AIB

بانک بین المللی
افغانستان

Afghanistan
International Bank

Your Partner for Growth

Annual Report 2014

Best Corporate Governance
AFGHANISTAN

Bank of the Year
2012/2013/2014
AFGHANISTAN

Contents

Our Vision

We aspire to remain the most reputable financial institution and bank of choice in Afghanistan.

From the time of its foundation in 2004, Afghanistan International Bank has been recognised as a pioneering leader in the country's banking sector. Now, a decade later, we have become firmly established as Afghanistan's most trusted and respected financial institution.

This status is underlined by having two major international clearing banks as correspondents – the only private bank in Afghanistan to do so – and repeated international awards that reflect our commitment to the highest industry standards and global best practice.

Our Mission

Our mission is to foster economic development in Afghanistan, to be a catalyst for growth, and ultimately contribute to the prosperity of the country and its people.

We strive to adhere to international best practices in corporate governance, financial and risk management (including anti-money laundering and 'know your customer'), customer service, operations, information technology, and internal controls. A major factor in our success is dedication to staff development and training within a culture of integrity and professionalism.

Our Future

Through our financial performance and the specific investments we have made in our people and infrastructure, AIB has become a positive emblem for achievement and transformation, despite its challenging environment.

As we look ahead to our second decade, we remain committed to enabling a better future for Afghanistan and we are proud to play a role in shaping the opportunities that lie ahead.

I am pleased to report that 2014 was a very good year for Afghanistan International Bank (AIB), given the uncertain political, economic, and security environment that was the nationwide norm over the period.

Net income before tax at year-end exceeded AFN 563 million ($9.7 million at current exchange rates), capital adequacy ratio was 14.94 percent, and return on equity stood at 15.9 percent. More important, total deposits grew by 17 percent to AFN 52.90 billion ($907 million) – just short of our target of being a $1 billion institution.

We believe several factors are attributable to this deposit growth: a flight to safety by customers; AIB's ability to offer US dollar clearing through our correspondent banks – a distinct competitive advantage; and providing better customer service than our competitors.

Our 2014 financial performance showed significant improvement over weaker than normal results in 2013. The two cases that led to the Bank having to make significant reserve provisions in 2013 are now under control. Management is taking aggressive measures to recover the funds owed to the Bank and expects a positive resolution in the near future.

As stated in my report last year, the Board of Supervisors is focusing on four priorities: corporate governance, operational excellence, customer satisfaction, and financial stability. Additional measures have since been undertaken in each of these priorities. In terms of corporate governance, initiatives were:

• A rewrite of the Articles of Association, completed in April, that better defines the responsibilities of shareholders, directors, and management. The amended Articles have been submitted to the Central Bank for approval.

• A Deputy Chief Executive Officer (DCEO), Guy Mallett, was hired in the early part of 2014. The DCEO's role is to manage the internal operations of the Bank, specifically customer-facing activities and back-office operations. Mr Mallett has extensive banking experience and will be a candidate to replace the current CEO on his retirement in early 2015.

• The Board reviewed and commented on a new head office organisation structure proposed by management. This structure will focus the Bank's resources on customers and their banking needs.

Management conducted a survey to identify ways to improve customer satisfaction. As a result, several initiatives were undertaken, including reducing queue times in branches and streamlining transaction processing. Customer service also benefited from implementation of a new version of our core banking platform.

This new system provides additional capabilities including a Shariah banking module, enabling the introduction of a fully compliant Shariah banking unit during the year. We are optimistic that this initiative will be well received by the market.

Due to the uncertain situation in Afghanistan, business sentiment was cautious in 2014. To ensure that the Bank could respond to adverse events should they occur, a contingency plan was developed that defined specific actions to be taken in the event of a material downturn in the business. This plan was developed by management under the guidance of the Planning and Strategy Committee of the Board. Fortunately, none of the contingency actions had to be undertaken. However, loan volume did suffer from the economic uncertainty in the market and non-performing loans did have an uptick, albeit not significantly.

One of the main challenges facing the banking system in Afghanistan is the related issues of anti-money laundering (AML) and violation of sanctions. As regulators have taken increasingly tough positions in penalising banks for violations in these two areas, major international clearing banks are scrutinising their correspondent relationships to ensure that they are AML and sanctions compliant.

As a result, these clearing banks are terminating relationships with their non-compliant correspondents all over the world. Afghanistan is no exception, and major international banks have closed their US dollar accounts for all private Afghan banks except AIB. We have been able to continue relationships with our two clearing banks due to our stringent adherence to meeting AML and sanction requirements. Some of the pressure in this regard was helped by the Government of Afghanistan signing the international AML accords. Management and the Board are working diligently to maintain our correspondent relationships as well as search for new relationships. AIB plans to commission outside experts in 2015 to conduct analysis and evaluation of compliance systems and procedures relating to anti-money laundering, sanctions, and terrorist financing.

AIB's plan to build a Head Office with suitable space to meet the Bank's growth requirements over the foreseeable future took a major step forward in 2014. The shell of the building is scheduled for completion towards the end of 2015. Construction of the frame will be followed by mechanical, electrical, and plumbing works. All going well, the Head Office will be completed in 2016.

Before the next phase begins, however, management and our contractors will review the building's design to ensure that high-security protection is incorporated.

In recognition of AIB's governance model and operational excellence, we were awarded 'Best Bank of the Year, Afghanistan 2014' by The Banker magazine, the third successive year we have received this award. And, Corporate Finance International selected AIB for its 'Best Corporate Governance, Afghanistan' award.

Further international recognition came in a silver award from the League of American Communications Professionals for the overall design and content of AIB's 2013 annual report, and a gold award for 'Best Letter to Shareholders'.

With their purchase of the Afghanistan Investment Partners Corporation's (AIPC) 25 percent stake in AIB and a portion of the Asian Development Bank's (ADB) holdings, Wilton Holdings and Horizon Associates now each own 46.25 percent of AIB, with ADB retaining 7.5 percent.

The reductions in ownership were made in accordance with each organisation's objectives and do not reflect concerns regarding AIB's soundness. ADB plans to continue its current level of ownership for another three years. Mr Gokan Erkal (AIPC's shareholder representative) stepped down from the Board in early 2014 and we take this opportunity to thank him for his contributions.

As 2015 unfolds, we are guardedly optimistic that the banking environment in Afghanistan will improve. This view is driven by two factors: the successful elections and peaceful transition of government during 2014, and the signing of the security agreement with the United States and European countries. These events should help to stabilise the country and improve economic conditions as aid agencies are likely to continue their support of the Afghan government.

As in the past, I extend my personal thanks and gratitude to my fellow Board members and the management and staff of AIB for their hard work, diligence, and dedication to making the Bank the successful institution it has become.

Ronald Stride
Chairman

Despite the difficult business environment, AIB again performed very commendably on behalf of customers and stakeholders. At the end of 2014, the Bank emerges strengthened and ready to face the opportunities ahead as the new Afghan administration takes office.

Business conditions during the year were affected by the presidential elections in April, which were followed in June by a run-off between the two leading candidates, with the outcome further delayed while the results were verified under international supervision.

The Independent Election Commission finally named the winner in September, and although the process was protracted, this was the first time in Afghanistan's history that power was democratically transferred. Business sentiment was understandably subdued while the establishment of the new government was awaited.

After a 13-year presence, NATO withdrew combat troops, being replaced at the end of 2014 by a 'training and support' mission, another indicator of the ongoing transition in Afghanistan.

Yet despite the exceptionally difficult market environment, AIB continued to record improvements across virtually all key metrics:

• Assets grew by 17 percent to AFN 56.23 billion (2013: AFN 48.11 billion), bringing compound annual asset growth since 2008 to 27 percent.

• Deposits also grew by 17 percent, from AFN 45.12 billion to AFN 52.90 billion. In dollar terms, assets briefly topped $1 billion towards the end of 2014, closing the year at just under $1 billion.

• Revenue was unchanged at AFN 1.96 billion, driven by 7 percent growth in fee and foreign exchange business to AFN 817 million (AFN 761 million) that accounted for 41 percent of total revenue. Compound annual revenue growth since 2008 now stands at 16 percent.

• AIB is also the only financial institution in Afghanistan to have two major international clearing banks (Standard Chartered Bank and Commerzbank) as correspondents, providing our customers with speedy international transfers and making a vital contribution to the Bank's substantial growth in forex business.

• The Bank's bond portfolio of AFN 8.56 billion is all rated investment grade, with 73 percent maturing in three years or less.

Budget targets for the year were met, with the exception of loan recoveries, negatively affected by the poor real estate market, and interest income, which suffered from the generally depressed economy. Non-interest income contributed 45 percent of total income and was substantially above budget. Commercial lending was very subdued, indicative of the increasingly conservative market attitude to political, economic, and security concerns.

Expenses were contained at forecast levels, and the 24.8 percent net profit margin (12.2 percent) equates to earnings per share of AFN 16.16 (AFN 7.99) and 15.90 percent return on equity (8.64 percent). The Bank's net asset value per share now stands at AFN 102.59 (AFN 93.00).

Total capital increased from AFN 2.77 billion to AFN 3.07 billion. Our capital adequacy ratio of 14.94 percent and our 90 percent liquidity are still very satisfactory, by domestic and international standards. AIB believes it scores highest of all Afghan banks in its 'CAMEL' rating – the acronym for the five key components of a bank's condition: Capital adequacy, Asset quality, Management, Earnings, and Liquidity.

As the Chairman mentioned, AIB achieved prominent international recognition in the form of major awards. The Banker magazine again ranked AIB 'Best Afghan Bank' during its annual awards ceremony in London, while our commitment to strong corporate governance earned us the Corporate Governance Award, Afghanistan, 2014 from Capital Finance International (CFI.co) as part of its worldwide awards programme for the financial services industry.

The Banker is the world's premier banking and finance resource publication. Read in more than 180 countries, it has been providing global financial intelligence since 1926 and has built a reputation for objective and incisive reporting on major events. CFI.co's global panel of judges reported that they were impressed by our conduct and commitment to healthy and far-reaching corporate governance programmes.

Operationally, we received approval from the Central Bank regulators to create a Shariah-compliant window for Islamic banking and introduced this service in Kabul, offering customers the choice of Shariah or conventional products. We plan to expand the product range in 2015.

Our payroll lending product, launched in 2013, continued to be well accepted and showed sustained customer demand. The facility includes fast access to general-purpose personal loans at competitive rates for payroll account holders.

Our 'Home Equity' loan for retail customers enables them to realise equity value from their wholly owned properties or, in some cases, to acquire a secondary property. A pilot scheme was successfully introduced in 2014 and will be followed up with full-scale advertising and marketing early in 2015.

AIB's Platinum and Titanium credit cards, first introduced for VIP customers early in 2013, were later made available to the open market and showed steady growth in 2014, with total issuance by year-end in line with targets. Further product improvement is planned for 2015.

Prepaid MasterCard and China Union Pay (CUP) cards also showed steady demand, particularly from business travellers. Used as charge cards, they are readily available to business users and consumers without having to undergo credit checks. More than 60,000 debit cards have also been issued.

Our new call centre and phone banking services became fully operational during 2014, giving customers a range of functions such as balance checking, accessing an account mini statement, requesting a chequebook, stopping a cheque, changing PIN code, and obtaining the latest foreign exchange rates.

As well as automated response services, two call centre agents are available to provide general product information, deal with lost debit and credit cards, and handle complaints.

The number of ATMs increased from 43 to 55, in response to the increasing demand for automated banking. This is reflected in the volume of ATM transactions for the year, now totalling more than one million.

Our core banking IT system was successfully upgraded, and we maintained our emphasis on business continuity as a vital resource that will enable us to cope with adverse contingencies. We already have an overseas-based disaster recovery site (DRS) that backs up the domestic DRS, protecting against potential vulnerabilities at the domestic site and head office. Business contingency plan testing continues to show that the Bank could operate effectively from its domestic DRS, with the cross-border back-up site providing an extra level of security.

Staff training has always been a priority, and in this respect 2014 was no exception. As well as in-house training at head office and branch level, a total of 24 employees undertook Pakistan's National Institute of Banking and Finance (NIBAF) courses such as Business Communication, Accounting, Commercial Banking, Know Your Customer, Electronic Banking, Islamic Banking, Basel Capital Accord, and Risk Management in Banks.

The Bank sponsored two employees – one male and one female – who graduated from the MBA course conducted by the American University in Afghanistan, which has accepted a new AIB-sponsored participant for the next MBA course.

In keeping with the Bank's commitment to good corporate citizenship, AIB is committed to the support of projects that have a beneficial impact on the communities where we operate.

We again contributed to the restoration of the Blue Mosque in Mazar-e-Sharif, sponsored the Afghanistan national football team in the South Asia Championship, sponsored the Asia Society Luncheon Programme, and donated to the development of Ghazni province.

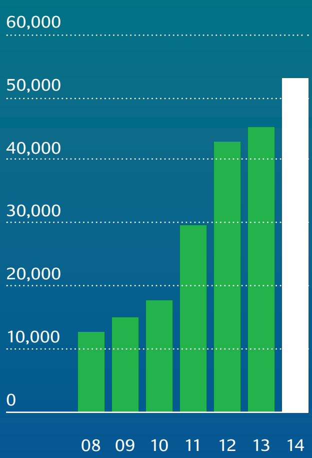
Looking ahead, we expect a slow start to 2015 but a return of confidence during the second half of the year.

In closing, I take this opportunity to express sincere thanks to our shareholders and Board for their continued confidence and support, to our loyal customers for their patronage, and to our management and employees for their dedication and hard work throughout 2014.

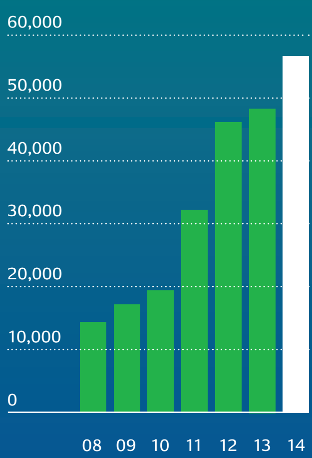
Khalilullah Sediq
Chief Executive Officer

AIB believes it scores highest of all Afghan banks in its 'CAMEL' rating – the acronym for the five key components of a bank's condition: Capital adequacy, Asset quality, Management, Earnings, and Liquidity.

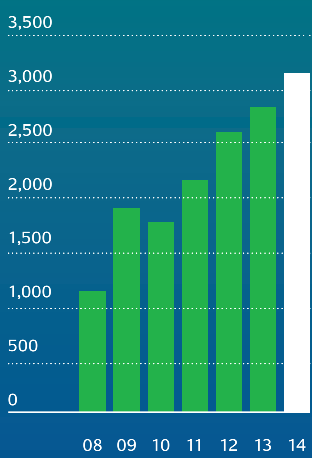
Deposits (AFN millions)



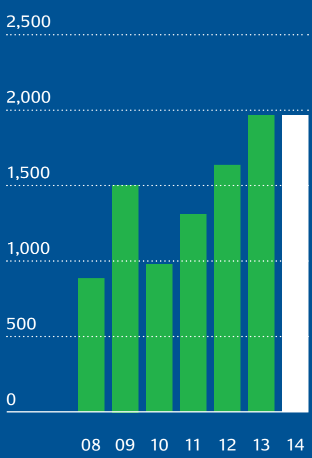
Total assets (AFN millions)



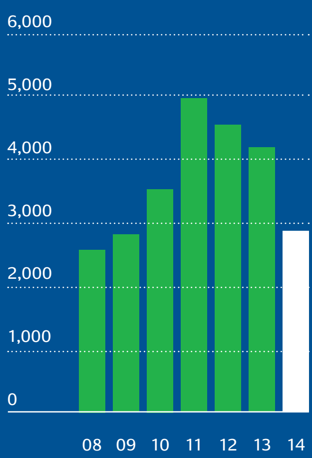
Capital growth (AFN millions)



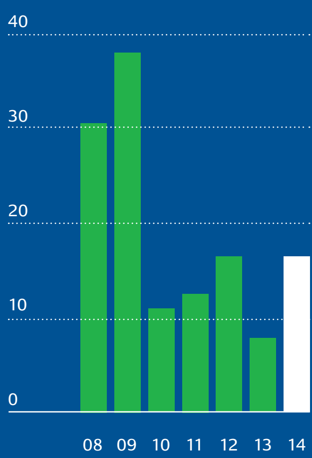
Revenues (AFN millions)



Advances (AFN millions)

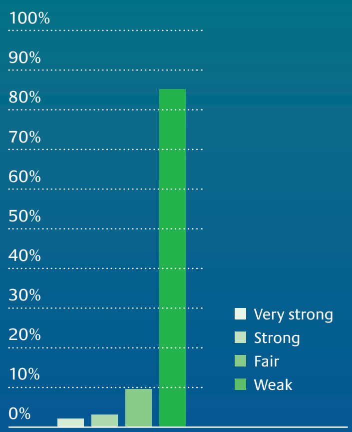


Earnings per share (AFN)

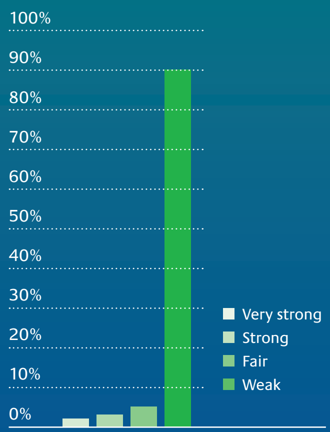


Afghanistan's economy faced severe headwinds in 2014. Foreign aid was drastically scaled back as foreign forces withdrew. This left key sectors lacking investment, weakened domestic demand, drove up unemployment, and came close to pushing an already fragile economy to a halt.

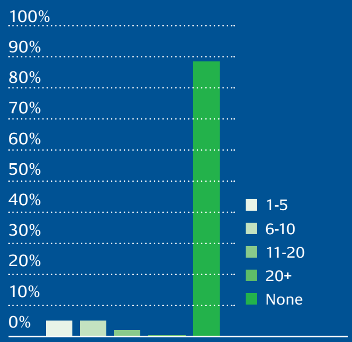
How would you assess the overall business climate?



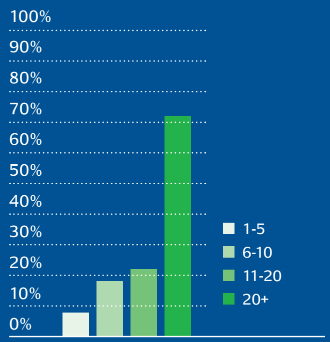
How would you assess the current strength of your business?



How many employees do you intend to hire in the next six months?



How much has your confidence in the economy decreased in the past six months compared to the same period last year?



Annual growth in gross domestic product (GDP) in 2014 is expected to be 0-1 percent according to the Central Bank, and 1.4 percent according to the World Bank. This represents a sharp drop from a robust growth of 12 percent in 2012 and 3.5 percent in 2013. Political uncertainty stemming from the long delay in forming a government has exacerbated the economic slowdown and contributed to uncertainty, thereby hurting consumer and business confidence.

In February, Afghanistan was downgraded by the Financial Action Task Force to 'dark grey', narrowly avoiding being blacklisted. In June, after passing anti-money laundering/combating the financing of terrorism legislation, Afghanistan was upgraded to the 'grey' list. However, the threat of blacklisting remains real and the impact on the Bank a serious concern.

In response to these developments, and to better understand the downside risks and explore possible mitigating options, the Board commissioned a study of the impact of a blacklisting on the Afghan economy. Management subjected the Bank's AML processes to an independent risk assessment by Ernst & Young to identify vulnerabilities and areas for improvement in the Bank's systems.

The sharp slowdown in the economy, the drawn out presidential election, and the lack of a functioning government depressed the overall performance of the banking sector. Net lending to the private sector – equivalent to only 4 percent of GDP – was flat in 2014 and remains modest even by regional standards. This reflects the scarcity of profitable lending opportunities, given limited information available on potential borrowers and the difficulty in realising collateral or collecting loans from delinquent borrowers.

According to the World Bank, the percentage of working capital financed by external sources is about 5 percent in Afghanistan compared to 24 percent in South Asia. Fewer than 10 percent of firms in Afghanistan have a bank loan, compared to 35 percent in South Asia, and only 40 percent have a checking account against South Asia's 80 percent.

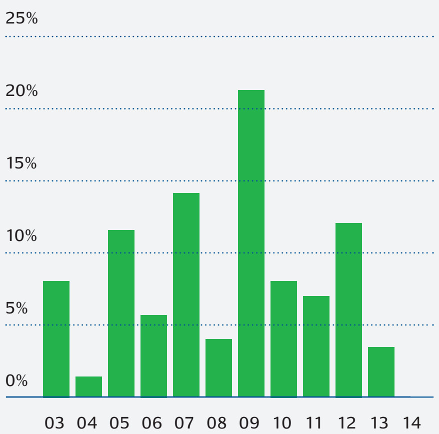
Although 2014 has been a challenging year, we remain in good shape to support our customers and the growth opportunities remain compelling. As we enter this new and difficult phase, we will continue to drive value for our shareholders, making use of our competitive strengths and the opportunities that exist in this market.

There were some bright spots in an otherwise difficult year. The Afghani was relatively stable, depreciating by only 0.9 percent against the US dollar. This was a positive development following the sharp 10.3 percent decline in 2013. International reserves remained at a comfortable level of about $7 billion, equivalent to 7.1 months of imports. Inflation was in single digits (5 percent year-on-year in December 2014) for the second successive year, largely due to a good harvest and relatively benign international commodity prices.

The business community welcomed President Ghani's directive to government officials to immediately reopen the Kabul Bank case, recover stolen funds, hold accountable those involved in the theft, and move ahead with privatising the successor, New Kabul Bank.

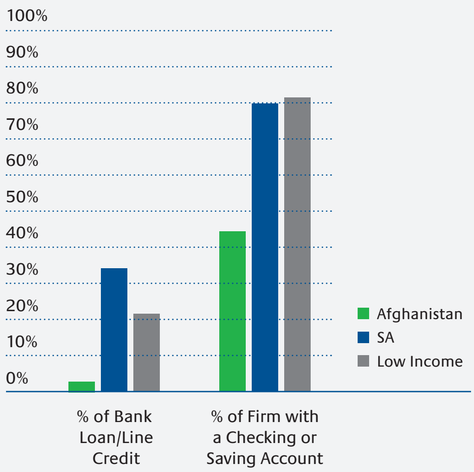
Outgoing President Karzai enacted the long-delayed Mineral Law, giving a much-needed boost to potential investors in this important sector.

Annual GDP growth



Source: Da Afghanistan Bank and International Monetary Fund

Firms' use of Bank Financial Services



[1] Ronald Stride

Independent Director, Chairman of the Board of Supervisors, Member of the Compensation Committee, Member of the Risk Committee, Member of the Strategy and Planning Committee

Mr Stride spent most of his career with Booz Allen & Hamilton, the management consulting firm, where he was a senior vice-president and managing partner for Asia. He also served on the firm's Board of Directors in the US. Mr Stride has been a member of AIB's Board since November, 2009. He is currently a member of several business boards as well as chairing a large Singapore-based charity – Food from the Heart. Until recently he was president of the American Association of Singapore, a position he held for five years. He received his BA degree from Providence College in the USA.

[2] Hamidullah A. Mohib

Shareholder-appointed Member of the Board of Supervisors, Compensation Committee Member, Risk Committee Member

Mr Mohib has been a member of the Board since 2005 and sits on the Compensation and Risk Committees. He is an executive director at Mohib Holdings, responsible for strategic planning and treasury operations for the group's various activities in Central Asia and the Middle East. Mr Mohib was educated at King's University College at the University of Western Ontario.

[3] Lutfullah Rahmat

Shareholder-appointed Member of the Board of Supervisors, Member of the Strategy and Planning Committee

Mr Rahmat is past-chairman of AIB and has been a member of the Board since the Bank's inception in 2004. He is also managing director of the Rahmat Group, the Karachi-based company that has Star Textile Mills Ltd as its principal member; president of Rahmat Fruit Processing Corporation and Rahmat Corrugation Corporation in Afghanistan; and a partner in the sole agents for Samsung Electronics and Appliances in Afghanistan. He graduated with a BCom degree from Bombay University.

[4] Hasib Ahmed

Shareholder-appointed Member of the Board of Supervisors, Chairman of the Risk Committee, Member of the Strategy and Planning Committee, Member of the Investment Committee

Mr Ahmed has been a Board member since November, 2005 and chairs the Risk Committee. He is currently Principal Investment Specialist at the Asian Development Bank, where he heads the Private Sector Microfinance Programme. Previously to this, he worked for 26 years with Citibank in a wide variety of positions in institutional and corporate banking, principally in New York and the Middle East. Mr Ahmed holds a Bachelor's degree in economics from Punjab University, Pakistan.

[5] Veronica John

Independent Director, Chairperson of the Compensation Committee

Ms John has been a member of the AIB Board since 2004, bringing more than 20 years' experience in international finance, especially in emerging markets in Asia and the CIS, including private equity funds, diversified fund of funds management, and investment banking. She is a senior advisor to Diamond Dragon Advisors, a private equity general partner advisory and fund placement business. She was also chief executive of IDFC Capital, an emerging markets private equity fund of funds business, and was a member of the Asian Development Bank team that founded AIB. Ms John holds a BA degree from Elmira College and an MBA from George Washington University.

[6] Brian Dickie

Independent Director, Chairman of the Strategy and Planning Committee

Mr Dickie joined AIB's Board in 2012. He has served as chairman or non-executive director of numerous companies in Europe, North America, and the Middle East, and is currently a senior advisor to Investcorp, the Bahrain-based investment company. He was previously a managing director in Investcorp's London office and president of TXU Energy in Dallas, Texas. For much of his career Mr Dickie was a management consultant with Booz Allen & Hamilton, where he also served as president and chief operating officer from 1993 to 1998. A native of Northern Ireland, he is a graduate of Oxford University and Harvard Business School.

[7] Salman Shoaib

Independent Director, Chairman of the Investment Committee

Mr Shoaib joined the AIB Board in 2012. He is based in Singapore and is managing director of a funds management company, having spent 16 years with Crédit Suisse in New York, London, Hong Kong, and Singapore, holding positions that included head of asset management for Asia Pacific. He has a BA degree in Economics from Brown University, and an MPhil degree in Finance from Cambridge University.

[8] Aditya Srivastava

Independent Director, Member of the Risk Committee

Mr Srivastava has been a Board member since August 2012. He joined Wasl Asset Management in 2008 as general manager of business development, currently responsible for the strategy and business development activities of this Government of Dubai-owned corporation with interests in property, hospitality, and leisure. Before joining Wasl, he had a 20-year career in banking, the last 10 years with Société Générale where he was GCC head of project finance and corporate relationships. Mr Srivastava holds a Master's in Economics from the Delhi School of Economics and is a member of the Institute of Chartered Accountants in England and Wales.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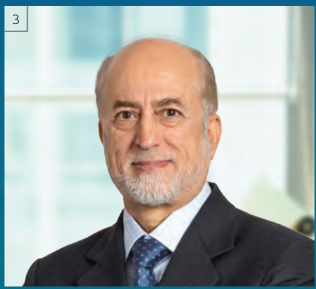
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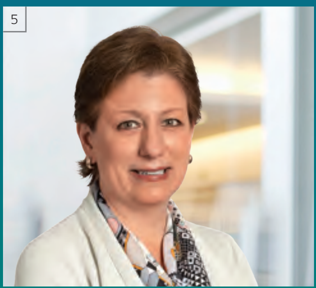
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The shareholders and Board of Supervisors are committed to a high level of corporate governance, and to ensuring that the Bank's management practices are always aligned with the principles of good governance.

Shareholders

The Bank has three shareholders, two holding 46.25 percent each and one with 7.5 percent. The shareholders operate under a policy of non-interference in management decisions and the Bank's operations. The positive reputation and widespread business and Government relations of the Bank's shareholders in Afghanistan have contributed significantly to the success of the institution. Each shareholder appoints one person to the Board of Supervisors.

Shareholder	Beneficial Shareholder	Type of Company	Incorporated	Board Members	Ownership %
Asian Development Bank (ADB)	N/A	Development Bank	Manila, Philippines	Hasib Ahmed	7.50
Horizon Associates	Mohammed Abrahim Mohib	Holding Company	Delaware, USA	Hamidullah A. Mohib	46.25
Wilton Holdings	Lutfullah Rahmat Izzatullah Rahmat Nasrullah Rahmat	Holding Company	Cayman Islands	Lutfullah Rahmat	46.25

Board of Supervisors

The main purpose of the Board of Supervisors is to ensure that the Bank's overall strategic and financial objectives are met, and that the risks associated with a financial institution operating in Afghanistan are managed and monitored.

The Board of Supervisors comprises the Chairman, three shareholder representatives, and four independent directors. The Chairman is also an independent director, in compliance with Central Bank regulations. Independent Board members are in the majority, in line with international governance standards. Brief biographical profiles of the eight current directors are included in this annual review.

The Chairman is a non-executive director and is responsible for leadership of the Board and ensuring its effectiveness. The three shareholder representatives are appointed by the respective shareholders of the Bank and represent the interests of these shareholders.

Finally, the independent directors are expected to bring impartial judgement to the Board through their expertise in the financial world as well as governance experience. Independent directors and directors who are shareholder representatives are appointed every four years.

The Board has established four committees: Compensation, Risk, Investment, and Planning and Strategy. A fifth committee, Audit, reports directly to the shareholders as specified in the Law of Banking in Afghanistan and Central Bank regulations. Each committee has a formal charter to guide its activities.

The Board of Supervisors meets monthly: four times in person and the balance by conference call. The Board committees meet four times a year in person and in conjunction with Board meetings, with occasional conference calls. The Audit Committee meets four times annually. Board committee meetings are attended by the Chief Executive Officer and the Chairman of the Audit Committee. Minutes of committee meetings are circulated to all Board members for their information. The role of these committees is explained in more detail in the 'Governance Report and AIB Committees' section.

Strategy and Planning Committee

The Strategy and Planning Committee's mission is to provide oversight to AIB's strategic planning and annual budgeting and planning processes, as well as the development of major new initiatives. Its members are: Brian Dickie (Chairman), Ronald Stride (both independent directors), Lutfullah Rahmat, and Hasib Ahmed.

In 2014, the committee oversaw projects related to head office reorganisation, new products for small business and retail customers, enhancement of management information systems, customer service improvements, and development of a contingency budget based on various scenarios.

The committee also made quarterly assessments of performance against the 2014 budget and business plan, and reviewed the proposed budget and business plan for 2015.

Risk Committee

The Board's committee to provide comprehensive oversight and best practices in risk governance and risk management comprises Hasib Ahmed (Chairman), Hamidullah A. Mohib, and two independent Board members – Ronald Stride and Aditiya Srivastava.

The principal role of the committee is to review the Bank's risk exposure under different products. This encompasses foreign exchange positions, assets and liabilities, capital adequacy, credit and market risk, and sovereign risk. The committee also reviews performance of the classified and non-performing loan portfolio and, most importantly, reviews and submits to the Board of Supervisors all the Bank's policies associated with risk management. Finally, the committee identifies unacceptable risk conditions to the full Board for consideration and action.

During 2014, the committee mandated the introduction of a monitoring system to identify any increases in credit risk, and received regular reports on steps taken to improve the Bank's 'know your customer' (KYC) and anti-money laundering (AML) compliance. The results of third-party reviews of the Bank's IT security systems and the implementation of improvement recommendations were also monitored.

As the Bank's present external auditors had served the maximum term allowed by the Central Bank, the committee considered a proposal from management to appoint a new firm and made a recommendation to the Board.

Due to uncertainties in the economic outlook for Afghanistan, the Risk Committee adopted a conservative approach for the risk profile of the Bank. This approach will continue in 2015 to ensure the balance between risk and return is maintained.

Compensation Committee

The Compensation Committee comprises three directors, two of whom are independent, including the Chairperson, Veronica John. The other members are Ronald Stride and Hamidullah A. Mohib.

The principal role of the committee is to establish compensation policy for the Chief Executive Officer, members of the Management Board, and other senior managers. These guidelines include base salary, bonus, and fringe benefits. The committee also reviews the performance of senior management through a formal goal-setting and monitoring mechanism. Yearly bonuses are established based on the Bank's financial performance against the annual budget and individual management achievement of their goals. The committee also reviews human resource policies and procedures for employees.

The committee reports to the Board and shareholders on the targets, goals, and performance of management as well as proposed changes to the compensation structure and policies and procedures. The contracts for the Chief Executive Officer and independent directors are also determined by the committee and reported to the Board and shareholders.

In 2014, the committee completed the recruitment of a new Chief Executive Officer as part of a broader succession plan that will take place in early 2015. Other activities during the year included changing the methodology for calculating executive management bonuses, approving a medical insurance scheme for the staff (the first such scheme to be introduced by any Afghan company), approving the selection of a new Chief Risk Officer, and overseeing initiatives to equalise compensation of Afghan and expatriate senior managers and to elevate the focus on retaining and hiring more female professionals.

Investment Committee

The Investment Committee comprises three directors, two of whom are independent, including the Chairman, Salman Shoaib. Other members are Hasib Ahmed and Aditya Srivastava (independent), who was appointed to the committee on the resignation Gokhan Erkhal. The Chairman of the Bank attends meetings as an ex-officio member.

The committee's mandate covers allocation, investment, and oversight of a portfolio of fixed-income securities. Its principal role is to oversee the Bank's investment policy and to ensure this is modified and executed in the context of the Bank's risk and capital parameters. In this regard, the committee works with the Board and management to develop investment policies, oversee investment of the Bank's funds, and monitor the mandate and performance of independent asset managers hired by the Bank.

In 2014, the committee reviewed quarterly reports on the performance of the two Asset Managers against pre-set return on investment targets. The Committee also met the Asset Manager to understand developments in the fixed income markets.

The committee provided guidance to management on adjusting risk parameters to improve yield and ensure that the Bank's fixed-income portfolio remained in compliance with regulations from the Central Bank. It sought approval from the full Board when required and highlighted issues that required attention.

Audit Committee

The Audit Committee is established under the Banking Act in Afghanistan. The committee reports directly to the shareholders and the committee's Chairman, and its members are appointed at the annual general meeting of shareholders. Appointments are for not more than four years and may be renewed for like periods. Members of the committee are subject to the same fit and proper requirements as members of the Board of Supervisors. The committee has three members, all qualified and experienced in accounting or banking, and is responsible for overseeing financial reporting, compliance with risk management policies and procedures, internal controls, ethics, and management and functioning of internal audit. In 2014 the committee assessed and approved the annual internal audit plan, including budget and resources. Progress was also monitored regularly.

The committee is responsible for relationships with the external auditors and meets them on completion of the annual audit and quarterly reviews. On the recommendation of the Audit Committee, the Board of Supervisors approves the Bank's financial statements. The Committee reviewed the appointment of new external auditors for 2015, recommending the terms of engagement and fees for Board approval.

In 2014 the committee scrutinised impairment charges on loans and advances, reviewing recovery efforts and monitoring possible impact of legal actions relating to operational losses, although the Bank has not been named in such actions. The committee continued to regularly assess the progress being made with regulatory compliance controls, including know your customer, anti-money laundering, and fraud.

Meetings are usually held four times a year (as in 2014) in person and in conjunction with Board meetings. The Chief Executive, Deputy Chief Executive, and other Management Board members attend the meeting on invitation. Minutes are presented at the next Board meeting, when the committee Chairman reports on matters requiring Board attention.

Khalilullah Sediq
Chief Executive Officer,
Chairman of the Management Board

Mr Sediq has 30 years' experience as a central banker and a commercial banker in Afghanistan and America. He joined Da Afghanistan Bank, the Central Bank of Afghanistan, in 1971 and held senior management positions in most departments, serving as Governor from 1990 to 1991. Mr Sediq was with Sun Trust Bank in the USA before returning to Afghanistan in 2006 to become Chief Executive Officer of Afghanistan International Bank, turning a loss-making bank into the most profitable and most respected in Afghanistan. He is also Chairman of Afghanistan Banks Association, a director of Harakat (Afghanistan Investment Climate Facility Organisation), and a director of the Afghanistan Institute of Banking and Finance. Mr Sediq holds a BA degree in macroeconomics from Kabul University.

Guy Mallett
Deputy Chief Executive Officer,
Member of Management Board

Mr Mallett joined AIB in 2014, having previously worked with the Bank in an advisory capacity. He brings with him 38 years of international commercial banking experience, gained with the Barclays and Fortis groups, predominantly in frontier and emerging markets. He is a graduate of the London School of Economics.

Lalit Kumar Jha
Chief Finance Officer,
Member of Management Board

Mr Jha holds a Bachelor's degree in commerce and is a qualified chartered accountant with more than 20 years' experience, mainly in the banking sector. He has been CFO at AIB since 2010, having previously been senior vice-president at Dresdner Bank, New Delhi, and head of accounts and taxation at Bank of Tokyo Mitsubishi UFJ, New Delhi.

Asadullah Fayzi
Chief Operating Officer,
Member of Management Board

Mr Fayzi holds the dual positions of CIO and COO, having joined AIB at its inception in 2004 as head of IT, and having previously been IT manager for Afghanistan Reconstruction Company. He was appointed to his current position during 2012. He holds an MSc in telecommunications from Istanbul Technical University, Turkey.

Khurram Sikander
Head of Internal Audit

Mr Sikander joined AIB in 2011 as Head of Internal Audit. He was previously with Aga Khan Development Network (AKDN), where he worked in internal audit, internal controls, and risk and compliance. He has also served on the Board of Directors of an AKDN institution. Mr Sikander is a member of the UK Association of Chartered Certified Accountants and an associate member of the Association of Certified Fraud Examiners.

Omer Omery
Head of Retail Banking

Mr Omery has nine years' experience with AIB, from managing a regional branch to electronic banking, marketing, small business loans, and general branch management. He also spent three years in a managerial position with the United Nations Organisation. He is a candidate for an MBA in International Business from the University of Liverpool, England.

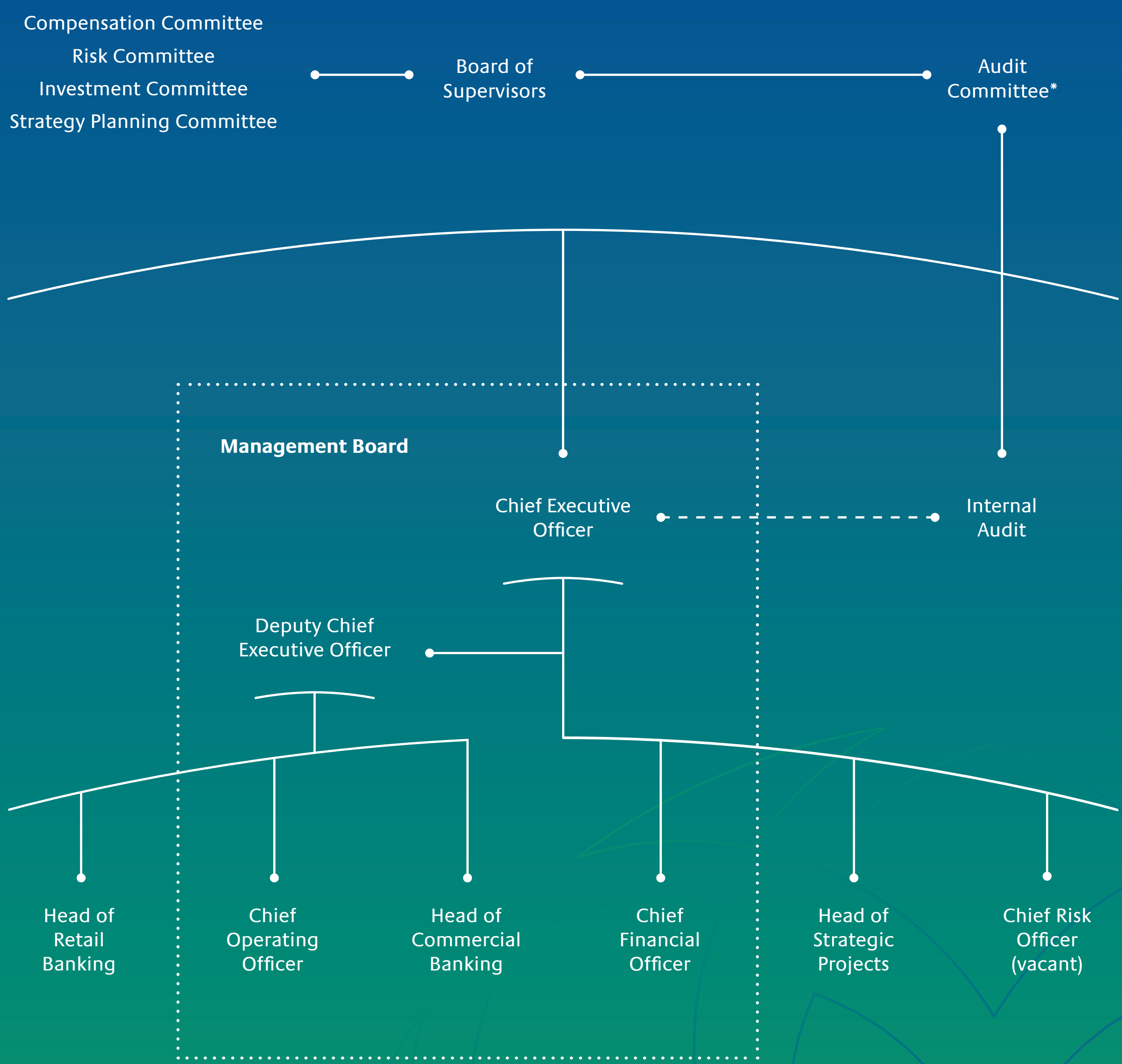
Tamsil Rashid
Head of Commercial Banking,
Member of Management Board

Mr Rashid has close to 30 years' experience in commercial, development, and Islamic banking, having begun his career with Habib Bank and later joining the Bank of Khyber in Pakistan, where he rose to senior vice-president and divisional head of credit management. Mr Rashid holds an MPA degree, majoring in economics, and a diploma from the Institute of Bankers in Pakistan.

Mohammad Taofiq Mir
Head of Strategic Projects

Mr Mir began his banking career in 2006 with AIB. He managed electronic banking channels and was Head of Retail Banking before becoming Head of Special Projects in 2014. He holds a BSc in electrical engineering from Delft University of Technology, Netherlands.

Organisation



* Reports directly to shareholders

2014
Cards launched featuring new branding

MC Platinum Credit Card

MC Titanium Credit Card

MC Prepaid Card

CUP Prepaid Card

MC Gift Card

2014
AIB wins *Banker* magazine's *Bank of the Year Afghanistan* award for the third consecutive year

2014
Nominated by the World Bank, AIB wins *Best Corporate Governance, Afghanistan* at the CFI.co awards

2014
AIB wins League of American Communications Professionals' Gold Award for *Best Letter to Shareholders* and Silver Award for the overall 2013 annual report

2004

AIB signs a Management Services and Technical Assistance Agreement with ING Institutional and Government Advisory Services BV, the independent advisory unit of Netherlands-headquartered ING Wholesale Banking. This agreement expired in September 2007, ING having fulfilled its mandate.

Asian Development Bank's Board of Directors approves a $2.6 million equity investment in AIB.

ADB enters into an agreement with three other investors to form the shareholders group, each owning 25 percent equity.

2005

Opening of first branch outside Kabul.

2006

Khalilullah Sediq joins as Chief Executive Officer.

2007

AIB shows annual profit for the first time.

2008

Appointed bankers to the American forces in Afghanistan.

2010

AIB pays first dividend to shareholders, with total distribution of $10 million.

2011

Deposits exceed $500 million.

Site of 4,550 m² purchased for development of new head office, a 12-storey property with total built area of roughly 15,500 m².

2012

Deposits exceed $800 million.

AIB acquires Standard Chartered Bank's business in Afghanistan.

The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan.

2013

The Banker magazine again designates AIB as 'Bank of the Year' in Afghanistan.

2014

After being nominated by the World Bank, AIB wins 'Best Corporate Governance, Afghanistan' in the 2014 CFI.co awards.

The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan for the third consecutive year.

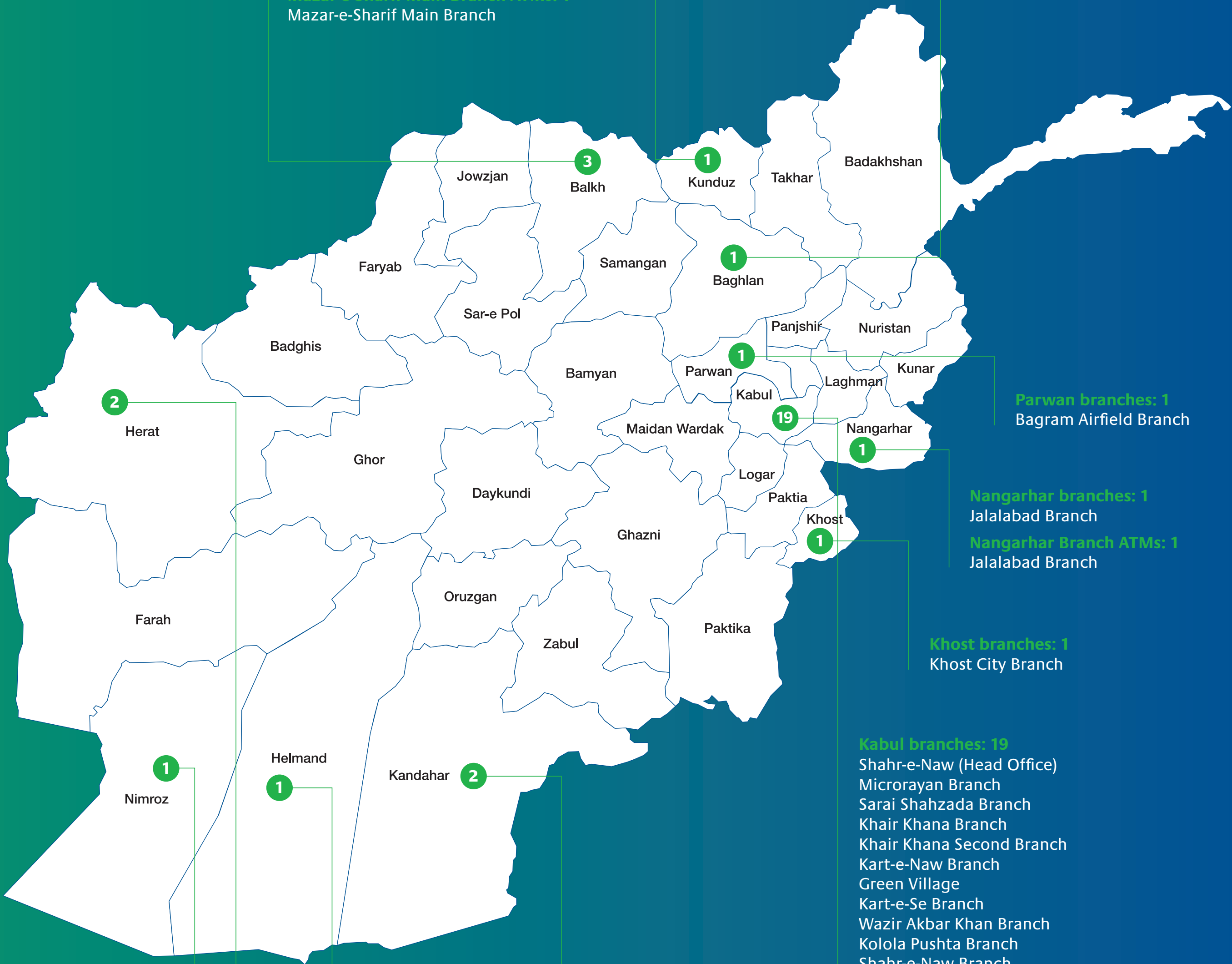
The Bank begins building its 15,500 m² 12-storey head office.

Balkh branches: 3
Mazar-e-Sharif Main Branch
Mazar-e-Sharif 2nd Branch
Hairatan Branch

Mazar-e-Sharif Main Branch ATMs: 1
Mazar-e-Sharif Main Branch

Kunduz branches: 1
Kunduz City Branch

Baghlan branches: 1
Pole-e-Khumri Branch



Parwan branches: 1
Bagram Airfield Branch

Nangarhar branches: 1
Jalalabad Branch

Nangarhar Branch ATMs: 1
Jalalabad Branch

Khost branches: 1
Khost City Branch

Kabul branches: 19
Shahr-e-Naw (Head Office)
Microrayan Branch
Sarai Shahzada Branch
Khair Khana Branch
Khair Khana Second Branch
Kart-e-Naw Branch
Green Village
Kart-e-Se Branch
Wazir Akbar Khan Branch
Kolola Pushta Branch
Shahr-e-Naw Branch
Mirwais Maidan Branch
Taimani Branch
Jad-e-Maiwand Branch
Park ha-e-Sanati Branch
Dasht-e-Barchi Branch
Pule Bagh-e-Omomi Branch
UNOCA Branch
Chahrahi-e-Baraki Branch

Kabul cash outlets: 2
ISAF HQ
KAIA

Kabul Branch ATMs: 11
Mirwais Maidan Branch: 1
Taimani Branch: 1
Shahr-e-Naw (Head Office): 2
Shahr-e-Naw: 1
Wazir Akbar Khan: 2
Microryan: 1
UNOCA: 2
Kart-e-se: 1

Kandahar branches: 1
Kandahar City Branch

Kandahar Branch ATMs: 1
Kandahar City Branch

Helmand branches: 1
Lashkargah Branch

Herat branches: 2
Herat Main Branch
Darb-e-Khosh Branch

Herat Branch ATMs: 1
Herat Main Branch

Nimroz branches: 1
Nimroz City Branch

Financial Statements

Deloitte.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

Introduction

We have audited the accompanying financial statements of Afghanistan International Bank (the Bank), which comprise the statement of financial position as at December 31, 2014, and the statement of comprehensive income, the statement of cash flow, and the statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting framework as stated in note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Afghanistan International Bank as at December 31, 2014, and of their financial performance and cash flows for the year then ended in accordance with the accounting framework as stated in note 2 to the financial statements.

M. Yousuf Adil Saleem & Co

Chartered Accountant

Engagement Partner:
Asad Ali Shah

Karachi
Date: 7th March 2015

	Note	2014 AFN '000	2013 AFN '000
ASSETS			
Cash and balances with Da Afghanistan Bank (DAB)	5	**11,163,004**	8,499,376
Balances with other banks	6	**11,624,614**	17,106,613
Placements – net	7	**14,898,004**	5,018,496
Participation purchased – net	8	**–**	529,992
Investments – net	9	**14,440,790**	11,694,831
Loans and advances to customers – net	10	**2,889,723**	4,204,751
Receivable from financial institutions	11	**103,017**	197,699
Operating fixed assets	12	**491,406**	430,683
Intangible assets	13	**255,770**	175,486
Deferred tax assets	16	**–**	3,994
Other assets	14	**365,529**	252,235
TOTAL ASSETS		**56,231,857**	48,114,156
LIABILITIES			
Customers' deposits	15	**52,908,347**	45,120,851
Deferred income on commercial letter of credit and guarantees		**8,531**	11,826
Deferred tax liabilities	16	**14,604**	–
Other liabilities	17	**222,837**	206,209
Total liabilities		**53,154,319**	45,338,886
EQUITY			
Share capital	18	**1,465,071**	1,465,071
Capital reserves	19	**168,262**	143,269
Retained earnings		**1,431,185**	1,239,824
Surplus/(Deficit) on revaluation on available for sale investments – net		**13,020**	(72,894)
Total equity		**3,077,538**	2,775,270
TOTAL EQUITY AND LIABILITIES		**56,231,857**	48,114,156
CONTINGENCIES AND COMMITMENTS	20		

Chief Executive Officer

Chairman

The annexed notes 1 to 35 form an integral part of these financial statements.

	Note	2014 AFN '000	2013 AFN '000
Interest income	21	1,067,557	1,160,800
Interest expense	22	(2,728)	(2,230)
Net interest income		1,064,829	1,158,570
Fee and commission income	23	615,533	570,314
Fee and commission expense	24	(13,935)	(14,238)
Net fee and commission income		601,598	556,076
Income from dealing in foreign currencies	25	216,344	205,690
		1,882,771	1,920,336
Other income	26	76,865	61,162
Loss on sale of securities		(16,307)	(16,105)
Provision against loan losses	10.3	(127,659)	(305,305)
Provision on Investments	9.4	(7,715)	(13,185)
Provision on participation purchased	8.2	2,663	(2,663)
Provision on placements	7.4	(52,460)	(3,160)
Other provisions	14.2	–	(250,605)
General and administrative expenses	27	(1,194,898)	(1,079,713)
PROFIT BEFORE INCOME TAX		563,260	310,762
Taxation	28	(63,406)	(70,972)
PROFIT FOR THE YEAR		499,854	239,790
OTHER COMPREHENSIVE INCOME			
Items that may classify to profit and loss subsequently			
Net change in fair value on available-for-sale financial investments – net of tax		85,914	(25,015)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		585,768	214,775
Earnings per share – Basic and diluted	31	16.66	7.99

Chief Executive Officer

Chairman

The annexed notes 1 to 35 form an integral part of these financial statements.

	Share capital AFN '000	Reserve-surplus/ (deficit) on revaluation of available-for-sale investments AFN '000	Capital Reserve AFN '000	Retained Earnings AFN '000	Total AFN '000
Balance as at January 1, 2013	1,465,071	(47,879)	131,279	1,012,024	2,560,495
Comprehensive income					
Profit for the year	–	–	–	239,790	239,790
Other comprehensive income	–	(31,269)	–	–	(31,269)
Deferred tax	–	6,254	–	–	6,254
Total comprehensive income	–	(25,015)	–	239,790	214,775
Transferred to Capital Reserve	–	–	11,990	(11,990)	–
Balance as at December 31, 2013	1,465,071	(72,894)	143,269	1,239,824	2,775,270
Balance as at January 1, 2014	1,465,071	(72,894)	143,269	1,239,824	2,775,270
Comprehensive income					
Profit for the year	–	–	–	499,854	499,854
Other comprehensive income	–	106,709	–	–	106,709
Deferred tax	–	(20,795)	–	–	(20,795)
Total comprehensive income	–	85,914	–	499,854	585,768
Transferred to Capital Reserve	–	–	24,993	(24,993)	–
Transactions with owners					
Interim dividend @ AFN 9.45 per share paid during the year	–	–	–	(283,500)	(283,500)
Balance as at December 31, 2014	1,465,071	13,020	168,262	1,431,185	3,077,538

Chief Executive Officer

Chairman

The annexed notes 1 to 35 form an integral part of these financial statements.

	Note	2014 AFN '000	2013 AFN '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		987,645	1,092,879
Interest payments		(2,799)	(2,228)
Fee and commission receipts		609,456	570,360
Fee and commission payments		(13,935)	(14,214)
Income from dealing in foreign currencies		216,344	205,690
Other income		75,518	45,317
General administrative expenses paid		(1,131,282)	(1,013,819)
Cash flows from operating activities before changes in operating assets and liabilities		740,947	883,985
Changes in operating assets and liabilities:			
Receivable from financial institutions		94,682	(6,491)
Required reserve maintained with DAB		(530,386)	(233,055)
Cash margin held with other banks		640,549	(68,190)
Loans and advances to customers – net		1,187,369	35,700
Other assets		(89,335)	(285,229)
Customers' deposits		7,787,496	1,978,197
Other liabilities		52,534	(87,122)
Net cash generated from operating assets and liabilities		9,142,909	1,333,810
Income tax paid		(90,446)	(117,048)
Net cash flow from operations		9,793,410	2,100,747
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from placements (with maturity more than three months)		(6,294,168)	2,069,460
(Increase) in investments		(2,602,229)	(3,561,987)
Participation sold/(purchased) (with maturity more than three months)		397,671	(397,671)
Purchase of property and equipment		(35,648)	(35,632)
Proceeds from sale of property and equipment		1,019	282
Additions to capital work in progress		(75,393)	(121,707)
Purchase of intangible assets		(106,882)	(2,850)
Net cash flow used in investing activities		(8,715,630)	(2,050,105)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(283,500)	–
Net cash flow used in financing activities		(283,500)	–
Net increase in cash and cash equivalents		794,280	50,642
Effect of foreign currency exchange loss on cash and cash equivalents		328	15,563
Cash and cash equivalents at beginning of the year		24,628,013	24,561,808
Cash and cash equivalents at end of the year	30	25,422,621	24,628,013

Chief Executive Officer

Chairman

The annexed notes 1 to 35 form an integral part of these financial statements.

1. STATUS AND NATURE OF BUSINESS

Afghanistan International Bank (the Bank) was registered with Afghan Investment Support Agency (AISA) on December 27, 2003 and on March 22, 2004 received formal commercial banking license from Da Afghanistan Bank (DAB), the Central Bank in Afghanistan, to operate nationwide.

The Bank obtained Islamic banking license from DAB via letter no. 1863/1890 dated 31/04/1393 (July 21, 2014) and commenced Islamic banking operations during the year.

The Bank is a limited liability Company and is incorporated and domiciled in Afghanistan. The principal business place of the Bank is at AIB head office, Shahr-e-naw, Haji Yaqoob Square, Shahabuddin Watt, Kabul, Afghanistan.

The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The Bank has thirty two branches and four cash outlets (2013: thirty two branches and four cash outlets) in operation and 646 employees (2013: 634 employees).

2. BASIS OF PREPARATION AND MEASUREMENT

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and the Law of Banking in Afghanistan. Whenever the requirement of the Law of Banking in Afghanistan differs with the requirements of the IFRS, the requirement of the Law of Banking in Afghanistan takes precedence.

These financial statements have been prepared using accrual basis of accounting under the historical cost convention except for the Financial instruments designated as available for sales are measured at fair value [Note:3.3(d)].

The financial statements comprise statement of financial position, statement of comprehensive income as a single statement, statement of changes in equity, statement of cash flows and the accompanying notes.

The Bank classifies its expenses by the 'function of expense' method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

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

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

	Effective from accounting period beginning on or after
Amendments to IAS 32 Financial Instruments: Presentation – Offsetting financial assets and financial liabilities	January 01, 2014
IAS 36 Impairment of Assets – Recoverable amount disclosures for non-financial assets	January 01, 2014
IAS 39 Financial Instruments: Recognition and measurement – Novation of derivatives and continuation of hedge accounting	January 01, 2014
IAS 27 (Revised 2011) – Separate Financial Statements	January 01, 2014
IFRS 10 – Consolidated Financial Statements	January 01, 2014
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2014
IFRIC 21 – Levies	January 01, 2014

2.2 New accounting standards and IFRS interpretations that are not yet effective

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

	Effective from accounting period beginning on or after
Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization	January 01, 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer plants	January 01, 2016
Amendments to IAS 19 Employee Benefits: Employee contributions	July 01, 2014
Amendments to IAS 27 Equity Method in Separate Financial Statements	January 01, 2016
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures	January 01, 2016
Amendments to IFRS 2 Definition of Vesting Conditions	July 01, 2014
Amendments to IFRS 3 Accounting for Contingent Consideration in a Business Combination	July 01, 2014
IFRS 9 Financial Instruments	January 01, 2018*
IFRS 15 Revenue from Contracts with Customers	January 01, 2017
Amendments to IFRS 10 – Consolidated Financial Statements	January 01, 2016
Amendments to IFRS 11 Accounting for Acquisition of Interests in Joint Operations	January 01, 2016

* For periods beginning before January 01, 2018, previous version of IFRS 9 may be adopted provided the relevant data of initial application is before February 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the periods presented in these financial statements.

3.1 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity including cash in hand and at ATM, unrestricted balances with the DAB, balances with banks, placements and participation purchased with other banks.

3.2 Financial instruments

Financial assets and liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument, and derecognized when the Bank loses control of the contractual rights that comprise the financial assets, and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or loss on derecognition of financial assets and financial liabilities is included in income for the year.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in statement of comprehensive income.

when a sale or transfer of held to maturity securities represents a material contradiction with the Banks stated intent to hold those securities to maturity or when a pattern of such sales has occurred, any remaining held to maturity securities are reclassified to available for sale. The reclassification is recorded in the reporting period in which the sale or transfer occurs and accounted for as a transfer.

3.3 Financial assets

The Bank classifies its financial assets in four categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held-for-trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held-for-trading if it is acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives (if any) are also categorized as held for trading unless they are designated as hedges.

Financial assets are designated at fair value through profit or loss at inception when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss;
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss; and
- Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Cash and balances with Da Afghanistan Bank (DAB), balances with other banks, participation purchased and receivable from financial institution, loans and advances to customers and security deposits and other receivables are classified under this category.

c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity financial assets before its maturity, the entire category would be reclassified as available for sale. Placements are classified under this category.

d) Available-for-sale financial assets

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets (AFS) are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale are recognized on trade-date the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the statement of comprehensive income as a part of other income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

3.4 Impairment of financial assets

a) Assets carried at amortized cost except for loans and advances to customers

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a `loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.4 Impairment of financial assets continued

a) Assets carried at amortized cost except for loans and advances to customers continued

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in impairment charge for credit losses.

b) Loans and advances to customers

These are stated net of general provision on loans and advances considered 'Standard' and specific provision for non-performing loans and advances, if any. The outstanding principal of the advances are classified in accordance with the Classification and Loss Reserve Requirement (CLRR) issued by DAB.

i) **Standard:** These are loans and advances, which are paying in a current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any supporting it. A general provision is maintained in the books of account @ 2% (2013: 0.25%) of value of such loans and advances.

ii) **Watch:** These are loans and advances which are adequately protected by the collateral, if any supporting it, but are potentially weak. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification to Substandard. Further, all loans and advances which are past due by 31 to 60 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account not less than 5% of value of such loans and advances.

iii) **Substandard:** These are loans and advances which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral, if any, supporting it. Further, all loans and advances which are past due by 61 to 90 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account not less than 25% of value of such loans and advances.

iv) **Doubtful:** These are loans and advances which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. Further, all loans and advances which are past due by 91 to 539 days (2013: 91 to 180 days) for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account not less than 50% of value of such loans and advances.

v) **Loss:** These are loans and advances which are not collectible and or such little value that its continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 540 days (2013: 180 days) for principal or interest payments are also classified as Loss. A provision is maintained in the books of account @100% of value of such loans and advances and then these loans are charged off and the reserve for losses is reduced immediately upon determination of Loss status.

c) Participation purchased

Participation purchased are loans and receivables financial assets invested under participation agreement that are not quoted in an active market. The management maintains a provision of 0.5% of participation purchased to cover the counter party risk.

d) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets previously recognized in the statement of comprehensive income is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income, related to an event occurring after the impairment loss was recognized.

3.5 Financial liabilities

The Bank classifies its financial liabilities in following categories.

a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified in this category if incurred principally for the purpose of trading or payment in the short term. Derivatives (if any) are also categorized as held for trading unless they are designated as hedges.

b) Other financial liabilities measured at amortized cost

These are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement.

3.6 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date the fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximizes the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for a identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market risk or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.7 Operating fixed assets

These are stated at historical cost less accumulated depreciation and impairment, if any, except for capital work in progress which is stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent cost are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the depreciable amount of the assets over their estimated useful life as follows:

	Useful life
Leasehold improvements	3 to 10 years
Computers	3 to 5 years
Office equipment	3 to 5 years
Furniture and fixtures	3 to 10 years
ATMs	5 years
Vehicles	5 years

Depreciation is charged on additions during the year from the month they become available for their intended use while no depreciation is charged in the month of disposal of assets.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount. These are included in other income in the statement of comprehensive income.

3.8 Intangible assets

Intangible assets are capitalized only to the extent that the future economic benefits can be derived by the Bank having useful life of more than one year. Intangible assets are stated at cost less accumulated amortization. Amortization is charged to income applying the straight line method.

i) Computer software

Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of 3 to 10 years.

ii) License fee

Acquired trademarks and licenses are initially recognized at historical cost and subsequently recognized at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the licenses over their estimated useful life.

3.9 Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the equity interests issued by the Bank in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

3.10 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Please refer to note 13.2 for further details.

For the purposes of impairment testing, goodwill is allocated to each of the Bank's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.11 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Non-financial assets that are subject to depreciation/amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss or reversal of impairment loss is recognized in the statement of comprehensive income. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Reversal of the impairment losses is restricted to the original cost of the assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.12 Taxation

Current

The current income tax charge is calculated in accordance with Income Tax Law, 2009. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.13 Revenue recognition

a) Interest income and expenses for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within `interest income' and `interest expense' in the statement of comprehensive income using the effective interest rate method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

b) Due but unpaid interest income is accrued on overdue advances for periods up to 90 days in compliance with the Banking regulations issued by DAB. After 90 days, overdue advances are classified as non-performing and further accrual of unpaid interest income ceases.

c) Gains and losses on disposal of property and equipment are recognized in the period in which disposal is made.

d) Fees and commission income and expense are recognized on an accrual basis when the service has been provided/received.

e) Fee and commission income that are integral part to the effective interest rate on financial assets and liability are included in the measurement of effective interest rate. Other fee and commission expenses related mainly to the transactions are services fee, which are expensed as the services are received.

3.14 Foreign currency transactions and translation

a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is Afghani (AFN).

b) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency assets and liabilities are translated using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of assets and liabilities denominated in foreign currencies are recognized in income currently.

The exchange rate for following currencies against AFN were:

	1 USD	1 EURO	1 AED
As at December 31, 2014	**58.32**	**70.85**	**15.83**
As at December 31, 2013	56.01	76.73	15.25

3.15 Provisions

Provisions are recognized when there are present, legal or constructive obligations as a result of past events; it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amounts can be made. Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations.

3.16 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements when there is a legally enforceable right to offset the recognized amounts and the Bank intends to settle either on a net basis or realize the assets and settle the liabilities simultaneously.

3.17 Dividend Distribution

Final dividend distributions to the bank's shareholders are recognized as a liability in the financial statements in the period in which the dividends are approved by the Bank's shareholders at the Annual General Meeting while interim dividend are recognized in the period in which the dividends are declared by the Board of Supervisors.

3.18 Earnings per share

The Bank presents basic and diluted earnings earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to shareholders of the Bank by the weighted-average number of shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss that is attributable to shareholders and the weighted-average of shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

4. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgments will, by definition, rarely equal the related actual results. The material estimates, assumptions and judgments used to measure and classify the carrying amounts of assets and liabilities are outlined below:

a) Provision for loan losses

The Bank reviews loans to customer balances quarterly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in note 10.3. The Bank maintains a general provision of 2% (2013: 0.25%) against outstanding loan and advances to customers as at the year end.

Change in accounting estimates

The Bank reviews loans to customer balances quarterly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in note 10.3. Based on previous experience of classified portfolio and sufficiency of general and specific provision, the management has revised its estimates of general provision against loans and advances to customers. Previously, general provision was maintained at 0.25% of standard loans and advances which has been increased to 2% of same balance. The general provision at previous and current rates amounts to AFN 7,196,000 and AFN 57,571,000 respectively.

b) Provision for income taxes

The Bank recognizes tax liability in accordance with the provisions of Income Tax Law 2009. The final tax liability is dependent on assessment by Ministry of Finance Afghanistan.

c) General provision on Investments and placements

The management also maintains a provision of 0.5% on collective balance of investments (excluding those with DAB) and placements (excluding balances held with Standard Chartered Bank) to cover the counter party risk.

d) General provision on participation purchased

The management maintains a provision of 0.5% of participation purchased to cover the counter party risk.

e) Useful life of property and equipment and intangible assets

The Bank reviews the useful life and residual value of property and equipment and intangible assets on a regular basis. Any change in estimates may affect the carrying amounts of the respective items of property and equipment and intangible assets with a corresponding effect on the depreciation/ amortization charge.

f) Held-to-maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

5. CASH AND BALANCES WITH DA AFGHANISTAN BANK (DAB)

	2014 AFN '000	2013 AFN '000
Cash in hand	2,590,979	2,465,830
Cash in hand – Islamic banking division	9,509	–
Cash at Automated Teller Machines (ATMs)	451,180	329,371
	3,051,668	2,795,201
With Da Afghanistan Bank		
Local currency		
- Deposit facility accounts	–	352,062
- Required reserve accounts	4,132,545	3,602,159
- Current accounts	979,694	697,629
	5,112,239	4,651,850
Foreign currency		
- Current account	2,999,097	1,052,325
	8,111,336	5,704,175
	11,163,004	8,499,376

Required reserve account is being maintained with DAB which is denominated in AFN to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. The required reserve and the deposit facility accounts kept with DAB are interest bearing having interest rate @ 28 days capital note rate −1% (2013: 28 days capital notes rate −1%).

6. BALANCES WITH OTHER BANKS

	2014 AFN '000	2013 AFN '000
Outside Afghanistan		
With Standard Chartered Bank – note 6.1	8,497,954	12,736,513
With Commerzbank, Germany		
- in nostro accounts – note 6.2	2,687,188	2,512,088
- as cash margins held – note 6.3	230,852	871,401
With other banks – note 6.4	208,620	986,611
	11,624,614	17,106,613

6.1 Balances maintained with Standard Chartered Bank are interest bearing ranging from 0.2% to 0.3% p.a. (2013: 0.2% to 0.3% p.a.) and are available on demand.

6.2 This represents interest bearing nostro accounts. It carries interest @ Libor-0.25% (2013:Libor-0.25%).

6.3 It carries interest @ Libor-0.25% (2013: Libor-0.25%), held with Commerzbank, Germany against letters of credit issued on behalf of the Bank.

6.4 It includes balances maintained with investment managers Julius Baer and Emirates NBD and other banks and are non-interest bearing and available on demand.

7. PLACEMENTS – NET

	2014 AFN '000	2013 AFN '000
Short term		
- with Standard Chartered Bank – note 7.1	–	560,100
- with other banks in foreign currency – note 7.2	**14,098,068**	3,920,700
	14,098,068	4,480,800
Long term		
- with other bank in foreign currency – note 7.3	**874,800**	560,100
	874,800	560,100
General provision held – note 7.4	**(74,864)**	(22,404)
	14,898,004	5,018,496

7.1 These represent overnight and fixed term placement with Standard Chartered Bank outside Afghanistan having six months maturity in USD carrying interest rate Nil. (2013: 0.41 %).

7.2 These represent overnight and fixed term placements with financial institutions outside Afghanistan up to a maximum period of one year (2013: one year) in USD carrying interest at rates ranging from 0.55% p.a to 1.55% p.a (2013: 0.70 % p.a. to 1.70 % p.a).

7.3 These represent fixed term placement with financial institutions outside Afghanistan in USD having maturity period till June 30, 2016 carrying interest rate 1.15% to 1.25% p.a. (2013: 1.25% p.a).

7.4 General provision of 0.5% on placements (except for placements with Standard Chartered Bank) was provided during the year to cover the counter party and market risk.

8. PARTICIPATION PURCHASED – NET

	2014 AFN '000	2013 AFN '000
Participation purchased – note 8.1	–	532,655
General provision held – note 8.2	–	(2,663)
	–	529,992

8.1 These represent Bank's share in amounts invested by the participant Banks under participation agreements with Emirates NBD and United Bank Limited Dubai (grantor banks), carried interest rate Nil (2013: 2.5% + 3 months libor to 3.5% + 3 month libor) with maturity Nil (2013: from three to six months).

8.2 General provision of 0.5% on participation purchased was provided to cover counter party risk.

9. INVESTMENTS – NET

	2014 AFN '000	2013 AFN '000
Available for sale investment		
- Investment bonds – note 9.1	**4,757,800**	4,675,718
Held-to-maturity Investments		
- Capital notes with DAB – note 9.2	**5,311,270**	4,100,597
- Investment bonds – note 9.3	**4,417,597**	2,956,678
	9,728,867	7,057,275
General provision held – note 9.4	**(45,877)**	(38,162)
	14,440,790	11,694,831

9.1 These represent investments made in investment bonds. Investment in bonds have maturity ranging from January 2015 to June 2019 and carry coupon interest rates ranging from 0.88 % to 10.38 % (2013: 0.75 % to 10.38 %). These investments are managed by Julius Baer and Emirates NBD on behalf of the Bank.

9.2 These represent investments in capital notes issued by DAB, up to a maximum period of one year (2013: one year) carrying yield at rates ranging from 3.56% p.a. to 7.25% p.a. (2013: 3.37% p.a. to 7.07% p.a.) receivable on maturity of respective notes.

9.3 These represent investments in bonds from various financial institutions and sovereign corporates carrying coupon interest rates ranging from 2.99% to 8% (2013: 2.99% to 8%). These investments have maturity ranging from May 2015 to October 2020. These investments are classified as "Held-to-maturity" because of the Bank's ability and intention to hold these investments up to maturity. These investments are managed by Julius Baer and Emirates NBD on behalf of the Bank.

9.4 General provision of 0.5% on collective investments (excluding investment – Capital notes with Da Afghanistan Bank) was provided to cover the market and counter party risk.

10. LOANS AND ADVANCES TO CUSTOMERS – NET

	2014 AFN '000	2013 AFN '000
Overdrafts – note 10.1	**2,886,581**	3,976,853
Term loans – note 10.2	**137,100**	251,442
Consumer Loans – note 10.9	**5,629**	1,114
	3,029,310	4,229,409
Provision against loans and advances – note 10.3	**(139,587)**	(24,658)
	2,889,723	4,204,751
Particulars of advances		
Short term (for up to one year)	**2,920,249**	4,221,166
Non-current (for over one year)	**109,061**	8,243
	3,029,310	4,229,409

10.1 These represent balances due from customers at various interest rates ranging from 11% to 15% p.a (2013: 11% to 20%) and are secured against mortgage of properties, personal guarantees, lien on equipments, pledge of stocks and/or assignment of receivables of the borrowers. The overdrafts are repayable on demand. These included loans and advances to customers amounting to AFN 203,141,531 (2013: AFN 191,992,014) which are partially backed by Deutsche Investitions-und Entwicklungsgesellschaft mbh (DEG) guarantees to the extent defined in agreement with DEG. Overdraft loans also include loan issued which is partially (50%) backed by Credit Development Authority of USAID with maximum amount of all loan disbursement made under qualified laons with ceiling amounting to USD 10.293 million. Guaranteed amount for net losses is 50% of such losses with respect to qualifying loans. The outstanding amount of such loan is AFN 23,917,499.

10.2 Term loans carry interest at various rates and are secured against mortgage of properties, personal guarantees, lien on equipments, pledge of stocks and/or assignment of receivables of the borrowers. These include loans and advances to customers amounting to AFN 21,936,756 (2013: AFN 14,355,239) which are partially backed by (DEG) guarantee to the extent defined in the agreement with DEG. Term loans also include loans issued amounting to AFN 25,018,812 which are partially (50%) backed by Credit Development Authority of USAID with maximum amount of all loan disbursement made under qualified laons with ceiling amounting to USD 10.293 million. Guaranteed amount for net losses is 50% of such losses with respect to qualifying loans.

During the year Small Business loans amounting to AFN 7,368,338 (2013: Nil) were issued carrying interest rate ranging from 15% to 18%. These loans are secured against deposit of original title deed, negative lien letter, one corporate guarantee by a registered company and hypothecation of movable fixed assets as colleteral after registeration from DAB.

10.3 Particulars of the provision against loan and advances

	2014			2013		
	Specific AFN '000	General AFN '000	Total AFN '000	Specific AFN '000	General AFN '000	Total AFN '000
Opening	14,194	10,464	24,658	16,641	89,337	105,978
Charge for the year	117,681	45,948	163,629	647,226	–	647,226
Reversal of Provision	(35,970)	–	(35,970)	(262,390)	(79,531)	(341,921)
	81,711	45,948	127,659	384,836	(79,531)	305,305
Written off against provision - note 10.3.1	(14,807)	–	(14,807)	(392,342)	–	(392,342)
Exchange rate difference	918	1,159	2,077	5,059	658	5,717
Closing	82,016	57,571	139,587	14,194	10,464	24,658

10.3.1 These represent 'loss' category loans which have been written off in accordance with the requirements of the Banking Regulations issued by DAB (the DAB Regulations). However, in terms of paragraph 3.3.1(g) of part C of the DAB Regulations, the write-off does not affect the Bank's rights to recover the debt due from customers and does not eliminate the borrowers' responsibility to repay the loan.

10.4 Loans and advances have been classified as:

	2014			
Classification	*Provisioning rates	Amount outstanding AFN '000	Provision AF required AFN '000	Provision held AF held AFN '000
Standard – note – 4 (a)	2%	2,878,555	57,571	57,571
Watch –List – note – 10.5	5%	19,120	350	350
Substandard	25%	22,282	5,571	5,571
Doubtful – note – 10.6 & 10.7	50%	109,348	76,090	76,090
Loss – note 10.8	100%	14,812	14,812	14,812
write-offs		(14,807)	(14,807)	(14,807)
		5	5	5
Loans and Advances and provision held- December 31, 2014		3,029,310	139,587	139,587

	2013			
Classification	*Provisioning rates	Amount outstanding AFN '000	Provision AF required AFN '000	Provision held AF held AFN '000
Standard	0.25%	4,187,095	10,464	10,464
Watch-List	5%	–	–	–
Substandard	25%	27,863	6,965	6,965
Doubtful	50%	14,445	7,223	7,223
Loss	100%	392,348	392,348	392,348
write-offs		(392,342)	(392,342)	(392,342)
		6	6	6
Loans and Advances and provision held- December 31, 2013		4,229,409	24,658	24,658

* Provisioning rates are as per DAB Regulation except for in case of standard loans and advances; which is provided by the Bank as per Bank's policy.

10.5 The Bank has taken provision on outstanding amount of two of the parties included in watch-list after deducting amount covered by DEG and USAID guarantees amounting to 72% and 50% respectively as per DAB law.

10.6 The Bank has taken provision on outstanding amount of one of the party included in doubtful category after deducting amount covered by USAID guarantee amounting to 50% as per DAB law.

10.7 The Bank has taken extra provision of 45% in addition to the required provision of 50% on one of the party's outstanding balance included in doubtful category on subjective basis.

10.8 As per the DAB Regulation, Article three (part-B) (3.2.1), loan loss provision has been immediately charged off against the reserve for losses. The amount of these loans are AFN 14,807,000 (2013: AFN 392,342,000).

10.9 These represent consumer loans due from individual payroll account holders and employees of corporate customers having payroll account with the Bank. It carries interest upto @ 15% (2013: 20%) on annual basis. General provision of 2% has been maintained on these balances.

10.10 Classification of regular, overdue but not impaired and impaired loans and advances to customers in terms of product and overdue time period along with details of loans and advances to customers which are renegotiated during the year, has been disclosed in note 32.2.6.

10.11 The Bank has filed suits for the recovery of loans and advances principle and interest due against the defaulted borrowers amounting to AFN 513,421,104 (2013: AFN 179,557,754) as at the year end. These suits are pending decisions at various courts. The Bank's management is of the view that the aforementioned suits will be decided in its favour due to sound legal footings.

11. RECEIVABLE FROM FINANCIAL INSTITUTIONS

This represents non-interest bearing receivable balance due from CSCBank SAL "CSC". The Bank has entered into an agreement with CSC whereby credit card/ debit card holders of various financial institutions can use ATM machines of the Bank and the amount withdrawn including bank charges will be paid by CSC to the Bank.

12. OPERATING FIXED ASSETS

	2014 AFN '000	2013 AFN '000
Capital work in progress – note 12.1	253,975	179,284
Property and equipment – note 12.2	237,431	251,399
	491,406	430,683

12.1 Capital Work in Progress

	2014 AFN '000	2013 AFN '000
Advances to suppliers and contractors – note 12.1.1	253,975	179,284
	253,975	179,284

12.1.1 Movement in Capital work in Progress

	2014 AFN '000	2013 AFN '000
As at January 01,	179,284	58,652
Additions during the year	75,393	121,707
Transferred to property and equipment	(702)	(1,075)
As at December 31,	253,975	179,284

12. OPERATING FIXED ASSETS CONTINUED

12.2 Property and Equipment

	Land AFN '000	Leasehold improvements AFN '000	Computers AFN '000	Office equipment AFN '000	Furniture and fixtures AFN '000	ATMs AFN '000	Vehicles AFN '000	Total AFN '000
At January 1, 2013								
Cost	177,568	64,670	48,769	96,031	13,603	64,913	68,242	533,796
Accumulated depreciation	–	(56,358)	(34,444)	(75,831)	(11,564)	(37,594)	(51,271)	(267,062)
Net book amount at January 1, 2013	177,568	8,312	14,325	20,200	2,039	27,319	16,971	266,734
Year ended December 31, 2013								
Net book amount at January 1, 2013	177,568	8,312	14,325	20,200	2,039	27,319	16,971	266,734
Additions	–	1,235	22,777	5,176	1,053	2,481	2,910	35,632
Transfers from Capital Work in Progress	–	1,075	–	–	–	–	–	1,075
Disposals	–	–	–	–	–	(163)	–	(163)
Depreciation charge	–	(6,131)	(13,950)	(8,484)	(2,817)	(12,769)	(7,891)	(52,042)
Depreciation on disposals	–	–	–	–	–	163	–	163
Net book amount at December 31, 2013	177,568	4,491	23,152	16,892	275	17,031	11,990	251,399
At January 1, 2014								
Cost	177,568	66,980	71,546	101,207	14,656	67,231	71,152	570,340
Accumulated depreciation	–	(62,489)	(48,394)	(84,315)	(14,381)	(50,200)	(59,162)	(318,941)
Net book amount at January 1, 2014	177,568	4,491	23,152	16,892	275	17,031	11,990	251,399
Year ended December 31, 2014								
Net book amount at January 1, 2014	177,568	4,491	23,152	16,892	275	17,031	11,990	251,399
Additions	–	225	15,474	5,969	57	13,923	–	35,648
Transfers from Capital Work in Progress	–	702	–	–	–	–	–	702
Disposals	–	–	–	–	–	(196)	–	(196)
Depreciation charge	–	(3,176)	(18,661)	(9,133)	(281)	(13,398)	(5,669)	(50,318)
Depreciation on disposals	–	–	–	–	–	196	–	196
Net book amount at December 31, 2014	177,568	2,242	19,965	13,728	51	17,556	6,321	237,431
At December 31, 2014								
Cost	177,568	67,907	87,020	107,176	14,713	80,958	71,152	606,494
Accumulated depreciation	–	(65,665)	(67,055)	(93,448)	(14,662)	(63,402)	(64,831)	(369,063)
Net book amount	177,568	2,242	19,965	13,728	51	17,556	6,321	237,431
Useful life		3 to 10 years	3 to 5 years	3 to 5 years	3 to 10 years	5 years	5 years	

13. INTANGIBLE ASSETS

	Note	2014 AFN '000	2013 AFN '000
Computer software and licenses	13.1	99,385	19,101
Goodwill	13.2	156,385	156,385
		255,770	175,486

13.1 At January 1, 2013

	Computer softwares AFN '000	License fee AFN '000	Total AFN '000
Cost	100,865	29,385	130,250
Accumulated amortization	(70,952)	(16,079)	(87,031)
Net book amount at January 1, 2013	29,913	13,306	43,219
Year ended December 31, 2013			
Net book amount at January 1, 2013	29,913	13,306	43,219
Additions	2,850	–	2,850
Amortization charge	(20,594)	(6,374)	(26,968)
Net book amount at December 31, 2013	12,169	6,932	19,101
At January 1, 2014			
Cost	103,715	29,385	133,100
Accumulated amortization	(91,546)	(22,453)	(113,999)
Net book amount at January 1, 2014	12,169	6,932	19,101
Year ended December 31, 2014			
Net book amount at January 1, 2014	12,169	6,932	19,101
Additions	93,539	13,343	106,882
Amortization charge	(17,188)	(9,410)	(26,598)
Net book amount at December 31, 2014	88,520	10,865	99,385
At December 31, 2014			
Cost	197,254	42,728	239,982
Accumulated amortization	(108,734)	(31,863)	(140,597)
Net book amount	88,520	10,865	99,385
Useful life	3 to 10 years	3 to 10 years	

13.2 Goodwill

This amount represents recognition of goodwill on acquisition of Standard Chartered Bank (SCB), Kabul Branch as at September 15, 2012. The bank obtained control of 100% operations of the SCB in Afghanistan. The management believed that such acquisition would bring the synergies to the Bank by bringing significant deposits base and will assist approach to multinational customers. A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Management has classified SCB branch acquired as a separate CGU as management monitors liabilities of the branch such as deposits obtained from customers and assets of the branch like investments made from cash flows generated from the deposits separately from other assets and liabilities of the Bank. Therefore, the goodwill arising on the acquisition has been allocated to this CGU (the Branch) that is also expected to benefit from synergies of combination.

13.2.1 Consideration Transferred

The consideration for the acquisition of SCB was payable in three tranches as follow:

I. An immediate payment of USD 500,000/-.

II. A further payment of USD 1 Million after one year of acquisition and ;

III. A further payment up to maximum of USD 1.5 Million depending upon profit attributable to transferred deposit customers with in two years of acquisition if the profit reaches the threshold of USD 3 million, otherwise the contingency payment would be 50% of USD 1.5 million considering the subsequent periods profits earned. The management made a full payment of USD 1.5 million on June 10, 2014.

Acquisition-related costs amounting to AFN 8.79 million have been excluded from the consideration transferred and have been recognised as expense in the prior year, within the “other expenses” line items in the income statement.

13.2.2 Identifiable assets acquired and liabilities assumed

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date.

	2014 AFN ‘000
Current and non current assets	
Operating fixed assets	5
Cash and cash equivalents	8,719,388
Current and non current liabilities	
Customer deposits	(8,719,388)
Total net identifiable assets	5

There were no non-controlling interest on acquisition of SCB Kabul Branch.

13.2.3 Goodwill arising on acquisition

Goodwill from the acquisition has been recognized as follows:

	2014 AFN ‘000
Total Consideration transferred	156,390
Fair value of net identifiable assets	(5)
	156,385

Goodwill has been recognized on the acquisition because the cost of acquisition included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth. The management believes that Goodwill recognised in the books are final number and do not expect recognition of any other intangibles.

13.2.4 Net cash inflow on acquisition

	2014 AFN ‘000
Consideration paid in cash	(26,065)
Less: cash and cash equivalent balances acquired	8,719,388
	8,693,323

13.2.5 Impairment of goodwill

Goodwill has been allocated for impairment testing purposes to Standard Chartered Bank Kabul Operations as cash generating unit. The recoverable amount of this cash generating unit is determined based on a value in use calculation which uses cash flows projections based on financial budgets prepared by the management of the Bank covering a five year period, a discount rate of 5.5% and growth rate of 10% for 2015 (2014: 10%) and 10% for years thereafter have been used.

Cash flow projections during the budget period are based on same growth assumption throughout the budget period. The management of the Bank believes that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of cash-generating unit. Based on the existing and expected growth and performance of the Bank, the management believes that there are no indications that goodwill is impaired as at December 31, 2014.

14. OTHER ASSETS

	2014 AFN ‘000	2013 AFN ‘000
Advance to employees	7,059	8,485
Security deposits	1,757	2,127
Prepayments	90,396	42,157
Interest receivable	166,403	147,531
Other receivable and advances	92,502	49,604
Receivable from DoJ – note 14.2	250,605	250,605
Money Gram International – note 14.3	7,412	4,639
Less:		
Provision against other receivable – note 14.1	(250,605)	(252,913)
	365,529	252,235

14.1 Movement of Provision during the period

	2014 AFN ‘000	2013 AFN ‘000
Opening Balance	252,913	7,868
Charge during the year against		
Receivable from DoJ – note 14.2	–	250,605
Receivable from employee	–	5,286
Reversal during the year – note 14.4	(2,308)	(10,846)
	(2,308)	245,045
	250,605	252,913

14. OTHER ASSETS CONTINUED

14.2 These balances include receivables amounting to AFN 250,605,000 from the United States Government department (US), Department of Justice (the "DoJ"). The DoJ seized an amount of AFN 565,701,000 equivalent to USD 10,100,000 from the Bank's account with Standard Chartered's branch in New York. Persuant to Title 18, U.S. Code Section 981 (k), the United States sought to reach the customer's Afghan-based accounts by seizing funds from the Bank's correspondent account in the United States. The United States has not alleged any wrongdoing against the Bank. In September 2013, the United States returned to AIB approximately US$ 5.7 million, plus accrued interest, of the seized funds. The United States maintains that the remaining funds are subject to forfeiture to the United States and AIB disputes this claim. The United States has moved to strike the Bank's claim for lack of standing, and that motion has not yet been fully briefed. That motion remains pending before the Court. However, on prudent basis the Bank has made a provision of AFN 250,605,000 equivalent to USD 4.4 million in its books of accounts.

14.3 This includes non-interest bearing balance from Money Gram International. The Bank is providing money transfer services to customer under arrangement with Money Gram International.

14.4 During the period reversal of AFN 2,308,000 were made on recovery of these balances. These related to the balances from employee of the Bank.

15. CUSTOMERS' DEPOSITS

	2014 AFN '000	2013 AFN '000
Current deposits	51,500,314	43,762,247
Saving deposits – note 15.1	1,398,274	1,357,774
Term deposits – note 15.2	250	830
Islamic deposits – note 15.3	9,509	–
	52,908,347	45,120,851

15.1 Saving deposits carry interest rate at 3% p.a (2013 : 3% p.a)

15.2 Term deposits carry interest rate of 1.75% p.a (2013: 1.75% p.a) on local currency deposits.

15.3 Current and saving islamic deposits stand at AFN 8,191,000 and AFN 1,318,000 respectively.

16. DEFERRED INCOME TAX

	2014 AFN '000	2013 AFN '000
Deferred tax arising in respect of:		
(Surplus)/Deficit on revaluation of investments	(3,255)	17,540
Deferred tax liabilities arising in respect of:		
Accelerated tax depreciation and amortization	(11,349)	(13,546)
	(14,604)	3,994

16.1 Movement in temporary differences during the year Deferred tax arising in respect of:

	Balance as at January 01,2013 AFN '000	Recognised in profit and los AFN '000	Recognised in equity AFN '000	Balance as at December 31, 2013 AFN '000	Recognised in profit and loss during the year AFN '000	Recognised in equity AFN '000	December 31, 2014 AFN '000
Deferred tax asset arising in respect of:							
Dividend to shareholders	–	–	–	–	–	–	–
Deficit on revaluation of Investments	11,286	–	6,254	17,540	–	(20,795)	(3,255)
	11,286	–	6,254	17,540	–	(20,795)	(3,255)
Deferred tax liabilities arising in respect of:							
Accelerated tax depreciation and amortization							
	(14,945)	1,399	–	(13,546)	2,197	–	(11,349)
	(3,659)	1,399	6,254	3,994	2,197	(20,795)	(14,604)

17. OTHER LIABILITIES

	2014 AFN '000	2013 AFN '000
Accruals and other payables	72,661	4,886
Income tax liability	14,337	39,180
Amounts pending transfer to customers' accounts – note 17.1	23,688	6,941
Customers payment orders awaiting collection	–	57
Provision for bonus to employees	36,160	47,279
Provision for SCB contingent payment consideration – note – 13.2.1	–	84,015
Others	75,991	23,851
	222,837	206,209

17.1 This represents amounts received on behalf of the customers, however not credited in the respective customers accounts due to incomplete identification data.

18. SHARE CAPITAL

		2014 '000	2013 '000
30,000,000 (2013: 30,000,000) authorized ordinary shares of USD 1 each	USD	30,000	30,000
	AFN	1,384,200	1,384,200
Issued, subscribed and paid-up			
30,000,000 (2013: 30,000,000) ordinary shares of USD 1 each fully paid in cash	AFN	1,465,071	1,465,071

Issued, subscribed and paid up capital comprises Nil (2013: 25%) holding by Afghanistan Investment Partners Corporation (AIPC), 7.5% (2013: 20%) holding by Asian Development Bank (ADB), 46.25% (2013: 27.5%) holding by Horizon Associates LLC and 46.25% (2013: 27.5%) holding by Wilton Holdings Limited.

During the period, ADB divested 12.5% holding (3,750,000 shares) and AIPC divested full 25% holding in the Bank to Horizon Associates LLC and Wilton Holdings Limited equally. This reduced ADB's share in the Bank from 20% to 7.5% and AIPC's share from 25% to Nil while increased share holding of Horizon Associates LLC and Wilton Holdings to 46.25% each (13,875,000 shares each (2013:8,250,000 shares each)) in the Bank. All statutory requirements with DAB are complied except last divestment of ADB's share for 7.5% which are currently in process with DAB.

19. CAPITAL RESERVES

As per article 93 "Reserve Capital" of Corporations and Limited Liability Companies Law of Afghanistan, requires that Bank should transfer 5% of its profit to Capital Reserve to compensate for future possible losses to the extent such capital reserves reaches upto 25% of the Bank's capital. The Bank's capital reserves as at December 31, 2014 stands at AFN 168,262,000 (December 31, 2013: AFN 143,269,000)

20. CONTINGENCIES AND COMMITMENTS

20.1 Contingencies

	2014 AFN '000	2013 AFN '000
Guarantees	1,158,680	958,752

20.1.1 These represent bid bonds and performance based guarantees issued by the Bank.

20.1.2 The bank is in various litigations with its customers and clients. However, the management believes that these litigations will not have material impact on the financial statements.

20.2 Commitments

	2014 AFN '000	2013 AFN '000
(a) Undrawn loan and overdraft facilities	2,628,253	1,110,050
(b) Commercial letters of credit	251,165	1,045,515
	2,879,418	2,155,565

21. INTEREST INCOME

	2014 AFN '000	2013 AFN '000
Interest income on:		
Balances with DAB and other banks	124,549	81,938
Placements	111,375	98,133
Investments	290,423	334,493
Loans and advances to customers	528,633	629,560
Interest on participation purchased	12,577	16,676
	1,067,557	1,160,800

22. INTEREST EXPENSE

	2014 AFN '000	2013 AFN '000
Interest expense on:		
Customer's deposits	2,728	2,230
	2,728	2,230

23. FEE AND COMMISSION INCOME

	2014 AFN '000	2013 AFN '000
Fee and commission income on:		
Loans and advances to customers	43,407	66,576
Trade finance products	33,512	41,704
Cash withdrawals	325,706	196,377
Customers' account service charges	46,573	80,042
Cash transfers	34,279	52,448
Income from ATMs	58,441	79,704
Income from guarantees arrangement	34,618	36,400
Payroll services	19,749	-
Others	19,248	17,063
	615,533	570,314

24. FEE AND COMMISSION EXPENSE

	2014 AFN '000	2013 AFN '000
Guarantee commission	4,872	5,391
Bank charges	9,063	8,847
	13,935	14,238

25. INCOME FROM DEALING IN FOREIGN CURRENCIES

	2014 AFN '000	2013 AFN '000
Forex income	216,344	205,690
	216,344	205,690

26. OTHER INCOME

	2014 AFN '000	2013 AFN '000
Recovery of loans written off in prior years	75,423	45,230
Gain on sale of property and equipment	1,019	282
Exchange (loss)/gain	328	15,563
Others	95	87
	76,865	61,162

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2014 AFN '000	2013 AFN '000
Salaries and benefits – note 27.1	377,677	381,396
Rental, rates and taxes	92,196	85,150
Electricity, generator and fuel	40,427	40,771
Repairs and maintenance	55,364	43,064
Security cost – note 27.2	134,419	63,910
Depreciation – note 12.2	50,318	52,042
Amortization – note 13.1	26,598	26,968
Directors fee and their meeting expenses	24,128	20,789
Travelling and accommodation	15,202	10,719
Communication, swift and internet	48,725	40,605
Stationary and printing	33,786	29,210
Legal and professional charges	85,619	94,411
Investment management fee to investment advisors	19,651	20,334
Audit fee	4,728	4,381
Marketing and promotion	43,142	31,903
Money service providers charges	1,184	4,569
Insurance	88,892	90,535
Subscriptions and memberships	9,392	2,761
Other charges	38,027	31,339
Taxes and penalties	161	8
Corporate social responsibility	5,262	4,848
	1,194,898	1,079,713

27.1 Salaries and benefits included AFN 22,833,166 (2013: AFN 39,092,000) in respect of bonus to employees.

27.2 Security expenses include balance amounting to AFN 35 million (US$ 600,000) payable to SOC Afghanistan for security services in December 2009 for security guards in head office and branches all over Afghanistan. The contract amount was US$ 1 million of which US$ 600,000 was pending in 2011. In 2010, Afghan Public Protection Force (APPF) issued a law in which all private security companies were banned in Afghanistan. Due to this new law, SOC Afghanistan being private security company was banned. At that time, Ministry of Finance issued a letter to the Bank for freezing SOC Afghanistan bank account with AIB till clearance of their tax liabilities. During this year Ministry of Finance Afghanistan – Large taxpayer office (MoF) communicated the Bank via letters numbers RSI-45936 (dated 27/05/1393), 273523 (dated 04/06/1393), 27394 (dated 24/06/1393) and RSI-47944 (dated 24/06/1393) that amount relating to SOC Afghanistan with the Bank shall be deposited in the government treasury as a settlement of SOC tax liability. SOC Afghanistan also issued a letter to MoF and the Bank dated August 13, 2014 that amount in their bank account shall be credited to MoF account. No payment has so far made and provision kept against this expenses.

28. TAXATION

	2014 AFN '000	2013 AFN '000
Current		
For the year	69,928	69,407
Prior year	(4,325)	2,964
	65,603	72,371
Deferred		
For the year	(2,197)	(1,399)
	63,406	70,972

28.1 Relationship between tax expense and accounting profit

	2014 AFN '000	2013 AFN '000
Accounting profit for the year	563,260	310,762
Applicable tax @ 20%	112,652	62,152
Less: Effect of reversal of prior year charge	(4,325)	2,964
Effect of tax deferred tax (reversal)/charge	(2,197)	(1,399)
Effect of tax in dividend to shareholders	(52,448)	–
Effect of others	(1,784)	–
Add: Effect of tax on BRT	6	65
Effect of tax on Temporary difference	11,502	3,802
Effect of others	–	3,388
Tax charge – net	63,406	70,972

29. RELATED PARTY TRANSACTIONS

The Bank has a related party relationship with its shareholders, their related entities, directors and key management personnel. The bank had transactions with following related parties at mutually agreed terms during the year:

	Directors and other key management personnel (and close family members)		Share Holders and Its associated companies	
Nature of transactions	2014 AFN '000	2013 AFN '000	2014 AFN '000	2013 AFN '000
(a) Loans and advances to related parties				
Loans outstanding at beginning of the year	–	–	44,047	317,663
Loans issued during the year	–	–	490,233	1,372,568
Loan repayments during the year	–	–	(59,642)	(1,667,529)
Exchange gain	–	–	8,642	21,345
Loans outstanding at end of the year	–	–	483,280	44,047
Interest income earned	–	–	43,027	7,649

During the year an amount of AFN 127.9 million was paid to MADCC (related party) on account of contract, awarded on arms length basis for the construction of head office building.

General provision on outstanding balances of loans and advances to related parties amounts to AFN 9,665,600 (2013: AFN 100,118).

The facility provided to related parties carries mark-up at variable interest rates ranging from US Prime + 4.5% p.a to 8% p.a payable on monthly basis with minimum rate of 12.5% p.a and is secured against mortgage of residential property and personal guarantees of directors and representative of shareholders of the Bank.

	Directors and other key management personnel (and close family members)		Share Holders and Its associated companies	
Nature of transactions	2014 AFN '000	2013 AFN '000	2014 AFN '000	2013 AFN '000
(b) Deposits from related parties				
Deposits at beginning of the year	79,803	(527,875)	505,393	314,175
Deposits received during the year	1,298,147	1,530,096	2,419,134	3,381,003
Deposits repaid during the year	(1,185,609)	(871,904)	(2,893,691)	(3,215,954)
Exchange rate difference	4,456	(50,514)	13,588	26,169
Deposits at end of the year	196,797	79,803	44,424	505,393
Interest expense on deposits	–	–	–	–

These represent current account of related parties, which carry Nil interest rate (2013: Nil).

	Directors and other key management personnel (and close family members)		Share Holders and Its associated companies	
Nature of transactions	2014 AFN '000	2013 AFN '000	2014 AFN '000	2013 AFN '000
(c) Other transactions with related parties				
Fee and commission income	–	–	14,487	10,105
Directors fee	13,814	7,122	–	–
Fee and commission expense	–	–	–	–
Rental expenses	–	–	2,554	4,036
Other expense	7,882	7,004	–	–
Guarantees issued by the Bank	–	–	17,740	28,018
Commercial letter of credits including accepted bills and export bills purchased	–	–	67,587	336,186
	21,696	14,126	102,368	378,345

	2014 AFN '000	2013 AFN '000
(d) Key management compensation		
Salaries and other short-term benefits	71,220	68,812

Key management personnel of the Bank include the Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Head of Commercial Banking.

30. CASH AND CASH EQUIVALENTS

	2014 AFN '000	2013 AFN '000
Cash in hand and at ATM	3,051,668	2,795,201
Balances with DAB (other than minimum reserve requirement)	3,978,791	2,102,016
Balances with other banks	11,393,762	16,235,212
Placements (with maturity less than three months)	6,998,400	3,360,600
Participation purchased (with maturity less than three months)	–	134,984
	25,422,621	24,628,013

31. EARNINGS PER SHARE – BASIC AND DILUTED

	2014	2013
Profit after taxation (AFN '000)	499,854	239,790
Weighted average number of ordinary shares – (numbers in thousand)	30,000	30,000
Basic earnings per share – Basic & diluted (AFN per share)	16.66	7.99

31.1 There is no dilutive effect on basic earnings per share of the Bank.

32. FINANCIAL RISK MANAGEMENT

32.1 Financial Assets and Liabilities

December 31, 2014	Loans and Receivables AFN '000	Held to maturity AFN '000	Available for sale AFN '000	Total AFN '000
Financial Assets				
Cash and balances with Da Afghanistan Bank	11,163,004	–	–	11,163,004
Balances with other Banks	11,624,614	–	–	11,624,614
Placements – net	–	14,898,004	–	14,898,004
Investments – net	–	9,706,779	4,734,011	14,440,790
Participation purchased	–	–	–	–
Loans and advances to customers – net	2,889,723	–	–	2,889,723
Receivables from financial institution	103,017	–	–	103,017
Security deposits and other receivables – net	275,133	–	–	275,133
	26,055,491	24,604,783	4,734,011	55,394,285
Financial Liabilities				
Customers' Deposits				
Term deposits	250	–	–	250
Current/Saving/Islamic deposits	52,908,097	–	–	52,908,097
Other liabilities	172,340	–	–	172,340
	53,080,687	–	–	53,080,687
Off balance sheet items				
Guarantees	1,158,680	–	–	1,158,680
Undrawn loan and overdraft facilities	2,628,253	–	–	2,628,253
Commercial letter of credits	251,165	–	–	251,165
	4,038,098	–	–	4,038,098

December 31, 2013	Loans and Receivables AFN '000	Held to maturity AFN '000	Available for sale AFN '000	Total AFN '000
Financial Assets				
Cash and balances with Da Afghanistan Bank	8,499,376	–	–	8,499,376
Balances with other Banks	17,106,613	–	–	17,106,613
Placements – net	–	5,018,496	–	5,018,496
Investments – net	–	7,042,492	4,652,339	11,694,831
Participation purchased	529,992	–	–	529,992
Loans and advances to customer – net	4,204,751	–	–	4,204,751
Receivables from financial institutions	197,699	–	–	197,699
Security deposits and other receivables – Net	210,078	–	–	210,078
	30,748,509	12,060,988	4,652,339	47,461,836
Financial Liabilities				
Customers' Deposits				
Term deposits	830	–	–	830
Current/Saving deposits	45,120,021	–	–	45,120,021
Other liabilities	119,750	–	–	119,750
	45,240,601	–	–	45,240,601
Off balance sheet items				
Guarantees	958,752	–	–	958,752
Undrawn loan and overdraft facilities	1,110,050	–	–	1,110,050
Commercial letter of credit	1,045,515	–	–	1,045,515
	3,114,317	–	–	3,114,317

32.2 Financial Risk factors

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

32. FINANCIAL RISK MANAGEMENT CONTINUED

32.2 Financial Risk factors continued

Risk management is carried out by a Risk Management Department (RMD) under policies approved by the Management Board. RMD identifies, evaluates and manages financial risks in close co-operation with the Bank's operating units. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non-derivative financial instruments. The internal audit is responsible for the independent review of risk management and control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

32.2.1 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, balances with banks and receivable from financial institution, participation purchased and placements with other banks. Credit risk also arises in off-balance sheet financial instruments, such as Bank's contingencies and commitments. The credit risk management and control are centralized in credit risk management team of Bank and reported to the management team and head of each business unit regularly.

32.2.2 Credit risk measurement

(a) Loans and advances

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the date of statement of financial position.

(i) Over due balances on loans to customers are segmented into four categories as described in note 3.4 (b). The percentage of provision created on such over due balances are as per guidelines issued by DAB and reflects the range of default probabilities defined for each category. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

(ii) Exposure at default is based on the amounts, the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

(b) Other than loans and advances

Other than loans and advances includes balances with other banks and financial institutions and placements with other banks, investments in bonds and held with DAB, participation purchased and other assets. Judgments and instructions from the Bank's treasury are being used by the Bank's management in placing funds with other banks and are viewed as a way to gain better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time when required.

Further, the Bank has banking relationships with financial institutions which have good international reputation and strong financial standing and therefore, probability of default by such financial institutions is low.

32.2.3 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved quarterly by the Management Board.

The exposure to any one borrower is further restricted by sub-limits covering on-and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations at the time of loan appraisal for initial and subsequent loans.

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties
- Charges over business assets such as premises, inventory and accounts receivable

In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

32.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure 2014 AFN '000	2013 AFN '000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with other banks	11,624,614	17,106,613
Placements – net	14,898,004	5,018,496
Participation purchased – net	–	529,992
Investments – net (net of capital notes with DAB)	9,129,520	7,594,234
Loans and advances to customers – net	2,889,723	4,204,751
Receivables from other financial institutions	103,017	197,699
Security deposits and other receivables – net	275,133	210,078
	38,920,011	34,861,863
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	1,158,680	958,752
Undrawn loan and overdraft facilities	2,628,253	1,110,050
Commercial letters of credit	251,165	1,045,515
	4,038,098	3,114,317

The above table represents credit risk exposure to the Bank at December 31, 2014 and December 31, 2013, without taking account of any collateral held or other enhancements attached. For on-balance-sheet assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

The percentage of the credit major exposure in balances with other banks, placements and loans and advances are as follows (in percentage of the total credit exposure):

	2014	2013
Balances with other banks	29.87%	49.07%
Placements – net	38.28%	14.40%
Loans and advances to customers – net	7.42%	12.06%
Investments – net (net of capital notes with DAB)	23.46%	21.78%

32.2.5 Credit quality of financial Assets

The credit qualities of Bank's financial assets have been assessed below by the reference to external credit ratings of counter parties determined by various international credit rating agencies. The counterparties for which external credit ratings were not available, and have been assessed by reference to internal credit ratings determined based on their historical information for any defaults in meeting obligations.

Balance with other banks/FIs	Credit rating	Credit rating agency	2014 AFN '000	2013 AFN '000
Counter parties with external credit ratings				
Standard Chartered Bank	A1	Moody's	8,497,954	12,736,513
Commerzbank Germany	Baa1	Moody's	2,918,040	3,383,489
Emirates NBD	Baa1	Moody's	169,098	805,304
Ak bank, Turkey	Baa3	Moody's	6,199	167,388
Julius Baer	A1	Moody's	33,323	13,919

Placements	Credit rating	Credit rating agency	2014 AFN '000
Industrial Development Bank of India	Baa3	Moodys	583,200
CIMB Bank Malaysia	A3	Moodys	583,200
Akbank Turkey	Baa3	Moodys	583,200
Qatar National Bank	Aa3	Moodys	874,800
Bank of Baroda	Baa3	Moodys	583,200
Bank of China Ltd	A1	Moodys	874,800
Unicredit, London	Aa2	Moodys	583,200
Dubai Islamic Bank	Baa1	Moodys	583,200
Al Khaliji Bank	A–	Fitch	874,800
Abu Dhabi Commercial Bank	A1	Moodys	874,800
Certificated of Deposit/ICBC	A2	Moodys	583,200
Emirates NBD	Baa1	Moodys	4,183,668
Qatar Islamic Bank	A3	Moodys	291,600
Union National Bank	A1	Moodys	874,800
Doha Bank	A2	Moodys	874,800
HDFC Bank India	Baa3	Moodys	583,200
First Gulf Bank Dubai	A2	Moodys	583,200

	2014 AFN '000	2013 AFN '000
Receivables from financial institution		
Counter parties	103,017	197,699
Loans and Advances – Net		
Counter parties	2,889,723	4,204,751
Security deposits and other receivables		
Counter parties	275,133	210,078

Investments

Inevstments held carries various credit rating and ranges from BBB1 & BAA3 to A & AAA3, these investments are managed by investment managers Emirates NBD and Julius Bears under investment criteria defined by the Bank.

32.2.6 Loans and advances – net

	2014 AFN '000	2013 AFN '000
Loans and advances are summarized as follows:		
Neither past due nor impaired	2,244,920	4,170,655
Past due but not impaired	633,635	16,440
Impaired	150,755	42,314
Gross	3,029,310	4,229,409
Interest receivable	–	–
Less: allowance for impairment		
General	(57,571)	(10,463)
Specific	(82,016)	(14,189)
	2,889,723	4,204,757

The total impairment provision for loans and advances (including general provision) is AFN 139,587,000 (2013: AFN 24,652,000). Further information of the impairment allowance for loans and advances to customers is provided in note 10 to these financial statements.

32. FINANCIAL RISK MANAGEMENT CONTINUED

32.2 Financial Risk factors continued

32.2.6 Loans and advances – net continued

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank and DAB regulations

	Loans and advances					
	Commercial loans			SME loans	Consumer loans	
	Overdraft AFN '000	Term loans AFN '000	PIFs* AFN '000	Term loans AFN '000	Term loans AFN '000	Total AFN '000
December 31, 2014						
Regular Loans	**2,150,020**	**81,911**	**–**	**7,360**	**5,629**	**2,244,920**
December 31, 2013						
Regular Loans	3,961,712	186,853	20,976	–	1,114	4,170,655
(b) Loans and advances past due but not impaired						
December 31, 2014						
Past due up to 30 days	**401,018**	**232,617**	**–**	**–**	**–**	**633,635**
Fair value of collateral	**29,878,156**	**2,578,271**	**–**	**108,521**	**–**	**32,564,948**
December 31, 2013						
Past due up to 30 days	6,316	10,124	–	–	–	16,440
Fair value of collateral	40,049,573	3,911,143	82,895	–	–	44,043,611

* Post Import Finance.

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AFN 150,755,000 (December 31, 2013: AFN 42,347,860) including balances written off of AFN 14,805,000 (December 31, 2013; AFN 392,341,815).

	Loans and advances					
	Commercial loans			SME loans	Consumer loans	
	Overdraft AFN '000	Term loans AFN '000	PIFs* AFN '000	Term loans AFN '000	Term loans AFN '000	Total AFN '000
December 31, 2014						
Watch	**–**	**19,120**	**–**	**–**	**–**	**19,120**
Substandard	**17,714**	**4,568**	**–**	**–**	**–**	**22,282**
Doubtful	**99,358**	**9,990**	**–**	**–**	**–**	**109,348**
Loss	**3**	**2**	**–**	**–**	**–**	**5**
Total	**117,075**	**33,680**	**–**	**–**	**–**	**150,755**
Fair value of collateral	**5,352,181**	**1,338,764**	**–**	**–**	**–**	**6,690,945**
December 31, 2013						
Watch	–	–	–	–	–	–
Substandard	8,820	19,043	–	–	–	27,863
Doubtful	–	14,445	–	–	–	14,445
Loss	4	2	–	–	–	6
Total	8,824	33,490	–	–	–	42,314
Fair value of collateral	2,614,909	773,722	–	–	–	3,388,631

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to overdraft. Renegotiated loans that would otherwise be past due or impaired at December 31, 2014 were AFN 91,600.155 (December 31, 2013: Nil).

	2014		2013	
Commercial loans and advances	At renegotiation time AFN '000	As at year end AFN '000	At renegotiation time AFN '000	As at period end AFN '000
- Term loans	**46,958**	**39,432**	301,164	193,257
- Overdraft	**717,972**	**394,125**	191,200	38,758
- PIF	**–**	**–**	–	–
- Consumer loans	**–**	**–**	–	–
Total	**764,930**	**433,557**	492,364	232,015

32.2.7 Concentration of risk of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of December 31, 2014. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

2014	Afghanistan AFN '000	Lebanon AFN '000	Singapore AFN '000	Germany AFN '000	Canada AFN '000	Turkey AFN '000	Switzerland AFN '000	UAE AFN '000	India AFN '000	Hong Kong AFN '000	Australia AFN '000	England AFN '000	Netherlands AFN '000	USA AFN '000	*Others AFN '000	Total AFN '000
On balance sheet																
Balances with other banks	–	–	7,349,011	2,919,211	–	6,199	33,323	169,224	–	–	–	6,049	–	1,141,597	–	11,624,614
Placements – net	–	–	–	–	–	580,284	–	7,644,454	1,160,568	–	–	580,284	–	–	4,932,414	14,898,004
Investments – (net of capital notes)	–	–	168,092	29,217	87,069	113,820	–	2,805,049	–	310,227	228,774	340,443	283,511	802,656	3,960,663	9,129,520
Participation purchased	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Loans and advances to customers – net	2,889,723	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,889,723
Receivables from financial institutions	–	103,017	–	–	–	–	–	–	–	–	–	–	–	–	–	103,017
Security deposits and other receivables – net	275,133	–	–	–	–	–	–	–	–	–	–	–	–	–	–	275,133
	3,164,856	103,017	7,517,103	2,948,428	87,069	700,303	33,323	10,618,727	1,160,568	310,227	228,774	926,776	283,511	1,944,253	8,893,077	38,920,011
Off balance sheet																
Contingencies and commitments	4,038,098	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,038,098
As at December 31, 2014	7,202,954	103,017	7,517,103	2,948,428	87,069	700,303	33,323	10,618,727	1,160,568	310,227	228,774	926,776	283,511	1,944,253	8,893,077	42,958,109

2013	Afghanistan AFN '000	Lebanon AFN '000	Singapore AFN '000	Germany AFN '000	Canada AFN '000	Turkey AFN '000	Switzerland AFN '000	UAE AFN '000	India AFN '000	Hong Kong AFN '000	Australia AFN '000	England AFN '000	Netherlands AFN '000	USA AFN '000	*Others AFN '000	Total AFN '000
On balance sheet																
Balances with other banks	–	–	12,046,735	3,383,871	–	167,388	13,919	805,439	–	–	–	3,042	–	686,219	–	17,106,613
Placements – net	–	–	560,100	–	–	557,300	–	2,507,848	–	–	–	–	–	–	1,393,248	5,018,496
Investments-net	4,100,597	–	164,426	28,096	67,457	112,675	–	1,003,476	25,780	274,975	222,144	400,400	349,656	993,142	3,952,007	11,694,831
Participation purchased	–	–	–	–	–	–	–	529,992	–	–	–	–	–	–	–	529,992
Loans and advances to customers – net	4,204,751	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,204,751
Receivables from financial institutions	–	197,699	–	–	–	–	–	–	–	–	–	–	–	–	–	197,699
Security deposits and other receivables – net	210,078	–	–	–	–	–	–	–	–	–	–	–	–		–	210,078
	8,515,426	197,699	12,771,261	3,411,967	67,457	837,363	13,919	4,846,755	25,780	274,975	222,144	403,442	349,656	1,679,361	5,345,255	38,962,460
Off balance sheet																
Contingencies and commitments	3,114,317	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,114,317
As at December 31, 2013	11,629,743	197,699	12,771,261	3,411,967	67,457	837,363	13,919	4,846,755	25,780	274,975	222,144	403,442	349,656	1,679,361	5,345,255	42,076,777

* It includes exposure with Brazil, Korea, Malaysia, Qatar, Sweden, France and some other countries as at December 31, 2014.

32. FINANCIAL RISK MANAGEMENT CONTINUED

32.2 Financial Risk factors continued

32.2.7 Concentration of risk of financial assets with credit risk exposure continued

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of counterparties.

2014	Manufacturing AFN '000	Agriculture AFN '000	Construction AFN '000	Tele-communication AFN '000	Banks and financial institutions AFN '000	Traders AFN '000	Fuel suppliers AFN '000	Others AFN '000	Total AFN '000
On balance sheet									
Balances with other banks	–	–	–	–	11,624,614	–	–	–	11,624,614
Placements – net	–	–	–	–	14,898,004	–	–	–	14,898,004
Investments – (net of capital notes)	58,185	26,937	85,527	202,049	4,078,144	196,784	363,949	4,117,945	9,129,520
Participation purchased	–	–	–	–	–	–	–	–	–
Loans and advances to customers – net	347,405	45,983	891,900	–	–	617,446	897,067	89,922	2,889,723
Receivable from financial institution	–	–	–	–	103,017	–	–	–	103,017
Security deposits and other receivables – net	–	–	–	–	–	–	–	275,133	275,133
	405,590	72,920	977,427	202,049	30,703,779	814,230	1,261,016	4,483,000	38,920,011
Off balance sheet									
Contingencies and commitments	400	9,915	186,949	147,817	–	182,980	3,919	877,865	1,409,845
As at December 31, 2014	405,990	82,835	1,164,376	349,866	30,703,779	997,210	1,264,935	5,360,865	40,329,856

2013	Manufacturing AFN '000	Agriculture AFN '000	Construction AFN '000	Tele-communication AFN '000	Banks and financial institutions AFN '000	Traders AFN '000	Fuel suppliers AFN '000	Others AFN '000	Total AFN '000
On balance sheet									
Balances with other banks	–	–	–	–	17,106,613	–	–	–	17,106,613
Placements – net	–	–	–	–	5,018,496	–	–	–	5,018,496
Investments – net	28,068	26,704	102,918	352,230	7,531,083	227,293	461,856	2,964,679	11,694,831
Participation purchased	–	–	–	–	529,992	–	–	–	529,992
Loans and advances to customers – net	371,918	–	386,157	337,531	–	1,941,554	1,069,955	97,636	4,204,751
Receivable from financial institution	–	–	–	–	197,699	–	–	–	197,699
Security deposits and other receivables – net	–	–	–	–	–	–	–	210,078	210,078
	399,986	26,704	489,075	689,761	30,383,883	2,168,847	1,531,811	3,272,393	38,962,460
Off balance sheet									
Contingencies and commitments	–	–	379,811	213,488	–	909,232	1,750	499,986	2,004,267
As at December 31, 2013	399,986	26,704	868,886	903,249	30,383,883	3,078,079	1,533,561	3,772,379	40,966,727

32.2.8 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange.

32.2.9 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at December 31, 2014 and December 31, 2013. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

If the functional currency, at the year end date, strengthens/weakens by 10% against the USD with all other variables held constant, the impact on profit after taxation for the period would have been AFN 13.623 million higher/lower (2013: AFN 27.76 million higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the period end date, strengthens/weakens by 10% against the EURO with all other variables held constant, the impact on profit after taxation for the period would have been AFN 1.3 million lower/higher (2013: AFN 1.7 million lower/higher) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the period end date, strengthens/weakens by 10% against the AED with all other variables held constant, the impact on profit after taxation for the period would have been AFN 0.931 million higher/lower (2013: AFN 1.05 million higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

	AED	USD	EURO	GBP	INR		Total
	Converted to AFN '000					AFN '000	AFN '000
As at December 31, 2014							
Assets							
Cash and balances with DAB	–	4,811,086	311,853	510	–	6,039,555	11,163,004
Balances with other banks	9,313	10,621,523	982,649	11,129	–	–	11,624,614
Placements – net	–	14,898,004	–	–	–	–	14,898,004
Investments – net	–	9,129,520	–	–	–	5,311,270	14,440,790
Participation purchased	–	–	–	–	–	–	–
Loans and advances to customers – net	–	2,695,470	–	–	–	194,253	2,889,723
Receivables from financial institutions	–	88,381	1,514	–	–	13,122	103,017
Security deposits and other receivables – net	–	258,905	–	–	–	16,228	275,133
Total financial assets	9,313	42,502,889	1,296,016	11,639	–	11,574,428	55,394,285
Liabilities							
Customers' deposits	–	42,486,269	1,282,769	100	–	9,139,209	52,908,347
Other liabilities	–	152,846	104	–	–	19,390	172,340
Total financial liabilities	–	42,639,115	1,282,873	100	–	9,158,599	53,080,687
On-balance sheet financial position – net	9,313	(136,226)	13,143	11,539	–	2,415,829	2,313,598
As at December 31, 2013							
Total financial assets	10,528	35,364,783	1,612,024	3,586	–	10,470,900	47,461,821
Total financial liabilities	–	35,642,412	1,595,111	196	–	8,002,882	45,240,601
Net on-balance sheet financial position	10,528	(277,629)	16,913	3,390	–	2,468,018	2,221,220

32.2.10 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. Bank's investments, loans and advances are primarily linked to EONIA, LIBOR and US Prime.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amount, categorised by the earlier of contractual repricing or maturity dates.

	Interest bearing							
	Upto 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total interest bearing AFN '000	Non-interest bearing AFN '000	Total AFN '000
As at December 31, 2014								
Assets								
Cash and balances with DAB	4,132,545	–	–	–	–	4,132,545	7,030,459	11,163,004
Balances with other Banks	8,497,954	–	–	–	–	8,497,954	3,126,660	11,624,614
Placements net	2,611,278	2,611,278	9,385,306	290,142	–	14,898,004	–	14,898,004
Investments – net	1,079,042	2,225,636	4,647,843	6,335,459	152,810	14,440,790	–	14,440,790
Participation purchased – net	–	–	–	–	–	–	–	–
Loans and advances to customers – net	713,952	724,472	1,342,885	108,414	–	2,889,723	–	2,889,723
Receivables from financial institution	–	–	–	–	–	–	103,017	103,017
Security deposits and other receivables – net	–	–	–	–	–	–	275,133	275,133
Total financial assets	17,034,771	5,561,386	15,376,034	6,734,015	152,810	44,859,016	10,535,269	55,394,285
Liabilities								
Customers' deposits	1,398,274	–	250	–	–	1,398,524	51,509,823	52,908,347
Other liabilities	–	–	–	–	–	–	172,340	172,340
Total financial liabilities	1,398,274	–	250	–	–	1,398,524	51,682,163	53,080,687
Total interest repricing gap	15,636,497	5,561,386	15,375,784	6,734,015	152,810	43,460,492	(41,146,894)	2,313,598
As at December 31, 2013								
Total financial assets	20,905,933	3,029,424	7,323,241	6,880,206	–	38,138,804	9,323,017	47,461,821
Total financial liabilities	1,357,774	–	830	–	–	1,358,604	43,881,997	45,240,601
Total interest repricing gap	19,548,159	3,029,424	7,322,411	6,880,206	–	36,780,200	(34,558,980)	2,221,220

If the interest increase/(decrease) by 100 bps, the impact on profit after taxation for the year would have been AFN 434,605,000 (2013: AFN 365,912,000) lower/higher respectively.

32. FINANCIAL RISK MANAGEMENT CONTINUED

32.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

32.3.1 Liquidity risk management process

The Bank's liquidity management process, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

32.3.2 Funding approach

Sources of liquidity are regularly reviewed by the Asset Liability Committee (ALCO) to maintain a wide diversification by currency, geography, provider, product and term.

32.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held to manage liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Up to 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at December 31, 2014						
Liabilities						
Customers' deposits	52,908,097	–	250	–	–	52,908,347
Other liabilities	172,340	–	–	–	–	172,340
Total financial liabilities (contractual maturity dates)	53,080,437	–	250	–	–	53,080,687
Total financial assets (contractual maturity dates)	27,570,040	5,561,386	15,376,034	6,734,015	152,810	55,394,285
As at December 31, 2013						
Liabilities						
Customers' deposits	45,120,021	–	830	–	–	45,120,851
Other liabilities	119,750	–	–	–	–	119,750
Total financial liabilities (contractual maturity dates)	45,239,771	–	830	–	–	45,240,601
Total financial assets (contractual maturity dates)	30,228,950	3,029,424	7,323,241	6,880,206	–	47,461,821

Assets available to meet all of the liabilities and to cover outstanding loans commitment include cash and balances with Da Afghanistan Bank, balances with banks and receivable from financial institution, placements, participation purchased, loans and advances to customers and security deposits and other receivables.

32.3.4 Off-balance sheet items

(a) Guarantees and other financial assets

Guarantees are also included below based on earliest contractual maturity date.

(b) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below.

	Not later than 1 year AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at December 31, 2014				
Guarantees	546,960	611,720	–	1,158,680
Undrawn loan and overdraft facilities	2,628,253	–	–	2,628,253
Commercial letters of credit	251,165	–	–	251,165
Total	3,426,378	611,720	–	4,038,098
As at December 31, 2013				
Guarantees	805,026	173,199	–	978,225
Undrawn loan and overdraft facilities	1,110,050	–	–	1,110,050
Commercial letters of credit	1,045,515	–	–	1,045,515
Total	2,960,591	173,199	–	3,133,790

32.4 Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value using a valuation technique

The table below analyses financial instruments carried at fair value, by valuation method. The various fair value levels have been defined as follows:

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

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

Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 AFN '000	Level 2 AFN '000	Level 3 AFN '000
Investment in Bonds – available for sales investments	4,757,800	–	–
As at December 31, 2014	4,757,800	–	–
As at December 31, 2013	4,675,718	–	–

Available for sale securities (investment bonds) amounting to AFN 4,757,800 (2013: 4,675,718). Valuation technique and key inputs used were quoted market bid price in active market.

There were no transfers made among various levels of fair value hierarchy during the year.

(b) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities which are presented on the Bank's statement of financial position at value other than fair value.

	Carrying Value		Fair Value	
	December 31, 2014 AFN '000	December 31, 2013 AFN '000	December 31, 2014 AFN '000	December 31, 2013 AFN '000
Financial assets:				
Cash and balances with DAB	11,163,004	8,499,376	11,163,004	8,499,376
Balances with other banks	11,624,614	17,106,613	11,624,614	17,106,613
Placements	14,898,004	5,018,496	14,898,004	5,018,496
Investments – net	9,706,779	7,019,113	9,706,779	7,019,113
Participation purchased	–	529,992	–	529,992
Loans and advances to customers – net	2,889,723	4,204,751	2,889,723	4,204,751
Security deposits and other receivables – net	275,133	210,078	275,133	210,078
Financial liabilities:				
Customers' deposits	52,908,347	45,120,851	52,908,347	45,120,851
Other liabilities	172,340	119,750	172,340	119,750
Off balance sheet financial instruments:				
Bank's commitments	2,879,418	2,155,565	2,879,418	2,155,565

The carrying values of these financial assets and liabilities approximates their fair values as at the date of statement of financial position.

(i) Investments

Investments include placements and are recognised as held to maturity which is measured at amortised cost. The fair value of investments is equal to the carrying amount.

(ii) Loans and advances, security deposits and other receivables, and financial liabilities

Fair value of loans and advances, security deposits and other receivables and all the financial liabilities cannot be calculated with sufficient reliability due to absence of current and active market for such assets and reliable data regarding market rates for similar instruments, so its carrying amount is its fair value. The provision for loans and advances has been calculated in accordance with the Bank's policy and regulations issued by DAB.

(iii) Off-balance sheet financial instruments

The fair value of the off-balance sheet financial instruments is equal to the carrying amounts.

32.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

i) To comply with the capital requirements set by the DAB;

ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to be self-sustainable; and

iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. DAB requires each bank to maintain its Tier 1 Capital ratio and Regulatory Capital ratio to be at least 6 % and 12 % respectively. The Bank is maintaining this ratio well above the required level.

The table below summarises the composition of the regulatory capital and ratio of the Bank:

	2014 AFN '000	2013 AFN '000
Regulatory Capital		
Tier 1 (Core) Capital:		
Total equity capital	3,077,538	2,775,270
Less:		
Intangible assets	255,770	175,486
Net deferred tax assets	–	3,994
Profit for the period	499,854	239,790
	2,321,914	2,356,000
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's		
regulation, but restricted to 1.25% of total risk-weighted exposures	57,571	10,464
Profit for the year	499,854	239,790
	557,425	250,254
Tier 2 (supplementary) Capital		
(restricted to 100% of Tier 1 (Core) Capital)	557,425	250,254
Regulatory Capital = Tier 1 + Tier 2	2,879,339	2,606,254

32. FINANCIAL RISK MANAGEMENT CONTINUED

32.5 Capital management continued

Risk-weight categories

	2014 AFN '000	2013 AFN '000
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	3,051,668	2,795,201
Direct claims on DAB	13,422,606	9,804,772
Total	16,474,274	12,757,187
0% risk-weight total (above total x 0%)	–	–
20% risk weight:		
Balances with other banks	26,749,325	22,680,168
20% risk-weight total (above total x 20%)	5,349,865	4,536,034
100% risk weight		
All other assets	13,008,258	12,834,015
Less:		
Net Deferred tax asset	–	3,994
Intangible assets	255,770	175,486
All other assets – net	12,752,488	12,654,535
100% risk-weight total (above total x 100%)	12,752,488	12,654,535

Credit conversion factor

	2014 AFN '000	2013 AFN '000
0% risk weight:		
Undrawn loan and overdraft facilities	2,628,253	1,110,050
0% credit conversion factor total (risk-weighted total x 0%)	–	–
0% risk-weight total (above total x 0%)	–	–
20% risk weight:		
Commercial letters of credit	251,165	1,045,515
20% credit conversion factor total (risk-weighted total x 20%)	50,233	209,103
20% risk-weight total (above total x 20%)	10,047	41,821
100% risk weight		
Guarantees	1,158,680	978,225
100% credit conversion factor total (risk-weighted total x 100%)	1,158,680	978,225
100% risk-weight total (above total x 100%)	1,158,680	978,225
Total risk-weighted assets	19,271,080	18,210,615
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	12.05%	12.94%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	14.94%	14.31%

33. ISLAMIC BANKING PRODUCTS

The Bank started Islamic banking operation during the year with following Islamic deposit products.

Qardul Hasana Current Account

This account is profit-free account specifically designed to meet the requirements of the Bank's customers. Account holders will have easy access to account at any time to meet their personal or business expenses.

Mudarabah Savings Account

This account is designed specifically to meet the requirements of customers who authorize the Bank to invest their cash deposits. Customers can deposit or withdraw money at any time they wish, and can earn profits on their savings.

Mudarabah Term Investment Deposit

These funds are accepted with different investment periods. The Bank manages and invests the funds aiming at realizing the best profit for the mutual interest of the parties.

Below is the figures relating to Islamic banking as at December 31, 2014.

	2014 AFN '000
Assets	
Cash and Balances with Banks	9,509
	9,509
Liabilities	
Payable to Head office	3,866
Deposit – Current	8,191
Deposit – Saving	1,318
	13,375
Accumulated losses	(3,918)
	9,457
General and Admin Expenses	(3,918)

34. RECLASSIFICATION

In prior year financial statements, loss on sale of securities have been reclassified from interest income (note-21) for better presentation.

35. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue by the Board of Supervisors of the Bank on 7th March, 2015.

Chief Executive Officer

Chairman

Designed and produced by Origin Communications Group

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