

**THE BANK OF AZAD JAMMU AND KASHMIR
ANNUAL AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

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

Opinion

We have audited the financial statements of the Bank of Azad Jammu and Kashmir (the Bank), which comprise statement of financial position as at December 31, 2023, and the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023 and of its financial performance and its cash flows for the year then ended in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Bank of Azad Jammu and Kashmir Act, 2005 (the Act) and its Bye-Laws 2007 (the Bye-Laws).

Basis for opinion

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

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

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our

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opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



Chartered Accountants

Islamabad

Date:

UDIN:

DRAFT

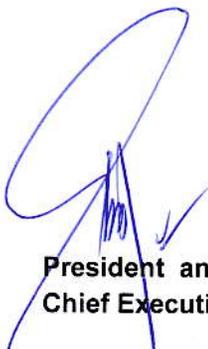
**THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2023**

	Note	2023 ----- Rupees in '000-----	2022
ASSETS			
Cash and balances with treasury banks	5	8,218,340	6,271,417
Balances with other banks	6	16,532,540	16,088,667
Lendings to financial institutions		-	-
Investments	7	56,771	163,197
Advances	8	3,874,147	3,290,230
Fixed assets	9	422,748	365,478
Intangible assets	10	-	-
Deferred tax assets	11	31,984	49,601
Other assets	12	3,423,366	2,232,866
		32,559,896	28,461,456
LIABILITIES			
Bills payable	13	93,259	82,751
Borrowings		-	-
Deposits and other accounts	14	24,144,665	21,004,229
Lease liabilities against right of use assets	15	167,028	161,246
Subordinated debt		-	-
Deferred tax liabilities		-	-
Other liabilities	16	1,723,814	1,344,311
		26,128,766	22,592,537
NET ASSETS			
		6,431,130	5,868,919
REPRESENTED BY			
Share capital	17	5,528,621	5,142,903
Reserves	18	468,146	360,650
Surplus on revaluation of assets	19	903	(23,828)
Unappropriated profit		433,460	389,194
		6,431,130	5,868,919

CONTINGENCIES AND COMMITMENTS

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The annexed notes 1 to 42 form an integral part of these financial statements.


President and
Chief Executive Officer


Chief Financial Officer


Director


Director


Director

**THE BANK OF AZAD JAMMU AND KASHMIR
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2023**

	2023	2022
	-----Rupees in '000-----	
Mark-up / return / interest earned	21 4,809,494	3,222,394
Mark-up / return / interest expensed	22 2,585,433	1,451,441
Net mark-up / interest income	<u>2,224,061</u>	<u>1,770,953</u>
NON MARK-UP / INTEREST INCOME		
Fee and commission income	23 32,165	27,630
Dividend income	12,340	10,575
Other income	24 12,094	13,587
Total non-markup / interest income	<u>56,599</u>	<u>51,792</u>
Total income	<u>2,280,660</u>	<u>1,822,745</u>
NON MARK-UP / INTEREST EXPENSES		
Operating expenses	25 1,168,917	914,018
Workers welfare fund	-	-
Other charges	-	-
Total non-markup / interest expenses	<u>1,168,917</u>	<u>914,018</u>
Profit before provisions	1,111,743	908,727
Provisions and write offs - net	26 505	29,085
Extra ordinary / unusual items	-	-
PROFIT BEFORE TAXATION	<u>1,111,238</u>	<u>879,642</u>
Taxation	27 (573,758)	(421,578)
PROFIT AFTER TAXATION	<u>537,480</u>	<u>458,064</u>
	Rupees	
	Restated	
Basic and diluted earnings per share	28 <u>0.97</u>	<u>0.89</u>

The annexed notes 1 to 42 form an integral part of these financial statements.


President and
Chief Executive Officer


Chief Financial Officer


Director


Director


Director

**THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023**

2023 2022
-----Rupees in '000-----

Profit after taxation for the year 537,480 458,064

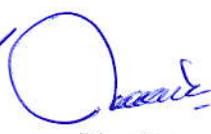
OTHER COMPREHENSIVE INCOME

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

Movement in surplus on revaluation of investments - net	43,574	(20,578)
Related deferred tax expense	(18,843)	10,547
	24,731	(10,031)

Total comprehensive income 562,211 448,033

The annexed notes 1 to 42 form an integral part of these financial statements.

 President and Chief Executive Officer	 Chief Financial Officer	 Director	 Director	 Director
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THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2023

	Share capital	Surplus / (deficit) on revaluation	Unappropriated Profit	Statutory Reserve	Total
----- Rupees in '000 -----					
Balance as at January 01, 2022	5,142,903	(13,797)	22,743	269,037	5,420,886
Profit after taxation for the year ended December 31, 2021	-	-	458,064	-	458,064
Other comprehensive income					
Surplus on revaluation of available-for-sale securities - net of tax	-	(10,031)	-	-	(10,031)
Transfer to statutory reserve	-	-	(91,613)	91,613	-
Transactions with owners, recorded directly in equity					
Balance as at January 01, 2023	5,142,903	(23,828)	389,194	360,650	5,868,919
Profit after taxation for the year ended December 31, 2022	-	-	537,480	-	537,480
Other comprehensive income					
Surplus on revaluation of available-for-sale securities - net of tax	-	24,731	-	-	24,731
Transfer to statutory reserve	-	-	(107,496)	107,496	-
Issue of bonus shares - note 17.5	385,718	-	(385,718)	-	-
Closing balance as at December 31, 2023	5,528,621	903	433,460	468,146	6,431,130

The annexed notes 1 to 42 form an integral part of these financial statements.



President and
Chief Executive Officer



Chief Financial Officer



Director

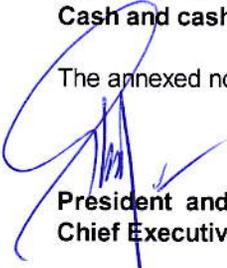


Director

**THE BANK OF AZAD JAMMU AND KASHMIR
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2023**

	2023	2022
Note	-----Rupees in '000-----	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	1,111,238	879,642
Less: Dividend income	<u>(12,340)</u>	<u>(10,575)</u>
	1,098,898	869,067
Adjustments:		
Depreciation	9.2 83,021	66,660
Provision and write-offs	505	29,085
Interest expense on lease liability	22 33,650	22,049
Provision for gratuity	26,630	25,160
Provision for leave encashment	109,434	46,457
Provision for bonus	62,927	48,009
Other provisions	-	15,534
Loss on sale of security	24 1,949	(6)
	<u>318,116</u>	<u>252,948</u>
	1,417,014	1,122,015
(Increase)/ decrease in operating assets		
Advances	<u>(584,422)</u>	<u>(504,002)</u>
Others assets (excluding advance taxation)	<u>(1,190,500)</u>	<u>(1,186,255)</u>
	<u>(1,774,922)</u>	<u>(1,690,257)</u>
Increase/ (decrease) in operating liabilities		
Bills payable	<u>10,508</u>	<u>(75,429)</u>
Deposits	<u>3,140,436</u>	<u>3,733,606</u>
Other liabilities (excluding current taxation)	<u>170,174</u>	<u>446,356</u>
	<u>3,321,118</u>	<u>4,104,533</u>
	2,963,210	3,536,291
Interest paid on lease liability	<u>(32,212)</u>	<u>(22,049)</u>
Income tax paid	<u>(564,276)</u>	<u>(230,936)</u>
Net cash generated from operating activities	<u>2,366,722</u>	<u>3,283,306</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net proceeds from placements with banks	<u>(622,150)</u>	<u>(8,403,807)</u>
Dividend income received	12,340	10,575
Investments in operating fixed assets	<u>(106,554)</u>	<u>(115,629)</u>
Proceeds from sale of securities	148,051	-
Net cash used in investing activities	<u>(568,313)</u>	<u>(8,508,861)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Issue of share capital	<u>-</u>	<u>-</u>
Principal paid against lease liability	<u>(29,763)</u>	<u>(39,890)</u>
Net cash generated from financing activities	<u>(29,763)</u>	<u>(39,890)</u>
Increase / (decrease) in cash and cash equivalents	1,768,646	(5,265,445)
Cash and cash equivalents at beginning of the year	5,934,908	11,200,353
Cash and cash equivalents at end of the year	29 <u>7,703,554</u>	<u>5,934,908</u>

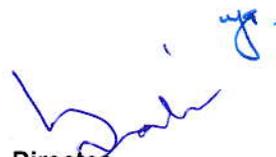
The annexed notes 1 to 42 form an integral part of these financial statements.


President and
Chief Executive Officer


Chief Financial Officer


Director


Director


Director

**THE BANK OF AZAD JAMMU AND KASHMIR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

1 STATUS AND NATURE OF BUSINESS

The Bank of Azad Jammu and Kashmir (the Bank) is a public unlisted Bank which was incorporated in 2006 under the Bank of Azad Jammu and Kashmir Act, 2005 (the Act) and is principally engaged in commercial banking and related services as a non-scheduled bank in Azad Jammu and Kashmir State. The registered office of the Bank is situated at Bank Square, Chatter, Muzaffarabad, Azad Jammu and Kashmir. The Government of Azad Jammu and Kashmir and Behbood Fund & Group Insurance - Government autonomous body own 100 percent of ordinary shares of the Bank as on December 31, 2023 in proportion of 97.59% and 2.41% (2022: 100% and 0%) respectively.

The Bank has 85 branches (2022: 82 branches) in Azad Jammu and Kashmir.

2 BASIS OF PRESENTATION

These financial statements have been presented in accordance with the requirements of format prescribed by the State Bank of Pakistan's BPRD Circular No 02 dated January 25, 2018, the Act and its Bye-Laws 2007 (the Bye-Laws).

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pak Rupee, which is the Bank's functional and presentation currency.

2.1 STATEMENT OF COMPLIANCE

Bye-Laws of the Bank require that the statement of financial position and profit and loss account of the Bank shall be drawn up in conformity with the rules and regulations of the State Bank of Pakistan (SBP) and Section 34 of the Banking Companies Ordinance, 1962. Accordingly, these financial statements have been prepared in accordance with the requirements of the Act, its Bye-Laws and approved accounting and reporting standards as applicable in Pakistan. Approved accounting and reporting standards comprise of:

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

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

The SBP vide its BPRD circular letter No. 07 of 2023 dated April 13, 2022 has extended the implementation date of IFRS 9 from January 01, 2023 to January 01, 2024 for banks having assets size of PKR 500 billion or more as of December 31, 2022. However, during the transition period, the banks are required to carry out the parallel run reporting.

The SBP has deferred the applicability of International Accounting Standard (IAS) 39 - 'Financial Instruments: Recognition and Measurement' and IAS 40 - 'Investment Property' for Banking Companies in Pakistan through BSD Circular Letter 10 dated August 26, 2002 till further instructions. Further, the SECP has deferred the applicability of IFRS 7 - 'Financial Instruments: Disclosures' through its notification S.R.O 633(I)/2014 dated July 10, 2014. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

2.2 Standards, interpretations of and amendments to published approved accounting standards that are effective for the year ended December 31, 2023

The following amendments are effective for the year ended December 31, 2023. These amendments are either not relevant to the Company's / Bank's operations or are not expected to have significant impact on the Company's / Bank's financial statements other than certain additional disclosures.

		Effective from Accounting period beginning on or after
IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 - The amendments aim to help entities provide accounting policy disclosures that are more useful by: - Replacing the requirement for entities to disclose their significant accounting policies with a requirement to disclose their 'material' accounting policies; and - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.	January 01, 2023
IAS 8	Definition of Accounting Estimates - Amendments to IAS 8 - The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.	January 01, 2023
IAS 12	Amendments to 'IAS 12 Income Taxes' - deferred tax related to assets and liabilities arising from a single transaction.	January 01, 2023
IAS 12	Amendments to IAS 12 'Income taxes' - International Tax Reform — Pillar Two Model Rules	January 01, 2023

2.3 Standards, interpretations of and amendments to published approved accounting standards that are not yet effective.

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

		Effective from accounting period beginning on or after
IFRS 16	Leases' -Clarification on how seller-lessee subsequently measures sale and leaseback transactions.	January 01, 2024
IAS 1	Presentation of Financial Statements' - Non-current liabilities with Convents along with Classification of liabilities as current or non-current.	January 01, 2024
IAS 7	Statement of Cash Flows' and 'IFRS 7 'Financial instruments disclosures' - Supplier Finance Arrangements	January 01, 2024
IAS 21	The Effects of Changes in Foreign Exchange Rates' - Clarification on how entity accounts when there is long term lack of Exchangeability.	January 01, 2025

IFRS -17	Insurance Contracts (including the June 2020 and December 2021 Amendments to IFRS 17)	January 01, 2026
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Further, the following new standards have been issued by the IASB, which are yet to be notified by the SECP for the purpose of applicability in Pakistan:

Standard	Effective Date
IFRS 1	First-time Adoption of International Financial Reporting
	January 1, 2004

The Bank expects that the adoption of the above standards will have no material effect on the Bank's financial statements, in the period of initial application.

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

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

2.4 Use of critical accounting estimates and judgments

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

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

3 BASIS OF MEASUREMENT

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

4 MATERIAL ACCOUNTING POLICY INFORMATION

During the year/ period, the Bank adopted Disclosure of Accounting Policies (Amendments to IAS 1) from January 01, 2023. The amendments require the disclosure of 'material', rather than 'significant', accounting policies. Although the amendments did not result in any changes to the accounting policies themselves.

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

4.1 Cash and cash equivalents

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

4.2 Investments

4.2.1 Classification

Held for trading

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

Held to maturity

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

Available for sale

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

4.2.2 Regular way contracts

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

4.2.3 Initial measurement

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

4.2.4 Subsequent measurement

Held-for-trading

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

Held-to-maturity

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

Available-for-sale

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

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

4.2.5 Impairment

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

4.3 Advances

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

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

4.4 Fixed assets and depreciation

Capital work-in-progress

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

Tangible assets

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

Depreciation

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

In making estimates of the depreciation, the management uses useful life and residual value which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The useful life and the residual value are reviewed at each financial year end and any change in these estimates is adjusted prospectively.

4.5 Intangible assets

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

4.6 Right-of-use assets and related lease liability

4.6.1 Right of-use assets

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

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

4.6.2 Lease liability against right-of-use assets

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

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

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

4.7 Impairment

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

4.8 Deposits

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

4.9 Taxation

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

Current

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

Deferred

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

4.10 Staff retirement benefits

Gratuity scheme

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

Provident fund

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

Leave encashment

The Bank provides compensated absences to all its employees. Provision is based on actuarial valuation and latest valuation is carried out at year ended December 31, 2023.

4.11 Revenue recognition

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

Classification Days passed due based classification (DPD)	DPD Criteria			
	General loans	Housing loans	Enterprise loans	Enterprise loans (Property collateral)
OAEM	30-59	90-179	90-179	90-179
Substandard	60-89	180-364	180-364	180-364
Doubtful	90-179	365-729	365-544	365-544
Loss	180-209	730-1944	545-1214	545-1944
Write Off	=>210	=>1945	=>1215	=>1945
Suspension Percentage				
OAEM	0%	0%	100%	100%
Substandard	100%	100%	100%	100%
Doubtful	100%	100%	100%	100%
Loss	100%	100%	100%	100%
Write Off	100%	100%	100%	100%

Fee, commission and brokerage income is recognised on an accrual basis.

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

4.12 Government grant

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

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

4.13 Foreign currency transactions

Transactions in foreign currencies are translated to Pakistan Rupees at the exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange prevailing on the date of the statement of financial position. There have been no foreign currency transactions during the year.

4.14 Provisions

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

4.15 Off setting

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

4.16 Segment reporting

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

4.16.1 Business segment

Retail banking

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

Commercial banking

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

Payment and settlement

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

Agency service

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

4.16.2 Geographical segments

The Bank only operates in Azad Jammu and Kashmir.

4.17 Earning per share

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

	Note	2023 -----Rupees in '000-----	2022
5 CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		308,314	283,116
With National Bank of Pakistan in			
Local currency current account		374,440	2,111
Local currency deposit account	5.1	35,586	86,190
Local currency term deposit account	5.2	7,500,000	5,900,000
		7,910,026	5,988,301
Prize bonds		-	-
		8,218,340	6,271,417

- 5.1 This represents deposit accounts carrying markup rates ranging from 15.50% to 20.50% (2022:8.25% to 14.25%) per annum.
- 5.2 This represents term deposits carrying markup rates ranging from 20.00% to 22.60% (2022: 10.30% to 15.60%) per annum having maturities within one year.

		2023 -----Rupees in '000-----	2022
6 BALANCES WITH OTHER BANKS			
In Pakistan (Azad Jammu and Kashmir)			
In current account		670,320	494,362
In deposit account	6.1 & 6.2	15,862,220	15,594,305
		16,532,540	16,088,667

- 6.1 This includes saving deposit accounts amounting Rs. 1,304,947 thousands (2022: Rs. 1,011,533 thousands) carrying markup rates ranging from 15.50% to 20.50% (2022: 8.25% to 14.5%) per annum.
- 6.2 This includes term deposits carrying markup at rates ranging between 16.50% to 24.00% (2022: 10.60% to 22.50%) per annum. Term deposits have maturities ranging from 3 months to 1 year except for two term deposits amounting to Rs. 500,000 thousand and Rs. 1,200,000 thousand placed with a bank maturing in 2029 and 2032 respectively.

7 INVESTMENTS	2023				2022			
	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value

-----Rupees in '000-----								
7.1 Investments by type								
Available-for-sale								
Units of open ended mutual funds - note 7.5	55,000	-	1,771	56,771	205,000	-	(41,803)	163,197
Held-to-maturity								
Term finance certificates - note 7.3	49,940	(49,940)	-	-	49,940	(49,940)	-	-
Total Investments	104,940	(49,940)	1,771	56,771	254,940	(49,940)	(41,803)	163,197

7.2 Investments by segments	2023				2022			
	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value	Cost/ amortised cost	Provision for diminution	Surplus / (deficit)	Carrying value

-----Rupees in '000-----								
Units of open ended mutual funds								
Units of open ended mutual funds	55,000	-	1,771	56,771	205,000	-	(41,803)	163,197
Non Government debt								
Securities								
Unlisted								
Term finance certificates	49,940	(49,940)	-	-	49,940	(49,940)	-	-
Total investments	104,940	(49,940)	1,771	56,771	254,940	(49,940)	(41,803)	163,197

7.3 Particulars of held to maturity investment

No. of certificates	Name of company	Redeemable value per certificate	2023	2022	Credit rating
			Rupees		
2023	2022				
10,000	10,000	4.994	49,940	49,940	Un-rated

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

7.4 Particulars of provision for diminution in value of investments

	2023	2022
	-----Rupees in '000 -----	
7.4.1 Opening balance	49,940	49,940
Charge for the year	-	-
Closing balance	49,940	49,940

7.4.2 Particulars of provision against debt securities
Category of classification

Category of classification	2023		2022	
	Non performing Investments	Provision	Non performing Investments	Provision
	-----Rupees in '000-----			
Domestic	49,940	49,940	49,940	49,940
Loss				

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

2023				2022			
No. of units	Cost (Rupees in '000)	Market value (Rupees in '000)	Market value per unit (Rs)	No. of units	Cost (Rupees in '000)	Market value (Rupees in '000)	Market value per unit (Rs)

Listed companies sector - wise

Units of open ended mutual funds:

National Investment Unit Trust Fund	-	-	-	-	1,313,081	100,000	75,922	57.82
NIT Government Bond Fund	3,184,047	30,000	35,015	11.00	3,184,047	30,000	33,423	10.50
NIT Islamic Equity Fund	-	-	-	-	4,329,197	50,000	31,170	7.20
MCB Dynamic Cash Fund	197,647	25,000	21,756	118.95	213,822	25,000	22,682	114.74
		<u>55,000</u>	<u>56,771</u>			<u>205,000</u>	<u>163,197</u>	

8 ADVANCES

	Performing		Non performing		Total	
	2023	2022	2023	2022	2023	2022
	----- Rupees in '000 -----					
Loans, cash credits, running finances, etc.	3,951,359	3,369,395	136,514	134,644	4,087,873	3,504,039
Advances - gross	3,951,359	3,369,395	136,514	134,644	4,087,873	3,504,039
Provision against advances						
- Specific	-	-	(126,784)	(127,687)	(126,784)	(127,687)
- General - note 8.1	(86,942)	(86,122)	-	-	(86,942)	(86,122)
	<u>(86,942)</u>	<u>(86,122)</u>	<u>(126,784)</u>	<u>(127,687)</u>	<u>(213,726)</u>	<u>(213,809)</u>
Advances - net of provision	<u>3,864,417</u>	<u>3,283,273</u>	<u>9,730</u>	<u>6,957</u>	<u>3,874,147</u>	<u>3,290,230</u>

8.1 General provision includes provision amounting to Rs. 86,942 thousand (2022: Rs. 86,122 thousand) against consumer & SME finance portfolio as required by the Prudential Regulations issued by the SBP.

2023 2022
---- Rupees in '000 ----

8.2 Particulars of advances (Gross)

In local currency 4,087,873 3,504,039

8.3 Advances include Rs. 136,514 thousand (2022: Rs. 134,644 thousand) which have been placed under non-performing status as detailed below:-

Category of classification	2023		2022	
	Non performing loans	Provision	Non performing loans	Provision
	----- Rupees in '000 -----			
Domestic				
Other assets especially mentioned	1,382	103	-	-
Substandard	7,929	1,922	4,883	854
Doubtful	1,344	672	1,151	437
Loss	125,859	124,087	128,610	126,396
Total	136,514	126,784	134,644	127,687

8.4 Particulars of provision against advances

	2023			2022		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
Opening balance	127,687	86,122	213,809	108,487	79,599	188,086
Charge for the year	12,666	820	13,486	41,697	6,523	48,220
Reversals	(12,981)	-	(12,981)	(19,135)	-	(19,135)
	(315)	820	505	22,562	6,523	29,085
Amounts charged off - agriculture financing	(588)	-	(588)	(3,362)	-	(3,362)
Closing balance	126,784	86,942	213,726	127,687	86,122	213,809

8.4.1 Particulars of provision against advances

	2023			2022		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
In local currency	126,784	86,942	213,726	127,687	86,122	213,809
	126,784	86,942	213,726	127,687	86,122	213,809

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

8.6 The FSV benefit availed as at December 31, 2023 is 2,015 thousand (2022: Rs. 3,956 thousand). Had the FSV benefit not been availed, Bank's profit before and after tax would have been decreased by Rs. 1,834 thousand (2022: Rs. 2,719 thousand) and Rs. 845 thousand (2022: Rs. 1,417 thousand) respectively, under BSD circular No. 1 of 2011 dated October 21, 2011. Reserves and un-appropriated profit to that extent are not available for distribution by way of cash or stock dividend.

9 FIXED ASSETS

Note 2023 2022
-----Rupees in '000 -----

Capital work-in-progress	9.1	867	16,002
Property and equipment	9.2	421,881	349,476
		422,748	365,478

9.1 Capital work-in-progress

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

	2023	2022
	-----Rupees in '000 -----	
Advances to suppliers	867	16,002

9.2 Property and equipment

2023									
	Freehold land	Building on freehold land	Leasehold improvements	Furniture and fixture	Office equipment	Computers	Vehicles	Right of use asset	Total
At January 1, 2023									
Cost	69,085	14,407	84,231	114,121	38,306	63,239	57,110	253,081	693,580
Accumulated depreciation	-	(13,394)	(55,539)	(68,240)	(29,791)	(38,725)	(31,226)	(107,189)	(344,104)
Net book value	69,085	1,013	28,692	45,881	8,515	24,514	25,884	145,892	349,476

Year ended December 2023

Opening net book value	69,085	1,013	28,692	45,881	8,515	24,514	25,884	145,892	349,476
Additions	-	713	27,040	24,041	20,154	20,976	28,765	35,548	157,237
Disposals	-	-	-	-	-	-	(4,908)	-	(4,908)
Cost	-	-	-	-	-	-	3,097	-	3,097
Accumulated depreciation	-	(169)	(11,014)	(11,311)	(3,962)	(7,506)	(8,228)	(40,831)	(83,021)
Depreciation charge	-	-	-	-	-	-	-	-	-
Closing net book value	69,085	1,557	44,718	58,611	24,707	37,984	44,610	140,609	421,881

At December 31, 2023

Cost	69,085	15,120	111,271	138,162	58,460	84,215	80,967	288,629	845,909
Accumulated depreciation	-	(13,563)	(66,553)	(79,551)	(33,753)	(46,231)	(36,357)	(148,020)	(424,028)
Net book value	69,085	1,557	44,718	58,611	24,707	37,984	44,610	140,609	421,881
Rate of depreciation (percentage)	-	10%	20%	10%-20%	20%	20%	20%	6%	6% - 33%

2022									
	Free hold land	Building on freehold land	Leasehold improvements	Furniture and fixture	Office equipment	Computers	Vehicles	Right of use asset	Total
At January 1, 2022									
Cost	40,400	14,407	65,060	91,861	34,608	46,463	37,327	207,728	537,854
Accumulated depreciation	-	(12,379)	(46,600)	(59,809)	(26,422)	(34,198)	(27,368)	(87,628)	(294,404)
Net book value	40,400	2,028	18,460	32,052	8,186	12,265	9,959	120,100	243,450

At January 1, 2022

Cost	40,400	2,028	18,460	32,052	8,186	12,265	9,959	120,100	243,450
Accumulated depreciation	-	-	19,095	22,026	3,698	16,776	19,783	62,617	172,680
Disposals	-	-	-	234	-	-	-	17,264	17,574
Cost	-	-	76	(228)	-	-	-	(17,264)	(17,568)
Accumulated depreciation	-	(1,015)	(8,863)	(8,203)	(3,369)	(4,527)	(3,858)	(36,825)	(66,660)
Depreciation charge	-	-	-	-	-	-	-	-	-
Closing net book value	69,085	1,013	28,692	45,881	8,515	24,514	25,884	145,892	349,476

At December 31, 2022

Cost	69,085	14,407	84,231	114,121	38,306	63,239	57,110	253,081	693,580
Accumulated depreciation	-	(13,394)	(55,539)	(68,240)	(29,791)	(38,725)	(31,226)	(107,189)	(344,104)
Net book value	69,085	1,013	28,692	45,881	8,515	24,514	25,884	145,892	349,476
Rate of depreciation (percentage)	-	10%	20%	10%-20%	20%	20%	20%	6%	6% - 33%

9.2.1 Property and equipment includes cost of Rs. 5,485 thousand (2022: Rs. 5,485 thousand) and accumulated depreciation amounting to Rs. 5,485 thousand (2022: Rs. 5,485 thousand) in respect of assets donated by the Government of Azad Jammu and Kashmir.

9.3 The total cost includes fixed assets of Rs. 148,561 thousand (2022: Rs. 135,067 thousand) having zero book value on which no depreciation was charged during the year.

9.4 **Detail of disposals of operating fixed assets**

Particulars of assets	Cost	Accumulated depreciation	Book value	Sale proceeds
	-----Rupees '000-----			
2023				
Vehicles	4,908	(3,097)	1,811	2,044
Furniture and fixture	-	-	-	-
Leasehold improvements	-	-	-	-
Total	4,908	(3,097)	1,811	2,044
2022				
Furniture and fixture	234	(228)	6	12
Leasehold improvements	76	(76)	-	-
Total	310	(304)	6	12

The vehicle was disposed to an Managing Director and Executive Personnel at 10% of the cost and at net book value of the vehicle respectively, as per the transport policy of the Bank.

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

	2023	2022
	-----Rupees in '000-----	
Buildings & Lease hold improvements	-	-
Furniture and fixtures	34,763	39,266
Office equipments	20,334	18,588
Computer equipments	35,546	29,365
Vehicles	28,368	28,605
Leasehold improvements	25,295	14,988
Building on Freehold land	4,255	4,255
Total	148,561	135,067

10 **INTANGIBLE ASSETS**

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

11 DEFERRED TAX ASSETS	2023			
	At January 1, 2023	Recognised in P&L A/C	Recognised in OCI	At December 31, 2023
	-----Rupees in 000-----			
Deductible temporary differences on				
- Deficit on revaluation of investments	17,975	-	(18,843)	(868)
- Provision against customer claims	10,472	(2,303)	-	8,169
- Provision against receivable from Kashmir Council	2,070	289	-	2,359
- Lease liabilities against right of use assets	69,336	12,508	-	81,844
- Provision against non-performing advances	679	1,230	-	1,909
	100,532	11,724	(18,843)	93,413
Taxable temporary differences on				
-Accelerated tax depreciation	(50,931)	(10,498)	-	(61,429)
	49,601	1,226	(18,843)	31,984

	2022			At December 31, 2021
	At January 1, 2021	Recognised in P&L A/C	Recognised in OCI	
	-----Rupees in '000-----			
Deductible temporary differences on				
- Deficit on revaluation of investments	7,428	-	10,547	17,975
- Provision against customer claims	3,101	7,371	-	10,472
- Provision against receivable from Kashmir Council	1,685	385	-	2,070
- Lease liabilities against right of use assets	48,482	20,854	-	69,336
- Provision against non-performing advances	350	329	-	679
	61,046	28,939	10,547	100,532
Taxable temporary differences on				
- Accelerated tax depreciation	(31,035)	(19,896)	-	(50,931)
	<u>30,011</u>	<u>9,043</u>	<u>10,547</u>	<u>49,601</u>

	Note	2023	2022
		-----Rupees in '000-----	
12 OTHER ASSETS			
Income/ mark-up accrued in local currency - net of provision	12.1	3,391,668	2,170,017
Advances, deposits, advance rent and other prepayments		18,101	2,111
Stationery and stamps in hand		11,396	6,371
Others		7,016	59,182
		<u>3,428,181</u>	<u>2,237,681</u>
Less: Provision held against other assets	12.2	(4,815)	(4,815)
Other assets (net of provision) - total		<u>3,423,366</u>	<u>2,232,866</u>

12.1 This balance has been arrived at after adjusting interest in suspense account of Rs. 151,281 thousand (2022: Rs. 139,879 thousand).

	Note	2023	2022
		-----Rupees in '000-----	
12.2 Provision held against other assets			
Receivable from Kashmir Council	12.3	<u>4,815</u>	4,815
12.3 Movement in provision held against other assets			
Opening balance		<u>4,815</u>	4,815
Closing balance		<u>4,815</u>	4,815

13 BILLS PAYABLE

In Pakistan	<u>93,259</u>	82,751
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14 DEPOSITS AND OTHER ACCOUNTS

	2023			2022		
	In local currency	In foreign currencies	Total	In local currency	In foreign currencies	Total
----- Rupees in '000 -----						
Customers						
Current deposits	5,311,831	-	5,311,831	5,798,619	-	5,798,619
Savings deposits	13,132,002	-	13,132,002	10,267,737	-	10,267,737
Term deposits	5,599,705	-	5,599,705	4,761,520	-	4,761,520
Others	101,127	-	101,127	176,353	-	176,353
	24,144,665	-	24,144,665	21,004,229	-	21,004,229

	2023	2022
	-----Rupees in '000 -----	
14.1 Composition of deposits		
- Individuals	13,183,705	11,204,859
- Government	10,725,976	9,578,386
- Private sector	234,984	220,984
	24,144,665	21,004,229

	2023	2022
	-----Rupees in '000 -----	
15 LEASE LIABILITIES AGAINST RIGHT OF USE ASSETS		
Lease liabilities included in the statement of financial position	167,028	161,246
of which are:		
Current lease liability	50,079	44,372
Non current lease liability	116,949	116,874
	167,028	161,246
Maturity analysis - contractual undiscounted cashflows		
Less than one year	53,535	47,439
One to five years	145,599	140,048
More than five years	33,471	46,827
Total undiscounted lease liabilities	232,605	234,314

15.1 The lease contracts are signed by the Bank for the premises of its branches. The terms of lease contracts range from 3 years to 11 years. The internal borrowing rates used for discounting of lease cashflows range from 8.48% to 18.86%.

16 OTHER LIABILITIES

Mark-up/ return/ interest payable in local currency	16.1	921,737	669,649
Accrued expenses		8,120	12,576
Income tax payable		275,328	264,620
Branch adjustment account		152,868	30,085
Provision for bonus to employees		62,927	48,009
Provision against customer claims		16,672	24,354
Leave encashment	32.2	109,434	81,121
Education cess		60,394	46,113
Others		116,334	167,784
		1,723,814	1,344,311

16.1 It includes an amount of Rs. 184,847 thousand (2022: Rs. 288,873 thousand) on account of interest payable to related parties.

17 SHARE CAPITAL

17.1 Authorized capital

2023	2022		2023	2022
Number of shares			Rupees in '000	
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs. 10 each	<u>10,000,000</u>	<u>10,000,000</u>

17.2 Issued, subscribed and paid up share capital

2023	2022		2023	2022
Number of shares		Ordinary shares	Rupees in '000	
514,290,320	514,290,320	Fully paid in cash	5,142,903	5,142,903
<u>38,571,772</u>		Issued as bonus shares	<u>385,718</u>	-
<u>552,862,092</u>	<u>514,290,320</u>		<u>5,528,621</u>	<u>5,142,903</u>

17.3 The Government of Azad Jammu and Kashmir and Behbood Fund & Group Insurance - Government autonomous body own 100% percent of ordinary shares of the Bank as on December 31, 2023 in proportion of 97.59% and 2.41% (2022: 97.59% and 2.41%) respectively.

17.4 Reconciliation of number of ordinary shares

	Note	2023	2022	2023	2022
		Number of shares		Rupees in '000	
Shares at the beginning of the year		514,290,320	514,290,320	5,142,903	5,142,903
Bonus shares issued during the year	17.5	<u>38,571,772</u>		<u>385,718</u>	-
Shares issued against cash consideration		-		-	-
Shares at the year end		<u>552,862,092</u>	<u>514,290,320</u>	<u>5,528,621</u>	<u>5,142,903</u>

17.5 During the year the Bank has issued 38,571,800 (2022: nil) bonus shares amounting to Rs. 385,718 (2022: Rs. Nil) thousand to its shareholders.

18 RESERVES

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

19 SURPLUS ON REVALUATION OF ASSETS	Note	2023	2022
		Rupees in '000	
Deficit on revaluation of:			
- Available for sale securities	7.1	1,771	(41,803)
Deferred tax on deficit on revaluation of:			
- Available for sale securities		(868)	17,975
		<u>903</u>	<u>(23,828)</u>

20 CONTINGENCIES AND COMMITMENTS

Guarantees	20.1	87,674	35,867
Commitments	20.2	182,307	144,528
Bills for collection	20.3	5,580	10,816
		<u>275,561</u>	<u>191,211</u>

	Note	2023	2022
		-----Rupees in 000-----	
20.1 Guarantees			
Financial guarantees		<u>87,674</u>	<u>35,867</u>
20.2 Commitments			
Loan sanctioned but not disbursed		<u>5,814</u>	109,993
Unavailed running finance		<u>176,493</u>	<u>34,535</u>
		<u>182,307</u>	<u>144,528</u>
20.3 Bills for collection	20.3.1	<u>5,580</u>	<u>10,816</u>
20.3.1	Bills for collection represent bills drawn in favour of various financial institutions on behalf of the Bank's customers. These are accepted by the Bank as an agent and the Bank does not carry any credit risk in respect of these bills.		
21 MARK-UP/ RETURN/ INTEREST EARNED	Note	2023	2022
		----- Rupees in 000 -----	
On:			
a) Loans and advances	21.1	<u>594,554</u>	468,536
b) Balances with banks		<u>4,214,940</u>	<u>2,753,858</u>
		<u>4,809,494</u>	<u>3,222,394</u>
21.1	This includes an amount of Rs. 5,364 thousands (2022: Rs.3,010 thousands) on account of interest earned on advances given to related parties.		
22 MARK-UP/ RETURN/ INTEREST EXPENSED	Note	2023	2022
		-----Rupees in '000-	
On:			
Deposits	22.1	<u>2,551,783</u>	1,429,392
Lease liability		<u>33,650</u>	<u>22,049</u>
		<u>2,585,433</u>	<u>1,451,441</u>
22.1	This includes an amount of Rs. 396,719 thousand (2022: Rs. 247,921 thousand) on account of interest expense on related party deposits.		
23 FEE AND COMMISSION INCOME		2023	2022
		-----Rupees in '000	
Branch banking customer fees		<u>3,070</u>	3,078
Commission on cheques books		<u>10,049</u>	5,240
Credit related fees		<u>7,739</u>	7,571
Commission on guarantees		<u>1,571</u>	807
Commission on remittances (including home remittances)		<u>2,789</u>	2,236
Commission on utility bills		<u>5,871</u>	5,934
Postage		<u>809</u>	641
Others		<u>267</u>	<u>2,123</u>
		<u>32,165</u>	<u>27,630</u>

	Note	2023	2022
		-----Rupees in '000-----	
24 OTHER INCOME			
Gain on sale of fixed assets		-	6
Loss on sale of securities		(1,949)	-
Site visits and fee collection charges		5,763	9,330
Recovery against advances written off		2,856	4,229
Others		5,424	22
		<u>12,094</u>	<u>13,587</u>
25 OPERATING EXPENSES			
Total compensation expense	25.1	690,935	557,998
Property expense			
Rent & taxes		-	60
Insurance		-	1,998
Utilities cost		40,339	30,550
Security (including guards)		57,963	37,280
Repair & maintenance (including janitorial charges)		24,064	15,783
Depreciation on right of use asset		40,831	36,825
Depreciation		10,728	9,173
		<u>173,925</u>	<u>131,669</u>
Information technology expenses			
Software maintenance		21,610	19,579
Hardware maintenance		5,742	4,022
Depreciation		11,465	7,765
Network charges		14,585	8,626
		<u>53,402</u>	<u>39,992</u>
Other operating expenses			
Directors' fees and allowances		7,296	3,423
Legal & professional charges		18,219	6,294
Travelling & conveyance		32,060	19,631
Depreciation		19,998	13,099
Entertainment		26,335	19,019
Training & development		2,739	4,008
Postage & courier charges		4,812	4,185
Communication		5,073	4,632
Stationery & printing		27,149	19,195
Marketing, advertisement & publicity		7,030	5,492
Auditors remuneration	25.2	2,934	2,431
Education cess		57,569	43,070
Others		39,441	39,880
		<u>250,655</u>	<u>184,359</u>
		<u>1,168,917</u>	<u>914,018</u>
25.1 Total compensation expense		2023	2022
		-----Rupees in '000-----	
Fees and allowances etc.		306,490	251,505
Managerial remuneration			
i) Fixed		-	-
ii) Variable - cash bonus		62,578	57,562
Contribution to defined contribution plan		12,077	9,790
Contribution to defined gratuity fund		26,630	25,160
Rent & house maintenance		88,202	75,946
Utilities		19,438	16,781
Medical		22,482	18,372
Conveyance		153,038	102,882
		<u>690,935</u>	<u>557,998</u>

	Note	2023 -----Rupees in '000-----	2022
25.2 Auditors' remuneration			
Audit fee		2,210	2,210
Out-of-pocket expenses		724	221
		<u>2,934</u>	<u>2,431</u>
26 PROVISIONS AND WRITE OFFS - NET			
Charge of provisions against loans & advances - net	8.4	505	29,085
Insurance claims received		-	-
		<u>505</u>	<u>29,085</u>
27 TAXATION			
Current		574,984	430,621
Deferred		(1,226)	(9,043)
		<u>573,758</u>	<u>421,578</u>
27.1 Relationship between tax expense and accounting profit			
		2023	2022
	%	Rupees in '000'	% Rupees in '000'
Profit before taxation		1,111,238	879,642
Applicable tax rate / expense	39%	433,383	39.00% 343,060
Super tax	10%	111,124	10.00% 87,964
Expense not allowed	3%	29,251	-1.07% (9,446)
Actual tax rate / expense	52%	573,758	47.93% 421,578
Total tax charge as per financial statements		<u>573,758</u>	<u>421,578</u>
28 BASIC AND DILUTED EARNINGS PER SHARE		2023	2022
		-----Rupees in '000-----	
		Restated	
Profit for the year		<u>537,480</u>	<u>458,064</u>
Weighted average number of ordinary shares (Number)		<u>553,543,731</u>	<u>552,862,120</u>
Basic and diluted earnings per share (Rupees)		<u>0.97</u>	<u>0.89</u>
29 CASH AND CASH EQUIVALENTS		2023	2022
		----- Rupees in '000 -----	
Cash and balance with treasury banks		918,340	571,417
Balance with other banks		6,785,214	5,363,491
	29.1	<u>7,703,554</u>	<u>5,934,908</u>
29.1 Cash and cash equivalents include the cash in hand, balances in savings deposits and term deposits with maturity of less than 3 months.			
30 STAFF STRENGTH		2023	2022
		----- Number -----	
Permanent		419	427
On bank contract		90	91
Bank's own staff strength at the end of the year		<u>509</u>	<u>518</u>
Outsourced Staff (other than guarding and janitorial services)		153	154
Total staff strength at the end of the year		<u>662</u>	<u>672</u>

31 DEFINED CONTRIBUTION PLANS

31.1 General description

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

31.2 Gratuity

The Bank contributed Rs. 26,629 thousand (2022: Rs. 25,160 thousand) for 419 (2022: 427) of its permanent employees during the year towards employees gratuity fund.

31.3 Provident fund

The Bank contributed Rs. 10,199 thousand (2022: 9,790 thousand) in respect of 419 (2022: 427) of its employees during the year towards employees contributory provident fund. Employee contribution deducted from employees' salary with similar amount is also contributed to the fund along with employer's contribution.

32 Leave Encashment

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

32.1 Principal actuarial assumptions

The latest actuarial valuation of the leave encashment was carried out at December 31, 2023. Following are the significant assumptions used in the valuation;

	December 31, 2023
Discount rate	14.75%
Rate of growth in salary	14.25%
Mortality rates	SLIC 2001 - 2005
Average expected remaining life of employees	10 years
Average duration of liability	10 years

	Note	December 31, 2023
32.2 Amount recognized in balance sheet		
Present value of defined obligation	32.3	<u>109,434</u>
32.3 Movement in value of defined benefit obligation		
Balance at January 01, 2023		81,121
Service cost		10,986
Past service cost		6,854
Interest cost on Defined Benefit Obligation		11,846
Benefits Paid		(9,682)
Actuarial (gain) / loss		8,309
Present value of defined obligation		<u>109,434</u>
32.4 Amount recognized in profit or loss		
Current service cost		10,986
Past service cost		6,854
Interest cost		11,846
Experience adjustment		8,309
		<u>37,995</u>

32.5 Sensitivity Analysis

Present value of defined benefit obligation

1% increase in discount rate	<u>116,469,052</u>	<u>57,417,752</u>
1% decrease in discount rate	<u>141,914,967</u>	<u>71,389,866</u>
1% increase in salary	<u>142,148,323</u>	<u>71,524,506</u>
1% decrease in salary	<u>116,050,025</u>	<u>57,186,315</u>

33 Total compensation expense

Item	2023			
	Directors		President	Key management personnel
	Chairman	Non-Executives		
	----- Rupees in '000 -----			
Fees and Allowances etc.	-	-	8,020	23,357
Managerial Remuneration				
i) Fixed	-	-	-	-
ii) Variable (bonus)	450	6,350	2,005	5,122
Contribution to defined contribution provident fund	-	-	-	-
Contribution to defined contribution gratuity fund	-	-	608	1,471
Rent & house maintenance	-	-	2,137	10,511
Utilities	-	-	366	2,336
Medical	-	-	922	2,336
Conveyance	-	-	1,308	3,540
Vehicle	-	-	-	1,487
Boarding & lodging	-	-	-	175
Fuel expense	-	-	-	13,552
Others (mobile charges, TA & DA)	-	321	739	3,882
Total	450	6,671	16,105	67,769
Number of Persons	1	9	1	13

Item	2022			
	Directors		President	Key management personnel
	Chairman	Non-Executives		
	----- Rupees in '000 -----			
Fees and Allowances etc.	-	-	7,291	24,673
Managerial Remuneration				
i) Fixed	-	-	-	-
ii) Variable (Bonus)	75	2,450	1,066	3,186
Contribution to defined contribution provident fund	-	-	-	-
Contribution to defined contribution gratuity fund	-	-	533	1,593
Rent & house maintenance	-	-	1,943	10,393
Utilities	-	-	332	2,310
Medical	-	-	1,437	2,574
Conveyance	-	-	1,034	9,462
Vehicle	-	-	-	3,464
Boarding & lodging	-	-	-	-
Fuel expense	-	-	-	4,193
Others (mobile charges, TA & DA)	-	898	408	4,018
Total	75	3,348	14,044	65,866
Number of Persons	1	9	1	13

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

		2023						
		Meeting fees and allowances paid						
Name of director	For board meetings	For board committees				Special committee	Total amount paid	
		Board HR committee	Risk Management Committee	Board audit committee	Board IT committee			
----- Rupees in '000' -----								
1	Mr. Abdul Majid Khan	250	-	-	-	-	250	
2	Mr. Muhammad Usman Chachar	200	-	-	-	-	200	
3	Tahir Mehmood Qureshi	150	-	-	-	-	150	
4	Mr. Asmatullah Shah	300	150	-	200	100	850	
5	Mr. Dawood Muhammad Bareach	50	-	-	-	-	50	
6	Mr. Mubashar Nabi	500	200	150	-	150	1,400	
7	Mrs. Bushra Naz Malik	300	-	150	250	-	700	
8	Mr. Zuulfiqar Abbasi	500	50	-	250	-	1,100	
9	Mr. Zahid Zaman	50	-	-	50	300	150	
10	Dr. Muhammad Idress Abbasi	50	-	-	-	50	100	
11	Mr. Irshad Qureshi	400	250	150	-	50	1,200	
12	Mr. Wajahat Rasheed Baig	350	-	-	-	150	550	
13	Syed Haider Abbas	50	-	-	-	50	100	
Total amount paid		3,150	650	450	750	450	1,350	6,800

		2022					
		Meeting fees and allowances paid					
Name of director	For board meetings	For board committees				Special committee	Total amount paid
		Board HR committee	Risk Management Committee	Board audit committee	Board IT committee		
----- Rupees in '000' -----							
1	Mr. Abdul Majid Khan	75	-	-	-	-	75
2	Mr. Asmatullah Shah	75	150	-	175	100	500
3	Syed Zahoor Gillani	50	-	-	-	50	100
4	Mr. Mubashar Nabi	100	150	125	-	100	475
5	Syed Haider Abbas	100	-	125	175	-	450
6	Zulfiqar Abbasi	75	-	-	175	100	350
7	Muhammad Idrees	50	75	50	-	-	175
8	Mr. Irshad Qureshi	50	50	50	-	100	250
9	Wajahat Rasheed Baig	50	-	-	50	50	150
Total amount paid		625	425	350	525	300	2,525

34 FAIR VALUE MEASUREMENTS

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

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

34.1 Fair value of financial assets

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

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

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

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

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorized. There was no transfer between the fair value levels during the year.

	2023			
	Level 1	Level 2	Level 3	Total
On balance sheet financial instruments	-----Rupees in '000-----			
Financial assets - measured at fair value				
Investments				
Mutual funds	56,771	-	-	56,771
Financial assets - disclosed but not measured at fair value				
Cash and balances with treasury banks	-	-	-	8,218,340
Balances with other banks	-	-	-	16,532,540
Advances	-	-	-	3,874,147
Other assets	-	-	-	3,411,970
	2022			
	Level 1	Level 2	Level 3	Total
On balance sheet financial instruments	-----Rupees in '000-----			
Financial assets - measured at fair value				
Investments				
Mutual funds	163,197	-	-	163,197
Financial assets - disclosed but not measured at fair value				
Cash and balances with treasury banks	-	-	-	6,271,417
Balances with other banks	-	-	-	16,088,667
Advances	-	-	-	3,290,230
Other assets	-	-	-	2,226,495

35 SEGMENT INFORMATION

35.1 Segment details with respect to Business Activities

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

Profit and loss	2023				Total
	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	
	-----Rupees in '000-----				
Net mark-up/ return/ profit	475,060	1,749,001	-	-	2,224,061
Non mark-up / return / interest income	2,947	23,035	26,550	6,016	58,548
Total income	478,007	1,772,036	26,550	6,016	2,282,609
Segment direct expenses	(114,779)	(1,046,318)	(6,375)	(1,445)	(1,168,917)
Provisions (charged) / reversal	1,534	(1,450)	-	-	84
Profit before tax	364,762	724,268	20,175	4,571	1,113,776

Statement of financial position

	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Total
Rupees in '000					
Cash & bank balances	-	24,750,880	-	-	24,750,880
Investments	-	56,771	-	-	56,771
Advances - performing	3,224,400	726,959	-	-	3,951,359
- non-performing	48,390	88,124	-	-	136,514
- provision	(127,657)	(86,069)	-	-	(213,726)
Operating fixed assets	41,511	378,409	2,306	522	422,748
Deferred tax asset	3,141	28,629	174	40	31,984
Others	2,718,515	704,639	173	39	3,423,366
Total assets	5,908,300	26,648,342	2,653	601	32,559,896
Bills payable	-	93,259	-	-	93,259
Deposits and other accounts	-	24,144,665	-	-	24,144,665
Lease liability against right of use asset	16,401	149,510	911	206	167,028
Others	117,805	1,453,076	152,921	12	1,723,814
Total liabilities	134,206	25,840,510	153,832	218	26,128,766
Equity	5,774,094	807,832	(151,179)	383	6,431,130
Total equity and liabilities	5,908,300	26,648,342	2,653	601	32,559,896
Contingencies and commitments	23,153	29,331	5,580	87,674	145,738

Profit and loss

	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Total
2022 Rupees in '000					
Net mark-up/return/profit	416,289	1,354,664	-	-	1,770,953
Non mark-up / return / interest income	4,407	19,703	19,825	7,857	51,792
Total Income	420,696	1,374,367	19,825	7,857	1,822,745
Segment direct expenses	(117,441)	(788,849)	(5,534)	(2,193)	(914,018)
Total expenses	(117,441)	(788,849)	(5,534)	(2,193)	(914,018)
Provisions charged / (reversal)	(15,799)	(13,286)	-	-	(29,085)
Profit before tax	287,456	572,232	14,291	5,664	879,642

Statement of financial position

	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Total
Rupees in '000					
Cash & bank balances	-	22,360,084	-	-	22,360,084
Investments	-	163,197	-	-	163,197
Advances - performing	2,878,180	491,215	-	-	3,369,395
- non-performing	44,308	90,336	-	-	134,644
- provision	(129,190)	(84,619)	-	-	(213,809)
Operating fixed assets	46,960	315,428	2,213	877	365,478
Deferred tax asset	6,373	42,808	300	120	49,601
Others	1,817,943	414,391	381	151	2,232,866
Total assets	4,664,574	23,792,840	2,894	1,148	28,461,456
Bills payable	-	82,751	-	-	82,751
Deposits and other accounts	-	21,004,229	-	-	21,004,229
Lease liability against right of use asset	20,718	139,164	976	388	161,246
Others	105,640	1,208,494	30,151	26	1,344,311
Total liabilities	126,358	22,434,638	31,127	414	22,592,537
Equity	4,538,216	1,358,202	(28,233)	734	5,868,919
Total Equity and liabilities	4,664,574	23,792,840	2,894	1,148	28,461,456
Contingencies and Commitments	23,153	29,331	10,816	35,867	99,167

36 TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities.

37 RELATED PARTY TRANSACTIONS

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

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

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

	2023			2022		
	Government of Azad Jammu & Kashmir and its related department	Directors	Key management personnel	Government of Azad Jammu & Kashmir and its related department	Directors	Key management personnel
----- Rupees in '000 -----						
Advances						
Opening balance	-	-	105,283	-	-	61,031
Addition during the year	-	-	-	-	-	-
Repaid during the year	-	-	-	-	-	-
Closing balance	-	-	105,283	-	-	44,252
						105,283
Deposits and other accounts						
Opening balance	9,578,386	-	3,239	8,332,479	-	4,384
Received during the year	2,455,560	-	-	10,636,140	-	(1,145)
Withdrawal during the year	(1,307,970)	-	-	(9,390,233)	-	-
Closing balance	10,725,976	-	3,239	9,578,386	-	3,239
	14.1					
Other Liabilities						
Interest / mark-up payable	16.1	184,847	-	288,873	-	-
Transactions during the year						
Income						
Mark-up / return / interest earned	21.1	-	5,364	-	-	3,010
Other Income	9.4	-	-	-	-	-
			5,364			3,010
Expense						
Mark-up / return / interest paid	22.1	396,656	63	247,904	-	17
Operating expenses	33	-	6,671	-	3,348	79,910
		396,656	6,671	247,904	3,348	79,927
			83,936			

	2023	2022
	-----Rupees in '000-----	
Minimum capital requirement (MCR)		
Paid-up capital (net of losses)	<u>10,000,000</u>	<u>10,000,000</u>
Capital adequacy ratio (CAR)		
Eligible common equity tier 1 (CET 1) capital	<u>6,401,441</u>	5,824,278
Eligible additional tier 1 (ADT 1) capital	-	-
Total regulatory adjustment applied to CET1	-	-
Total eligible Tier 1 capital	<u>6,401,441</u>	5,824,278
Eligible tier 2 capital	<u>87,845</u>	86,122
Total eligible capital (Tier 1 + Tier 2)	<u>6,489,286</u>	5,910,400
Risk weighted assets (RWAs):		
Credit risk	<u>12,038,043</u>	10,351,574
Market risk	<u>141,928</u>	407,993
Operational risk	<u>3,195,893</u>	2,277,353
Total	<u>15,375,864</u>	13,036,920
Common equity tier 1 capital adequacy ratio	<u>41.63%</u>	44.68%
Tier 1 capital adequacy ratio	<u>41.63%</u>	44.68%
Total capital adequacy ratio	<u>42.20%</u>	45.34%

The SBP through its BSD Circular No. 07 dated April 15, 2009 has prescribed the minimum paid-up capital (net of accumulated losses) for Banks to be raised to Rs.10,000 million by the year ending December 31, 2015. The paid-up capital of the Bank for the year ended December 31, 2023 stood at Rs.5,529 million (2022: Rs.5,143 million). Banks are also required to maintain a minimum CAR of 10.00% plus capital conservation buffer of 2.50% and High Loss Absorbency Requirement of 1.00% of the risk weighted exposures of the Bank.

Further, under Basel III instructions, Banks are also required to maintain a Common Equity Tier 1 (CET 1) ratio and Tier 1 ratio of 6.00% and 7.50%, respectively, as at December 31, 2023.

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

	2023	2022
	-----Rupees-----	
Leverage ratio (LR)		
Eligible tier-1 capital	<u>6,401,441</u>	5,824,278
Total exposures	<u>32,835,457</u>	28,652,667
Leverage ratio	<u>19%</u>	20%
Liquidity coverage ratio (LCR)		
Total high quality liquid assets	<u>24,750,880</u>	22,360,084
Total net cash outflow	<u>12,098,286</u>	10,661,825
Liquidity coverage ratio	<u>205%</u>	210%
Net stable funding ratio (NSFR)		
Total available stable funding	<u>18,478,261</u>	16,107,537
Total required stable funding	<u>15,767,680</u>	13,041,637
Net stable funding ratio	<u>117%</u>	124%

39 RISK MANAGEMENT

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

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

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

39.1 Credit Risk

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

39.1.1 Investment in debt securities

Credit risk by industry sector

	Gross investments		Non-performing investments		Provision held	
	2023	2022	2023	2022	2023	2022
	----- Rupees in '000-----					
Government bonds	-	-	-	-	-	-
Construction- TFC	49,940	49,940	(49,940)	(49,940)	(49,940)	(49,940)
	49,940	49,940	(49,940)	(49,940)	(49,940)	(49,940)

Credit risk by public / private sector

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

39.1.2 Advances

Credit risk by industry sector

	Gross advances		Non-performing advances		Provision held	
	2023	2022	2023	2022	2023	2022
	----- Rupees in '000-----					
Agriculture, Forestry, Hunting and Fishing	18,569	14,671	27,891	4,221	25,387	3,341
Wholesale and Retail Trade	721,011	449,405	2,873	58,468	2,115	57,076
Individuals	3,267,119	2,972,396	24,780	47,670	22,339	43,068
Others	81,174	67,567	80,972	24,285	78,775	24,202
	4,087,873	3,504,039	136,516	134,644	128,616	127,687

Credit risk by public / private sector

Public/ Government	-	-	-	-	-	-
Private	4,087,873	3,504,039	136,516	134,644	128,616	127,687
	4,087,873	3,504,039	136,516	134,644	128,616	127,687

39.1.3 Contingencies and Commitments

Credit risk by industry sector

	2023	2022
	-----Rupees '000-----	
Wholesale and Retail Trade	176,493	34,535
Individuals	11,394	120,809
Others	87,674	35,867
	<u>275,561</u>	<u>191,211</u>
Credit risk by public / private sector		
Public/ Government	87,674	35,867
Private	187,887	155,344
	<u>275,561</u>	<u>191,211</u>

39.1.4 Concentration of Advances

The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs 314,668 thousand (2022: Rs. 243,009 thousand) are as following:

	2023	2022
	-----Rupees in '000-----	
Funded	226,994	207,142
Non funded	87,674	35,867
Total exposure	<u>314,668</u>	<u>243,009</u>

The sanctioned limits against these top 10 exposures aggregated to Rs 327,811 thousand (2022: Rs. 248,541 thousand)

Total funded classified therein

	2023		2022	
	Amount	Provision held	Amount	Provision held
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	123,498	123,498	102,261	102,261
Total	<u>123,498</u>	<u>123,498</u>	<u>102,261</u>	<u>102,261</u>

39.1.5 Advances - Province/Region-wise Disbursement & Utilization

Total amount of disbursement and utilization is in Azad Jammu and Kashmir of Rs. 2,143,327 thousands (2022: 1,610,553 thousands)

39.2 Market Risk

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

39.2.1 Balance sheet split by trading and banking books

	2023			2022		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	----- Rupees in '000-----					
Cash and balances with treasury banks	8,218,340	-	8,218,340	6,271,417	-	6,271,417
Balances with other banks	16,532,540	-	16,532,540	16,088,667	-	16,088,667
Investments	-	56,771	56,771	-	163,197	163,197
Advances	3,874,147	-	3,874,147	3,290,230	-	3,290,230
Fixed assets	422,748	-	422,748	365,478	-	365,478
Deferred tax assets	31,984	-	31,984	49,601	-	49,601
Other assets	3,423,366	-	3,423,366	2,232,866	-	2,232,866
	<u>32,503,125</u>	<u>56,771</u>	<u>32,559,896</u>	<u>28,298,259</u>	<u>163,197</u>	<u>28,461,456</u>

39.1.3 Contingencies and Commitments

Credit risk by industry sector

	2023	2022
	-----Rupees '000-----	
Wholesale and Retail Trade	176,493	34,535
Individuals	11,394	120,809
Others	87,674	35,867
	<u>275,561</u>	<u>191,211</u>
Credit risk by public / private sector		
Public/ Government	87,674	35,867
Private	187,887	155,344
	<u>275,561</u>	<u>191,211</u>

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The bank top 10 exposures on the basis of total (funded and non-funded exposures) aggregated to Rs 314,668 thousand (2022: Rs. 243,009 thousand) are as following:

	2023	2022
	-----Rupees in '000-----	
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Non funded	87,674	35,867
Total exposure	<u>314,668</u>	<u>243,009</u>

The sanctioned limits against these top 10 exposures aggregated to Rs 327,811 thousand (2022: Rs. 248,541 thousand)

Total funded classified therein

	2023		2022	
	Amount	Provision held	Amount	Provision held
OAEM	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	123,498	123,498	102,261	102,261
Total	<u>123,498</u>	<u>123,498</u>	<u>102,261</u>	<u>102,261</u>

39.1.5 Advances - Province/Region-wise Disbursement & Utilization

Total amount of disbursement and utilization is in Azad Jammu and Kashmir of Rs. 2,143,327 thousands (2022: 1,610,553 thousands)

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

39.2.1 Balance sheet split by trading and banking books

	2023			2022		
	Banking book	Trading book	Total	Banking book	Trading book	Total
	----- Rupees in '000-----					
Cash and balances with treasury banks	8,218,340	-	8,218,340	6,271,417	-	6,271,417
Balances with other banks	16,532,540	-	16,532,540	16,088,667	-	16,088,667
Investments	-	56,771	56,771	-	163,197	163,197
Advances	3,874,147	-	3,874,147	3,290,230	-	3,290,230
Fixed assets	422,748	-	422,748	365,478	-	365,478
Deferred tax assets	31,984	-	31,984	49,601	-	49,601
Other assets	3,423,366	-	3,423,366	2,232,866	-	2,232,866
	<u>32,503,125</u>	<u>56,771</u>	<u>32,559,896</u>	<u>28,298,259</u>	<u>163,197</u>	<u>28,461,456</u>

39.2.2 Foreign exchange risk

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

39.2.3 Equity position Risk

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

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

2023		2022	
Banking book	Trading book	Banking book	Trading book
----- Rupees in '000-----			

Impact of 5% change in equity prices on:

- Other comprehensive income	-	2,839	-	8,160
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39.2.4 Yield / Interest Rate Risk in the Banking Book (IRRBB)-Basel II Specific

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

Yield/ Interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date. This also refers to the non-trading market risk. Apart from the gap analysis between the market rate sensitive assets and liabilities as per the table given below:-

- The nature of IRRBB and key assumptions, including assumptions regarding loan repayments and behavior of non-maturity deposits, and frequency of IRRBB measurements.

- The increase (decline) in earnings or economic value (or any other relevant measures used by management) for upward and downward shocks according to management's method for measuring IRRBB, broken down by currencies (if any, and than translated into Rupees)

2023		2022	
Banking book	Trading book	Banking book	Trading book
-----Rupees in '000-----			

Impact of 1% change in interest rates on

- Profit and loss account	(151,753)	-	(34,869)	-
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2022

Effective Yield/ Interest rate	Total	Exposed to Yield/ Interest risk						Non-interest bearing financial instruments					
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years		Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
	27,983,528	2,839,371	1,480,184	5,177,573	10,800,120	523,273	528,026	1,563,940	1,961,510	-	3,112,803	285,227	
Assets													
Cash and balances with treasury banks	6,271,417	86,190	200,000	4,000,000	1,700,000	-	-	-	-	-	-	-	285,227
Balances with other banks	16,088,667	2,649,564	1,200,000	999,000	8,745,741	300,000	-	-	1,700,000	-	-	-	494,362
Investments	163,197	-	-	-	-	-	-	-	-	-	-	-	163,197
Advances	3,290,230	103,617	80,184	178,573	354,379	223,273	528,026	1,563,940	261,510	-	-	-	-
Other assets	2,170,017	-	-	-	-	-	-	-	-	-	-	-	2,170,017
	27,983,528	2,839,371	1,480,184	5,177,573	10,800,120	523,273	528,026	1,563,940	1,961,510	-	3,112,803	285,227	
Liabilities													
Bills payable	82,751	-	-	-	-	-	-	-	-	-	-	-	82,751
Deposits and other accounts	21,004,229	3,467,684	3,530,034	3,469,284	7,646,224	13,977	21,070	174,660	-	-	-	-	2,681,296
Liability against right of use asset	161,246	2,543	4,736	7,255	13,761	26,490	25,595	43,298	37,569	-	-	-	-
Other liabilities	881,882	-	-	-	-	-	-	-	-	-	-	-	881,822
	22,130,108	3,470,227	3,534,770	3,476,539	7,659,985	40,467	46,665	217,958	37,569	-	-	-	3,645,869
On-balance sheet gap	5,853,420	(630,856)	(2,054,586)	1,701,034	3,140,135	482,806	481,361	1,345,982	1,923,941	-	-	-	(533,066)
	5,853,480	(630,856)	(2,054,586)	1,701,034	3,140,135	482,806	481,361	1,345,982	1,923,942	-	-	-	(533,066)
Off-balance sheet financial instruments	144,528	144,528	-	-	-	-	-	-	-	-	-	-	-
Commitments to extend credit	144,528	144,528	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap	(775,384)	(775,384)	(2,054,586)	1,701,034	3,140,135	482,806	481,361	1,345,982	1,923,942	-	-	-	(533,066)
Total Yield/Interest Risk Sensitivity Gap	(775,384)	(775,384)	(2,054,586)	1,701,034	3,140,135	482,806	481,361	1,345,982	1,923,942	-	-	-	(533,066)
Cumulative Yield/Interest Risk Sensitivity Gap	(775,384)	(2,829,970)	(1,128,936)	2,011,199	2,494,005	2,975,366	4,321,348	6,245,290	6,245,290	6,245,290	6,245,290	6,245,290	(533,066)

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

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

	2023	2022
	-----Rupees in '000-----	
Reconciliation of total assets		
Total financial assets	32,073,466	27,983,528
Add: Non financial assets		
Operating fixed assets	422,748	365,478
Other assets	31,698	62,849
Deferred tax asset	31,984	49,601
	486,430	477,928
Balance as per statement of financial position	32,559,896	28,461,456
Reconciliation of total liabilities		
Total financial liabilities	25,584,236	22,130,048
Add: Non financial liabilities		
Other Liabilities	544,530	462,489
Deferred govt. grant	544,530	462,489
Balance as per statement of financial position	26,128,766	22,592,537

39.3

Operational Risk

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

40 CORRESPONDING FIGURES

Changes have been made in corresponding figures under cash flow from operating activities in the cash flow statement to conform to current year's presentation.

41 GENERAL

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

42 DATE OF AUTHORIZATION

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

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**President and
Chief Executive Officer**



Chief Financial Officer



Director



Director



Director