



# ANNUAL REPORT 2019

TOGETHER WE GROW



ONE BANK  
ONE TEAM



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A close-up photograph of a man in a dark suit, light blue shirt, and striped tie. The image is overlaid with a network of semi-transparent icons connected by thin lines. The icons include a magnifying glass, a shopping cart, a person silhouette, a speech bubble, and several Wi-Fi symbols. The overall color palette is dark with teal and light blue accents.

# VISION

To emerge as a premier financial institution, fostering socio-economic development of the people of AJ&K



# MISSION STATEMENT

To acquire market leadership through quality banking services, customized products, best business practices, merit and performance culture and participation in development process of the state for the well-being of it's people



# CORE VALUES



# CORPORATE INFORMATION



## Board of Directors

- Mathar Niaz Rana, Chief Secretary, AJ&K
- Khawar Saeed, CEO, BAJK
- Asmatullah Shah, Secretary Finance, AJ&K
- Fayyaz Ali Abbasi, SMBR, AJ&K
- Syed Zahoor-ul-Hassan Gillani, Secretary Forests, Wildlife, Fisheries, AJ&K
- Muhammad Ahsen, Secretary Industries, Commerce, Mineral Resources & Labour, AJ&K
- Ejaz Hussain Rathore, Chartered Accountant
- Raja Mumtaz Ali, Senior Banker
- Naveed Sadiq, Renowned Businessman

**Chairman**  
**President**  
**Member**  
**Member**  
**Member**  
**Member**  
  
**Member**  
**Member**  
**Member**

## Executive Committee of BOD

Asmatullah Shah  
Khawar Saeed  
Muhammad Ahsen

**Chairman**  
**Member**  
**Member**

## Audit Committee of BOD

Fayyaz Ali Abbasi  
Asmatullah Shah  
Ejaz Hussain Rathore  
Raja Mumtaz Ali

**Chairman**  
**Member**  
**Member**  
**Member**

## IT Committee of BOD

Muhammad Ahsen  
Khawar Saeed  
Syed Zahoor-ul-Hassan Gillani  
Ejaz Hussain Rathore

**Chairman**  
**Member**  
**Member**  
**Member**

## Company Secretary

Maazullah Khan

## Chief Financial Officer

Shahid Shahzad Mir

## Auditors

Deloitte Yousuf Adil  
Chartered Accountants

## Head Office

Bank Square, Chattar Domel, Muzaffarabad AJ&K

# BAJK Advance Salary

Meet your urgent domestic needs

20 لاکھ روپے تک ایڈوانس سیلری حاصل کریں

سرکاری محکموں اور خود مختار اداروں کے ملازمین کے لئے

خوشخبری

اہم خصوصیات :

مارکیٹ میں سب سے کم ریٹ

سب سے کم ماہانہ قسط

تیز ترین پراسسنگ

کوئی پوشیدہ چارجز نہیں

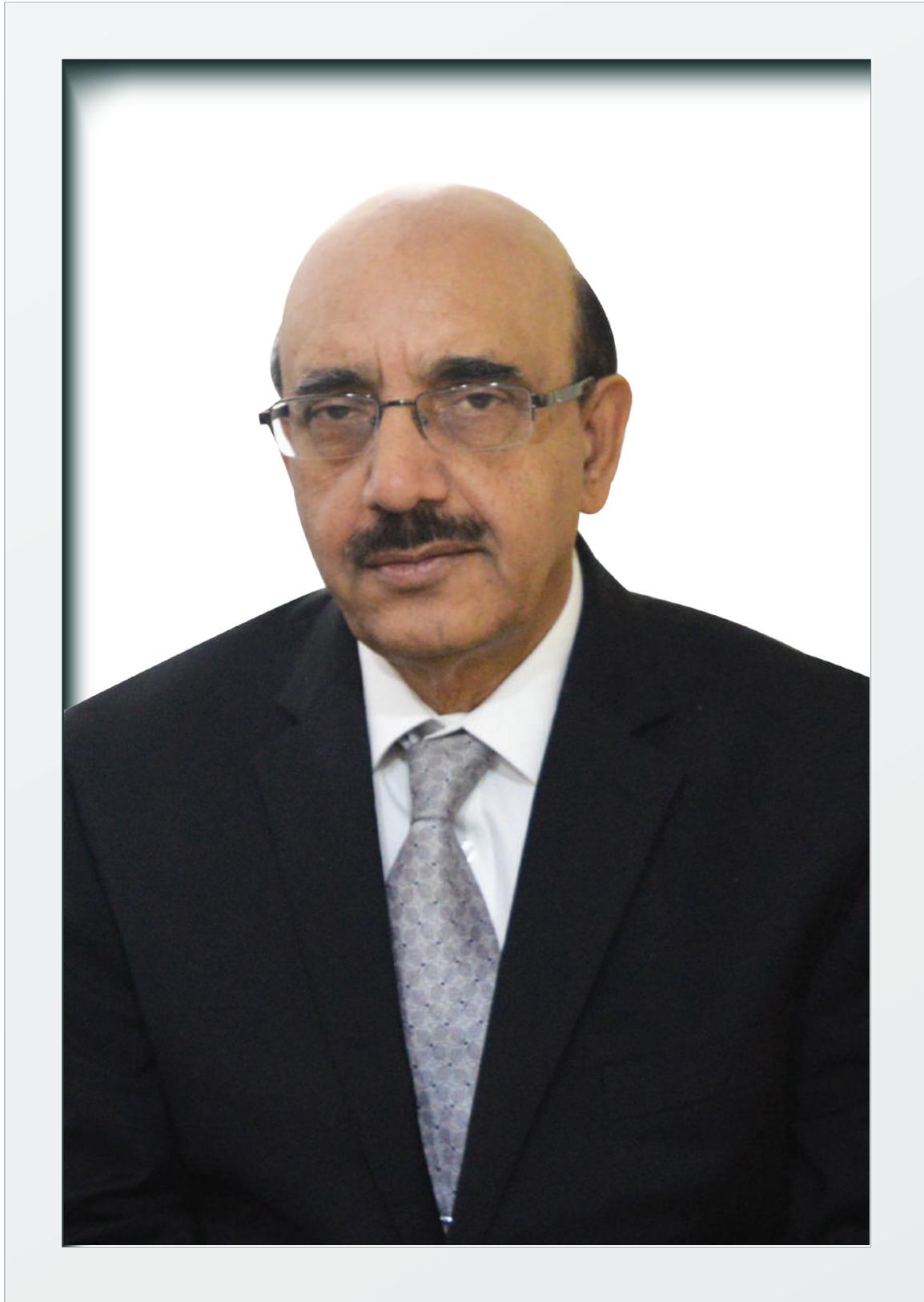
فوری ادائیگی

لائف انشورنس کی سہولت



MESSAGES

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**SARDAR MASOOD KHAN**  
PRESIDENT STATE OF AJ&K

It gives me immense pleasure to know that BAJK has already completed 13 years of its banking operations and during this short span of its life it has crossed many milestones amidst cut-throat competition posed by large banking institutions including foreign banks.

It is heartening to note that with each passing year, the bank is making significant progress and earning a substantial amount of profit for the government and has emerged as the largest taxpayer entity of AJK. Financial institutions play an active role in mobilizing savings in the form of deposits to convert them into investments and credits, desperately needed by the developing economies and communities. The bank has extended its network to far-flung areas of the State to provide banking services to the people at grass root level and it is envisaged that the Bank will further expand its branch network to unbanked areas.

The days are not far off when the bank with continued patronage of the Government of the State and customers shall be able to fulfill the criteria for obtaining scheduled status from the State Bank of Pakistan, which will go a long way to expand its networks and operations beyond the territory of the state including overseas.

In the future I fore-see Bank's further contribution in supporting various economic segments of the state. There exists rich, untapped potential for economic growth in the sectors of tourism, minerals, agriculture, livestock, forestry and fruit farming. Almighty Allah has blessed the state with huge water resources which are being used for the development of hydro-power projects and water reservoirs.

I fore-see a bright future of this institution, the first one of its kind and pray for its continuous progress in the days and years to come.





**RAJA MUHAMMAD FAROOQ HAIDER KHAN**  
PRIME MINISTER GOVT. OF AJ&K

Azad Jammu and Kashmir today represents a growing market of diversified customers who want quality banking services. The State possesses a great potential market for the banks in areas like retail banking, trade finance, remittance services and high technology banking products. Keeping in view the business potentials as well as heavy inflow of Home Remittances in Azad Kashmir, almost all the commercial banks have their branches in the State of Azad Jammu and Kashmir. Banks in Azad Kashmir have a very large customer base and impressive volume of deposits which could substantially help towards socio-economic uplift of the State subjects through innovative banking products and enhanced business and trade connectivity with commercial hubs in Pakistan.

Bank of AJK (BAJK) as compared to other Financial Institutions operating in AJK has grown breadth and depth in terms of customers' diversity and presence in remote areas and has a high level of marketing understanding. This understanding develops a base for designing an effective portfolio of products and services. I understand that the bank will also focus on priority areas within AJK like hydel projects, CPEC related endeavors and tourism related activities.

I must appreciate that the BAJK is playing a vital role in the socio-economic growth of the state and holding prominent position in the banking sector of the region through its banking services and products and providing public and private services, financial infrastructure and employment. As such, the efficiency and performance of the bank is a matter of economic growth and governance, which comes at the top of the agenda of the Government of AJK. BAJK is a state-owned entity and I am pleased to share that this bank is being managed professionally under banking laws, regulations and practices, which will definitely improve its operational efficiency, customer's services and trigger performance.

I acknowledge the fact that the Bank has shown upto the mark financial performance during 2019, and I am confident that the Bank is committed to excel further during 2020 under the umbrella of its new management. I assure that the Government of AJK will observe complete autonomy of the Board of Bank of AJK for focusing on national economic objectives and its functioning purely on commercial considerations to the entire satisfaction of regulators and stakeholders.

I appreciate the Chairman, Members of the Board and the management and expect that the Bank will flourish in the time to come. Bank should also focus on rehabilitating the segments of the State's economy and society being adversely affected by the prevailing Covid-19 Pandemic.





**MATHAR NIAZ RANA**  
CHEIF SECRETARY AJK/ CHAIRMAN BOD

The Bank of Azad Jammu and Kashmir takes pride for being a public sector Bank that accords highest priority to serving the people, by offering solutions that are tuned to local financial needs. Our primary focus is to play a leading role in accelerating the economic activity, be it offering capital to small businesses or to the larger industries, and at the same time , by being a viable as well as successful Bank.

I am pleased to report that BAJK maintained its vigorous performance in 2019 due to the quality of the Bank's assets and its carefully crafted business plan, which was endorsed by the Board of Directors earlier in the year. These positive results are in line with the Bank's transformative vision to enhance and develop new systems, platforms, operational efficiency, and customer excellence for the fore-seeable future.

I am sure that in the coming years, BAJK will be able to provide innovative products with customer-friendly banking facilities to tap more customers into their Banking network and strengthen the relationship through right solutions clubbed with professionalism in every activity and gradually increase the number of branches all over the State and beyond, to support the overall economic development of the State to accomplish the objectives to:

- ensure its performance in all facets of operations and perform better than its competitors;
- maintain a comprehensive range of services to cater to the needs of its clients;
- maximize contributions from its key resources of personnel, machines, branch representation, and capital;
- be innovative, progressive, and responsive to the needs of its customers within the framework of operational latitudes and prudent risk-taking, bearing in mind responsibility as a custodian of depositors' funds.

In recognition of its responsibilities as a corporate body the Bank aims to:

- pursue personnel policies which recognize the aspirations and performance of individuals in which career paths available in the Bank;
- have full regard to the attitudes and expectations of the clientele base at large and contribute as appropriate, to the formulation of positive attitude and opinions;
- act as a reputable, efficient, and responsible service-oriented organization.

On behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude to our customers, partners, and shareholders for their continued trust, which has been the cornerstone of our continued success. I would also like to thank the management of the Bank and all employees for their hard work and contributions towards achieving the desired goals of the Bank. I would also like to take this opportunity to thank the Government of AJK for their continued efforts and support extended to BAJK.



## A Word From The President/ CEO

2019 was another year of great challenges and adverse economic conditions but our numbers demonstrate the tenacity of our capable team to deliver coveted financial results. The sustainable growth in the financial position along with strong shareholders' returns depicts our customers' faith in their own bank and the dedication and hard work of our employees.

The Bank remained vigilant towards an ever-changing business environment and continued to follow a strategy of steady growth and focused on diversification of earning assets to improve the efficiency of the Bank. As the result, 2019 marked a healthy growth in deposits, earnings and equity of the Bank. The Bank focused on growing core deposits, combined with attractively priced funds to support our lending activities. Similarly, the total asset base of the Bank crossed Rs.13 billion and the Advances Deposits Ratio (ADR) of the BAJK once again remained at top as compared to the Banking portfolio in AJK, which is a clear reflection of our commitment towards socio economic development of the State.



We begin the year 2020 with same determination and passion to achieve new heights. I am confident that our business will continue to innovate and perform well, driven by new product innovations and exemplary customer service. Our focus on investing in human talent and providing an engaging work environment for all will continue in the future. Performance based culture is ensured through a systematic hierarchy that enables two-way communications and recognizes high performers. Through our extensive and well-designed training programs, we develop and turn our staff into champions and champions into leaders.

I believe that technology is and will continue to be the "game changer". In order to achieve operational efficiencies and improved service quality levels, the new core banking solution implementation in the entire bank is the need of the hour which will enable the Bank to launch products best suited to customers' needs, strengthen control environment and will assist in enhanced market positioning with improved Brand Image.

I am grateful to our main shareholder, Government of AJK for its continued patronage, support and trust. We remain committed to maintain this trust in years to come with stellar financial performance. I also acknowledge and express gratitude to Chief Secretary Government of AJK who is also the Chairman of the Board and all members of our august Board for their independent oversight, support and continuous guidance to the management.

I also acknowledge the vital contribution of all the staff members of BAJK family whose commitment and dedication progressed this bank from strength to strengths and achieved milestones in equity, deposits and assets in 2019 and set new benchmark for the year 2020. Our journey in future is full of enthusiastic challenges and diversified ambitions yet with our determined efforts, we will emerge as an even stronger and reputable Institution of the State. IN SHAA ALLAH.

**KHAWAR SAEED**  
PRESIDENT/CEO



**A view of Muzaffarabad**  
The capital city is located at the confluence  
of the Jhelum and Neelum rivers

# BOARD OF DIRECTORS



**(L to R)** - Khawar Saeed, Mohammad Ahsen, Raja Mumtaz Ali, Naveed Sadiq, Asmatullah Shah, Mathar Niaz Rana, Fayyaz Ali Abbasi, Syed Zahoor-ul-Hassan Gillani, Ejaz Hussain Rathore

# DIRECTORS' PROFILE



**MATHAR NIAZ RANA**  
CHIEF SECRETARY AJK/CHAIRMAN BOD

Mr. Mathar Niaz Rana is the Chairman Board of Directors of BAJK and Chief Secretary to Azad Government of the State of Jammu and Kashmir. He belongs to prestigious DMG service. He has assumed the office of 48th Chief Secretary of Government of AJ&K on February 02, 2019. He is credited with vast experience in management and administration which includes various key hierarchical administrative positions at federal and provincial governments. Prior to assuming the appointment on the current assignment, he has served on important positions in the Islamabad Capital Territory Administration, Federal Government, and Governments of Punjab and Baluchistan. He is an engineering graduate of UET Lahore and also educated at world-famous centres of excellence like Imperial College Business School; London UK, London School of Economics UK and NDU Islamabad Pakistan.



**KHAWAR SAEED**  
PRESIDENT/CEO

Mr. Khawar Saeed President & CEO of BAJK is a career banker with diversified domestic and international banking experience. He holds a Master of Business Administration (MBA) degree and is an Associate of Institute of Bankers Pakistan (IBP) with distinction in Book Keeping & Accounts. Mr. Saeed also holds Certificate of Professional Designation in International Business Management, Award in General Business Studies-Credit Management, Certificate in International Business and Trade from the University of California, Los Angeles, USA (UCLA). He has a Certificate in Credit Management from the National Institute of Credit, USA. Mr. Saeed has attended a number of advanced banking courses, seminars, and workshops. He started his banking career with Saudi British Bank, Riyadh, Saudi Arabia. During 33 years of glorious innings in NBP, he played a leading role at Head Office/ Regional Offices and has successfully run Central Asian Network of Republics Region as CEO which consisted of two full-fledged subsidiary banks, three branches and one representative office in six different countries. He possesses strong leadership and management skills with proven abilities and has been able to transform the business profile of the Institution by evolving and implementing result-oriented strategies, team spirit and unique business practices. His expertise in international banking, corporate finance, commercial and retail banking, compliance, HR, SME's and micro credit etc., has earned him repute in the areas of business development and organizational turnaround. Mr. Saeed maintains an excellent portfolio with numerous accomplishments, awards and accolades that accumulated over the years due to consistent hard work, dedication and outstanding performance in the banking profession. He has been a member BOD of Fauji Fertilizer Company. He was also chairman of BOD NBP Subsidiary Bank Almaty, Kazakhstan and Subsidiary Bank Tajikistan. He is member of the State Tourism Executive Committee (STEC) and also member of the Board of Investment, Government of the State of Azad Jammu and Kashmir.



**FAYYAZ ALI ABBASI**  
DIRECTOR

Mr. Fayyaz Ali Abbasi Senior Member, Board of Revenue (SMBR) and Director Board BAJK holds a Master's Degree in Development Management from London School of Economics and Political Science (LSE) and also a Master's of Philosophy (M. Phil.) degree in International Relations and Affairs from reputed Quaid-e-Azam University, Islamabad. He belongs to District Management Group of AJK Civil Service and has served as Assistant Commissioner, Deputy Commissioner and Commissioner all over AJ&K. Besides this, he has vast experience in management, administration and planning at his credit which includes holding of various top hierarchy administrative positions and has headed various departments as Secretary to the Government of the State of Jammu and Kashmir, Secretary Information, Tourism, Information Technology, Communications, Energy & Power Development etc.; in addition to serving as Principal Secretary to the Prime Minister, AJ&K.

# DIRECTORS' PROFILE



## **ASMATULLAH SHAH** DIRECTOR

Mr. Asmatullah Shah is Secretary Finance, Government of the State of Azad Jammu & Kashmir and Director of the Board of BAJK. He is an Engineering Graduate and a carrier civil servant belonging to Pakistan Audit and Accounts Service. He has assumed the office of Finance Secretary of the Government of AJ&K in January, 2020 on deputation basis. Prior to joining the Government of AJ&K as Secretary Finance, he has served as Director General Audit, Government of KPK; Secretary Worker Welfare Board, Peshawar; Additional Accountant General KPK; Additional Secretary (Finance), Government of KPK; Joint Secretary (Housing & Works), Islamabad; Additional Secretary (Planning & Development), Government of KPK; Managing Director Education Foundation, KPK and other assignments relating to Public Finance, Project Management etc.



## **SYED ZAHOOR-UL-HASSAN GILLANI** DIRECTOR

Syed Zahoor-ul-Hassan Gillani is Secretary to the Government of the State of Jammu and Kashmir, heading the Forests, Wildlife, Fisheries and AKLASC and Director of the Board of BAJK. He has headed various important administrative positions in the State by virtue of being officer of the District Management Group. Moreover, he has served in a Foreign Mission of Pakistan abroad (K.S.A.) with the status of Councilor Labor/Community Welfare Attaché for more than three and a half year, from 2007 to early 2011. He has vast and diversified experience in planning, finance, education, tourism, IT, agriculture, livestock and information sectors at various departments of Government of AJ&K. He has attended large number of training programs. He is also on the Board of Directors of Azad Kashmir Logging and Sawmills Corporation (AKLASC).



## **MOHAMMAD AHSEN** DIRECTOR

Mr. Mohammad Ahsen is the Secretary to Government of the State of Azad Jammu and Kashmir. He is currently posted as Secretary Industries, Labour & Mineral Resources/AJ&K Board of Investment. He is a Post Graduate in Development Studies from Institute of Development Policy and Management, the University of Manchester, United Kingdom and also in Chemistry from Quaid-e-Azam University, Islamabad. Mr. Ahsen has headed various important administrative positions in the state as Secretary S&GAD, TEVTA, Industries / Mineral, Electricity/PDO, Social Welfare, Planning & Development Department and Physical Planning & Housing Departments. He has vast and diversified experience in Planning, Administration and IT at various departments of Government of AJ&K. He has attended a number of training programmes on Green Economy, Poverty Alleviation, Project and Office Managements in Japan, Thailand and Pakistan. He has more than 28 years' experience in Public Sector holding various key positions. Due to his vast experience and idealistic control, he has a number of International Publications to his credit such as "Economic and Social Impact of Privatization in Pakistan" published by Lambert Academic Publishing, Germany, 2016, "Politicization of Bureaucracy or Bureaucratization of Politics – Discerning Myth from Reality", "International Journal of Management Sciences and Business Research, Nov 2016 and co-authored" "Our State of Preparedness in Case of Natural Calamities and Disaster", International Journal of Management Sciences and Business Research, Dec 2016.

# DIRECTORS' PROFILE



## **EJAZ HUSSAIN RATHORE**

### **DIRECTOR**

Mr. Ejaz Hussain Rathore is a Fellow Member of the Institute of Chartered Accountants of Pakistan. He is in public practice since 1990, and is presently Senior Partner/Partner-in-Charge of Islamabad Office of PKF F.R.A.N.T.S., Chartered Accountants, a member firm of PKF International, providing professional services to a wide range of clientele. Taxation and business consultancy are the fields of his special interest. Mr. Rathore is Member of the Board of Investment set up by the Government of Azad Jammu & Kashmir. He possesses Certified Director Certification, as per Pakistan Institute of Corporate Governance criteria, and has served on the Board of Directors of various organizations, representing the Government Interests, including Oil & Gas Development Company Limited, Agricultural Development Bank of Pakistan, Pakistan Broadcasting Corporation and Islamabad Stock Exchange (Guarantee) Limited. He has also participated as a delegate in many national and international conferences.



## **RAJA MUMTAZ ALI**

### **DIRECTOR**

Raja Mumtaz Ali, Director Board of the Bank of Azad Jammu and Kashmir is a Law Graduate and also holding Diploma in Banking from the Institute of Bankers Pakistan (IBP). He has rich and diversified experience in Banking Industry and has held key Management positions at Habib Bank Ltd. and Allied Bank Ltd. His stint in banking sector spreads over a period of four decades. He has the honor to be the pioneer Managing Director/CEO of BAJK. During initial critical period of establishment of the Bank, he successfully erected the structure of the Bank on sound footing and in a very short span helped made it emerge as a viable and profitable corporate entity of the state. He served the Bank for five years (i.e., from September 2006 to August 2011), leaving behind the legacy of continued successes and significant achievements.



## **NAVEED SADIQ**

### **DIRECTOR**

Mr. Naveed Sadiq Director on the Board of the Bank is also Chairman Board of Investment, Government of the State of Azad Jammu and Kashmir. He is a reputable business professional bringing with him rich and diversified experience in the fields of construction industry, imports, exports and real estate in international business hub of Dubai. After coming to Pakistan way back in 2009 he has further diversified his entrepreneurial pursuits by including marketing and tourism development in his business domain. Presently, he is CEO of Transfreight Citi and Industrial Park (Pvt) Ltd. and Al-Sadiq Marketing (Pvt) Ltd. He is a well-travelled person having deep interaction with top business houses. He possesses innovative mind and entrepreneurial insight.

# Management Team with President/CEO



**(L to R)** - Shahid Shahzad Mir (CFO), Muhammad Akram Awan (DH Credit & CAD), Zamurrad Hussain (DH CRBD), Syed Aftab Hussain Gillani (DH SAMD & RMD), Khawar Saeed (President/CEO), Maazullah Khan (DH Operations), Muhammad Afsar (CCO & DH HRMD), Ahtasham Malik (DH IT)

# MANAGEMENT TEAM



**Abdul Hameed Raja**  
(DH A & ID)



**Syed Aftab Hussain Gillani**  
(DH SAMD & RMD)



**Maazullah Khan**  
(DH Operations)



**Muhammad Afsar**  
(CCO & DH HRMD)



**Shahid Shahzad Mir**  
(CFO)



**Muhammad Akram Awan**  
(DH Credit & CAD)



**Zamurrad Hussain**  
(DH CRBD)



**Ahtasham Malik**  
(DH IT)

10

*Years*  
at a Glance

2010 - 2019

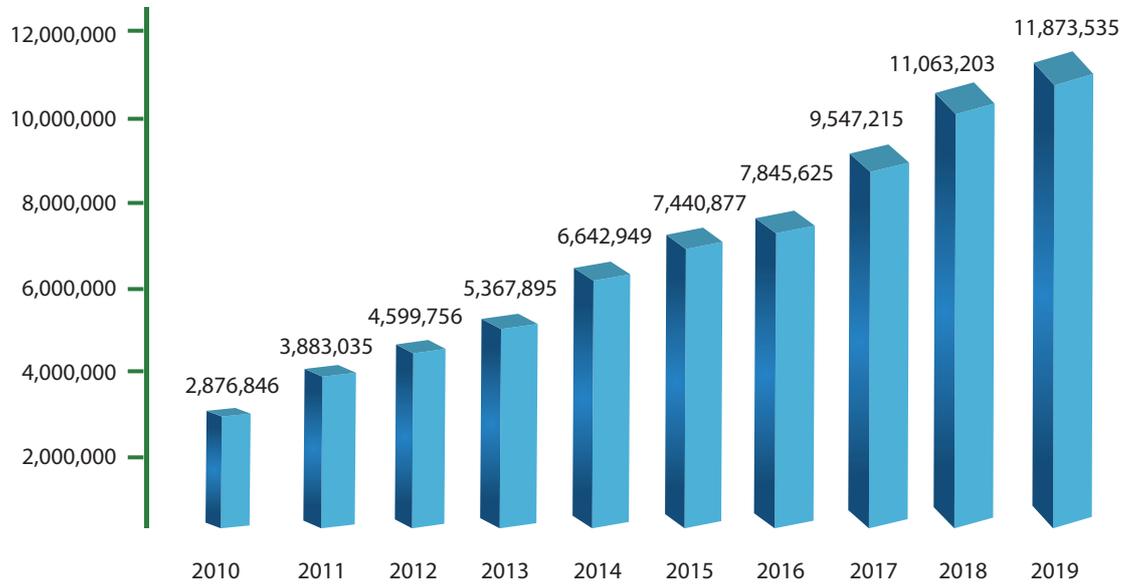
# 10 YEARS AT A GLANCE

Balance Sheet	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	Rupees in '000'
Total Assets	13,566,335.00	12,411,342	10,840,659	8,936,321	8,455,430	7,585,052	6,204,423	5,401,333	4,513,683	3,416,518	
Advances (net)	2,036,826.00	2,028,938	2,407,853	2,609,430	2,833,606	2,256,907	1,678,147	1,101,286	952,880	330,283	
Investment	178,401.00	175,869	339,791	604,748	1,150,465	1,172,192	203,549	225,397	297,877	239,164	
Equity	1,227,063.00	1,153,588	1,063,234	949,321	880,496	810,331	730,328	683,900	537,934	484,086	
Deposits	11,873,535.00	11,063,203	9,547,215	7,845,625	7,440,877	6,642,949	5,367,895	4,599,756	3,883,035	2,876,846	
<b>Operating Results</b>											
Mark-up / return / interest earned	1,279,455.00	935,967	842,870	808,798	794,704	723,400	561,905	555,254	425,887	347,278	
Mark-up / return / interest expensed	702,719.00	385,101	327,143	333,382	375,948	377,681	319,836	292,931	176,427	145,644	
Net Markup Based Income	576,736.00	550,866	515,727	475,416	418,756	345,719	242,069	262,323	249,460	201,634	
Non Markup Based Income	27,392.00	21,689	51,502	50,738	38,962	56,495	45,363	46,235	18,702	26,757	
Non Markup Based Expenses	470,061.00	421,995	363,072	324,969	285,260	243,351	206,658	158,856	118,238	94,477	
Operating Profit	134,066.00	150,560	204,157	201,185	172,458	158,863	80,774	149,702	149,924	133,914	
Provision	8,665.00	(22,053)	(63,016)	111,577	47,018	52,845	18,174	9,192	72,689	997	
Net Profit/(Loss) Before Tax	125,401.00	172,613	267,173	89,608	125,440	106,018	62,600	140,510	77,235	132,917	
Net Profit/(Loss) After Tax	71,830.00	99,893	157,084	50,706	70,165	80,003	46,428	95,814	52,848	92,484	
<b>Other Information</b>											
Earning per share ( Rupees)	0.70	1.07	1.68	0.65	0.89	1.22	0.72	1.66	1.00	1.93	
Number of Branches	70	70	68	65	64	59	52	52	50	45	

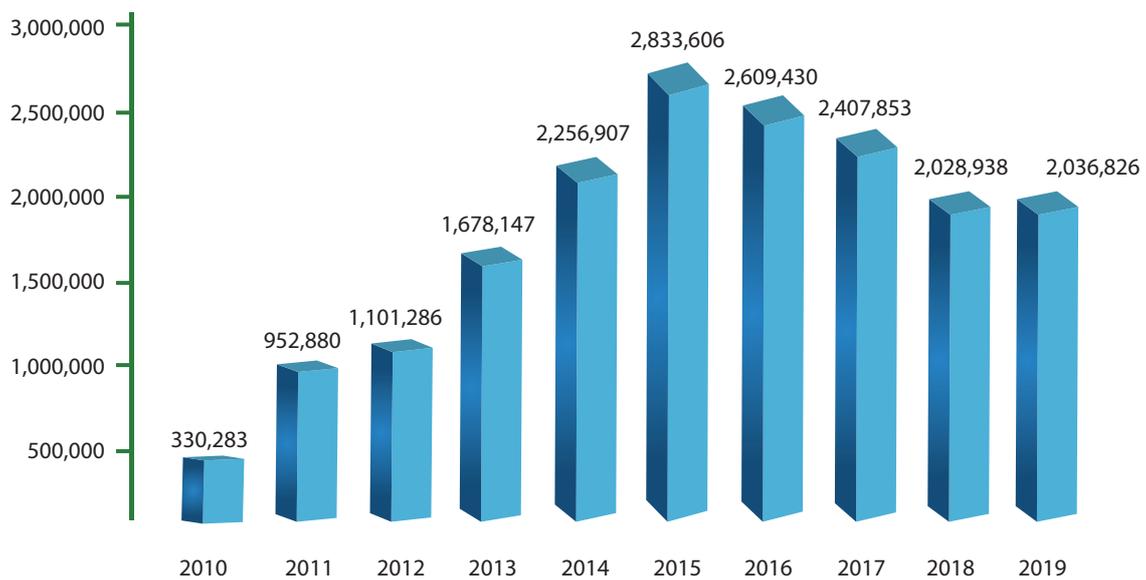


# FINANCIAL HIGHLIGHTS

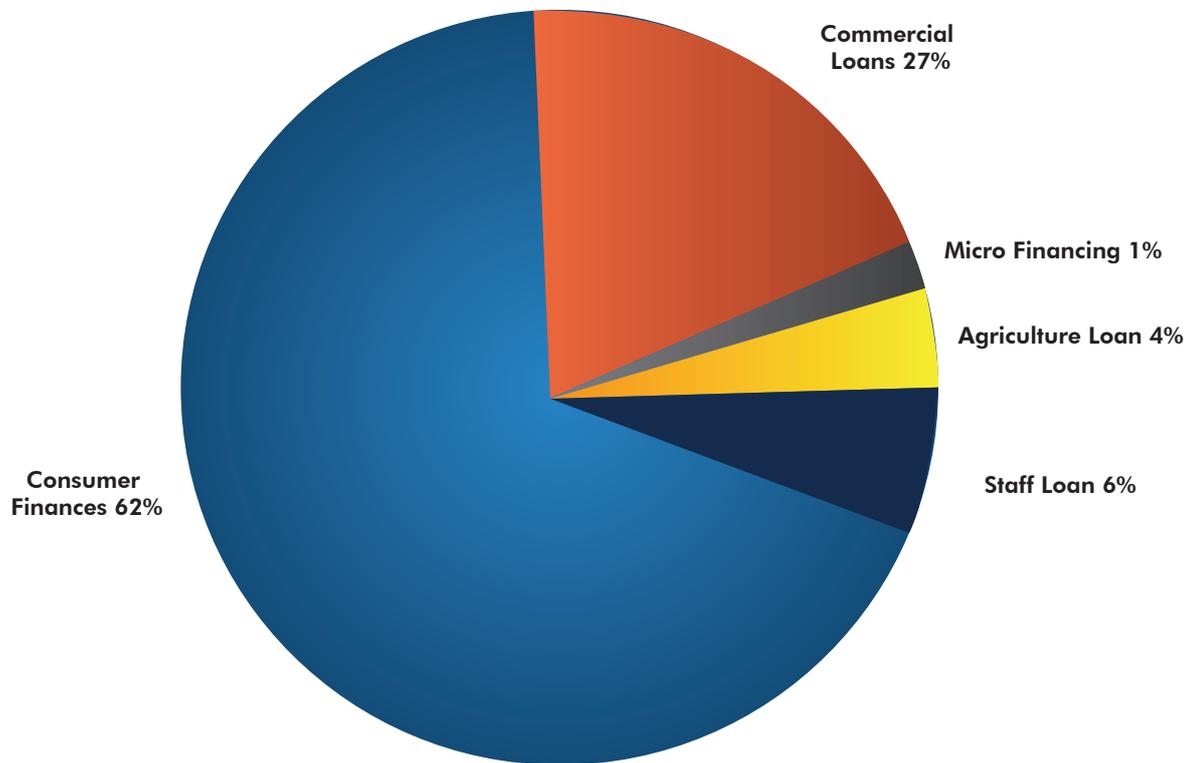
## Deposits *Rs. in "000"*



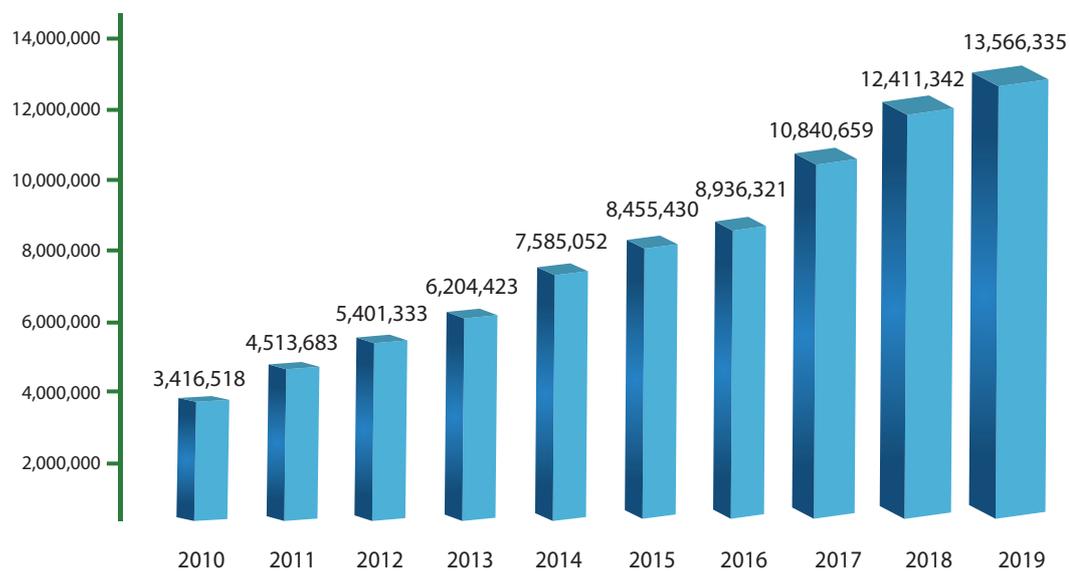
## Advances *Rs. in "000"*



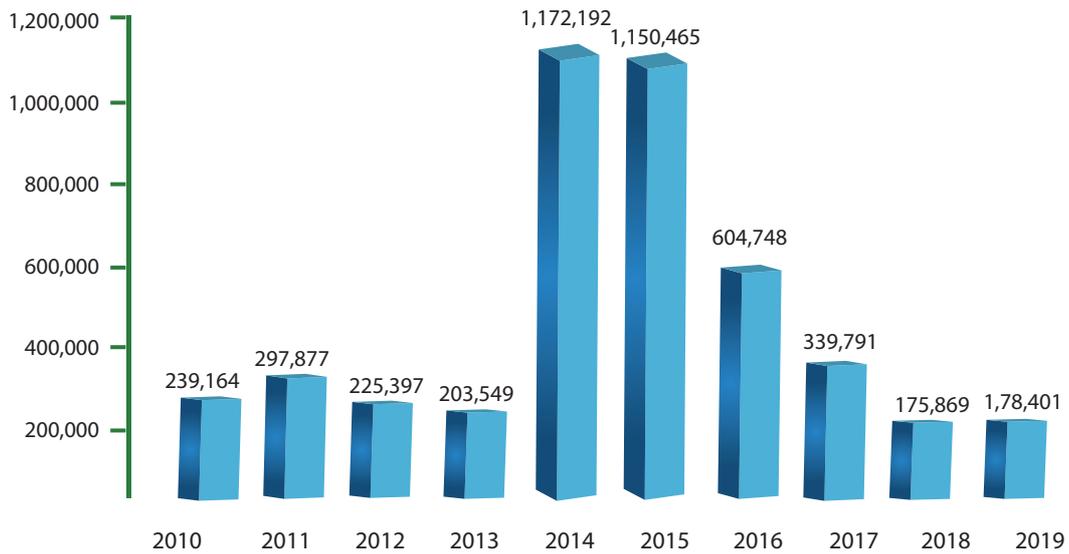
## Advances Mix (%)



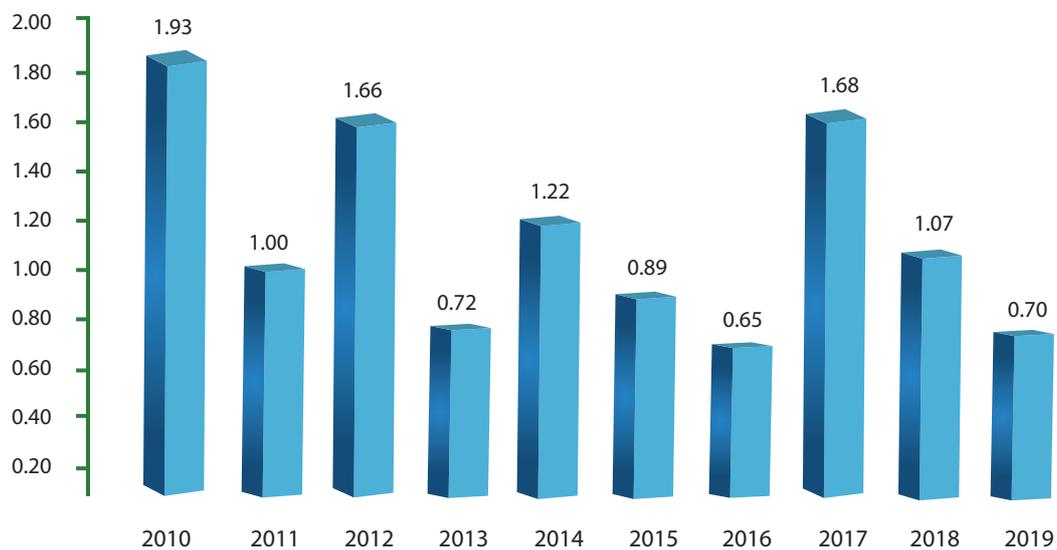
## Assets *Rs. in "000"*



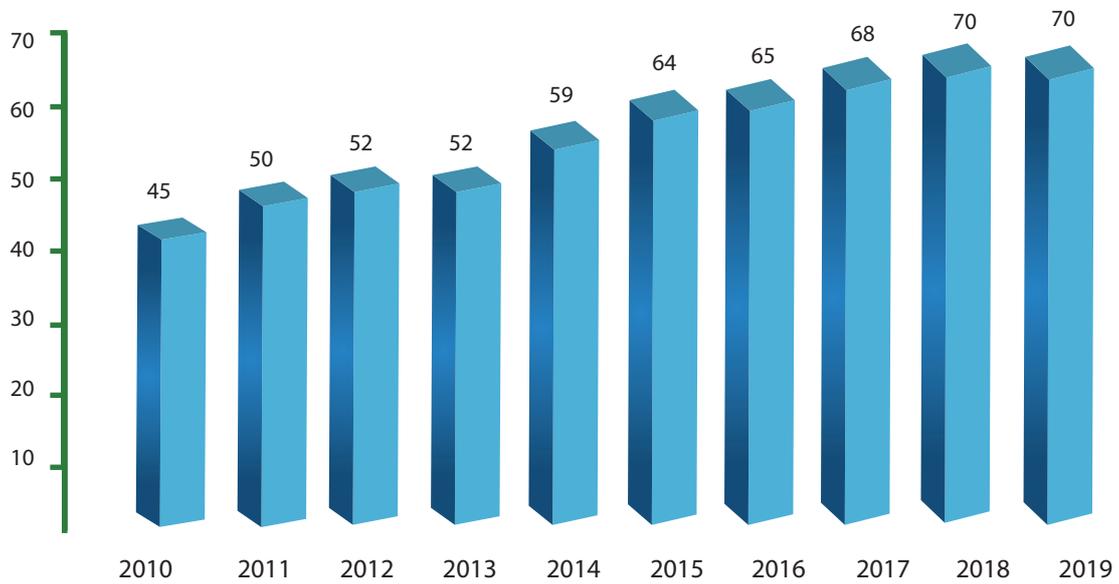
## Investments *Rs. in "000"*



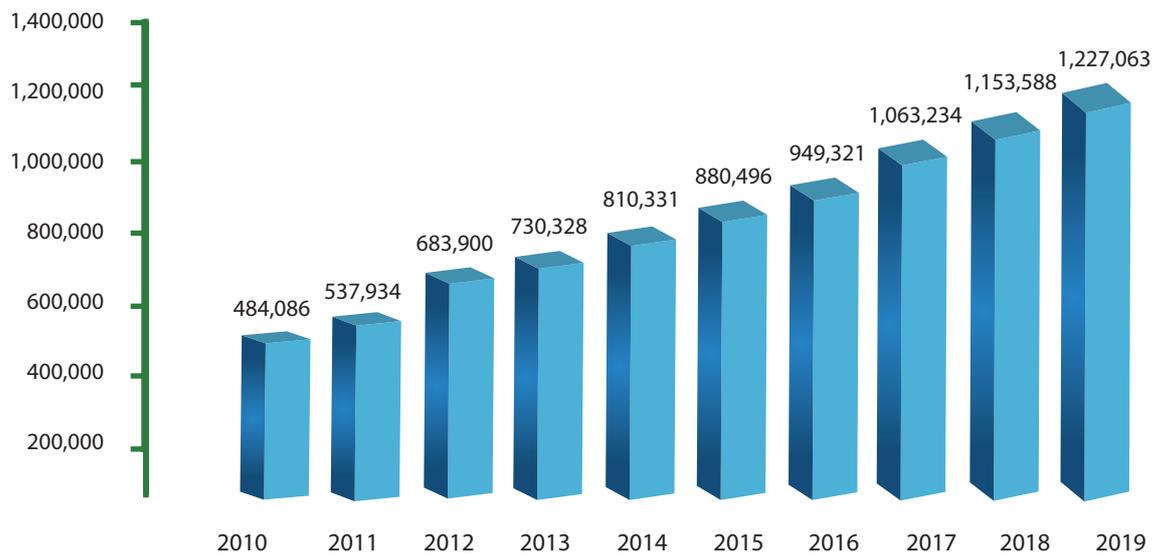
## Earning Per Share *(Rupees)*



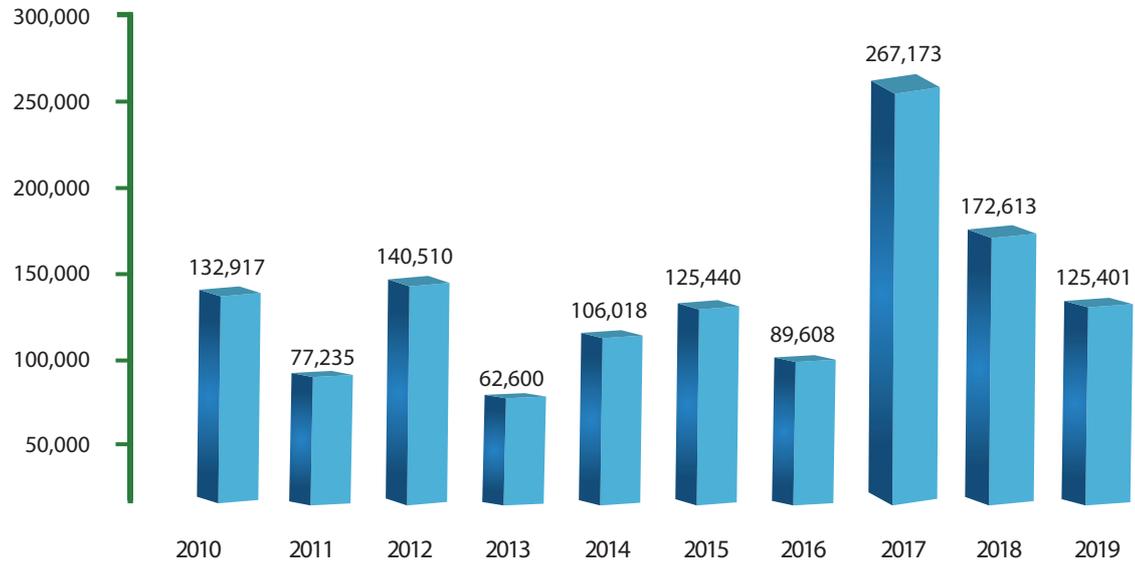
## No. of Branches



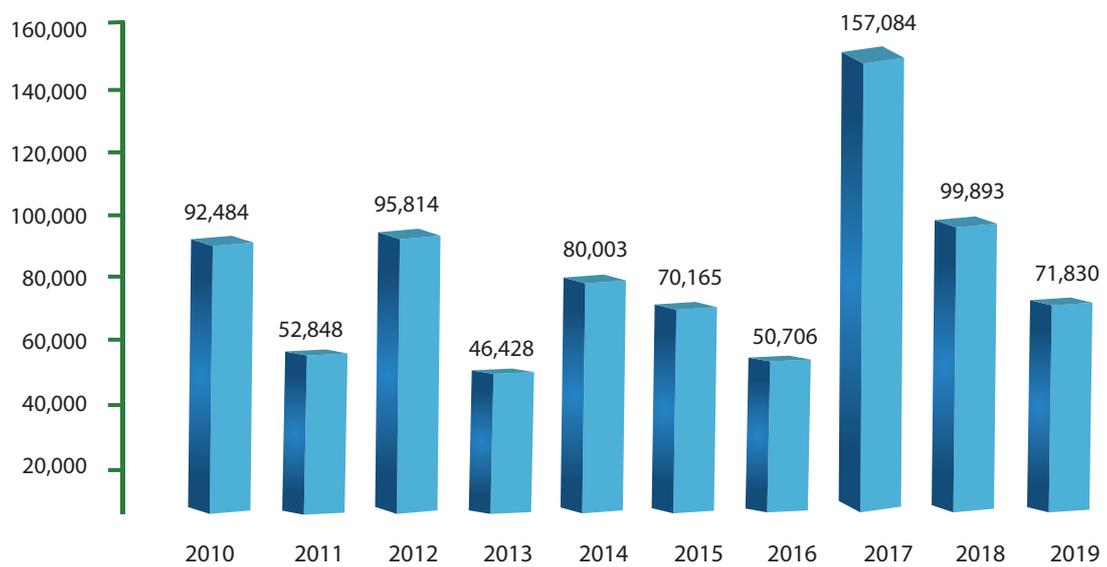
## Equity *Rs. in "000"*



## Profit Before Tax *Rs. in "000"*



## Profit After Tax *Rs. in "000"*





# CUSTOMIZED PRODUCTS

## CONSUMER FINANCING

- Advance Salary
- Car Finance
- House Finance
- Motorcycle Finance
- Home Appliances Finance
- Personal Loan
- Gold Loan



## COMMERCIAL/SME FINANCE

- Demand Finance
- Running Finance
- House Finance
- Auto Finance
- Tourism Promotion Finance
- Healthcare Services Finance



## MICRO FINANCE

- Micro Enterprise Loan
- Desi Murghbani
- Women Empowerment Loan



## AGRICULTURE FINANCE

- Agri Production
- Agri Development
- Poultry Loan
- Dairy Loan





# DIRECTORS' REVIEW REPORT



	2005	2006	2007	2008	2009	2010	2011	2012
Factory A	4.3	2.5	3.5	1	2	2.5	3.5	4
Factory B	2.4	4.4	1.8	2.8	2	4.4	3.5	4
Factory C	2	2	3	5	2.4	6	7	9



### Dear Share Holders,

Your Board of Directors have the pleasure to present the 14th Annual Report together with Audited Financial Statements of the bank for the year ended 31st December 2019 and Auditors' report thereon.

### Economic Review

During the year 2019, Pakistan's economy struggled as the Government and the Central Bank continued their efforts to combat the issues on the domestic and the external front. The FY19 ended with twin deficits, forcing the government to take stringent policy measures. On the external front, the current account deficit started showing improvement from July, 2019 onwards after clocking-in at 13.83bn USD in FY19. During the first five months of FY20, imports contracted by 21%, exports rose by 4.7% while workers' remittances showed a marginal improvement. Consequently, current account deficit declined by 73%. Pressure on the foreign exchange reserves decreased slightly towards the end of the calendar year as current account balance improved and SBP received inflows from ADB and other multilateral sources. During the year, Pakistan also succeeded in securing a bailout package worth 6bn USD from IMF which provided support to the external position. As a result, PKR appreciated by 3.25% against dollar during the second half of 2019 after touching a high of 164.0557 in June, 2019. For the full year, however, PKR recorded a cumulative depreciation of 11.51% against dollar. Headline Inflation (Base Year 2015-2016), on the other hand, soared to 9.36% on average in 2019 from 5.33% in 2018, largely owing to an increase in taxes, regulatory prices and food inflation. As a

result, SBP increased its policy rate to 13.25% in 2019, recording a cumulative increase of 325 basis points during the year. On the fiscal side, the government introduced various tax measures under the fiscal budget 2019-2020 to achieve a higher tax revenue growth in FY20. The SBP has maintained its policy rate at 13.25% since July 2019 and noted in its January MPC statement that monetary policy would continue to be based on the medium-term inflation outlook. High interest rates have depressed private sector lending which grew by only 2% in H1FY'20 compared to 10% for the same period last year. Banking sector deposits grew by 10% to Rs.14.6 trillion in 2019; however, advances grew by only 3% as there was an industry-wide skew to government securities. Banking spreads for 2019 rose by 90 bps over 2018. However, SBP has gradually reduced policy rate to 9% in April, reducing 4.25 basis points since December 2019.

### AJ&K Economy

The economy of Azad Jammu and Kashmir, is endowed with enormous human and natural resources. The public sector is confronted with acute resource crunch whereas the private sector is not coming forward to play its due role of entrepreneurship development in the area, mainly due to non-supportive outlook of banking sector. The fact of the matter is that the private sector which is the engine of growth and socio economic development cannot flourish efficiently without the support of banking sector.

The banking sector in AJ&K, though stable and self-sufficient in financial resources (deposits and home remittances) yet has been found as non-considerate, hesitant and indifferent in channelizing the private sector savings for generating the economic activities in the area.

### Financial Performance

The Markup income of the Bank reported an increase of Rs. 343 million (37%) whereas on the interest expense side, the Bank registered an increase of Rs. 318 million (82%) over last year. On the non-markup income front, the Bank reported a base of Rs. 27 million with the increase of 23% over last year. During 2019, as the spreads further squeezed, business margins were challenged, hence; the bank booked before tax profit for the year of Rs. 125 million as compared to Rs. 173 million last year. The management is focusing to reduce its funding cost further; thereby improving its spreads. Meanwhile, given recent capital compliance with reduced MCR, bank needs higher level of capital to obtain scheduled status and to compete in the market with rising compliance standards & technology innovations.

Asset base of the bank has reached to Rs. 13.566 billion from Rs. 12.411 billion last year, reflecting a healthy increase of 9%. The advances have shown net increase of Rs. 8 million only, over 31 December 2018.

For the year under review, the Directors have proposed 10% Bonus Shares distribution equal to 01 share for every 10 shares held, subject to approval of the shareholders in the AGM. The operating results of the bank for the year 2019 are as under:-

Particulars	Rs. In Million	
	December 31, 2019	December 31, 2018
Deposits	11,873	11,063
Advances (net of provision)	2,037	2,029
Total Assets	13,566	12,411
Capital and Reserve	1,227	1,154
Non-Performing Loans	216	253
Remittances (No. of Transaction)	11,264	7,793
Interest Income	1,279	936
Deposit Cost	703	385
<b>Net Interest Income (NIM)</b>	<b>576</b>	<b>551</b>
Non- Markup Interest Income	27	22
<b>Total Income</b>	<b>604</b>	<b>573</b>
Admin Expenses	470	422
<b>Operating Profit</b>	<b>134</b>	<b>151</b>
Provisioning	9	(22)
<b>Profit Before Tax</b>	<b>125</b>	<b>173</b>
Taxation	53	73
<b>Profit After Tax</b>	<b>72</b>	<b>100</b>
Earnings per Share (Rs.)	0.70	0.97

### External Annual Audit

The financial statements of Bank of AJK have been audited by the auditors of the Bank, namely M/S Deloitte Yousuf Adil, Chartered Accountants, who have issued their audit opinion without any qualification. The retiring auditors being eligible, have offered themselves for re-appointment for the financial year ending 31 December 2020, and have been recommended by the Board for reappointment in the forthcoming Annual General Meeting.

### Capital Adequacy Ratio (CAR)

The Capital Adequacy Ratio (CAR) under BASEL-III stood at 19.54%, as on 31st December 2019, which is above the norm of 12.50% stipulated by State Bank of Pakistan. Similarly, the Tier-I component of CAR stood at 19.22% as on 31st December, 2019 which is much above the norm of 6% stipulated by State Bank of Pakistan.

### Home Remittances

The Bank is following the strategy to enlarge its market share in Home Remittances by offering automated efficient processes to facilitate this service. In this regard, arrangements have been made with renowned overseas Exchange Companies like Money Gram and RIA to facilitate Home Remittances in a secured and efficient manner. During the year 2019, the Bank experienced 45% growth in remittance transactions over 2018 aggregating to Rs. 863 million.

### Human Resource Development

Human capital and capacity building remained top priority. For evolving a merit and performance based culture, performance management system has been further streamlined and linked with career progression of employees. In order to improve the quality of human resource, extensive in-house arrangements were made for training of staff in branch banking operations, customer service and other soft skills.

### Corporate Social Responsibility-CSR

As a good corporate entity of the State, BAJK is fully responsive to its Corporate Social commitment through participation in supporting the genuine cause under:

- Sports
- Community Welfare
- Plantation/ Environmental Upgradation
- Women Economic Empowerment
- Health/Education and Youth Activities

The bank proactively and generously extended its support for the promotion of community welfare, public health and education. It will be worthwhile to mention that BAJK is the only Institution in AJ&K which warmly welcomes the students of business, commerce and IT to undergo their internships and enrich their hands on practical experience in banking.

### Meetings of the Board and its Committees:

There have been seven meetings of the Board of Directors (BoD), four meetings of Board Audit Committee (BAC), two meetings of Board Executive Committee (BEC) and three meetings of the Board IT Committee (BIT) held during 2019.

Attendance by each director has been as follows:

Name of Directors	BOD		BAC		BEC		BIT	
	Total	Att.	Total	Att.	Total	Att.	Total	Att.
Chief Secretary/Chairman	07	07	-	-	-	-	-	-
Secretary Finance	07	06	04	04	02	02	-	-
Senior Member Board of Revenue	07	07	04	04	04	04	-	-
Secretary Forest & AKLASC	07	03	-	-	-	-	03	02
Secretary Industries	07	06	-	-	02	02	03	03
President/CEO Bank of AJK	07	07	-	-	02	02	03	03
Mr. Ejaz Hussain Rathore	07	07	04	04	04	04	03	03
Mr. Raja Mumtaz Ali	07	04	04	03	04	04	-	-
Mr. Naveed Sadiq	07	07	-	-	-	-	-	-



## Future Outlook

- For the Bank, asset quality will remain a focus area while revitalizing its lending within the selected segments. All lending activities will be driven by the only consideration of creating quality and earning assets for ensuring the sustainability of the operations and meeting the minimum requirements relating to risk management, corporate governance, customer due diligence (CDD) and anti-money laundering as laid down in SBP Prudential Regulations.

- Efforts will be made to attract potential private sector investors both from within and outside the country for equity participation for meeting the minimum capital requirement to the maximum possible extent. Further, the management will continue to pursue the major shareholder i.e Govt. of AJ&K for an equity injection that address's the issue of the minimum paid up capital in line with the regulatory directives strengthening the financial base of the Bank.

;

- It will be ensured that all bank operations are in compliance of SBP Prudential Regulations and generally accepted banking norms and principles.

- Professionals and competent management is the key requirement to remain competitive and ensure sustainability, hence; corporate professionals with broader outlook and impeccable record will be integrated in the management team.

- Systems and controls play vital role in risk management, transparency and effectiveness of the operations besides cost effectiveness and customer service. In this regard strong technology support will be arranged to remain competitive in the market. All functional areas of the bank will be equipped with MIS for better management.

- Bank of AJ&K will continue to play a leading role for supporting the socio-economic development of the state, Private sector initiatives in all potential sectors particularly hydropower, forestry, tourism, traditional handicrafts, health and education having commercial viability will be fully supported.

## Statements under Section 52(4) of Bank's By-Laws 2007

The Board of Directors is fully cognizant of its responsibility under the Bank's By-Laws 2007. The following statements are a demonstration of its commitment towards continuous organizational improvement.

- The financial statements prepared by the management of the Bank, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

- Proper books of accounts have been maintained by the Bank.

- Appropriate accounting policies have been consistently applied in preparation of these financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards/International Financial Reporting Standards as applicable in Pakistan/AJ&K have been followed and any departure therefrom has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored. The ultimate responsibility of the effectiveness of internal control system and its monitoring lies with the Board. The Audit Committee of the Board meets periodically and independently throughout the year with the management and also the internal and external auditors to discuss the effectiveness of internal control system and other financial reporting matters. In addition, there are financial forecasts and budgetary control procedures in place that are reviewed and monitored throughout the year to indicate and evaluate variances from the budget.
- There are no doubts upon the Bank's ability to continue as a going concern.

### **Acknowledgements**

On behalf of the Board of Directors of the Bank, I would like to express my tremendous gratitude to the Honorable President and the Prime Minister of Govt. of the State of Azad Jammu and Kashmir for taking keen interest in patronizing BAJK for issuing directives to all Government functionaries for extending their full cooperation in promoting Bank's activities. I am also indebted to the Chief Secretary Govt. of AJK/Chairman of the Board for his visionary guidance and support to promote the activities of the Bank. I would also like to thank our outgoing directors for their contribution towards improvement of the overall governance structure of the Bank.

On behalf of the Board, I also place on record the deep appreciation for the support and confidence of BAJK valued customers for their continued trust and patronage and valuable contribution of the staff at all levels for the progress of the bank during the year and look forward to their continued cooperation in realization of the corporate goals in the years ahead.

May Allah Almighty bestow His blessings upon us.

For and on behalf of the Board of Directors



**(Khawar Saeed)**  
**President/CEO**



# AUDITORS' REPORT

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

### **Opinion**

We have audited the financial statements of the Bank of Azad Jammu and Kashmir (the Bank), which comprise statement of financial position as at December 31, 2019, and profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Bank of Azad Jammu and Kashmir Act, 2005 (the Act) and its Bye-Laws 2007 (the Bye-Laws).

### **Basis for opinion**

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

### **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: 29 JUL 2020

# FINANCIAL STATEMENTS





**THE BANK OF AZAD JAMMU AND KASHMIR  
STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 31, 2019**

	Note	2019 ----- Rupees in '000-----	2018
<b>ASSETS</b>			
Cash and balances with treasury banks	5	3,005,671	2,305,587
Balances with other banks	6	7,308,507	7,101,072
Lendings to financial institutions		-	-
Investments	7	178,401	175,869
Advances	8	2,036,826	2,028,938
Fixed assets	9	238,881	130,195
Intangible assets		-	-
Deferred tax assets	10	22,426	20,930
Other assets	11	775,623	648,751
		<b>13,566,335</b>	<b>12,411,342</b>
<b>LIABILITIES</b>			
Bills payable	12	21,148	19,582
Borrowings		-	-
Deposits and other accounts	13	11,873,535	11,063,203
Liabilities against right of use assets	14	122,388	-
Subordinated debt		-	-
Deferred tax liabilities		-	-
Other liabilities	15	322,201	174,969
		<b>12,339,272</b>	<b>11,257,754</b>
<b>NET ASSETS</b>			
		<b>1,227,063</b>	<b>1,153,588</b>
<b>REPRESENTED BY</b>			
Share capital	16	1,027,192	933,811
Reserves		-	-
Deficit on revaluation of assets	17	(17,289)	(18,935)
Unappropriated profit		217,161	238,712
		<b>1,227,063</b>	<b>1,153,588</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	18		

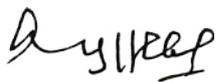
The annexed notes 1 to 39 form an integral part of these financial statements.



President



Chief Financial Officer



Director



Director



Director

**THE BANK OF AZAD JAMMU AND KASHMIR  
PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019	2018
Note	-----Rupees in '000-----	
Mark-up / return / interest earned	19 <b>1,279,455</b>	935,967
Mark-up / return / interest expensed	20 <b>702,719</b>	385,101
Net mark-up / interest income	<b>576,736</b>	550,866
<b>NON MARK-UP / INTEREST INCOME</b>		
Fee and commission income	21 <b>16,234</b>	14,999
Dividend income	<b>8,107</b>	3,939
Foreign exchange income	-	-
Income from derivatives	-	-
Gain on securities	-	-
Other income	22 <b>3,051</b>	2,751
Total non-markup/ interest income	<b>27,392</b>	21,689
Total income	<b>604,128</b>	572,555
<b>NON MARK-UP / INTEREST EXPENSES</b>		
Operating expenses	23 <b>470,061</b>	421,995
Workers welfare fund	-	-
Other charges	-	-
Total non-markup / interest expenses	<b>470,061</b>	421,995
Profit before provisions	<b>134,066</b>	150,560
Provisions and write offs - net	24 <b>8,665</b>	(22,053)
Extra ordinary / unusual items	-	-
<b>PROFIT BEFORE TAXATION</b>	<b>125,401</b>	172,613
Taxation	25 <b>(53,572)</b>	(72,720)
<b>PROFIT AFTER TAXATION</b>	<b>71,830</b>	99,893
	Rupees Restated	
<b>Basic and diluted earnings per share</b>	26 <b>0.70</b>	0.97

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



President



Chief Financial Officer



Director



Director



Director

**THE BANK OF AZAD JAMMU AND KASHMIR  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	2019	2018
	-----Rupees in '000-----	
Profit after taxation for the year	71,830	99,893

**OTHER COMPREHENSIVE INCOME**

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

Movement in surplus/ (deficit) on revaluation of investments - net  
Related deferred tax (expense)/credit

2,532	(14,675)
(886)	5,136
<b>1,646</b>	<b>(9,539)</b>
<hr/>	
<b>73,475</b>	<b>90,354</b>

**Total comprehensive income**

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



President



Chief Financial Officer



Director



Director



Director

**THE BANK OF AZAD JAMMU AND KASHMIR  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Share capital	Surplus / (deficit) on revaluation	Unappropriated Profit	Total
----- Rupees in '000-----				
<b>Balance as at January 01, 2018</b>	848,919	(9,396)	223,711	1,063,234
Profit after taxation for the year ended December 31, 2018	-	-	99,893	99,893
<b>Other comprehensive income</b>				
Deficit on revaluation of available-for-sale securities - net of tax	-	(9,539)	-	(9,539)
<b>Transactions with owners, recorded directly in equity</b>				
Issue of bonus shares - note 16.5	84,892	-	(84,892)	-
<b>Closing balance as at December 31, 2018</b>	<b>933,811</b>	<b>(18,935)</b>	<b>238,712</b>	<b>1,153,588</b>
Profit after taxation for the year ended December 31, 2019	-	-	71,830	71,830
<b>Other comprehensive income</b>				
Deficit on revaluation of available-for-sale securities - net of tax	-	1,646	-	1,646
<b>Transactions with owners, recorded directly in equity</b>				
Issue of bonus shares - note 16.5	93,381	-	(93,381)	-
<b>Closing balance as at December 31, 2019</b>	<b>1,027,192</b>	<b>(17,289)</b>	<b>217,161</b>	<b>1,227,063</b>

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



President



Chief Financial Officer



Director



Director



Director

**THE BANK OF AZAD JAMMU AND KASHMIR  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2019**

2019 2018  
Note -----Rupees in '000-----

**CASH FLOW FROM OPERATING ACTIVITIES**

Profit before taxation	125,401	172,613
Less: Dividend income	<u>(8,107)</u>	<u>(3,939)</u>
	117,294	168,674
Adjustments:		
Depreciation	56,269	24,789
Provision and write-offs	11,665	(22,053)
Interest expense on lease liability	(14,919)	-
Gain on sale of fixed assets	(22)	(9)
	<u>52,993</u>	<u>2,727</u>
	170,288	171,401
(Increase)/ decrease in operating assets		
Advances	(19,553)	385,327
Others assets (excluding advance taxation)	(140,357)	(199,819)
	<u>(159,910)</u>	<u>185,508</u>
Increase/ (decrease) in operating liabilities		
Bills payable	1,566	(12,226)
Deposits	810,332	1,515,988
Other liabilities (excluding current taxation)	155,714	7,897
	<u>967,612</u>	<u>1,511,659</u>
	977,990	1,868,568
interest paid on lease liability	14,919	
Income tax paid	<u>(64,436)</u>	<u>(81,359)</u>
Net cash generated from operating activities	<u>928,473</u>	<u>1,787,209</u>

**CASH FLOW FROM INVESTING ACTIVITIES**

Net investments in available-for-sale securities	-	(50,000)
Net investments in held-to-maturity securities	-	199,247
Net proceeds from placements with banks	(2,983,777)	(1,528,100)
Dividend income received	8,107	3,939
Investments in operating fixed assets	(13,589)	(38,019)
Proceeds from sale of fixed assets	22	104
Net cash generated from investing activities	<u>(2,989,237)</u>	<u>(1,412,829)</u>

**CASH FLOW FROM FINANCING ACTIVITIES**

Issue of share capital	-	-
Principal paid against lease liability	(15,493)	-
Dividend paid	-	-
Net cash used in financing activities	<u>(15,493)</u>	<u>-</u>

**decrease in cash and cash equivalents**

**Cash and cash equivalents at beginning of the year**

**Cash and cash equivalents at end of the year**

	(2,076,258)	374,380
	<u>3,921,559</u>	<u>3,547,179</u>
27	<u>1,845,301</u>	<u>3,921,559</u>

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



President



Chief Financial Officer



Director



Director



Director

**THE BANK OF AZAD JAMMU AND KASHMIR  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2019**



**1. STATUS AND NATURE OF BUSINESS**

The Bank of Azad Jammu and Kashmir (the Bank) a public unlisted Bank 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 holds directly and indirectly Bank's entire share capital.

The Bank has 70 branches (2018: 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. Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

**2.1 STATEMENT OF COMPLIANCE**

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

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

SBP has deferred the applicability of International Accounting Standard 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.

The SECP, through SRO 220(I)/2019 dated February 14, 2019, has notified that IFRS 9, Financial Instruments, is applicable for accounting periods ending on or after June 30, 2019. However, based on the guidance received from the SBP, the requirements of IFRS 9 have not been considered. However, bank is required to submit their pro-forma financial statements based on IFRS-9 to SBP.

The SECP vide SRO 56 (1) / 2016 dated January 28, 2016, has notified that the requirements of IFRS 10 (Consolidated Financial Statements) and section 228 of the Companies Act, 2017 will not be applicable with respect to the investment in mutual funds established under trust structure.

**2.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2019**

The following standards, amendments and interpretations are effective for the year ended December 31, 2019.

	<b>Effective from accounting period beginning</b>
-IFRS 16 'Leases': This standard will supersede IAS 17 'Leases', IFRIC 4, SIC 15 and SIC 27 upon its effective date. ( Note 4.1)	January 01, 2019
-IFRS 15 'Revenue': This standard will supersede IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations.	January 01, 2019

Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to customers. The adoption of IFRS 15 does not have any material impact on the financial statements of the Bank.

Other standards, interpretations and the amendments that are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements are given below :

	<b>Effective from accounting period beginning on or after</b>
- Amendments to IAS 19 'Employee Benefits' - Amendments regarding plan amendments, curtailments or settlements.	January 01, 2019
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' - Amendments regarding long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 01, 2019
- Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 issued in the Annual Improvement Cycle 2015-2017	January 01, 2019
- IFRIC 23 'Uncertainty over Income Tax Treatments': Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'.	January 01, 2019

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

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

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

	<b>Effective from accounting period beginning on or after</b>
Amendments to IFRS 3 'Business Combinations' - Amendments regarding the definition of business	January 01, 2020
Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' - Amendments regarding the definition of material	January 01, 2020
IFRS 9 Financial Instruments	January 01, 2021

As per the State Bank of Pakistan's BPRD circular letter No. 4 dated October 23, 2019 the applicability of IFRS 9 to banks in Pakistan has been deferred to accounting periods beginning on or after January 01, 2021

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

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 17 – Insurance Contracts

## 2.3 Use of critical accounting estimates and judgments

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

- i) Classification of investment.
- ii) Provision against investments and non performing advances , depreciation of operating fixed assets
- iii) Valuation and impairment of available for sale securities
- iv) Useful life of property and equipment and valuation of right of use asset and lease liability
- v) Taxation

## 3 BASIS OF MEASUREMENT

### 3.1 Accounting convention

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as disclosed in note 4.1 below.

### 4.1 Change in accounting policy

In current year, IFRS 16, Leases, became applicable to the Bank. IFRS 16 replaces existing guidance on accounting for leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases - Incentives', and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces an on-balance sheet lease accounting model for leases entered into by the lessee. A lessee recognizes a right-of use asset representing its right of using the underlying asset and a corresponding lease liability representing its obligations to make lease payments. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as either finance or operating leases.

The Bank has adopted IFRS 16 from January 1, 2019, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. Any adjustments to the carrying amounts of financial and operating leases at the date of transition were recognized in the opening retained earnings of the current period. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 16 and therefore is not comparable to the information presented for 2019 under IFRS 16. The comparative period notes disclosures repeat those disclosures made in the prior year.

The Bank has recognised liabilities in respect of leases which had previously been classified as operating leases under IAS 17, Leases. These liabilities are measured as the present value of the remaining lease payments, discounted using the Bank's incremental weighted average borrowing rate of 11.84% per annum as at January 1, 2019.

On adoption of IFRS 16, the associated right-of-use assets were initially measured at the amount equal to the lease liability, adjusted by the amount of prepaid lease payments recognised in the statement of financial position immediately before the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The effect of this change in accounting policy, which is applied with retrospective effect, is as follows:

	<b>December 31, 2019</b>	<b>January 01, 2019</b>
	-----Rupees in '000-----	
Total lease liability	<u>122,388</u>	<u>123,137</u>
The recognised right-of-use assets relate to the following type of asset		
Property	<u>121,102</u>	<u>136,622</u>

The effect of this change in accounting policy is as follows:

#### **Impact on Statement of Financial Position**

Increase in fixed assets - right-of-use assets	121,102	136,622
"Decrease in other assets - advances, deposits, advance rent and other prepayments"	(10,498)	(13,485)
Increase in other assets - advance taxation	4,124	-
Increase in total assets	<u>114,728</u>	<u>123,137</u>
Increase in other liabilities - lease liability against right of use asset	<u>(122,388)</u>	<u>(123,137)</u>
decrease in net assets	<u>(7,660)</u>	<u>-</u>

#### **For the year ended December 31, 2019**

#### **Impact on Profit and loss account**

**Rupees in '000'**

Increase in mark-up expense - lease liability against right of use assets	(14,919)
Decrease / (increase) in administrative expenses:	
Rent expense	33,400
Depreciation on right of use asset	(30,265)
Decrease in profit after tax	(11,784)
Decrease in tax	4,124
Decrease in profit after tax	<u>(7,660)</u>

Earnings per share for the year ended December 31, 2019 are Rs 0.08 lower as a result of the adoption of IFRS 16.

#### **4.2 Cash and cash equivalents**

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

#### **4.3 Investments**

Investments are classified as follows:

##### **Held for trading**

These 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.

#### 4.3.1 Initial measurement

All purchases and sales of investments that require delivery within the time frame established by regulations 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.

"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."

#### 4.3.2 "Subsequent measurement"

##### Held-for-trading

Investments classified as held-for-trading are subsequently measured at fair value. Any unrealised surplus / deficit 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 recognised to reflect irrecoverable amounts.

##### 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.

#### 4.4 Advances

Advances are stated net of provisions for non-performing advances. The Bank reviews its loan portfolio and debt securities classified as investments to assess the amount of non-performing loans and advances and debt securities and provision required there-against. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, the forced sale value of securities and requirements of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances, the Bank follows the general provision requirement set out in Prudential Regulations. The provisions against non-performing advances are charged to the profit and loss account. Advances are written off when there is no realistic prospect of recovery.

#### 4.5 Capital work-in-progress, property and equipment, and depreciation

##### Capital work-in-progress

Capital work in progress is stated at cost.

##### Tangible assets

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

##### Intangible assets

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

##### Depreciation / amortization

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

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

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

##### **4.6.1 Right of-use assets**

On initial recognition, right-of-use assets are measured at an amount equal to initial lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

Right-of-use assets are subsequently stated at cost less any accumulated depreciation / accumulated impairment losses and are adjusted for any remeasurement of lease liability. The remeasurement of lease liability will only occur in cases where the terms of the lease are changed during the lease tenure.

Right-of-use assets are depreciated over their 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 below equity, in which case it is recognized in other comprehensive income or below equity.

#### **Current**

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

#### **Deferred**

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

### **4.10 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, etc. are recognized at the time of performance of service. Dividend income is recognized when the Bank's right to receive the dividend is established.

### **4.12 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.

#### **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 Appropriations subsequent to the date of statement of financial position**

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

#### **4.17 Segment reporting**

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

##### **4.17.1 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.

##### **4.17.2 Geographical segments**

The Bank only operates in Azad Jammu and Kashmir.

#### **4.18 Earning per share**

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

5 CASH AND BALANCES WITH TREASURY BANKS	2019	2018
	-----Rupees in '000-----	
In hand		
Local currency	120,859	118,620
With National Bank of Pakistan in		
Local currency current account	25,232	30,449
Local currency deposit account - note 5.1	99,580	95,234
Local currency term deposit accounts - note 5.2	2,760,000	2,060,000
	2,884,812	2,185,683
Prize bonds	-	1,284
	<b>3,005,671</b>	<b>2,305,587</b>

5.1 This represents deposit accounts carrying markup ranging from 11.25% 11.40% (2018: 8% to 8.5%) per annum.

5.2 This represents term deposits carrying markup rates ranging from 12.25% to 13.9% (2018: 6.15% to 10.05%) per annum with maturities ranging from six months to one year.

6 BALANCES WITH OTHER BANKS	2019	2018
	-----Rupees in '000-----	
In Pakistan (Azad Jammu and Kashmir)		
In current account	130,061	50,696
In deposit account - note 6.1 & 6.2	7,178,446	7,050,376
	<b>7,308,507</b>	<b>7,101,072</b>

6.1 This include deposit accounts carrying markup ranging from 11.25% 11.40% (2018: 8% to 8.5%) per annum.

6.2 This include term deposits carrying markup at rates ranging between 7.6% to 20% (2018: 6.08% to 19.84%) per annum. Term deposits have maturities ranging from 3 months to 5 years except a term deposit for an amount of Rs. 500 million placed with a bank maturing in 2029.

7 INVESTMENTS	2019				2018			
	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value
7.1 Investments by type	-----Rupees in '000-----							
<b>Available-for-sale securities</b>								
Units of open ended mutual funds - note 7.5	205,000	-	(26,599)	178,401	205,000	-	(29,131)	175,869
<b>Held-to-maturity securities</b>								
Term finance certificates - note 7.4	49,940	(49,940)	-	-	49,940	(49,940)	-	-
<b>Total Investments</b>	<b>254,940</b>	<b>(49,940)</b>	<b>(26,599)</b>	<b>178,401</b>	<b>254,940</b>	<b>(49,940)</b>	<b>(29,131)</b>	<b>175,869</b>

## 7.2 Investments by segments

	2019				2018			
	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value

-----Rupees in '000-----

### Units of open ended mutual funds

Mutual funds  
note 7.5

205,000	-	(26,599)	178,401	205,000	-	(29,131)	175,869
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### Non Government debt securities

Unlisted  
Term finance certificates

49,940	(49,940)	-	-	49,940	(49,940)	-	-
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### Total investments

254,940	(49,940)	(26,599)	178,401	254,940	(49,940)	(29,131)	175,869
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## 7.3 Particulars of held to maturity investment

No. of certificates		Name of company	Redeemable value per certificate (Rupees)	2019	2018	Credit rating
2019	2018			Rupees in '000		
10,000	10,000	Pace Pakistan Limited	4,994	49,940	49,940	Un-rated

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

## 7.4 Particulars of provision for diminution in value of investments

### 7.4.1 Opening balance Charge for the year

Closing Balance

2019  
-----Rupees in '000-----

49,940	49,940
-	-
49,940	49,940

### 7.4.2 Particulars of provision against debt securities Category of classification

Domestic  
Loss

2019		2018	
NPI	Provision	NPI	Provision
-----Rupees in '000-----			
49,940	49,940	49,940	49,940

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

	2019				2018			
	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 (Rupees)
<b>Units of open ended mutual funds</b>								
National Investment Unit Trust Fund	1,313,081	100,000	83,381	63.50	1,305,437	100,000	82,751	63.39
NIT Government Bond Fund	3,184,047	30,000	33,537	10.53	3,184,047	30,000	32,680	10.26
NIT Islamic Equity Fund	4,329,197	50,000	37,490	8.66	4,329,197	50,000	36,019	8.32
MCB Dynamic Cash Fund	213,059	25,000	23,993	112.65	222,131	25,000	24,419	109.93
		<u>205,000</u>	<u>178,401</u>			<u>205,000</u>	<u>175,869</u>	

## 8 ADVANCES

Performing		Non performing		Total	
2019	2018	2019	2018	2019	2018

----- Rupees in '000-----

Loans, cash credits, running finances, etc.	1,993,166	1,936,543	215,620	252,690	2,208,786	2,189,233
Advances - gross	1,993,166	1,936,543	215,620	252,690	2,208,786	2,189,233
Provision against advances						
- Specific	-	-	(130,093)	(112,203)	(130,093)	(112,203)
- General	(41,867)	(48,092)	-	-	(41,867)	(48,092)
	(41,867)	(48,092)	(130,093)	(112,203)	(171,960)	(160,295)
Advances - net of provision	1,951,299	1,888,451	85,527	140,487	2,036,826	2,028,938

### 8.1 Particulars of advances (Gross)

	2019	2018
	Rupees in '000	
In local currency	2,208,786	2,189,233

8.2 Advances include Rs. 215,620 thousand (2018: 252,690 thousand) which have been placed under non-performing status as detailed below:-

Category of classification	2019		2018	
	Non performing loans	Provision	Non performing loans	Provision
	----- Rupees in '000-----			
<b>Domestic</b>				
Other Assets Especially Mentioned	4,986	-	37,792	-
Substandard	23,946	3,987	43,468	8,586
Doubtful	15,681	5,092	17,936	7,706
Loss	171,007	121,014	153,494	95,911
<b>Total</b>	<b>215,620</b>	<b>130,093</b>	<b>252,690</b>	<b>112,203</b>

### 8.3 Particulars of provision against advances

	2019			2018		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000-----					
Opening balance	112,203	48,092	160,295	122,169	44,538	166,707
Charge for the year	48,673	-	48,673	21,397	3,554	24,951
Reversals	(30,783)	(6,225)	(37,008)	(31,363)	-	(31,363)
	17,890	(6,225)	11,665	(9,966)	3,554	(6,412)
<b>Closing balance</b>	<b>130,093</b>	<b>41,867</b>	<b>171,960</b>	<b>112,203</b>	<b>48,092</b>	<b>160,295</b>

#### 8.3.1 Particulars of provision against advances

	2019			2018		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000-----					
In local currency	130,093	41,867	171,960	112,203	48,092	160,295
	130,093	41,867	171,960	112,203	48,092	160,295

**8.3.2** The net FSV benefit availed has been decreased by Rs 31.519 million, which has resulted in increased charge for specific provision for the year by Rs 18.010 million. Had the FSV benefit not decreased, before and after tax profit for the year would have been increased by Rs 18.010 million (2018: lower by Rs 7.624 million) and Rs 11.7065 million (2018: lower by Rs 4.651 million) respectively. Further, at December 31, 2019, cumulative tax benefit availed for Forced Sale Value (FSV) was Rs 5.4 million (2018: Rs 2.97 million) under BSD circular No. 1 of 2011 dated October 21, 2011. Reserves and un-appropriated profit to that extent are not available for distribution by way of cash or stock dividend.

## 9 FIXED ASSETS

	Note	2019	2018
		-----Rupees in '000-----	
Capital work-in-progress	9.1	932	1,234
Property and equipment	9.2	237,949	128,961
		<b>238,881</b>	<b>130,195</b>

### 9.1 Capital work-in-progress

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

	2019	2018
	-----Rupees in '000-----	
Advances to supplier	932	1,234

## 9.2 Property and equipment

		2019								
		Rupees '000								
		Freehold land	Building on freehold land	Leasehold improvements	Furniture and fixture	Office equipment	Computers	Vehicles	Right of Use Asset	Total
<b>At January 1, 2019</b>		40,400	14,407	48,889	74,523	25,001	33,218	30,130	136,622	403,190
	Cost	—	(8,243)	(26,146)	(36,805)	(16,939)	(25,870)	(23,604)	—	(137,607)
	Accumulated depreciation	40,400	6,164	22,743	37,718	8,062	7,348	6,526	136,622	265,583
	Net book value									
<b>Year ended December 2019</b>		40,400	6,164	22,743	37,718	8,062	7,348	6,526	136,622	265,583
	Opening net book value	—	—	4,790	4,060	3,537	1,504	—	14,744	28,635
	Additions	—	—	—	(40)	—	—	—	—	(40)
	Disposals	—	—	—	40	—	—	—	—	40
	Cost	—	(1,441)	(7,403)	(7,856)	(3,278)	(3,280)	(2,746)	(30,265)	(56,269)
	Accumulated depreciation	40,400	4,723	20,130	33,922	8,321	5,572	3,780	121,101	237,949
	Depreciation charge									
	Closing net book value									
<b>At December 31, 2019</b>		40,400	14,407	53,679	78,543	28,538	34,722	30,130	151,366	431,785
	Cost	—	(9,684)	(33,549)	(44,621)	(20,217)	(29,150)	(26,350)	(30,265)	(193,836)
	Accumulated depreciation	40,400	4,723	20,130	33,922	8,321	5,572	3,780	121,101	237,949
	Net book value	0	10	20	10-20	20	20	20	20	20
	Rate of depreciation									

		2018								
		Rupees '000								
		Free hold land	Building on freehold land	Leasehold improvements	Furniture and fixture	Office equipment	Computers	Vehicles	Right of Use Asset	Total
<b>At January 1, 2018</b>										
Cost		40,000	14,407	27,382	61,789	20,314	31,187	30,130	-	225,209
Accumulated depreciation		-	(6,802)	(20,519)	(31,858)	(13,742)	(21,802)	(20,512)	-	(115,235)
Net book value		40,000	7,605	6,863	29,931	6,572	9,385	9,618	-	109,974
<b>Year ended December 2018</b>										
Opening net book value		40,000	7,605	6,863	29,931	6,572	9,385	9,618	-	109,974
Additions		400	-	21,507	15,246	4,687	2,031	-	-	43,871
Disposals		-	-	-	(2,512)	-	-	-	-	(2,512)
Cost		-	-	-	2,417	-	-	-	-	2,417
Accumulated depreciation		-	-	-	(7,364)	(3,197)	(4,068)	(3,092)	-	(24,789)
Depreciation charge		-	(1,441)	(5,627)						
Closing net book value		40,400	6,164	22,743	37,718	8,062	7,348	6,526	-	128,961
<b>At December 31, 2018</b>										
Cost		40,400	14,407	48,889	74,523	25,001	33,218	30,130	-	266,568
Accumulated depreciation		-	(8,243)	(26,146)	(36,805)	(16,939)	(25,870)	(23,604)	-	(137,607)
Net book value		40,400	6,164	22,743	37,718	8,062	7,348	6,526	-	128,961
Rate of depreciation (percentage)		0	10	20	10-20	20	20	20	20	