28,958	20,360
Others	174,969	198,402

14.1 It includes an amount of Rs. 36,363 thousand (2017: Rs. 48,145 thousand) on account of interest payable to related parties (Government departments).

15 SHARE CAPITAL

15.1 Authorized capital

2018	2017		2018	2017
Number of shares			Rupees in '000	
200,000,000	200,000,000	Ordinary shares of Rs. 10 each	2,000,000	2,000,000

15.2 Issued, subscribed and paid up share capital

2018	2017		2018	2017
Number of shares			Rupees in '000	
31,794,261	31,794,261	Ordinary shares	317,942	317,942
56,571,700	48,082,476	Fully paid in cash	565,717	480,825
5,015,200	5,015,200	Issued as bonus shares	50,152	50,152
93,381,161	84,891,937	Issued for consideration other than cash	933,811	848,919

15.3 The Government of Azad Jammu and Kashmir and Behbood Fund and Group Insurance - Government autonomous body own 100% percent of ordinary shares of the Bank as on December 31, 2018 in proportion of 94% and 6% respectively.

15.4 Reconciliation of number of ordinary shares

	2018	2017
	Number of shares	
Shares at the beginning of the year	84,891,937	78,597,676
Right shares issued during the year - 15.5	-	6,294,261
Bonus shares issued during the year - note 15.7	8,489,224	-
Shares at the year end	93,381,161	84,891,937

15.5 During previous year the bank has issued right shares 6,294,261 amounting to Rs. 62,942 thousand 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.

15.6 During the year Azad Kashmir Saw Mills Corporation sold its 6% shares having face value of Rs. 55 million to M/S Behbood Fund and Group Insurance - Government autonomous body.

15.7 During the year the bank has issued bonus shares 8,489,224 (2017: Nil) amounting to Rs. 84,892 thousand (2017: Nil) to its shareholders.

16	DEFICIT ON REVALUATION OF ASSETS	Note	2018	2017
			Rupees in '000	
	Deficit on revaluation of:			
	- Available for sale securities	7.1	(29,131)	(14,456)
	Deferred tax on deficit on revaluation of:			
	- Available for sale securities		10,196	5,060
			<u>(18,935)</u>	<u>(9,396)</u>
17	CONTINGENCIES AND COMMITMENTS			
	Guarantees	17.1	16,779	48,643
	Commitments	17.2	298,080	228,131
	Bills for collection	17.3	52,342	27,792
			<u>367,201</u>	<u>304,566</u>
17.1	Guarantees			
	Financial guarantees		<u>16,779</u>	<u>48,643</u>
17.2	Commitments			
	Loan sanctioned but not disbursed		13,501	7,179
	Unavailed running finance		284,579	220,952
	Operating leases	17.2.1	123,734	26,577
			<u>298,080</u>	<u>228,131</u>
17.2.1	Commitments in respect of operating leases			
	Not later than one year		25,093	31,531
	Later than one year and not later than five years		73,646	84,648
	Later than five years		24,995	26,577
			<u>123,734</u>	<u>142,756</u>
17.3	Bills for collection	17.3.1	<u>52,342</u>	<u>27,792</u>
17.3.1	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.			
18	MARK-UP/ RETURN/ INTEREST EARNED			
	On:			
	a) Loans and advances	18.1	316,366	366,793
	b) Investments		13,230	40,694
	c) Balances with banks		606,371	435,383
			<u>935,967</u>	<u>842,870</u>
18.1	This includes an amount of Rs. 26,363 thousand (2017: Rs. 25,104 thousand) on account of interest earned on advance given to a related party (Government department).			
		Note	2018	2017
			Rupees in '000	
19	MARK-UP/ RETURN/ INTEREST EXPENSED			
	Deposits	19.1	385,101	327,143
			<u>385,101</u>	<u>327,143</u>
19.1	This includes an amount of Rs. 190,322 thousand (2017: Rs. 155,472 thousand) on account of interest expense on deposits received from related parties (Government departments).			

		2018	2017
	Note	Rupees in '000	
20 FEE AND COMMISSION INCOME			
Branch banking customer fees		1,756	1,831
Commission on cheques books		3,050	3,004
Credit related fees		4,102	6,471
Commission on guarantees		433	176
Commission on remittances including home remittances		725	362
Commission on call deposit		89	111
Commission on utility bills		4,230	4,036
Postages charges		458	301
Others		156	214
		14,999	16,506
21 GAIN ON SECURITIES			
Realised gain on available-for-sale securities (units of mutual fund)		-	27,616
		-	27,616
22 OTHER INCOME			
Gain on sale of fixed assets-net		9	11
Site visits and fee collection charges		2,742	2,372
		2,751	2,383
23 OPERATING EXPENSES			
Total compensation expense	23.1	244,847	205,045
Property expense			
Rent & taxes		31,544	24,842
Insurance		2,217	1,363
Utilities cost		14,717	11,662
Security (including guards)		23,852	20,169
Repair & maintenance (including janitorial charges)		9,113	6,303
Depreciation		7,068	5,143
		88,511	69,482
Information technology expenses			
Software maintenance		9,232	10,527
Hardware maintenance		1,386	1,594
Depreciation		7,080	7,037
Network charges		5,563	4,816
		23,261	23,974
Other operating expenses			
Directors' fees and allowances		1,895	882
Legal & professional charges		1,174	754
Travelling & conveyance		6,638	6,690
Depreciation		10,641	9,839
Entertainment		7,930	9,309
Training & development		1,223	931
Postage & courier charges		2,253	2,796
Communication		3,533	3,088
Stationery & printing		8,170	8,086
Marketing, advertisement & publicity		700	486
Auditors remuneration	23.2	1,980	1,980
Others		19,239	19,730
		65,376	64,571
		421,995	363,072

	Note	2018 Rupees in '000	2017 Rupees in '000
23.1 Total compensation expense			
Fees and Allowances etc		106,351	91,837
Managerial Remuneration			
i) Fixed		29,390	22,991
ii) Variable- cash bonus		15,278	14,654
Contribution to defined contribution Plan		4,605	4,472
Contribution to defined gratuity fund		8,276	7,481
Rent & house maintenance		36,716	29,551
Utilities		7,909	7,206
Medical		9,367	8,070
Conveyance		26,955	18,783
		<u>244,847</u>	<u>205,045</u>
23.2 Auditors' remuneration			
Audit fee		1,800	1,800
Out-of-pocket expenses		180	180
		<u>1,980</u>	<u>1,980</u>
24 PROVISIONS AND WRITE OFFS - NET			
Reversal of provisions against loans & advances - net	8.3	(6,412)	(63,016)
Reversal of provision against customers claims		(10,641)	-
Insurance claims received		(5,000)	-
		<u>(22,053)</u>	<u>(63,016)</u>
25 TAXATION			
Current		65,669	99,030
Prior years		-	5,702
Deferred		7,051	5,357
		<u>72,720</u>	<u>110,089</u>
25.1 Relationship between tax expense and accounting profit			
	%	2018 Rupees in '000'	% 2017 Rupees in '000'
Profit before taxation		172,613	267,173
Applicable tax rate / expense	35%	60,415	35% 93,511
Super tax	4%	6,735	-
Expense not allowed	4%	6,568	4% 10,876
Prior year adjustment	-	-	2% 5,702
Other	-1%	(998)	-
Actual tax rate / expense	42%	72,720	41% 110,089
		<u>72,720</u>	<u>110,089</u>
Total tax charge as per financial statements		<u>72,720</u>	<u>110,089</u>
26 BASIC AND DILUTED EARNINGS PER SHARE			
Profit for the year		<u>99,893</u>	<u>157,084</u>
		<u>2018</u>	<u>2017</u>
		<u>Rupees in '000</u>	<u>Restated</u>
Weighted average number of ordinary shares (Number)		<u>93,381,161</u>	<u>93,381,161</u>
Basic and diluted earnings per share (Rupees)		<u>1.07</u>	<u>1.68</u>

		2018	2017
		Rupees in '000	
27	CASH AND CASH EQUIVALENTS		
	Cash and balance with treasury banks	495,587	605,794
	Balance with other banks	3,425,972	2,941,385
		<u>3,921,559</u>	<u>3,547,179</u>
28	STAFF STRENGTH	2018	2017
		Number	
	Permanent	222	224
	On Bank contract	168	163
	Bank's own staff strength at the end of the year	<u>390</u>	<u>387</u>
	Outsourced	149	138
	Total staff strength at the end of the year	<u>539</u>	<u>525</u>

29 STAFF RETIREMENT BENEFITS

29.1 Gratuity

The Bank contributed Rs. 8,276 thousand (2017: Rs. 7,481 thousand) during the year towards employees gratuity fund.

29.2 Provident fund

The Bank contributed Rs. 4,605 thousand (2017: Rs. 4,472 thousand) during the year towards employees contributory provident fund.

30 COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

30.1 Total Compensation Expense

Item	2018			
	Directors		President	Key management personnel
	Chairman	Non-Executives		
	Rupees in '000			
Fees and Allowances etc.	-	-	-	-
Managerial Remuneration				
i) Fixed	125	1,625	4,690	20,161
ii) Variable (bonus)	-	-	711	2,131
Contribution to defined contribution provident fund	-	-	-	413
Contribution to defined contribution gratuity fund	-	-	391	454
Rent & house maintenance	-	-	2,234	2,453
Utilities	-	-	214	545
Medical	-	-	103	545
Conveyance	-	-	742	1,280
Vehicle	-	-	-	952
Boarding & loading	-	-	41	-
Others (mobile charges, TA & DA)	-	286	284	593
Total	125	1,911	9,410	29,527
Number of Persons	1	7	1	9

Item	2017			
	Directors		President	Key management personnel
	Chairman	Non-Executives		
	Rupees in '000			
Fees and Allowances etc.	-	-	-	-
Managerial Remuneration				
i) Fixed	100	725	4,777	18,061
ii) Variable (Bonus)	-	-	710	1,655
Contribution to defined contribution provident fund	-	-	-	375
Contribution to defined contribution gratuity fund	-	-	355	375
Rent & house maintenance	-	-	1,874	2,230
Utilities	-	-	194	496
Medical	-	-	130	496
Conveyance	-	-	782	831
Vehicle	-	-	348	330
Boarding & loading	-	-	124	-
Others (mobile charges, TA & DA)	-	7	3,426	253
Total	100	732	12,720	25,102
Number of Persons	1	7	1	9

30.2 Remuneration paid to directors for participation in Board and Committee meetings

2018					
Meeting fees and allowances paid					
Name of director	For board meetings	For board committees			Total amount paid
		Board executive committee	Board audit committee	Board IT committee	
Rs. in '000'					
1	Dr. Ijaz Munir	75	-	-	75
2	Mian Waheed ud din	50	-	-	50
3	Mr. Fayyaz Ali Abbasi	100	-	100	200
4	Mr. Farid Ahmad Tarar	125	100	100	325
5	Syed Zahoor-ul-Hussan Gillani	100		75	175
6	Dr. Shehla Waqar	25	-	-	25
7	Raja Tariq Masood	100	75	75	250
8	Mr. Abid Awan	-	25	25	50
9	Mr. Ejaz Hussain Rathore	75	-	75	250
10	Raja Mumtaz Ali	125	-	100	225
11	Mr. Naveed Sadiq	125	-	-	125
Total amount paid		900	200	375	1,750

2017					
Meeting fees and allowances paid					
Name of director	For board meetings	For board committees			
		Board executive committee	Board audit committee	Board IT committee	Total amount paid
Rs. in '000'					
1	Raja Farooq Haider Khan	50	-	-	50
2	Dr. Ijaz Munir	50	-	-	50
3	Mr. Sadiq Malik	-	25	-	25
4	Mr. Ijaz Hussain Rathore	75	50	75	200
5	Ch. Javed Iqbal	-	25	-	25
6	Mr. Naveed Sadiq	50	-	-	50
7	Ch. Muhammad Saeed	-	25	-	25
8	Mr. Raja Mumtaz Ali	50	-	-	50
9	Mr. Amjad Pervaiz Khan	50	25	-	75
10	Syed Zahoor-ul-Hussan Gillani	50	-	-	50
11	Mr. Fayyaz Ali Abbasi	75	50	75	200
12	Mr. Farid Ahmad Tarar	25	-	50	75
Total amount paid		475	200	200	875

31 FAIR VALUE MEASUREMENTS

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Quoted securities classified as held to maturity are carried at cost. The fair value of unquoted equity securities, other than investments in associates and subsidiaries, is determined on the basis of the break-up value of these investments as per their latest available audited financial statements.

The fair value of unquoted debt securities, fixed term loans, other assets, other liabilities, fixed term deposits and borrowings cannot be calculated with sufficient reliability due to the absence of a current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments.

31.1 Fair value of financial assets

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using input for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

		2018			
		Level 1	Level 2	Level 3	Total
		Rupees in '000			
On balance sheet financial instruments					
Financial assets - measured at fair value					
Investments					
Mutual funds		175,869	-	-	175,869
		2017			
		Level 1	Level 2	Level 3	Total
		Rupees in '000			
On balance sheet financial instruments					
Financial assets - measured at fair value					
Investments					
Mutual funds		140,544	-	-	140,544

32 SEGMENT INFORMATION

32.1 Segment Details with respect to Business Activities

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

	2018				
Profit and loss	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Total
	Rupees in '000				
Net mark-up/ return/ profit	215,382	335,484	-	-	550,866
Non mark-up / return / interest income	-	6,808	10,648	4,233	21,689
Total income	215,382	342,292	10,648	4,233	572,555
Segment direct expenses	(88,347)	(327,013)	(4,748)	(1,887)	(421,995)
Total expenses	(88,347)	(327,013)	(4,748)	(1,887)	(421,995)
Provisions charged / (reversal)	(22,345)	44,398	-	-	22,053
Profit before tax	104,690	59,677	5,900	2,346	172,613

Statement of financial position

	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Total
Rupees in '000					
Cash & bank balances	-	9,406,659	-	-	9,406,659
Investments	-	175,869	-	-	175,869
Advances - performing	1,326,088	610,455	-	-	1,936,543
- non-performing	65,002	187,688	-	-	252,690
- provision	(116,098)	(44,197)	-	-	(160,295)
Operating fixed assets	27,196	100,959	1,461	581	130,197
Deferred tax asset	-	20,930	-	-	20,930
Others	18,062	629,333	970	386	648,751
Total assets	1,320,250	11,087,696	2,431	967	12,411,344
Bills payable	-	19,582	-	-	19,582
Deposits and other accounts	-	11,063,203	-	-	11,063,203
Others	10,492	164,453	17	8	174,970
Total liabilities	10,492	11,247,238	17	8	11,257,755
Equity	1,309,758	(159,542)	2,414	959	1,153,589
Total Equity and liabilities	1,320,250	11,087,696	2,431	967	12,411,344
Contingencies and commitments	12,601	354,600	-	-	367,201

Profit and loss

	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Total
2017 Rupees in '000					
Net mark-up/return/profit	234,097	281,630	-	-	515,727
Non mark-up / return / interest income	-	51,502	-	-	51,502
Total Income	234,097	333,132	-	-	567,229
Segment direct expenses	(66,003)	(291,373)	(4,075)	(1,620)	(363,072)
Inter segment expense allocation	-	-	-	-	-
Total expenses	(66,003)	(291,373)	(4,075)	(1,620)	(363,072)
Provisions charged / (reversal)	(40,114)	(22,902)	-	-	(63,016)
Profit before tax	208,208	64,660	(4,075)	(1,620)	267,173

Statement of financial position

	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Total
Rupees in '000					
Cash & bank balances	-	7,504,179	-	-	7,504,179
Investments	-	339,791	-	-	339,791
Advances - performing	1,301,007	978,325	-	-	2,279,332
- non-performing	87,586	207,642	-	-	295,228
- provision	(89,914)	(76,793)	-	-	(166,707)
Operating fixed assets	24,452	90,772	1,314	522	117,060
Deferred tax asset	-	22,845	-	-	22,845
Others	6,142	442,328	330	132	448,931
Total assets	1,329,273	9,509,088	1,644	654	10,840,659
Bills payable	-	31,808	-	-	31,808
Deposits and other accounts	-	9,547,215	-	-	9,547,215
Others	12,516	185,864	16	6	198,402
Total liabilities	12,516	9,764,887	16	6	9,777,425
Equity	1,316,757	(255,799)	1,628	648	1,063,234
Total Equity and liabilities	1,329,273	9,509,088	1,644	654	10,840,659
Contingencies and Commitments	5,529	299,037	-	-	304,566

33 TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities.

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.

The Bank enters into transactions with related parties in the ordinary course of business and on substantially the same terms as for comparable transactions with person of similar standing. Contributions to and accruals in respect of staff retirement benefits and other benefit plans are made in accordance with the terms of the contribution plan. Remuneration to the executives / officers is determined in accordance with the terms of their appointment.

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

	2018		2017	
	Government of Azad Jammu & Kashmir and its related department	Key management personnel	Government of Azad Jammu & Kashmir and its related department	Key management personnel
	Rupees in '000			
Advances				
Opening balance	305,624	43,962	250,500	22,612
Addition during the year	-	9,994	101,544	21,350
Repaid during the year	(45,652)	(8,249)	(46,420)	-
Closing balance	259,972	45,707	305,624	43,962
Provision held against advances	-	-	-	-
Other Assets				
Interest / mark-up accrued	1,874	-	2,295	-
Deposits and other accounts				
Opening balance	4,650,389	5,915	3,665,349	1,298
Received during the year	418,586	4,925	985,040	4,617
Closing balance	5,068,975	10,840	4,650,389	5,915
Other Liabilities				
Interest / mark-up payable	36,270	93	48,115	28
Contingencies and Commitments				
Unavailed running finance	240,028	-	194,376	-
Transactions during the year				
Income				
Mark-up / return / interest earned	23,954	2,409	22,838	2,266
Expense				
Mark-up / return / interest paid	190,156	166	155,472	40

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.

CAPITAL ADEQUACY, LEVERAGE RATIO & LIQUIDITY REQUIREMENTS

2018 2017
Rupees in '000

Minimum capital requirement (MCR)

Paid-up capital (net of losses)

10,000,00010,000,000**Capital adequacy ratio (CAR)**

Eligible common equity tier 1 (CET 1) capital

1,172,523

1,072,630

Eligible additional tier 1 (ADT 1) capital

-

-

Total regulatory adjustment applied to CET1

(18,935)

(9,396)

Total eligible Tier 1 capital

1,153,588

1,063,234

Eligible tier 2 capital

48,092

35,142

Total eligible capital (Tier 1 + Tier 2)

1,201,6801,098,376**Risk weighted assets (RWAs):**

Credit risk

4,647,890

3,867,150

Market risk

351,738

281,088

Operational risk

1,000,989

924,615

Total

6,000,6175,072,853

Common equity tier 1 capital adequacy ratio

19.54%21.14%

Tier 1 capital adequacy ratio

19.22%20.96%

Total capital adequacy ratio

20.03%21.65%**Leverage ratio (LR)**

Eligible tier-1 capital

1,153,588

1,063,234

Total exposures

2,221,586

2,775,436

Leverage ratio

52%38%**Liquidity coverage ratio (LCR)**

Total high quality liquid assets

9,406,659

7,504,179

Total net cash outflow

3,635,102

3,458,055

Liquidity coverage ratio

259%217%**Net stable funding ratio (NSFR)**

Total available stable funding

9,979,049

8,518,943

Total required stable funding

5,408,918

4,454,556

Net stable funding ratio

184%191%

36 RISK MANAGEMENT

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

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

Taken as a whole, risk arising from the Bank's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments. Bank regularly reviews and updates policy manuals and procedures in accordance with domestic regulatory environment and international standards.

36.1 Credit Risk

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

36.1.1 Investment in debt securities

Credit risk by industry sector

	Gross Investments		Non-performing		Provision held	
	2018	2017	2018	2017	2018	2017
	Rupees in '000					
Government bonds	-	199,247	-	-	-	-
Construction- TFC	49,940	49,940	(49,940)	(49,940)	(49,940)	(49,940)
	49,940	249,187	(49,940)	(49,940)	(49,940)	(49,940)

Credit risk by public / private sector

	Gross advances		Non-performing advances		Provision held	
	2018	2017	2018	2017	2018	2017
	Rupees in '000					
Public	-	199,247	-	-	-	-
Private	49,940	49,940	(49,940)	(49,940)	(49,940)	(49,940)
	49,940	249,187	(49,940)	(49,940)	(49,940)	(49,940)

36.1.2 Advances

Credit risk by Industry sector

	Gross advances		Non-performing advances		Provision held	
	2018	2017	2018	2017	2018	2017
	Rupees in '000					
Agriculture, Forestry, Hunting and Fishing	148,509	232,634	81,131	88,066	26,041	22,539
Wholesale and Retail Trade	370,519	527,015	106,557	119,576	48,154	50,231
Individuals	1,410,233	1,509,287	65,002	87,586	38,008	49,399
Others	259,972	305,624	-	-	-	-
	2,189,233	2,574,560	252,690	295,228	112,203	122,169

Credit risk by public / private sector

	Gross Investments		Non-performing Investments		Provision held	
	2018	2017	2018	2017	2018	2017
	Rupees in '000					
Public/ Government	259,972	305,624	-	-	-	-
Private	1,929,261	2,268,936	252,690	295,228	112,203	122,169
	2,189,233	2,574,560	252,690	295,228	112,203	122,169

36.1.3 Contingencies and Commitments

Credit risk by Industry sector

	Amount in Rs '000	
	2018	2017
Wholesale and Retail Trade	45,451	28,226
Individuals	29,380	54,172
Others	240,028	194,376
	314,859	276,774

Credit risk by public / private sector

	Amount in Rs '000	
	2018	2017
Public/ Government	240,028	194,376
Private	74,831	82,398
	314,859	276,774

36.1.4 Concentration of Advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs 436,309 thousand (2017: Rs. 517,838 thousand) are as following:

	2018	2017
	Rupees in '000	
Funded	419,530	469,195
Non funded	16,779	48,643
Total exposure	436,309	517,838

The sanctioned limits against these top 10 exposures aggregated to Rs 667,500 thousand (2017: Rs. 669,500 thousand)

Total funded classified therein

Total funded classified therein	2018		2017	
	Amount	Provision held	Amount	Provision held
	Rupees in '000			
Substandard	-	-	-	-
Doubtful	-	-	22,500	1,191
Loss	52,448	6,408	20,000	-
Total	52,448	6,408	42,500	1,191

36.1.5 Advances - Province/Region-wise Disbursement & Utilization

Total amount of disbursement and utilization is in Azad Jammu and Kashmir of Rs. 371,723 thousands (2017: 4,010,110 thousands)

36.2 Market Risk

Market Risk is the risk of loss in earnings and capital due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions. Thus market risk can be further described into Interest Rate Risk, Foreign Exchange Risk and Equity Position Risk.

36.2.1 Balance sheet split by trading and banking books

	Banking book	Trading book	Total	Banking book	Trading book	Total
	Rupees in '000					
Cash and balances with treasury banks	2,305,587	-	2,305,587	1,755,794	-	1,755,794
Balances with other banks	7,101,072	-	7,101,072	5,748,385	-	5,748,385
Investments	-	175,869	175,869	199,247	140,544	339,791
Advances	2,028,938	-	2,028,938	2,407,853	-	2,407,853
Fixed assets	130,195	-	130,195	117,060	-	117,060
Deferred tax assets	20,930	-	20,930	22,845	-	22,845
Other assets	648,751	-	648,751	448,931	-	448,931
	12,235,473	175,869	12,411,342	10,700,115	140,544	10,840,659

36.2.2 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.

36.2.3 Equity position Risk

It is the risk of loss to earnings or capital as a result from unfavorable fluctuations in prices of securities in which the Bank takes 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.

	2018		2017	
	Banking	Trading	Banking	Trading
	Rupees in '000			
Impact of 5% change in equity prices on				
- Other comprehensive income	-	8,793	-	7,027

36.2.4 Yield / Interest Rate Risk in the Banking Book (IRRBB)-Based II Specific

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.

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. This also refers to the non-trading market risk. Apart from the gap analysis between the market rate sensitive assets and liabilities as per the table given below:-

- The nature of IRRBB and key assumptions, including assumptions regarding loan repayments and behavior of non-maturity deposits, and frequency of IRRBB measurements
 - The increase (decline) in earnings or economic value (or any other relevant measures used by management) for upward and downward shocks according to management's method for measuring IRRBB, broken down by currencies (if any, and than translated into Rupees)
- | | 2018 | 2017 |
|--|----------------|--------------|
| | Banking book | Trading book |
| | Rupees in '000 | |
| Impact of 1% change in interest rates on | | |
| - Profit and loss account | (4,308) | (6,422) |
| - Other comprehensive income | (1,759) | (1,405) |

36.2.5 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

	Effective Yield/ Interest rate	Total	2018									Non-interest bearing financial instruments		
			Exposed to Yield/ Interest risk											
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years			
On-balance sheet financial Instruments														
<u>Assets</u>														
Cash and balances with treasury banks	6.59%	2,305,587	2,186,967	-	-	-	-	-	-	-	-	-	-	118,620
Balances with other banks	7.44%	7,101,072	747,412	2,672,421	1,929,270	1,051,273	-	50,000	300,000	300,000	-	-	-	50,696
Investments	6.13%	175,869	-	-	-	-	-	-	-	-	-	-	-	175,869
Advances	13.51%	2,028,938	479,081	40,305	37,446	289,812	442,992	316,372	420,652	2,278	-	-	-	-
Other assets		633,948	-	-	-	-	-	-	-	-	-	-	-	633,948
		12,245,414	3,413,460	2,712,726	1,966,716	1,341,085	442,992	366,372	720,652	302,278	-	-	-	979,133
<u>Liabilities</u>														
Bills payable	3.69%	19,582	-	-	-	-	-	-	-	-	-	-	-	19,582
Deposits and other accounts		11,063,203	1,839,320	2,322,431	2,217,431	1,865,598	137,127	-	-	-	-	-	-	2,681,296
Other liabilities		174,969	-	-	-	-	-	-	-	-	-	-	-	174,969
		11,257,754	1,839,320	2,322,431	2,217,431	1,865,598	137,127	-	-	-	-	-	-	2,875,847
		987,660	1,574,140	390,295	(250,715)	(524,513)	305,865	366,372	720,652	302,278	-	-	-	(1,896,714)
On-balance sheet gap														
Off-balance sheet financial instruments		298,080	298,080	-	-	-	-	-	-	-	-	-	-	-
Commitments to extend credit		298,080	298,080	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap														
Total Yield/Interest Risk Sensitivity Gap			1,276,060	390,295	(250,715)	(524,513)	305,865	366,372	720,652	302,278	-	-	-	(1,896,714)
Cumulative Yield/Interest Risk Sensitivity Gap			1,276,060	1,666,355	1,415,640	891,126	1,196,991	1,563,363	2,284,015	2,586,293	2,586,293	2,586,293	2,586,293	(1,896,714)

2017

Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk							Non-interest bearing financial instruments		
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years		Over 5 to 10 Years	Above 10 Years
Rupees in '000											
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	1,755,794	89,303	239,304	1,089,304	239,304	-	-	-	-	-	98,579
Balances with other banks	5,748,385	343,724	2,171,857	1,144,343	1,312,343	75,000	-	350,000	300,000	-	51,118
Investments	339,791	-	-	-	199,247	-	-	-	-	-	140,544
Advances	2,407,853	40,778	457,118	146,661	428,338	489,324	489,324	298,612	25,153	32,545	-
Other assets	429,607	-	-	-	-	-	-	-	-	-	448,931
	10,681,430	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	-	-	-	-	-	-	-	-	-	31,808
Deposits and other accounts	9,547,215	1,225,238	2,298,240	1,324,240	1,976,439	80,400	162,470	97,617	-	-	2,382,571
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	904,005	(751,433)	570,039	1,056,068	202,793	483,924	326,854	550,995	325,153	32,545	(1,873,609)

Yield Risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

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

	2017		2018		2017		2018		2017	
	Rupees in '000		Rupees in '000		Rupees in '000		Rupees in '000		Rupees in '000	
Reconciliation of total assets										
Total financial assets	12,245,414	10,681,430								
Add: Non financial liabilities										
Operating fixed assets	130,195	117,060								
Other assets	14,803	19,324								
Deferred tax asset	20,930	22,845								
	165,928	159,229								
Balance as per balance sheet	12,411,342	10,840,659								
Reconciliation of total liabilities										
liabilities										
Add: Non financial liabilities										
Deferred tax liabilities										
Deferred govt. grant										
Balance as per balance sheet	11,257,764	9,777,425								

36.3 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people 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.

Operational Risk-Disclosures Basel II Specific

The banks / DFIs are required to make disclosure of reasons for using the approaches to assess the capital charge for operational risk. The details of losses arising from the perspective of operational risk definition should also be indicated along with the measures taken to improve the processes.

Liquidity Risk

Liquidity Risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increase in assets as they fall due without incurring unacceptable cost or losses.

Maturities of Assets and Liabilities - based on contractual maturity of the assets and liabilities of the Bank

Assets

[illegible]

2018

2017[illegible]

37 EVENTS AFTER THE REPORTING DATE

The Board of Directors in its meeting held on _____ have announced a bonus issue/cash dividend of _____ percent (2017: bonus issue 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, 2018 do not include the effect of the appropriation which will be accounted for in the financial statements for the year ending December 31, 2019.


38 GENERAL

Corresponding figures have been rearranged and reclassified where necessary for more appropriate presentation of transactions and balances. Captions as prescribed by BPRD circular No. 02 dated January 25, 2018 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.

38.1 Figures have been rounded off to the nearest thousand rupees, unless otherwise specified.

39 DATE OF AUTHORIZATION

These financial statements were authorized for issue by the Board of Directors of the Bank on 29.3.2019 .
dyf


President


Chief Financial Officer


Director


Director


Director

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.

The engagement partner on the audit resulting in this independent auditor's report is Shahzad Ali.


Chartered Accountants

Islamabad

Date: March 29, 2019

THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018


		2018	2017 (Restated)	2016 (Restated)
	Note	Rupees in '000		
ASSETS				
Cash and balances with treasury banks	5	2,305,587	1,755,794	1,299,452
Balances with other banks	6	7,101,072	5,748,385	3,843,415
Lendings to financial institutions		-	-	-
Investments	7	175,869	339,791	604,748
Advances	8	2,028,938	2,407,853	2,609,430
Fixed assets	9	130,195	117,060	115,638
Intangible assets		-	-	-
Deferred tax assets	10	20,930	22,845	13,386
Other assets	11	648,751	448,931	450,252
		12,411,342	10,840,659	8,936,321
LIABILITIES				
Bills payable	12	19,582	31,808	8,716
Borrowings		-	-	-
Deposits and other accounts	13	11,063,203	9,547,215	7,845,625
Liabilities against assets subject to finance lease		-	-	-
Subordinated debt		-	-	-
Deferred tax liabilities		-	-	-
Other liabilities	14	174,969	198,402	132,659
		11,257,754	9,777,425	7,987,000
NET ASSETS		1,153,588	1,063,234	949,321
REPRESENTED BY				
Share capital	15	933,811	848,919	785,977
Reserves		-	-	-
Deficit on revaluation of assets	16	(18,935)	(9,396)	18,119
Unappropriated profit		238,712	223,711	145,225
		1,153,588	1,063,234	949,321


CONTINGENCIES AND COMMITMENTS

17

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

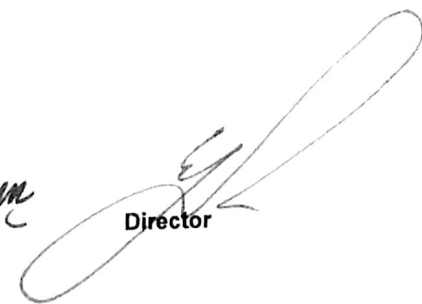
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President


Chief Financial Officer


Director



Director



Director

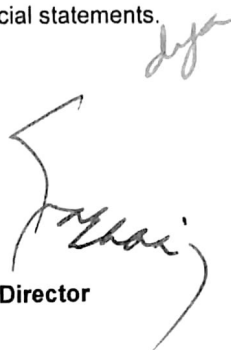
THE BANK OF AZAD JAMMU AND KASHMIR
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
Note	Rupees in '000	
Mark-up / return / interest earned	18 935,967	842,870
Mark-up / return / interest expensed	19 385,101	327,143
Net mark-up / interest income	550,866	515,727
NON MARK-UP / INTEREST INCOME		
Fee and commission income	20 14,999	16,506
Dividend income	3,939	4,997
Foreign exchange income	-	-
Income from derivatives	-	-
Gain on securities	21 -	27,616
Other income	22 2,751	2,383
Total non-markup/ interest income	21,689	51,502
Total income	572,555	567,229
NON MARK-UP / INTEREST EXPENSES		
Operating expenses	23 421,995	363,072
Workers welfare fund	-	-
Other charges	-	-
Total non-markup / interest expenses	421,995	363,072
Profit before provisions	150,560	204,157
Provisions and write offs - net	24 (22,053)	(63,016)
Extra ordinary / unusual items	-	-
PROFIT BEFORE TAXATION	172,613	267,173
Taxation	25 (72,720)	(110,089)
PROFIT AFTER TAXATION	99,893	157,084
Rupees (Restated)		
Basic and diluted earnings per share	26 1.07	1.68

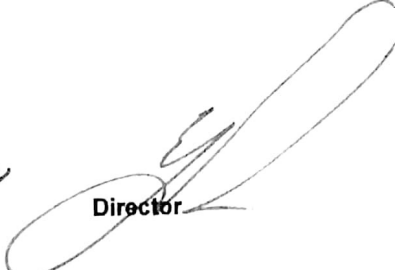
The annexed notes 1 to 39 form an integral part of these financial statements.


President


Chief Financial Officer


Director


Director


Director

**THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018**

2018	2017
Rupees in '000	
Profit after taxation for the year	99,893
	157,084

OTHER COMPREHENSIVE INCOME

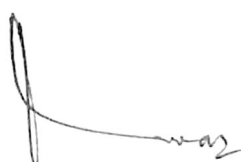
Items that may be reclassified to profit and loss account in subsequent periods

Deficit on revaluation of available-for-sale securities - net
Related deferred tax credit

(14,675)	(42,331)
5,136	14,816
(9,539)	(27,515)
<hr/>	
90,354	129,569
<hr/>	

Total comprehensive income

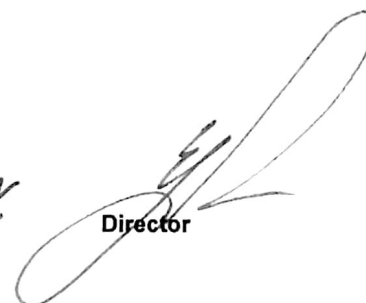
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President


Chief Financial Officer


Director



Director


Director


**THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Share capital	Surplus / (deficit) on revaluation of investment	Unappropriated Profit	Total
	Rupees in '000			
Balance as at December 31, 2016 (as reported)	785,977	-	145,225	931,202
Effect of retrospective changes of reclassification				
Reclassification of surplus on available-for-sale securities (note - 4.1)	-	18,119	-	18,119
Balance as at December 31, 2016 (restated)	785,977	18,119	145,225	949,321
Profit after taxation for the year ended December 31, 2017	-		157,084	157,084
Other comprehensive income				
Deficit on revaluation of available-for-sale securities - net of tax	-	(27,515)	-	(27,515)
Transactions with owners, recorded directly in equity				
Issue of share capital - note 15.5	62,942	-	-	62,942
Dividend for the year ended December 31, 2016	-	-	(78,598)	(78,598)
Balance as at December 31, 2017 (restated)	848,919	(9,396)	223,711	1,063,234
Profit after taxation for the year ended December 31, 2018	-	-	99,893	99,893
Other comprehensive income				
Deficit on revaluation of available-for-sale securities - net of tax	-	(9,539)	-	(9,539)
Transactions with owners, recorded directly in equity				
Issue of bonus shares - note 15.7	84,892	-	(84,892)	-
Closing balance as at December 31, 2018	933,811	(18,935)	238,712	1,153,588

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


President


Chief Financial Officer


Director


Director


Director

THE BANK OF AZAD JAMMU AND KASHMIR
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018 Rupees in '000	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		172,613	267,173
Less: Dividend income		(3,939)	(4,997)
		<u>168,674</u>	<u>262,176</u>
Adjustments:			
Depreciation		24,789	22,019
Provision and write-offs		(22,053)	(63,016)
Gain on sale of fixed assets		(9)	(11)
		<u>2,727</u>	<u>(41,008)</u>
		<u>171,401</u>	<u>221,168</u>
(Increase)/ decrease in operating assets			
Advances		385,327	264,593
Others assets (excluding advance taxation)		(199,819)	(2,335)
		<u>185,508</u>	<u>262,258</u>
Increase/ (decrease) in operating liabilities			
Bills payable		(12,226)	23,092
Deposits		1,515,988	1,701,590
Other liabilities (excluding current taxation)		7,897	41,571
		<u>1,511,659</u>	<u>1,766,253</u>
		<u>1,868,568</u>	<u>2,249,679</u>
Income tax paid		(81,359)	(76,904)
Net cash generated from operating activities		<u>1,787,209</u>	<u>2,172,775</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(50,000)	(25,000)
Net investments in held-to-maturity securities		199,247	247,626
Net proceeds from placements with banks		(1,528,100)	(2,004,000)
Dividend income received		3,939	4,997
Investments in operating fixed assets		(38,019)	(23,454)
Proceeds from sale of fixed assets		104	24
Net cash generated from investing activities		<u>(1,412,829)</u>	<u>(1,799,807)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Issue of share capital		-	62,942
Dividend paid		-	(78,598)
Net cash used in financing activities		<u>-</u>	<u>(15,656)</u>
Increase in cash and cash equivalents		374,380	357,312
Cash and cash equivalents at beginning of the year		3,547,179	3,189,867
Cash and cash equivalents at end of the year	27	<u>3,921,559</u>	<u>3,547,179</u>

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President

Chief Financial Officer

Director

Director

Director