

YOUSUF ADIL

Yousuf Adil
Chartered Accountants

**BANK OF AZAD JAMMU AND KASHMIR
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

Independent Correspondent Firm to
Deloitte Touche Tohmatsu Limited

BANK OF AZAD JAMMU AND KASHMIR
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE BANK OF AZAD JAMMU AND KASHMIR
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

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, 2021, and the statement of profit and loss account, the statement of comprehensive income, the statement of changes in equity and the 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, 2021 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the Financial Statements and Auditor's report thereon

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.

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.

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: 27 MAY 2022

THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021

2021 2020
 ----- Rupees in '000-----

ASSETS

Cash and balances with treasury banks	5	4,447,089	3,454,865
Balances with other banks	6	14,774,633	9,825,491
Lendings to financial institutions		-	-
Investments	7	183,775	185,845
Advances	8	2,815,313	2,246,653
Fixed assets	9	253,886	230,026
Intangible assets	10	-	-
Deferred tax assets	11	30,011	26,407
Other assets	12	1,046,611	850,127
		23,551,318	16,819,414

LIABILITIES

Bills payable	13	158,180	67,414
Borrowings		-	-
Deposits and other accounts	14	17,270,623	13,700,340
Lease liabilities against right of use assets	15	138,519	132,911
Subordinated debt		-	-
Deferred tax liabilities		-	-
Other liabilities	16	563,110	534,159
		18,130,432	14,434,824
		5,420,886	2,384,590

NET ASSETS

REPRESENTED BY

Share capital	17	5,142,903	2,129,911
Reserves	18	269,037	-
Deficit on revaluation of assets	19	(13,797)	(12,451)
Unappropriated profit		22,743	267,130
		5,420,886	2,384,590

CONTINGENCIES AND COMMITMENTS

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



**President and
Chief Executive Officer**



Chief Financial Officer



Director



Director




Director

THE BANK OF AZAD JAMMU AND KASHMIR
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2021


	2021	2020
	-----Rupees in '000-----	
Mark-up / return / interest earned	21 1,672,565	1,511,546
Mark-up / return / interest expensed	22 668,344	737,253
Net mark-up / interest income	1,004,221	774,293
NON MARK-UP / INTEREST INCOME		
Fee and commission income	23 23,918	18,668
Dividend income	6,924	9,934
Other income	24 4,799	5,696
Total non-markup / interest income	35,641	34,298
Total income	1,039,862	808,591
NON MARK-UP / INTEREST EXPENSES		
Operating expenses	25 600,056	519,386
Workers welfare fund	-	-
Other charges	-	-
Total non-markup / interest expenses	600,056	519,386
Profit before provisions	439,806	289,205
Provisions and write offs - net	26 36,963	31,379
Extra ordinary / unusual items	-	-
PROFIT BEFORE TAXATION	402,843	257,826
Taxation	27 (165,201)	(105,138)
PROFIT AFTER TAXATION	237,642	152,688
Basic and diluted earnings per share		
	28 0.79	0.67


Rupees
Restated

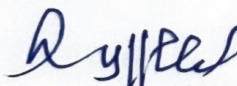
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President and
Chief Executive Officer


Chief Financial Officer


Director


Director


Director

**THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021**

	2021 -----Rupees in '000-----	2020 -----Rupees in '000-----
Profit after taxation for the year	237,642	152,688

OTHER COMPREHENSIVE INCOME

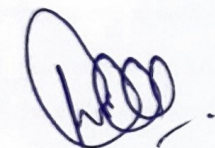
**Items that may be reclassified to profit and loss account
in subsequent periods**

Movement in surplus on revaluation of investments - net
Related deferred tax expense

(2,070)	7,445
724	(2,606)
(1,346)	4,839
236,296	157,527

Total comprehensive income

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




**President and
Chief Executive Officer**



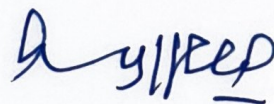
Chief Financial Officer



Director

Director



Director

THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021

	Share capital	Surplus / (deficit) on revaluation	Unappropriated Profit	Statutory Reserve	Total
Rupees in '000					
Balance as at January 01, 2020	1,027,192	(17,290)	217,161	-	1,227,063
Profit after taxation for the year ended December 31, 2020	-	-	152,688	-	152,688
Other comprehensive income					
Surplus on revaluation of available-for-sale securities - net of tax	-	4,839	-	-	4,839
Transactions with owners, recorded directly in equity					
Issue of shares against cash - note 17.5	1,000,000	-	-	-	1,000,000
Issue of bonus shares - note 17.5	102,719	-	(102,719)	-	-
Balance as at January 01, 2021	2,129,911	(12,451)	267,130	-	2,384,590
Profit after taxation for the year ended December 31, 2021	-	-	237,642	-	237,642
Transfer to statutory reserve	-	-	(269,037)	269,037	-
Other comprehensive income					
Surplus on revaluation of available-for-sale securities - net of tax	-	(1,346)	-	-	(1,346)
Transactions with owners, recorded directly in equity					
Issue of shares againsts cash - note 17.5	2,800,000	-	-	-	2,800,000
Issue of bonus shares - note 17.5	212,992	-	(212,992)	-	-
Closing balance as at December 31, 2021	5,142,903	(13,797)	22,743	269,037	5,420,886

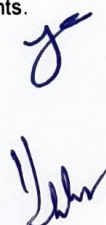
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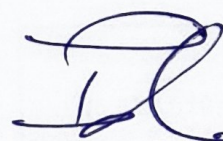
President and
Chief Executive Officer



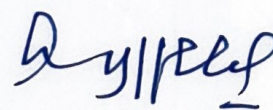
Chief Financial Officer



Director



Director



Director

THE BANK OF AZAD JAMMU AND KASHMIR
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2021

Note 2021 2020
 -----Rupees in '000-----

CASH FLOW FROM OPERATING ACTIVITIES

Profit before taxation	402,843	257,826
Less: Dividend income	(6,924)	(9,934)
	<u>395,919</u>	<u>247,892</u>
Adjustments:		
Depreciation	9.2 52,957	52,820
Provision and write-offs	36,963	31,379
Interest expense on lease liability	22 13,095	16,034
Provision for gratuity	16,814	11,939
Provision for leave encashment	11,669	26,413
Provision for bonus	23,000	20,144
Gain on sale of fixed assets	24 (175)	(1,030)
	<u>154,323</u>	<u>157,699</u>
	<u>550,242</u>	<u>405,591</u>
(Increase)/ decrease in operating assets		
Advances	(605,623)	(241,206)
Others assets (excluding advance taxation)	(196,484)	(77,210)
	<u>(802,107)</u>	<u>(318,416)</u>
Increase/ (decrease) in operating liabilities		
Bills payable	90,766	46,266
Deposits	3,570,283	1,826,805
Other liabilities (excluding current taxation)	(2,013)	119,491
	<u>3,659,036</u>	<u>1,992,562</u>
	<u>3,407,171</u>	<u>2,079,737</u>
Interest paid on lease liability	(13,095)	(16,034)
Income tax paid	(137,117)	(75,047)
Net cash generated from operating activities	<u>3,256,959</u>	<u>1,988,656</u>

CASH FLOW FROM INVESTING ACTIVITIES

Net investments in available-for-sale securities	-	-
Net investments in held-to-maturity securities	-	-
Net proceeds from placements with banks	(5,525,819)	5,921,844
Dividend income received	6,924	9,934
Investments in operating fixed assets	(51,075)	(16,392)
Proceeds from sale of fixed assets	175	1,030
Net cash (used in) /generated from investing activities	<u>(5,569,795)</u>	<u>5,916,416</u>

CASH FLOW FROM FINANCING ACTIVITIES

Issue of share capital	2,800,000	1,000,000
Principal paid against lease liability	(20,134)	(17,050)
Dividend paid	-	-
Net cash generated from financing activities	<u>2,779,866</u>	<u>982,950</u>
Increase / (decrease) in cash and cash equivalents	467,030	8,888,022
Cash and cash equivalents at beginning of the year	10,733,323	1,845,301
Cash and cash equivalents at end of the year	<u>11,200,353</u>	<u>10,733,323</u>

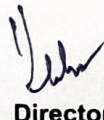
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President and
Chief Executive Officer



Chief Financial Officer



Director



Director



Director

**THE BANK OF AZAD JAMMU AND KASHMIR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

1 STATUS AND NATURE OF BUSINESS

The Bank of Azad Jammu and Kashmir (the Bank) is a public unlisted Bank which was incorporated in 2006 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 and Behbood Fund & Group Insurance - Government autonomous body own 100 percent of ordinary shares of the Bank as on December 31, 2021 in proportion of 97.59% and 2.41% (2020: 94.7% and 5.3%) respectively.

The Bank has 77 branches (2020: 70 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.

2.1 STATEMENT OF COMPLIANCE

Bye-Laws of the Bank 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. Accordingly, these financial statements have been prepared in accordance with the requirements of the Act, its Bye-Laws and approved accounting and reporting standards as applicable in Pakistan. Approved accounting and reporting standards comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified by SECP under the Companies Act, 2017; and
- Provisions of and directives issued by the SBP under the Banking Companies Ordinance, 1962.

Whenever the requirements of the directives issued by the SBP differ with the requirements of IFRS, the requirements of the said directives, shall prevail.

SBP has deferred the applicability of International Accounting Standard 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.

SBP vide its BPRD Circular No. 04 of 2019 dated October 23, 2019 had directed banks in Pakistan to implement IFRS 9 with effect from January 01, 2021. Though keeping in view of COVID-19 impact and banking industry representations, SBP vide its BPRD Circular No. 24 dated July 05, 2021 has deferred the implementation of IFRS 9 from January 01, 2021 to January 01, 2022. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank is currently evaluating the impact of application of IFRS 9 on its financial statements.

2.2 Standards, interpretations of and amendments to published approved accounting standards that are effective for the year ended December 31, 2021

The following standards, amendments and interpretations are effective for the year ended December 31, 2021. These standards, amendments and interpretations 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
Amendment to IFRS 16 'Leases' - Covid-19 related rent concessions	June 01, 2020
Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	January 01, 2021

2.3 Standards, interpretations of and amendments to published approved accounting standards 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.

	Effective from accounting period beginning on or after
Amendment to IFRS 16 'Leases' - Covid-19 related rent concessions extended beyond June 30, 2021	April 01, 2021
Amendments to IFRS 3 'Business Combinations' - Reference to the conceptual framework	January 01, 2022
Amendments to IAS 16 'Property, Plant and Equipment' - Proceeds before intended use	January 01, 2022
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' - Onerous Contracts — cost of fulfilling a contract	January 01, 2022
International Financial Reporting Standard - 9 "Financial Instruments"	January 01, 2022
Annual Improvements to IFRS Standards 2018-2020 Cycle (related to IFRS 9, IFRS 16 and IAS 41)	January 01, 2022
Amendments to IAS 1 'Presentation of Financial Statements' - Classification of liabilities as current or non-current	January 01, 2023
Amendments to IAS 1 'Presentation of Financial Statements' - Disclosure of accounting policies	January 01, 2023
Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' - Definition of accounting estimates	January 01, 2023
Amendments to 'IAS 12 Income Taxes' - deferred tax related to assets and liabilities arising from a single transaction.	January 01, 2023
Amendments to IFRS 10 and 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred Indefinitely

State Bank of Pakistan vide its BPRD Circular No. 24 of 2021 dated July 05, 2021 has directed banks in Pakistan to implement IFRS 9 with effect from 01 January 2022.

2.3.1 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 17 – Insurance Contracts

2.4 Use of critical accounting estimates and judgments

The preparation of financial statements is 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 (mentioned in respective notes) are as follow:

- i) Classification and provisioning against investment (note 4.2)
- ii) Provision against advances (note 4.3)
- iii) Valuation and impairment of available for sale securities (note 4.2.5)
- iv) Useful life/depreciation of property and equipment (note 4.4) and valuation of right of use asset and lease liability (note 4.6)
- v) Current and deferred taxation (note 4.9)

3 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention as modified for certain investments which are carried at fair values and right of use assets and their lease liabilities which are carried at present values.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year.

4.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash & balances with treasury banks and balances with other banks in current & deposit account.

4.2 Investments

4.2.1 Classification

Investments are classified as follows:

Held for trading

These are securities included in a portfolio in which a pattern of short-term trading exists or which are acquired for generating a profit from short-term fluctuations in market prices or interest rate movements.

Held to maturity

These are securities with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold till maturity.

Available for sale

These are investments, other than investments in subsidiaries, associates and joint ventures, that do not fall under the held for trading or held-to-maturity categories.

4.2.2 Regular way contracts

All purchases and sales of investments that require delivery within the time frame established by Prudential Regulations of the State Bank of Pakistan or market convention are recognised at the trade date. The trade date is the date on which the Bank commits to purchase or sell the investment.

4.2.3 Initial measurement

In the case of investments classified as held-for-trading, transaction costs are expensed through the profit and loss account. Transaction costs associated with investments other than those classified as held-for-trading are included in the cost of the investments.

4.2.4 Subsequent measurement

Held-for-trading

Investments classified as held-for-trading are subsequently measured at fair value. Any unrealised gain / loss arising on revaluation is taken to the profit and loss account.

Held-to-maturity

Investments classified as held-to-maturity are subsequently measured at amortised cost using the effective interest rate method, less any impairment.

Available-for-sale

Listed securities if any, are classified as available-for-sale are subsequently measured at fair value. Any unrealised surplus / deficit arising on revaluation is recorded in the surplus / deficit on revaluation of securities account (shown as part of equity in statement of financial position) and is taken to the profit and loss account either when realised upon disposal or when the investment is considered to be impaired.

Unlisted equity securities, if any are carried at the lower of cost and break-up value. The break-up value is calculated with reference to the net assets of the investee Bank as per its latest available audited financial statements. Other unlisted securities are valued at cost less impairment, if any.

4.2.5 Impairment

Impairment loss if any in respect of investments classified as available for sale and held to maturity (except sukuk) is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of sukuk is made as per the Prudential Regulations issued by the SBP. In case of impairment of available for sale securities, the cumulative loss that previously reported in other comprehensive income is transferred to profit and loss account for the year. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

4.3 Advances

Advances are stated net of provisions for non-performing advances. The Bank reviews its loan portfolio to assess the amount of non-performing loans and advances 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.

4.4 Fixed assets and depreciation

Capital work-in-progress

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

Tangible assets

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

Depreciation

Depreciation is computed on monthly basis over the estimated useful life of the related assets on monthly basis. The cost of assets is depreciated on a straight line basis. Depreciation is charged for the full month of availability for use of an asset while no depreciation is charged in the month of disposal of an asset. Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized. Gains and losses on disposal of fixed assets are taken to the profit and loss account.

In making estimates of the depreciation, 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 is adjusted prospectively.

4.5 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 expensed out.

4.6 Right-of-use assets and their related lease liability

4.6.1 Right of-use assets

At the commencement date of the lease, the right-of-use asset is initially measured at the present value of lease liability. Subsequently, RoU assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any premeasurement of lease liabilities and prepayments. .

Right-of-use assets are depreciated over the shorter of the lease term or the expected useful lives using the straight-line method. Depreciation on additions (new leases) is charged from the month in which the leases are entered into. No depreciation is charged in the month in which the leases mature or are terminated.

4.6.2 Lease liability against right-of-use assets

The lease liabilities are initially measured as the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Bank's incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The lease liability is also remeasured to reflect any reassessment or change in lease terms. These remeasurements of lease liabilities are recognised as adjustments to the carrying amount of related right-of-use assets after the date of initial recognition.

Each lease payment is allocated between a reduction of the liability and a finance cost. The finance cost is charged to the profit and loss account as markup expense over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

4.7 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.

4.8 Deposits

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

4.9 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 directly in equity, in which case it is recognized in other comprehensive income or 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 that 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.

4.10 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.

4.11 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 and brokerage income is recognised on an accrual basis.

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

4.12 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.

4.13 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. There have been no foreign currency transactions during the year.

4.14 Provisions

Provisions other than provision on advances 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.

4.15 Off setting

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

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, 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.

		2021	2020
	Note	-----Rupees in '000-----	
5 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		199,729	130,520
With National Bank of Pakistan in			
Local currency current account	5.1	36,676	32,358
Local currency deposit account	5.2	40,684	21,662
Local currency term deposit account		4,170,000	3,270,000
		4,247,360	3,324,020
Prize bonds		-	325
		4,447,089	3,454,865

5.1 This represents deposit accounts carrying markup rates ranging from 6.5% to 7.5% (2020: 6% to 8%) per annum.

5.2 This represents term deposits carrying markup rates ranging from 7.07% to 7.76% (2020: 6.7% to 12.4%) per annum having maturities within three months.

		2021	2020
		-----Rupees in '000-----	
6 BALANCES WITH OTHER BANKS			
In Pakistan (Azad Jammu and Kashmir)			
In current account		331,776	182,289
In deposit account	6.1 & 6.2	14,442,857	9,643,202
		14,774,633	9,825,491

6.1 This includes saving deposit accounts amounting Rs. 1,257,448 thousands (2020: Rs. 582,652 thousands) carrying markup rates ranging from 6.5% to 7.5% (2020: 6% to 8%) per annum.

6.2 This includes term deposits carrying markup at rates ranging between 7.10% to 20% (2020: 6.7% to 20%) per annum. Term deposits have maturities ranging from 1 month to 3 years except a term deposit for an amount of Rs. 500 million placed with a bank maturing in 2029.

	2021				2020			
	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
7 INVESTMENTS	-----Rupees in '000-----							
7.1 Investments by type								
Available-for-sale								
Units of open ended mutual funds - note 7.5	205,000	-	(21,225)	183,775	205,000	-	(19,155)	185,845
Held-to-maturity								
Term finance certificates - note 7.3	49,940	(49,940)	-	-	49,940	(49,940)	-	-
Total Investments	254,940	(49,940)	(21,225)	183,775	254,940	(49,940)	(19,155)	185,845

	2021				2020			
	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
7.2 Investments by segments	-----Rupees in '000-----							
Units of open ended mutual funds								
Units of open ended mutual funds	205,000	-	(21,225)	183,775	205,000	-	(19,155)	185,845
Non Government debt								
Unlisted Term finance certificates	49,940	(49,940)	-	-	49,940	(49,940)	-	-
Total investments	254,940	(49,940)	(21,225)	183,775	254,940	(49,940)	(19,155)	185,845

7.3 Particulars of held to maturity investment

No. of certificates 2021	2020	Name of company	Redeemable value per certificate	2021 Rupees in '000	2020	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 amount has been provided for.

2021
-----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	2021	2020
	Non performing Investments	Non performing Investments
	Provision	Provision
	-----Rupees in '000-----	
Domestic Loss	49,940	49,940

7.5 Details regarding Quality of available for sale securities is as follows:

	2021				2020			
	No. of units	Cost (Rupees in '000)	Market value (Rupees in '000)	Market value per unit (Rs)	No. of units	Cost (Rupees in '000)	Market value (Rupees in '000)	Market value per unit (Rs)
Units of open ended								
National Investment Unit Trust Fund	1,313,081	100,000	91,207	69.46	1,313,081	100,000	91,167	69.43
NIT Government Bond Fund	3,184,047	30,000	32,502	10.21	3,184,047	30,000	31,865	10.01
NIT Islamic Equity Fund	4,329,197	50,000	36,885	8.52	4,329,197	50,000	39,179	9.05
MCB Dynamic Cash Fund	207,730	25,000	23,181	111.59	213,822	25,000	23,634	110.53
		<u>205,000</u>	<u>183,775</u>			<u>205,000</u>	<u>185,845</u>	

8 ADVANCES

	Performing		Non performing		Total	
	2021	2020	2021	2020	2021	2020
	-----Rupees in '000-----					
Loans, cash credits, running finances, etc.	2,866,660	2,240,135	136,739	209,857	3,003,399	2,449,992
Advances - gross	2,866,660	2,240,135	136,739	209,857	3,003,399	2,449,992
Provision against advances						
- Specific	(79,599)	(55,719)	(108,487)	(147,620)	(188,086)	(203,339)
- General	(79,599)	(55,719)	(108,487)	(147,620)	(188,086)	(203,339)
Advances - net of provision	2,787,061	2,184,416	28,252	62,237	2,815,313	2,246,653

		2021	2020
		---- Rupees in '000 ----	
8.1	Particulars of advances (Gross)		
	In local currency	3,003,399	2,449,992

8.2 Advances include Rs. 188,955 thousand (2020: Rs. 209,857 thousand) which have been placed under non-performing status as detailed below:-

Category of classification	2021		2020	
	Non performing loans	Provision	Non performing loans	Provision
	----- Rupees in '000 -----			
Domestic				
Other assets especially mentioned	-	-	748	-
Substandard	4,627	742	17,380	2,452
Doubtful	518	259	7,769	1,141
Loss	131,594	107,486	183,960	144,027
Total	136,739	108,487	209,857	147,620

8.3 **Particulars of provision against advances**

	2021			2020		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
Opening balance	147,620	55,719	203,339	130,093	41,867	171,960
Charge for the year	37,669	23,880	61,549	37,539	13,852	51,391
Reversals	(24,586)	-	(24,586)	(20,012)	-	(20,012)
	13,083	23,880	36,963	17,527	13,852	31,379
Amounts charged off - agriculture financing	(52,216)	-	(52,216)	-	-	-
Closing balance	108,487	79,599	188,086	147,620	55,719	203,339

8.3.1 **Particulars of provision against advances**

	2021			2020		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
In local currency	108,487	79,599	188,086	147,620	55,719	203,339
	108,487	79,599	188,086	147,620	55,719	203,339

8.4 These represent non-performing advances for agriculture finance which have been classified as loss, are fully provided and are in default for more than 3 years. These non-performing advances have been charged off by extinguishing them against the provision held in accordance with the SBP's Prudential Regulations for Agriculture Financing. This charge off does not, in any way, prejudice the Bank's right of recovery from these customers.

9	FIXED ASSETS	Note	2021	2020
			-----Rupees in '000 -----	
	Capital work-in-progress	9.1	10,436	8,101
	Property and equipment	9.2	243,450	221,925
			253,886	230,026

9.1 **Capital work-in-progress**

This represents advances to suppliers in respect of purchase of vehicles and furniture.

	2021	2020
	-----Rupees in '000 -----	
Advances to suppliers	10,436	8,101

9.2.1 Property and equipment includes cost of Rs. 5,485 thousand (2020: Rs. 5,485 thousand) and accumulated depreciation amounting to Rs. 5,485 thousand (2020: Rs. 5,485 thousand) in respect of assets donated by the Government of Azad Jammu and Kashmir.

9.3 The total cost includes fixed assets of Rs.112,624 thousand (2020: Rs. 92,912 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	Cost	Accumulated depreciation	Book value	Sale proceeds
	Rupees '000			
2021				
Vehicles	1,749	1,749	-	175
2020				
Furniture and fixtures	1,525	1,525	-	1,030

The vehicle was disposed to an Executive Personnel at 10% of the cost of the vehicle as per the transport policy of the Bank.

9.5 The cost of fully depreciated fixed assets that are still in the Bank's use is as follows:

	2021	2020
	Rupees in '000	
Buildings & Lease hold improvements	26,520	14,838
Furniture and fixtures	22,847	19,269
Office equipments	15,025	13,175
Computer equipments	24,593	24,593
Vehicles	23,639	21,037
	112,624	92,912

10 INTANGIBLE ASSETS

Kashmir Council of Government of AJK acquired and donated Core Banking Information System (Helios) to the Bank under capacity building program.

11 DEFERRED TAX ASSETS

Deductible temporary differences on

- Deficit on revaluation of investments
- Provision against customer claims
- Provision against receivable from Kashmir Council
- Lease liabilities against right of use assets
- Provision against non-performing advances

Taxable temporary differences on

- Accelerated tax depreciation

2021			
At January 1 2021	Recognised in P&L A/C	Recognised in OCI	At December 31 2021
Rupees in 000			
6,704	-	724	7,428
3,101	-	-	3,101
1,685	-	-	1,685
46,519	1,963	-	48,482
-	350	-	350
58,009	2,313	724	61,046
(31,602)	567	-	(31,035)
26,407	2,880	724	30,011

2020

	At January 1 2020	Recognised in P&L A/C	Recognised in OCI	At December 31 2020
Rupees in '000				
Deductible temporary differences on				
- Deficit on revaluation of investments	9,310	-	(2,606)	6,704
- Provision against customer claims	3,101	-	-	3,101
- Provision against receivable from Kashmir Council	1,685	-	-	1,685
- Lease liabilities against right of use assets	-	46,519	-	46,519
	14,096	46,519	(2,606)	58,009
Taxable temporary differences on				
- Accelerated tax depreciation	8,330	(39,932)	-	(31,602)
	22,426	6,587	(2,606)	26,407

12 OTHER ASSETS

	Note	2021 Rupees in '000	2020 Rupees in '000
Income/ mark-up accrued in local currency - net of provision	12.1	1,040,052	840,757
Advances, deposits, advance rent and other prepayments		419	3,206
Advance taxation		-	-
Branch adjustment account		-	-
Stationery and stamps in hand		4,322	3,526
Others		6,633	7,453
		1,051,426	854,942
Less: Provision held against other assets	12.2	(4,815)	(4,815)
Other assets (net of provision) - total		1,046,611	850,127

12.1 This balance has been arrived at after adjusting interest in suspense account of Rs. 128,011 thousand (2020: Rs. 106,721 thousand).

	Note	2021 Rupees in '000	2020 Rupees in '000
12.2 Provision held against other assets			
Receivable from Kashmir Council	12.3	4,815	4,815
12.3 Movement in provision held against other assets			
Opening balance		4,815	4,815
Closing balance		4,815	4,815

13 BILLS PAYABLE

In Pakistan	158,180	67,414
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14 DEPOSITS AND OTHER ACCOUNTS

	2021			2020		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
-----Rupees in '000 -----						
Customers						
Current deposits	5,004,027	-	5,004,027	3,645,063	-	3,645,063
Savings deposits	8,090,461	-	8,090,461	6,821,386	-	6,821,386
Term deposits	4,062,072	-	4,062,072	2,950,163	-	2,950,163
Others	114,063	-	114,063	283,728	-	283,728
	17,270,623	-	17,270,623	13,700,340	-	13,700,340

14.1 Composition of deposits

- Individuals
- Government
- Private sector

	2021	2020
	-----Rupees in '000 -----	
	8,765,471	7,978,416
	8,332,479	5,439,545
	172,673	282,379
	17,270,623	13,700,340

15 LEASE LIABILITIES AGAINST RIGHT OF USE ASSETS

Lease liabilities included in the statement of financial position

of which are:

- Current lease liability
- Non current lease liability

	2021	2020
	-----Rupees in 000 -----	
	138,519	132,911
	22,537	17,969
	115,982	114,942
	138,519	132,911

Maturity analysis - contractual undiscounted cashflows

- Less than one year
- One to five years
- More than five years
- Total undiscounted lease liabilities

	37,586	33,572
	122,234	133,419
	31,910	21,000
	191,730	187,991

15.1 The lease contracts are signed by the Bank for the premises of its branches. The terms of lease contracts range from 3 years to 15 years. The internal borrowing rates used for discounting of lease cashflows range from 7.67% to 14.51%.

16 OTHER LIABILITIES

- Mark-up/ return/ interest payable in local currency
- Accrued expenses
- Income tax payable
- Branch adjustment account
- Provision for bonus to employees
- Provision against customer claims
- Leave encashment
- Education cess
- Others

16.1	247,452	219,505
	4,149	3,097
	64,935	33,971
	102,067	159,152
	24,001	20,000
	8,861	8,861
	48,242	50,814
	19,186	11,173
	44,217	27,586
	563,110	534,159

16.1 It includes an amount of Rs. 100,571 thousand (2020: Rs. 70,907 thousand) on account of interest payable to related parties.

17 SHARE CAPITAL

17.1 Authorized capital

2021	2020		2021	2020
Number of shares			Rupees in '000	
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs. 10 each	<u>10,000,000</u>	<u>10,000,000</u>

17.2 Issued, subscribed and paid up share capital

2021	2020		2021	2020
Number of shares			Rupees in '000	
		<u>Ordinary shares</u>		
411,794,220	131,794,261	Fully paid in cash	4,117,942	1,317,942
97,480,900	76,181,739	Issued as bonus shares	974,809	761,817
5,015,200	5,015,200	Issued for consideration other than cash	50,152	50,152
<u>514,290,320</u>	<u>212,991,200</u>		<u>5,142,903</u>	<u>2,129,911</u>

17.3 During last year, the Government of Azad Jammu and Kashmir allocated an amount of Rs. 4,000,000 thousands to the Bank, out of which, the Bank had received an amount of Rs. 1,000,000 thousands till the last year end as an equity injection. During the year, the Bank received an amount of Rs. 2,800,000 thousands from the Government of Azad Jammu and Kashmir and has issued 280 million shares of Rs. 10 each to the Government of Azad Jammu and Kashmir accordingly.

17.4 The Government of Azad Jammu and Kashmir and Behbood Fund & Group Insurance - Government autonomous body own 100% percent of ordinary shares of the Bank as on December 31, 2021 in proportion of 97.59% and 2.41% (2020: 94.7% and 5.3%) respectively.

17.5 Reconciliation of number of ordinary shares

	Note	2021	2020	2021	2020
		Number of shares		Rupees in 000	
Shares at the beginning of the year		212,991,200	102,719,274	2,129,911	1,027,192
Bonus shares issued during the year	17.6	21,299,120	10,271,926	212,992	102,719
Shares issued against cash consideration		280,000,000	100,000,000	2,800,000	1,000,000
Shares at the year end		<u>514,290,320</u>	<u>212,991,200</u>	<u>5,142,903</u>	<u>2,129,911</u>

17.6 During the year the Bank has issued 21,299,120 (2020: 10,271,926) bonus shares amounting to Rs. 212,992 thousand (2020: Rs. 102,719 thousand) to its shareholders.

18 This represents statutory reserve voluntarily created by the Bank in accordance with Section 21 (i) of Banking Companies Ordinance, 1962. The Bank has transferred 20% of profits since the incorporation to the reserve account during the year.

19 DEFICIT ON REVALUATION OF ASSETS

	Note	2021	2020
		Rupees in '000	
Deficit on revaluation of:			
- Available for sale securities	7.1	(21,225)	(19,155)
Deferred tax on deficit on revaluation of:			
- Available for sale securities		7,428	6,704
		<u>(13,797)</u>	<u>(12,451)</u>

20 CONTINGENCIES AND COMMITMENTS

Guarantees	20.1	19,586	49,622
Commitments	20.2	52,484	79,180
Bills for collection	20.3	58,235	14,601
		<u>130,305</u>	<u>143,403</u>

	Note	2021 -----Rupees in 000-----	2020
20.1 Guarantees			
Financial guarantees		<u>19,586</u>	<u>49,622</u>
20.2 Commitments			
Loan sanctioned but not disbursed		<u>23,153</u>	<u>33,319</u>
Unavailed running finance		<u>29,331</u>	<u>45,861</u>
		<u>52,484</u>	<u>79,180</u>
20.3 Bills for collection	20.3.1	<u>58,235</u>	<u>14,601</u>
20.3.1 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.			
21 MARK-UP/ RETURN/ INTEREST EARNED	Note	2021 ----- Rupees in 000 -----	2020
On:			
a) Loans and advances	21.1	<u>387,750</u>	<u>276,674</u>
b) Balances with banks		<u>1,284,815</u>	<u>1,234,872</u>
		<u>1,672,565</u>	<u>1,511,546</u>
21.1 This includes an amount of Rs.1,351 thousands (2020: Rs. 2,330 thousand) on account of interest earned on advances given to related parties.			
22 MARK-UP/ RETURN/ INTEREST EXPENSED	Note	2021 -----Rupees in '000-----	2020
On:			
Deposits	22.1	<u>655,249</u>	<u>721,219</u>
Lease liability		<u>13,095</u>	<u>16,034</u>
		<u>668,344</u>	<u>737,253</u>
22.1 This includes an amount of Rs. 219,803 thousand (2020: Rs. 205,873 thousand) on account of interest expense on related party deposits.			
23 FEE AND COMMISSION INCOME		2021 -----Rupees in '000-----	2020
Branch banking customer fees		<u>2,861</u>	<u>2,176</u>
Commission on cheques books		<u>4,754</u>	<u>4,026</u>
Credit related fees		<u>6,055</u>	<u>5,540</u>
Commission on guarantees		<u>535</u>	<u>831</u>
Commission on remittances (including home remittances)		<u>1,463</u>	<u>794</u>
Commission on utility bills		<u>5,229</u>	<u>4,607</u>
Postage		<u>587</u>	<u>506</u>
Others		<u>2,434</u>	<u>188</u>
		<u>23,918</u>	<u>18,668</u>

	Note	2021 -----Rupees in '000-----	2020
24 OTHER INCOME			
Gain on sale of fixed assets		175	1,030
Site visits and fee collection charges		4,620	4,666
Others		4	-
		<u>4,799</u>	<u>5,696</u>
25 OPERATING EXPENSES			
Total compensation expense	25.1	362,681	321,490
Property expense			
Rent & taxes		16	385
Insurance		1,206	1,170
Utilities cost		21,765	17,895
Security (including guards)		31,717	29,911
Repair & maintenance (including janitorial charges)		10,067	8,907
Depreciation on right of use asset		30,209	29,049
Depreciation		7,345	7,952
		<u>102,325</u>	<u>95,269</u>
Information technology expenses			
Software maintenance		17,895	13,857
Hardware maintenance		2,516	2,031
Depreciation		5,396	5,797
Network charges		7,095	6,185
		<u>32,902</u>	<u>27,870</u>
Other operating expenses			
Directors' fees and allowances		3,568	3,858
Legal & professional charges		6,099	399
Travelling & conveyance		11,296	6,078
Depreciation		10,007	10,022
Entertainment		13,832	9,005
Training & development		132	342
Postage & courier charges		3,638	3,522
Communication		4,209	3,579
Stationery & printing		13,013	11,198
Marketing, advertisement & publicity		3,406	1,324
Auditors remuneration	25.2	2,415	2,178
Others		30,533	23,252
		<u>102,148</u>	<u>74,757</u>
		<u>600,056</u>	<u>519,386</u>
25.1 Total compensation expense			
Fees and allowances etc.		170,492	159,262
Managerial remuneration		-	-
i) Fixed		29,920	25,386
ii) Variable - cash bonus		7,296	6,304
Contribution to defined contribution plan		16,814	11,939
Contribution to defined gratuity fund		60,294	52,082
Rent & house maintenance		13,336	11,543
Utilities		14,669	14,487
Medical		49,860	40,487
Conveyance		<u>362,681</u>	<u>321,490</u>

		2021		2020	
		-----Rupees in '000-----			
25.2	Auditors' remuneration	Note			
	Audit fee		2,205	1,980	
	Out-of-pocket expenses		210	198	
			<u>2,415</u>	<u>2,178</u>	
26	PROVISIONS AND WRITE OFFS - NET				
	Charge of provisions against loans & advances - net	8.3	36,963	31,379	
	Insurance claims received		-	-	
			<u>36,963</u>	<u>31,379</u>	
27	TAXATION				
	Current		168,081	111,725	
	Deferred		(2,880)	(6,587)	
			<u>165,201</u>	<u>105,138</u>	
27.1	Relationship between tax expense and accounting profit				
			2021	2020	
	%	Rupees in '000'	%	Rupees in '000'	
	Profit before taxation	402,843		257,826	
	Applicable tax rate / expense	35%	140,995	35.00%	90,239
	Super tax	4%	16,114	4.44%	11,459
	Expense not allowed	2%	6,090	1.33%	3,440
	Actual tax rate / expense	41%	163,199	40.77%	105,138
	Total tax charge as per financial statements		<u>165,201</u>	<u>105,138</u>	
28	BASIC AND DILUTED EARNINGS PER SHARE		2021	2020	
			-----Rupees in '000-----		
				Restated	
	Profit for the year		<u>237,642</u>	<u>152,688</u>	
	Weighted average number of ordinary shares (Number)		<u>300,262,923</u>	<u>229,253,257</u>	
	Basic and diluted earnings per share (Rupees)		<u>0.79</u>	<u>0.67</u>	
29	CASH AND CASH EQUIVALENTS		2021	2020	
			----- Rupees in '000 -----		
	Cash and balance with treasury banks		2,947,089	3,454,865	
	Balance with other banks		8,253,264	7,278,458	
		29.1	<u>11,200,353</u>	<u>10,733,323</u>	
29.1	Cash and cash equivalents include the cash in hand, balances in savings deposits and term deposits with maturity of less than 3 months.				
30	STAFF STRENGTH		2021	2020	
			----- Number -----		
	Permanent		268	266	
	On bank contract		161	149	
	Bank's own staff strength at the end of the year		<u>429</u>	<u>415</u>	
	Outsourced		138	133	
	Total staff strength at the end of the year		<u>567</u>	<u>548</u>	

31 DEFINED CONTRIBUTION PLANS

31.1 General description

General description of the type of defined contribution plans and policy is disclosed in note 4.10 to these financial statements.

31.2 Gratuity

The Bank contributed Rs. 16,814 thousand (2020: Rs. 11,939 thousand) for 268 (2020: 266) of its permanent employees during the year towards employees gratuity fund.

31.3 Provident fund

The Bank contributed Rs. 7,296 thousand (2020: Rs. 6,304 thousand) in respect of 268 (2020: 266) of its employees during the year towards employees contributory provident fund.

32 COMPENSATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

32.1 Total compensation expense

Item	2021			
	Directors		President	Key management personnel
	Chairman	Non-Executives		
	Rupees in '000			
Fees and Allowances etc.	-	-	5,900	16,611
Managerial Remuneration				
i) Fixed	-	-	-	-
ii) Variable (bonus)	100	2,725	1,066	1,809
Contribution to defined contribution provident fund	-	-	-	1,798
Contribution to defined contribution gratuity fund	-	-	557	3,431
Rent & house maintenance	-	-	1,499	7,475
Utilities	-	-	268	1,661
Medical	-	-	297	1,661
Conveyance	-	-	-	2,268
Vehicle	-	-	-	-
Boarding & lodging	-	-	-	-
Fuel expense	-	-	500	-
Others (mobile charges, TA & DA)	-	743	743	4,455
Total	100	3,468	10,830	41,169
Number of Persons	1	7	1	13

Item	2020			
	Directors		President	Key management personnel
	Chairman	Non-Executives		
	Rupees in '000			
Fees and Allowances etc.	-	-	-	-
Managerial Remuneration				
i) Fixed	200	3,025	5,207	13,307
ii) Variable (Bonus)	-	-	14	1,974
Contribution to defined contribution provident fund	-	-	-	1,280
Contribution to defined contribution gratuity fund	-	-	441	1,271
Rent & house maintenance	-	-	1,212	5,988
Utilities	-	-	236	1,331
Medical	-	-	105	1,331
Conveyance	-	-	-	2,925
Vehicle	-	-	-	-
Boarding & lodging	-	-	401	-
Fuel expense	-	613	408	2,226
Others (mobile charges, TA & DA)	-			
Total	200	3,638	8,024	31,633
Number of Persons	1	7	1	9

2021

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	Special committee	
----- Rupees in '000' -----						
1 Mr. Abdul Majid Khan	50	-	-	-	-	50
2 Mr.Shakeel Qadir	50	-	-	-	-	50
3 Mr Haque Nawaz	75	-	-	-	-	75
4 Dr. Shahzad Khan Bangash	50	-	-	-	-	50
5 Mr. Asmatullah Shah	150	150	150	75	125	650
6 Ejaz Hussain Rathore	150	-	150	75	125	500
7 Naveed Sadiq	75	-	-	-	-	75
8 Mr.Raja Mumtaz Ali	125	150	150	-	-	425
9 Mr.Fayyaz Ali Abbasi	125	-	125	25	-	275
10 Mr.Mohammad Ahsen	75	100	-	50	-	225
11 Mr. Syed Zahoor Gillani	150	50	-	75	-	275
12 Mr.Irshad Ahmed Qureshi	25	-	-	-	-	25
13 Mr. Mubashar Nabi	25	-	-	-	-	25
14 Syed Haider Abbas	25	-	-	-	-	25
15 Mr.Zulfiqar Abbasi	25	-	-	-	-	25
16 Mr.Ehsan Khalid	50	-	25	-	-	75
Total amount paid	1,225	450	600	300	250	2,825

2020

Name of director	Meeting fees and allowances paid					Total amount paid
	For board meetings	For board committees				
		Board executive	Board audit committee	Board IT committee		
----- Rupees in '000' -----						
1 Dr Shahzad Khan Bangash	75	-	-	-	-	75
2 Mather Niaz Rana	125	-	-	-	-	125
3 Asmatullah Shah	200	200	175	25	75	675
4 Ejaz Hussain Rathore	200	-	175	50	150	575
5 Naveed Sadiq	200	-	-	-	-	200
6 Mr.Raja Mumtaz Ali	200	50	175	-	75	500
7 Mr.Fayyaz Ali Abbasi	200	-	175	-	-	375
8 Muhammed Ahsan	175	175	-	75	-	425
9 Syed Zahoor Gillani	200	-	-	50	-	250
Total amount paid	1,575	425	700	200	300	3,200

33 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 and fixed term deposits 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.

33.1 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 categorized. There was no transfer between the fair value levels during the year.

	2021			
	Level 1	Level 2	Level 3	Total
	-----Rupees in '000-----			
On balance sheet financial instruments				
Financial assets - measured at fair value				
Investments				
Mutual funds	183,775	-	-	183,775
	2020			
	Level 1	Level 2	Level 3	Total
	-----Rupees in '000-----			
On balance sheet financial instruments				
Financial assets - measured at fair value				
Investments				
Mutual funds	185,845	-	-	185,845

34 SEGMENT INFORMATION

34.1 Segment details with respect to Business Activities

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

	2021			
	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services
	-----Rupees in '000-----			
Profit and loss				
Net mark-up/ return/ profit	354,296	649,925	-	-
Non mark-up / return / interest income	127	11,335	16,667	7,512
Total income	354,423	661,260	16,667	7,512
Segment direct expenses	(124,501)	(467,061)	(5,855)	(2,639)
Total expenses	(124,501)	(467,061)	(5,855)	(2,639)
Provisions charged / (reversal)	(50,663)	87,626	-	-
Profit before tax	280,585	106,573	10,812	4,873

Statement of financial position

	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Total
Rupees in '000					
Cash & bank balances	-	19,221,722	-	-	19,221,722
Investments	-	183,775	-	-	183,775
Advances - performing	2,640,261	226,399	-	-	2,866,660
- non-performing	41,238	95,501	-	-	136,739
- provision	(116,753)	(71,333)	-	-	(188,086)
Operating fixed assets	52,677	197,615	2,477	1,117	253,886
Deferred tax asset	6,227	23,359	293	132	30,011
Others	929,941	116,577	64	29	1,046,611
Total assets	3,553,591	19,993,615	2,834	1,278	23,551,318
Bills payable	-	158,180	-	-	158,180
Deposits and other accounts	-	17,270,623	-	-	17,270,623
Lease liability against right of use asset	28,740	107,818	1,351	610	138,519
Others	32,228	428,777	102,093	12	563,110
Total liabilities	60,968	17,965,398	103,444	622	18,130,432
Equity	3,492,623	2,028,217	(100,610)	656	5,420,886
Total equity and liabilities	3,553,591	19,993,615	2,834	1,278	23,551,318
Contingencies and commitments	23,153	29,331	58,235	19,586	130,305

Profit and loss

	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Total
2020 Rupees in '000					
Net mark-up/return/profit	228,253	546,040	-	-	774,293
Non mark-up / return / interest income	1,159	14,447	14,047	4,645	34,298
Total Income	229,412	560,487	14,047	4,645	808,591
Segment direct expenses	(77,080)	(436,025)	(4,720)	(1,561)	(519,386)
Total expenses	(77,080)	(436,025)	(4,720)	(1,561)	(519,386)
Provisions charged / (reversal)	(25,835)	(5,544)	-	-	(31,379)
Profit before tax	126,497	118,918	9,327	3,084	257,826

Statement of financial position

	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Total
Rupees in '000					
Cash & bank balances	-	13,280,356	-	-	13,280,356
Investments	-	185,845	-	-	185,845
Advances - performing	1,844,384	395,751	-	-	2,240,135
- non-performing	172,783	37,074	-	-	209,857
- provision	(167,416)	(35,923)	-	-	(203,339)
Operating fixed assets	34,137	193,107	2,090	692	230,026
Deferred tax asset	3,919	22,169	240	79	26,407
Others	693,616	156,398	85	28	850,127
Total assets	2,581,423	14,234,777	2,415	799	16,819,414
Bills payable	-	67,414	-	-	67,414
Deposits and other accounts	-	13,700,340	-	-	13,700,340
Lease liability against right of use asset	19,725	111,579	1,208	399	132,911
Others	24,878	348,660	160,614	7	534,159
Total liabilities	44,603	14,227,993	161,822	406	14,434,824
Equity	2,536,820	6,784	(159,407)	393	2,384,590
Total Equity and liabilities	2,581,423	14,234,777	2,415	799	16,819,414
Contingencies and Commitments	32,319	96,483	14,601	-	143,403

35 TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities.

36 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 Banks 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:

2021			2020		
Government of Azad Jammu & Kashmir and its related department	Directors	Key management personnel	Government of Azad Jammu & Kashmir and its related department	Directors	Key management personnel
----- Rupees in '000 -----					
Advances					
Opening balance	-	-	32,503	210,992	-
Addition during the year	-	-	31,778	-	-
Repaid during the year	-	-	(3,250)	(210,992)	-
Closing balance	-	-	61,031	-	39,176
Deposits and other accounts					
Opening balance	5,439,545	-	663	4,542,797	-
Received/Withdrawal during the year	2,892,934	-	3,721	896,748	-
Closing balance	8,332,479	-	4,384	5,439,545	-
Other Liabilities					
Interest / mark-up payable	100,571	-	-	70,907	-
Transactions during the year					
Income					
Mark-up / return / interest earned	-	-	1,351	2,330	-
Other Income	-	-	175	-	-
	-	-	1,526	2,330	-
Expense					
Mark-up / return / interest paid	219,715	-	88	205,873	-
Operating expenses	-	3,568	51,999	-	3,838
	219,715	3,568	52,087	205,873	3,838

9.2 Property and equipment

At January 1, 2021

Cost
Accumulated depreciation
Net book value

2021								
Freehold land	Building on freehold land	Leasehold improvements	Furniture and fixture	Office equipment	Computers	Vehicles	Right of use asset	Total
Rupees '000								
40,400	14,407	55,286	80,656	31,259	37,464	28,605	178,939	467,016
-	(11,104)	(40,464)	(52,161)	(23,282)	(31,864)	(26,902)	(59,314)	(245,091)
40,400	3,303	14,822	28,495	7,977	5,600	1,703	119,625	221,925

Year ended December 2021

Opening net book value
Additions
Disposals
Cost
Accumulated depreciation
Depreciation charge
Closing net book value

40,400	3,303	14,822	28,495	7,977	5,600	1,703	119,625	221,925
-	-	9,774	11,205	3,349	8,999	10,471	30,684	74,482
-	-	-	-	-	-	(1,749)	(1,895)	(3,644)
-	-	-	-	-	-	1,749	1,895	3,644
-	(1,275)	(6,136)	(7,648)	(3,140)	(2,334)	(2,215)	(30,209)	(52,957)
40,400	2,028	18,460	32,052	8,186	12,265	9,959	120,100	243,450

At December 31, 2021

Cost
Accumulated depreciation
Net book value
Rate of depreciation (percentage)

40,400	14,407	65,060	91,861	34,608	46,463	37,327	207,728	537,854
-	(12,379)	(46,600)	(59,809)	(26,422)	(34,198)	(27,368)	(87,628)	(294,404)
40,400	2,028	18,460	32,052	8,186	12,265	9,959	120,100	243,450
-	10	20	10-20	20	20	20	6% - 33%	

At January 1, 2020

Cost
Accumulated depreciation
Net book value

2020								
Free hold land	Building on freehold land	Leasehold improvements	Furniture and fixture	Office equipment	Computers	Vehicles	Right of use asset	Total
Rupees '000								
40,400	14,407	53,679	78,503	28,538	34,722	30,130	151,366	431,745
-	(9,684)	(33,549)	(44,581)	(20,217)	(29,150)	(26,350)	(30,265)	(193,796)
40,400	4,723	20,130	33,922	8,321	5,572	3,780	121,101	237,949

Year ended December 2020

Opening net book value
Additions
Disposals
Cost
Accumulated depreciation
Depreciation charge
Closing net book value

40,400	4,723	20,130	33,922	8,321	5,572	3,780	121,101	237,949
-	-	1,607	2,153	2,721	2,742	-	27,573	36,796
-	-	-	-	-	-	(1,525)	-	(1,525)
-	-	-	-	-	-	1,525	-	1,525
-	(1,420)	(6,915)	(7,580)	(3,065)	(2,714)	(2,077)	(29,049)	(52,820)
40,400	3,303	14,822	28,495	7,977	5,600	1,703	119,625	221,925

At December 31, 2020

Cost
Accumulated depreciation
Net book value
Rate of depreciation (percentage)

40,400	14,407	55,286	80,656	31,259	37,464	28,605	178,939	467,016
-	(11,104)	(40,464)	(52,161)	(23,282)	(31,864)	(26,902)	(59,314)	(245,091)
40,400	3,303	14,822	28,495	7,977	5,600	1,703	119,625	221,925
-	10%	20%	10%-20%	20%	20%	20%	6% - 33%	

	2021	2020
	-----Rupees in '000-----	
Minimum capital requirement (MCR)		
Paid-up capital (net of losses)	<u>10,000,000</u>	<u>10,000,000</u>
Capital adequacy ratio (CAR)		
Eligible common equity tier 1 (CET 1) capital	<u>5,165,646</u>	<u>2,397,041</u>
Eligible additional tier 1 (ADT 1) capital	<u>-</u>	<u>-</u>
Total regulatory adjustment applied to CET1	<u>-</u>	<u>-</u>
Total eligible Tier 1 capital	<u>5,165,646</u>	<u>2,397,041</u>
Eligible tier 2 capital	<u>65,802</u>	<u>43,268</u>
Total eligible capital (Tier 1 + Tier 2)	<u>5,231,448</u>	<u>2,440,309</u>
Risk weighted assets (RWAs):		
Credit risk	<u>8,697,335</u>	<u>6,234,069</u>
Market risk	<u>459,438</u>	<u>371,690</u>
Operational risk	<u>1,517,260</u>	<u>1,227,059</u>
Total	<u>10,674,032</u>	<u>7,832,818</u>
Common equity tier 1 capital adequacy ratio	<u>48.39%</u>	<u>30.60%</u>
Tier 1 capital adequacy ratio	<u>48.39%</u>	<u>30.60%</u>
Total capital adequacy ratio	<u>49.01%</u>	<u>31.15%</u>

The SBP through its BSD Circular No. 07 dated April 15, 2009 has prescribed the minimum paid-up capital (net of accumulated losses) for Banks to be raised to Rs.10,000 million by the year ending December 31, 2015. The paid-up capital of the Bank for the year ended December 31, 2021 stood at Rs.5,445 million (2020: Rs.2,397 million). Banks are also required to maintain a minimum CAR of 10.00% plus capital conservation buffer of 2.50% and High Loss Absorbency Requirement of 1.00% of the risk weighted exposures of the Bank.

In order to dampen the effects of COVID-19, the State Bank of Pakistan under BPRD Circular Letter No. 12 of 2020 has given a regulatory relief and reduced the Capital Conservation Buffer (CCB) as prescribed vide BPRD Circular No. 6 of August 15, 2013, for the time being, from its existing level of 2.50% to 1.50%, till further instructions.

Further, under Basel III instructions, Banks are also required to maintain a Common Equity Tier 1 (CET 1) ratio and Tier 1 ratio of 6.00% and 7.50%, respectively, as at December 31, 2021.

Under the current capital adequacy regulations, credit risk and market risk exposures are measured using the Standardised Approach and operational risk is measured using the Basic Indicator Approach. Credit risk mitigants are applied against the Bank's exposures based on eligible collateral under comprehensive approach.

	2021	2020
	-----Rupees-----	
Leverage ratio (LR)		
Eligible tier-1 capital	<u>5,165,646</u>	<u>2,384,590</u>
Total exposures	<u>23,681,623</u>	<u>16,963,817</u>
Leverage ratio	<u>22%</u>	<u>14%</u>
Liquidity coverage ratio (LCR)		
Total high quality liquid assets	<u>19,221,722</u>	<u>13,280,356</u>
Total net cash outflow	<u>5,953,917</u>	<u>3,948,564</u>
Liquidity coverage ratio	<u>323%</u>	<u>336%</u>
Net stable funding ratio (NSFR)		
Total available stable funding	<u>13,209,976</u>	<u>9,819,306</u>
Total required stable funding	<u>10,970,802</u>	<u>7,749,991</u>
Net stable funding ratio	<u>120%</u>	<u>127%</u>

38 RISK MANAGEMENT

The Bank's activities expose 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 industry practices.

38.1 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.

38.1.1 Investment in debt securities

Credit risk by industry sector

	Gross investments		Non-performing investments		Provision held	
	2021	2020	2021	2020	2021	2020
	Rupees in '000					
Government bonds	-	-	-	-	-	-
Construction- TFC	49,940	49,940	(49,940)	(49,940)	(49,940)	(49,940)
	49,940	49,940	(49,940)	(49,940)	(49,940)	(49,940)

Credit risk by public / private sector

Public	-	-	-	-	-	-
Private	49,940	49,940	(49,940)	(49,940)	(49,940)	(49,940)
	49,940	49,940	(49,940)	(49,940)	(49,940)	(49,940)

38.1.2 Advances

Credit risk by industry sector

	Gross advances		Non-performing advances		Provision held	
	2021	2020	2021	2020	2021	2020
	Rupees in '000					
Agriculture, Forestry, Hunting and Fishing	58,400	71,149	57,152	63,564	57,152	50,882
Wholesale and Retail Trade	275,944	294,589	59,882	62,177	35,623	22,094
Individuals	2,680,006	2,026,263	41,238	51,922	37,244	43,487
Others	41,214	57,991	30,684	32,267	30,684	31,157
	3,055,564	2,449,992	188,956	209,930	160,703	147,620

Credit risk by public / private sector

Public/ Government	-	-	-	-	-	-
Private	3,003,399	2,449,922	188,956	209,930	108,487	147,620
	3,003,399	2,449,922	188,956	209,930	108,487	147,620

38.1.3 Contingencies and Commitments

Credit risk by industry sector

	2021	2020
	-----Rupees '000-----	
Wholesale and Retail Trade	29,331	49,622
Individuals	81,388	79,180
Others	19,586	14,601
	<u>130,305</u>	<u>143,403</u>

Credit risk by public / private sector

Public/ Government	19,586	14,601
Private	110,719	128,802
	<u>130,305</u>	<u>143,403</u>

38.1.4 Concentration of Advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs 186,348 thousand (2020: Rs. 227,015 thousand) are as following:

	2021	2020
	-----Rupees in '000-----	
Funded	166,762	177,393
Non funded	19,586	49,622
Total exposure	<u>186,348</u>	<u>227,015</u>

The sanctioned limits against these top 10 exposures aggregated to Rs 184,500 thousand (2020: Rs. 203,500 thousand)

Total funded classified therein

	2021		2020	
	Amount	Provision held	Amount	Provision held
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	52,448	28,448	52,448	14,461
Total	<u>52,448</u>	<u>28,448</u>	<u>52,448</u>	<u>14,461</u>

38.1.5 Advances - Province/Region-wise Disbursement & Utilization

Total amount of disbursement and utilization is in Azad Jammu and Kashmir of Rs. 1,733,356 thousands (2020: 2,686,163 thousands)

38.2 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.

38.2.1 Balance sheet split by trading and banking books

	2021			2020		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	----- Rupees in '000-----					
Cash and balances with treasury banks	4,447,089	-	4,447,089	3,454,865	-	3,454,865
Balances with other banks	14,774,633	-	14,774,633	9,825,491	-	9,825,491
Investments	-	183,775	183,775	-	185,845	185,845
Advances	2,815,313	-	2,815,313	2,246,653	-	2,246,653
Fixed assets	253,886	-	253,886	230,026	-	230,026
Deferred tax assets	30,011	-	30,011	26,407	-	26,407
Other assets	1,046,611	-	1,046,611	850,127	-	850,127
	23,367,543	183,775	23,551,318	16,633,569	185,845	16,819,414

38.2.2 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.

38.2.3 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.

Assets and Liabilities Committee (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.

2021		2020	
Banking book	Trading book	Banking book	Trading book
----- Rupees in '000-----			

Impact of 5% change in equity prices on:

- Other comprehensive income

-	9,189	-	9,292
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38.2.4 Yield / Interest Rate Risk in the Banking Book (IRRBB)-Basel 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 then translated into Rupees)

2021		2020	
Banking book	Trading book	Banking book	Trading book
-----Rupees in '000-----			
(34,869)	-	(8,143)	-
	(1,838)	-	(1,858)

Impact of 1% change in interest rates on

- Profit and loss account
- Other comprehensive income

38.2.5 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	2021 Exposed to Yield/ Interest risk									Non-interest bearing financial instruments
		Upto 1	Over 1	Over 3	Over 6	Over 1	Over 2	Over 3	Over 5	Over 10	
		Month	to 3 Months	to 6 Months	Months to 1 Year	to 2 Years	to 3 Years	to 5 Years	to 10 Years	Above 10 Years	
		Rupees in '000									
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	6.89%	4,447,089	40,684	2,670,000	1,500,000	-	-	-	-	-	236,405
Balances with other banks	6.89%	14,774,633	1,257,448	6,664,040	5,721,369	-	-	-	-	800,000	331,776
Investments	3.77%	183,775	-	-	-	-	-	-	-	-	183,775
Advances	13.77%	2,815,313	124,613	126,656	90,567	228,728	143,174	295,309	1,615,744	2,978	-
Other assets		1,040,052	-	-	-	-	-	-	-	-	1,040,052
		23,260,862	1,422,745	9,460,696	7,311,936	228,728	143,174	295,309	1,615,744	802,978	1,792,008
Liabilities											
Bills payable		158,180	-	-	-	-	-	-	-	-	158,180
Deposits and other accounts	3.79%	17,270,623	2,725,432	2,927,582	3,062,632	5,622,732	11,886	29,920	209,143	-	2,681,296
Liability against right of use asset		138,519	1,811	3,704	5,502	11,597	23,606	21,205	43,597	27,497	-
Other liabilities		416,826	-	-	-	-	-	-	-	-	416,826
		17,984,148	2,727,243	2,931,286	3,068,134	5,634,329	35,492	51,125	252,740	27,497	3,256,302
On-balance sheet gap		5,276,714	(1,304,498)	6,529,410	4,243,802	(5,405,601)	107,682	244,184	1,363,004	775,481	187,544
Off-balance sheet financial instruments											
Commitments to extend credit		52,484	52,484	-	-	-	-	-	-	-	-
Off-balance sheet gap		52,484	52,484	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(1,356,982)	6,529,410	4,243,802	(5,405,601)	107,682	244,184	1,363,004	775,481	187,544
Cumulative Yield/Interest Risk Sensitivity Gap			(1,356,982)	5,172,428	9,416,230	4,010,629	4,118,311	4,362,495	5,725,499	6,500,980	6,688,524

Effective Yield/ Interest rate	Total	2020 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												
<u>Assets</u>												
Cash and balances with treasury banks	9.55%	3,454,865	2,041,987	1,250,000	-	-	-	-	-	-	-	162,878
Balances with other banks	9.55%	9,825,492	2,124,815	5,062,499	1,401,461	254,428	-	-	300,000	500,000	-	182,289
Investments	5.35%	185,845	-	-	-	-	-	-	-	-	-	185,845
Advances	12.31%	2,246,653	433,039	45,814	77,079	222,096	174,757	207,089	1,075,032	11,747	-	-
Other assets		846,921	-	-	-	-	-	-	-	-	-	846,921
		16,559,776	4,599,841	6,358,313	1,478,540	476,524	174,757	207,089	1,375,032	511,747	-	1,377,933
<u>Liabilities</u>												
Bills payable		67,414	-	-	-	-	-	-	-	-	-	67,414
Deposits and other accounts	5.26%	13,689,340	2,117,922	2,244,616	2,452,816	3,895,886	42,720	42,858	211,226	-	-	2,681,296
liability against right of use asset		132,911	1,515	1,542	4,712	9,783	19,034	19,546	29,930	46,849	-	-
Other liabilities		219,505	-	-	-	-	-	-	-	-	-	219,505
		14,109,170	2,119,437	2,246,158	2,457,528	3,905,669	61,754	62,404	241,156	46,849	-	2,968,215
		2,450,606	2,480,404	4,112,155	(978,988)	(3,429,145)	113,003	144,685	1,133,876	464,898	-	(1,590,282)
On-balance sheet gap												
Off-balance sheet financial instruments												
Commitments to extend credit		79,180	79,180	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap												
			2,401,224	4,112,155	(978,988)	(3,429,145)	113,003	144,685	1,133,876	464,898	-	(1,590,282)
Cumulative Yield/Interest Risk Sensitivity Gap												
			2,401,224	6,513,379	5,534,391	2,105,246	2,218,249	2,362,934	3,496,810	3,961,708	3,961,708	(1,590,282)

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

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

	2021	2020
	-----Rupees in '000-----	
Reconciliation of total assets		
Total financial assets	23,260,862	16,559,775
Add: Non financial assets		
Operating fixed assets	253,886	230,026
Other assets	6,559	3,206
Deferred tax asset	30,011	26,407
	290,456	259,639
Balance as per balance sheet	23,551,318	16,819,414

	2021	2020
	-----Rupees in '000-----	
Reconciliation of total liabilities		
Total financial liabilities	17,984,148	14,434,824
Add: Non financial liabilities		
Other Liabilities	146,284	-
Deferred govt. grant	-	-
	146,284	-
Balance as per balance sheet	18,130,432	14,434,824

38.3 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.

38.3.1 Operational Risk-Disclosures Basel II Specific

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.

38.4 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. To mitigate this risk, the Board of Directors have put in place an assets and liabilities committee (ALCO), which manages specific assets with liquidity in mind and monitors the liquidity position regularly. The purpose of liquidity management is to ensure that there are sufficient cash flows to meet all of the Bank's liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage to the Bank's reputation.

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

[illegible]

2020

Assets

Total	Upto 1 Day	Over 1 to 7 days	Over 7 to 14 days	Over 14 days to 1 Month	Over 1 to 2 Months	Over 2 to 3 Months	Over 3 to 6 Months	Over 6 to 9 Months	Over 9 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 Years	Over 5 Years
Rupees in '000													
Cash and balances with treasury banks	3,454,865	71,124	497,873	497,873	1,137,995	625,000	625,000	-	-	-	-	-	-
Balances with other banks	9,825,491	70,012	490,088	490,086	1,120,200	2,554,036	2,554,036	1,447,033	150,000	150,000	-	300,000	500,000
Investments	185,845	-	-	-	-	-	-	-	92,922	92,923	-	-	-
Advances	2,246,653	13,969	97,783	97,783	223,504	22,907	22,907	77,079	111,048	111,048	174,757	207,089	11,747
Fixed assets	230,026	3,885	27,197	27,197	62,164	4,869	4,869	3,272	2,453	2,454	9,815	9,815	53,009
Deferred tax assets	26,407	446	3,122	3,122	7,137	559	557	376	282	282	1,127	1,127	6,086
Other assets	850,127	3,826	26,789	26,789	61,233	51,367	51,367	90,760	1,017	1,017	-	412,400	123,562
	16,819,414	163,262	1,142,852	1,142,850	2,612,233	3,258,738	3,258,736	1,618,520	357,722	357,724	185,699	218,031	694,404

Liabilities

Bills payable	67,414	-	-	-	-	33,707	33,707	-	-	-	-	-	-
Deposits and other accounts	13,700,340	89,943	629,604	629,604	1,439,095	1,457,470	1,457,470	3,123,140	2,283,105	2,283,105	42,720	53,858	211,226
Liability against right of use asset	132,911	49	342	342	782	771	771	4,712	4,892	4,892	19,034	19,546	46,849
Other liabilities	534,159	7,111	49,777	49,777	113,775	35,022	35,022	67,462	52,479	52,479	5,655	5,299	50,814
	14,434,824	97,103	679,723	679,723	1,553,652	1,526,970	1,526,970	3,195,314	2,340,476	2,340,476	67,409	78,703	250,643
Net assets	2,384,590	66,159	463,129	463,127	1,058,581	1,731,768	1,731,766	(1,576,794)	(1,982,754)	(1,982,752)	118,290	139,328	596,741

Share capital	2,129,911
Reserves	-
Unappropriated profit	267,130
Deficit on revaluation of assets	(12,451)
	<u>2,384,590</u>

38.4.2 Maturities of assets and liabilities - based on expected maturities of the assets and liabilities of the Bank

Assets

Cash and balances with treasury banks
Balances with other banks
Investments
Advances
Fixed assets
Deferred tax assets
Other assets

Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	2021						Above 10 Years
				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		
				Rupees in '000						
4,447,089	277,089	2,670,000	1,500,000	-	-	-	-	-	-	
14,774,633	1,589,224	6,664,040	5,721,369	-	-	-	-	800,000	-	
183,775	-	-	-	183,775	-	-	-	-	-	
2,815,313	124,613	126,656	90,567	228,728	143,174	295,309	1,615,744	2,978	187,544	
253,886	13,926	6,980	9,572	20,580	38,252	34,600	65,785	23,791	40,400	
30,011	1,646	825	1,131	2,433	4,522	4,090	7,776	2,812	4,776	
1,046,611	56,809	101,882	192,002	-	-	-	-	695,918	-	
23,551,318	2,063,307	9,570,383	7,514,641	435,516	185,948	333,999	1,689,305	1,525,499	232,720	

Liabilities

Bills payable
Deposits and other accounts
Lease liability against right of use asset
Other liabilities

158,180	-	158,180	-	-	-	-	-	-	-
17,270,623	3,395,756	3,597,906	3,732,956	6,293,056	11,226	29,920	209,143	-	-
138,519	1,811	3,704	5,502	11,597	23,606	21,205	43,597	27,497	-
563,110	186,588	129,124	61,003	126,412	349	638	10,754	-	48,242
18,130,432	3,584,155	3,888,914	3,799,461	6,431,065	35,841	51,763	263,494	27,497	48,242
5,420,886	(1,520,848)	5,681,469	3,715,180	(5,995,549)	150,107	282,236	1,425,811	1,498,002	184,478

Net assets

Share capital
Reserves
Unappropriated profit
Deficit on revaluation of assets

5,142,903
269,037
22,743
(13,797)
5,420,886

2020

Assets

Cash and balances with treasury banks
Balances with other banks
Investments
Advances
Fixed assets
Deferred tax assets
Other assets

Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000									
3,454,865	2,204,865	1,250,000	-	-	-	-	-	-	-
9,825,491	2,170,387	5,108,071	1,447,033	300,000	-	-	300,000	500,000	-
185,845	-	-	-	185,845	-	-	-	-	-
2,246,653	433,039	45,814	77,079	222,096	174,757	207,089	1,075,032	11,747	-
230,026	120,443	9,737	3,272	4,908	9,815	9,815	19,027	12,609	40,400
26,407	13,827	1,117	376	563	1,127	1,127	2,184	1,448	4,638
850,127	118,639	102,733	90,760	2,033	-	-	412,400	123,562	-
16,819,414	5,061,200	6,517,472	1,618,520	715,445	185,699	218,031	1,808,643	649,366	45,038

Liabilities

Bills payable
Deposits and other accounts
Lease liability against right of use asset
Other liabilities

67,414	-	67,414	-	-	42,720	53,858	211,226	-	-
13,700,340	2,788,246	2,914,940	3,123,140	4,566,210	19,034	19,546	29,930	46,849	-
132,911	1,515	1,542	4,712	9,783	5,655	5,299	9,489	-	50,814
534,159	220,440	70,043	67,462	104,957	67,409	78,703	250,645	46,849	50,814
14,434,824	3,010,201	3,053,939	3,195,314	4,680,950	118,290	139,328	1,557,998	602,517	(5,776)
2,384,590	2,050,999	3,463,533	(1,576,794)	(3,965,505)	-	-	-	-	-

Net assets

Share capital
Reserves
Unappropriated profit
Deficit on revaluation of assets

2,129,911
-
267,130
(12,451)
2,384,590

39 **GENERAL**

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

40 **DATE OF AUTHORIZATION**

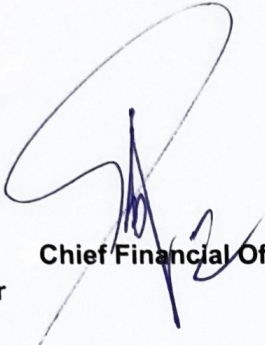
14 APR 2022

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

J



**President and
Chief Executive Officer**



Chief Financial Officer



Director



Director



Director