

**The Bank of Azad Jammu and
Kashmir**

Financial Statements
For the year ended December 31, 2012

THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

	Notes	2012 Rupees in '000	2011
ASSETS			
Cash and balances with treasury banks	6	367,469	970,020
Balances with other banks	7	3,434,016	2,120,390
Lending to financial institutions	8	-	6,334
Investments	9	225,397	297,877
Advances	10	1,101,286	952,880
Operating fixed assets	11	91,156	32,951
Deferred tax assets		-	-
Other assets	12	182,009	133,231
		5,401,333	4,513,683
LIABILITIES			
Bills payable	13	6,218	3,356
Borrowings		-	-
Deposits and other accounts	14	4,599,756	3,883,035
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	15	3,322	1,635
Deferred Government grant	16	27	36
Other liabilities	17	98,496	76,742
		4,707,819	3,964,804
NET ASSETS		<u>693,514</u>	<u>548,879</u>
REPRESENTED BY			
Share capital	18	525,938	478,125
Advance against issue of shares	19	50,152	-
Reserves		-	-
Unappropriated profit		107,810	59,809
		683,900	537,934
Surplus on revaluation of assets - net	20	9,614	10,945
		<u>693,514</u>	<u>548,879</u>
CONTINGENCIES AND COMMITMENTS	21		

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

M.Y.K.

Chairman

Managing Director

Director

Director

THE BANK OF AZAD JAMMU AND KASHMIR
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Notes	2012 Rupees in '000	2011
Mark-up / return / interest earned	24	555,254	425,887
Mark-up / return / interest expensed	25	292,931	176,427
Net mark-up / interest income		262,323	249,460
Provision against non-performing loans and advances	10.6	15,192	4,083
(Reversal) of provision / provision against lending to financial institution	8.1	(6,000)	18,666
Provision for diminution in the value of investment	9.3	-	49,940
Bad debts written off directly		-	-
		9,192	72,689
Net mark-up / interest income after provisions		253,131	176,771
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		10,150	7,993
Dividend income		3,463	6,619
Income from dealing in foreign currencies		-	-
Gain on sale of securities - net	26	29,908	2,828
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	27	2,714	1,262
Total non-markup / interest income		46,235	18,702
		299,366	195,473
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	28	158,856	118,238
Other provisions / write offs		-	-
Other charges		-	-
Total non-markup / interest expenses		158,856	118,238
		140,510	77,235
Extraordinary / unusual items		-	-
PROFIT BEFORE TAXATION		140,510	77,235
Taxation – current		44,077	23,556
– prior years		-	-
– deferred		619	831
	29	44,696	24,387
PROFIT AFTER TAXATION		95,814	52,848
Basic/ diluted earnings per share - Rupees	31	1.66	1.00

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

M. V. B. C.

Chairman

Managing Director

Director

Director

**THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012**

	2012	2011
	Rupees in '000	
Profit after taxation	95,814	52,848
Other comprehensive income	-	-
Comprehensive income transferred to equity - net of tax	<u>95,814</u>	<u>52,848</u>

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 2,000.

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

MYA

Chairman

Managing Director

Director

Director

**THE BANK OF AZAD JAMMU AND KASHMIR
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2012**

Notes	2012	2011
	Rupees in '000	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	140,510	77,235
Less: Dividend income	3,463	6,619
	<u>137,047</u>	<u>70,616</u>
Adjustments for non-cash charges:		
Depreciation	7,387	5,724
Provision against non-performing loans and advances	15,192	4,083
Reversal of provision against lending to financial institution	(6,000)	18,666
Provision for diminution in the value of investment	-	49,940
Loss/ (Gain) on sale of fixed assets	(262)	-
Amortization of deferred government grant	(9)	(9)
	<u>16,308</u>	<u>78,404</u>
	153,355	149,020
(Increase) / decrease in operating assets		
Advances	(163,598)	(626,680)
Lending to financial institution	12,334	25,000
Other assets	(60,856)	(47,083)
	(212,120)	(648,763)
Increase / (decrease) in operating liabilities		
Bills payable	2,862	(75)
Deposits and other accounts	716,721	1,006,189
Other liabilities	14,157	31,447
	<u>733,740</u>	<u>1,037,561</u>
	674,975	537,818
Income tax paid	(24,402)	(36,608)
Net cash inflow from operating activities	<u>650,573</u>	<u>501,210</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Net investment in available for sale securities	45,000	(104,762)
Net investment in held-to-maturity securities	27,217	3,017
Dividend income	3,463	6,619
Investments in operating fixed assets	(65,748)	(15,687)
Sale proceeds of property and equipment disposed-off	418	-
Net cash flow from / (used in) investing activities	<u>10,350</u>	<u>(110,813)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Advance against issue of shares	50,152	-
Net cash inflow from financing activities	<u>50,152</u>	<u>-</u>
INCREASE IN CASH AND CASH EQUIVALENTS	711,075	390,397
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,090,410	2,700,013
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>3,801,485</u></u>	<u><u>3,090,410</u></u>

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

M. V. G. C.

Chairman

Managing Director

Director

Director

**THE BANK OF AZAD JAMMU AND KASHMIR
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Share capital	Advance against issue of shares	Statutory reserve Rupees in '000	Unappropriated profit	Total
Balance as at January 1, 2011	382,500	-	-	102,586	485,086
Transactions with owners recorded directly in equity					
Issue of bonus shares @ 25%	95,625	-	-	(95,625)	-
Comprehensive income					
Profit after tax for the year	-	-	-	52,848	52,848
Other comprehensive income	-	-	-	-	-
	-	-	-	52,848	52,848
Balance as at December 31, 2011	478,125	-	-	59,809	537,934
Transactions with owners recorded directly in equity					
Issue of bonus share @ 10%	47,813	-	-	(47,813)	-
Advance against issue of shares	-	50,152	-	-	50,152
Comprehensive income					
Profit after tax for the year	-	-	-	95,814	95,814
Other comprehensive income	-	-	-	-	-
	-	-	-	95,814	95,814
Balance as at December 31, 2012	525,938	50,152	-	107,810	683,900

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

M. A. S.

Chairman

Managing Director

Director

Director

**THE BANK OF AZAD JAMMU AND KASHMIR
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 52 branches (2011: 50 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, 205 (the Act) and 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 international 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 of the Banking Companies Ordinance, 1962.

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.

3.1 Adoption of amended standards

During the year, amendments to following standards became effective, however, their application did not have material impact on the financial statements of the Bank:

- Amendments to IAS 12 - Income Taxes – Deferred Tax: Recovery of Underlying Assets
- Amendments to IFRS 7 - Financial Instruments: Disclosures - Transfer of financial assets

3.2 Amendments to published standards and new interpretation to existing standard that are not yet effective and have not been early adopted by the Bank

The following amendments to published standards and new interpretation to existing standard are effective for annual periods, beginning on or after the date mentioned against them:

- IAS 1 - 'Presentation of Financial Statements' (effective for annual periods beginning on or after July 1, 2012) - retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.
- IAS 19 - 'Employee Benefits' (effective for annual periods beginning on or after January 1, 2013) - The amendments require actuarial gains and losses to be recognized immediately in other comprehensive income; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. This change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19. As a result of adoption of this amendment, the Bank will recognize the actuarial gains and losses in other comprehensive income, which are currently being recognized in the profit and loss account. However, there would not be any impact on Bank's equity.
- IAS 32 'Financial Instruments: Presentation' - (effective for annual periods beginning on or after January 1, 2014) - These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.
- IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine' - (effective for annual periods beginning on or after January 1, 2013) – This interpretation applies to all types of natural resources that are extracted using a surface mine activity process, and addresses the issues pertaining to the recognition of production stripping cost as an asset, initial measurement of stripping activity at cost and subsequent measurement of stripping activity asset at depreciated or amortized cost based on a systematic basis over the expected useful life of the identified component of ore body.

The above mentioned amendments to published standards and new interpretation to existing standard 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 increase in disclosure in certain cases.

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 investments

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 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 in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan from time to time.

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 except for vehicles which are depreciated on a diminishing balance 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 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.

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 basis.

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 which is 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.

	2012	2011
	Rupees in '000	
6. CASH AND BALANCES WITH TREASURY BANKS		
In hand:		
Local currency	44,596	36,330
Foreign currency	-	-
National Prize Bonds	-	-
With National Bank of Pakistan in:		
Local currency current account	72,873	8,690
Local currency deposit account - note 6.1	250,000	925,000
	<u>367,469</u>	<u>970,020</u>

- 6.1** This carries markup at rates ranging between 5% to 12.85% (2011:11.30% to 12.10%) per annum with maturities upto 12 (2011: 12) months.

	2012	2011
	Rupees in '000	
7. BALANCES WITH OTHER BANKS		
In Pakistan (Azad Jammu and Kashmir)		
On current account	-	-
On deposit account - note 7.1	3,434,016	2,120,390
	<u>3,434,016</u>	<u>2,120,390</u>

7.1 This represents deposits with financial institutions and carry mark-up at rates ranging between 5% to 13% (2011: 5% to 14%) per annum with maturities upto 12 (2011: upto 12) months.

	2012	2011
	Rupees in '000	
8. LENDING TO FINANCIAL INSTITUTIONS		
Particulars of lending to financial institution - gross		
In local currency	12,666	25,000
In foreign currency	-	-
	<u>12,666</u>	<u>25,000</u>
Provision against lending to financial institution note 8.1	(12,666)	(18,666)
	<u>-</u>	<u>6,334</u>

8.1 Movement of Provision

Opening balance	18,666	-
Charge for the year	-	18,666
Reversal of provision	(6,000)	-
Closing balance	<u>12,666</u>	<u>18,666</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% (2011: 17%) per annum having maturity on September 23, 2011. During the December 2011, the Bank entered into an agreement to reschedule such placement. As per the agreement, the Bank has 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 Jan 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 cash receipts of Rs 6 million against outstanding balances and a reversal of the provision of the same amount has been made.

8.3 The Bank allows rescheduling only under limited and rare circumstances. Loan rescheduling is not allowed as a means of delaying an imminent bad debt situation; a loan can be rescheduled solely if a genuine and acceptable reason can be demonstrated and rescheduling terms must clearly show that the borrower will subsequently be able to meet the loan repayments. Significant financial difficulties of the debtor, probability that the borrower will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the debt is impaired. The Bank has not received nor given any security as collateral.

9. INVESTMENTS

9.1 Investments by type:

	2012		2011		
	Held by Bank	Given as collateral	Total	Held by Bank Given as collateral	Total
Rupees in '000					
<i>Available for sale securities</i>					
Mutual Funds					
Alfalah GHP Cash Fund	10,000	-	10,000	10,000	10,000
NAFA Asset Allocation Fund	-	-	-	10,000	10,000
Askari High Yield Scheme	-	-	-	15,000	15,000
Pak Oman Government Securities Fund	25,000	-	25,000	75,000	75,000
Pak Oman Advantage Islamic Income Fund	-	-	-	10,000	10,000
National Investment Unit Trust Fund	25,000	-	25,000	25,000	25,000
HBL Income Fund	-	-	-	25,000	25,000
HBL Money Market Fund	10,000	-	10,000	-	-
Pakistan Income Enhancement Fund	15,000	-	15,000	15,000	15,000
Pakistan Cash Management Fund	10,000	-	10,000	10,000	10,000
NIT Government Bond Fund	10,000	-	10,000	10,000	10,000
KASB Cash Fund	10,000	-	10,000	-	-
AKD Cash Fund	15,000	-	15,000	-	-
Faysal Money Market Fund	30,000	-	30,000	-	-
	160,000	-	160,000	205,000	205,000
Held to maturity securities					
Mutual Funds					
JS Principal Secure Fund I	-	-	-	20,000	20,000
Term Finance Certificates					
Pace Pakistan Limited	49,940	-	49,940	49,940	49,940
Pakarab Fertilizers Limited	5,170	-	5,170	12,754	12,754
Pakistan Mobile Communications Limited	49,545	-	49,545	49,178	49,178
	104,655	-	104,655	131,872	131,872
Investment at cost	264,655	-	264,655	336,872	336,872
Less : Provision for diminution in value of investment - note 9.3	(49,940)	-	(49,940)	(49,940)	(49,940)
Investments (net of provision)	214,715	-	214,715	286,932	286,932
Surplus on revaluation of securities note 20.1	10,682	-	10,682	10,945	10,945
Total investments at market value	225,397	-	225,397	297,877	297,877

9.2

Investments by segments:**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 20.1

Total investments at market value

9.2.1

Investments in listed mutual funds

No. of units	Paid up value per unit at Dec 31,		Name of Mutual fund	Rupees in '000	
	2012	2011		2012	2011
20,000	20,000	500.69	Alfalsh GHP Cash Fund	10,000	10,000
-	974,374	-	NAFA Asset Allocation Fund	-	10,000
-	156,086	-	Askari High Yield Scheme	-	15,000
517,384	7,403,143	52.62	Pak Oman Government Securities Fund	25,000	75,000
-	285,979	-	Pak Oman Advantage Islamic Income Fund	-	10,000
896,700	911,411	33.19	National Investment Unit Trust Fund	25,000	25,000
-	282,986	-	HBL Income Fund	-	25,000
103,532	-	101.21	HBL Money Market Fund	10,000	-
297,988	293,255	51.36	Pakistan Income Enhancement Fund	15,000	15,000
201,409	198,795	50.14	Pakistan Cash Management Fund	10,000	10,000
1,165,605	1,048,922	10.52	NIT Government Bond Fund	10,000	10,000
-	200,000	-	JS Principal Secure Fund I	-	20,000
97,767	-	102.59	KASB Cash Fund	10,000	-
303,902	-	50.33	AKD Cash Fund	15,000	-
293,600	-	102.92	Faysal Money Market Fund	30,000	-
			Surplus on revaluation of securities note 20.1	160,000	225,000
				10,682	10,945
				<u>170,682</u>	<u>235,945</u>

9.2.2

Investments in Term Finance Certificates - Listed

No. of certificates	Redeemed value per certificate		Company's Name	Interest rate	Maturity	Rupees in '000	
	2012	2011				2012	2011
10,000	10,000	4.994	Pace Pakistan Limited	Kibor + 1.5	2017	49,940	49,940
3,447	3,447	1.50	Pakarab Fertilizers Limited	Kibor + 1.5	2013	5,170	12,754
10,000	10,000	4.918	Pakistan Mobile Communications Limited	Kibor + 1.65	2013	49,545	49,178
			Investments at cost			104,655	111,872
			Less: Provision for diminution in value of securities			(49,940)	(49,940)
			Investments (net of provisions)			<u>54,715</u>	<u>61,932</u>

9.2.2.1

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

2012 2011
Rupees in '000

9.3 Particulars of provisions

Opening balance	49,940	-
Charge for the year	-	49,940
Closing	49,940	49,940

9.3.1 Particulars of provision in respect of Type and Segment Held-to-maturity securities

Term finance certificates	49,940	49,940
---------------------------	--------	--------

9.4 Quality of Available for sale securities

	2012		2011	
	Market value	Rating	Market value	Rating
	Rupees in '000		Rupees in '000	
Alfalsh GHP Cash Fund	10,014	AA(f)	10,011	AA(f)
NAFA Asset Allocation Fund	-	unrated	10,195	unrated
Askari High Yield Scheme	-	unrated	15,798	unrated
Pak Oman Government Securities Fund	27,226	A+(f)	75,747	A+(f)
Pak Oman Advantage Islamic Income Fund	-	AM3	15,026	AM3
National Investment Unit Trust Fund	29,761	AM2-	23,606	AM2-
HBL Money market fund	10,478	AM3-	29,055	AM3-
Pakistan Income Enhancement Fund	15,305	AA-(f)	15,302	AA-(f)
Pakistan Cash Management Fund	10,098	AAA(f)	9,996	AAA(f)
NIT Government Bond Fund	12,258	AM2-	11,209	AM2-
Faysal Money Market Fund	30,217	AA+(f)	-	AA+(f)
KASB Cash fund	10,029	2-Star	-	2-Star
AKD Cash Fund	15,296	AM3-	-	AM3-
	<u>170,682</u>		<u>215,945</u>	

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.

	2012	2011
	Rupees in '000	
10. ADVANCES		
Loans, cash credits, running finances, etc.		
Running finance - note 10.4	510,045	522,756
Demand finance	57,694	52,507
Staff loans	28,660	18,897
Micro finance	93,504	38,860
Consumer finance		
- Car finance	33,303	18,686
- Finance against salary	283,954	47,442
- Personal loans	109,746	159,160
- Student loans	5,000	-
	<u>1,121,906</u>	<u>858,308</u>
Margin financing	-	100,000
	<u>1,121,906</u>	<u>958,308</u>
Advances - gross		
Provision for non-performing loans and advances - note 10.6		
Specific provision	(3,645)	-
General provision	(16,975)	(5,428)
	<u>(20,620)</u>	<u>(5,428)</u>
Advances - net of provision	<u>1,101,286</u>	<u>952,880</u>
10.1 Particulars of advances		
In local currency	1,121,906	958,308
in foreign currency	-	-
	<u>1,121,906</u>	<u>958,308</u>
10.2 Short term (for upto one year)	706,957	732,571
Long term (for over one year)	414,949	225,737
	<u>1,121,906</u>	<u>958,308</u>
10.3 In Pakistan	1,121,906	958,308
Outside Pakistan	-	-
	<u>1,121,906</u>	<u>958,308</u>
10.4 Advances include advance to related party amounting to Rs. 465.185 million (2011 : 500 million).		

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

Category of classification	December 31, 2012 (Rupees in '000)					
	Classified Advances		Provision Required		Provision Held	
	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas
Substandard	1,198	-	250	-	250	-
Doubtful	3,477	-	1,738	-	1,738	-
Loss	2,340	-	1,657	-	1,657	-
	<u>7,015</u>	<u>-</u>	<u>3,645</u>	<u>-</u>	<u>3,645</u>	<u>-</u>
						<u>3,645</u>

Category of classification

Category of classification	December 31, 2011 (Rupees in '000)					
	Classified Advances		Provision Required		Provision Held	
	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas
Substandard	1,713	-	-	-	-	-
Doubtful	1,636	-	-	-	-	-
Loss	-	-	-	-	-	-
	<u>3,349</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

10.6 Particulars of provision against non-performing loans and advances

	December 31, 2012 (Rupees in '000)			December 31, 2011 (Rupees in '000)		
	Specific	General	Total	Specific	General	Total
	Opening balance	-	5,428	5,428	767	578
Charge for the year	3,645	11,546	15,192	-	4,850	4,850
Reversals	-	-	-	(767)	-	(767)
Closing balance	<u>3,645</u>	<u>11,546</u>	<u>15,192</u>	<u>(767)</u>	<u>4,850</u>	<u>4,083</u>
In local currency	3,645	16,974	20,620	-	5,428	5,428
In foreign currencies	-	-	-	-	-	-
	<u>3,645</u>	<u>16,974</u>	<u>20,620</u>	<u>-</u>	<u>5,428</u>	<u>5,428</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. (2011: 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

Balance at the beginning of the year	3,590	3,994
Loans granted during the year	4,600	275
Repayments made during the year	(1,330)	(679)
Balance at the end of the year	<u>6,860</u>	<u>3,590</u>

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

Balance at the beginning of the year	500,000	-
Loans granted during the year	-	500,000
Repayments made during the year	(34,815)	-
Balance at the end of the year	<u>465,185</u>	<u>500,000</u>

11. OPERATING FIXED ASSETS

Capital work-in-progress - note 11.1
Property and equipment - note 11.2

5,182	3,169
85,974	29,782
<u>91,156</u>	<u>32,951</u>

11.1 Capital work in progress

Civil works
Advances to suppliers and contractors

-	-
5,182	3,169
<u>5,182</u>	<u>3,169</u>

11.1.1 This relates to advance to suppliers in respect of purchase of vehicles.

11.2 Property and equipment

		2012							
		COST			DEPRECIATION			Book Value	Annual rate of
		as at	additions/	as at	as at	charge for	as at	as at	depreciation
		January 1,	(write-off)	December	January 1,	the year	December 31,	December	%
		2012		31, 2012	2012	(writeoff)	2012	31, 2012	
		Rupees in '000							
Land-Freehold	11.2.1	-	40,000	40,000	-	-	-	40,000	0
Building on freehold land	11.2.1	-	10,152	10,152	-	-	-	10,152	5
Leasehold improvements		12,270	1,682	13,952	5,450	1,300	6,750	7,202	20
Office equipment		4,031	1,018	5,049	2,820	404	3,224	1,825	20
Computers		9,563	1,875	11,438	5,485	1,890	7,375	4,063	20
Vehicles		12,309	5,384	16,474	6,493	1,573	7,003	9,471	20
			(1,219)			(1,063)			
Furniture and fittings		17,828	3,531	21,359	6,271	2,105	8,376	12,983	10
Books		-	26	26	-	2	2	24	10
Carpets		777	67	844	477	113	590	254	20
	11.2.2	56,778	63,735	119,294	26,996	7,387	33,320	85,974	
			(1,219)			(1,063)			

		2011							
		COST			DEPRECIATION			Book Value	Annual rate of
		as at	additions/	as at	as at	charge for	as at	as at	depreciation
		January 1,	(write-off)	December	January 1,	the year	December 31,	December	%
		2011		31, 2011	2011	(write-off)	2011	31, 2011	
		Rupees in '000							
Leasehold improvements		6,049	6,221	12,270	4,877	573	5,450	6,820	20
Office equipment		3,359	672	4,031	2,561	259	2,820	1,211	20
Computers		7,792	1,771	9,563	3,808	1,677	5,485	4,078	20
Vehicles		11,404	905	12,309	5,247	1,246	6,493	5,816	20
Furniture and fixtures		14,841	2,987	17,828	4,406	1,865	6,271	11,557	10
Carpets		622	155	777	373	104	477	300	20
		44,067	12,711	56,778	21,272	5,724	26,996	29,782	
			-			-			

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 through notification dated July 24, 2009 issued by Services and General Administration Department. The value of land and building have been 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 process of transferring of the land title on Bank's name.

11.2.2 This includes cost of Rs 5,485 thousand (2011: Rs. 5,485 thousand) and accumulated depreciation amounting to Rs 5,458 thousand (2011: Rs. 5,449 thousand) in respect of assets donated by the Government of Azad Jammu and Kashmir.

11.2.3 Details of disposals of fixed assets

The details of assets disposed off during the year, having original cost or the book value exceeding Rs. 1 million or Rs. 0.250 million, (whichever is lower) are as follows:

Description	Cost	Accumulated Depreciation	Net Book Value	Sale Proceeds	Mode of Disposal	Particulars of Purchasers
Rupees in thousands						
Vehicles						
Honda Civic	1,219	1,063	156	418	Negotiation	Mr. Mumtaz Ali

	2012	2011
	Rupees in '000	
12. OTHER ASSETS		
Income / mark-up accrued in local currency note 12.1	170,804	115,436
Advances, deposits, advance rent and other prepayments	5,632	4,001
Stationary and stamps in hand	1,801	1,432
Advance taxation-net of provision	-	12,078
Branch adjustment account	473	-
Others	3,299	284
	<u>182,009</u>	<u>133,231</u>

12.1 This includes an amount of Rs. 4,419 thousand (2011: 6,047 thousand) on account of interest receivable from related party.

13. BILLS PAYABLE

This represents bills payable in Azad Jammu and Kashmir.

14. DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits	1,701,025	1,496,667
Savings deposits	2,183,431	1,736,362
Current accounts-non remunerative	710,192	625,530
Others	5,108	24,476
	<u>4,599,756</u>	<u>3,883,035</u>

14.1 Particulars of deposits

In local currency	4,599,756	3,883,035
In foreign currency	-	-
	<u>4,599,756</u>	<u>3,883,035</u>

14.2 This includes deposits from related parties amounting to Rs 2,147,837 thousand (2011: 1,710,429 thousand).

15. DEFERRED TAX LIABILITIES

2012 2011
Rupees in '000

The net balance of deferred tax is in respect of the following temporary differences:

- Accelerated depreciation	2,254	1,635
- Surplus on revaluation of investment-available for sale	1,068	-
	<u>3,322</u>	<u>1,635</u>

15.1 Deferred tax liability-net

	Balance at January 1, 2011	Recognized in profit and loss account	Recognized in equity	Balance at December 31, 2011	Recognized in profit and loss Account	Recognized in in equity	Balance at December 31, 2012
Deferred tax liability arising in respect of:							
Accelerated tax depreciation	804	831	-	1,635	619	-	2,254
Surplus on revaluation on investment	-	-	-	-	-	1,068	1,068
Deferred tax liability-net	<u>804</u>	<u>831</u>	<u>-</u>	<u>1,635</u>	<u>619</u>	<u>1,068</u>	<u>3,322</u>

16. DEFERRED GOVERNMENT GRANT

Grant from the Government of Azad Jammu and Kashmir

- Operating fixed assets	5,485	5,485
- Prepayment included in other assets	490	490
	<u>5,975</u>	<u>5,975</u>
Less: Amortization transferred to income - note 27	(5,948)	(5,939)
	<u>27</u>	<u>36</u>

2012 2011
Rupees in '000

17. OTHER LIABILITIES

Mark-up / return / interest payable in local currency - note 17.1	73,608	53,309
Accrued expenses	1,567	2,061
Provision for bonus to employees	8,000	6,000
Provision for education cess	2,982	2,978
Branch adjustment account	-	1,778
Provision for taxation - net	7,597	-
Others	4,742	10,616
	<u>98,496</u>	<u>76,742</u>

17.1 This includes an amount of Rs 51,951 thousand (2011: Rs 28,052 thousand) on account of interest payable to related parties.

18. SHARE CAPITAL

Authorised Capital

2012	2011		2012	2011
<i>Number of shares</i>			<i>Rupees in '000</i>	
<u>200,000,000</u>	<u>200,000,000</u>	Ordinary shares of Rs. 10 each	<u>2,000,000</u>	<u>2,000,000</u>

Issued, subscribed and paid up

<i>Number of shares</i>		Ordinary shares of Rs. 10 each		
			Fully paid in cash	
20,000,000	20,000,000	Government of Azad Jammu and Kashmir	200,000	200,000
5,500,000	5,500,000	Azad Kashmir Logging and Saw Mills Corporation	55,000	55,000
			Issued as bonus shares	
21,250,000	17,500,000	Government of Azad Jammu and Kashmir	212,500	175,000
5,843,800	4,812,500	Azad Kashmir Logging and Saw Mills Corporation	58,438	48,125
<u>52,593,800</u>	<u>47,812,500</u>		<u>525,938</u>	<u>478,125</u>

2012 2011
No of Shares

18.1 Reconciliation of number of ordinary shares

Shares at the beginning of the year	47,812,500	38,250,000
Shares issued during the year	<u>4,781,300</u>	<u>9,562,500</u>
Shares at the year end	<u>52,593,800</u>	<u>47,812,500</u>

18.2 Capital risk management

The Bank's objectives when managing capital risks are to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns to shareholders and benefits for other stakeholders. It is the policy of the Bank to achieve a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

19. ADVANCE AGAINST ISSUE OF SHARES

Government of the State of Azad Jammu and Kashmir had allotted land and building at Bank Square, Chattar, Muzaffarabad to the Bank through notification dated July 24, 2009 issued by Services and General Administration Department against contribution as share capital in kind of total value of Rs. 50.152 million. The Bank intends to issue shares to Government of Azad Jammu and Kashmir after having obtained necessary approvals.

	2012	2011
	Rupees in '000	
20. SURPLUS ON REVALUATION OF ASSETS		
Surplus on revaluation of available for sale securities		
Units of mutual funds - listed note 9.2	9,614	10,945
20.1 Surplus on revaluation of available for sale securities		
Units of mutual funds - listed	10,682	10,945
Add: Related deferred tax (liability) / asset	(1,068)	-
	<u>9,614</u>	<u>10,945</u>
21. CONTINGENCIES AND COMMITMENTS		
21.1 Direct credit substitutes		
- Guarantees in favour of		
Government	-	-
Others	16,661	16,661
	<u>16,661</u>	<u>16,661</u>
21.2 Commitments to extend credit	<u>42,080</u>	<u>850</u>
21.3 Bills for collection	<u>22,901</u>	<u>14,768</u>

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.

22 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.

23. DERIVATIVE INSTRUMENTS

The Bank does not deal in derivative instruments.

	2012	2011
	Rupees in '000	
24. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances to		
-Customers - note 24.1	132,304	32,717
-Financial institution	2,553	19,971
On investment in		
-Available for sale securities	-	-
-Held to maturity securities	8,147	10,923
On deposits with financial institutions	<u>412,250</u>	<u>362,276</u>
	<u>555,254</u>	<u>425,887</u>

24.1 This includes an amount of Rs.61,500 thousand (2011: 6,047) on account of interest earned on advance given to related party.

25 MARK-UP / RETURN / INTEREST EXPENSED

On deposits note 25.1	<u>292,931</u>	<u>176,427</u>
-----------------------	----------------	----------------

25.1 This includes an amount of Rs 152,951 thousand (2011: Rs 51,827 thousand) on account of interest expense on deposits received from related parties.

	2012	2011
	Rupees in '000	
26. GAIN ON SALE OF SECURITIES - NET		
Units of mutual funds - listed	29,908	2,828
27. OTHER INCOME		
Amortization of deferred Government grant	9	9
Net profit on sale of property and equipment	262	-
Others	2,443	1,253
	<u>2,714</u>	<u>1,262</u>
28. ADMINISTRATIVE EXPENSES		
Salaries, allowances, etc.	89,055	68,629
Gratuity	4,021	3,266
Contribution to provident fund	2,555	1,711
Rent, taxes, insurance and electricity, etc	12,612	10,195
Legal and professional charges	3,344	157
Communications	5,370	3,669
Repairs and maintenance	2,342	3,733
Stationery and printing	4,130	2,955
Advertisement and publicity	2,508	1,222
Auditors' remuneration - note 28.1	1,074	1,020
Donation - note 28.2	60	124
Entertainment	3,548	2,693
Depreciation - note 11.2	7,387	5,724
Travel and conveyance	2,917	4,090
Training	714	30
Education cess	1,180	1,106
Security charges	6,841	5,539
Other expenditures (travelling and vehicle running expenses etc.)	9,198	2,375
	<u>158,856</u>	<u>118,238</u>
28.1 Auditors' remuneration		
Audit fee	750	725
Fee for half yearly review	235	225
Out of pocket expenses	89	70
	<u>1,074</u>	<u>1,020</u>

28.2 None of the directors, executives and their spouses had any interest in the donations disbursed during the year. Further total donations made during the year do not exceed Rupees one hundred thousands.

	2012	2011
	Rupees in '000	
29. TAXATION		
For the year		
Current	44,077	23,556
Deferred	619	831
	<u>44,696</u>	<u>24,387</u>

29.1 Relationship between tax expense and accounting profit

Profit before taxation	140,510	77,235
Tax at applicable tax rate of 35 percent (2011: 35 percent)	49,179	27,032
Effect of:		
Income chargeable to tax at lower rates	(4,483)	(1,655)
Income exempt from tax	-	(990)
Other	-	-
Tax at applicable tax rate	<u>44,696</u>	<u>24,387</u>

31. BASIC/ DILUTED EARNINGS PER SHARE

Profit for the year	<u>95,814</u>	<u>52,848</u>
	Number of shares	
Weighted average number of Ordinary Shares	<u>57,609,040</u>	<u>52,593,800</u>
Basic/ diluted earnings per share - Rupees	<u>1.66</u>	<u>1.00</u>

31.1 Since the advance against shares is convertible into ordinary shares capital of the Bank, its impact has been taken into account while calculating "earning per share" - basic of the Bank.

	2012	2011
	Rupees in '000	
32. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	367,469	970,020
Balances with other banks	3,434,016	2,120,390
	<u>3,801,485</u>	<u>3,090,410</u>

Number of employees

33. STAFF STRENGTH		
Permanent	175	144
Temporary / on contract basis	67	72
Daily wages	8	-
Bank's own staff strength at the end of the year	<u>250</u>	<u>216</u>
Outsourced	68	28
Total staff strength at the end of the year	<u>318</u>	<u>244</u>

34. STAFF RETIREMENT BENEFITS

34.1 Gratuity

The Bank contributed Rs 4,021 thousand (2011: Rs 3,266 thousand) during the year towards employees gratuity fund.

34.2 Provident fund

The Bank contributed Rs 2,555 thousand (2011: Rs 1,711 thousand) during the year towards employees contributory provident fund.

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Managing Director		Directors		Executives	
	2012	2011	2012	2011	2012	2011
	Rupees in '000					
Fees	-	-	644	352	-	-
Managerial remuneration	2,880	2,934	-	-	5,987	3,311
Contribution to defined contribution plan	-	-	-	-	274	160
Contribution to defined gratuity fund	240	245	-	-	274	213
Rent and house maintenance	1,260	1,044	-	-	1,997	1,159
Utilities	288	293	-	-	571	331
Medical	176	57	-	-	571	365
Bonus	480	480	-	-	805	356
Others	985	11	-	-	1,902	259
	<u>6,309</u>	<u>5,064</u>	<u>644</u>	<u>352</u>	<u>12,381</u>	<u>6,154</u>
Number of persons	<u>1</u>	<u>1</u>	<u>9</u>	<u>9</u>	<u>10</u>	<u>5</u>

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.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

36.1 On-balance sheet financial instruments

	2012		2011	
	Book value Rupees in '000	Fair value Rupees in '000	Book value Rupees in '000	Fair value Rupees in '000
Assets				
Cash and balances with treasury banks	367,469	367,469	970,020	970,020
Balances with other banks	3,434,016	3,434,016	2,120,390	2,120,390
Lending to financial institution	-	-	6,334	6,334
Investments	225,397	225,397	297,877	297,877
Advances				
Term loans	566,226	566,226	311,227	311,227
Staff loans	28,660	28,660	18,897	18,897
Other advances	506,400	510,045	622,756	622,756
Other assets	174,103	174,103	115,720	115,720
	<u>5,302,271</u>	<u>5,305,916</u>	<u>4,463,221</u>	<u>4,463,221</u>
Liabilities				
Bills payable	6,218	6,218	3,356	3,356
Deposits and other accounts				
Current and saving accounts	2,898,731	2,898,731	2,386,368	2,386,368
Term deposits	1,701,025	1,701,025	1,496,667	1,496,667
Other liabilities	87,917	87,917	71,986	71,986
	<u>4,693,891</u>	<u>4,693,891</u>	<u>3,958,377</u>	<u>3,958,377</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 40.3.1

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.

37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading and Sales	Retail Banking	Commercial Banking	Payment and Settlement	Agency Services	Retail Brokerage
Rupees in '000							
2012							
Total income	-	-	46,603	544,511	6,583	3,792	-
Total expenses	-	-	25,238	476,863	2,267	1,306	-
Net income (loss)	-	-	21,365	67,648	4,316	2,486	-
Segment Assets (Gross)	-	-	468,594	4,951,594	1,120	645	-
Segment Non Performing Loans	-	-	-	-	-	-	-
Segment Provision Required	-	-	20,620	-	-	-	-
Segment Liabilities	-	-	2,151	4,705,660	5	3	-
Segment Return on net Assets (ROA) (%)	-	-	0.95%	11.05%	0.13%	0.08%	-
Segment Cost of funds (%)	-	-	0.58%	11.09%	0.05%	0.03%	-
2011							
Total income	-	-	15,735	420,606	4,364	3,884	-
Total expenses	-	-	9,034	356,126	1,161	1,033	-
Net income (loss)	-	-	6,701	64,480	3,203	2,851	-
Segment Assets (Gross)	-	-	240,553	4,262,189	498	443	-
Segment Non Performing Loans	-	-	-	-	-	-	-
Segment Provision Required	-	-	5,428	68,606	-	-	-
Segment Liabilities	-	-	1,249	3,963,550	3	2	-
Segment Return on net Assets (ROA) (%)	-	-	0.40%	10.61%	0.11%	0.10%	-
Segment Cost of funds (%)	-	-	0.26%	10.33%	0.03%	0.03%	-

Assumptions used:

- Administrative expenses have been allocated to segments based on respective segment income.

38. 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:

	2012	2011
	Rupees in '000	
Balances		
The Government of Azad Jammu and Kashmir and its related departments		
-Advances	465,185	500,000
-Deposits	2,147,837	1,710,429
-Deferred Government grant	27	36
-Mark-up / return / interest accrued on advances	4,419	6,047
-Mark-up / return / interest payable on deposits	51,951	28,052
Transactions		
The Government of Azad Jammu and Kashmir and its related departments		
- Mark-up/ interest earned	61,500	6,047
- Mark-up/ interest expensed	152,951	51,827
- Bonus shares issued during the year	47,813	95,625

39. CAPITAL ADEQUACY

The risk weighted assets to capital ratio, calculated in accordance with the State Bank's guidelines on capital adequacy was as follows:

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 Bank's regulatory capital is divided into two tiers:

- (a) Tier 1 capital: share capital, unappropriated profit (net of losses) and reserves created by appropriations of unappropriated profits; and
- (b) Tier 2 capital: general provisions for loan losses (up to a maximum of 1.25 % of risk weighted assets) and reserves on the revaluation of fixed assets and equity investments (up to a maximum of 45% of the balance in the related revaluation reserves).
- (c) The Bank has no eligible Tier 3 capital.

Book value of Goodwill (if any), other intangible assets including software, brand value etc are deducted from Tier 1 capital whereas significant minority investment is deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

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.

	2012	2011
	Rupees in '000	
39.1 Capital Structure		
<i>Tier I Capital</i>		
Shareholders Capital/Assigned Capital	525,938	478,125
Reserves	-	-
Unappropriated / unremitted profits (net of losses)	107,810	59,809
<i>Total Tier I Capital</i>	633,748	537,934
<i>Tier II Capital</i>		
General provisions subject to 1.25% of total RWAs	16,975	5,428
Upto 45% of revaluation reserves	4,326	-
<i>Total Tier II Capital</i>	21,301	5,428
<i>Eligible Tier III Capital</i>		
Total Regulatory Capital (k)	655,049	543,362

39.1.1 The Bank has not included the amount of Advance against shares subscription of Rs. 50,152 million (2011: Rs. nil) in the calculation of Capital Adequacy Ratio (CAR) below, as the shares have not been issued.

39.2 Capital Adequacy

	Capital requirements		Risk weighted assets	
	2012	2011	2012	2011
	Rupees in '000			
Credit Risk				
Portfolios subject to standardized approach (simple or comprehensive)				
On-Balance sheet				
Claims on banks	124,787	90,942	1,247,873	909,419
Past due loans	522	502	5,219	5,024
Claims of Corporate	1,294	1,239	12,943	12,386
Claims categorised as retail portfolio	45,317	34,373	453,165	343,732
Claims fully secured by residential property	870	-	8,703	-
All other assets	27,317	16,618	273,165	166,182
	<u>200,107</u>	<u>143,674</u>	<u>2,001,068</u>	<u>1,436,743</u>
Off balance sheet items				
Non-market related				
Direct credit substitute	1,666	1,666	16,661	16,661
Other commitments	-	-	-	-
	<u>1,666</u>	<u>1,666</u>	<u>16,661</u>	<u>16,661</u>
Total credit risk (a)	<u>201,773</u>	<u>145,340</u>	<u>2,017,729</u>	<u>1,453,404</u>
Market risk	-	-	-	-
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	34,136	43,189	341,364	431,890
Total market risk (b)	<u>34,136</u>	<u>43,189</u>	<u>341,364</u>	<u>431,890</u>
Operational risk				
Basic indicator approach-total of operations	47,207	41,491	472,071	414,913
Total (a+b+c)	<u>(l) 283,116</u>	<u>230,020</u>	<u>2,831,164</u>	<u>2,300,207</u>
Capital Adequacy Ratio			2012	2011
			Rupees in '000	
Total eligible regulatory capital held (k)			655,049	543,362
Total risk weighted assets (Rupees in (l))			2,831,164	2,300,207
Capital adequacy ratio (k) / (l)			23%	24%

39.3 Prior year capital adequacy ratio figures have been restated to ensure the compliance with the relevant SBP circulars.

40. 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.

40.1 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.

40.1.1 Segments by class of business

	2012					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Individuals	533,546	48	2,451,910	53	58,706	-
Others	567,740	52	2,147,846	47	35	-
	<u>1,101,286</u>	<u>100</u>	<u>4,599,756</u>	<u>100</u>	<u>58,741</u>	<u>-</u>

	2011					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Individuals	352,880	37	2,172,606	56	17,511	-
Others	600,000	63	1,710,429	44	-	-
	<u>952,880</u>	<u>100</u>	<u>3,883,035</u>	<u>100</u>	<u>17,511</u>	<u>-</u>

40.1.2 Segments by sector

Public sector/ Government	465,185	42	2,147,846	47	35	-
Private	636,101	58	2,451,910	53	58,706	-
	<u>1,101,286</u>	<u>100</u>	<u>4,599,756</u>	<u>100</u>	<u>58,741</u>	<u>-</u>

40.1.3 Geographical segment analysis

	2012			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	Rupees in '000			
Pakistan (Azad Jammu and Kashmir)	140,510	5,401,333	693,514	58,741
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>140,510</u>	<u>5,401,333</u>	<u>693,514</u>	<u>58,741</u>

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	Rupees in '000			
Pakistan (Azad Jammu and Kashmir)	77,235	4,513,683	548,879	17,511
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>77,235</u>	<u>4,513,683</u>	<u>548,879</u>	<u>17,511</u>

40.1.3.1 Contingencies and commitments include amounts given in note 21 except bills for collection.

40.2 Credit Risk-general disclosures

As mentioned in note 2 to the financial statements the Bank has not adopted the Basel II and it does not use the external credit assessment institutions (ECAIs) and Export Credit Agencies (ECA). However the 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 -Govt. departments. The exposures other than Government relates to Consumer, Microfinances or non corporate entities.

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

The Bank also monitor and maintain its exposure to other banks with quality credit rating which are not lower than "A" category

40.3

Market Risk:

Market risk is the risk that the value of 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 rates 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.

40.3.1

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	2012 Exposed to yield/interest risk										Non-interest bearing financial instruments	
		Total	Upto 12 Months					Over 12 Months					
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
On-balance sheet financial instruments													
Assets													
Cash and balances with treasury banks	11.90%	367,469	322,873	521,542	496,542	-	-	-	-	-	-	-	44,596
Balances with other banks	12.79%	3,434,016	1,294,391	921,542	89,178	40,000	200,000	-	-	-	-	-	-
Investments	17.22%	225,397	51,049	45,171	76,151	50,833	31,423	304,658	-	-	-	-	-
Advances	12.57%	1,101,286	30,572	18,231	76,151	50,833	31,423	304,658	-	-	-	-	-
Other assets	-	182,009	-	-	-	-	-	-	-	-	-	-	182,009
		5,310,177	1,698,885	584,944	661,871	1,539,899	231,423	304,658	-	-	-	-	226,605
Liabilities													
Bills payable	-	6,218	-	-	-	-	-	-	-	-	-	-	6,218
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	7.00%	4,599,756	1,273,610	1,173,610	634,310	794,485	4,770	5,530	-	-	-	-	710,192
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	98,496	-	-	-	-	-	-	-	-	-	-	98,496
		4,704,470	1,273,610	1,173,610	634,310	794,485	4,770	5,530	-	-	-	-	814,906
On-balance sheet gap		605,707	425,275	(588,666)	27,561	745,414	226,653	299,128	-	-	-	-	(588,301)
Off-balance sheet financial instruments													
Purchase and resale agreements	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale and repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-	-
Commitments to extend credit	-	42,080	42,080	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		42,080	42,080	-	-	-	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap		383,195	(588,666)	(588,666)	27,561	745,414	226,653	299,128	11,061	-	-	-	(588,301)
Cumulative yield / interest risk sensitivity gap		383,195	(205,470)	(177,909)	(177,909)	567,505	615,088	841,741	1,140,869	1,151,930	1,151,930	1,151,930	563,629

40.3.2

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.

40.3.3

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

40.3.4

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.

40.3.5 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.

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.

	Effective Yield / Interest rate	2011											Non-interest bearing financial instruments	
		Exposed to yield / interest risk												
		Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years			
On-balance sheet financial instruments														
Assets														
Cash and balances with treasury banks	12.12%	970,020	925,000	-	-	-	-	-	-	-	-	-	-	45,020
Balances with other banks	13.27%	2,120,390	579,990	410,000	445,000	685,400	-	-	-	-	-	-	-	-
Lending to financial institution	11.39%	6,334	6,334	-	-	-	-	-	-	-	-	-	-	-
Investments	7.20%	297,877	-	3,447	235,945	4,136	54,349	-	-	-	-	-	-	-
Advances	12.66%	952,880	11,471	572,941	88,623	54,109	122,124	66,911	29,350	4,900	2,451	-	-	
Other assets	-	133,231	-	-	-	-	-	-	-	-	-	-	-	133,231
		4,480,732	1,322,795	986,388	769,568	743,645	176,473	66,911	29,350	4,900	2,451	-	-	178,251
Liabilities														
Bills payable	-	3,356	-	-	-	-	-	-	-	-	-	-	-	3,356
Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	7.10%	3,883,035	605,626	993,262	875,115	743,465	11,765	3,181	615	-	-	-	-	650,006
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	76,742	-	-	-	-	-	-	-	-	-	-	-	76,742
		3,963,133	605,626	993,262	875,115	743,465	11,765	3,181	615	-	-	-	-	730,104
On-balance sheet gap		517,599	917,169	(6,874)	(105,547)	180	164,708	63,730	28,735	4,900	2,451	-	-	(551,853)
Off-balance sheet financial instruments														
Purchase and resale agreements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale and repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commitments to extend credit	-	850	850	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap	-	850	850	-	-	-	-	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap		916,319	(6,874)	(105,547)	180	164,708	63,730	28,735	4,900	2,451	-	-	-	(651,853)
Cumulative yield / interest risk sensitivity gap		916,319	909,445	803,898	804,078	968,786	1,032,516	1,061,251	1,066,151	1,068,602	1,068,602	-	-	516,749

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

	2012	2011
	Rupees in '000	
Reconciliation of total assets		
Total financial assets	5,310,177	4,480,732
Add: Non financial assets		
Operating fixed assets	91,156	32,951
Other assets	91,156	32,951
Balance as per balance sheet	5,401,333	4,513,683
Reconciliation of total liabilities		
Total financial liabilities	4,704,470	3,963,133
Add: Non financial liabilities		
Deferred tax liabilities	3,322	1,635
Deferred govt. grant	3,349	1,671
Balance as per balance sheet	4,707,819	3,964,804

2011

	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Assets										
Cash and balances with treasury banks	970,020	970,020	-	-	-	-	-	-	-	-
Balances with other banks	2,120,390	579,990	410,000	445,000	685,400	-	-	-	-	-
Lending to financial institution	6,334	6,334	-	-	-	-	-	-	-	-
Investments	297,877	-	3,447	235,945	4,136	54,349	-	-	-	-
Advances	952,880	11,471	572,941	88,623	54,109	122,124	66,911	29,350	4,900	2,451
Operating fixed assets	32,951	300	2,050	819	7,434	6,885	7,759	4,628	3,076	-
Deferred tax assets	-	-	-	-	-	912	-	-	-	-
Other assets	133,231	65,519	26,391	22,171	18,238	-	-	-	-	-
	4,513,683	1,633,634	1,014,829	792,558	769,317	184,270	74,670	33,978	7,976	2,451
Liabilities										
Bills payable	3,356	3,356	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	3,883,035	1,250,533	993,262	875,115	748,564	11,765	3,181	615	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	1,635	-	-	-	1,635	-	-	-	-	-
Deferred Government grant	36	36	-	-	-	-	-	-	-	-
Other liabilities	76,742	59,499	10,015	896	6,247	85	-	-	-	-
	3,964,804	1,313,424	1,003,277	876,011	756,446	11,850	3,181	615	-	-
Net assets	548,879	320,210	11,552	(83,453)	12,871	172,420	71,489	33,363	7,976	2,451
Share Capital	478,125									
Reserves	-									
Unappropriated profit	59,809									
Surplus on revaluation of assets	10,945									
Operational risk	548,879									

40.5 Operational risk

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

41. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on ----- have announced a bonus issue of __ percent (2011: 10 percent). The appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31,2012 do not include the effect of the appropriation which will be accounted for in the financial statements for the year ending December 31, 2013 as follows:

	2012	2011
	Rupees '000	
Transfer from unappropriated profit to:		
	-	47,813

42. DATE OF AUTHORIZATION

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

२५०७२

Chairman

Managing Director

Director