



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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VISION

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



CORE VALUES



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 wellbeing of its people.



PRESIDENT'S MESSAGE

Together We Lead



I am delighted to see the Annual Report of Bank of Azad Jammu and Kashmir for the year 2014 with much enthusiasm to know that the bank has completed 9th year of its operations with impressive financials and all-round performance as a commercial bank. The bank in a short span of time has been able to register its presence in banking industry of the region as a corporate entity with the vision and mission of socio-economic development of state. Financial intermediation is the most challenging process performed by banks as banking business thrives on financial abilities of financial institutions to mobilize savings and channelize them for productive usages by the business and corporate sector.

Meeting the development challenges particularly in the private sector requires a vibrant banking sector support. Besides performing the usual commercial banking functions, banks in developing countries play an effective role in their economic development. The challenges that we are confronted with in the state include; poverty, unemployment and predominant reliance on traditional agriculture. There is acute shortage of capital coupled with lack of initiative and enterprise. Infrastructure and means of transport are undeveloped and industry is depressed. As a matter of fact commercial banks help in overcoming these obstacles and promoting economic development.

It is encouraging that BAJK as we see today down the road is fully capable to offer banking services through network of branches spread across the state. The bank has a wide range of banking products particularly on credit side covering almost all segments of the economy. The financial services and products include mark up free credit schemes in the fields of agriculture, livestock, poultry, dairy and SMEs, through which the individuals with relevant background and experience are facilitated to earn livelihood and contribute in overall growth of the economy. Close liaison of the Bank with concerned government departments in implementing the initiatives of government is an encouraging factor for development of region with emphasis on creation of economic activities, reduction of poverty and well being of people.

I see a much greater role of the bank in the socio economic development of state and well being of people as a backbone supported by all stakeholders going forward.

(Sardar Muhammad Yaqoob Khan)
President
Azad Government of the State of Jammu and Kashmir



PRIME MINISTER'S MESSAGE

Together We Prosper



I am delighted to know that the Bank of Azad Jammu and Kashmir established in 2006 has emerged today as a vibrant corporate entity of the state fully geared to play as a role of a catalyst in the economy of Azad Jammu and Kashmir. Its financials and other Key Performance Indicators down the road and particularly of last three years are much impressive and indicate the sustainability of the institution going forward.

Today, BAJK on account of banking services, financial products, operations, outreach and role in the business sectors, its presence in banking industry is being noticed as a confident player of the market. This is clear manifestation of the fact that BAJK has been able to develop requisite profile for its future growth. Ever increasing trust of the customers and general public at large shows that the bank has been able to muster the confidence and trust of people as an agent of change in their economic conditions and general well-being.

It is heartening to know that the bank has made a paradigm shift in credit policy and approach by aligning its lending programs and operations with its very purpose of formation. I am sure this change will bring a positive impact on development of private sector, promotion of employment opportunities, reduction of poverty and women economic empowerment.

I am keenly watching the progress of initiatives of the Finance Department and the Board of Directors of the Bank for acquiring the scheduled status at the earliest. However, I would like to emphasize that it is our collective responsibility to make concerted efforts at all levels for scheduling of the bank at the earliest.

I appreciate the Chairman, Members of the Board and the Managing Director for the impressive financials posted for the year and for implementing the specifically tailored lending schemes directed to improve the socio-economic conditions of the region.

(Chaudhary Abdul Majeed)
Prime Minister
Azad Government of the State of Jammu and Kashmir



CHAIRMAN'S REVIEW

Together We Progress



It gives me immense pleasure to inform that the Bank of Azad Jammu and Kashmir has crossed another land mark of 9th year of its establishment by posting record operating profit and significant improvement in all other financials. The bank particularly during the past three years has pursued the policies and programs directed to improve business activities in private sector, impacting employment generation and reduction in poverty. The bank during this period has endeavored hard to focus on the following purposes as laid down in its Act but which hitherto were not on active list of its priorities:

- Mobilize private savings and public funds for diverting the same to productive channels and ensure their availability
- Promote industrial, agricultural, rural micro financing and other socio-economic processes through active participation of public and private sectors
- Help under developed areas and create employment opportunities specially in rural areas and guide & assist people of AJK serving overseas to effectively and profitably invest their savings in the state
- Create a diversified strong portfolio for utilization of otherwise idle funds and other instruments in existing as well as new ventures, especially in the pioneering of high-tech agro-based, export oriented and engineering projects to ensure maximum returns

All the above functions remained out of sight till 2011 when the present Managing Director assumed leadership role in the bank and revisited the business strategy of the bank by aligning its operations with the purposes for which the bank was established. The strategic shift focused on microcredit, SME, Agriculture, Livestock, Poultry, Tourism and Healthcare Services, wherein bank's lending operations were diverted. I'm pleased to note that the bank today has earned the trust of its customers and the government departments partnering the bank in implementing the development projects aiming the socio-economic development of state and well-being of people. I'm confident that a strong foundation has been laid down in terms of products & services; documentation of standard operating procedures & policies; IT up-gradation; capacity building and creation of brand identity and coming years will be more rewarding for the stake holders, customers and employees alike.

Amidst optimism I'm fully aware of the challenges being confronted by the bank due to its non-scheduled status. Concerted efforts are continuing to evaluate various options for raising the equity and remove bottlenecks in this regard. I'm sure with collective efforts of Board and support of government this matter will be resolved very soon. However, I am supporting the bank unequivocally with the belief that supporting the State's own commercial bank is in fact supporting the nation.

(Ch. Latif Akbar)
Finance Minister AJK &
Chairman Board BAJK

LOGO INSPIRATION



CORPORATE INFORMATION

Together We Stand

Board of Directors

Chaudhry Latif Akbar, Finance Minister AJK
Mr. Fazal ur Rehman
Malik Muhammad Sadiq, Secretary Finance AJK
Sardar Naeem Ahmed Shiraz, SMBR AJK
Mr. Farhat Ali Mir, Secretary Forests, Wildlife Fisheries and AKLASC
Mr. Muhammad Muneer Qureshi, Secretary Industries AJK
Chaudhry Muhammad Saeed, Businessman/Industrialist
Mr. Mohammed Ahmed Shaikh, Corporate Lawyer
Chaudhry Javaid Iqbal, Businessman/President AJK CII

Chairman
MD
Director
Director
Director
Director
Director
Director
Director

Executive Committee of BoD

Malik Muhammad Sadiq, Secretary Finance
Mr. Fazal-ur-Rehman, Managing Director BAJK
Chaudhry Muhammad Saeed

Chairman
Member
Member

Audit Committee of BoD

Sardar Naeem Ahmed Shiraz, Senior Member Board of Revenue
Malik Muhammad Sadiq, Secretary Finance
Chaudhry Javaid Iqbal

Chairman
Member
Member

HR & IT COMMITTEE

Mr. Muhammad Muneer Qureshi, Secretary Industries
Mr. Farhat Ali Mir, Secretary Forests, Wildlife Fishries and AKLASC
Mr. Mohammad Ahmed Shaikh

Chairman
Member
Member

Auditors

M. Yousuf Adil Saleem & Co,
Chartered Accountants

Tax Advisor

Zaffar & Co, Chartered Accountants

Registered Office

Bank Square, Chatter Domel,
Muzaffarabad AJK

BOARD OF DIRECTORS



Chaudary Latif Akbar
Finance Minister AJK/Chairman



Fazal-ur-Rehman
Managing Director



Malik Muhammad Sadiq
Secretary Finance/Member



Sardar Naeem Ahmed Shiraz
SMBR/Member



Farhat Ali Mir
Secretary Forests/Member



Muneer Qureshi
Secretary Industries/Member



Chaudary Muhammad Saeed
Member



Muhammad Ahmed Shiekh
Member



Chaudhary Javaid Iqbal
Member

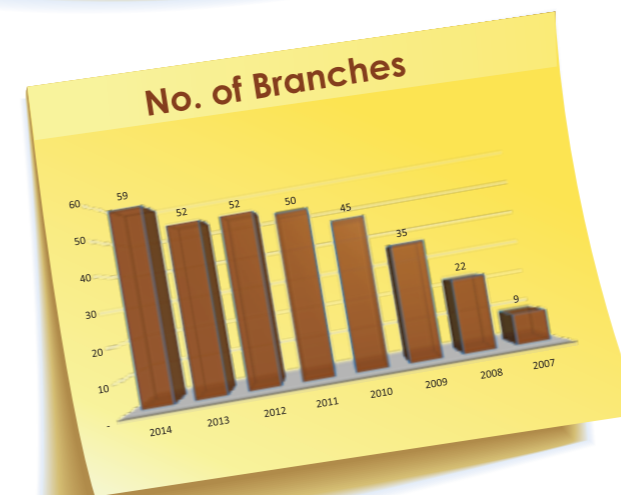
EIGHT YEARS AT A GLANCE

(2007 to 2014)

PARTICULARS	2014	2013	2012	2011	2010	2009	2008	2007
Balance sheets								
Total Assets	7,585,052	6,204,423	5,401,333	4,513,683	3,416,518	2,747,618	2,129,870	1,642,820
Advances (net)	2,256,907	1,678,147	1,101,286	952,880	330,283	163,095	55,077	5,623
Investment	1,172,192	203,549	225,397	297,877	239,164	286,640	203,650	165,742
Equity	810,331	730,328	683,900	537,934	484,086	392,602	322,051	285,220
Deposits	6,642,949	5,367,895	4,599,756	3,883,035	2,876,846	2,308,897	1,837,480	1,338,077
Operating Results								
Mark-up/return/interest earned	723,400	561,905	555,254	425,887	347,278	295,081	193,986	130,182
Mark-up/return/interest expensed	377,681	319,836	292,931	176,427	145,644	114,882	85,573	58,044
Net Markup Based Income	345,719	242,069	262,323	249,460	201,634	180,199	108,413	72,138
Non Markup Based Income	56,495	45,363	46,235	18,702	26,757	8,039	13,755	7,570
Non Markup Based Expenses	243,351	206,658	158,856	118,238	94,477	69,325	48,782	28,737
Operating Profit	158,863	80,774	149,702	149,924	133,914	118,913	73,386	50,971
Provision against NPL	52,845	18,174	9,192	72,689	997	7,624	13,958	55
Net Profit/(Loss) Before Tax	106,018	62,600	140,510	77,235	132,917	111,289	59,428	50,916
Net Profit/(Loss) After Tax	80,003	46,428	95,814	52,848	92,484	70,551	36,831	28,498
Other Information								
Earning per share (Rupees)	1.22	0.72	1.66	1.00	1.93	1.46	1.44	1.12
Number of Branches	59	52	52	50	45	35	22	9

FINANCIAL HIGHLIGHTS

2007 to 2014



DIRECTORS' REVIEW REPORT



Directors' Review Report



On behalf of the Board of Directors, it gives me immense pleasure to present the 9th Annual Report of Bank of Azad Jammu and Kashmir for the year ending 31st December 2014.

During the year 2014, the Bank earned a total revenue of PKR 779.895 million against the expenses of PKR 621.032 million, posting an operating profit of PKR 158.863 million and showing a phenomenal increase of 99% over the year 2013. During this period deposits grew by 24% to PKR 6,643 million and advances by 37 % to PKR 2,361 million. Total assets of the bank registered an increase of 22% to PKR 7,585 million. During the period under review, significant achievements of the year saw 60% increase in number of borrowers and advances to deposits ratio (ADR) from 31% to 36% which reflects bank's consistent policy to support business activities in the region impacting the socio - economic development of the State. Capital adequacy ratio (CAR) of 22.27% and return on equity 10.38% both reflect stability of bank. The increase in profitability was achieved despite of high cost deposits procured from various government departments in competition with other well established commercial banks by offering higher rates. It will be worthwhile to mention that the bank endeavored to

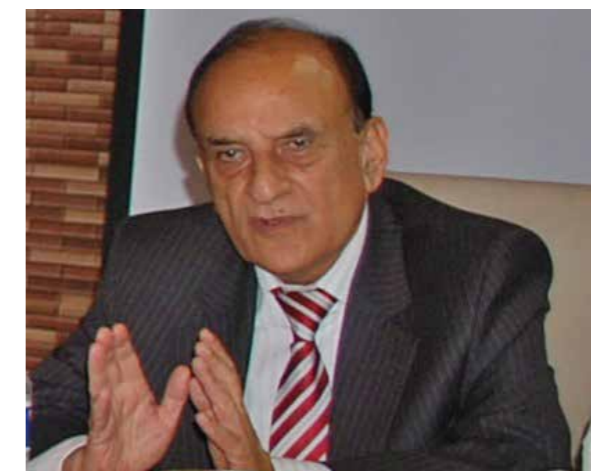
promote bank lending to businesses amidst extremely conservative approach of other commercial banks to take risk. Treasury operations made significant contribution bank's revenues through prudent and risk averted investments in government securities i.e. Pakistan Investment Bonds (PIB) and corporate securities i.e. mutual funds and placements with other banks. Sensitivity to market conditions and interest rate scenarios were fully kept in view while managing the liquidity position and optimizing the return on funds at the disposal of treasury. The investment in government securities was the first experience which contributed objectively to revenues of the bank.

The year 2014 is in fact a sequel of initiatives taken by the management during the past three years (2011-14) to transform the bank into a sustainable institution with potential and direction to grow in future. Shift in business strategy focused on the creation of brand identity to improve the image of the bank in general public; technology up-gradation for better organizational efficiency and customer service; development of operating policies and procedures for smooth and effective functioning and service delivery; availability of customized products for promoting

business activities and socio-economic development of state and well - being of people; evolving a responsive field a structure and partnering the AJK government in socio - economic development of state; women's economic empowerment; HR capacity building and voluntary regulatory compliance.

Almost all the financials of the bank have been doubled during 2011-14, profit from PKR 46 million to PKR 159 million; deposits from PKR 3,148 million to 6,643 million; advances from PKR 219 million to PKR 2,361 million; and assets from PKR 3768 million to 7,585 million during the past three years. It is encouraging to report that the policies and initiatives taken during the past three years have started paying off dividend and setting a positive outlook for the bank going forward.

The increase in the scope and volume of business coupled with increase in number of relationships and branch network, required a proactive and responsive organizational structure for achieving overall operational efficiency, effective internal controls, good quality service delivery and impressive brand identity.



For this and to take the decision making near to customers and reduce turnaround time, the regional setup has been evolved which will be instrumental in procuring the business as well as for improving the branches working. Azad Jammu and Kashmir where the bank is operating is a land of rich natural resources and opportunities.

The territory has been endowed with deposits of precious minerals, thick forests, abundant water resources and natural beauty. Its lush green valleys, lakes, rivers and snow clad mountains are first preference for tourists.

The region is famous for enormous contribution in foreign exchange earnings through home remittances. The region is a big attraction for almost all domestic and foreign banks to have their branches in the area to grab their share in huge chunk of deposits. However, due to lack of infrastructure coupled with scarce financial resources, the socio- economic development of the region continues to remain a major challenge for policy makers. Nonetheless, the government is attaching top priority to socio-economic development of the state by taking all possible measures for well-being of its people. Development of all sectors of the economy, particularly SMEs, agriculture, livestock, poultry, tourism, minerals and hydro power are the sectors where government is keenly taking initiatives for their promotion by mobilizing the private sector. However, the banking industry in the region, though greatly being benefitted by huge amount of deposits

collected from the area is least interested to play due role as agent of change in the economy of Azad Jammu and Kashmir through lending activities. The commercial banks' performance in providing credit facilities for the growth of private sector business activities is really discouraging.

With the result, the region has not been able to exploit its full potential in fruits, livestock, poultry, traditional handicrafts, SMEs, tourism and energy sectors.

Bank of Azad Jammu and Kashmir as mandated by the bank's act of Legislative Assembly is moving forward with strong determination to play its role as a change agent in the economy of Azad Jammu and Kashmir through its policies, products and banking services. The bank particularly during past three years has enlarged the scope of its lending activities to cover all sectors and businesses. The emphasis continued to remain on tailoring the financial products to cater real needs of the people of the area with the result the bank has 20 credit schemes covering all sectors the of economy. The bank's strategy of focusing on boosting of economic activities in private sector with emphasis on rural areas by increasing their access to bank financing on highly competitive terms has a direct link with promoting the economic activities, employment generation and poverty reduction in the region. The Bank's focus on agriculture sector, small and medium enterprises and micro businesses has started contributing food security and self employment on local levels in the region.

The bank has successfully partnered with the government of AJK in its initiatives of socio-economic development whereby medium and long term mark up free loans are provided to the individuals and business units fulfilling the requisite criteria. The amount of mark up is borne by the government. The following MOUs were signed during 2014:

- MOU was signed with AJK Animal Husbandry Department for mark up free loaning by the bank for Dairy, Goat and Sheep Farming by those who are directly or indirectly associated with such type of business
- MOU was signed with AJK Social Welfare & Women Development Department to provide mark up free credit facility to skilled women willing to undertake business at cottage level to support well being of their

families under the program "Empowered Women Prosperous Kashmir"

- MOU was signed with AKMIDC for providing credit facilities to their employees on preferred terms against departmental guarantee

The bank is vigorously concentrating on its role in socio-economic development by promoting business activities in the private sector through its extensive lending operations. To make the lending activities need based the bank introduced the following customized financing products:

- Medium term mark-up-free lending for promotion of business activities in SME sector, mark up amount to be borne by AKSIC
- Micro lending on to vulnerable and marginalized individuals with no or very low source of income
- Mark-up-free loans for enterprising women for setting up of business at cottage level. Mark up amount will be borne by AJK Social Welfare & Women Development Department
- Medium to long-term loans on extremely low mark up for promotion of facilities and services in the field of tourism in Neelum, Jhelum and Poonch valleys
- Medium term loans for setting up or enhancing the existing health care services i.e. clinics, labs and diagnostic centers by medical practioners
- Loans for promotion of desi murghbani by women at very low markup

While focusing on new products, existing lending products were also reviewed to align them with the needs of the areas. The credit policies were reviewed to ensure the positioning of in-built risk management mechanism.



The bank's lending portfolio has been further diversified to cover all sectors of business activities particularly in agriculture, livestock, poultry, SMEs and micro enterprises. During the period under report lending to agriculture sector recorded a phenomenal increase of 256% followed by 42% in consumer lending, 29% in micro credit and 7% in commercial lending. The bank also concentrated on lending to private sector with 52% increase as compared to 13% decrease in public sector lending during 2014 that shows banks strong commitment for promoting activities in the private sector.

To provide customer-friendly and congenial internal environment, general outlook, signage, furnishing and interior décor of the branches were improved, and in some cases, branches were relocated to better places. Seven new branches were opened mostly in unbanked areas with the sole consideration to provide banking services to people living in far-off areas. Systems and procedures were updated keeping in view the norms of regulatory framework to facilitate and guide the field functionaries for improving the internal working of branches and for providing quality customer service. For responding to the queries of customers and general public and for providing information about bank's services universal access number has been made functional. It was the outcome of effective monitoring and a controlled environment that the operational working of branches was improved which was affirmed by the audit rating of branches. Policies and procedures pertaining to KYC/AML were updated and reinforced. Pan-Pakistan remittances arrangements made with HBL were further streamlined to facilitate the customers.

Continuous technology up-gradation remained top priority with the result 44 branches and Head Office are now working in real time online environment with the result 90 % of customers are benefiting the services of online banking. The process of converting remaining branches to online status is in the pipeline. Furthermore, efficacy of providing information to customers through SMS alerts is being considered on priority basis.



Human capital and capacity building remained top priority. For evolving a merit and performance culture, performance management system has been further streamlined and linked with career progression of employees. Talent pool scheme has been introduced to develop and position the talented employees on fast track basis to ensure the future sustainability of the organization which will not only motivate the concerned employees but will add to the productivity of the bank.

Women Economic Empowerment (WEE) continued to remain cornerstone of business strategy. Under this initiative, two women branches have been set up one each at Muzaffarabad and Mirpur, whereas two more are in pipeline for Rawalakot and Kotli. An effort has been made to increase the access to finance for women. The branches served exclusively by women staff will facilitate the enterprising women in setting up their businesses and add to the welfare of their families.

As a part of CSR obligations, 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 AJK which warmly welcomes the students of business, commerce and IT to undergo their internships and enrich their hand on practical experience in banking. All the above progress and achievements have been made possible amidst tough competition of the banking industry operating in the region and untiring struggle in proving the brand identity, demonstrating the capacity and outreach for creating financing portfolio and assets for the bank.

Future Outlook

Despite the tough and cut throat completion with well established large size banks, the bank is moving forward with confidence and potential to grow going forward.

The bank will continue to remain focused on its mandate of lending to business activities in the private sector thus contributing objectively towards socio-economic development, promotion of employment opportunities, rural development and poverty reduction in the region. Bank's outreach for delivery of micro-credit will be supplemented

through collaboration with NGOs having experience in rural support programs (RSP). These arrangements will enable the bank to improve the access to finance for the people living in far flung areas.

The bank is also confident to finance the viable projects in the energy sector to help overcome the shortage of electricity and power which continues to remain major obstruction in development and lives of population.

To facilitate the customers in Pan-Pakistan inward and outward remittances, the bank has agency arrangements in place with other banks. However, efforts are underway to have more banks as our correspondents. The bank will also make agency arrangements with international exchange companies of repute via other commercial banks. These arrangements will facilitate the payment of foreign inward remittances to account holders and walk in customers.

To extend the outreach of the people of unbanked areas, possibilities of acquiring the capability to offer services through alternate delivery channels (ADC) will be explored on priority basis. This will expand the capacity of the bank and brand equity which will further enable the bank to intensify its lending activities in the private sector, which will add to its efforts of socio-economic development of state and well being of its people. To ensure the sustainability of operations effort will be made for developing the human resource and investment in technology to enable the bank to compete with other banks while extending the banking services.

Statement under section 52 (4) of the Bank's By Laws 2007

The Board of directors are fully cognizant of its responsibilities. The following statements are a manifestation of its commitment towards high standards of 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 as applicable in Pakistan have followed and any departure there from has been adequately disclosed
- The system of internal control is sound in design and has been effectively implemented and monitored

Acknowledgement

On behalf of the Board of Directors of the bank it is indeed a matter of great privilege for me to express my tremendous gratitude to the President of the State and the Prime Minister of Azad Government of the State of Jammu and Kashmir for their continued patronage for BAJK in performing its role as commercial bank of the state and issuing directives to government functionaries from time to time for entrusting banking business to BAJK. I am indebted to the Finance Minister GoAJK and Chairman Board for his untiring efforts in supporting the bank in a missionary zeal. My humble thanks are also due to the Chief Secretary, Additional Chief Secretary Development and the Secretary Finance for their guidance and support in promoting the operations of the bank. I offer my sincere thanks to the Board of Directors for all oversight and guidance in managing the affairs of the bank and enabling me to fulfill my responsibilities. I owe deep gratitude to our valued customers for reposing their trust and confidence while banking with BAJK. At the same time I acknowledge unremitting efforts of the entire BAJK team for their commitment, dedication and loyalty for the institution.

May Allah Almighty shower His blessings on us, all.

For and on behalf of the Board
FAZAL-UR-REHMAN
Managing Director

BAJK's Strategic Initiatives 2011-14



The year 2014 is in fact a sequel of initiatives taken by the management during the past 03 years (2011-2014) to transform the bank into a sustainable institution, with potential and direction to grow in future. For the information of our valued customers and respectable stake holders, a summary of key initiatives taken during the last 03 years is given below:-

1. Shift in Business Strategy

Business Strategy shifted from placements of deposits with banks to lending operations for creating healthy assets.

- Generating economic activities through financing viable business propositions mainly focusing on small business, agriculture based business and SMEs
- Conversion of loss incurring branches to profitable business units (10 branches converted to profit out of 13 losing branches)

2. Creation of Brand Identity

Re-branding of Bank's Logo, Fascia & Tagline to give a corporate look and identity to BAJK at par with other corporate entities as well as to dispel the label/image of attached Govt. Departments. Culture change concept was introduced and inculcated down the line.

3. Technology Upgradation

IT setup organized and Bank's operations shifted from manual working to online services to;

- Increase operational efficiency and effectiveness
- Extend prompt customers service such as online encashment of cheques, money transfers, balance confirmations, account statements, Zakat deduction, Tax collection and Profit payment etc.
- Ensure automated collection of utility bills
- Respond to Customers' enquiries/complaints

Core Banking software has efficiently implemented in 45 branches which are now online and 90% of our customers are enjoying online facilities.

4. Development of Operating Policies & Procedures

The following policies, procedures & manuals were developed for smooth and effective functioning of bank's operations as well as system and controls:

- Accounting Manual
- Business Continuity and Disaster recovery plan
- Business Mapping Policy
- Credit Policies and procedure manual
- Acquisition and Disposal of Fixed Assets Policy and Procedure manual
- Internal Audit Policy
- Internal Audit Procedure Manual
- Operational Manual
- Risk management Policies and Procedure
- Treasury & Investment Policies and Procedure manual

5. Developed a Wide Range of Customized Products

Developed a wide Range of Customized Credit Products / Schemes Tailored especially in view of the demand and specific business requirements of AJK Territory for the purpose of alleviating poverty and un-employment from the State and generating business activities.

- Agriculture Production Scheme
- Dairy and Sheep / Goat Farming Scheme
- Micro Enterprises Scheme
- Loan for skilled and Enterprising women
- Small and Medium Enterprises Scheme
- Car Loan Scheme
- Gold Loan Scheme
- Running Finance
- Healthcare Service Finance
- Auto Finance Scheme for Commercial Purpose
- Construction Finance for Commercial Buildings and Shopping Malls
- Agriculture Development Scheme
- Commercial Poultry forming Scheme
- Micro Group Financing Scheme
- Desi Murghbani Scheme
- Advance Salary Scheme
- Personal Loan Scheme
- Home Appliances Scheme
- Project Financing
- Tourism Promotion Finance



6. HR Capacity Building

- Recruitment/ Training/ Promotion policies and rules were framed and implemented
- Annual Performance appraisal system implemented
- First time in two batches highly educated officers were hired as management trainees through competitive selection process (written test followed by group discussion and interviews) and professional training was arranged for their grooming from top class SBP Training Institute, NIBAF, Islamabad
- Introduced on-the-job training programs through in-house faculty
- Introduced talent pool scheme to explore talented employees amongst existing staff for supervisory positions and fast track career development
- Revision and increase in salaries and allowances up to 50% to bring the salary structure at par with Banking Industry
- Best performers were awarded and incentivized

7. Developed Proper Field Structure

- Monitoring layers between branches and Head Office created to meet the regulatory requirement
- Banking Functions described and Division's empowered with Functions/ Responsibilities. Reporting lines defined
- Four (4) Zones and Two (2) Regional Offices established to implement an efficient and standardized process of monitoring and decision making. Organogram developed for each layer defining functions / responsibilities/ internal controls and mechanism for accountability

8. Partnering with the Govt. in Socio-economic Development of the State to create self-employment, alleviate poverty, increase productivity and ensure food security

- MOU with AKSIC for promotion Business Enterprises in AJK
- MOU with Agriculture Department for Promotion of Agri. business enterprise development and marketing
- MOU with Animal Husbandry Department for Promotion of Commercial Poultry Farms
- MOU with Animal Husbandry Department for establishment of Small dairy and Goat/Sheep Units for productions of meat, milk and eggs
- MOU with Transport Department for Green Cab Scheme for provision of better Public Transport facility and employment opportunities to educated and Skilled Youth
- MOU with Social Welfare and Women Development Department for women Economic Empowerment

9. Women Economic Empowerment

- The Bank opened two ladies branches (Mirpur and Muzaffarabad) as part of its Women Empowerment Program, so that female population could also get easy access to banking/financial facilities
- The Bank introduced a comprehensive program to uplift skilled but asset-less women by financing viable business proposals under the slogan "Empowered Women-Prosperous Kashmir"
- To empower skilled educated women of AJK an MOU has also been signed with Social Welfare & Women Development department GoAJK for providing self-employment opportunities and alleviate poverty from AJK territory mainly from rural population

10. Corporate Social Responsibility

As a good corporate entity of the State, BAJK is fully responsive to its Corporate Social commitment through generous participation in promoting the:

- Sports
- Community welfare
- Plantation/ Environmental upgradation
- Women Economic Empowerment
- Health/Education and youth activities

11. Regulatory Compliance

Being a non-scheduled bank, developed compliance system & ensured voluntary adherence to all regulatory requirements/prudential regulations and other guidelines emanating from SBP from time to time.

12. Initiated the process of acquiring scheduled status

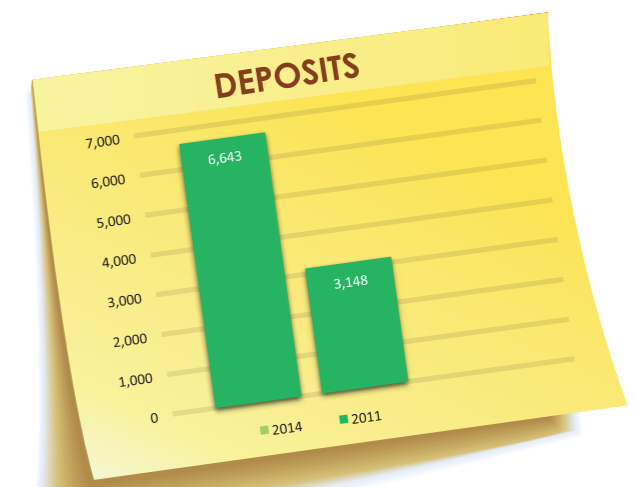
- Hired consultant (KPMG) for evaluating all requirements and formalities necessary for becoming eligible for scheduled status
- The consultant conducted proper exercise including legal regulatory and operational formalities and suggested the way forward
- In the light of consultants documented report, a special meeting was held with SBP authorities at Karachi
- The second meeting on this subject was held at Muzaffarabad on 10-01-2015 with Deputy Governor SBP Mr. Saeed Ahmed and executive director Syed Samar Hasnain on their visit to AJK in connection with launching of Agriculture Pass Book System in AJK. The meeting was also attended by the Minister of Finance/Chairman BAJK Ch. Latif Akbar wherein operational difficulties being faced by the Bank due to its non-scheduled status were also discussed and explained. The SBP authorities assured resolution of difficulties faced by BAJK
- A road map for Capital Financing and to acquire Schedule Status since developed

COMPARATIVE FINANCIAL REVIEW

(03 YEARS)

RUPEES IN MILLION
INCREASE/(DEC.)

S/N	KPIs	2014 (DEC)	2011 (AUG)	AMOUNT	%AGE
	DEPOSITS	6 643	3 148	3,495	111%
	ADVANCES	2,361	219	2,142	980%
	ASSETS	7,624	3 768	3 856	102%
	NO. OF ACCOUNT HOLDERS	98 589	25 187	73,402	291%
	NO. OF BORROWERS	8 543	567	7,976	1407%
	INCOME	780	231	549	238%
	EXPENDITURE	621	185	436	235%
	PROFIT	159	46	113	246%
	INCOME ON ADVANCES	279	17	262	1541%
	ADVANCES DEPOSIT RATIO (ADR)	36%	7%	-	414%
	EARNING PER SHARE	1 22	0.73	0.49	67%
	NO. OF BRANCHES	59	50	9	18%
	NO. OF LOSING BRANCHES	3	13	-10	-77%
	AVERAGE PROFIT PER BRANCH	3	1	2	200%
	AVERAGE PROFIT PER EMPLOYEE	0 517	0 209	0.308	147%



BAJK CUSTOMIZED PRODUCTS

TOGETHER WE CREATE A BRIGHTER TOMORROW

A lot has changed since the BAJK started its operations in November, 2006 through its 1st Branch in Muzaffarabad. The Bank has expanded its outreach to 59 locations in all districts of the state, some in far off places where other commercial banks are not present. From customized product offering to the technology upgrade to support our service delivery channels, one thing has never changed which is its focus to change the socio-economic conditions of the people of the State. Ever since its inception, we have remained committed to serve the people with enthusiasm, dedication and highest sense of responsibility. During this period we have been able to earn the trust of our valued customers, who have by choice established their relationship with us. Today we have a franchise of enormous customers being served by a dedicated team of professionals.

The Bank today has variety of liability and asset products designed to meet the customers' needs. Very recently, it has envisioned its new role to extend Micro-finance to 'have nots' to alleviate poverty, generate employment and promote economic activities in the State. BAJK in coordination with the Government of AJK has explored the avenues where the bank has come forward proactively by engaging itself in extending credit to needy people for their viable proposals in the fields of agriculture, SMEs, poultry farming, live stock, dairy, goat and sheep farming. The Bank is also pursuing its agenda of economic empowerment of women through a credit scheme for skilled and enterprising women.

The Bank believes that equal access to resources in the economy is smart economics and a powerful means of poverty reduction and a path to faster socio-economic development. That is why the bank has on its shelf today a number of credit schemes designed to change the socio-economic conditions of the state and lives of its people by working together for a brighter tomorrow and this catalogue will guide the people in this regard.

Managing Director



AGRICULTURE FINANCE

SME FINANCE/CREDIT TO BUSINESSMEN AND BUSINESS ENTERPRISES

Earn livelihood and contribute towards food security. Loans for growing crops, vegetables, orchards, floriculture, etc. Household and commercial level financing for agricultural inputs, implements, tractors and other agricultural machinery.

Loan Features	Production Loans (for financing of agricultural inputs, seeds, fertilizer, pesticide etc).	Development Loans (for financing of all types of agricultural implements and machinery).
Eligibility	Farmers with own or leased agricultural land engaged in agricultural activities.	
Loan Amount	Up to Rs. 200,000/-	Up to Rs. 1,000,000
Markup	Lowest	Lowest
Tenure	1 year	Up to 5 years
Repayment	Equal quarterly/half yearly installments or in lump sum.	Equal monthly/quarterly/half yearly installments.

Agricultural activities to be financed:

a) Production

- Crops
- Vegetables
- Seedlings stocks /pinery
- Herbal medicinal plants
- Other working capital requirements of crops/orchards/farms; seeds, pesticides, insecticides, fertilizers etc.

b) Development

- Commercial Dairy Farms
- Commercial Sheep and Goat Farms
- Commercial Poultry Farms
- Small scale (Household based) Livestock fattening/milking units
- Small scale (Household based) Poultry units
- Commercial Mushroom farming
- Commercial Fish farming

- Processing of Pickles/Jams/Jellies/marmalade
- Apiculture/Honey bees
- Nursery for fruit and ornamental plants
- Fruit Orchards
- Flowers cultivation
- Tractor/ agricultural machinery
- Dairy/poultry farm machinery
- Setting up grinding units/machine
- Green tunnels (walk-in tunnels and high tunnels)
- Construction of protection walls around agricultural lands
- Cold storage units
- Water-powered flour machine (Jander/pan.chaki)
- Establishment of water pumping machine/equipment for irrigation
- Construction of irrigation channels/irrigation systems improvement
- Marketing of fruits and vegetables

Markup free financing under MOU with Azad Kashmir Small Industries Corporation/AKSIC Markup to be paid by AJK Government

0%

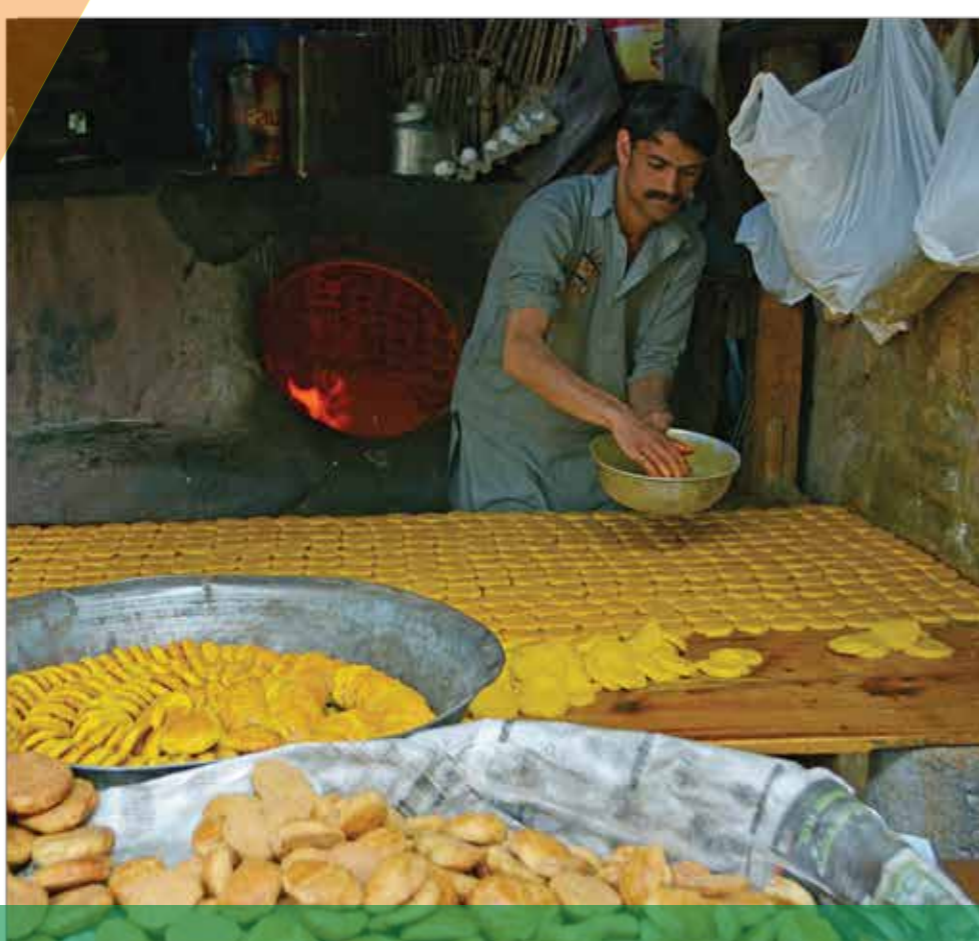
Earn livelihood by setting up your own small business

Eligibility	Individuals/firms with a potential to undertake/enhance their businesses.
Loan Amount	Rs. 500,000/-
Markup	ZERO
Tenure	Up to 3 years
Repayment	Equal monthly installments

SME Activities to be Financed:

- Wood industry, joinery works
- Walnut wood carving
- Stone Crushing
- Cement Block manufacturing
- Saw mills
- Wood/ steel doors/windows making units
- Restaurants
- Women enterprises
- Welding and light engineering
- Beauty parlors
- Boutiques

- Bakeries
- Mobile workshops
- Auto spare parts
- Computer sales and services units
- Mobile Phones sales and service shops
- Small marble cutting units
- Traditional Kashmiri Kulcha making units
- Spices grinding and sales units
- Steam Laundry units
- Candle making
- Printing Press
- Zari embroidery
- Small handmade shoes making



MICROFINANCE

LOAN FOR PROMOTION OF DESI-MURGHBANI AT HOUSEHOLD LEVEL

Become a self-employed, financially independent and useful citizen

Empowering Rural Women through promotion of Desi-Murghbani at household level

Eligibility	Skilled people belonging to low income groups, eager to change their economic conditions, individually or in groups. Women are encouraged to apply.
Loan Amount	Rs. 200,000/-
Markup	Lowest
Tenure	Up to 2 years
Repayment	Equal monthly installments.

Eligibility	Rural women individually and in groups with experience and interest in rearing poultry birds.
Loan Amount	Rs. 50,000/-
Markup	Lowest
Tenure	Up to 18 months
Repayment	Equal half yearly installments.



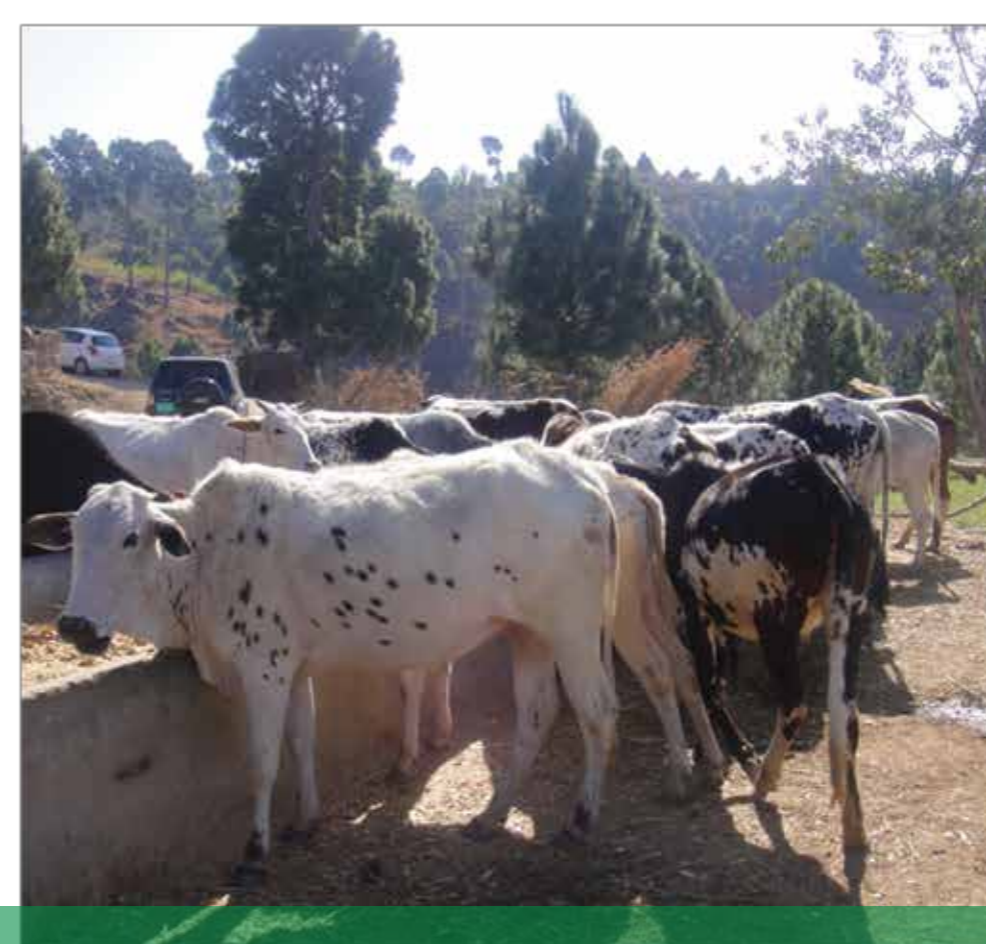
PROMOTION OF COMMERCIAL POULTRY FARMS AND HATCHERIES

Markup free financing under MOU with Department of Animal Husbandry Gov. of AJK
Markup to be paid by AJK Government

0%

Become a self-employed, financially independent and useful citizen

Eligibility	Individuals possessing own or leased poultry farming sheds.
Loan Amount	Rs. 400,000/-
Markup	ZERO
Tenure	Up to 3 years
Repayment	Equal quaterly/ half yearly installments or in lump sum.



FINANCING FOR DAIRY, GOAT & SHEEP FARMING

Markup free financing under MOU with Department of Animal Husbandry Gov. of AJK
Markup to be paid by AJK Government

0%

Become a self-employed, financially independent and useful citizen

Eligibility	Individuals possessing their own or leased land for grazing of animals and having interest in dairy, goat and sheep farming.
Loan Amount	Rs. 750,000/-
Markup	ZERO
Tenure	Up to 5 years
Repayment	Equal quarterly installments.



LOANS FOR ENTERPRISING WOMEN FOR SETTING UP OF BUSINESS AT COTTAGE LEVEL

ADVANCE SALARY LOAN

Markup free financing for economic Empowerment of Women Under MOU with Department of Social Welfare & Women Department Markup to be paid by AJK Government

0%

Self-Reliant Women, Prosperous Kashmir

Eligibility	Skilled and enterprising women determined to improve their well-being.
Loan Amount	Rs. 150,000/-
Markup	ZERO
Tenure	Up to 30 months
Repayment	Equal quarterly installments.

Meet your urgent domestic needs through loan up to 15 months advance salary

Eligibility	Permanent employees of government/semi government & autonomous bodies with at least one year of service.
Loan Amount	Up to Rs. 1,000,000/- (35% DSR)
Markup	Lowest
Tenure	5 years
Repayment	Equal monthly installments.

خود کفیل خواتین۔ خوشحال کشمیر



PERSONAL LOAN

Get a stress-free life by meeting your urgent domestic needs

Eligibility	Self-employed individuals and businessmen (Within per party exposure under PRs)
Loan Amount	<ul style="list-style-type: none"> 90% against government securities 95% against bank's own deposits 75% against deposits of other banks/third parties
Tenure	1 year
Repayment	Equal monthly installments.



CAR LOAN

A drive that is worth it

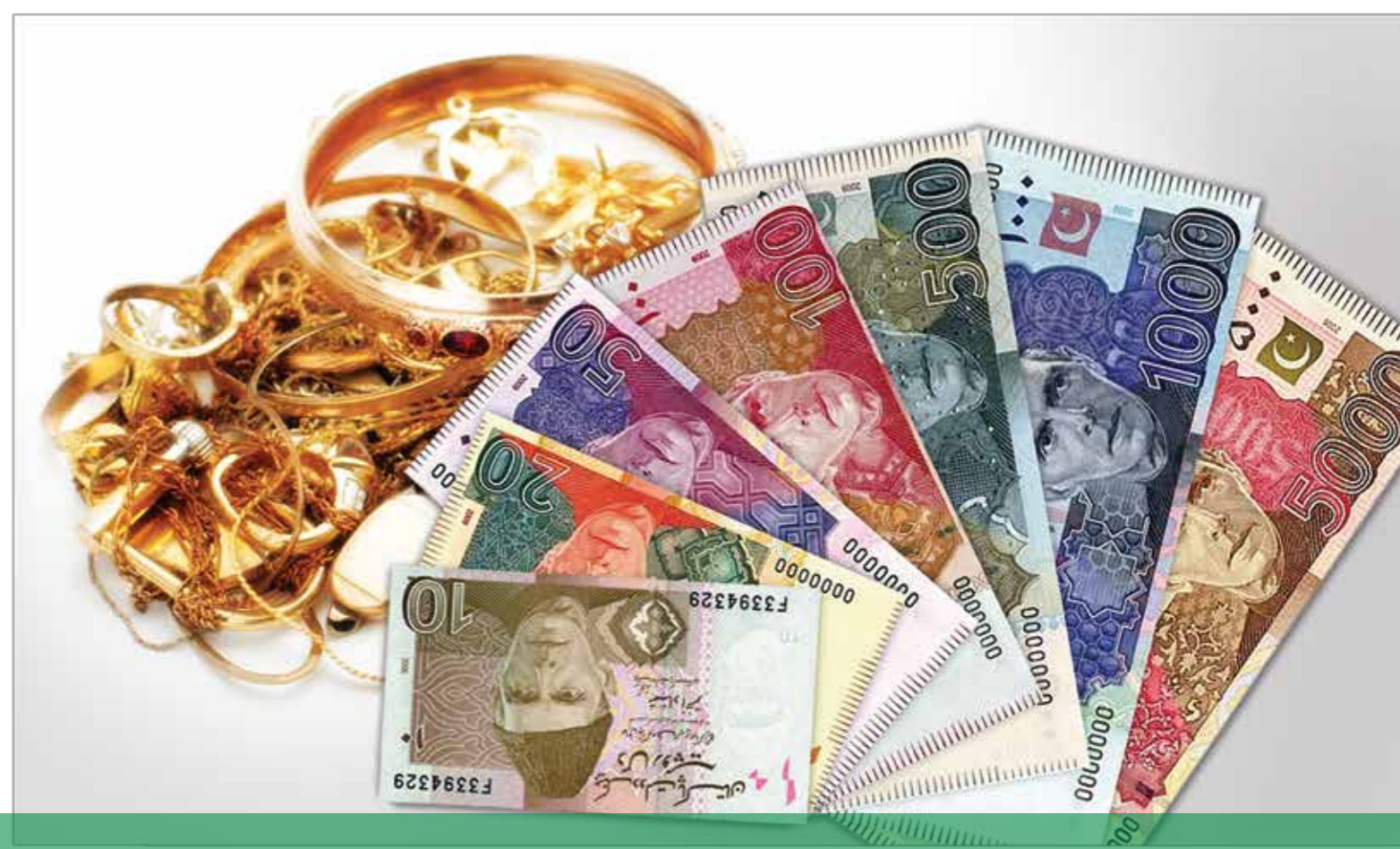
Eligibility	Permanent employees of government/semi government & autonomous bodies with at least 3 years of service and self-employed business men, willing to contribute 15% of the cost of the car as equity.
Loan Amount	Cost of Vehicle up to Rs. 2,000,000/-
Markup	Lowest
Tenure	5 years
Repayment	Equal monthly installments.



HOME APPLIANCES FINANCE

Making comfortable living possible

Eligibility	Permanent employees of government/semi government & autonomous bodies and banks/DFIs willing to contribute 20% cost of the appliances as equity.
Loan Amount	Rs. 200,000/-
Markup	Lowest
Tenure	3 years
Repayment	Equal monthly installments.



GOLD LOAN

Meet your urgent business/personal needs while retaining the ownership of gold ornaments

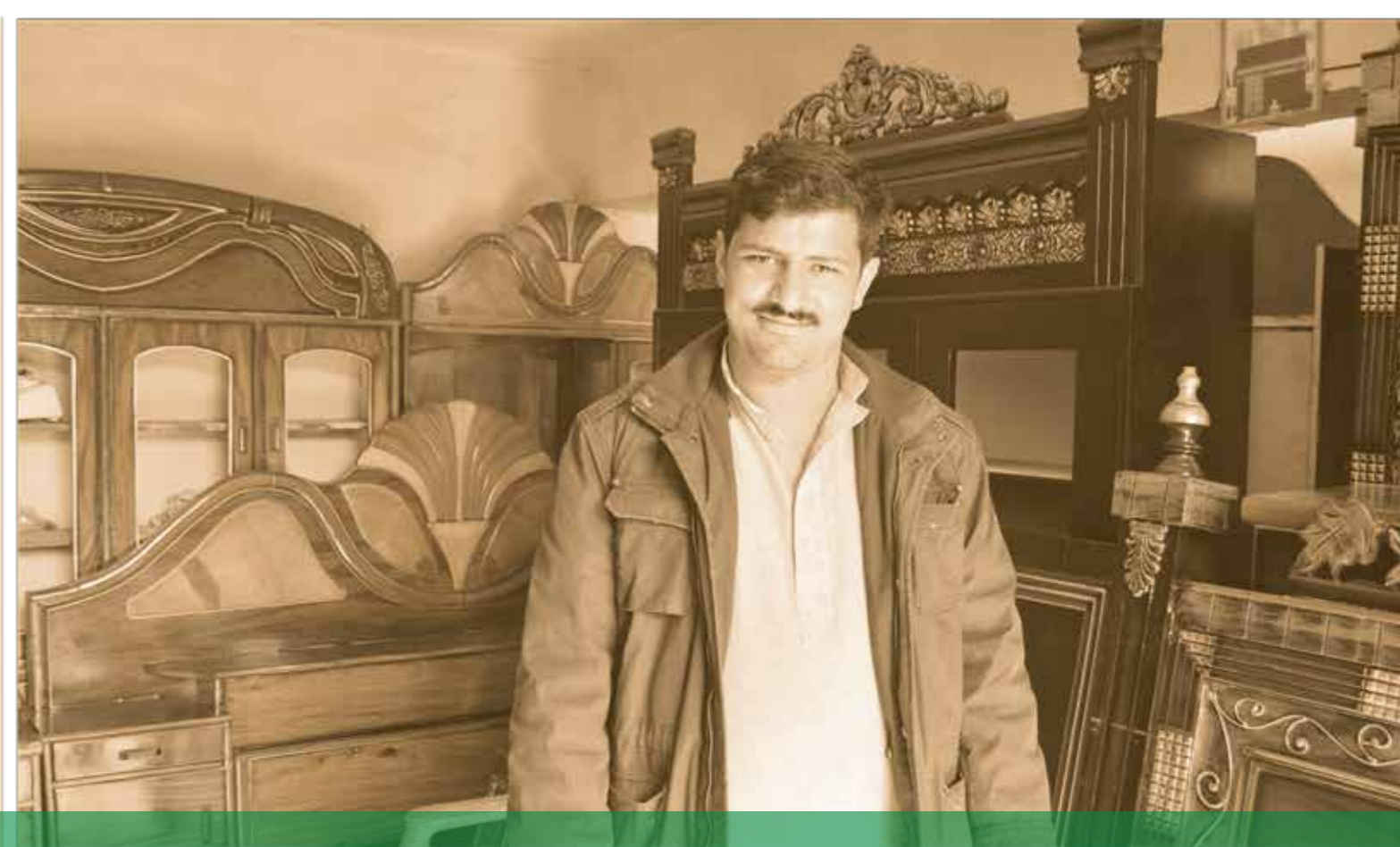
Eligibility	Individuals/professionals/self-employed businessmen & women .
Loan Amount	Up to Rs. 500,000/- (65% value of net gold ornaments)
Markup	Lowest
Tenure	1 year
Repayment	Equal monthly installments/lump sum.



TOURISM PROMOTION LOAN

Earn livelihood by promoting tourism activities

Eligibility	Individuals with their own or rented buildings/houses/places with motor-able approach willing to contribute 20% of the project proposal from own sources as equity.
Loan Amount	Rs. 1,000,000/-
Markup	Lowest
Tenure	Up to 5 years
Repayment	Equal monthly installments with three months grace period.



RUNNING FINANCE

Finance working capital of your business

Eligibility	Businessmen/firms having credit worthiness and business relationship.
Loan Amount	According to business needs subject to per party exposure under SBP PRs.
Markup	Lowest
Tenure	1 year
Repayment	Lump sum



HEALTH CARE SERVICES FINANCE



AUTO FINANCE

Modern healthcare services for a healthy nation

Loan Feature	Urban Areas	Rural Areas
Eligibility	Qualified registered medical practitioners with 3 years practice, interested in setting up/enhance their clinics/diagnostic units and willing to contribute 25% of cost of equipment in case of demand finance.	
Loan Amount	Up to Rs.10,000,000/- (Demand Finance) Up to Rs.20,000,000/- (Running Finance)	Up to Rs.500,000/- (Demand Finance) Up to Rs.1,000,000/- (Running Finance)
Markup	Lowest	
Tenure	1 year (Running Finance) 3 years (Demand Finance)	
Repayment	Equal quarterly/half yearly installments (Demand Finance) Lump sum (Running Finance)	

Drive your business

Eligibility	Businessmen, companies, government institutions, autonomous bodies willing to contribute 15% of cost of vehicle as equity.
Loan Amount	Cost of vehicle up to Rs. 2,000,000/-
Markup	Lowest
Tenure	5 year
Repayment	Equal monthly installments.



PROJECT FINANCING FOR CONSTRUCTION OF COMMERCIAL BUILDING/SHOPPING MALLS



AGRI-BUSINESS ENTERPRISE DEVELOPMENT AND MARKETING

Add Value to your Real Estate

Eligibility	Businessmen/firms with 3 years relevant experience and having viable construction projects.
Loan Amount	80% of estimated cost subject to per party exposure under SBP PRs.
Markup	Lowest
Tenure	Up to 5 years
Repayment	Equal monthly installments.

Markup free financing
Under MOU with Department of
Agriculture Gov. of AJK
Markup to be paid by AJK Government

0%

Earn livelihood and contribute
towards food security

Loan Feature	Production Loan	Development Loan
Eligibility	Peasants and Farmers possessing own or leased agricultural land and engaged in agricultural activities (growing crops, vegetables, orchards, floriculture, etc. at household level and requiring finances for agricultural inputs and machinery.	
Loan Amount	Up to Rs. 200,000/-	Up to Rs. 1,000,000/-
Markup	Zero	Zero
Tenure	1 year	5 year
Repayment	Equal quarterly/ half yearly installments or in lump sum.	Equal monthly/quarterly/ half yearly installments.

FINANCIAL STATEMENTS

Together We Multiply

DELOITTE.

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

Introduction

We have audited the accompanying financial statements of The Bank of Azad Jammu and Kashmir (the Bank), which comprise the statement of financial position as at December 31, 2014, the profit and loss account, statement of comprehensive income, cash flow statement, statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information (herein-after referred to as 'financial statements').

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting framework as stated in note 3 to the financial statements, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with the accounting framework as stated in note 3 to the financial statements.

M. Yousuf Adil
Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Date: 20th June 2015
Karachi

FINANCIAL STATEMENTS

THE BANK OF AZAD JAMMU AND KASHMIR STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2014

	Notes	2014 Rupees in '000	2013
ASSETS			
Cash and balances with treasury banks	6	300,844	306,368
Balances with other banks	7	3,368,668	3,628,344
Lending to financial institutions	8	-	-
Investments	9	1,172,192	203,549
Advances	10	2,256,907	1,678,147
Operating fixed assets	11	111,354	97,983
Deferred tax assets		-	-
Other assets	12	375,087	290,032
		<u>7,585,052</u>	<u>6,204,423</u>
LIABILITIES			
Bills payable	13	5,551	4,460
Borrowings		-	-
Deposits and other accounts	14	6,642,949	5,367,895
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	15	488	3,280
Deferred Government grant	16	9	18
Other liabilities	17	110,822	86,248
		<u>6,759,819</u>	<u>5,461,901</u>
NET ASSETS		<u>825,233</u>	<u>742,522</u>
REPRESENTED BY			
Share capital	18	654,981	654,981
Reserves		-	-
Unappropriated profit		155,350	75,347
		810,331	730,328
Surplus on revaluation of assets - net	19	14,902	12,194
		<u>825,233</u>	<u>742,522</u>
CONTINGENCIES AND COMMITMENTS			
	20		

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

[Signature]
Chairman

[Signature]
Managing Director

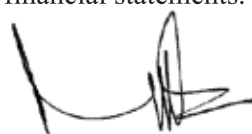
[Signature]
Director

[Signature]
Director

THE BANK OF AZAD JAMMU AND KASHMIR
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2014

	Notes	2014 Rupees in '000	2013 Rupees in '000
Mark-up / Return / Interest Earned	23	723,400	561,905
Mark-up / Return / Interest Expensed	24	377,681	319,836
Net mark-up / interest income		345,719	242,069
Provision against non-performing loans and advances	10.6	57,511	26,174
Reversal of provision against lending to financial institution	8.1	(4,666)	(8,000)
Provision for diminution in the value of investment	9.3	-	-
Bad debts written off directly		-	-
		52,845	18,174
Net mark-up / interest income after provisions		292,874	223,895
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		19,605	15,078
Dividend income		4,433	6,810
Income from dealing in foreign currencies		-	-
Gain on sale of securities - net	25	29,712	21,258
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	26	2,745	2,217
Total non-markup / interest income		56,495	45,363
		349,369	269,258
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	27	243,351	206,658
Other provisions / write offs		-	-
Other charges		-	-
Total non-markup / interest expenses		243,351	206,658
		106,018	62,600
Extraordinary / unusual items		-	-
PROFIT BEFORE TAXATION		106,018	62,600
Taxation – current		29,108	16,501
Taxation – prior years		-	-
Taxation – deferred		(3,093)	(329)
	28	26,015	16,172
PROFIT AFTER TAXATION		80,003	46,428
Basic / diluted earnings per share - Rupees	29	1.22	0.72

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


Chairman


Managing Director


Director


Director

THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014 Rupees in '000	2013 Rupees in '000
Profit after taxation	80,003	46,428
Other comprehensive income	-	-
Comprehensive income transferred to equity - net of tax	80,003	46,428

Surplus / (deficit) arising on revaluation of "Available For Sale securities" are presented under a separate head below equity as "Surplus / (deficit) on revaluation of assets" in accordance with the requirements specified by the State Bank of Pakistan vide its BSD Circular No. 20 dated 04 August 2000.


Chairman


Managing Director


Director


Director

THE BANK OF AZAD JAMMU AND KASHMIR
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2014

CASH FLOW FROM OPERATING ACTIVITIES


	2014	2013
	Rupees in '000	
Profit before taxation	106,018	62,600
Less: Dividend income	4,433	6,810
	101,585	55,790
Adjustments for non-cash charges:		
Depreciation	15,406	10,770
Provision against non-performing loans and advances	57,511	26,174
Reversal of provision against lending to financial institution	(4,666)	(8,000)
Provision for diminution in the value of investment	-	-
Loss / (gain) on sale of fixed assets	-	-
Amortization of deferred government grant	(9)	(9)
	68,242	28,935
	169,827	84,725
(Increase) / decrease in operating assets		
Advances	(636,271)	(603,035)
Lending to financial institution	4,666	8,000
Other assets	(85,973)	(107,106)
	(717,578)	(702,141)
Increase / (decrease) in operating liabilities		
Bills payable	1,091	(1,758)
Deposits and other accounts	1,275,054	768,139
Other liabilities	24,575	(4,651)
	1,300,720	761,730
	752,969	144,314
Income tax paid	(28,191)	(25,015)
Net cash inflow from operating activities	724,778	119,299

CASH FLOW FROM INVESTING ACTIVITIES

Net investment in available for sale securities	20,000	(30,000)
Net investment in held-to-maturity securities	(985,634)	54,715
Dividend income	4,433	6,810
Investments in operating fixed assets	(28,777)	(17,597)
Sale proceeds of property and equipment disposed-off	-	-
Net cash flow from investing activities	(989,978)	13,928

CASH FLOW FROM FINANCING ACTIVITIES

(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(265,200)	133,227
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,934,712	3,801,485
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3,669,512	3,934,712


Chairman


Managing Director


Director


Director

THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014

	Share capital	Advance against issue of shares	Statutory reserve	Unappropriated profit	Total
	Rupees in '000				
Balance as at December 31, 2012	525,938	50,152	-	107,810	683,900
Transactions with owners recorded directly in equity					
Issue of bonus share @ 15%				(78,891)	-
Advance against issue of shares	78,891	-	-	-	-
Comprehensive income	50,152	(50,152)	-	-	-
Profit after tax for the year	-	-	-	46,428	46,428
Other comprehensive income	-	-	-	-	-
	-	-	-	46,428	46,428
Balance as at December 31, 2013	654,981	-	-	75,347	730,328
Transactions with owners recorded directly in equity					
	-	-	-	-	-
Comprehensive income					
Profit after tax for the year	-	-	-	80,003	80,003
Other comprehensive income	-	-	-	-	-
	-	-	-	80,003	80,003
Balance as at December 31, 2014	654,981	-	-	155,350	810,331

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


Chairman


Managing Director


Director


Director

THE BANK OF AZAD JAMMU AND KASHMIR NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

1. STATUS AND NATURE OF BUSINESS

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

The Bank has 59 branches (2013: 52 branches) in Azad Jammu and Kashmir.

2. BASIS OF PRESENTATION

These financial statements have been presented in accordance with the requirements of format prescribed by the State Bank of Pakistan's BSD Circular No.4 dated February 17, 2006 and The Bank of Azad Jammu and Kashmir Act, 2005 (the Act) and its Bye-Laws.

These financial statements have been presented in Pakistani Rupee, which is the Bank's functional and presentation currency. The figures have been rounded off to the nearest thousand rupees, unless otherwise stated.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirements of The Bank of Azad Jammu and Kashmir Act, 2005 and its Bye-Laws 2007 and are in accordance with the approved accounting standards as applicable in Pakistan, for Banking Companies. Bye-Laws 2007 require that the Statement of financial position and profit and loss account of the Bank shall be drawn up in conformity with the Rules and Regulations of the State Bank of Pakistan and Section 34.

The SBP, vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for banking companies till further instructions. Further, according to a notification of SECP dated April 28, 2008, IFRS 7 "Financial Instruments: Disclosure" 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, advances and investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars issued by the SBP.

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

3.1 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2014

The following standards, amendments and interpretations are effective for the year ended December 31, 2014. These standards, interpretations and the amendments are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

	Effective from accounting period
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	January 01, 2014
IAS 36 Impairment of Assets - Recoverable amount disclosures for non-financial assets	January 01, 2014
IFRIC 21 - Levies	January 01, 2014

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

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

	Effective from accounting period
Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization	January 01, 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer plants	January 01, 2016
Amendments to IAS 19 Employee Benefits: Employee contributions	July 01, 2014
IAS 27 (Revised 2011) – Separate Financial Statements	January 01, 2015
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures	January 01, 2015
IFRS 10 – Consolidated Financial Statements	January 01, 2015
IFRS 11 – Joint Arrangements	January 01, 2015
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2015
IFRS 13 – Fair Value Measurement	January 01, 2015

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

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

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers

4. BASIS OF MEASUREMENTS

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention as modified for certain investments which are shown at revalued amounts.

4.2 Significant accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies are as follows:

4.2.1 Classification of investments

In classifying investments as "held-for-trading" the Bank has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days of acquisition.

In classifying investments as "held-to-maturity" the Bank follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

The investments which are not classified as "held-for-trading" or "held-to-maturity" are classified as "available-for-sale".

4.2.2 Impairment of available-for-sale equity investments

The Bank determines that "available-for-sale" equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolong requires management to exercise judgment. In making this judgment, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

4.2.3 Provision against non-performing loans and advances and debt securities classified as

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.

4.2.4 Income taxes & Deferred tax

While making the estimates for income taxes currently payable by the Bank, management looks at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making provision for deferred taxes, estimates of the Bank's future taxable profits and expected reversal of deductible temporary differences are taken into account.

4.2.5 Operating fixed assets, depreciation and amortization

In making estimates of the depreciation / amortization method, management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, Changes in Accounting Estimates and Errors."

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

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

5.2 Lending to financial institution

These represent transactions of placement of fund with financial institutions at contracted rates for a specified period of time.

5.3 Investments

Investments of the Bank are classified into following categories:

Held for trading

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

Available for sale

These represent securities which do not fall under 'held for trading' or 'held to maturity' categories. In accordance with the requirements of the State Bank of Pakistan's BSD Circular No. 20 dated August 04, 2000, available for sale securities for which ready quotations are available on Reuters Page (PKRV) or Stock Exchanges are valued at market value and the resulting surplus / deficit is kept in a separate account and is shown below the shareholders' equity in the Statement of Financial Position. Foreign securities are carried at fair value, based on their current bid price in active markets. Where the markets are not active or the securities are unlisted, fair value is estimated by using valuation techniques.

Held to maturity

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

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

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

5.4 Advances

Advances are stated net of provisions for non-performing advances. Provision for advances is determined.

The provisions against non-performing advances are charged to the profit and loss account.

Advances are written off when there is no realistic prospect of recovery.

5.5 Capital work in progress and property and equipment

Capital work in progress is stated at cost.

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed over the estimated useful life of the related assets at the rates set out in note 11.2.

The cost of assets is depreciated on straight line method.

Depreciation is charged for the full month on purchase / acquisition of an asset while no depreciation is charged in the month of disposal of an asset.

Maintenance and normal repairs are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalized. Gains and losses on disposal of property and equipment are taken to the profit and loss account.

Intangible assets

Intangible assets are amortized using the straight line method over their estimated useful life but restricted to a maximum period of five years.

5.6 Impairment

Impairment of assets other than 'available for sale' equity investments

The carrying amount of the Bank's assets are reviewed at date of statement of financial position 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 recognised 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 amortisation, if no impairment loss had been recognised.

Impairment of 'available for sale' equity investments

The Bank determines that 'available for sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested industry and sector performance, changes in technology and operational / financial cash flows.

5.7 Taxation

Current

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

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 substantially enacted at the date of statement of financial position, expected to be applicable at the time of its reversal. 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.

5.8 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.

5.9 Staff retirement benefits

Gratuity scheme

The Bank operates defined and funded contributory gratuity schemes 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% basic pay.

5.10 Revenue recognition

Return / mark-up on bank placements, advances and investments is recognized on accrual basis, except for the interest on non-performing advances and investments that is recognised on receipt.

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

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

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

5.11 Government grant

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

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

5.12 Foreign currency transactions

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

5.13 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. Recoverable amount is the greater of net selling price and value in use. The resulting impairment loss is taken to the profit and loss account except for the impairment loss on revalued assets, which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.14 Provisions

Provisions other than provision on Advances (stated in note 5.4) are recognized when the Bank has a present legal and constructive obligation arising as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

5.15 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.

5.16 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.

5.17 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.

5.17.1 Business segment

Corporate financing

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

Trading and sales

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

Retail banking

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

Commercial banking

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

Payment and settlement

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

Agency service

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

Retail brokerage

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

5.17.2 Geographical segments

The Bank operates in Azad Jammu and Kashmir.

5.18 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. These financial statements are presented in Pakistan rupees, which is the Bank's functional currency.

5.19 Earnings 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.

	2014	2013
	Rupees in '000	
6. CASH AND BALANCES WITH TREASURY BANKS		
In hand:		
Local currency	58,828	44,457
Foreign currency	-	-
National Prize Bonds	-	-
With National Bank of Pakistan in:		
Local currency current account	42,016	61,911
Local currency deposit account - note 6.1	200,000	200,000
	<u>300,844</u>	<u>306,368</u>

6.1 The term deposits carries markup at rates ranging between 9% to 9.95% (2013: 8.95% to 11.95%) per annum with maturities upto eight months.

7. BALANCES WITH OTHER BANKS

In Pakistan (Azad Jammu and Kashmir)

	2014	2013
	Rupees in '000	
On current account	150,000	50,000
On deposit account - note 7.1 & 7.2	3,218,668	3,578,344
	<u>3,368,668</u>	<u>3,628,344</u>

7.1 The saving deposits carries markup at rates ranging between 7% to 9.25% (2013: 6% to 9%).

7.2 The term deposits carries markup at rates ranging between 9.25% to 19.84% (2013: 9.1% to 13%) per annum. Term deposits include an amount of Rs 300 million placed with UBL that have a maturity of ten years, remaining deposits have maturities upto twelve months.

8. LENDING TO FINANCIAL INSTITUTIONS

Particulars of lending to financial institution - gross

	2014	2013
	Rupees in '000	
In local currency	-	4,666
In foreign currency	-	-
	-	4,666
Provision against lending to financial institution note 8.1	-	(4,666)
	<u>-</u>	<u>-</u>

8.1 Movement of provision

	2014	2013
Opening balance	4,666	12,666
Charge for the year	-	-
Reversal of provision	(4,666)	(8,000)
Closing balance	<u>-</u>	<u>4,666</u>

8.2 This represents placement of funds in certificate of Musharakah managed by Invest Capital Investment Bank Limited (ICIBL) at mark-up rate of 17% per annum having maturity on September 23, 2011. During December 2011, the Bank entered into an agreement to reschedule such placement. As per the agreement, the Bank allowed ICIBL to repay Rs. 5 million at the signing of the agreement and the remaining principal amount in 30 equal monthly installments beginning from January 31, 2012. Further, the Bank has also waived the mark-up on such investment for the period September 23, 2011 till the repayment of total outstanding principal i.e. June 30, 2014. During the year, the Bank has received final cash receipts of Rs. 4.67 million against outstanding balances and a reversal of the provision has been made.

	2014		2013		Total
	Held by Bank	Given as collateral	Held by Bank	Given as collateral	
9. INVESTMENTS					
9.1 Investments by type:					
Available for sale securities					
Mutual Funds					
Alfalsh GHP Cash Fund	-	-	10,000	-	10,000
National Investment Unit Trust Fund	100,000	-	30,000	-	30,000
National Investment Trust Income Fund	-	-	10,000	-	10,000
Pakistan Income Enhancement Fund	-	-	15,000	-	15,000
Pakistan Cash Management Fund	-	-	10,000	-	10,000
NIT Government Bond Fund	30,000	-	10,000	-	10,000
KASB Cash Fund	-	-	10,000	-	10,000
UBL Liquidity Fund Plus	-	-	25,000	-	25,000
AKD Cash Fund	15,000	-	15,000	-	15,000
MCB Dynamic Cash Fund	25,000	-	25,000	-	25,000
Faysal Money Market Fund	-	-	30,000	-	30,000
	<u>170,000</u>	<u>-</u>	<u>190,000</u>	<u>-</u>	<u>190,000</u>
Held to maturity securities					
Federal Government Securities					
Pakistan Investment Bonds	985,634	-	-	-	-
Term Finance Certificates					
Pace Pakistan Limited	49,940	-	49,940	-	49,940
	<u>1,035,574</u>	<u>-</u>	<u>49,940</u>	<u>-</u>	<u>49,940</u>
Investment at cost	<u>1,205,574</u>	<u>-</u>	<u>239,940</u>	<u>-</u>	<u>239,940</u>
Less : Provision for diminution in value of investment - note 9.3	(49,940)	-	(49,940)	-	(49,940)
Investments (net of provision)	<u>1,155,634</u>	<u>-</u>	<u>190,000</u>	<u>-</u>	<u>190,000</u>
Surplus on revaluation of securities - note 19.1	16,558	-	13,549	-	13,549
Total investments at market value	<u>1,172,192</u>	<u>-</u>	<u>203,549</u>	<u>-</u>	<u>203,549</u>

9.2 Investments by segments:

Federal Government Securities

Pakistan Investment Bonds

	2014 Rupees in '000	2013 Rupees in '000
	985,634	-
Units of Mutual Funds - note 9.2.1	170,000	190,000
Term Finance Certificates - note 9.2.2	49,940	49,940
Investment at cost	1,205,574	239,940
Less : Provision for diminution in value of investment - note 9.3	(49,940)	(49,940)
Investments (net of provision)	1,155,634	190,000
Surplus on revaluation of securities - note 19.1	16,558	13,549
Total investments at market value	1,172,192	203,549

Listed:

Units of Mutual Funds - note 9.2.1
Term Finance Certificates - note 9.2.2
Investment at cost
Less : Provision for diminution in value of investment - note 9.3
Investments (net of provision)
Surplus on revaluation of securities - note 19.1
Total investments at market value

9.2.1 Investments in listed mutual funds

	Paid up value per unit (Rupees)			Name of mutual fund	2014		2013	
	No. of units	2014	2013		2014	2013	Rupees in '000	Rupees in '000
	-	20,000	-	Alfalah GHP Cash Fund	-	500.00	-	10,000
	1,710,355	695,088	66.03	National Investment Unit Trust Fund	100,000	43.16	100,000	30,000
	-	963,206	-	National Investment Trust Income Fund	-	10.38	-	10,000
	-	326,113	-	Pakistan Income Enhancement Fund	-	46.00	-	15,000
	-	218,255	-	Pakistan Cash Management Fund	-	45.82	-	10,000
	2,801,748	978,206	10.88	NIT Government Bond Fund	30,000	10.22	30,000	10,000
	-	97,767	-	KASB Cash Fund	-	102.28	-	10,000
	-	267,556	-	UBL Liquidity Fund Plus	-	93.44	-	25,000
	344,440	329,883	52.31	AKD Cash Fund	15,000	45.47	15,000	15,000
	231,906	247,637	108.28	MCB Dynamic Cash Fund	25,000	100.95	25,000	25,000
	-	321,192	-	Faysal Money Market Fund	-	93.40	-	30,000
				Surplus on revaluation of securities - note 19.1	170,000		170,000	190,000
					16,558		16,558	13,549
					186,558		186,558	203,549

9.2.2 Investments in term finance certificates - listed

	No. of certificates		Company's name	Redeemed value per certificate (Rupees)	Interest rate	Maturity	Rupees in '000	
	2014	2013					2014	2013
	10,000	10,000	Pace Pakistan Limited - at cost	4.994	Kibor + 1.5	2017	49,940	49,940
			Less: Provision for diminution in value of securities				(49,940)	(49,940)
			Investments (net of provisions)				-	-
							2014	2013
							Rupees in '000	Rupees in '000
							49,940	49,940
							49,940	49,940

9.2.2.1 Paid up value of each security held was Rs. 5,000 per certificate.

9.3 Movement of provision

Opening balance
Charge for the year
Closing

9.3.1 Particulars of provision in respect of type and segment Held-to-maturity securities

Term finance certificates

9.4 Quality of available for sale securities

	2014		2013	
	Market value Rupees in '000	Rating	Market value Rupees in '000	Rating
Alfalah GHP Cash Fund	-		10,010	AA(f)
National Investment Unit Trust Fund	112,935	4-STAR	34,571	3-Star
National Investment Trust Income Fund	-		10,177	AM2-
Pakistan Income Enhancement Fund	-		16,571	A+(f)
Pakistan Cash Management Fund	-		10,918	AAA(f)
NIT Government Bond Fund	30,495	AA-(F)	10,186	AM2-
KASB Cash Fund	-		9,999	AA(f)
UBL Liquidity Fund Plus	-		26,909	AA+(f)
AKD Cash Fund	18,017	AA+(F)	16,506	AA+(f)
MCB Dynamic Cash Fund	25,111	A+(F)	25,030	A+(f)
Faysal Money Market Fund	-		32,672	AA+(f)
	186,558		203,549	

Ratings for these equity securities represent 'Funds Ratings'. Local securities have either been rated by 'The Pakistan Credit Rating Agency Limited (PACRA)' or 'ICR-VIS Credit Rating Company Limited (ICR-VIS)'. These ratings reflect independent credit risk assessment by respective credit rating entities.

10. ADVANCES

Loans, cash credits, running finances, etc.

	2014	2013
	Rupees in '000	
Running finance - note 10.4	495,142	470,135
Demand finance	170,642	151,009
Staff loans	71,032	42,985
Agriculture loan	207,493	59,626
Micro finance	96,425	72,669
Consumer finance		
- Car finance	29,482	32,555
- Finance against salary	961,376	611,736
- Personal loans	74,958	85,288
- Student loans	22,870	67,178
- Gold loans	231,792	131,760
	<u>2,361,212</u>	<u>1,724,941</u>
Margin financing	-	-
Advances - gross	<u>2,361,212</u>	<u>1,724,941</u>
Provision for non-performing loans and advances - note 10.6		
Specific provision	(57,245)	(15,372)
General provision	(47,060)	(31,422)
	<u>(104,305)</u>	<u>(46,794)</u>
Advances - net of provision	<u>2,256,907</u>	<u>1,678,147</u>
10.1 Particulars of advances		
In local currency	2,361,212	1,724,941
In foreign currency	-	-
	<u>2,361,212</u>	<u>1,724,941</u>
10.2 Short term (for upto one year)	804,892	470,135
Long term (for over one year)	1,556,320	1,254,806
	<u>2,361,212</u>	<u>1,724,941</u>
10.3 In Pakistan	2,361,212	1,724,941
Outside Pakistan	-	-
	<u>2,361,212</u>	<u>1,724,941</u>
10.4 Advances include advance to related party amounting to Rs. 364,668 thousand (2013 : 417,835 thousand).		

10.5 Advances which have been placed under non-performing status are detailed below:

Category of classification	December 31, 2014 (Rupees in '000)				December 31, 2013 (Rupees in '000)					
	Classified Advances		Provision Required		Classified Advances		Provision Held			
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total	
Substandard	39,882	-	39,882	4,431	-	4,431	4,431	-	4,431	
Doubtful	32,316	-	32,316	7,818	-	7,818	7,818	-	7,818	
Loss	51,135	-	51,135	44,996	-	44,996	44,996	-	44,996	
	<u>123,333</u>	<u>-</u>	<u>123,333</u>	<u>57,245</u>	<u>-</u>	<u>57,245</u>	<u>57,245</u>	<u>-</u>	<u>57,245</u>	
Category of classification	Classified Advances		Provision Required		Classified Advances		Provision Held			
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total	
Substandard	6,141	-	6,141	1,439	-	1,439	1,439	-	1,439	
Doubtful	7,377	-	7,377	3,629	-	3,629	3,629	-	3,629	
Loss	10,549	-	10,549	10,304	-	10,304	10,304	-	10,304	
	<u>24,067</u>	<u>-</u>	<u>24,067</u>	<u>15,372</u>	<u>-</u>	<u>15,372</u>	<u>15,372</u>	<u>-</u>	<u>15,372</u>	

10.6 Particulars of provision against non-performing loans and advances

	December 31, 2014 (Rupees in '000)			December 31, 2013 (Rupees in '000)		
	Specific	General	Total	Specific	General	Total
Opening balance	15,372	31,422	46,794	3,645	16,975	20,620
Charge for the year - net	41,873	15,638	57,511	11,727	14,447	26,174
Closing balance	<u>57,245</u>	<u>47,060</u>	<u>104,305</u>	<u>15,372</u>	<u>31,422</u>	<u>46,794</u>
In local currency	57,245	47,060	104,305	15,372	31,422	46,794
In foreign currency	-	-	-	-	-	-
	<u>57,245</u>	<u>47,060</u>	<u>104,305</u>	<u>15,372</u>	<u>31,422</u>	<u>46,794</u>

10.7 General provision is created at the rate of 1.5% of secured and 5% of unsecured consumer portfolio respectively. General provision also includes provision against Micro-Finance portfolio at the rate of 1% of outstanding principal as required by the Prudential Regulations issued by State Bank of Pakistan.

10.8 There were no loans / advances written off during the year. (2013: Nil)

10.9 **Particulars of loans and advances to executives, directors, associated companies etc.**

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

	2014	2013
	Rupees in '000	
Balance at the beginning of the year	16,303	6,860
Loans granted during the year	5,566	9,512
Repayments made during the year	(2,984)	(69)
Balance at the end of the year	<u>18,885</u>	<u>16,303</u>

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

Balance at the beginning of the year	417,835	465,185
Loans granted during the year	-	-
Repayments made during the year	(53,167)	(47,350)
Balance at the end of the year	<u>364,668</u>	<u>417,835</u>

11. **OPERATING FIXED ASSETS**

Capital work-in-progress - note 11.1	3,616	3,204
Property and equipment - note 11.2	107,738	94,779
Intangible asset - note 11.3	-	-
	<u>111,354</u>	<u>97,983</u>

11.1 **Capital work in progress**

Civil works	-	-
Advances to suppliers and contractors	3,616	3,204
	<u>3,616</u>	<u>3,204</u>

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

11.2 **Property and equipment**

	COST			2014 DEPRECIATION			Book Value as at December 31, 2014	Annual rate of depreciation %
	as at January 1, 2014	additions/ (write-off)	as at December 31, 2014	as at January 1, 2014	charge for the year (write-off)	as at December 31, 2014		
	Rupees in '000							
Land-freehold - note 11.2.1	40,000	-	40,000	-	-	-	40,000	0
Building on freehold land - note 11.2.1	14,407	-	14,407	1,038	1,441	2,479	11,928	10
Leasehold improvements	13,030	1,267	14,297	8,448	1,704	10,152	4,145	20
Office equipment	8,286	5,079	13,365	4,169	1,562	5,731	7,634	20
Computers	13,478	7,280	20,758	8,892	2,374	11,266	9,492	20
Vehicles	22,338	1,727	24,065	9,944	4,674	14,618	9,447	20
Furniture and fittings	26,355	12,986	39,341	10,889	3,547	14,436	24,905	10
Books	31	0	31	5	3	8	23	10
Carpets	944	26	970	705	101	806	164	20
	<u>138,869</u>	<u>28,365</u>	<u>167,234</u>	<u>44,090</u>	<u>15,406</u>	<u>59,496</u>	<u>107,738</u>	

	COST			2013 DEPRECIATION			Book Value as at December 31, 2013	Annual rate of depreciation %
	as at January 1, 2013	additions/ (write-off)	as at December 31, 2013	as at January 1, 2013	charge for the year (write-off)	as at December 31, 2013		
	Rupees in '000							
Land-freehold - note 11.2.1	40,000	-	40,000	-	-	-	40,000	0
Building on freehold land - note 11.2.1	14,407	-	14,407	612	426	1,038	13,369	10
Leasehold improvements	9,697	3,333	13,030	6,138	2,310	8,448	4,582	20
Office equipment	5,049	3,237	8,286	3,224	945	4,169	4,117	20
Computers	11,438	2,040	13,478	7,375	1,517	8,892	4,586	20
Vehicles	16,474	5,864	22,338	7,003	2,941	9,944	12,394	20
Furniture and fittings	21,359	4,996	26,355	8,376	2,513	10,889	15,466	10
Books	26	5	31	2	3	5	26	10
Carpets	844	100	944	590	115	705	239	20
	<u>119,294</u>	<u>19,575</u>	<u>138,869</u>	<u>33,320</u>	<u>10,770</u>	<u>44,090</u>	<u>94,779</u>	

11.2.1 Government of the State of Azad Jammu and Kashmir had allotted land and building at Bank Square, Chattar, Muzaffarabad to the Bank been through notification dated July 24, 2009 issued by Services and General Administration Department. The value of land and building have recorded at cost of Rs.50.152 million in the Bank books of accounts. The land and building of the Bank is valued by independent valuers M/s Unit-3 Consultants as of December 31, 2012 on the basis of market value keeping in view its location, size, shape and marketability. The Bank is in the process of transferring of the land title on Bank's name.

11.2.2 Property and equipment includes cost of Rs. 5,485 thousand (2013: Rs. 5,485 thousand) and accumulated depreciation amounting to Rs. 5,476 thousand (2013: Rs. 5,467 thousand) in respect of assets donated by the Government of Azad Jammu and Kashmir.

11.3 **Intangible asset**

The Bank is in a process of implementation of Core Banking Information System (Helios) which is currently installed on certain branches of the Bank. This software is financed by Kashmir Council (Government of AJK). The software has not been recognized in the financial statements because the development and implementation of this software is currently in progress.

	2014	2013
	Rupees in '000	
19. SURPLUS ON REVALUATION OF ASSETS - NET		
Surplus on revaluation of available for sale securities		
Units of mutual funds - listed	14,902	12,194
19.1 Surplus on revaluation of available for sale securities		
Units of mutual funds - listed - note 9	16,558	13,549
Add: Related deferred tax liability	(1,656)	(1,355)
	14,902	12,194
20. CONTINGENCIES AND COMMITMENTS		
20.1 Direct credit substitutes		
- Guarantees in favour of		
Government	-	-
Others	1,300	9,953
	1,300	9,953
20.2 Commitments to extend credit	167,628	148,315
20.3 Bills for collection	35,542	22,901

Bills for collection represent bills drawn in favour of various financial institutions on behalf of Bank's customers. These are accepted by the Bank as an agent and the Bank does not carry any credit risk in respect of these bills.

21. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Off balance sheet financial instruments referred to as derivatives are contracts the characteristics of which are derived from those of underlying assets. These include forwards and swaps in money and foreign exchange markets. The Bank has no off-balance sheet financial instruments at the year end.

22. DERIVATIVE INSTRUMENTS

The Bank does not deal in derivative instruments.

23. MARK-UP / RETURN / INTEREST EARNED

	2014	2013
	Rupees in '000	
On loans and advances to		
-Customers - note 23.1	275,290	184,406
-Financial institution	-	-
On investment in		
-Available for sale securities	-	-
-Held to maturity securities	73,639	5,123
On deposits with financial institutions	374,471	372,376
	723,400	561,905

23.1 This includes an amount of Rs. 46,197 thousand (2013: Rs. 51,182 thousand) on account of interest earned on advance given to related party.

24. MARK-UP / RETURN / INTEREST EXPENSED

	2014	2013
	Rupees in '000	
On deposits - note 24.1	377,681	319,836

24.1 This includes an amount of Rs. 186,104 thousand (2013: Rs. 174,649 thousand) on account of interest expense on deposits received from related parties.

25. GAIN ON SALE OF SECURITIES - NET

	2014	2013
	Rupees in '000	
Units of mutual funds - listed	29,712	21,258

26. OTHER INCOME

	2014	2013
Amortization of deferred Government grant	9	9
Others	2,736	2,208
	2,745	2,217

27. ADMINISTRATIVE EXPENSES

	2014	2013
Salaries, allowances, etc.	135,803	113,443
Gratuity - note 32.1	5,259	3,631
Contribution to provident fund - note 32.2	3,226	2,736
Rent, taxes, insurance and electricity, etc.	21,563	16,641
Legal and professional charges	169	1,799
Communications	8,061	6,995
Repairs and maintenance	19,026	10,337
Stationery and printing	6,090	5,168
Advertisement and publicity	1,878	1,816
Auditors' remuneration - note 27.1	1,320	1,210
Donation	25	-
Entertainment	4,051	3,716
Depreciation - note 11.2	15,406	10,770
Travel and conveyance	6,109	7,706
Training	331	7,841
Education cess	21	29
Security charges	8,653	7,994
Other expenditures (travelling and vehicle running expenses etc.)	6,360	4,826
	243,351	206,658

27.1 Auditors' remuneration

	2014	2013
Annual Audit	900	825
Review of Condensed Interim Financial Information	300	275
Out of pocket expenses	120	110
	1,320	1,210

28. TAXATION

	2014	2013
	Rupees in '000	
For the year		
Current	29,108	16,501
Deferred	(3,093)	(329)
	26,015	16,172

	2014	2013
	Rupees in '000	
28.1 Relationship between tax expense and accounting profit		
Profit before taxation	106,018	62,600
Tax at applicable tax rate of 35 percent (2013: 35 percent)	37,106	21,910
Effect of:		
Income chargeable to tax at lower rates	(7,998)	(5,738)
Income exempt from tax	-	-
Other	-	-
Tax at applicable tax rate	29,108	16,172

29. BASIC/ DILUTED EARNINGS PER SHARE

Profit for the year	80,003	46,428
	Number of shares	
Weighted average number of Ordinary Shares	65,498,063	64,662,196
Basic/ diluted earnings per share - Rupees	1.22	0.72

30. CASH AND CASH EQUIVALENTS

	2014	2013
	Rupees in '000	
Cash and balances with treasury banks	300,844	306,368
Balances with other banks	3,368,668	3,628,344
	3,669,512	3,934,712

31. STAFF STRENGTH

	2014	2013
	Number of employees	
Permanent	222	231
Temporary / on contract basis	107	81
Daily wages	11	8
Bank's own staff strength at the end of the year	340	320
Outsourced	95	69
Total staff strength at the end of the year	435	389

32. STAFF RETIREMENT BENEFITS

32.1 Gratuity

The Bank contributed Rs. 5,259 thousand (2013: Rs. 3,631 thousand) during the year towards employees gratuity fund.

32.2 Provident fund

The Bank contributed Rs. 3,226 thousand (2013: Rs. 2,736 thousand) during the year towards employees contributory provident fund.

33. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Managing Director		Directors		Executives	
	2014	2013	2014	2013	2014	2013
Fees	-	-	440	469	-	-
Managerial remuneration	3,888	2,880	-	-	10,377	10,226
Contribution to defined contribution plan	-	-	-	-	518	372
Contribution to defined gratuity fund	324	240	-	-	644	464
Rent and house maintenance	1,704	1,260	-	-	3,658	3,069
Utilities	194	288	-	-	1,064	887
Medical	157	164	-	-	1,064	893
Bonus	648	480	-	-	783	1,183
Others	2,529	1,242	-	-	2,259	3,225
	9,444	6,554	440	469	20,367	20,319
Number of persons	1	1	9	9	13	13

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

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

34.1 On-balance sheet financial instruments

	2014		2013	
	Book value	Fair value	Book value	Fair value
Rupees in '000				
Assets				
Cash and balances with treasury banks	300,844	300,844	306,368	306,368
Balances with other banks	3,368,668	3,368,668	3,628,344	3,628,344
Lending to financial institution	-	-	-	-
Investments	1,172,192	1,172,192	203,549	203,549
Advances				
Term loans	1,690,733	1,690,733	1,180,399	1,180,399
Staff loans	71,032	71,032	42,985	42,985
Other advances	495,142	495,142	454,763	454,763
Other assets	348,841	348,841	259,178	259,178
	<u>7,447,452</u>	<u>7,447,452</u>	<u>6,075,586</u>	<u>6,075,586</u>
Liabilities				
Bills payable	5,551	5,551	4,460	4,460
Deposits and other accounts				
Current and saving accounts	4,184,755	4,184,755	3,303,479	3,303,479
Term deposits	2,458,194	2,458,194	2,064,416	2,064,416
Other liabilities	110,357	110,357	85,439	85,439
	<u>6,758,857</u>	<u>6,758,857</u>	<u>5,457,794</u>	<u>5,457,794</u>

The fair value of quoted investments other than those classified as held to maturity is based on quoted market prices.

The fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to the absence of current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.4.

The maturity and repricing profile and effective rates are stated in notes 38.4.1

In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short-term in nature or in the case of customer loans and deposits, are frequently repriced.

35. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2014					2013								
	Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Retail Brokerage	Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Retail Brokerage
Rupees in '000														
Total income	-	-	175,373	584,971	15,742	3,810	-	-	-	-	-	-	-	-
Total expenses	-	-	107,566	560,210	4,912	1,189	-	-	-	-	-	-	-	-
Net income (loss)	-	-	67,807	24,761	10,830	2,621	-	-	-	-	-	-	-	-
Segment Assets (Gross)	-	-	1,346,067	6,235,209	3,040	736	-	-	-	-	-	-	-	-
Segment Non Performing Loans	-	-	123,333	-	-	-	-	-	-	-	-	-	-	-
Segment Provision Required	-	-	104,305	-	-	-	-	-	-	-	-	-	-	-
Segment Liabilities	-	-	5,322	6,754,482	12	3	-	-	-	-	-	-	-	-
Segment Return on net Assets (ROA) (%)	-	-	2.54%	8.48%	0.23%	0.06%	-	-	-	-	-	-	-	-
Segment Cost of funds (%)	-	-	1.76%	9.17%	0.08%	0.02%	-	-	-	-	-	-	-	-
2013														
Total income	-	-	100,181	491,733	11,372	3,982	-	-	-	-	-	-	-	-
Total expenses	-	-	52,494	449,029	2,988	1,047	-	-	-	-	-	-	-	-
Net income (loss)	-	-	47,686	42,704	8,384	2,937	-	-	-	-	-	-	-	-
Segment Assets (Gross)	-	-	992,901	5,255,803	2,429	851	-	-	-	-	-	-	-	-
Segment Non Performing Loans	-	-	24,067	-	-	-	-	-	-	-	-	-	-	-
Segment Provision Required	-	-	46,794	-	-	-	-	-	-	-	-	-	-	-
Segment Liabilities	-	-	4,040	5,457,559	10	3	-	-	-	-	-	-	-	-
Segment Return on net Assets (ROA) (%)	-	-	1.72%	8.44%	0.20%	0.07%	-	-	-	-	-	-	-	-
Segment Cost of funds (%)	-	-	1.03%	8.83%	0.06%	0.02%	-	-	-	-	-	-	-	-
Assumptions used:														
- Administrative expenses have been allocated to segments based on respective segment income.														

36. RELATED PARTY TRANSACTIONS

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

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

	2014	2013
	Rupees in '000	
Balances		
The Government of Azad Jammu and Kashmir and its related departments		
-Advances	364,668	417,835
-Deposits	3,143,140	2,373,153
-Deferred Government grant	9	18
-Mark-up / return / interest accrued on advances	3,673	4,210
-Mark-up / return / interest payable on deposits	33,940	19,504
Transactions		
The Government of Azad Jammu and Kashmir and its related departments		
- Mark-up/ interest earned	46,295	51,182
- Mark-up/ interest expensed	186,104	174,649
- Bonus shares issued during the year	-	78,891

37. CAPITAL ADEQUACY

37.1 Scope of Applications

The capital adequacy framework applies on all banks both at standalone as well as at consolidated level.

37.2 Capital Structure

The State Bank of Pakistan through BPRD Circular No. 6 of 2013 has decided to implement the Basel III reforms issued by the Basel Committee on Banking Supervision (BCBS) to further strengthen the capital related rules. The major changes under the Basel III reform package pertain to numerator of the Capital Adequacy Ratio (CAR) i.e., eligible capital. The instructions have become effective from December 31, 2013 in a phased manner with full implementation intended by December 31, 2019.

Bank's regulatory capital is analysed into two tiers:

- Common Equity Tier-1 capital (CET1), which includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves, statutory reserves as per the financial statements, minority interest and net unappropriated profits after all regulatory adjustments applicable on CET1.

- Additional Tier-1 Capital (AT1), which includes perpetual non-cumulative preference shares and Share premium resulting from the issuance of preference shares balance in share premium account after all regulatory adjustments applicable on AT1.

- Tier-2 capital, which includes Subordinated debt/ Instruments, share premium of issuance of Subordinated debt/Instruments, general provisions for loan losses (up to a maximum of 1.25 % of credit risk weighted assets), net of tax reserves on revaluation of fixed assets and equity investments and foreign exchange translation reserves after all regulatory adjustments applicable on Tier-2.

Detail of Bank's eligible capital (on an unconsolidated basis) is as follows:

37.2.1 Capital Adequacy Ratio

	2014	2013
	Rupees in '000	
	Amount	Amount
Common Equity Tier-1 capital (CET1): Instruments and reserves		
1 Fully Paid-up Capital/ Capital deposited with SBP	654,981	654,981
2 Balance in Share Premium Account	-	-
3 Reserve for issue of Bonus Shares	-	-
4 Discount on Issue of Shares	-	-
5 General/ Statutory Reserves	-	-
6 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	-
7 Unappropriated/unremitted profits/ (losses)	155,350	75,347
8 Minority Interests arising from CET1 capital instruments issued to third parties by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-
9 CET 1 before Regulatory Adjustments	810,331	730,328
10 Total regulatory adjustments applied to CET1 (Note 37.2.2)	-	-
11 Common Equity Tier-1	810,331	730,328
Additional Tier-1 (AT 1) Capital		
12 Qualifying Additional Tier-1 capital instruments plus any related share premium	-	-
13 of which: Classified as equity	-	-
14 of which: Classified as liabilities	-	-
15 Additional Tier-1 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group AT 1)	-	-
16 of which: instrument issued by subsidiaries subject to phase out	-	-
17 AT1 before regulatory adjustments	-	-
18 Total regulatory adjustment applied to AT1 capital (Note 37.2.3)	-	-
19 Additional Tier-1 capital after regulatory adjustments	-	-
20 Additional Tier-1 capital recognized for capital adequacy	-	-
21 Tier-1 Capital (CET1 + admissible AT1) (11+20)	810,331	730,328
Tier-2 Capital		
22 Qualifying Tier-2 capital instruments under Basel III plus any related share premium	-	-
23 Tier-2 capital instruments subject to phase-out arrangement issued under pre-Base 3 rules	-	-
24 Tier-2 capital instruments issued to third parties by consolidated subsidiaries (amount allowed in group Tier-2)	-	-
25 of which: instruments issued by subsidiaries subject to phase out	-	-
26 General provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	47,060	31,422
27 Revaluation Reserves (net of taxes)	-	-
28 of which: Revaluation reserves on fixed assets	-	-
29 of which: Unrealized gains/losses on AFS	14,902	12,194
30 Foreign Exchange Translation Reserves	-	-
31 Undisclosed/Other Reserves (if any)	-	-
32 T2 before regulatory adjustments	61,962	43,616
33 Total regulatory adjustment applied to T2 capital (Note 37.2.4)	-	-
34 Tier-2 capital (T2) after regulatory adjustments	61,962	43,616
35 Tier-2 capital recognized for capital adequacy	61,962	43,616
36 Portion of Additional Tier-1 capital recognized in Tier-2 capital	-	-
37 Total Tier-2 capital admissible for capital adequacy	61,962	43,616
38 TOTAL CAPITAL (T1 + admissible T2) (21+37)	872,293	773,944
39 Total Risk Weighted Assets (RWA) {for details refer Note 37.5}	3,917,731	3,479,321
Capital Ratios and buffers (in percentage of risk weighted assets)		
40 CET1 to total RWA	20.68%	20.99%
41 Tier-1 capital to total RWA	20.68%	20.99%
42 Total capital to total RWA	22.27%	22.24%
43 Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	5.50%	5.00%
44 of which: capital conservation buffer requirement	-	-
45 of which: countercyclical buffer requirement	-	-
46 of which: D-SIB or G-SIB buffer requirement	-	-
47 CET1 available to meet buffers (as a percentage of risk weighted assets)	15.18%	15.99%
National minimum capital requirements prescribed by SBP		
48 CET1 minimum ratio	5.50%	5.00%
49 Tier-1 minimum ratio	7.00%	6.50%
50 Total capital minimum ratio	10.00%	10.00%

2014	2013
Rupees in '000'	
Amount	Amounts subject to Pre-Base III treatment

Regulatory Adjustments and Additional Information

	2014	2013
37.2.2 Common Equity Tier-1 capital: Regulatory adjustments		
1 Goodwill (net of related deferred tax liability)	-	-
2 All other intangibles (net of any associated deferred tax liability)	-	-
3 Shortfall in provisions against classified assets	-	-
4 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
5 Defined-benefit pension fund net assets	-	-
6 Reciprocal cross holdings in CET1 capital instruments of banking, financial and insurance entities	-	-
7 Cash flow hedge reserve	-	-
8 Investment in own shares/ CET1 instruments	-	-
9 Securitization gain on sale	-	-
10 Capital shortfall of regulated subsidiaries	-	-
11 Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-	-
12 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
13 Significant investments in the common stocks of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-
14 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
15 Amount exceeding 15% threshold	-	-
16 of which: significant investments in the common stocks of financial entities	-	-
17 of which: deferred tax assets arising from temporary differences	-	-
18 National specific regulatory adjustments applied to CET1 capital	-	-
19 Investments in TFCs of other banks exceeding the prescribed limit	-	-
20 Any other deduction specified by SBP (mention details)	-	-
21 Adjustment to CET1 due to insufficient AT1 and Tier-2 to cover deductions	-	-
22 Total regulatory adjustments applied to CET1 (sum of 1 to 21)	-	-
37.2.3 Additional Tier-1 & Tier-1 Capital: regulatory adjustments		
23 Investment in mutual funds exceeding the prescribed limit [SBP specific adjustment]	-	-
24 Investment in own AT1 capital instruments	-	-
25 Reciprocal cross holdings in Additional Tier-1 capital instruments of banking, financial and insurance entities	-	-
26 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
27 Significant investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
28 Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Base III treatment which, during transitional period, remain subject to deduction from additional Tier-1 capital	-	-
29 Adjustments to Additional Tier-1 due to insufficient Tier-2 to cover deductions	-	-
30 Total regulatory adjustment applied to AT1 capital (sum of 23 to 29)	-	-

37.2.4 Tier-2 Capital: regulatory adjustments

31	Portion of deduction applied 50:50 to Tier-1 and Tier-2 capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier-2 capital	-	-	-
32	Reciprocal cross holdings in Tier-2 instruments of banking, financial and insurance entities	-	-	-
33	Investment in own Tier-2 capital instrument	-	-	-
34	Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-
35	Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-
36	Total regulatory adjustment applied to T2 capital (sum of 31 to 35)	-	-	-

2014		2013
Rupees in '000		
Amount	Amounts subject to Pre-Basel III treatment	
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
2014		2013
Rupees in '000		

37.2.5 Additional Information
Risk Weighted Assets subject to pre-Basel III treatment

37	Risk weighted assets in respect of deduction items (which during the transitional period will be risk weighted subject to Pre-Basel III Treatment)	-	-	-
(i)	of which: Deferred tax assets	-	-	-
(ii)	of which: Defined-benefit pension fund net assets	-	-	-
(iii)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is less than 10% of the issued common share capital of the entity	-	-	-
(iv)	of which: Recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	-	-
	Amounts below the thresholds for deduction (before risk weighting)	-	-	-
38	Non-significant investments in the capital of other financial entities	-	-	-
39	Significant investments in the common stock of financial entities	-	-	-
40	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-	-
	Applicable caps on the inclusion of provisions in Tier-2	-	-	-
41	Provisions eligible for inclusion in Tier-2 in respect of exposures subject to standardized approach (prior to application of cap)	-	-	-
42	Cap on inclusion of provisions in Tier-2 under standardized approach	3,917,731	-	3,479,321
43	Provisions eligible for inclusion in Tier-2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-	-
44	Cap for inclusion of provisions in Tier-2 under internal ratings-based approach	-	-	-

37.3 Capital Structure Reconciliation
Step 1
Assets

	Balance sheet of the published financial statements As at 31-12-2014	Under regulatory scope of consolidation As at 31-12-2014
Rupees in '000		
Cash and balances with treasury banks	300,844	300,844
Balances with other banks	3,368,668	3,368,668
Lending to financial institutions	-	-
Investments	1,172,192	1,172,192
Advances	2,256,907	2,256,907
Operating fixed assets	111,354	111,354
Deferred tax assets	-	-
Other assets	375,087	375,087
Total assets	7,585,052	7,585,052

Liabilities & Equity

Bills payable	5,551	5,551
Borrowings	-	-
Deposits and other accounts	6,642,949	6,642,949
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	488	488
Deferred Government grant	9	9
Other liabilities	110,822	110,822
Total liabilities	6,759,819	6,759,819
Share capital	654,981	654,981
Advance against issue of shares	-	-
Reserves	-	-
Unappropriated profit	155,350	155,350
	810,331	810,331
Surplus on revaluation of assets - net	14,902	14,902
Total Liabilities & Equity	7,585,052	7,585,052

Step 2
Assets

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
Rupees in '000			
Cash and balances with treasury banks	300,844	300,844	
Balanced with other banks	3,368,668	3,368,668	
Lending to financial institutions	-	-	
Investments:	1,172,192	1,172,192	
of which: Non-significant investments in the capital instruments of banking, financial and insurance entities exceeding 10% threshold	-	-	a
of which: significant investments in the capital instruments issued by banking, financial and insurance entities exceeding regulatory threshold	-	-	b
of which: Mutual Funds exceeding regulatory threshold	-	-	c
of which: reciprocal crossholding of capital instrument (separate for CET1, AT1, T2)	-	-	d
of which: others (mention details)	-	-	e
Advances	2,256,907	2,256,907	
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB	-	-	f
general provisions reflected in Tier-2 capital	47,060	47,060	g
Fixed Assets	111,354	111,354	
Deferred Tax Assets	-	-	
of which: DTAs that rely on future profitability excluding those arising from temporary differences	-	-	h
of which: DTAs arising from temporary differences exceeding regulatory threshold	-	-	i
Other assets	375,087	375,087	
of which: Goodwill	-	-	j
of which: Intangibles	-	-	k
of which: Defined-benefit pension fund net assets	-	-	l
Total assets	7,585,052	7,585,052	

Liabilities & Equity

Bills payable	5,551	5,551	
Borrowings	-	-	
Deposits and other accounts	6,642,949	6,642,949	
Sub-ordinated loans	-	-	
of which: eligible for inclusion in AT1	-	-	m
of which: eligible for inclusion in Tier-2	-	-	n
Liabilities against assets subject to finance lease	-	-	
Deferred tax liabilities	488	488	
of which: DTLs related to goodwill	-	-	o
of which: DTLs related to intangible assets	-	-	p
of which: DTLs related to defined pension fund net assets	-	-	q
of which: other deferred tax liabilities	488	-	r
Deferred Government grant	9	9	
Other liabilities	110,822	110,822	
Total liabilities	6,759,819	6,759,819	
Share capital:	654,981	654,981	
of which: amount eligible for CET1	654,981	654,981	s
of which: amount eligible for AT1	-	-	t
Reserves	-	-	
of which: portion eligible for inclusion in CET1 (provide breakup)	-	-	u
of which: portion eligible for inclusion in Tier-2	-	-	v
Unappropriated profit/ (losses)	155,350	155,350	w
Minority Interest:	-	-	
of which: portion eligible for inclusion in CET1	-	-	x
of which: portion eligible for inclusion in AT1	-	-	y
of which: portion eligible for inclusion in Tier-2	-	-	z
Surplus on revaluation of assets:	-	-	
of which: Revaluation reserves on Fixed Assets	-	-	aa
of which: Unrealized Gains/Losses on AFS	14,902	14,902	
In case of Deficit on revaluation (deduction from CET1)	-	-	ab
Total Equity	825,233	825,233	
Total Liabilities & Equity	7,585,052	7,585,052	

Step 3

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

	Component of regulatory capital reported by bank	Source based on reference number from step 2
Rupees in '000		
1 Fully Paid-up Capital	654,981	
2 Balance in Share Premium Account	-	(s)
3 Reserve for issue of Bonus Shares	-	
4 General/ Statutory Reserves	-	(u)
5 Gain/(Losses) on derivatives held as Cash Flow Hedge	-	
6 Unappropriated/unremitted profits/ (losses)	155,350	(w)
7 Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	(x)
8 CET 1 before Regulatory Adjustments	810,331	
Common Equity Tier-1 capital: Regulatory adjustments		
9 Goodwill (net of related deferred tax liability)	-	(j) - (o)
10 All other intangibles (net of any associated deferred tax liability)	-	(k) - (p)
11 Shortfall of provisions against classified assets	-	(f)
12 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	{(h) - (r)} * x%
13 Defined-benefit pension fund net assets	-	{(l) - (q)} * x%
14 Reciprocal cross holdings in CET1 capital instruments	-	(d)
15 Cash flow hedge reserve	-	
16 Investment in own shares/ CET1 instruments	-	
17 Securitization gain on sale	-	
18 Capital shortfall of regulated subsidiaries	-	
19 Deficit on account of revaluation from bank's holdings of fixed assets/ AFS	-	(ab)
20 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(a) - (ac) - (ae)
21 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	(b) - (ad) - (af)
22 Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	(i)
23 Amount exceeding 15% threshold	-	
24 of which: significant investments in the common stocks of financial entities	-	
25 of which: deferred tax assets arising from temporary differences	-	
26 National specific regulatory adjustments applied to CET1 capital	-	
27 of which: Investment in TFCs of other banks exceeding the prescribed limit	-	
28 of which: Any other deduction specified by SBP (mention details)	-	
29 Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier-2 to cover deductions	-	
30 Total regulatory adjustments applied to CET1	-	
31 Common Equity Tier-1	810,331	

Additional Tier-1 (AT 1) Capital

32 Qualifying Additional Tier-1 instruments plus any related share premium	-	(t)
33 of which: Classified as equity	-	(m)
34 of which: Classified as liabilities	-	(y)
35 Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	
36 of which: instrument issued by subsidiaries subject to phase out	-	
37 AT1 before regulatory adjustments	-	
Additional Tier-1 Capital: regulatory adjustments		
38 Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	
39 Investment in own AT1 capital instruments	-	
40 Reciprocal cross holdings in Additional Tier-1 capital instruments	-	
41 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ac)
42 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(ad)
43 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier-1 capital	-	
44 Regulatory adjustments applied to Additional Tier-1 due to insufficient Tier-2 to cover deductions	-	
45 Total of Regulatory Adjustment applied to AT1 capital	-	
46 Additional Tier-1 capital	-	
47 Additional Tier-1 capital recognized for capital adequacy	-	
48 Tier-1 Capital (CET1 + admissible AT1)	810,331	
Tier-2 Capital		
49 Qualifying Tier-2 capital instruments under Basel III plus any related share premium	-	
50 Capital instruments subject to phase out arrangement from Tier-2 (Pre-Basel III instruments)	-	(n)
51 Tier-2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group Tier-2)	-	(z)
52 of which: instruments issued by subsidiaries subject to phase out	-	
53 General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	47,060	(g)
54 Revaluation Reserves	-	
55 of which: Revaluation reserves on fixed assets	-	
56 of which: Unrealized Gains/Losses on AFS	14,902	portion of (aa)
57 Foreign Exchange Translation Reserves	-	(v)
58 Undisclosed/Other Reserves (if any)	-	
59 T2 before regulatory adjustments	61,962	
Tier-2 Capital: regulatory adjustments		
60 Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from Tier-2 capital	-	
61 Reciprocal cross holdings in Tier-2 instruments	-	
62 Investment in own Tier-2 capital instrument	-	
63 Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	(ae)
64 Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	(af)
65 Amount of Regulatory Adjustment applied to T2 capital	-	
66 Tier-2 capital (T2)	61,962	
67 Tier-2 capital recognized for capital adequacy	61,962	
68 Excess Additional Tier-1 capital recognized in Tier-2 capital	-	
69 Total Tier-2 capital admissible for capital adequacy	61,962	
70 TOTAL CAPITAL (T1 + admissible T2)	872,293	

37.4 Main Features Template of Regulatory Capital Instruments

1	Issuer	Bank of Azad Jammu and Kashmir
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Bank of Azad Jammu and Kashmir
3	Governing law(s) of the instrument	Laws applicable in State of Azad Jammu and Kashmir
Regulatory Treatment		
4	Transitional Basel III rules	Common equity Tier-1
5	Post-transitional Basel III rules	Common equity Tier-1
6	Eligible at solo/group/group & solo	Standalone
7	Instrument type	Common Shares
8	Amount recognised in regulatory capital (Currency in PKR thousands, as of reporting date)	654,981
9	Par value of instrument	PKR 10
10	Accounting classification	Shareholder equity
11	Original date of issuance	2006
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
Coupons / Dividends		
17	Fixed or floating dividend/coupon	Not applicable
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Not applicable
Convertible or Non-Convertible		
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
Write-Down Feature		
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

37.5 Capital Adequacy

The capital adequacy ratio is a measure of the amount of a Bank's capital expressed as a percentage of its risk weighted assets. Measuring risk weighted assets requires risk mitigants to be applied to the amount of assets shown on a Bank's balance sheet. These assets are then applied weightages according to the degree of inherent risk.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operational risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of potential future exposure.

The total risk-weighted exposures comprise of credit risk, market risk and operational risk.

	Capital requirements		Risk weighted assets	
	2014	2013	2014	2013
Rupees in '000				
Credit Risk				
Portfolios subject to standardized approach (simple or comprehensive)				
On-Balance sheet				
Claims on banks	97,624	121,991	976,240	1,219,907
Past due loans	8,944	2,137	89,442	21,368
Claims on Corporate	-	-	-	-
Claims categorized as retail portfolio	122,935	81,113	1,229,352	811,129
Claims fully secured by residential property	9,782	4,552	97,822	45,520
Operating Fixed Assets	11,135	9,798	111,354	97,983
All other assets	37,509	29,003	375,087	290,031
	<u>287,929</u>	<u>248,594</u>	<u>2,879,297</u>	<u>2,485,939</u>
Off balance sheet items				
Non-market related				
Direct credit substitute	130	995	1,300	9,953
Other commitments	-	-	-	-
	<u>130</u>	<u>995</u>	<u>1,300</u>	<u>9,953</u>
Total credit risk (f)	<u>288,059</u>	<u>249,589</u>	<u>2,880,597</u>	<u>2,495,892</u>
Market risk				
Capital requirement for portfolios subject to standardized approach				
Equity position risk	47,300	40,710	472,996	407,098
Total market risk (g)	<u>47,300</u>	<u>40,710</u>	<u>472,996</u>	<u>407,098</u>
Operational risk				
Capital Requirement for operational risks (h)	56,414	57,633	564,138	576,331
Total (f+g+h)	<u>391,773</u>	<u>347,932</u>	<u>3,917,731</u>	<u>3,479,321</u>
Capital Adequacy Ratios				
	2014		2013	
	Required	Actual	Required	Actual
CET1 to total RWA	5.50%	20.68%	5.00%	21.42%
Tier-1 capital to total RWA	7.00%	20.68%	6.50%	21.42%
Total capital to total RWA	10.00%	22.27%	10.00%	22.70%

Capital Adequacy Ratio

Total eligible regulatory capital held (Rupees in '000)
Total risk weighted assets (Rupees in '000)
Capital adequacy ratio

	2014	2013
	Rupees in '000	
Total eligible regulatory capital held (Rupees in '000)	872,293	773,944
Total risk weighted assets (Rupees in '000)	3,917,731	3,409,338
Capital adequacy ratio	22.27%	22.70%

The Capital adequacy ratio of prior year is based on the Basel II framework as applicable on that date.

Common Tier-1

Share capital	654,981
Un-appropriated profits	155,350
Total	810,331

Tier-2

Surplus on Revaluation of securities	14,902
General provisions or general reserves for loan losses	47,060
Total	61,962

Total **872,293**

Capital Adequacy ratio	22.27%
Tier-1	20.68%

38. FINANCIAL RISK MANAGEMENT OBJECTIVES

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

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

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

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

38.1 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Bank's credit risk is primarily attributable to balances with other banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. All financial assets except cash in hand are subject to credit risk.

38.1.1 Segments by class of business

	2014					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	211,669	8.96	-	-	-	-
Construction	31,071	1.32	-	-	-	-
Power (electricity), Gas, Water, Sanitary	-	-	5,868	0.09	-	-
Wholesale and Retail Trade	361,476	15.31	35,770	0.54	-	-
Services	-	-	33,823	0.51	-	-
Individuals	1,313,377	55.62	3,424,348	51.55	1,300	0.8
Government	364,668	15.44	3,143,140	47.32	-	-
Others	78,951	3.34	-	-	167,628	99.2
Total	2,361,212	100	6,642,949	100	168,928	100

	2013					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	59,427	3.45	-	-	-	-
Construction	16,871	0.98	-	-	-	-
Power (electricity), Gas, Water, Sanitary	-	-	4,742	0.09	-	-
Wholesale and Retail Trade	259,228	15.03	27,290	0.51	-	-
Services	-	-	28,949	0.54	-	-
Individuals	928,594	53.83	2,933,761	54.65	9,953	93.71
Government	417,835	24.22	2,373,153	44.21	-	-
Others	42,986	2.49	-	-	148,315	6.29
Total	1,724,941	100	5,367,895	100	158,268	100

38.1.2 Segments by sector

Public / Government
Private

2014					
Advances (Gross)		Deposits		Contingencies and Commitments	
Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
364,668	15.44	3,143,140	47.32	-	-
1,996,544	84.56	3,499,809	52.68	168,928	100.00
2,361,212	100	6,642,949	100	168,928	100

2013					
Advances (Gross)		Deposits		Contingencies and Commitments	
Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
417,835	24.22	2,373,153	44.21	-	-
1,307,106	75.78	2,994,742	55.79	158,268	100.00
1,724,941	100	5,367,895	100	158,268	100

38.1.3 Details of non-performing advances and specific provisions by class of business segment

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

	2014		2013	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	3,298	555	703	226
	-	-	-	-
	-	-	-	-
	32,636	6,593	17,257	12,195
	-	-	-	-
	93,369	52,823	6,107	2,951
	-	-	-	-
	-	-	-	-
	129,303	59,971	24,067	15,372

38.1.4 Details of non-performing advances and specific provisions by sector

Public / Government
Private

	-	-	-	-
	129,303	59,971	24,067	15,372
	129,303	59,971	24,067	15,372

38.1.5 Geographical Segment Analysis

Pakistan (Azad Jammu and Kashmir)
Others

	2014			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	Rupees in '000			
	106,018	7,585,052	825,233	168,928
	-	-	-	-
	106,018	7,585,052	825,233	168,928

	2013			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	Rupees in '000			
	62,600	6,204,423	742,522	158,268
	-	-	-	-
	62,600	6,204,423	742,522	158,268

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

38.2 Credit Risk-General Disclosures

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

38.2.1 Credit Risk: Disclosures for portfolio subject to the Standardized Approach

Under standardized approach, the capital requirement is based on the credit rating assigned to the counter parties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. Bank utilizes, wherever available, the credit ratings assigned by the SBP recognized ECAIs, viz. PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company- Vital Information Systems). Credit rating data for advances is obtained from recognized External Credit Assessment Institutions and then mapped to State Bank of Pakistan's Rating Grades.

Type of Exposures for which the ratings from the External Credit Rating Agencies are used by the Bank.

Exposures	JCR-VIS	PACRA
Corporate	Yes	Yes
Banks	Yes	Yes
SME's	Yes	Yes

Long Term Ratings Grades Mapping

SBP Rating Grade	PACRA	JCR-VIS	Fitch	Moody's	S&P	ECA Scores
1	AAA AA+ AA AA-	AAA AA+ AA AA-	AAA AA+ AA AA-	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-	1
2	A+ A A-	A+ A A-	A+ A A-	A1 A2 A3	A+ A A-	2
3	BBB+ BBB BBB-	BBB+ BBB BBB-	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	3
4	BB+ BB BB-	BB+ BB BB-	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-	4
5	B+ B B-	B+ B B-	B+ B B-	B1 B2 B3	B+ B B-	5,6
6	CCC+ and above	CCC+ and above	CCC+ and above	Caa1 and above	CCC+ and above	7

Short-Term Ratings Grades Mapping

SBP	PACRA	JCR-VIS	Fitch	Moody's	S&P
S1	A-1	A-1	F1	P-1	A-1+,A-1
S2	A-2	A-2	F2	P-2	A-2
S3	A-3	A-3	F3	P-3	A-3
S4	Others	Others	Others	Others	Others

Bank uses credit assessments for constantly monitoring initial credit-screening and overall risk profile of the entire credit portfolio.

The credit portfolio of the Bank is restricted to operations in State of Azad Jammu and Kashmir which mainly comprise exposures to Government or Semi-Government departments. The exposures other than Government relate to Consumer, Microfinances or non-corporate entities.

Bank maintains high quality investments and exposure to other Banks. The Investments in Term Finance Certificates are made in high quality bonds and mutual funds, as stated in note 9.4 to these financial statements.

The Bank also monitors and maintains its exposure to other banks with quality credit rating which is not lower than category "A"

38.3 Market risk:

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

38.3.1 Foreign exchange risk

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

38.3.2 Equity position risk

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

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

38.3.3 Yield / interest rate risk

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

38.3.4 Mismatch of interest rate sensitive assets and liabilities

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

Effective Yield / Interest rate	Total	Exposed to yield / interest risk									
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Non-interest bearing financial instruments	
On-balance sheet financial instruments											
Assets											
Cash and balances with treasury banks	300,844	142,016	-	100,000	-	-	-	-	-	-	58,828
Balances with other banks	3,368,668	1,063,668	580,000	470,000	805,000	-	-	-	-	-	150,000
Lending to financial institution	-	-	-	-	-	-	-	-	-	-	-
Investments	1,172,192	-	-	101,558	85,000	245,349	195,074	-	-	-	-
Advances	2,256,907	62,941	37,534	164,283	1,172,804	64,693	627,224	22,774	-	-	375,087
Other assets	375,087	-	-	-	-	-	-	-	-	-	-
	7,473,698	1,268,625	617,534	835,841	2,062,804	649,865	822,298	322,774	-	-	583,915
Liabilities											
Bills payable	5,551	-	-	-	-	-	-	-	-	-	5,551
Borrowings	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	6,642,949	781,653	2,094,891	1,311,290	1,114,359	544	13,844	-	-	-	1,242,148
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	110,822	-	-	-	-	-	-	-	-	-	110,822
	6,759,322	781,653	2,094,891	1,311,290	1,114,359	544	13,844	322,774	-	-	1,388,521
On-balance sheet gap	714,376	486,972	(1,477,357)	(475,449)	948,445	649,321	808,454	322,774	-	-	(774,606)

2013

	Total	Rupees in '000												
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years				
Assets														
Cash and balances with treasury banks	306,368	306,368	-	-	-	-	-	-	-	-	-	-	-	-
Balances with other banks	3,628,344	1,985,836	935,836	395,836	110,836	200,000	-	-	-	-	-	-	-	-
Lending to financial institution	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	203,549	-	13,549	190,000	-	-	-	-	-	-	-	-	-	-
Advances	1,678,147	76,522	63,616	152,825	652,859	235,952	229,934	246,570	12,687	7,182	-	-	-	
Operating fixed assets	97,983	3,204	-	-	9,677	9,677	9,677	19,399	6,348	40,001	-	-	-	
Other assets	290,032	165,703	54,811	25,944	8,530	35,013	31	-	-	-	-	-	-	
	6,204,423	2,537,633	1,067,812	764,605	781,902	480,642	239,642	265,969	19,035	47,183	-	-	-	
Liabilities														
Bills payable	4,460	4,460	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	5,367,895	2,312,270	1,220,158	757,257	677,036	386,868	6,150	8,155	-	-	-	-	-	
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	3,280	-	-	-	3,280	-	-	-	-	-	-	-	-	-
Deferred Government grant	18	-	-	-	9	9	-	-	-	-	-	-	-	-
Other liabilities	86,248	76,324	400	4,908	4,616	-	-	-	-	-	-	-	-	-
	5,461,901	2,393,054	1,220,558	762,165	684,941	386,877	6,150	8,155	-	-	-	-	-	
Net assets	742,522	144,579	(152,746)	2,440	96,961	93,765	233,492	257,814	19,035	47,183	-	-	-	
Share Capital	654,981													
Reserves	-													
Unappropriated profit	75,347													
Surplus on revaluation of assets	12,194													
	742,522													

38.5**Operational risk**

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

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

39. Non-adjusting events after the balance sheet date

The Board of Directors, in its meeting held on 10th June 2015, announced a bonus issue of 20 percent (2013: Nil). The appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year that ended on December 31, 2014, do not include the effect of the appropriation which will be accounted for in the financial statements for the year ending December 31, 2015.

40. Date of Authorization

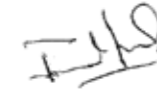
These financial statements were authorized for issue by the Board of Directors of the Bank on 10th June 2015.



Chairman



Managing Director



Director



Director

GOVERNANCE FRAMEWORK

Together We Synergize

MANAGING DIRECTOR'S SECRETARIAT

Mr. Fazal-ur-Rehman
Managing Director/CEO
Email: md@bankajk.com

Mr. Basharat Hussain
Private Secretary to MD
Ph: 05822-921366
Fax: 05822-921364
Email: headoffice@bankajk.com

OPERATIONS DIVISION

S.M Azam Khan
Divisional Head
Ph: 05822-924247
Fax: 05822-921983
Email: dh_operations@bankajk.com

CREDIT MANAGEMENT DIVISION

Mr. Maazullah Khan
Divisional Head
Ph: 05822-921650
Fax: 05822-921983
Email: dh_credit@bankajk.com

SPECIAL ASSETS MANAGEMENT DEPARTMENT

Raja Ghulam Mustafa
General Manager
Ph: 05822-921644
Fax: 05822-924248
Email: gm_arm@bankajk.com

MICRO & AGRICULTURE CREDIT DEPARTMENT

Mr. Akhtar Hussain
General Manager
Ph: 05822-924249
Fax: 05822-924248
Email: gm_credit@bankajk.com

COMMERCIAL & RETAIL BANKING DIVISION

Nishat Centre, Allama Iqbal Road Mirpur

Mr. Muhammad Akram
Divisional Head (Acting)
Ph: 05827-921489
Fax: 05822-91484
Email: dh_business@bankajk.com

FINANCIAL CONTROL DIVISION

Mr. Shahid Shehzad Mir
Divisional Head
Ph: 05822-921372
Fax: 05822-921363
Email: cfo@bankajk.com

TREASURY MANAGEMENT DIVISION

Mr. Shahid Shehzad Mir
Divisional Head
Ph: 05822-921372
Fax: 05822-921363
Email: cfo@bankajk.com

INFORMATION TECHNOLOGY DIVISION

Mr. Ahtasham Malik
Divisional Head (Acting)
Ph: 05822-921118
Fax: 05822-921364
Email: dh_it@bankajk.com

AUDIT & INSPECTION DIVISION

Nishat Centre, Allama Iqbal Road Mirpur

Mr. Khalid Sardar
Divisional Head (Acting)
Ph: 05827-921490
Fax: 05827-921407
Email: dh_audit@bankajk.com

COMPLIANCE DEPARTMENT

Mr. Muhammad Hanif
Chief Compliance Officer
Ph: 05822-921624
Fax: 05822-921364
Email: cco@bankajk.com

HUMAN RESOURCE MANAGEMENT DEPARTMENT

Mr. Muhammad Hanif
General Manager
Ph: 05822-921635
Fax: 05822-981983
Email: dh_hrd@bankajk.com

Mrs. Raheela Javed
Manager HR
Ph: 05822-924264
Fax: 05822-981983
Email: hrd@bankajk.com

REGIONS

REGIONAL OFFICE-NORTH

Near Shah Anayat Darbar Upper Adda Muzaffarabad

Syed Aftab Hussain Gillani
Regional Controller
Ph: 05822-923210
Fax: 05822-921063
Email: rc_n@bankajk.com

ZONAL OFFICE-MUZAFFARABAD

Bank Square Chatter Domail Muzaffarabad

Syed Tashfeen Gillani
Zonal Chief
Ph: 05822-921487
Fax: 05822-921063
Email: zon.mzd@bankajk.com

ZONAL OFFICE-RAWALAKOT

Near Shell Filling Station, Shakra-e-Ghazi-e-Millat,
1st Floor Gulf Palace, Rawalakot

Mr. Muhammad Imtiaz Shaheen
Zonal Chief
Ph: 05824-920522
Fax: 05824-920521
Email: zon.rkt@bankajk.com

REGIONAL OFFICE SOUTH

Nishat Centre, Allama Iqbal Road, Mirpur

Mr. Shahid Farooq
Regional Controller
Ph: 05827-920132-409
Fax: 05827-921484
Email: rc_s@bankajk.com

ZONAL OFFICE-MIRPUR

Nishat Centre, Allama Iqbal Road, Mirpur

Mr. Muhammad Arif Choudhry
Zonal Chief
Ph: 05827-921449
Fax: 05827-921442
Email: zon.mpr@bankajk.com

ZONAL OFFICE-KOTLI

Opposite GPO Rawalpindi Road, Kotli

Mr. Muhammad Javed Iqbal
Zonal Chief
Ph: 05826-920245-6
Fax: 05826-920246
Email: zon.kti@bankajk.com

BRANCH NETWORK

Together We Reach



DISTRICTWISE LOCATION OF BRANCHES

REGION	ZONE	DISTRICT	S. NO.	BRANCHES
North Region (Muzaffarabad)	Muzaffarabad	Muzaffarabad	1	Main Branch Mzd
			2	Garhi-Dupatta
			3	Lower Plate Mzd
			4	Chatter Klass
			5	Pathika
			6	Madina Market Mzd
			7	District Complex Mzd
			8	Ladies Branch Mzd
	Neelum	1	Athmuqam	
		2	Sharda	
		3	Jura	
	Hattian	1	Chakaar	
		2	Hattian	
		3	Chakothe	
	Rawalakot	Poonch	1	Rawalakot
			2	Hajeera
			3	Abbaspur
			4	Khaigala
			5	Paniola
			6	Thorar
7			CMH Road Rawalakot	
8			Banbehk	
Sudhnoti		1	Palandri	
		2	Tararkhal	
		3	Balouch	
		4	Talian	
Bagh		1	Bagh	
	2	Arja		
	3	Dheerkot		
Havall	1	Kahutta		
South Region (Mirpur)	Mirpur	Mirpur	1	Main Branch Mirpur
			2	Dadyal
			3	Chaksawari
			4	Islamgarh
			5	F-3 Mirpur
			6	Pulmanda
			7	Jatlan
			8	Mian Mohammad Town
			9	Jhatti Dhari Cross
			10	Ladies Branch Mirpur
			11	Saranda
			12	Ratta
	Bhimber	1	Bhimber	
		2	Bamala	
		3	Chowki	
		4	Poona	
		5	Moil	
	Kotli	Kotli	1	Kotli
			2	Shensa
			3	Nar
			4	Bratla
			5	Khoi Ratta
			6	Sarsawa
7			Khud Gujran	
8			Charoi	
9			Tata Pani	
10			Darbar Mai Toti	
11			Dhanna	
12	Juna			
13	Seharmandi			

ZONE WISE ADDRESSES/CONTACTS OF BRANCHES

Muzaffarabad Zone

Main Branch Muzaffarabad (0001)
Bank Square, Chatter, Muzaffarabad
TEL: 05822-921181
FAX: 05822 921365
E-mail: manager0001@bankajk.com

Athmuqam Branch (0008)
Main Bazar Athmuqam District
Neelum AJK
TEL: 05821 920033
FAX: 05821 920033
E-mail: manager0008@bankajk.com

Geri-Dupata Branch (0017)
Main Bazar Geri-Dupata
Muzaffarabad A.K
TEL: 05822 922503
FAX: 05822 922502
E-mail: manager0017@bankajk.com

Lower Plate Branch (0018)
Near City Hospital Lower Plate
Muzaffarabad A.K
TEL: 05822 920466
FAX: 05822 442664
E-mail: manager0018@bankajk.com

Chatter Klass Branch (0019)
Main Bazar Chatter Klass
Muzaffarabad A.K
TEL: 05822 922302
FAX: 05822 922301
E-mail: manager0019@bankajk.com

Chakaar Branch (0022)
Main Bazar Chakaar
District Hattian A.K
TEL: 05822 922003
FAX: 05822 922002
E-mail: manager0022@bankajk.com

Pathika Branch (0024)
Main Bazar Pathika
District Muzaffarabad A.K
TEL: 05822 922108
FAX: 05822-922109
E-mail: manager0024@bankajk.com

Madina Market Branch (0028)
Madina Market
District Muzaffarabad A.K
TEL: 05822 923126
FAX: 05822 923127
E-mail: manager0028@bankajk.com

Hattian Branch (0034)
Main Bazar Hattian
District Hattian A.K
TEL: 05822 922632
FAX: 05822 922631
E-mail: manager0034@bankajk.com

Chakothe Branch (0037)
Main Bazar Chakhoti
District Hattian A.K
TEL: 05822-921826
E-mail: manager0037@bankajk.com

District Complex Muzaffarabad
Branch (0040)
Old Secretariat District Complex
District Muzaffarabd
TEL: 05822-920187
FAX: 05822-920187
E-mail: manager0040@bankajk.com

Sharda Branch (0043)
Main Sharda Bazar
District Neelum A.K
TEL: 05821-920802
FAX: 05821-920802
E-mail: manager0043@bankajk.com

Jura Branch (0052)
Joora
District Neelum A.K
TEL: 05821 920502
FAX: 05821 920502
E-mail: manager0052@bankajk.com

Ladies Branch, Muzaffarabad (0053)
Hashim Plaza, Poultry Farm Road,
Muzaffarabad, AJK
TEL: 05822-923007-008
FAX: 05822-923007
E-mail: manager0053@bankajk.com

Rawalakot Zone

Rawalakot Branch (0006)
Gulf Shopping Complex Katchary
Road Rawalakot
TEL: 05824 920069
FAX: 05824 920068
E-mail: manager0006@bankajk.com

Bagh Branch (0010)
Main Bazar Bagh AJK
TEL: 05823 920103
FAX: 05823 920104
E-mail: manager0010@bankajk.com

Arja Branch (0011)
Bagh/Rawalakot Chowk Arja District
Bagh AJK
TEL: 05823 921005
FAX: 05823 921006
E-mail: manager0011@bankajk.com

Pulandri Branch (0013)
Main Bazar Pulandri AJK
TEL: 05825 920010
FAX: 05825 920009
E-mail: manager0013@bankajk.com

Hajeera Branch (0016)
Main Bazar Hajeera
District Rawalakot Azad Kashmir
TEL: 05824 920233
FAX: 05824 920234
E-mail: manager0016@bankajk.com

Dheerkot Branch (0023)
Main Bazar Dheerkot
District Bagh A.K
TEL: 05823 921213
FAX: 05823 921214
E-mail: manager0023@bankajk.com

Bandi Abbaspur Branch (0025)
Main Bazar Bandi Abbaspur
District Poonch A.K
TEL: 05824 921027
FAX: 05824 921028
E-mail: manager0025@bankajk.com

Khai-gala Branch (0030)
Main Bazar Khai-gala
District Poonch A.K
TEL: 05824-920911
FAX: 05824 920912
E-mail: manager0030@bankajk.com

Trar-khal Branch (0032)
Main Bazar Trar-khal
District Pullandri A.K
TEL: 05825 920224
FAX: 05825 920223
E-mail: manager0032@bankajk.com

Kahutta Branch (0038)
Main Bazar Kahutta
District Haveli A.K
TEL: 05823-921772
FAX: 05823-921772
E-mail: manager0038@bankajk.com

Paniola Branch (0039)
Main Bazar Paniola
District Rawalakot A.K
TEL: 05824-921608
FAX: 05824-921608
E-mail: manager0039@bankajk.com

Bloch Branch (0041)
Main Bazar Bloch
District Pullandri A.K
TEL: 05825-920316
FAX: 05825-920316
E-mail: manager0041@bankajk.com

Talian Branch (0049)
Main Bazar Talian
District Sadhnutti A.K
TEL: 05826-471319
FAX: *****
E-mail: manager0049@bankajk.com

Thorar Branch (0050)
Main Bazar Thorar
District Rawalakot A.K
TEL: 05824 921313
FAX: 05824 921313
E-mail: manager0050@bankajk.com

Mirpur Zone

Main Branch Mirpur (002)
Chowk Shaheedan, Mirpur
District Mirpur
TEL; : 05827 921448
FAX: 05827 921446
E-mail: manager0002@bankajk.com

Dadyal Branch (0003)
Maqbool Butt Shaheed Chowk,
Dadyal
TEL: 05827 923069
FAX: 05827 923070
E-mail: manager0003@bankajk.com

Chaksawari Branch (0004)
Opposite Al-Shahzad Hotel Chak-
sawari
TEL: 05827 922663
FAX: 05827 922664
E-mail: manager0004@bankajk.com

Islamgarh Branch (0009)
Main Bazar Islamgarh District Mirpur
AJK
TEL: 05827 922562
FAX: 05827 922563
E-mail: manager0009@bankajk.com

Bhimber Branch (0012)
Main Bazar Bhimber AJK
TEL: 05828 920505
FAX: 05828 920506
E-mail: manager0012@bankajk.com

Mirpur F-3 Branch (0015)
Sector F-3 Mirpur AJK
TEL: 05827 920439
FAX: 05827 920440
E-mail: manager0015@bankajk.com

Pulmenda Branch (0027)
Main Bazar Pulmenda
District Mirpur A.K
TEL: 05827 922260
FAX: 05827 922261
E-mail: manager0027@bankajk.com

Barnala Branch (0029)
Main Bazar Barnala
District Bhimber A.K
TEL: 05828 922064
FAX: 05828 922063
E-mail: manager0029@bankajk.com

Chowki Branch (0033)
Main Bazar Chowki
District Bhimber A.K
TEL: 05828 922162
FAX: 05828 922161
E-mail: manager0033@bankajk.com

Poona Branch (0035)
Main Bazar Poona
District Bhimber A.K
TEL: 05827 485533
FAX: 05827 485533
E-mail: manager0035@bankajk.com

Jatlain Branch (0045)
Main Bazar Jatlain
District Mirpur A.K
TEL: 05827 922764
FAX: 05827 922764
E-mail: manager0045@bankajk.com

Mian Muhammad Town Branch
(0046)
Main Muhammad Town
District Mirpur A.K
TEL: 05827 920442
FAX: 05827 920442
E-mail: manager0046@bankajk.com

Jhatti Dheri Branch (0047)
Jhatti Dheri Cross
District Mirpur A.K
TEL: 05827 922564
E-mail: manager0047@bankajk.com

Ladies Branch Mirpur (0054)
Haris Plaza Chowk Shaheedan Sector
C-2 Mirpur AK
TEL: 05827 920405
FAX: 05827 920405
E-mail: manager0054@bankajk.com

Saranda Branch Mirpur (0057)
Post Office Kanali Saranda Tehsil &
District Mirpur AK
TEL: 05827-922508
FAX: 05827-922508
E-mail: manager0057@bankajk.com

Ratta Branch Mirpur (0058)
Allah Abad Market Main Road Ratta
Tehsil Dadyal Distt. Mirpur
TEL: 05827 923011
FAX: 05827 923011
E-mail: manager0058@bankajk.com

Moil Branch Bhimber (0059)
Main Bazar Moil, Tehsil & District Bhim-
ber.
TEL: 0533029731
FAX: 0533029731
E-mail: manager0059@bankajk.com

Kotli Zone

Poonch/Kotli Branch (0005)
Rawalpindi Road Kotli
TEL: 05826 920241
FAX: 05826 920242
E-mail: manager0005@bankajk.com

Sehnsa Branch (0007)
Main Bazar Sehnsa AJK
TEL: 05826 923062
FAX: 05826 923063
E-mail: manager0007@bankajk.com

Nar Branch (0014)
Main Bazar Nar District Kotli AJK
TEL: 05826 921061
FAX: 05826 921060
E-mail: manager0014@bankajk.com

Brahtla Branch (0020)
Main Bazar Brahtla
District Kotli A.K
TEL: 05826 475094
FAX: 05826 475094
E-mail: manager0020@bankajk.com

Khui Ratta Branch (0021)
Main Bazar Khui Ratta
District Kotli A.K
TEL: 05826 921863
FAX: 05826 921864
E-mail: manager0021@bankajk.com

Sarsawa Branch (0026)
Main Bazar Sarsawa
District Kotli A.K
TEL: 05826 921163
FAX: 05826 921164
E-mail: manager0026@bankajk.com

Khad-Gujran Branch (0031)
Main Bazar Khad-Gujran
District Kotli A.K
TEL: 05826 922361
FAX: 05826 922362
E-mail: manager0031@bankajk.com

Charhoi Branch (0036)
Main Bazar Charhoi
District Kotli A.K
TEL: 05826 922165
FAX: 05826 922165
E-mail: manager0036@bankajk.com

Tatta-Pani Branch (0042)
Main Bazar Tatta-Pani
District Kotli A.K
TEL: 05826 921461
FAX: 05826-921461
E-mail: manager0042@bankajk.com

Mi-Toti Branch (0044)
Main Bazar Mi-toti
District Kotli A.K
TEL: 05826 921865
FAX: 05826 921865
E-mail: manager0044@bankajk.com

Dhanna Branch (0048)
Dhanna Bazar
District Kotli A.K
TEL: 05826 921761
FAX: 05826 921761
E-mail: manager0048@bankajk.com

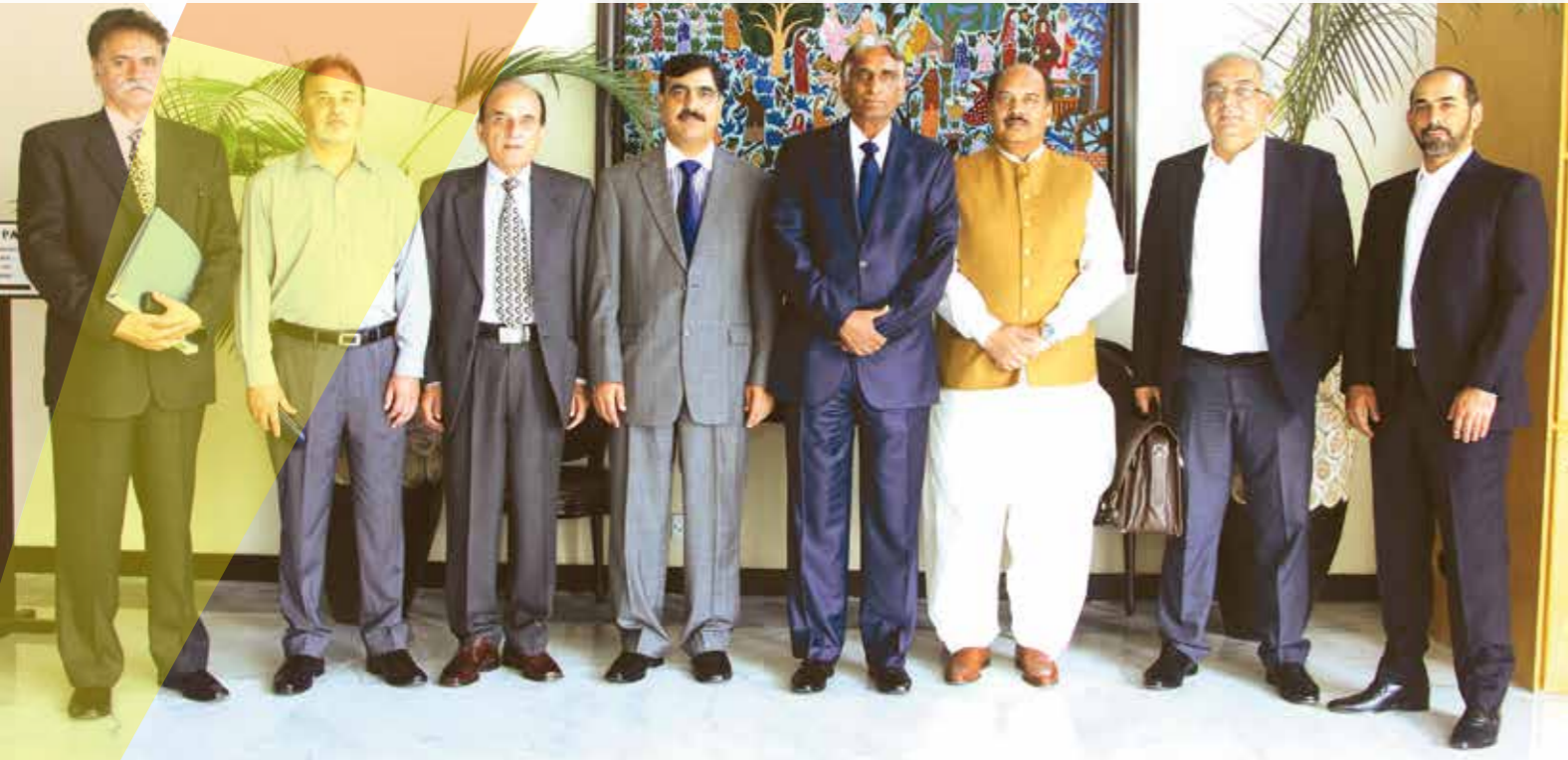
Juna Branch (0051)
Main Bazar Juna
District Kotli A.K
TEL: 05826 474441
E-mail: manager0051@bankajk.com

Seharmandi Branch (0055)
Main Bazar Seharmandi,
Tehsil Sehensa District Kotli AK
TEL: 05826 923150
FAX: 05826 923150
E-mail: manager0055@bankajk.com



**EVENT
GALLERY**

BAJK BOARD MEMBERS WITH CHAIRMAN



Ch. Latif Akbar Finance Minister & Chairman BAJK receiving Sardar Muhammad Yaqoob Khan President AJK.



BOARD MEETINGS





SIGNING OF FINANCING MOUS WITH AJK GOVERNMENT DEPTS.



Mr. Saeed Ahmed (Deputy Governor SBP) presenting shield to Ch. Latif Akbar (Chairman BAJK) at the eve of launching of agriculture pass book system in AJK.



Mr. Fazal-ur-Rehman MD BAJK presenting shield to Mr. Saeed Ahmed (Deputy Governor State Bank of Pakistan).

Ch. Latif Akbar chairman BAJK, Raja Farooq Haider Khan Ex. PM & Leader of Opposition and Mr. Fazal-ur-Rehman, MD BAJK discussing strategic matters regarding acquiring scheduled status for BAJK.



Ch. Latif Akbar chairman BAJK, Mian Abdul Waheed (Minister Education Schools), Mr. Malloob Inquilabi (Minister Education Colleges) and Mr. Fazal-ur-Rehman MD BAJK discussing strategic matters.



MD Mr. Fazal-ur-Rehman presenting booklet of BAJK Business Product to Mr. Raja Farooq Haider, (Ex. PM & Opposition Leader).

VISIT OF NOTABLES TO BAJK'S HEAD OFFICE

MD'S FIELD VISITS



TRAINING AND DEVELOPMENT



SEMINAR ON INTERNATIONAL WOMEN'S DAY



Deputy Country Head UN Women Mrs. Sangeeta Thapa presenting Shield to Ch. Latif Akhbar (Finance Minister & Chairmen BAJK) on the occasion of International Women's Day organised by BAJK.

WOMEN EMPOWERMENT



Participants of seminar organized by BAJK, in connection with the celebration of International Women's Day.

1st Row. (R to L) Mrs. Samia Sajid, Mr. Fazal-ur-Rehman (MD BAJK), Ch. Latif Akbar (Finance Minister & Chairman BAJK), Ms. Sangeeta Thapa (Dy Country Head UN Women), Mrs. Shaheen Kousar Dar (Deputy Speaker AJK Assembly), Ms. Farzana Yaqoob (Minister Social Welfare & Women Development), Dr. Bushra Shams (Incharge UN Women AJK).



HUMAN RESOURCE & IT COMMITTEE MEETING



BAJK'S STALL AT KISAN MELA IN NEELAM VALLEY



Participants of Conference with Dr. Tashfeen Khan (Add. Chief Secretary Development AJK), Mr. Yusuf Khan (Secretary Finance AJK), Mr. Farhat Ali Mir (Secretary Forest & AKLASC AJK), Kh. Ahsan (Secretary Industries AJK) & Mr. Fazal-ur-Rehman MD BAJK.



Dr. Tashfeen Khan (Add. Chief Secretary Development AJK) and Mr. Yusuf Khan (Secretary Finance AJK) addressing the conference.

CODE OF CONDUCT & BUSINESS PRACTICES



1.1 Introduction

The employees entering service of the Bank, both permanent and on contract shall have to abide by the rules, regulations and are desired to display highest standards of ethics, honesty, integrity, efficiency, obedience, allegiance to the institution, faithfulness, adherence to business practices and code of conduct. All employees must ensure that their actions and conduct protect and promote the reputation and image of the Bank. Whatever an employee does or says should not cause the Bank embarrassment or bring the Bank into disrepute in the public eye, especially as regards the impartiality and fairness of the Bank.

This Code:

- a. Is mandatory for compliance by all employees, whether full or part-time, employed directly or indirectly through a service contract, and wherever located.
- b. Also applies as a general guideline for the Directors, mutatis mutandis.
- c. Sets out maximum standards of good banking practices and lays down core values relating to the lawful and ethical conduct of our business activities and provides guidance to all. While the Code provides guidance on the aspects of integrity and impartiality, it cannot and does not cover every situation an employee may encounter. If an employee is uncertain about what to do in a particular situation, guidance should be sought from the Reporting Officer or the concerned Manager.
- d. Does not alter or replace the duties and responsibilities of some of the employees as specifically defined in Banking and Corporate Laws applicable to the Bank.
- e. May be amended or varied generally or specifically with the approval of the Board of Directors for changes due to regulations, laws and practice.
- f. Is not meant to be a complete record of our relationship with customers. Specific products and services have their own terms and conditions, and these will continue to govern customer relationships with regard to the use of those products and services.

Each employee must be fully aware of the provisions of this Code.

1.2 General Guidelines

Every employee shall:

- Conform to and abide by the Bank rules and obey all lawful orders and directives which may, from time to time, be given by any person or persons under whose jurisdiction, superintendence or control he may, for the time being, be placed. He shall at all times comply with all applicable laws, regulations and policies of the Bank.
- Stand firmly against supporting the activities of any group or individual that unlawfully threatens public order safety. He shall not be a member of any political party, take part in, subscribe in aid of or assist in any way, any political movement in and out of Azad Jammu & Kashmir/Pakistan or relating to the affairs of Azad Jammu & Kashmir/Pakistan. He shall not express views that are detrimental to the ideology, sovereignty of State of Azad Jammu & Kashmir/Pakistan.
- Not confess or otherwise interfere or use his influence in connection with, or take part in any election as a candidate of legislative/local body or issue a statement, or address the electorate, or in any manner announce or allow him or herself to be announced publicly as a candidate or prospective candidate whether in Azad Jammu & Kashmir/Pakistan or elsewhere. He may, however, exercise his right to vote.
- Not bring or attempt to bring political or other pressure/influence directly or indirectly to bear on the authorities/superior officers or indulge in derogatory pamphleteering, contribute, or write letters to news papers, anonymously or in his name with an intent to induce the authority/superior officers to act in a manner inconsistent with the rules, in respect to any matter relating to appointment, promotion, transfer, retirement, or for any other conditions of service employment.

1.3 Integrity

Every employee shall:-

- Conduct the highest standards of ethics, professional integrity and dignity in all dealings with the public, clients, investors, and/or employees of the Bank. He shall not engage in the act of discrediting the Bank. If he becomes aware of any irregularity that might affect the interest of the Bank, he will inform the Bank immediately.
- Avoid all such circumstances in which there is a conflict of personal interest, or which appears to be in conflict with the interest of Bank or its customers.
- Not use his status to seek personal gain from those doing business or seeking business from BAJK, or accept any gains if offered. He shall not accept any sort of gifts, favors, benefits, frequency of which exceeds normal business contact from a customer, constituent likely to have dealing with BAJK and candidates for employment in the Bank.
- Not accept any benefit from the estate of, or a trust created by a customer or from an estate or trust of which the Bank's company or business unit is an executor, administrator or trustee.

1.4 Conflict of Interest

Circumstances should be avoided in which personal interest conflicts, or what may appear to be a conflict regarding the interest of the Bank or its customers, arises.

Circumstances may arise where an employee, his/her spouse or family member directly or indirectly holds a business interest which conflicts or may conflict with the Bank's interest. In order to ensure that the Bank makes objective decisions, employees must declare in advance such interests to the Management through the Reporting Officer.

Any involvement in an outside activity or any external position held by an employee:

- a. Must not give rise to any real or apparent conflict with a customer's interests;
- b. Must not adversely reflect on the Bank;
- c. Must not interfere with an employee's job performance.

Employees must not negotiate or contract on behalf of the Bank with an enterprise in which they have a direct or indirect interest.

Employees on the payroll of BAJK must not undertake any other employment, whether part-time, temporary or other, or act as consultant, director or partner of another enterprise except with the prior permission of the Managing Director of the Bank.

In case of doubt about whether a particular circumstance/situation would create a conflict of interest, employees should first consult their Reporting Officer or the concerned Manager for seeking guidance before taking action.

1.5 Professionalism

Every employee shall:

- Serve the Bank honestly and faithfully and shall strictly serve the Bank's affairs and the affairs of its constituents. He shall use his utmost endeavor to promote the interest and goodwill of the Bank and will show courtesy and attention in all acts/transactions/correspondences.
- Disclose and assign to the Bank all interests in any invention, improvement, discovery or work of authorship that he may make or conceive. If his employment is terminated, all rights to intellectual property and information generated or obtained as part of his employment shall be terminated, and shall remain the exclusive property of the Bank.

1.6 Know Your Customer

Commonly referred to as KYC, is the process to ensure that the Bank is not used for any unlawful transactions. This is achieved by obtaining sufficient information about the customers to

reasonably satisfy us as to their reputation, their standing and the nature of their business activities. Effective use of "Know Your Customer" and the customer's due diligence discourages money laundering, which uses Banks as vehicles to disguise or "launder" the proceeds of criminal activities. Involvement in such activities undermines the Bank's integrity, damages its reputation, deters honest customers and leads the Bank to severe sanctions.

All employees, particularly working in the customer service areas, must establish the identity of every new customer from reliable identifying documents. For existing customers, they must remain vigilant and aware of:

- a. Activities not consistent with the customers' business;
- b. Unusual characteristics or activities;
- c. Attempts to avoid reporting or record keeping requirement;
- d. And unusual or erratic movement of funds.

A suspicion that funds transacted with the Bank stem from illegal activities, must be reported internally to the Reporting Officer or concerned Manager.

1.7 Personal Investments

Personal transactions, actual or intended transactions, usually in marketable investments, by employees for their own account, or in which employees have direct power to make decisions or influence the decisions of persons connected with them by reason of family or business relationship.

Employees must ensure that no conflict of interest arises between their personal transactions and corporate and customer responsibilities. Employees must never attempt to use their position in BAJK to obtain an advantage to buy and sell investments.

Employees in doubt about the propriety of any proposed personal transaction should consult their Reporting Officer or concerned Manager.

Employees shall not, at any time, carry out:

- a. Short sales of marketable securities or currencies, or any other form of trading which is speculative in nature in their own account or for the account of their spouse or family members.
- b. Trading in shares, securities or currencies which involve improper use of unpublished price sensitive information for personal benefit.

1.8 Relations with Regulators

Relationship with Regulators is one of the most important relations, which BAJK maintains with the aim of developing mutual confidence and trust.

All employees must comply in letter and spirit, with legal and regulatory requirements applicable to the activities in which we engage.

In case a regulation appears to conflict with the provision of any other regulation or laws, or compliance appears to be impractical or against the general banking ethics, it must be reported to the competent authority for appropriate action. Under no circumstances should a violation of a regulation be committed.

1.9 Relationship with Competitors

Except in situations where the Bank is participating in a transaction with (an)other Bank(s), no employee shall have any agreement, understanding or arrangement with any competitor with respect to pricing of services, profit rates and/or marketing policies, which may adversely affect the Bank's business.

1.10 Gifts and Entertainment

Gifts, business entertainment or other benefits from a customer or a supplier/vendor, which

appear or may appear to compromise commercial relationships must not be accepted by the employees.

Employees may, however, accept normal business entertainment or promotional items appropriate to the circumstances with prior intimation to the Reporting Officer or the Manager. In the event that a gift must be accepted due to a customer's insistence and sensitivity of relationship, such gifts must be surrendered to the Head of Human Resources Division along with the reasons of acceptance.

Under no circumstances shall an employee either directly or indirectly accept any amount of money, however small, as gift, gratuity, subscription or reward from any employee of the Bank, customer, supplier or vendor.

Customers who wish to express gratitude for the services of BAJK should be requested to send a letter of appreciation.

1.11 Office Attendance

Every employee shall attend the office on time and shall not leave the office before closing hours. An employee coming late shall hold himself liable for disciplinary action and to the debit of one earned leave from his leave account.

1.12 Corporate Culture

The Bank recognizes its staff members' personal behavior and interaction with others as a vital part of their duties in a particular position. In order to achieve the desired level of performance and corporate objectives, preservation of a congenial and professional working environment is encouraged.

BAJK seeks to create an environment where all persons are treated equally and with respect, where a person's rights are respected, efforts of staff encouraged and their achievements given due recognition.

1.13 Customer Relationship

Knowing our customers and their needs is the key to our business success. Fairness, truthfulness and transparency govern our customer relationships in determining the transactional terms, conditions, rights and obligations.

All employees must be committed to the continued development of excellence in service culture in which BAJK consistently seeks to exceed customers' expectations. Employees should seek to understand customers' financial circumstances and needs, to be able to provide them with the most suitable products and services.

All employees must ensure that any advice given to the customer is honest and fairly expressed and restricted only to those services or products where the Bank has the relevant expertise and authority.

1.14 Business/Work Ethics/Discipline

Every employee shall:-

- Respect colleagues and work as a team. He shall at all times be courteous and not let any personal differences affect his work. He shall treat every customer of BAJK with respect and courtesy.
- Maintain good attendance and punctuality, and demonstrate a consistently good record in this area. For any absence during work hours during his placement to BAJK clients, he shall obtain written permission from his immediate supervisor.
- Maintain standard of personal hygiene and dress appropriately for attendance at work. Appearance must inspire confidence and convey a sense of professionalism.
- Assume responsibility for safe guarding both tangible and intangible assets of BAJK that

are under his personal control. He shall not use Bank's asset for his personal benefits except where permissible and customary.

- Help in maintaining a healthy and productive work environment, shall not engage in selling, distributing, using any illegal substance or being under the influence of illegal drugs while on job.
- Ensure strict adherence to all health and safety policies as may be implemented from time to time by the Bank.
- Intimate BAJK of any changes in the personal circumstances relating to his employment or benefits.
- Not accept or seek any outside employment or office, whether stipendiary or honorary.
- Not undertake part-time work for a private or public body or private person, or accept fee thereof, during the services of the Bank.

1.15 Women at the Work Place

BAJK is destined to provide its employees, irrespective of gender and without prejudices, a working environment where they feel completely secure and satisfied to perform at the optimum level. Being an equal opportunity employer, the Bank provides a progressive environment for all its employees to progress and contribute regardless of their cast, creed, religion or gender. Female employees form a formidable work force of the Bank and essentially deserve complete protection. They are mutually respected and protected by the fellow employees and the complaints of mistreatment, bias or prejudices are rare. However, in order to benefit them from State's commitment to effectively safeguard them from perpetrators, the Bank has decided to adopt and enforce provisions of 'The Protection against Harassment of Women at the Workplace Act 2010', in all the branches and offices, forthwith.

1.16 Maintaining Confidentiality

Confidential information comprises of:-

- a. any non-public, written or oral, information received directly or indirectly from a customer, prospective customer or a third party with the expectation that such information shall be kept confidential and used solely for the business purposes of the customer, prospective customer or the third party; and
- b. BAJK's proprietary information that includes any analyses or plans created or obtained by any BAJK Division, Department or Branch.

All BAJK employees have a duty to safeguard confidential information, which may fall into their possession during their day-to-day work. Respect for all customers' private affairs, requires the same care as does the protection of the Bank's own affairs or other interests.

This duty of confidentiality involves not divulging information to third parties other than in the following circumstances:

- i. Where the customer concerned has given permission to do so;
- ii. Where the Bank is legally compelled to do so;
- iii. Where there is a duty to disclose information to public; and
- iv. Where it is necessary for the Bank to present its case - e.g. in court or in other circumstances of a related nature.

Confidentiality applies whether the information has been obtained from those with whom the Bank does business or from sources within the Bank. All such information should only be used for the purpose for which it is intended and must not be used for the personal benefit of an employee, his/her spouse or family member.

All employees must sign a declaration of confidentiality/secretcy and must comply with the procedures and regulations.

1.17 Dress Code

In order to keep the office environment professional, it is mandatory for all employees to follow a

strict dress code.

1.17.1 Male

The following dress code is permissible for all male employees of the organization.

1. Dress Shirt and Trouser – In neutral colors, which must be clean and neatly pressed. Shirts should be properly buttoned. Ties shall be properly knotted.
2. Shalwar Kameez – Although Shalwar Kameez is our national dress and people should be encouraged to wear the national dress, extra care should be taken when opting to wear Shalwar Kameez, as it can look very shabby if not properly maintained. Shalwar Kameez should be in neutral colors, it must be clean and immaculately pressed. Kameez should be properly buttoned along-with waistcoats.

1.17.2 Female

The following dress code is permissible for all female employees of the organization.

Shalwar, Kameez and Dupatta - In subtle color, clean and neatly pressed. Female staff should avoid dressing garishly by avoiding jewellery and hair clips as much as possible. Small sized ear-rings are permissible as part of jewellery.

1.18 Compliance

All BAJK employees are fully committed to ensuring that all business decisions and actions comply with all applicable laws and regulations and to observe good standards of behavior and practice in accordance with the industry practices. Accordingly, all employees must acquaint themselves with all applicable laws and regulations.

Senior Management will ensure that:

- a. All employees are aware of this Code;
- b. No employee shall be asked to do anything that would contravene this Code; and
- c. Queries and concerns arising under this Code will be dealt with properly and may be addressed to the Human Resource Management Division at the Head office.

1.19 Special Conditions

No employee shall indulge in any of the following:-

- Borrow money from or in any way place himself under pecuniary obligations to a broker, moneylender, and client, employee of the Bank or of any firm or person having dealing with the Bank.
- Buy or sell stocks, shares or securities of any description without funds to meet the full cost in the case of purchase or scripts for delivery in the case of sale. However he can make a bona-fide investment of his own funds in such stocks, shares and securities as he may wish to buy.
- Lend money in a private capacity to a constituent of the Bank or have personal dealings with a constituent in the purchase or sale of bills of exchange, Government papers or any other securities.
- Act as an agent for an insurance company otherwise than as an agent for or on behalf of the Bank.

1.20 Certification

Each employee in the Bank shall be required to read/review this Code each year and certify in writing that he/she understands his/her responsibilities to comply with the provisions set forth herein.

