AIB

بانک بین المللی
افغانستان

Afghanistan
International Bank

Best Corporate Governance
2014 and 2015
AFGHANISTAN

Bank of the Year
2012/2013/2014/2015
AFGHANISTAN

Your Partner for Growth

Annual Report 2015

Contents

Our Vision

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

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

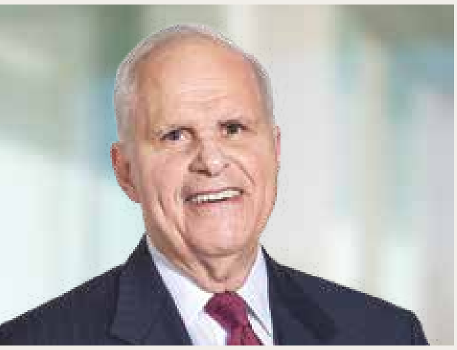
Through our financial performance and the specific investments we have made in our people and infrastructure, AIB has become a positive emblem for achievement and transformation, despite its challenging environment.

In our second decade of operation, 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.

Afghanistan International Bank was founded in 2004 and has since established itself as a leader in Afghanistan's banking sector, becoming the country's most respected and trusted financial institution.

Over the last 12 years, AIB has built an enduring institution that combines international expertise with intimate local knowledge, giving the Bank a deep-rooted understanding of customers' needs that is grounded in the highest international standards and best practices.

From inception, the major objective of the Bank has been to assist in developing the Afghan economy and to conduct business in accordance with international governance standards. Its success in this regard is reflected in the many prestigious awards received from authoritative industry bodies.



Ronald Stride
Chairman

In 2015, AIB continued to fulfil its vision of being a modern, international, and high-quality institution. Underlying this vision is the Bank's dedication to integrity, high service standards, achieving world-class financial performance, and attention to the financing needs of our customers, as reflected in our tagline 'Your Partner for Growth'.

Some examples of this dedication to high standards are:

- We are well into implementation of a year-long project to bring our anti-money laundering and financial crimes compliance processes and systems up to world standards.
- AIB is the only private commercial bank in Afghanistan to have correspondent banking relationships with two major international banks, Commerzbank and Standard Chartered Bank, allowing quick and reliable foreign currency clearing services.
- We have asset management and placement relationships with a number of international financial institutions, demonstrating their trust in AIB.
- We remain the bank of choice for Afghanistan companies and individuals: AIB holds one-third (circa $850 million) of all deposits in the Afghanistan banking system, reflecting the general community's high esteem for our Bank.
- AIB is also the bank of choice for the international community in Afghanistan, including the United Nations, embassies, aid agencies, and the like.
- The Bank continues to win awards for excellence in governance and banking performance, as mentioned below.
- KPMG, our auditors for financial year 2015, have given AIB a clean opinion without reservations, as highlighted in this document.

AIB remains committed to building the banking system and developing the economy in Afghanistan. Notwithstanding this objective, business sentiment was relatively subdued during the year, due to continued political uncertainties and security concerns. The Taliban insurgency situation has not improved and there has been no meaningful progress in peace talks. Security concerns were further exacerbated by the Taliban's attack on the city of Kunduz late in the year.

We expect our new twelve-storey head office building to be ready for occupancy in late 2016, an event to which we are all looking forward.

The significant drop in the value of the Afghani currency further accelerated the trend to a dollar-based economy. The exchange rate lost about 18 percent in 2015, putting upward pressure on prices. This devaluation, coupled with the ongoing government stalemate regarding cabinet appointments and parliamentary elections, has eroded confidence in the economy.

Growth in gross domestic product in 2015 is expected to be 1.9 percent, which is an improvement from slightly more than 1.0 percent in 2014. A rise to 2.8 percent is forecast for 2016 before settling at around 5.0 percent in 2018.

However, even with this backdrop of political and security difficulty, AIB performed well financially. The Bank achieved a return on equity of 15.28 percent and met its profit before tax objective of AFN 589 million. Profit performance was driven by strong fee income revenue from transfers and foreign exchange, which increased significantly year on year.

2015 was marked by several significant milestones:

• For the fourth consecutive year, AIB received The Banker magazine's 'Best Bank in Afghanistan' award.

• For the second successive year, AIB was recipient of the prestigious 'Best Corporate Governance – Afghanistan' award from the London-based Capital Finance International organisation.

• In May, Mr Khalil Sediq, the Chief Executive Officer of AIB, retired and subsequently joined the Central Bank of Afghanistan as Governor. Mr Sediq was instrumental in building AIB into the highly respected institution that it is today (see tribute highlighting his many contributions to AIB). Needless to say, the AIB community of shareholders, Board directors, management, and staff are proud of Mr Sediq's appointment to the Central Bank, and we wish him every success in his new position. Mr Guy Mallett, the Deputy Chief Executive Officer of AIB, took over the position of CEO after Mr Sediq's departure.

• AIB's new twelve-storey head office building had reached the ninth floor by December. Another key milestone was the awarding of the mechanical, electrical, and plumbing contract. We expect the building to be ready for occupancy in late 2016, an event to which we are all looking forward.

• AIB took a stand at the SWIFT International Banking Operations Seminar (Sibos), the world's premier financial services conference, exhibition, and networking event. AIB's presence drew much attention as this was the first time an individual Afghan bank had its own stand.

• A new Law of Banking was put into effect in mid-2015. This contains a major shift in governance duties and responsibilities from shareholders to the Board of Supervisors. Many other changes include lending limits and board of supervisor composition. In my view these changes are positive for the banking sector in Afghanistan, strengthening the role of boards in governance.

The Board of Supervisors continued to provide significant oversight to management of the Bank. The Board held twelve regular meetings during the year: four in person and eight by conference call. The committees of the Board (Risk, Compensation, Investment, and Strategy and Planning) also met regularly to discuss major issues in greater detail. A report from each committee is contained in this Annual Report.

The Board approved revisions to the Articles of Association of the Bank, as well as numerous policies and procedures and senior management compensation matters. In addition to the anti-money laundering and compliance improvements mentioned earlier, IT security was also upgraded and the Board reviewed and approved changes in the organisation structure.

Mr Dickie, an independent director since 2012 and chair of the Strategy and Planning Committee, stepped down from the Board during 2015. I thank Brian for his contributions to the Board and the Bank, and wish him well.

As 2015 came to a close, the International Finance Corporation is in final negotiation to purchase 15 percent of AIB: 7.5 percent from the Bank's two major shareholders, Wilton Holdings and Horizon Associates, and 7.5 percent through the issuing of new shares by the Bank. This investment will take place in two tranches over a two-year period.

The Asian Development Bank (ADB) continued to hold a 7.5 percent stake in AIB at the year-end; however, I anticipate that ADB will sell its shareholding to Wilton and Horizon in the very near future. Accordingly, Hasib Ahmed, the shareholder-representative director for ADB, will resign from the Board.

Mr Ahmed has been a director since 2005, and has been a major contributor to the Board and the Bank due to his extensive knowledge and understanding of banking.

He will be missed, and I join the shareholders and other Board members in wishing him well in his future endeavours. I also note that ADB was a founding shareholder of AIB and has actively participated in the governance of the Bank since its inception. ADB's exit has been planned for some time.

At this time it is difficult to forecast what will happen in the Afghan economy in 2016. The release of donor funds by the International Monetary Fund and the World Bank will enable aid agency funds to flow into Afghanistan, greatly helping the economy.

Another potential bright spot could be the positive impact of the United Nations lifting economic sanctions on Iran. This action could bring about renewed trade between Iran and Afghanistan; however, it will take some time before there is clarity on when and what types of transactions and payments can be accepted through the international payment mechanisms.

For 2016, the Board and management have decided to remain rather conservative in the financial outlook for the Bank, and in the annual planning process we have anticipated sustaining a return on equity of around 13 percent for the 2016 fiscal year. To safeguard against any unforeseen adverse conditions that might affect the Bank's financial integrity, management has developed two fallback scenarios in the 2016 plan, to be used only if conditions in the country deteriorate.

As in the past, I extend my personal thanks and gratitude to my fellow Board members and to the management and staff of AIB for their hard work, diligence, and dedication to making the Bank the successful institution it has become over the past 12 years.

Ronald Stride
Chairman

Guy Mallett
Chief Executive Officer

As AIB advances into its second decade, the Bank's international stature continues to grow while we also expand our influence as a positive force within the domestic economy.

Further progress on both fronts during 2015 was cause for satisfaction.

AIB is today the only private commercial bank in Afghanistan to have major clearing banks as correspondents – Standard Chartered Bank and Commerzbank – providing our customers with much-needed safe and speedy international transfers, and facilitating the finance of trade.

Our achievements in this area have not gone unnoticed in international banking circles, and we are optimistic about securing more correspondent arrangements with other leading global institutions. This goal was supported in 2015 by an intensive review and upgrade of 'know your customer' and anti-money laundering procedures and processes to ensure that we comply with the highest international standards. We are also upgrading our compliance-related IT systems.

We have set a high benchmark for this entire exercise to ensure that we are in line with the requirements of US banking regulators, and we have engaged specialist international consultants to ensure we succeed. Our correspondent banks recognise AIB as the only Afghan bank to achieve this and have indicated that they are prepared to expand their relationships with us.

Such abilities enhance our role as a vital intermediary in enabling Afghanistan trade flows, stimulating the domestic economy, and in turn making a vital contribution to the Bank's substantial growth in foreign exchange business.

While moving into a higher league of international banks and banking, AIB maintained its well-established trend of domestic growth during 2015, despite a depressed market environment for most of the year.

- Assets grew by 9.64 percent to AFN 61.65 billion (2014: AFN 56.23 billion), bringing compound annual asset growth since 2009 to 24 percent. Deposits also grew by 9.62 percent, from AFN 52.9 billion to AFN 58.00 billion.
- Revenue remained the same as last year at AFN 1.96 billion (2014: AFN 1.96 billion). Non-interest income accounted for 46 percent of total revenue, underlining the value of strong correspondent partnerships and sound regulatory compliance. Compound annual revenue growth since 2009 now stands at 4.5 percent.

Budget targets for the year were generally met, but the poor condition of the real estate market negatively affected loan recoveries. Commercial lending was subdued, indicative of the increasingly cautious market attitude during this time of weak business confidence.

Assets

61.65bn ▲ 9.64%

Assets grew by 9.64 percent to AFN 61.65 billion (2014: AFN 56.23 billion), bringing compound annual asset growth since 2009 to 24 percent.

With expenses being contained at forecast levels, the 27 percent net profit margin equates to earnings per share of AFN 17.46 (2014: AFN 16.66), and 15.28 percent return on equity.

Total capital increased from AFN 3.07 billion to AFN 3.4 billion. Our capital adequacy ratio of 13.59 percent and 87 percent liquidity are very satisfactory by domestic and international standards. AIB believes it retains the highest score of all Afghan banks in its 'CAMEL' rating – the acronym for five key components of a bank's health: capital adequacy, asset quality, management, earnings, and liquidity.

Being based in an Islamic country, it is only logical for AIB to support its core services with Islamic options. During 2015, we established three Shariah-compliant windows: in Kabul at Head Office branch and in the cities of Kandahar and Mazar. Expansion of the branch network was limited, opening new branches at Sinafar in Mazar and at the American University Afghanistan in Kabul, bringing the total to 34.

However, expansion of electronic channels continued apace, introducing the new self-service internet banking platform that enables customers to manage their banking transactions from anywhere. This supports the growing popularity of internet banking, with the number of users increasing by 71 percent to 9,198.

Customer service was further enhanced by expansion of AIB's ATM network, already the largest in the country, adding four more to bring the total to 64. Our ATMs are multi-currency, offering the Afghani and US dollar as standard, as well as the euro in certain locations. The range of ATM services has been expanded to include balance enquiries and mini-statements, and the hours for call centre and phone banking services extended from 8:30am to 11:00pm.

Our MasterCard-branded Platinum and Titanium credit cards have shown steady progress since their launch in 2013, with more than 700 issued. Debit cards in issue, which do not require users to undergo credit checks, now number more than 70,000. Our prepaid cards, including the prepaid MasterCard and China Union Pay, have more than doubled to over 3,300.

Demand for retail lending products also grew steadily, despite the unfavourable market conditions. Our payroll loan provides small general-purpose funding for the acquisition of consumer goods, while the home equity loan enables customers to leverage the capital value of their primary homes to buy a secondary property and/or make improvements to their existing houses. Portfolios have grown respectively by 72 percent and more than 100 percent.

AIB's commitment to support small and medium enterprises, clearly under-served by Afghanistan's banking sector as a whole, continues to gather momentum. Our drive into this market gives priority to servicing established businesses involved in strategic economic sectors – such as manufacturing and import substitution – and reinforces our role as a growth engine for national development.

The SME loan portfolio now comprises 20 borrowing businesses. By virtue of rigorous cash flow-based analysis and close monitoring, no loans are in arrears – also indicative of borrowers' appreciation of this much-valued service.

On the IT front, the Bank was awarded the 2015 Transformation Award from Baar, Switzerland for its successful implementation of fully automated processes for card issuance, renewal, tracking of fees due, and recording all transactions.

Ensuring that services to customers continue uninterrupted is a vitally important resource, so the Bank's Business Continuity Plan was again successfully tested and upgraded.

In human relations, and in line with the Bank's commitment to excellence and helping promising employees with further education, AIB sponsored four staff members, one female and three male, to continue their post-graduate studies at the American University of Afghanistan.

Professional training was maintained at all levels and reached a record number of employees through courses ranging from basic banking induction to specialist areas such as accounting, electronic banking, risk management, information technology, and communications skills.

The formation of an internal gender committee (an initiative strongly encouraged by the Bank's Supervisory Board) will support the increased presence of female staff in positions of responsibility within the Bank.

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 2015.

Guy Mallett
Chief Executive Officer

We have set a high benchmark for this entire exercise to ensure that we are in line with the requirements of US banking regulators, and we have engaged specialist international consultants to ensure we succeed.

Ronald Stride
Chairman

Khalilullah Sediq
Former Chief Executive Officer

Khalil Sediq stepped down as Chief Executive Officer of Afghanistan International Bank during 2015 to become Governor of Da Afghanistan Bank, the central bank of Afghanistan.

Mr Sediq joined AIB in 2006 when our Bank was still in its infancy, and in the next eight years developed AIB into one of the largest and most respected financial institutions in the country.

His banking knowledge, his personal integrity, and his understanding of customers were strengths he brought to the position of CEO. Such strengths were instrumental not only in building AIB, but in creating a culture of integrity, good governance, respect for the institution, professionalism, and dedication to customer needs.

Mr Sediq's leadership was so well known that people referred to AIB as 'Khalil's bank'.

One of the key events during his tenure was taking on the US Army's banking accounts in Afghanistan during 2008, an achievement in which he played a personal role.

This reflected the international community's trust in Mr Sediq and AIB, and was the beginning of the Bank's advancement.

He also oversaw AIB's purchase of Standard Chartered Bank's business in Afghanistan in 2012, another major point in the Bank's development. He leaves a strong, well-managed institution.

I had the good fortune and privilege of working with Mr Sediq for more than five years and I know that I speak for our shareholders, management, staff, and my fellow directors in thanking him for his contributions to AIB, and in wishing him continued success in the position of Governor of Da Afghanistan Bank.

Ronald Stride
Chairman

Key metrics reflect AIB's trend of sustained performance over the past five years, particularly the growth in deposits, assets, and capital resources that are fundamental strengths of the Bank.

Deposits

58bn

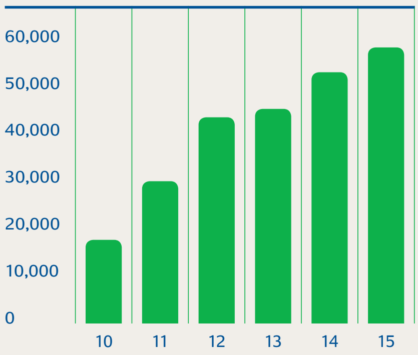
▲ 9.6%

Capital growth

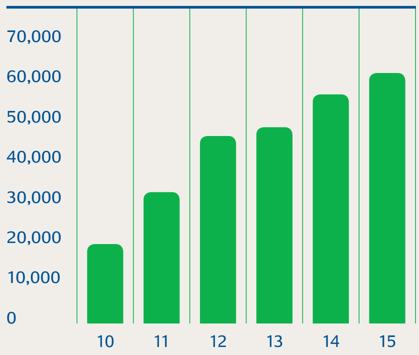
3.42bn

▲ 11.3%

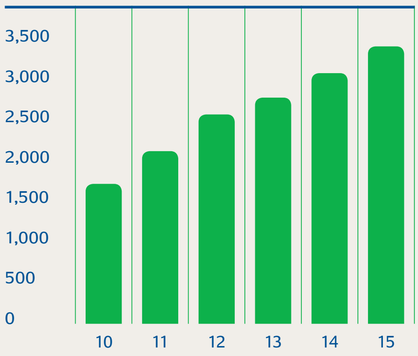
Deposits
(AFN millions)



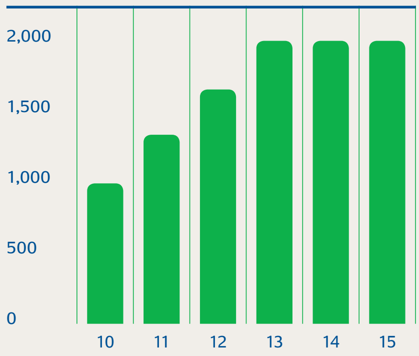
Total assets
(AFN millions)



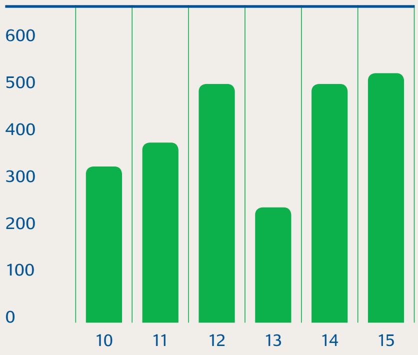
Capital growth
(AFN millions)



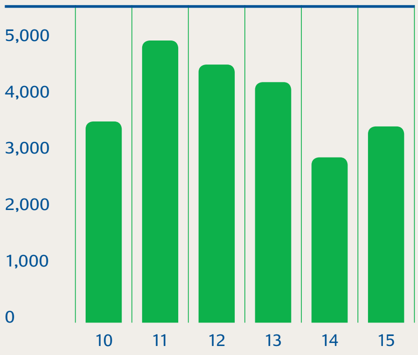
Revenues
(AFN millions)



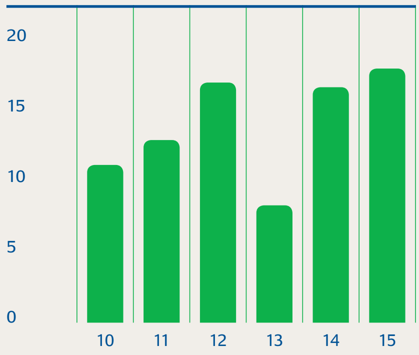
Net Profit
(AFN millions)



Advances
(AFN millions)



Earnings per share
(AFN)

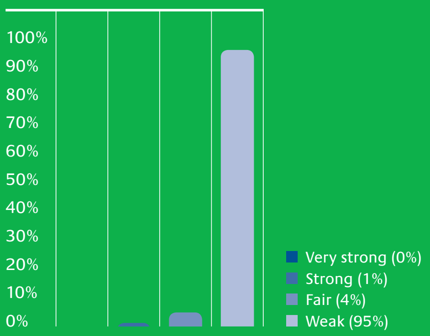


Afghan economy faced stressful times in 2015 as the effects of renewed domestic insurgency and an acute collapse in business confidence were compounded by slowing global trade.

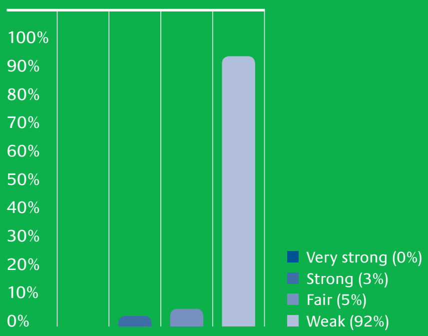
A slowing global economy added to the difficulties. Annual growth in gross domestic product (GDP) in 2015 is expected to be a meagre 1.9 percent – up from just over 1.0 percent in 2014 – and is projected to rise slightly to 2.8 percent in 2016 before levelling off around 5.0 percent in 2018.

The heady days of double-digit economic growth, fuelled by foreign aid and military spending that followed the fall of the Taliban regime, appear to be gone for the foreseeable future. The exchange rate – a bellwether economic indicator – continued to lose value in 2015, falling by about 18 percent over the year and putting upward pressure on prices.

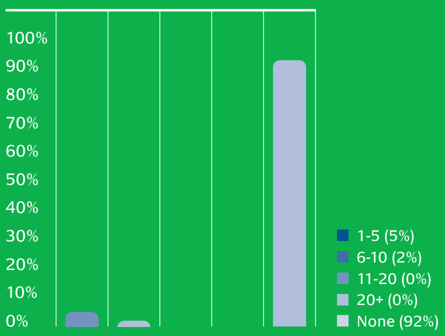
How would you assess the overall business climate?



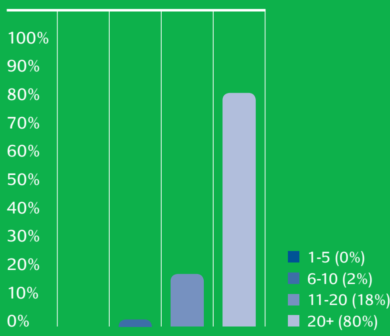
How would you assess the current strength of your business?



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?



Source: American University of Afghanistan Survey

In 2015, economic hardship, increasing insecurity, and concern regarding the country's future prompted a huge wave of migration, with about 146,000 Afghan migrants arriving in Europe, syphoning an estimated $1.5 billion from the economy. Government forces have been hard-pressed to contain the Taliban insurgency, fighting on without rest despite the severe constraints of being under-trained and under-equipped. As a result, the Taliban is now in control of more territory than at any time since 2001.

The banking sector continued to perform poorly overall as the ripple effects of the economic slow-down were felt. Bank lending to the private sector continued to decline over the year.

Credit to the private sector continued its precipitous decline that began in the second half of 2014, and dropped by 5.3 percent (year-on-year) over the first nine months of 2015. Total banking sector loans contracted sharply to $747 million in September 2015 compared to $818 million one year earlier, and are not projected to rise much faster as banks tighten credit standards in the face of a deteriorating economy. Asset quality also left much to be desired. The ratio of non-performing loans increased from 6.3 percent in June 2014 to 13.8 percent in June 2015, leading to a total loss of $14 million in the first seven months of 2015.

The response of the Afghan business community to the downturn will have implications for the health of the banking sector. During periods of economic decline, whether widespread as Afghanistan is experiencing or cyclical for a particular type of business, nascent enterprises are most likely to bear the brunt.

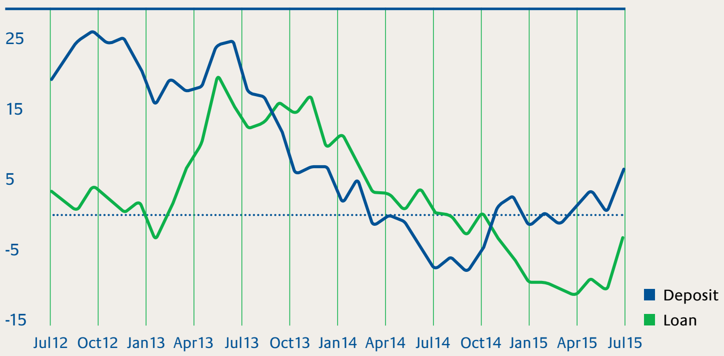
Yet the fact that conditions are changing opens up opportunities for resourceful firms to outsmart larger competitors who, during a downturn, carry on business as usual or are unable to adapt quickly – except to fire employees.

Such innovative firms can:

- Gain market share from competitors unable to adjust to changing market conditions.
- Maintain a strong cash flow throughout the downturn, in contrast to other companies that may have liquidity problems.
- Become leaner, more cost-effective, and more efficient – better positioned to do well when the market improves.

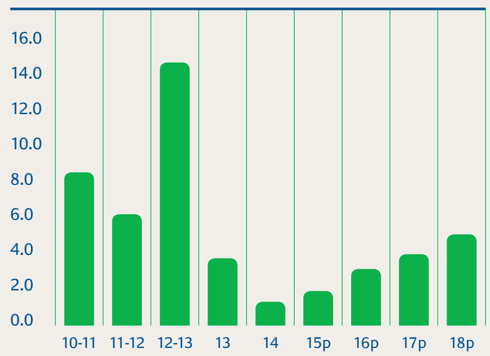
The challenge for AIB is to identify such firms, design new financial products for them, and re-engineer internal operations to better monitor their performance.

Growth in banks' loans to private sector remained anaemic



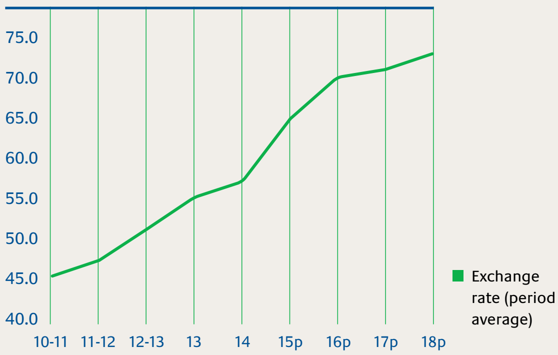
Note: The uptick in loans in July was a one-time event.
Source: Da Afghanistan Bank, World Bank and author's own projections

Real GDP growth (%) will remain in single digits for the foreseeable future



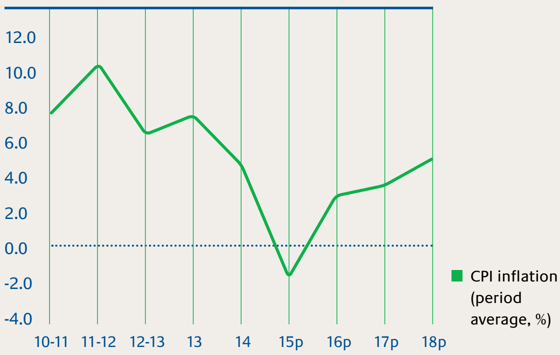
Source: Da Afghanistan Bank, World Bank and author's own projections (p)

The AFN/USD exchange rate continued its decline



Source: Da Afghanistan Bank and author's own projections (p)

After monetary tightening by DAB, inflation looks set to resurge in 2016



Source: Da Afghanistan Bank and author's own projections (p)

Salman Shoaib

Independent Director, Chairman of the Investment Committee, Member of the Compensation 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.

Aditya Srivastava

Independent Director, Member of the Risk Committee, Member of the Strategy and Planning Committee, Member of the Investment Committee

Mr Srivastava has been a Board member since August 2012. He is currently the Chief Commercial Officer of Wasl Asset Management Group, a Government of Dubai-owned corporation with interests in property, hospitality and leisure. Before joining Wasl in 2008, 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.

Hamidullah A. Mohib

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

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.

Ronald Stride

Independent Director, Chairman of the Board of Supervisors, Chairman of the Strategy and Planning Committee, Member of the Compensation Committee, Member of the Risk 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. He was formerly president of the American Association of Singapore, a position he held for five years. Mr Stride received his BA degree from Providence College in the USA.

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.

Veronica John

Independent Director, Chairperson of the Compensation Committee

Ms John has been a member of the AIB Board since 2004. She brings more than 20 years' experience in international finance, especially in emerging markets in Asia and the CIS, and specialises in private equity funds, diversified fund of funds management, and investment banking. She is a Managing Director at 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.

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 hold a Bachelor's degree in Economics from Punjab University, Pakistan.

The Shareholders and Board of Supervisors continue to uphold a high level of corporate governance, 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 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	7.5
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 major 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 three 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 seven 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: the Compensation Committee, the Risk Committee, the Investment Committee, and the Strategy and Planning Committee.

A fifth committee, the Audit Committee, 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 following subsections.

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: Ronald Stride (Chairman and independent director), Aditya Srivastava (independent director), Lutfullah Rahmat, and Hasib Ahmed.

During 2015, the committee spent the majority of its efforts in guiding and overseeing the business plan of AIB. The Bank faced uncertain market conditions and a drop in business confidence in 2015, and it was therefore important to closely monitor the goals of the Bank to ensure financial performance and stability.

Additionally, the committee monitored relationships with AIB's two correspondent banks to ensure that the Bank meets the requirements of these correspondents. Another key focus of the committee during the year was progressing Sharia banking. To that end, a three-year Sharia banking growth plan was approved. Finally, as 2016 appears to be another year of uncertainty for the Afghan economy, the plan for next year will contain two fallback scenarios based on various economic and security outlooks.

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 Aditya Srivastava.

The principal role of the committee is to review the Bank's risk exposure under different products. This encompasses foreign exchange positions, asset 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.

The Board and the Shareholders of AIB place high priority on implementing, maintaining, and developing the highest standards in Anti Money Laundering (AML) and Counter Terrorism Financing (CTF). During the year, AIB initiated a Financial Crime Compliance/AML project by appointing an external firm to help AIB further strengthen its KYC, AML, and CTF processes. The committee introduced a measure to ensure the early detection of borrowers who appear to be having problems in their business. The committee also oversaw other key initiatives during the year, including an external consultant completing a Credit Risk review of the Bank's loan portfolio, with recommendations currently being implemented, as well as refinements to the Bank's business continuity plan.

The committee was pleased to note that the external consultancy that had conducted an IT penetration audit had commended AIB's IT architecture, and provided assurance that the Bank would be able to withstand an external attack on its systems.

Due to uncertainties in the economic outlook for Afghanistan, the Risk Committee adopted a conservative approach for the Bank's risk profile. This approach will continue in 2016 to ensure the balance between risk and return is maintained.

Compensation Committee

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

The Compensation Committee has two principal roles: (1) to establish compensation policy for the Chief Executive Officer, members of the Management Board, and other senior managers; and (2) recruitment of Board members and senior management.

In 2015, the committee focused on the composition of the senior management team, identifying the development and recruitment actions necessary in order to adopt a suitable organisational structure and Management Board composition for the future. As part of this succession planning, increased focus was placed on the development of several 'high flyer' Afghan staff identified as demonstrating the potential to grow into executive management within AIB. This emphasis is in line with the desire of the Board and shareholders that the majority of the Bank's senior management will ultimately be Afghan.

The committee oversaw the progression of initiatives, such as childcare support for working mothers, and engagement by management with female staff to ensure access to an enhanced working environment and opportunities.

Also during 2015, the committee provided guidance on the redrafting of executive management employment contracts, with the goal of equalising expatriate and Afghan employees' compensation and benefits. This activity will be concluded in 2016.

In its role of setting compensation policy, the committee establishes guidelines for base salary, bonus, and fringe benefits for each executive, and recommends to the Board and shareholders any changes to the compensation structure. The committee also reviews, and reports to the Board and shareholders, the performance of senior management through a formal goal-setting and monitoring mechanism. During the year, the committee recommended an amendment to the methodology of calculating the executive management bonus pool and suggested changes to HR Policy, which will be finalised in 2016 and then will better conform to international practices.

Investment Committee

The Investment Committee comprises three directors, two of whom are independent, including the Chairman, Salman Shoaib. The other members are Hasib Ahmed and Aditya Srivastava (independent). The Chairman of the Board 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.

The committee conducted ongoing reviews of the performance of the two Asset Managers against pre-set return on investment targets. The committee commented on the performance of the Managers, and made recommendations to management on potential steps to enhance performance or achieve objectives, including adjusting risk parameters to improve yield and ensure that the Bank's fixed-income portfolio remained in compliance with regulations from the Central Bank.

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.

The Audit Committee is responsible for overseeing financial reporting, compliance with risk management policies and procedures, internal controls, ethics, and management and functioning of internal audit. In 2015, the committee assessed and approved the annual internal audit plan, including budget and resources, and regularly monitored progress of the plan during the year. The committee also monitors and assesses the role and effectiveness of the Internal Audit function.

The committee receives reports on a quarterly basis from major operational segments of the Bank, which are reviewed at every quarterly Audit Committee meeting. The reports included the key performance indicators of different segments and the issues related to operational and financial controls.

At its quarterly meetings, the committee discussed control environment issues reported by the Internal Audit Department, their root causes and management responses, and remediation activities. In addition, any significant audit issues were brought to the committee's attention.

The committee is also 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 Financial Statements of the Bank. These meetings allow committee members to discuss matters relating to the external auditors' remit and issues arising from the audit.

During 2015, the committee focused on the controls and issues related to Anti-Money Laundering and Countering Financing of Terrorism. The Regulator's report was also reviewed, along with actions taken by management for implementing recommendations of the Regulator.

Guy Mallett

Chief Executive Officer,
Chairman of Management Board

Mr Mallett joined AIB in 2014, having previously worked with the Bank in an advisory capacity. He brings with him 40 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 The First MicroFinanceBank, Pakistan, an institution of the Aga Khan Development Network (AKDN), for eight years, where he worked in senior positions in internal audit, finance, risk management and compliance. He has also served on the Board of Directors of Aga Khan Grants and Review Board of Pakistan, an AKDN institution. Mr Sikander is a member of the UK Association of Chartered Certified Accountants and is pursuing membership of the Chartered Professional Accountants, Ontario, Canada.

Omer Omery

Head of Retail Banking

Mr Omery has ten years of banking 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 has completed an MBA from the University of Liverpool, England.

Tamsil Rashid

Head of Commercial Banking,
Member of Management Board

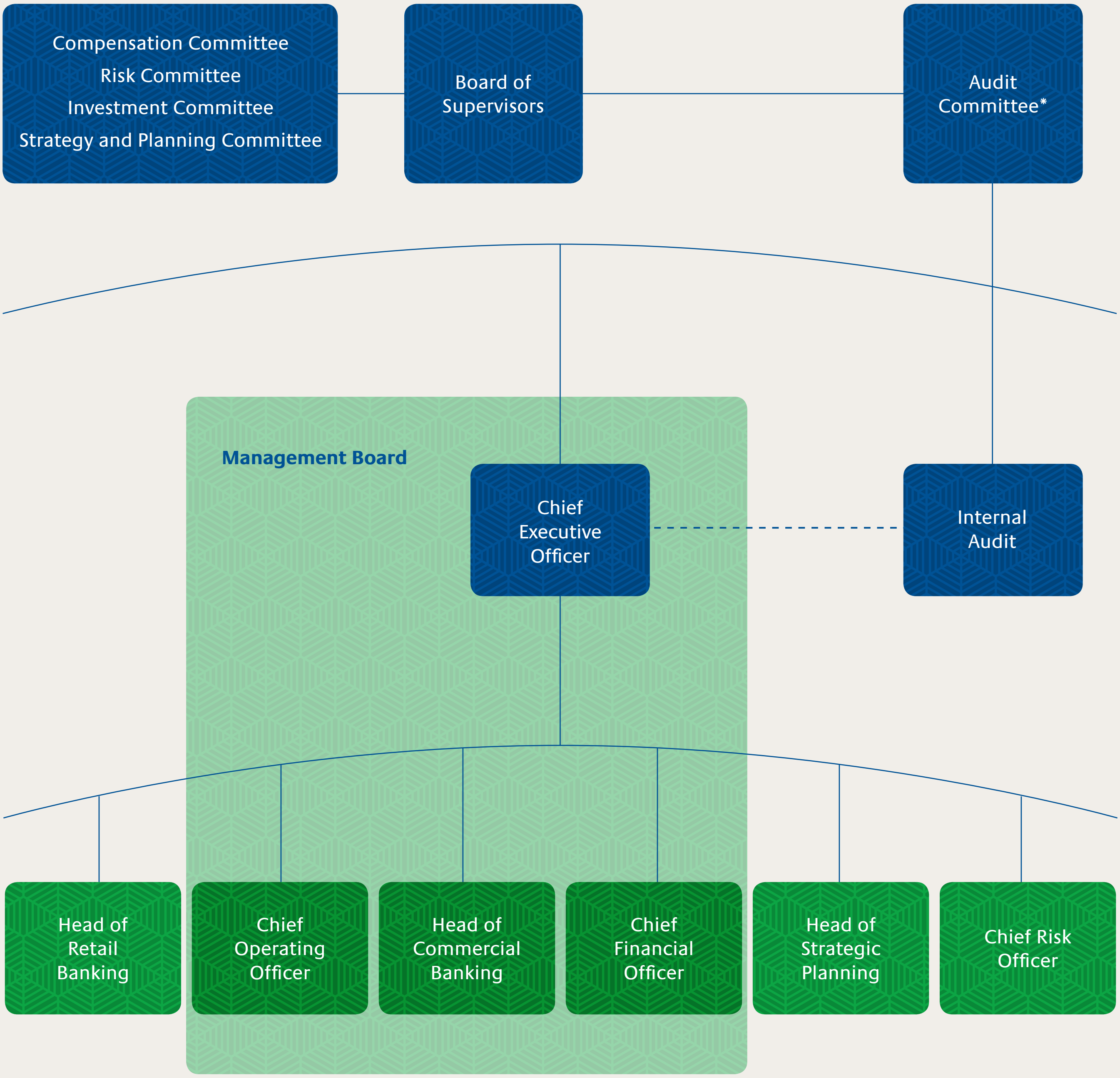
Mr Rashid has close to 30 years' experience in commercial, development, and Islamic banking, having begun his career with Habib Bank and later joining the Bank of Khyber in Pakistan, where he rose to senior vice-president and divisional head of credit management. Mr Rashid holds an MPA degree, majoring in economics; a Diploma Associate from the Institute of Bankers Pakistan; and more recently obtained a Post-graduate Diploma in Islamic Banking & Finance from the Alhuda Institute in Lahore, Pakistan.

Mohammad Taofiq Mir

Head of Strategic Planning

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 Strategic Planning in 2014. He holds a BSc in electrical engineering from Delft University of Technology, Netherlands.

ORGANISATION



* Reports directly to shareholders

During 2015, AIB maintained its well-established reputation for distinguished performance, recording a successful year in difficult market conditions and receiving more awards for its pioneering achievements.

Sibos (Swift International Banking Operations Seminar)

The Bank exhibits at Sibos (Swift International Banking Operations Seminar) for the first time

AIB wins the CFI.co 'Best Corporate Governance,

AIB wins the CFI.co *'Best Corporate Governance, Afghanistan'* award for the second consecutive year

The Banker magazine

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

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.

2015

Khalilullah Sediq retires as CEO to become Governor of Da Afghanistan Bank (Afghanistan's Central Bank).

AIB wins the CFI.co 'Best Corporate Governance, Afghanistan' award for the second consecutive year, and The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan for the fourth year running.

Construction of the Bank's new Head Office reaches the ninth floor.

The Bank exhibits at Sibos (Swift International Banking Operations Seminar) for the first time.

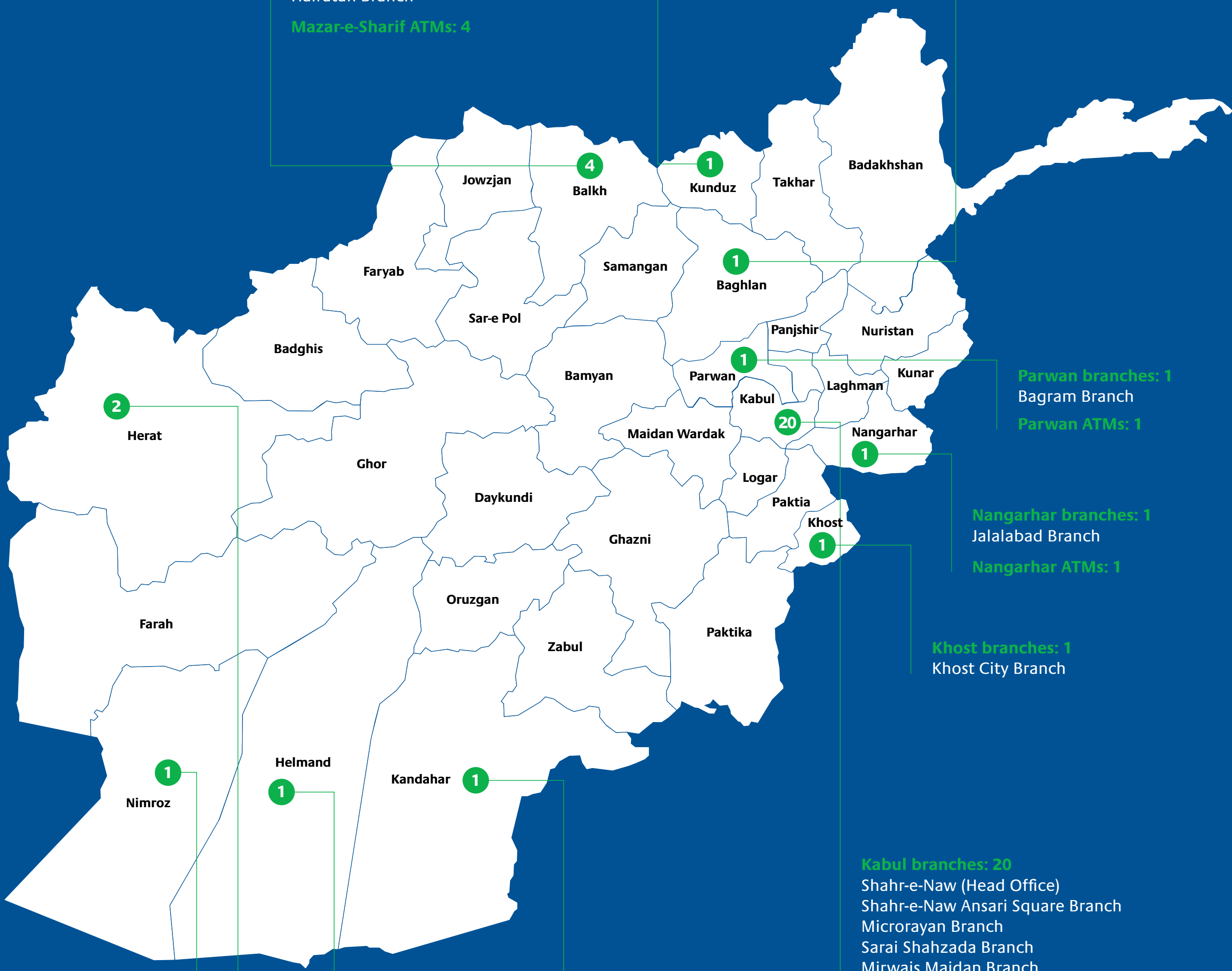
AIB BRANCH NETWORK

Balkh branches: 4
Mazar-e-Sharif Main Branch
Mazar-e-Sharif Kefayat Branch
Mazar-e-Sharif Sinafar Branch
Hairatan Branch

Mazar-e-Sharif ATMs: 4

Kunduz branches: 1
Kunduz Branch

Baghlan branches: 1
Pol-e-Khumri Branch



Parwan branches: 1
Bagram Branch

Parwan ATMs: 1

Nangarhar branches: 1
Jalalabad Branch

Nangarhar ATMs: 1

Khost branches: 1
Khost City Branch

Kabul branches: 20
Shahr-e-Naw (Head Office)
Shahr-e-Naw Ansari Square Branch
Microrayan Branch
Sarai Shahzada Branch
Mirwais Maidan Branch
Khair Khana Branch
Kolola Pushta Branch
Taimani Branch
Kart-e-Naw Branch
Khair Khana Second Branch
Park ha-e-Sanati Branch
Jad-e-Maiwand Branch
Green Village
Pule Bagh-e-Omomi Branch
Dasht-e-Barchi Branch
Kart-e-Se Branch
Wazir Akbar Khan Branch
UNOCA Branch
Baraki Branch
AUAF Branch

Kabul Cash Outlets: 2
ISAF HQ
KAIA

Kabul ATMs: 50

Kandahar branches: 1
Kandahar City Branch

Kandahar ATMs: 4

Helmand branches: 1
Lashkargah Branch

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

Herat ATMs: 4

Nimroz branches: 1
Nimroz City Branch

Financial Statements

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Independent Auditor's Report

Shareholders

Afghanistan International Bank

We have audited the accompanying financial statements of Afghanistan International Bank (the Bank), which comprise the statement of financial position as at 31 December 2015, the statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2015, and notes, comprising 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015, and of its financial performance and its cash flows for the year ended 31 December 2015 in accordance with the accounting framework as stated in note 2 to the Financial statements.

Other matter

The Financial statements of the Bank as at and for the year ended 31 December 2014 were audited by another auditor who expressed an unqualified opinion on those statements on 07 March 2015.

KPMG Afghan Limited

KPMG Afghanistan Limited

Kabul
Date: 19 March 2016

	Note	2015 AFN '000	2014 AFN '000
ASSETS			
Cash and balances with Da Afghanistan Bank	5	**17,816,406**	11,163,004
Balances with other banks	6	**5,042,671**	11,624,614
Placements – net	7	**19,797,852**	14,898,004
Investments – net	8	**13,532,385**	14,440,790
Loans and advances to customers – net	9	**3,457,852**	2,889,723
Receivables from financial institutions	10	**172,482**	103,017
Operating fixed assets	11	**1,047,312**	491,406
Intangible assets	12	**305,802**	255,770
Deferred tax assets	13	**20,641**	–
Other assets	14	**459,885**	365,529
Total assets		**61,653,288**	56,231,857
LIABILITIES			
Customers' deposits	15	**57,997,526**	52,908,347
Deferred income on commercial letter of credit and guarantees		**27,110**	8,531
Deferred tax liabilities	13	**–**	14,604
Other liabilities	16	**207,565**	222,837
Total liabilities		**58,232,201**	53,154,319
EQUITY			
Share capital	17	**1,465,071**	1,465,071
Capital reserves	18	**194,455**	168,262
Retained earnings		**1,784,857**	1,431,185
(Deficit)/surplus on revaluation on available for sale investments – net		**(23,296)**	13,020
Total equity		**3,421,087**	3,077,538
Total equity and liabilities		**61,653,288**	56,231,857
Contingencies and commitments	19		

Chief Financial Officer

Chairman

	Note	2015 AFN '000	2014 AFN '000
Interest income	20	1,080,742	1,067,557
Interest expense	21	(6,016)	(2,728)
Net interest income		1,074,726	1,064,829
Fee and commission income	22	679,548	615,533
Fee and commission expense	23	(16,672)	(13,935)
Net fee and commission income		662,876	601,598
Income from dealing in foreign currencies	24	193,633	216,672
		1,931,235	1,883,099
Other (expense)/income	25	(1,205)	76,537
Gain/(loss) on sale of securities		3,659	(16,307)
Provision against loan losses		(98,873)	(127,659)
Provision on investments		(13,555)	(7,715)
Provision on placements		(24,623)	(52,460)
Reversal of provision on participation purchased		–	2,663
General and administrative expenses	26	(1,207,322)	(1,194,898)
PROFIT BEFORE INCOME TAX		589,316	563,260
Taxation	27	(65,451)	(63,406)
PROFIT FOR THE YEAR		523,865	499,854
OTHER COMPREHENSIVE INCOME			
Items that may classify to profit and loss subsequently			
Net change in fair value on available for sale financial instruments		(45,395)	106,709
Related tax		9,079	(20,795)
Other comprehensive income, net of tax		(36,316)	85,914
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		487,549	585,768
Earnings per share	30	17.46	16.66

Chief Financial Officer

Chairman

	Note	2015 AFN '000	2014 AFN '000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit		523,865	499,854
Adjustments for:			
Provision against loans and advances		98,873	127,659
Depreciation		44,805	50,318
Amortization		37,330	26,598
Provision on investment		13,555	7,715
Provision on placements		24,623	52,460
Reversal on participation purchased		–	(2,663)
Effect of exchange rate fluctuation on cash held		(2,687,947)	(328)
Net interest income		(1,074,726)	(1,064,829)
Income tax expense		65,451	63,406
		(2,954,171)	(239,810)
Change in operating assets and liabilities:			
Receivable from financial institutions		(69,465)	94,682
Balances with Da Afghanistan Bank (DAB)		(298,275)	(530,386)
Balances with other banks		128,487	640,549
Loans and advances to customers		(667,003)	1,187,369
Other assets		5,061	(94,422)
Customers' deposits		5,089,179	7,787,496
Deferred income on commercial letter of credit and guarantees		18,579	(3,295)
Payable to financial institutions		–	–
Other liabilities		(15,271)	41,471
		1,237,120	8,883,654
Interest received		998,702	1,048,685
Interest paid		(6,016)	(2,728)
Income tax paid		(108,993)	(90,446)
Net cash flow from operations		2,120,813	9,839,165
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital work in progress	11.1.1	(545,402)	(75,393)
Acquisition of property and equipment	11.2	(55,309)	(35,648)
Acquisition of intangible assets	12.1	(87,362)	(106,882)
Placements (with maturity more than three months)		(2,077,591)	(6,294,168)
Participation purchased		–	397,671
Investments		849,455	(2,646,965)
Net cash flow used in investing activities		(1,916,210)	(8,761,385)
CASH FLOWS USED FINANCING ACTIVITIES			
Dividend paid		(144,000)	(283,500)
Net cash used in financing activities		(144,000)	(283,500)
Net increase in cash and cash equivalents		60,603	794,280
Cash and cash equivalents at 01 January		25,422,621	24,628,013
Effect of exchange rate fluctuation on cash held		2,687,947	328
Cash and cash equivalents at 31 December	29	28,171,171	25,422,621

Chief Financial Officer

Chairman

	Share capital AFN '000	Surplus/(deficit) on available for sale investments AFN '000	Capital Reserve AFN '000	Retained Earnings AFN '000	Total AFN '000
Balance at 01 January 2014	1,465,071	(72,894)	143,269	1,239,824	2,775,270
Total Comprehensive income					
Profit	–	–	–	499,854	499,854
Other comprehensive income, net of tax:					
Fair value reserve (available-for-sale financial assets):					
Net change in fair value	–	106,709	–	–	106,709
Related tax	–	(20,795)	–	–	(20,795)
	–	85,914	–	–	85,914
Total comprehensive income	–	85,914	–	–	585,768
Transferred to Capital Reserve	–	–	24,993	(24,993)	–
Transactions with owners of the Bank					
Dividend paid	–	–	–	(283,500)	(283,500)
Balance at 31 December 2014	1,465,071	13,020	168,262	1,431,185	3,077,538
Total Comprehensive income					
Profit	–	–	–	523,865	523,865
Other comprehensive income, net of tax:					
Fair value reserve (available-for-sale financial assets):					
Net change in fair value	–	(45,395)	–	–	(45,395)
Related tax	–	9,079	–	–	9,079
	–	(36,316)	–	–	(36,316)
Total comprehensive income	–	(36,316)	–	–	487,549
Transferred to Capital Reserve	–	–	26,193	(26,193)	–
Transactions with owners of the Bank					
Dividend paid	–	–	–	(144,000)	(144,000)
Balance at 31 December 2015	1,465,071	(23,296)	194,455	1,784,857	3,944,952

Chief Financial Officer

Chairman

1. STATUS AND NATURE OF BUSINESS

Afghanistan International Bank (the Bank) was registered with Afghan Investment Support Agency (AISA) on 27 December 2003 and received formal commercial banking license on 22 March 2004 from Da Afghanistan Bank (DAB), the central bank of Afghanistan, to operate nationwide. The Bank obtained Islamic banking license from DAB via letter no. 1863/1890 dated 21 July 2014.

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-Now, 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 33 branches and 4 cash outlets (2014: 32 branches and 4 cash outlets) in operation.

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 Standard 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-sale which are measured at fair value (Note 3.3(d)).

These 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 Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2015 and earlier adoption is permitted; however, the Bank has not early applied the following new or amended standards in preparing these financial statements.

New or amended standard	Summary of the requirement	Possible impact on financial statements
IFRS 9 Financial Instruments	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9.
IFRS 15 Revenue from Contracts with Customers	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	These amendments require a bearer plant, defined as a living plant, to be accounted for as property, plant and equipment and included in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture. The amendments are effective for annual reporting periods beginning on or after 1 January 2016, with early adoption permitted.	None. The Bank does not have any bearer plants.

The following new or amended standards are not expected to have a significant impact on the Bank's financial statements.

- IFRS 14 Regulatory Deferral Accounts.
- Accounting for Acquisition of Interests in Joint Operations (Amendments to IFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38).
- Equity Method in Separate Financial Statements (Amendments to IAS 27).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- Annual Improvements to IFRSs 2012-2014 Cycle – various standards.
- Investments Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28).
- Disclosure Initiative (Amendments to IAS1).

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 and placements.

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. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

These are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or loss on de-recognition 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 sales or transfer of held to maturity securities represents a material contradiction with the Bank's 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 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 or loss;
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify that cash flows, are designated at fair value through profit or loss; and
- Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on re-measurement 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 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 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.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Cash and balances with DAB, balances with other banks, placements, and receivable from financial institutions, 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.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses (see 3.4(a)).

Capital notes with DAB and certain investment bonds are classified under this category.

d) Available-for-sale financial assets

Available-for-sale financial 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 i.e. 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 de-recognised when the rights to receive cash flow from the financial asset have expired or where the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets carried 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 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 an 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.

The amount of 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 and improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in the statement of comprehensive income in impairment charge for credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.4 Impairment of financial assets continued

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 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 @ 1.38% (31 December 2014: 2%) 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 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 360 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 collectable ad or such little value that its continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 361 days for principal and 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) 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 the 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-derivatives 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 differences 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 the 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 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 an 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 in an appropriate basis over the life of the instrument but no later than when valuation is wholly supported by observable market data or 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 position 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 or 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 transfer 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 land and capital work in progress which is stated at cost less impairment, if any. 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 fittings	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 12.2 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.

3.12 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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). All amounts have been rounded to the nearest thousands, except when otherwise indicated.

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 31 December 2015	**68.37**	**74.48**	18.55
As at 31 December 2014	**58.32**	**70.85**	15.83

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 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.

3.19 Employee benefits

Defined contribution plan

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses (salaries and benefits) in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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 9.3. The Bank maintains a general provision of 1.38% (31 December 2014: 2%) against outstanding loan and advances to customers as at the period end.

The Bank has revised its estimates of general provision against loans and advances to customers. Previously, general provision was maintained at 2% of standard loans and advances which has been decreased to 1.38%. The general provision at previous and current rates amounts to AFN 60,136 thousands and AFN 41,623 thousands respectively.

b) Provision of 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, Government of Islamic Republic of 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 to cover the counter party risk.

d) 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.

e) 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)

	Note	2015 AFN '000	2014 AFN '000
Cash in hand		**1,329,299**	2,590,979
Cash in hand – Islamic banking division		**66,979**	9,509
Cash at Automated Teller Machines (ATMs)		**328,414**	451,180
		1,724,692	3,051,668
Balances with Da Afghanistan Bank:			
Local currency:			
- Deposit facility accounts	5.1	**650,245**	–
- Required reserve accounts	5.2	**4,430,820**	4,132,545
- Current accounts		**1,404,871**	979,694
		6,485,936	5,112,239
Foreign currency:			
- Current accounts		**9,605,778**	2,999,097
		16,091,714	8,111,336
		17,816,406	11,163,004

5.1 This represents interest bearing account carries interest @ 0.80% (31 December 2014: 1%).

5.2 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. These balances are interest free (31 December 2014: 1%).

6. BALANCES WITH OTHER BANKS

	Note	2015 AFN '000	2014 AFN '000
Outside Afghanistan:			
With Standard Chartered Bank			
- in nostro accounts		**1,825,059**	1,148,943
- others	6.1	**728,533**	7,349,011
		2,553,592	8,497,954
With Commerzbank, Germany:			
- in nostro accounts	6.2	**1,976,703**	2,687,188
- in cash margin held	6.3	**102,365**	230,852
		2,079,068	2,918,040
With other banks:			
Emirates NBD		**313,209**	169,098
AkBank, Turkey		**4,186**	6,199
Julius Baer		**92,494**	33,323
Yes Bank, India		**122**	–
	6.4	**410,010**	208,620
		5,042,671	11,624,614

6.1 These represent balances with Standard Chartered Bank, Singapore which carries interest @ 0.2% p.a. (2014: 0.2% to 0.3% p.a.) and are available on demand.

6.2 This represents interest bearing nostro accounts and carries interest @ LIBOR – 0.25% (31 December 2014: LIBOR – 0.25%).

6.3 It carries interest @ LIBOR – 0.25% (31 December 2014: LIBOR – 0.25%), held with Commerzbank, Germany against letters of credit issued on behalf of the Bank.

6.4 This includes balances maintained with investment managers and other banks. These are non-interest bearing and available on demand.

7. PLACEMENTS – NET

	Note	2015 AFN '000	2014 AFN '000
Short term placements with banks	7.1	**19,897,339**	14,098,068
Long term placements with banks		**–**	874,800
		19,897,339	14,972,868
General provision held	7.2&7.3	**(99,487)**	(74,864)
		19,797,852	14,898,004

7.1 These represent overnight and fixed term placements with financial institutions outside Afghanistan up to a maximum period of one year (2014: one year) in USD carrying interest at rates ranging from 0.65% p.a. to 1.35% p.a. (31 December 2014: 0.55% p.a. to 1.55% p.a.).

7.2 General provision of 0.5% (31 December 2014: 0.5%) on placements is provided to cover the counter party and market risk.

7.3 Movement in provision during the year

	2015 AFN '000	2014 AFN '000
Balance at 01 January	**74,864**	22,404
Provision made during the year	**24,623**	52,460
Balance at 31 December	**99,487**	74,864

8. INVESTMENTS – NET

	Note	2015 AFN '000	2014 AFN '000
Available for sale investments:			
- Investment bonds	8.1	**4,979,052**	4,172,650
- Investment in money market fund	8.2	**689,065**	585,150
		5,668,117	4,757,800
Held-to-maturity investments:			
- Capital notes with DAB	8.3	**1,705,404**	5,311,270
- Investment bonds	8.4	**6,218,296**	4,417,597
		7,923,700	9,728,867
		13,591,817	14,486,667
General provision held	8.5	**(59,432)**	(45,877)
		13,532,385	14,440,790

8.1 These represent investments in investment bonds having maturity ranging from January 2016 to October 2023 and carrying coupon interest rates ranging from 0.88% to 10.38 % (31 December 2014: 0.88 % to 10.38 %). These investments are managed by Julius Baer and Emirates NBD on behalf of the Bank.

8.2 These represent investments made in the Emirates Islamic money market funds, a Shariah compliant open ended fund carrying variable rate of returns. These investments are managed by Emirates NBD on behalf of the Bank.

8.3 These represent investments in capital notes issued by DAB up to a maximum period of one year (31 December 2014: one year) carrying yield at rates ranging from 3.54% to 6.70%. (31 December 2014: 3.56% p.a. to 7.25% p.a.) receivable on maturity of respective notes.

8.4 These represent investments in bonds from various financial institutions and sovereign corporates carrying coupon interest rates ranging from 1.50% to 7.75% (2014: 2.99% to 8%). These investments have maturity ranging from January 2016 to July 2021. 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.

8.5 General provision of 0.5% on collective investments (excluding capital notes with DAB) is provided to cover the market and counter party risk.

9. LOANS AND ADVANCES TO CUSTOMERS – NET

	Note	2015 AFN '000	2014 AFN '000
Overdrafts	9.1	**3,333,061**	2,886,581
Term loans	9.2	**277,955**	137,100
Consumer loans	9.3	**29,441**	5,629
		3,640,457	3,029,310
Provision against loans and advances	9.4	**(182,605)**	(139,587)
		3,457,852	2,889,723
Particulars of loans and advances-(Gross)			
Short term (for up to one year)		**3,450,149**	2,920,249
Non-current (for over one year)		**190,308**	109,061
		3,640,457	3,029,310

9.1 These represent balances due from customers at various interest rates ranging from 11% to 15% p.a. (31 December 2014: 11% to 15% p.a.) and are secured against mortgage of properties, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. The overdrafts are repayable on demand. These include loans and advances to customers amounting to AFN 357,419 thousands (31 December 2014: AFN 203,142 thousands) which are partially backed by Deutsche Investitions-und Entwicklungsgesellschaft mbh (ACGF) guarantees to the extent defined in agreement with ACGF.

9. LOANS AND ADVANCES TO CUSTOMERS – NET CONTINUED

9.2 Term loans carry interest at various rates ranging from 13% to 18% p.a. (31 December 2014: 13% to 18% p.a.) and are secured against mortgage of properties, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. These include loans and advances to customers amounting to AFN 63,365 thousands (31 December 2014: AFN 21,937 thousands) 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 51,681 thousands (31 December 2014: AFN 23,917 thousands) which are partially (50%) backed by Credit Development Authority of the U.S. Agency for International Development (USAID).

Term loans include Small Business loans amounting to AFN 47,417 thousands (31 December 2014: AFN 7,368 thousands) carrying interest rate ranging from 13% to 18% p.a. (31 December 2014: 15% to 18% p.a.). These loans are secured against deposit of original title deed, negative lien letter, corporate guarantee by a registered company and hypothecation of movable fixed assets as collateral after registration from DAB.

9.3 These represent consumer loans due from individual payroll account holders and employees of corporate customers having payroll account with the Bank. It carries interest up to @15% (31 December 2014: 15%) on annual basis. General provision of 2% (31 December 2014: 2%) has been maintained on these balances.

9.4 Provision against loans and advances

	31 December 2015			31 December 2014		
	Specific AFN '000	General AFN '000	Total AFN '000	Specific AFN '000	General AFN '000	Total AFN '000
Opening	82,016	57,571	139,587	14,194	10,464	24,658
Charge for the year	148,007	14,541	162,548	117,681	45,948	163,629
Reversal of provision	(23,399)	(40,276)	(63,675)	(35,970)	–	(35,970)
	124,608	(25,735)	98,873	81,711	45,948	127,659
Write off against provision – note 9.4.1	(79,769)	–	(79,769)	(14,807)	–	(14,807)
Exchange rate difference	14,127	9,787	23,914	918	1,159	2,077
Closing	140,982	41,623	182,605	82,016	57,571	139,587

9.4.1 These represent 'loss' category loans balances overdue by more than 360 days which have been written off in accordance with the requirements of policy of the Bank.

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.

9.5 Classification of loans and advances

Classification	Note	*Provisioning rates	Amount outstanding AFN '000	Provision required AFN '000	Provision held AFN '000
		31 December 2015			
Standard	4 (a)	1.38%	3,006,806	41,623	41,623
Watch-list		5%	458,323	22,351	22,351
Substandard		25%	9,338	2,335	2,335
Doubtful	9.6 & 9.7	50%	165,990	116,296	116,296
Loss	9.8	100%	79,769	79,769	79,769
Write-offs			(79,769)	(79,769)	(79,769)
			–	–	–
Loans and advances and provision held – 31 December 2015			3,640,457	182,605	182,605

Classification	*Provisioning rates	Amount outstanding AFN '000	Provision required AFN '000	Provision held AFN '000
	31 December 2014			
Standard	2%	2,878,555	57,571	57,571
Watch-list	5%	19,120	350	350
Substandard	25%	22,282	5,571	5,571
Doubtful	50%	109,348	76,090	76,090
Loss	100%	14,812	14,812	14,812
Write-offs		(14,807)	(14,807)	(14,807)
		5	5	5
Loans and advances and provision held – 31 December 2014		3,029,310	139,587	139,587

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

9.6 The Bank has taken provision on outstanding amount of four (31 December 2014: one) parties included in doubtful category after deducting amount covered by USAID and ACGF guarantees.

9.7 The Bank has taken extra provision of 45% in addition to the required provision of 50% on two (31 December 2014: one) of the parties' outstanding balance included in doubtful category on subjective basis.

9.8 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 79,769 thousands (31 December 2014: AFN 14,807 thousands).

9.9 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 31.2.6.

9.10 The Bank has filed suits for the recovery of loans and advances principal due against the defaulted borrowers amounting to AFN 777,926 thousands (31 December 2014: AFN 513,421 thousands) 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 favor due to sound legal footings.

10. 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.

11. OPERATING FIXED ASSETS

	Note	2015 AFN '000	2014 AFN '000
Capital work in progress	11.1	799,377	253,975
Property and equipment	11.2	247,935	237,431
		1,047,312	491,406

11.1 Capital work in progress

	Note	2015 AFN '000	2014 AFN '000
Advances to suppliers and contractors	11.1.1	799,377	253,975
		799,377	253,975

11.1.1 Movement in Capital work in Progress

	2015 AFN '000	2014 AFN '000
Opening	253,975	179,284
Additions during the year	545,402	75,393
Transferred to property and equipment	–	(702)
Closing	799,377	253,975

11.2 Property and equipment

	Land AFN '000	Leasehold improvements AFN '000	Computers AFN '000	Office equipment AFN '000	Furniture & fittings AFN '000	ATMs AFN '000	Vehicles AFN '000	Total AFN '000
Cost								
Balance at 1 January 2014	177,568	66,980	71,546	101,207	14,656	67,231	71,152	570,340
Additions	–	225	15,474	5,969	57	13,923	–	35,648
Transfers from CWIP	–	702	–	–	–	–	–	702
Disposals	–	–	–	–	–	(196)	–	(196)
Balance at 31 December 2014	177,568	67,907	87,020	107,176	14,713	80,958	71,152	606,494
Balance at 1 January 2015	**177,568**	**67,907**	**87,020**	**107,176**	**14,713**	**80,958**	**71,152**	**606,494**
Additions	**–**	**1,397**	**3,803**	**24,804**	**2,122**	**14,332**	**8,851**	**55,309**
Balance at 31 December 2015	**177,568**	**69,304**	**90,823**	**131,980**	**16,835**	**95,290**	**80,003**	**661,803**
Depreciation								
Balance at 1 January 2014	–	62,489	48,394	84,315	14,381	50,200	59,162	318,941
Charge for the year	–	3,176	18,661	9,133	281	13,398	5,669	50,318
Depreciation on disposals	–	–	–	–	–	(196)	–	(196)
Balance at 31 December 2014	–	65,665	67,055	93,448	14,662	63,402	64,831	369,063
Balance at 1 January 2015	**–**	**65,665**	**67,055**	**93,448**	**14,662**	**63,402**	**64,831**	**369,063**
Charge for the year	**–**	**991**	**1,631**	**26,570**	**617**	**8,481**	**6,515**	**44,805**
Balance at 31 December 2015	**–**	**66,656**	**68,686**	**120,018**	**15,279**	**71,883**	**71,346**	**413,868**
Carrying amounts								
Balance at 1 January 2014	177,568	4,491	23,152	16,892	275	17,031	11,990	251,399
Balance at 31 December 2014	177,568	2,242	19,965	13,728	51	17,556	6,321	237,431
Balance at 31 December 2015	**177,568**	**2,648**	**22,137**	**11,962**	**1,556**	**23,407**	**8,657**	**247,935**
Useful life	**–**	**3 to 10 years**	**3 to 5 years**	**3 to 5 years**	**3 to 10 years**	**5 years**	**5 years**	

11.2.1 There were no capitalized borrowing costs related to the acquisition of property and equipment during the year (2014: nil).

12. INTANGIBLE ASSETS

	Note	2015 AFN '000	2014 AFN '000
Computer software and licenses	12.1	**149,417**	99,385
Goodwill	12.2	**156,385**	156,385
		305,802	255,770

12.1 Computer software and licenses

	Computer software AFN '000	License fee AFN '000	Total AFN '000
Cost			
Balance at 1 January 2014	103,715	29,385	133,100
Additions	93,539	13,343	106,882
Balance at 31 December 2014	197,254	42,728	239,982
Balance at 1 January 2015	**197,254**	**42,728**	**239,982**
Additions	**86,193**	**1,169**	**87,362**
Balance at 31 December 2015	**283,447**	**43,897**	**327,344**
Amortization			
Balance at 1 January 2014	91,546	22,453	113,999
Charge for the year	17,188	9,410	26,598
Balance at 31 December 2014	108,734	31,863	140,597
Balance at 1 January 2015	**108,734**	**31,863**	**140,597**
Charge for the year	**31,576**	**5,754**	**37,330**
Balance at 31 December 2015	**140,310**	**37,617**	**177,927**
Carrying amounts			
Balance at 1 January 2014	12,169	6,932	19,101
Balance at 31 December 2014	88,520	10,865	99,385
Balance at 31 December 2015	**143,137**	**6,280**	**149,417**
Useful life	**3 to 10 years**	**3 to 10 years**	

12.2 Goodwill

This amount represents recognition of goodwill on acquisition of Standard Chartered Bank (SCB), Kabul Branch as at 15 September 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.

12.2.1 Identifiable assets acquired and liabilities assumed

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

	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**

12. INTANGIBLE ASSETS CONTINUED

12.2.2 Goodwill arising on acquisition

Goodwill from the acquisition has been recognized as follows:

	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 recognized in the books are final number and do not expect recognition of any other intangibles.

12.2.3 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 based on discount rate of 6.5%.

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 31 December 2015.

13. DEFERRED TAX

	2015 AFN '000	2014 AFN '000
Deferred tax (assets)/liabilities arising in respect of:		
Provision on investments and placements	(31,784)	–
(Deficit)/surplus on revaluation of investments	(5,824)	3,255
Accelerated tax depreciation and amortization	16,967	11,349
	(20,641)	14,604

13.1 Movement in temporary differences during the year

	Balance as at January 01, 2014 AFN '000	Recognized in profit or loss AFN '000	Recognized in equity AFN '000	Balance as at December 31,2014 AFN '000	Recognized in profit or loss AFN '000	Recognized in equity AFN '000	Balance as at December 31,2015 AFN '000
Deferred tax arising in respect of:							
Provision on investments and placements	–	–	–	–	31,784	–	31,784
Revaluation reserve on investments	17,540	–	(20,795)	(3,255)	–	9,079	5,824
	17,540	–	(20,795)	(3,255)	31,784	9,079	37,608
Deferred tax liabilities arising in respect of:							
Accelerated tax depreciation and amortization	(13,546)	2,197	–	(11,349)	(5,618)	–	(16,967)
	(13,546)	2,197	–	(11,349)	(5,618)	–	(16,967)
	3,994	2,197	(20,795)	(14,604)	26,166	9,079	20,641

14. OTHER ASSETS

	Note	2015 AFN '000	2014 AFN '000
Advances to employees		17,104	7,059
Security deposits		8,288	1,757
Prepayments		112,157	90,396
Interest receivable		248,443	166,403
Advance income tax – net		17,377	–
Other receivable and advances		56,516	92,502
Money Gram International		–	7,412
Receivable from DoJ	14.1	250,605	250,605
Less: Balance written off		(250,605)	(250,605)
		–	–
		459,885	365,529

14.1 Receivable from DoJ

This represents receivables from the United States Government department, 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. Pursuant 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 the Bank approximately US$ 5.7 million, plus accrued interest, of the seized funds. The United States then moved to strike AIB's claim as to the remaining monies. In September 2015, that motion was denied as to all but USD 147,939, leaving approximately USD 4.1 million at issue. AIB has had some discussions with the U.S. government regarding settlement of the funds, but the U.S. government has advised that it is unable to engage in further discussions given the pendency of customer's competing claim to the same money. The U.S. government has moved to strike customer's claim, and, if the motion is granted, the Bank intends to pursue settlement discussions with the U.S. government. However, on prudent basis, the Bank has made provision of AFN 250,605 thousands in its books of account.

15. CUSTOMERS' DEPOSITS

	Note	2015 AFN '000	2014 AFN '000
Current deposits		55,862,674	50,841,816
Saving deposits	15.1	132,679	1,398,274
Term deposits	15.2	683,798	250
Islamic deposits	15.3	253,443	9,509
Cash margin held against bank guarantees and letters of credit		1,064,932	658498
		57,997,526	52,908,347

15.1 Saving deposits carry interest @ 3% p.a. (2014: 3% p.a.).

15.2 Term deposit carry interest @ 0.75% p.a. (2014: 1.75% p.a.)

15.3 Current and saving Islamic deposits stand at AFN 38,338 thousands (2014: AFN 8,191 thousands) and AFN 215,130 thousands (2014: AFN 1,318 thousands) respectively.

16. OTHER LIABILITIES

	Note	2015 AFN '000	2014 AFN '000
Accruals and other payables		45,917	72,661
Income tax liability		–	14,337
Amounts pending transfers to customers' accounts	16.1	5,882	23,688
Provision for bonus to employees		33,240	36,160
Payable to Money Gram International		365	–
Retention money payable		67,807	7,306
Others		54,354	68,685
		207,565	222,837

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

17. SHARE CAPITAL

	Note	2015 AFN '000	2014 AFN '000
30,000,000 (2014: 30,000,000) authorized ordinary shares of USD 1 each	USD	30,000	30,000
	AFN	1,465,071	1,465,071
Issued, subscribed and paid up – 30,000,000 (2014: 30,000,000) ordinary shares of USD 1 each fully paid in cash	AFN	1,465,071	1,465,071

Pursuant to letter no.918/703 dated 17 May 2010 issued by Da Afghanistan Bank (DAB), the Bank complies with the minimum paid up capital requirement for commercial banks in Afghanistan amounting to AFN 1,000,000 thousands (equivalent to US $ 20,000 thousands).

Issued, subscribed and paid up capital comprises 7.5% (31 December 2014: 7.5%) holding by Asian Development Bank (ADB), 46.25% (31 December 2014: 46.25%) holding by Horizon Associates LLC and 46.25% (31 December 2014: 46.25%) holding by Wilton Holdings Limited.

Subsequent to the year end, ADB sold its 7.5 % shareholding in the Bank to the remaining two shareholders (i.e. Horizon Associates LLC and Wilton Holdings Limited) in equal proportions.

During the year, the Bank has paid interim dividend amounting to AFN 144,000 thousands (2014: 283,500 thousands) to its shareholders @ AFN 4.80 per share (2014: AFN 9.45 per share).

18. CAPITAL RESERVES

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 unto 25% of the Bank's capital. The Bank's capital reserves as at 31 December 2015 stands at AFN 194,455 thousands (31 December 2014: AFN 168,262 thousands).

19. CONTINGENCIES AND COMMITMENTS

19.1 Contingencies

	Note	2015 AFN '000	2014 AFN '000
Guarantees	19.1.1	2,286,697	1,158,680

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

19.1.2 The Bank is in various litigation with its customers and clients mainly related to loan recovery.

19.1.3 Afghanistan tax legislation is subject to varying interpretations with changes occurring from time to time. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Bank may not coincide with the treatment used in the interim financial statements. As a result, transactions may be challenged by tax authorities and the Bank may be assessed additional taxes and penalties, which can be significant. The periods remain open to review by the tax authorities with respect to tax liabilities for five years. As of 31 December 2015, tax audits for the tax years 2010 and 2011 were in progress. Management does not expect any material liability arising from the final conclusion of these audits and accordingly no provisions have been made in these financial statements.

19.2 Commitments

	2015 AFN '000	2014 AFN '000
(a) Undrawn loan and overdraft facilities	1,894,331	2,628,253
(b) Commercial letters of credit	311,043	251,165
	2,205,374	2,879,418

20. INTEREST INCOME

	2015 AFN '000	2014 AFN '000
Interest income on:		
Balances with DAB and other banks	52,516	124,549
Placements	152,931	111,375
Investments	377,102	290,423
Loans and advances to customers	498,193	528,633
Participation purchased	–	12,577
	1,080,742	1,067,557

21. INTEREST EXPENSE

	2015 AFN '000	2014 AFN '000
Interest expense on customers' deposits	6,016	2,728

22. FEE AND COMMISSION INCOME

	2015 AFN '000	2014 AFN '000
Fee and commission income on:		
Loans and advances to customers	36,030	43,407
Trade finance products	18,797	33,512
Cash withdrawals	400,670	325,706
Customers' account service charges	52,798	46,573
Cash transfers	27,421	34,279
Income from ATMs	52,864	58,441
Income from guarantee arrangements	37,389	34,618
Payroll services	35,522	19,749
Others	18,057	19,248
	679,548	615,533

23. FEE AND COMMISSION EXPENSE

	2015 AFN '000	2014 AFN '000
Forex income	9,905	4,872
Bank charges	7,067	9,063
	16,672	13,935

24. INCOME FROM DEALING IN FOREIGN CURRENCIES

	2015 AFN '000	2014 AFN '000
Forex income	193,633	216,672

25. OTHER (EXPENSE)/INCOME

	Note	2015 AFN '000	2014 AFN '000
Loans and advances written off recovered		14,950	75,423
Cash balances lost in Kunduz branch due to insurgency event	25.1	(17,371)	–
Others		1,216	1,114
		(1,205)	76,537

25.1. The Bank has written off cash balances amounting AFN 17,371 thousands (representing closing cash balances at its Kunduz branch) due to the events of insurgency in the city in September 2015.

26. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2015 AFN '000	2014 AFN '000
Salaries and benefits		381,101	377,677
Rental, rates and taxes		79,409	92,196
Electricity, generator and fuel		35,380	40,427
Repairs and maintenance		64,138	55,364
Security cost		65,962	134,419
Depreciation	11.2	44,805	50,318
Amortization	12.1	37,330	26,598
Directors fee and their meeting expenses		20,010	24,128
Travelling and accommodation		37,888	15,202
Communication, swift and internet		51,352	48,725
Stationary and printing		40,294	33,786
Legal and professional charges		120,346	85,619
Investment management fee to investment advisors		24,532	19,651
Audit fee		5,562	4,728
Marketing and promotion		40,701	43,142
Money service providers charges		557	1,184
Insurance		111,496	88,892
Subscriptions and memberships		9,707	9,392
Other charges		30,122	38,027
Taxes and penalties		108	161
Corporate social responsibility		2,439	5,262
Others		4,083	–
		1,207,322	1,194,898

27. TAXATION

	2015 AFN '000	2014 AFN '000
Current		
For the year	91,617	69,928
Prior periods	–	(4,325)
	91,617	65,603
Deferred		
For the year	(26,166)	(2,197)
	65,451	63,406

27.1 Relationship between tax expense and accounting profit

	2015		2014	
	Rate	AFN '000	Rate	AFN '000
Accounting profit for the year		589,316		563,260
Applicable tax @ 20%	20%	117,863	20%	112,652
Effect of deferred tax asset previously not recognized on:				–
- provision on placements	-3%	(14,973)	0%	–
- provision on investments	-2%	(9,175)	0%	–
Effect of tax on dividend paid to shareholders	-5%	(28,800)	-10%	(56,700)
Others	0%	536	1%	7,454
	11%	65,451	11%	63,406

28. 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)		Shareholders and its associated companies	
Nature of transactions	2015 AFN '000	2014 AFN '000	2015 AFN '000	2014 AFN '000
(a) Loans and advances to related parties				
Loans outstanding at the beginning of the year	–	–	483,280	44,047
Loans issued during the year	–	–	430,709	490,233
Loans repayments during the year	–	–	(751,995)	(59,642)
Exchange gain	–	–	51,756	8,642
Loans outstanding at the end of the year	–	–	213,750	483,280
Interest income earned	–	–	49,401	18,630

During the year, an amount of AFN 495,059 thousands (2014: nil) was paid to Mohib Advance Design Construction Company (related party) on account of contract awarded on arms-length basis for the construction of head office building.

Provision on outstanding balances of loans and advances to related parties amounts to AFN 4,275 thousands (2014: AFN 100 thousands).

The facilities provided to related parties carries mark-up at interest rates 10% p.a. (2014: 12% to 14% p.a.) payable on monthly basis and are 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)		Shareholders and its associated companies	
Nature of transactions	2015 AFN '000	2014 AFN '000	2015 AFN '000	2014 AFN '000
(b) Deposits from related parties				
Deposits at the beginning of the year	196,797	79,803	44,424	505,393
Deposits received during the year	413,378	1,298,147	1,491,958	2,419,134
Deposits repaid during the year	(542,546)	(1,185,609)	(1,400,146)	(2,893,691)
Exchange rate difference	19,422	4,456	17,970	13,588
Deposits at the end of the year	87,051	196,797	154,206	44,424
Interest expense of deposits	–	–	–	–

These represent current account of related parties, which carry Nil interest rate (2014: Nil).

Nature of transactions	Directors and other key management personnel (and close family members) 2015 AFN '000	2014 AFN '000	Shareholders and its associated companies 2015 AFN '000	2014 AFN '000
(c) Other related party transactions				
Fee and commission income	–	–	6,092	14,487
Director's fee	11,198	13,814	–	–
Fee and commission expense	–	–	–	–
Rental expenses	–	–	4,088	2,554
Other expenses	8,519	7,882	–	–
Guarantees issued by the Bank	–	–	10,400	17,740
Commercial Letters of credit issued including accepted bills and export bills purchased	–	–	207,764	67,587

	2015 AFN '000	2014 AFN '000
(d) key management compensation		
Salaries and other short-term benefits	86,216	71,220
	86,216	71,220

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

29. CASH AND CASH EQUIVALENTS

	2015 AFN '000	2014 AFN '000
Cash in hand and at ATM	1,724,692	3,051,668
Balances with DAB (other than minimum reserve requirement)	11,660,894	3,978,791
Balances with other banks	4,940,305	11,393,762
Placements (with maturity less than three months)	9,845,280	6,998,400
	28,171,171	25,422,621

30. EARNINGS PER SHARE – BASIC AND DILUTED

	2015	2014
Profit after taxation (AFN '000)	523,865	499,854
Weighted average number of ordinary shares – (number in thousand)	30,000	30,000
Earnings per share – Basic and diluted (AFN per share)	17.46	16.66

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

31. FINANCIAL RISK MANAGEMENT

31.1 Financial Assets and Liabilities

31 December 2015	Loans and receivables AFN '000	Held-to-maturity AFN '000	Available-for-sale AFN '000	Other financial liabilities AFN '000	Total AFN '000
Financial assets					
Cash and balances with Da Afghanistan Bank	17,816,406	–	–	–	17,816,406
Balances with other banks	5,042,670	–	–	–	5,042,670
Placements – net	19,797,852	–	–	–	19,797,852
Investments – net	–	5,639,776	7,892,609	–	13,532,385
Loans and advances to customers – net	3,457,852	–	–	–	3,457,852
Receivables from financial institutions	172,482	–	–	–	172,482
Other assets	330,352	–	–	–	330,352
	46,617,614	5,639,776	7,892,609	–	60,149,999
Financial liabilities					
Customers' deposits	–	–	–	57,997,526	57,997,526
Other liabilities	–	–	–	174,325	174,325
	–	–	–	58,171,851	58,171,851

31 December 2014	Loans and receivables AFN '000	Held-to-maturity AFN '000	Available-for-sale AFN '000	Other financial liabilities 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
Loans and advances to customers – net	2,889,723	–	–	–	2,889,723
Receivables from financial institutions	103,017	–	–	–	103,017
Other assets	275,133	–	–	–	275,133
	40,953,495	9,706,779	4,734,011	–	55,394,285
Financial liabilities					
Customers' deposits	–	–	–	52,908,347	52,908,347
Other liabilities	–	–	–	172,340	172,340
	–	–	–	53,080,687	53,080,687

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 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 minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze 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.

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.

31.2.1 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.

31.2.2 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) Overdue balances on loans to customers are segmented into four categories as described in note 3.4(b). The percentage of provision created on such overdue 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.

31.2.3 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 minimize 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 authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized 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 authorizations 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.

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

	Maximum exposure	
	2015 AFN '000	2014 AFN '000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with other banks	5,042,670	11,624,614
Placements – net	19,797,852	14,898,004
Investments – net (excluding capital notes with DAB)	11,826,982	9,129,520
Loans and advances to customers – net	3,457,852	2,889,723
Receivables from other financial institutions	172,482	103,017
Other assets	330,352	275,133
	40,628,190	38,920,011

	Maximum exposure	
	2015 AFN '000	2014 AFN '000
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	2,286,697	1,158,680
Undrawn loan and overdraft facilities	1,894,331	2,628,253
Commercial letters of credit	311,043	251,165
	4,492,071	4,038,098

The above table represents credit risk exposure to the Bank at 31 December 2015 and 31 December 2014, 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 major credit exposure in balances with other banks, placements and loans and advances are as follows (in percentage of the total credit exposure):

	2015	2014
Balances with other banks	12.41%	29.87%
Placements – net	48.73%	38.28%
Investments – net (excluding capital notes with DAB)	29.11%	23.46%
Loans and advances to customers – net	8.51%	7.42%

31.2.5 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.

Balances with other banks/FIs	Credit rating	Credit rating agency	2015 AFN '000	2014 AFN '000
Counter parties with external credit ratings:				
Standard Chartered Bank	Aa2	Moody's	2,553,592	8,497,954
Commerzbank Germany	Baa1	Moody's	2,079,068	2,918,040
Emirates NBD	Baa1	Moody's	313,209	169,098
AkBank, Turkey	Baa3	Moody's	4,185	6,199
Julius Baer	A2	Moody's	92,494	33,323
Yes Bank, India	Baa3	Moody's	122	–

Placements	Credit rating	Credit rating agency	2014 AFN '000
Industrial Development Bank of India	Baa3	Moody's	683,700
CIMB Malaysia	A3	Moody's	1,025,550
Al Khaliji Bank	A3	Moody's	1,025,550
Bank of Baroda	Baa3	Moody's	683,700
Unicredit, London	Baa1	Moody's	683,700
First Gulf Bank Dubai	A1	Moody's	683,700
Union National Bank	A1	Moody's	1,025,550
Doha Bank	A2	Moody's	683,700
Yes Bank, India	Baa3	Moody's	683,700
Noor Bank	Baa1	Moody's	683,700
National Bank of Fujairah	Baa1	Moody's	683,700
Qatar Islamic Bank	A2	Moody's	683,700
Qatar National Bank	Aa3	Moody's	1,025,550
National Bank of Oman	A3	Moody's	683,700
Bank of China Ltd	A1	Moody's	1,025,550
Dubai Islamic Bank	Baa1	Moody's	683,700
Abu Dhabi Commercial Bank	A1	Moody's	341,850
Emirates NBD	Baa1	Moody's	6,565,189
Samba Bank, Pakistan	Aa3	Moody's	341,850

	2015 AFN '000	2014 AFN '000
Receivables from financial institutions		
Counter parties	172,482	103,017
Loans and advances – net		
Counter parties	3,457,852	2,889,723
Other assets		
Counter parties	330,351	275,133

Investments

Investments held carries various credit rating and ranges from B1& BBB+ to A & AAA,. These investments are managed by investment managers Emirates NBD and Julius Baer under investment criteria defined by the Bank.

31.2.6 Loans and advances – net

	Note	2015 AFN '000	2014 AFN '000
Loans and advances are summarized as follows:			
Neither past due nor impaired		2,278,573	2,244,920
Past due but not impaired		728,232	633,635
Impaired		633,652	150,755
Gross		3,640,457	3,029,310
Less: Allowance for impairment			
General		(41,623)	(57,571)
Specific		(140,982)	(82,016)
	9	(182,605)	(139,587)
		3,457,852	2,889,723

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial Risk factors continued

31.2.6 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 DAB regulations.

	Commercial loans		SME loans	Consumer loans	
	Overdraft AFN '000	Term loans AFN '000	Term loans AFN '000	Term loans AFN '000	Total AFN '000
31 December 2015					
Regular loans	2,057,391	160,637	23,876	21,425	2,263,329
31 December 2014					
Regular loans	2,150,020	81,911	7,360	5,629	2,244,920
(b) Loans and advances past due but not impaired					
31 December 2015					
Past due up to 30 days	699,518	40,613	3,346	–	743,477
Fair value of collateral	10,256,565	1,374,451	134,005	–	11,765,021
31 December 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

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 633,652 thousands (31 December 2014: AFN 150,755 thousands).

	Commercial loans		
	Overdraft AFN '000	Term loans AFN '000	Total AFN '000
31 December 2015			
Watch	454,733	3,590	458,323
Substandard	–	9,338	9,338
Doubtful	129,867	36,123	165,990
Loss	–	–	–
Total	584,600	49,051	633,651
Fair value of collateral	12,251,163	1,541,720	13,792,882
31 December 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

(d) Loans and advances restructured/rescheduled

Restructuring activities include extended payment arrangements and deferral of payments. 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. Renegotiated loans that would otherwise be past due or impaired at 31 December 2015 were AFN nil (31 December 2014: 91,600,155).

	2015		2014	
Commercial loans and advances:	Loan amount at the time of rescheduling AFN '000	At year-end AFN '000	Loan amount at the time of rescheduling AFN '000	At year-end AFN '000
- Term loans	79,210	49,259	46,958	39,432
- Overdraft	96,464	61,210	82,284	77,042
Total	175,674	110,469	129,242	116,474

31.2.7 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 categorized by geographical region as of 31 December 2015. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

2015	Afghanistan	Lebanon	Singapore	Germany	Canada	Turkey	Switzerland	UAE	India	Hong Kong	Australia	England	Netherlands	USA	*Others	Total
On balance sheet:																
Balances with other banks	–	–	728,533	2,085,154	–	4,185	92,494	313,905	122	–	–	1,601	–	1,816,676	–	5,042,670
Placements – net	–	–	–	–	–	–	–	10,614,052	2,040,845	–	–	–	–	–	7,142,955	19,797,852
Investments – net (excluding capital notes)	–	–	34,317	–	33,213	233,607	–	3,089,931	282,787	451,039	102,135	165,467	35,058	501,895	6,897,533	11,826,982
Loans and advances to customers – net	3,457,852	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,457,852
Receivable from financial institutions	–	172,482	–	–	–	–	–	–	–	–	–	–	–	–	–	172,482
Other assets	330,351	–	–	–	–	–	–	–	–	–	–	–	–	–	–	330,351
	3,788,203	172,482	762,849	2,085,154	33,213	237,792	92,494	14,017,888	2,323,754	451,039	102,135	167,068	35,058	2,318,571	14,040,488	40,628,189
Off balance sheet:																
Contingencies and commitments	4,492,071	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,492,071
	8,280,274	172,482	762,850	2,085,154	33,213	237,792	92,494	14,017,888	2,323,754	451,039	102,135	167,068	35,058	2,318,571	14,040,488	45,120,260

2014	Afghanistan	Lebanon	Singapore	Germany	Canada	Turkey	Switzerland	UAE	India	Hong Kong	Australia	England	Netherlands	USA	*Others	Total
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 (excluding 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	9,129,521
Loans and advances to customers – net	2,889,723	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,889,723
Receivable from financial institutions	–	103,017	–	–	–	–	–	–	–	–	–	–	–	–	–	103,017
Other assets	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	38,920,012
Off balance sheet:																
Contingencies and commitments	4,038,098	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,038,098
	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	42,958,110

* It includes exposure with China, Brazil, Korea, Malaysia, Qatar, Sweden, France and some other countries as at 31 December 2015

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial Risk factors continued

31.2.7 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 categorized by the industry sectors of counterparties.

2015	Government/ Public sector AFN '000	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	–	–	–	–	–	5,042,670	–	–	–	5,042,670
Placements – net	–	–	–	–	–	19,797,852	–	–	–	19,797,852
Investments – net (excluding capital notes)	5,879,291	33,944	–	–	201,437	3,613,278	–	–	2,099,032	11,826,982
Loans and advances to customers – net	–	592,073	–	34,644	141,667	–	1,604,213	926,500	158,615	3,457,712
Receivable from financial institutions	–	–	–	–	–	172,482	–	–	–	172,482
Other assets	–	–	–	–	–	–	–	–	330,351	330,351
	5,879,291	626,017	–	34,644	343,104	28,626,283	1,604,213	926,500	2,587,998	40,628,049
Off balance sheet:										
Contingencies and commitments	–	–	–	–	37,246	–	580,781	1,528,091	2,345,953	4,492,071
Total	5,879,291	626,017	–	34,644	380,350	28,626,283	2,184,994	2,454,591	4,933,951	45,120,120

2014	Government/ Public sector AFN '000	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 (excluding capital notes)	2,307,530	58,185	26,937	85,527	202,049	4,078,144	196,784	363,949	1,810,416	9,129,521
Loans and advances to customers – net	–	347,405	45,983	891,900	–	–	617,446	897,067	89,922	2,889,723
Receivable from financial institutions	–	–	–	–	–	103,017	–	–	–	103,017
Other assets	–	–	–	–	–	–	–	–	275,133	275,133
	2,307,530	405,590	72,920	977,427	202,049	30,703,779	814,230	1,261,016	2,175,471	38,920,012
Off balance sheet:										
Contingencies and commitments	–	400	9,915	186,949	147,817	–	182,980	3,919	877,865	1,409,845
	2,307,530	405,990	82,835	1,164,376	349,866	30,703,779	997,210	1,264,935	3,053,336	40,329,857

31.3 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.

31.3.1 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 summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2015 and 31 December 2014. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

	AED	USD	Euro	GBP	INR		Total
	Converted to AFN '000					AFN '000	AFN '000
As at 31 December 2015							
Assets							
Cash and balances with Da Afghanistan Bank	–	10,561,201	359,956	572	–	6,894,677	17,816,406
Balances with other banks	100,236	4,007,903	918,358	16,051	122	–	5,042,670
Placements – net	615,330	19,182,522	–	–	–	–	19,797,852
Investments – net	–	11,826,982	–	–	–	1,705,404	13,532,385
Loans and advances to customers – net	–	3,101,034	–	–	–	356,818	3,457,852
Receivables from financial institutions	–	131,705	2,436	–	–	38,341	172,482
Other assets	–	378,208	7,210	–	–	48,802	434,221
Total financial assets	715,566	49,189,555	1,287,960	16,623	122	9,044,042	60,253,868
Liabilities							
Customers' deposits	–	49,034,872	1,234,835	29,908	–	7,697,911	57,997,526
Other liabilities	–	68,172	126	–	–	106,027	174,325
Total financial liabilities	–	49,103,044	1,234,961	29,908	–	7,803,938	58,171,851
On-balance sheet financial position – net	715,566	86,511	52,999	(13,285)	122	1,240,104	2,082,017
As at 31 December 2014							
Total financial assets	9,313	42,502,889	1,296,016	11,639	–	11,574,428	55,394,285
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

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 or loss for the period would have been AFN 8,651 thousands higher/lower (31 December 2014: AFN 13,622 thousands 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 year end date, strengthens/weakens by 10% against the EURO with all other variables held constant, the impact on profit or loss for the period would have been AFN 5,299 thousands lower/higher (31 December 2014: AFN 1,314 thousands 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 year end date, strengthens/weakens by 10% against the AED with all other variables held constant, the impact on profit or loss for the period would have been AFN 71,557 thousands higher/lower (2014: AFN 931 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

31.3.2 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 summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amount, categorized by the earlier of contractual reprising or maturity dates.

	Interest bearing					Total interest bearing	Non-interest bearing	Total
	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	AFN '000	AFN '000	AFN '000
As at 31 December 2015								
Assets								
Cash and balances with Da Afghanistan Bank	4,430,820	–	–	–	–	4,430,820	13,385,586	17,816,406
Balances with other banks	–	–	–	–	–	–	5,042,670	5,042,670
Placements – net	10,001,799	5,714,364	4,081,689	–	–	19,797,852	–	19,797,852
Investments – net	653,440	524,493	3,298,497	7,850,644	1,205,311	13,532,385	–	13,532,385
Loans and advances to customers – net	79,401	664,615	2,549,546	164,290	–	3,457,852	–	3,457,852
Receivables from financial institutions	–	–	–	–	–	–	172,482	172,482
Other assets	–	–	–	–	–	–	330,352	330,352
Total financial assets	15,165,460	6,903,472	9,929,732	8,014,934	1,205,311	41,218,909	18,931,090	60,149,999
Liabilities								
Customers' deposits	816,476	–	–	–	–	816,477	56,116,117	56,932,594
Other liabilities	–	–	–	–	–	–	174,325	174,325
Total financial liabilities	816,477	–	–	–	–	816,477	56,290,442	57,106,919
Total interest reprising gap	14,348,984	6,903,472	9,929,732	8,014,934	1,205,311	40,402,432	(37,359,352)	3,043,080
As at 31 December 2014								
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
Total financial liabilities	1,398,274	–	250	–	–	1,398,524	51,682,163	53,080,687
Total interest reprising gap	15,636,497	5,561,386	15,375,784	6,734,015	152,810	43,460,492	(41,146,894)	2,313,598

If the interest rate increases/(decreases) by 100 bps, the impact on profit or loss for the year would have been AFN 404,024 thousands (2014: AFN 434,460 thousands) lower/higher respectively.

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.4 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.

31.4.1 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.

31.4.2 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.

31.4.3 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 31 December 2015						
Liabilities						
Customers' deposits	**57,313,728**	**683,798**	–	–	–	**57,997,526**
Other liabilities	**174,325**	–	–	–	–	**174,325**
Total financial liabilities (contractual maturity dates)	**57,488,053**	**683,798**	–	–	–	**58,171,851**
Total financial assets (contractual maturity dates)	**34,096,550**	**6,903,472**	**9,929,732**	**8,014,934**	**1,205,311**	**60,149,999**
As at 31 December 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

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 institutions, placements, loans and advances to customers and security deposits and other receivables.

31.4.4 Off-balance sheet items

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 summarized 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 31 December 2015				
Guarantees	**1,326,591**	**1,076,615**	–	**2,403,206**
Undrawn loans and overdraft facilities	**1,894,331**	–	–	**1,894,331**
Commercial letters of credit	**311,043**	–	–	**311,043**
Total	**3,531,965**	**1,076,615**	–	**4,608,580**
As at 31 December 2014				
Guarantees	546,960	611,720	–	1,158,680
Undrawn loans 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

31.5 Fair value of financial assets and financial liabilities

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.

(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
Investments in bonds – available for sale investments	**5,639,776**	**–**	**–**
As at 31 December 2015	**5,639,776**	**–**	**–**
As at 31 December 2014	4,734,011	–	–

Valuation technique and key inputs used for investments in bonds were quoted market bid price in active market.

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

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 summarizes 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	
	2015 AFN '000	2014 AFN '000	**2015 AFN '000**	2014 AFN '000
Financial assets				
Cash and balances with Da Afghanistan Bank	**17,816,406**	11,163,004	**17,816,406**	11,163,004
Balances with other banks	**5,042,670**	11,624,614	**5,042,670**	11,624,614
Placements – net	**19,797,852**	14,898,004	**19,797,852**	14,898,004
Investments – net	**7,892,609**	9,706,779	**7,892,609**	9,706,779
Loans and advances to customers – net	**3,457,852**	2,889,723	**3,457,852**	2,889,723
Receivables from financial institutions	**172,482**	103,017	**172,482**	103,017
Other assets	**330,351**	275,133	**330,351**	275,133
Financial liabilities				
Customers' deposits	**57,997,526**	52,908,347	**57,997,526**	52,908,347
Other liabilities	**174,325**	172,340	**174,325**	172,340
Off-balance sheet financial instruments				
Bank's guarantees	**2,286,697**	1,158,680	**2,286,697**	1,158,680
Bank's commitments	**2,205,374**	2,879,418	**2,205,374**	2,879,418

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

(i) Investments:

These include investment bonds classified as held-to-maturity which are measured at amortised cost. The fair value of these investments is equal to the carrying amount.

(ii) Loans and advances, other assets and other 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.

31.6 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 summarizes the composition of the regulatory capital and ratio of the Bank:

	2015 AFN '000	2014 AFN '000
Tier 1 (Core) Capital:		
Total equity capital	**3,421,087**	3,077,538
Less:		
Intangible assets	**305,802**	255,770
Net deferred tax assets	**20,641**	–
Profit for the year	**523,865**	499,854
	2,570,779	2,321,914
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	**41,623**	57,571
Profit for the year	**523,865**	499,854
	565,488	557,425
Tier 2 (Supplementary) Capital (restricted 100% of Tier 1 (Core) Capital)	**565,488**	557,425
Regulatory Capital = Tier 1 + Tier 2	**3,136,267**	2,879,339

Risk-weight categories

	2015 AFN '000	2014 AFN '000
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	**1,724,692**	3,051,668
Direct claims on DAB	**17,797,118**	13,422,606
Total	**19,521,810**	16,474,274
0% risk-weight total (above total x 0%)	**–**	–
20% risk weight:		
Balances with other banks	**25,013,005**	26,749,325
20% risk-weight total (above total x 20%)	**5,002,601**	5,349,865
100% risk weight:		
All other assets	**17,160,096**	13,008,258
Less: intangible assets	**(305,802)**	(255,770)
Less: Deferred tax assets	**(20,640)**	–
All other assets – net	**16,833,654**	12,752,488
100% risk-weight total (above total x 100%)	**16,833,654**	12,752,488

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.6 Capital management continued

Credit conversion factor

	2015 AFN '000	2014 AFN '000
0% risk weight:		
Undrawn loan and overdraft facilities	1,894,331	2,628,253
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	311,043	251,165
20% credit conversion factor total (risk-weighted total x 20%)	62,209	50,233
20% risk-weight total (above total x 20%)	12,442	10,047
100% risk weight:		
Guarantees	1,221,765	1,158,680
100% credit conversion factor total (risk-weighted total x 100%)	1,221,765	1,158,680
100% risk-weight total (above total x 100%)	1,221,765	1,158,680
Total risk-weighted assets	23,070,461	19,271,080
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	11.14%	12.05%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	13.59%	14.94%

32. ISLAMIC BANKING PRODUCTS

The Bank started Islamic banking operation during the previous 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 31 December 2015

	2015 AFN '000	2014 AFN '000
Assets		
Cash and balances with banks	178,840	9,509
Receivable – Head Office	65,152	–
	243,992	9,509
Liabilities		
Payable to Head Office	–	3,866
Deposit – Current	38,338	8,191
Deposit – Saving	145,345	1,318
Deposit – Term Deposit	69,785	–
Others	–	64
	253,468	13,439
Accumulated losses	(9,476)	(3,930)
	243,992	9,509
General and administrative expenses	(10,781)	(3,930)

33. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Supervisors of the Bank on 19 March 2016.

Chief Financial Officer

Chairman

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