

Afghanistan International Bank

Financial Statements
For the year ended December 31, 2014

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

Introduction

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

Management's responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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


Chartered Accountants

Engagement Partner:
Asad Ali Shah

Date: March 7, 2015
Karachi

**AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014**

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

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


Chief Executive Officer


Chairman

**AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

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


Chief Executive Officer


Chairman

AFGHANISTAN INTERNATIONAL BANK
 STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED DECEMBER 31, 2014

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

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

MVA/eko


 Chief Executive Officer


 Chairman

AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
	AFN '000	
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	987,645	1,092,879
Interest payments	(2,799)	(2,228)
Fee and commission receipts	609,456	570,360
Fee and commission payments	(13,935)	(14,214)
Income from dealing in foreign currencies	216,344	205,690
Other income	75,518	45,317
General administrative expenses paid	(1,131,282)	(1,013,819)
Cash flows from operating activities before changes in operating assets and liabilities	740,947	883,985

Changes in operating assets and liabilities:

Receivable from financial institutions	94,682	(6,491)
Required reserve maintained with DAB	(530,386)	(233,055)
Cash margin held with other banks	640,549	(68,190)
Loans and advances to customers - net	1,187,369	35,700
Other assets	(89,335)	(285,229)
Customers' deposits	7,787,496	1,978,197
Other liabilities	52,534	(87,122)
Net cash generated from operating assets and liabilities	9,142,909	1,333,810
Income tax paid	(90,446)	(117,048)
Net cash flow from operations	9,793,410	2,100,747

CASH FLOWS FROM INVESTING ACTIVITIES

Net proceeds from placements (with maturity more than three months)	(6,294,168)	2,069,460
(Increase) in investments	(2,602,229)	(3,561,987)
Participation sold / (purchased) (with maturity more than three months)	397,671	(397,671)
Purchase of property and equipment	(35,648)	(35,632)
Proceeds from sale of property and equipment	1,019	282
Additions to capital work in progress	(75,393)	(121,707)
Purchase of intangible assets	(106,882)	(2,850)
Net cash flow used in investing activities	(8,715,630)	(2,050,105)

**AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	2014	2013
Note	AFN '000	
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(283,500)	-
Net cash flow used in financing activities	(283,500)	-
Net increase in cash and cash equivalents	794,280	50,642
Effect of foreign currency exchange loss on cash and cash equivalents	328	15,563
Cash and cash equivalents at beginning of the year	24,628,013	24,561,808
Cash and cash equivalents at end of the year	30 <u>25,422,621</u>	<u>24,628,013</u>

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

HYAKO

Chief Executive Officer

Chairman

**AFGHANISTAN INTERNATIONAL BANK
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

1. STATUS AND NATURE OF BUSINESS

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

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

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

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

2. BASIS OF PREPARATION AND MEASUREMENT

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

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

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

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

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

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

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

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

	Effective from accounting period beginning on or after
IAS 39 Financial Instruments: Recognition and measurement - Novation of derivatives and continuation of hedge accounting	January 01, 2014
IAS 27 (Revised 2011) – Separate Financial Statements	January 01, 2014
IFRS 10 – Consolidated Financial Statements	January 01, 2014
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2014
IFRIC 21 - Levies	January 01, 2014

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Cash and cash equivalents

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

3.2 Financial instruments

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

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

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

3.3 Financial assets

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

a) Financial assets at fair value through profit or loss

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

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

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

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

b) Loans and receivables

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

c) Held-to-maturity financial assets

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

d) Available-for-sale financial assets

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

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

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

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

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

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

3.4 Impairment of financial assets

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

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

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

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

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

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

b) **Loans and advances to customers**

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

- i) **Standard:** These are loans and advances, which are paying in a current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any supporting it. A general provision is maintained in the books of account @ 2% (2013: 0.25%) of value of such loans and advances.
- ii) **Watch:** These are loans and advances which are adequately protected by the collateral, if any supporting it, but are potentially weak. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification to Substandard. Further, all loans and advances which are past due by 31 to 60 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account not less than 5% of value of such loans and advances.
- iii) **Substandard:** These are loans and advances which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral, if any, supporting it. Further, all loans and advances which are past due by 61 to 90 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account not less than 25% of value of such loans and advances.
- iv) **Doubtful:** These are loans and advances which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. Further, all loans and advances which are past due by 91 to 539 days (2013: 91 to 180 days) for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account not less than 50% of value of such loans and advances.

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

c) **Participation purchased**

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

d) **Assets classified as available for sale**

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

3.5 Financial liabilities

The Bank classifies its financial liabilities in following categories.

a) **Financial liabilities at fair value through profit or loss**

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

b) **Other financial liabilities measured at amortized cost**

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

3.6 Fair value measurement

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

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

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

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

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

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

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

3.7 Operating fixed assets

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

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

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

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

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

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

3.8 Intangible assets

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

i) Computer software

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

ii) **License fee**

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

3.9 Business combination

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

3.10 Goodwill

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

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

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

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

3.11 Impairment of non-financial assets

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

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

3.12 Taxation

Current

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

Deferred

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

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

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

3.13 Revenue recognition

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

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

- b) Due but unpaid interest income is accrued on overdue advances for periods up to 90 days in compliance with the Banking regulations issued by DAB. After 90 days, overdue advances are classified as non-performing and further accrual of unpaid interest income ceases.
- c) Gains and losses on disposal of property and equipment are recognized in the period in which disposal is made.
- d) Fees and commission income and expense are recognized on an accrual basis when the service has been provided / received.
- e) Fee and commission income that are integral part to the effective interest rate on financial assets and liability are included in the measurement of effective interest rate. Other fee and commission expenses related mainly to the transactions are services fee, which are expensed as the services are received.

3.14 Foreign currency transactions and translation

- a) **Functional and presentation currency**

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

- b) **Transactions and balances**

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

	1 USD	1 EURO	1 AED
The exchange rate for following currencies against AFN were:			
As at December 31, 2014	58.32	70.85	15.83
As at December 31, 2013	56.01	76.73	15.25

3.15 Provisions

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

3.16 Offsetting of financial instruments

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

3.17 Dividend Distribution

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

3.18 Earnings per share

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

4. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

a) Provision for loan losses

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

Change in accounting estimates

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

b) Provision for income taxes

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

c) General provision on Investments and placements

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

d) General provision on participation purchased

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

e) Useful life of property and equipment and intangible assets

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

f) Held-to-maturity investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	2014	2013
	AFN '000	
8. PARTICIPATION PURCHASED - NET		
Participation purchased - note 8.1	-	532,655
General provision held - note 8.2	-	(2,663)
	<u>-</u>	<u>529,992</u>

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

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

2014 2013
AFN '000

9. INVESTMENTS - NET

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

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

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

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

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

2014 2013
AFN '000

10. LOANS AND ADVANCES TO CUSTOMERS - NET

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

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

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

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

10.3 Particulars of the provision against loan and advances

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

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

10.4 Loans and advances have been classified as:

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

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

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

- 10.5 The Bank has taken provision on outstanding amount of two of the parties included in watch-list after deducting amount covered by DEG and USAID guarantees amounting to 72% and 50% respectively as per DAB law.
- 10.6 The Bank has taken provision on outstanding amount of one of the party included in doubtful category after deducting amount covered by USAID guarantee amounting to 50% as per DAB law.
- 10.7 The Bank has taken extra provision of 45% in addition to the required provision of 50% on one of the party's outstanding balance included in doubtful category on subjective basis.
- 10.8 As per the DAB Regulation, Article three (part-B) (3.2.1), loan loss provision has been immediately charged off against the reserve for losses. The amount of these loans are AFN 14,807,000 (2013: AFN 392,342,000).
- 10.9 These represent consumer loans due from individual payroll account holders and employees of corporate customers having payroll account with the Bank. It carries interest upto @ 15% (2013: 20%) on annual basis. General provision of 2% has been maintained on these balances.
- 10.10 Classification of regular, overdue but not impaired and impaired loans and advances to customers in terms of product and overdue time period along with details of loans and advances to customers which are renegotiated during the year, has been disclosed in note 32.2.6.
- 10.11 The Bank has filed suits for the recovery of loans and advances principle and interest due against the defaulted borrowers amounting to AFN 513,421,104 (2013: AFN 179,557,754) as at the year end. These suits are pending decisions at various courts. The Bank's management is of the view that the aforementioned suits will be decided in its favour due to sound legal footings.

11. RECEIVABLE FROM FINANCIAL INSTITUTIONS

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

12. OPERATING FIXED ASSETS	2014	2013
	AFN '000	
Capital work in progress - note 12.1	253,975	179,284
Property and equipment - note 12.2	237,431	251,399
	<u>491,406</u>	<u>430,683</u>
12.1 Capital Work in Progress		
Advances to suppliers and contractors - note 12.1.1	253,975	179,284
	<u>253,975</u>	<u>179,284</u>
12.1.1 Movement in Capital work in Progress		
As at January 01,	179,284	58,652
Additions during the year	75,393	121,707
Transferred to property and equipment	(702)	(1,075)
As at December 31,	<u>253,975</u>	<u>179,284</u>

12.2 PROPERTY AND EQUIPMENT

-----AFN '000-----

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

13. INTANGIBLE ASSETS	Note	2014	2013
		AFN '000	
Computer software and licenses	13.1	99,385	19,101
Goodwill	13.2	156,385	156,385
		<u>255,770</u>	<u>175,486</u>
		Computer softwares	License fee
			Total
		-----AFN '000-----	
13.1 At January 1, 2013			
Cost	100,865	29,385	130,250
Accumulated amortization	(70,952)	(16,079)	(87,031)
Net book amount at January 1, 2013	<u>29,913</u>	<u>13,306</u>	<u>43,219</u>
Year ended December 31, 2013			
Net book amount at January 1, 2013	29,913	13,306	43,219
Additions	2,850	-	2,850
Amortization charge	(20,594)	(6,374)	(26,968)
Net book amount at December 31, 2013	<u>12,169</u>	<u>6,932</u>	<u>19,101</u>
At January 1, 2014			
Cost	103,715	29,385	133,100
Accumulated amortization	(91,546)	(22,453)	(113,999)
Net book amount at January 1, 2014	<u>12,169</u>	<u>6,932</u>	<u>19,101</u>
Year ended December 31, 2014			
Net book amount at January 1, 2014	12,169	6,932	19,101
Additions	93,539	13,343	106,882
Amortization charge	(17,188)	(9,410)	(26,598)
Net book amount at December 31, 2014	<u>88,520</u>	<u>10,865</u>	<u>99,385</u>
At December 31, 2014			
Cost	197,254	42,728	239,982
Accumulated amortization	(108,734)	(31,863)	(140,597)
Net book amount	<u>88,520</u>	<u>10,865</u>	<u>99,385</u>
Useful life	<u>3 to 10 years</u>	<u>3 to 10 years</u>	

13.2 GOODWILL

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

13.2.1 Consideration Transferred

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

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

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

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

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

13.2.2 Identifiable assets acquired and liabilities assumed

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

Current and non current assets	AFN '000
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	<u><u>5</u></u>

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

13.2.3 Goodwill arising on acquisition

Goodwill from the acquisition has been recognized as follows:

	AFN '000
Total Consideration transferred	156,390
Fair value of net identifiable assets	(5)
	<u>156,385</u>

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

13.2.4 Net cash inflow on acquisition

	AFN '000
Consideration paid in cash	(26,065)
Less: cash and cash equivalent balances acquired	8,719,388
	<u>8,693,323</u>

13.2.5 Impairment of goodwill

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

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

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

14.1 Movement of Provision during the period

Opening Balance	252,913	7,868
Charge during the year against		
Receivable from DoJ - note 14.2	-	250,605
Receivable from employee	-	5,286
Reversal during the year - note 14.4	(2,308)	(10,846)
	<u>(2,308)</u>	<u>245,045</u>
	<u>250,605</u>	<u>252,913</u>

- 14.2 These balances include receivables amounting to AFN 250,605,000 from the United States Government department (US), Department of Justice (the "DoJ"). The DoJ seized an amount of AFN 565,701,000 equivalent to USD 10,100,000 from the Bank's account with Standard Chartered's branch in New York. 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 AIB approximately US\$ 5.7 million, plus accrued interest, of the seized funds. The United States maintains that the remaining funds are subject to forfeiture to the United States and AIB disputes this claim. The United States has moved to strike the Bank's claim for lack of standing, and that motion has not yet been fully briefed. That motion remains pending before the Court. However, on prudent basis the Bank has made a provision of AFN 250,605,000 equivalent to USD 4.4 million in its books of accounts.
- 14.3 This includes non-interest bearing balance from Money Gram International. The Bank is providing money transfer services to customer under arrangement with Money Gram International.
- 14.4 During the period reversal of AFN 2,308,000 were made on recovery of these balances. These related to the balances from employee of the Bank.

2014 2013
AFN '000

15. CUSTOMERS' DEPOSITS

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

- 15.1 Saving deposits carry interest rate at 3% p.a (2013 : 3% p.a)
- 15.2 Term deposits carry interest rate of 1.75% p.a (2013: 1.75% p.a) on local currency deposits.
- 15.3 Current and saving islamic deposits stand at AFN 8,191,000 and AFN 1,318,000 respectively.

2014 2013
AFN '000

16. DEFERRED INCOME TAX

Deferred tax arising in respect of:

(Surplus) / Deficit on revaluation of investments	(3,255)	17,540
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Deferred tax liabilities arising in respect of:

Accelerated tax depreciation and amortization	(11,349)	(13,546)
	(14,604)	3,994

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

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

2014 2013
AFN '000

17. OTHER LIABILITIES

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

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

2014 2013
-----'000-----

18. SHARE CAPITAL

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

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

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

19. CAPITAL RESERVES

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

20. CONTINGENCIES AND COMMITMENTS

2014
2013
AFN '000

20.1 Contingencies

20.1.1 Guarantees

1,158,680 958,752

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

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

20.2 Commitments

(a) Undrawn loan and overdraft facilities

2,628,253 1,110,050

(b) Commercial letters of credit

251,165 1,045,515

2,879,418 2,155,565

21. INTEREST INCOME

Interest income on:

Balances with DAB and other banks

124,549 81,938

Placements

111,375 98,133

Investments

290,423 334,493

Loans and advances to customers

528,633 629,560

Interest on participation purchased

12,577 16,676

1,067,557 1,160,800

22. INTEREST EXPENSE

Interest expense on:

Customers' deposits

2,728 2,230

2,728 2,230

23. FEE AND COMMISSION INCOME

Fee and commission income on:

Loans and advances to customers

43,407 66,576

Trade finance products

33,512 41,704

Cash withdrawals

325,706 196,377

Customers' account service charges

46,573 80,042

Cash transfers

34,279 52,448

Income from ATMs

58,441 79,704

Income from guarantees arrangement

34,618 36,400

Payroll services

19,749 -

Others

19,248 17,063

615,533 570,314

	2014	2013
	AFN '000	
24. FEE AND COMMISSION EXPENSE		
Guarantee commission	4,872	5,391
Bank charges	9,063	8,847
	<u>13,935</u>	<u>14,238</u>
25. INCOME FROM DEALING IN FOREIGN CURRENCIES		
Forex income	216,344	205,690
	<u>216,344</u>	<u>205,690</u>
26. OTHER INCOME		
Recovery of loans written off in prior years	75,423	45,230
Gain on sale of property and equipment	1,019	282
Exchange (loss)/gain	328	15,563
Others	95	87
	<u>76,865</u>	<u>61,162</u>
27. GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits - note 27.1	377,677	381,396
Rental, rates and taxes	92,196	85,150
Electricity, generator and fuel	40,427	40,771
Repairs and maintenance	55,364	43,064
Security cost - note 27.2	134,419	63,910
Depreciation - note 12.2	50,318	52,042
Amortization - note 13.1	26,598	26,968
Directors fee and their meeting expenses	24,128	20,789
Travelling and accommodation	15,202	10,719
Communication, swift and internet	48,725	40,605
Stationary and printing	33,786	29,210
Legal and professional charges	85,619	94,411
Investment management fee to investment advisors	19,651	20,334
Audit fee	4,728	4,381
Marketing and promotion	43,142	31,903
Money service providers charges	1,184	4,569
Insurance	88,892	90,535
Subscriptions and memberships	9,392	2,761
Other charges	38,027	31,339
Taxes and penalties	161	8
Corporate social responsibility	5,262	4,848
	<u>1,194,898</u>	<u>1,079,713</u>

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

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

	2014	2013
	AFN '000	
28. TAXATION		
Current		
For the year	69,928	69,407
Prior year	(4,325)	2,964
	65,603	72,371
Deferred		
For the year	(2,197)	(1,399)
	<u>63,406</u>	<u>70,972</u>
28.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	<u>563,260</u>	<u>310,762</u>
Applicable tax @ 20%	112,652	62,152
Less: Effect of reversal of prior year charge	(4,325)	2,964
Effect of tax deferred tax (reversal) / charge	(2,197)	(1,399)
Effect of tax in dividend to shareholders	(52,448)	-
Effect of others	(1,784)	-
Add: Effect of tax on BRT	6	65
Effect of tax on Temporary difference	11,502	3,802
Effect of others	-	3,388
Tax charge - net	<u>63,406</u>	<u>70,972</u>

29. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

Directors and other key management personnel (and close family members)		Share Holders and Its Associated companies	
2014	2013	2014	2013
AFN '000		AFN '000	

(c) *Other transactions with related parties*

Fee and commission income	-	-	14,487	10,105
Directors fee	13,814	7,122	-	-
Fee and commission expense	-	-	-	-
Rental expenses	-	-	2,554	4,036
Other expense	7,882	7,004	-	-
Guarantees issued by the Bank	-	-	17,740	28,018
Commercial letter of credits including accepted bills and export bills purchased	-	-	67,587	336,186
	<u>21,696</u>	<u>14,126</u>	<u>102,368</u>	<u>378,345</u>

2014 2013
AFN '000

(d) *Key management compensation*

Salaries and other short-term benefits	<u>71,220</u>	<u>68,812</u>
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Key management personnel of the Bank include the Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Head of Commercial Banking.

30. **CASH AND CASH EQUIVALENTS**

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

31. **EARNINGS PER SHARE - BASIC AND DILUTED**

Profit after taxation (AFN '000)	<u>499,854</u>	<u>239,790</u>
Weighted average number of ordinary shares - (numbers in thousand)	<u>30,000</u>	<u>30,000</u>
Basic earnings per share - Basic & diluted (AFN per share)	<u>16.66</u>	<u>7.99</u>

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

32. FINANCIAL RISK MANAGEMENT

32.1 Financial Assets and Liabilities

December 31, 2014	Loans and Receivables	Held to maturity	Available for sale	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
Participation purchased	-	-	-	-
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 institution	103,017	-	-	103,017
Security deposits and other receivables - net	275,133	-	-	275,133
	26,055,491	24,604,783	4,734,011	55,394,285
Financial Liabilities				
Customers' Deposits				
Term deposits	250	-	-	250
Current / Saving / Islamic deposits	52,908,097	-	-	52,908,097
Other liabilities	172,340	-	-	172,340
	53,080,687	-	-	53,080,687
Off balance sheet items				
Guarantees	1,158,680	-	-	1,158,680
Undrawn loan and overdraft facilities	2,628,253	-	-	2,628,253
Commercial letter of credits	251,165	-	-	251,165
	4,038,098	-	-	4,038,098
December 31, 2013				
	Loans and Receivables	Held to maturity	Available for sale	Total
	-----AFN '000-----			
Financial Assets				
Cash and balances with Da Afghanistan Bank	8,499,376	-	-	8,499,376
Balances with other Banks	17,106,613	-	-	17,106,613
Placements - net	-	5,018,496	-	5,018,496
Investments - net	-	7,042,492	4,652,339	11,694,831
Participation purchased	529,992	-	-	529,992
Loans and advances to customer - net	4,204,751	-	-	4,204,751
Receivables from financial institutions	197,699	-	-	197,699
Security deposits and other receivables - Net	210,078	-	-	210,078
	30,748,509	12,060,988	4,652,339	47,461,836
Financial Liabilities				
Customers' Deposits				
Term deposits	830	-	-	830
Current / Saving deposits	45,120,021	-	-	45,120,021
Other liabilities	119,750	-	-	119,750
	45,240,601	-	-	45,240,601
Off balance sheet items				
Guarantees	958,752	-	-	958,752
Undrawn loan and overdraft facilities	1,110,050	-	-	1,110,050
Commercial letter of credit	1,045,515	-	-	1,045,515
	3,114,317	-	-	3,114,317

32.2 Financial Risk factors

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

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

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

32.2.1 Credit Risk

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

32.2.2 Credit risk measurement

(a) *Loans and advances*

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

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

- (i) Over due balances on loans to customers are segmented into four categories as described in note 3.4 (b). The percentage of provision created on such over due balances are as per guidelines issued by DAB and reflects the range of default probabilities defined for each category. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.
- (ii) Exposure at default is based on the amounts, the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.
- (iii) Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

(b) Other than loans and advances

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

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

32.2.3 Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b) Credit-related commitments

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

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

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

	Maximum exposure	
	2014	2013
	AFN '000	
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with other banks	11,624,614	17,106,613
Placements - net	14,898,004	5,018,496
Participation purchased - net	-	529,992
Investments - net (net of capital notes with DAB)	9,129,520	7,594,234
Loans and advances to customers - net	2,889,723	4,204,751
Receivables from other financial institutions	103,017	197,699
Security deposits and other receivables - net	275,133	210,078
	<u>38,920,011</u>	<u>34,861,863</u>

Credit risk exposures relating to off-balance sheet items are as follows:

Guarantees	1,158,680	958,752
Undrawn loan and overdraft facilities	2,628,253	1,110,050
Commercial letters of credit	251,165	1,045,515
	<u>4,038,098</u>	<u>3,114,317</u>

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

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

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

32.2.5 Credit quality of financial Assets

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

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

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

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

Investments

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

32.2.6 Loans and advances - net

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

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

(a) *Loans and advances neither past due nor impaired*

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

	Loans and advances						Total
	Commercial loans		SME loans		Consumer loans		
	Overdraft	Term loans	PIFs*	Term loans	Term loans	Term loans	
December 31, 2014							
Regular Loans	2,150,020	81,911	-	7,360	5,629	2,244,920	
December 31, 2013							
Regular Loans	3,961,712	186,853	20,976	-	1,114	4,170,655	

-----AFN '000-----

(b) *Loans and advances past due but not impaired*

December 31, 2014

Past due up to 30 days	401,018	232,617	-	-	-	633,635
Fair value of collateral	29,878,156	2,578,271	-	108,521	-	32,564,948

December 31, 2013

Past due up to 30 days	6,316	10,124	-	-	-	16,440
Fair value of collateral	40,049,573	3,911,143	82,895	-	-	44,043,611

* *Post Import Finance*

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

(c) *Loans and advances individually impaired*

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

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

(d) *Loans and advances renegotiated*

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to overdraft. Renegotiated loans that would otherwise be past due or impaired at December 31, 2014 were AFN 91,600,155 (December 31, 2013: Nil).

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

32.2.7 Concentration of risk of financial assets with credit risk exposure

(a) Geographical sectors

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

2014	Amounts in AFN '000															
	Alghanistan	Lebanon	Singapore	Germany	Canada	Turkey	Switzerland	UAE	India	Hong Kong	Australia	England	Netherlands	USA	*Others	Total
On balance sheet																
Balances with other banks	-	-	7,345,011	2,919,211	-	6,199	33,323	169,224	-	-	-	6,049	-	1,141,597	-	11,624,614
Placements - net	-	-	-	-	-	580,284	-	7,644,454	1,160,568	-	-	580,284	-	-	4,932,414	14,898,004
Investments - (net of capital notes)	-	-	168,092	29,217	87,069	113,820	-	2,805,049	-	310,227	228,774	340,443	283,511	802,656	3,960,663	9,129,521
Participation purchased	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers - net	2,889,723	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,889,723
Receivables from financial institutions	-	103,017	-	-	-	-	-	-	-	-	-	-	-	-	-	103,017
Security deposits and other receivables - net	275,133	-	-	-	-	-	-	-	-	-	-	-	-	-	-	275,133
Off balance sheet	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
Contingencies and commitments	4,038,098	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,038,098
As at December 31, 2014	7,202,954	103,017	7,517,103	2,948,428	87,069	700,303	33,323	10,618,727	1,160,568	310,227	228,774	926,776	283,511	1,944,253	8,893,077	42,956,110
2013																
On balance sheet																
Balances with other banks	-	-	12,046,735	3,383,871	-	167,388	13,919	805,439	-	-	-	3,042	-	686,219	-	17,106,613
Placements - net	-	-	560,100	-	-	557,300	-	2,507,848	-	-	-	-	-	-	1,393,248	5,018,496
Investments-net	4,100,597	-	164,426	28,096	67,457	112,675	-	1,003,476	25,780	274,975	222,144	400,400	349,656	993,142	3,952,007	11,694,831
Participation purchased	-	-	-	-	-	-	-	529,982	-	-	-	-	-	-	-	529,982
Loans and advances to customers - net	4,204,751	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,204,751
Receivables from financial institutions	-	197,699	-	-	-	-	-	-	-	-	-	-	-	-	-	197,699
Security deposits and other receivables - net	210,078	-	-	-	-	-	-	-	-	-	-	-	-	-	-	210,078
Off balance sheet	8,515,426	197,699	12,771,261	3,411,967	67,457	837,363	13,919	4,846,755	25,780	274,975	222,144	403,442	349,656	1,679,361	5,345,255	38,962,460
Contingencies and commitments	3,114,317	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,114,317
As at December 31, 2013	11,629,743	197,699	12,771,261	3,411,967	67,457	837,363	13,919	4,846,755	25,780	274,975	222,144	403,442	349,656	1,679,361	5,345,255	42,076,777

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

(b) Industry sectors

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

2014	Amounts in AFN '000								
	Manufacturing	Agriculture	Construction	Tele-communication	Banks and financial institutions	Traders	Fuel suppliers	Others	Total
On balance sheet									
Balances with other banks	-	-	-	-	11,624,614	-	-	-	11,624,614
Placements - net	-	-	-	-	14,898,004	-	-	-	14,898,004
Investments - (net of capital notes)	58,185	26,937	85,527	202,049	4,078,144	196,784	363,949	4,117,945	9,129,520
Participation purchased	-	-	-	-	-	-	-	-	-
Loans and advances to customers - net	347,405	45,983	891,900	-	-	617,446	897,067	89,922	2,889,723
Receivable from financial institution	-	-	-	-	103,017	-	-	-	103,017
Security deposits and other receivables - net	-	-	-	-	-	-	-	275,133	275,133
Off balance sheet	405,590	72,920	977,427	202,049	30,703,779	814,230	1,261,016	4,483,000	38,920,011
Contingencies and commitments	400	9,915	186,949	147,817	-	182,980	3,919	877,865	1,409,845
As at December 31, 2014	405,990	82,835	1,164,376	349,866	30,703,779	997,210	1,264,935	5,360,865	40,329,856
2013									
On balance sheet									
Balances with other banks	-	-	-	-	17,106,613	-	-	-	17,106,613
Placements - net	-	-	-	-	5,018,496	-	-	-	5,018,496
Investments - net	28,068	26,704	102,918	352,230	7,531,083	227,293	461,856	2,964,679	11,694,831
Participation purchased	-	-	-	-	529,992	-	-	-	529,992
Loans and advances to customers - net	371,918	-	386,157	337,531	-	1,941,554	1,069,955	97,636	4,204,751
Receivable from financial institution	-	-	-	-	197,699	-	-	-	197,699
Security deposits and other receivables - net	-	-	-	-	-	-	-	210,078	210,078
Off balance sheet	399,986	26,704	489,075	689,761	30,383,883	2,168,847	1,531,811	3,272,393	38,962,460
Contingencies and commitments	-	-	379,811	213,488	-	909,232	1,750	499,986	2,004,267
As at December 31, 2013	399,986	26,704	868,886	903,249	30,383,883	3,078,079	1,533,561	3,772,379	40,966,727

32.2.8 Market risk

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

2.2.9 Foreign exchange risk

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

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

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

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

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

32.2.10 Interest rate risk

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

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

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

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

32.3 Liquidity risk

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

32.3.1 Liquidity risk management process

The Bank's liquidity management process, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

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

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

32.3.2 Funding approach

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

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

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

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

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

32.3.4 Off-balance sheet items

(a) Guarantees and other financial assets

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

(b) Loan commitments

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

As at December 31, 2014	Not later than 1 year	1 to 5 years	Over 5 years	Total
	-----AFN '000-----			
Guarantees	546,960	611,720	-	1,158,680
Undrawn loan and overdraft facilities	2,628,253	-	-	2,628,253
Commercial letters of credit	251,165	-	-	251,165
Total	3,426,378	611,720	-	4,038,098

As at December 31, 2013

Guarantees	805,026	173,199	-	978,225
Undrawn loan and overdraft facilities	1,110,050	-	-	1,110,050
Commercial letters of credit	1,045,515	-	-	1,045,515
Total	2,960,591	173,199	-	3,133,790

32.4 Fair value of financial assets and liabilities

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

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

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

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

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

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

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

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

(b) Financial instruments not measured at fair value

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

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

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

(i) **Investments**

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

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

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

(iii) **Off-balance sheet financial instruments**

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

32.5 Capital management

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

- i) To comply with the capital requirements set by the DAB;
- ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to be self-sustainable; and
- iii) To maintain a strong capital base to support the development of its business.

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

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

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

	2014	2013
	AFN '000	
Tier 2 (supplementary) Capital (restricted to 100% of Tier 1 (Core) Capital)	557,425	250,254
Regulatory Capital = Tier 1 + Tier 2	2,879,339	2,606,254
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	3,051,668	2,795,201
Direct claims on DAB	13,422,606	9,804,772
Total	16,474,274	12,757,187
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Balances with other banks	26,749,325	22,680,168
20% risk-weight total (above total x 20%)	5,349,865	4,536,034
100% risk weight		
All other assets	13,008,258	12,834,015
<i>Less:</i>		
Net Deferred tax asset	-	3,994
Intangible assets	255,770	175,486
All other assets - net	12,752,488	12,654,535
100% risk-weight total (above total x 100%)	12,752,488	12,654,535
Credit conversion factor		
0% risk weight:		
Undrawn loan and overdraft facilities	2,628,253	1,110,050
0% credit conversion factor total (risk-weighted total x 0%)	-	-
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Commercial letters of credit	251,165	1,045,515
20% credit conversion factor total (risk-weighted total x 20%)	50,233	209,103
20% risk-weight total (above total x 20%)	10,047	41,821
100% risk weight		
Guarantees	1,158,680	978,225
100% credit conversion factor total (risk-weighted total x 100%)	1,158,680	978,225
100% risk-weight total (above total x 100%)	1,158,680	978,225
Total risk-weighted assets	19,271,080	18,210,615
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	12.05%	12.94%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	14.94%	14.31%

33. Islamic Banking Products

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

Qardul Hasana Current Account

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

Mudarabah Savings Account

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

Mudarabah Term Investment Deposit

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

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

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

34. Reclassification

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

35. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue by the Board of Supervisors of the Bank on 09th March, 2015.

MYAS/Co


Chief Executive Officer


Chairman