



KPMG Afghanistan Limited
1st Floor, Park Plaza, Shahr-e-Now
Kabul, Afghanistan

Phone: +93(0) 75 202 1974
Fax: +92(0) 51 282 2671

Independent Auditor's Report

Shareholders

Afghanistan International Bank

We have audited the accompanying financial statements of Afghanistan International Bank (the Bank), which comprise the statement of financial position as at 31 December 2015, the statements of comprehensive income, changes in equity and cash flows for the year ended 31 December 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Other matter

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

KPMG Afghanistan Limited

Kabul

Date: 19 March 2016

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



Chief Financial Officer



Chairman

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



Chief Financial Officer



Chairman

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



Chief Financial Officer



Chairman

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



Chief Financial Officer



Chairman

1. STATUS AND NATURE OF BUSINESS

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

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

The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The Bank has 33 branches and 4 cash outlets (2014: 32 branches and 4 cash outlets) in operation.

2. BASIS OF PREPARATION AND MEASUREMENT

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

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

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

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

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

2.1 Standards issued but not yet adopted

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

New or amended standard	Summary of the requirement	Possible impact on financial statements
IFRS 9 Financial Instruments	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9.
IFRS 15 Revenue from Contracts with Customers	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15

New or amended standard	Summary of the requirement	Possible impact on financial statements
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	These amendments require a bearer plant, defined as a living plant, to be accounted for as property, plant and equipment and included in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture. The amendments are effective for annual reporting periods beginning on or after 1 January 2016, with early adoption permitted.	None. The Bank does not have any bearer plants.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Cash and cash equivalents

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

3.2 Financial instruments

Financial assets and liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument, and derecognized when the Bank loses control of the contractual rights that comprise the financial assets, and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

These are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or loss on de-recognition of financial assets and financial liabilities is included in income for the year.

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

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

3.3 Financial assets

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

a) Financial assets at fair value through profit or loss

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

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

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

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

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

Cash and balances with DAB, balances with other banks, placements, and receivable from financial institutions, loans and advances to customers and security deposits and other receivables are classified under this category.

c) Held-to-maturity financial assets

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

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

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

d) Available-for-sale financial assets

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

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

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

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

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

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

3.4 Impairment of financial assets

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.4 Impairment of financial assets continued

b) Loans and advances to customers

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

i) Standard: These are loans and advances, which are paying in current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any, supporting it. A general provision is maintained in the books of account @ 1.38% (31 December 2014: 2%) of value of such loans and advances.

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

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

iv) Doubtful: These are loans and advances which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. Further all loans and advances which are past due by 91 to 360 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account not less than 50% of value of such loans and advances.

v) Loss: These are loans and advances which are not collectable and such little value that its continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 361 days for principal and interest payments are also classified as Loss. A provision is maintained in the books of account @100% of value of such loans and advances and then these loans are charged off and the reserve for losses is reduced immediately upon determination of Loss status.

c) Assets classified as available for sale

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

3.5 Financial liabilities

The Bank classifies its financial liabilities in following categories.

a) Financial liabilities at fair value through profit or loss

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

b) Other financial liabilities measured at amortized cost

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

3.6 Fair value measurement

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

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

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

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

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

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

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

3.7 Operating fixed assets

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

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

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

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

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

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

3.8 Intangible assets

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

i) Computer software

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

ii) License fee

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

3.9 Business combination

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

3.10 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Please refer to note 12.2 for further details.

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

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

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

3.11 Impairment of non-financial assets

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

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

3.12 Taxation

Current

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

Deferred

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

3.13 Revenue recognition

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.14 Foreign currency transactions and translation

a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is Afghani (AFN). All amounts have been rounded to the nearest thousands, except when otherwise indicated.

b) Transactions and balances

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

The exchange rate for following currencies against AFN were:

	1 USD	1 Euro	1 AED
As at 31 December 2015	68.37	74.48	18.55
As at 31 December 2014	58.32	70.85	15.83

3.15 Provisions

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

3.16 Offsetting of financial instruments

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

3.17 Dividend Distribution

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

3.18 Earnings per share

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

3.19 Employee benefits

Defined contribution plan

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

Short-term benefits

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

4. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

a) Provision for loan losses

The Bank reviews loans to customer balances quarterly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in note 9.3. The Bank maintains a general provision of 1.38% (31 December 2014: 2%) against outstanding loan and advances to customers as at the period end.

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

b) Provision of income taxes

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

c) General provision on investments and placements

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

d) Useful life of property and equipment and intangible assets

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

e) Held-to-maturity investments

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

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

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

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

5.2 Required reserve account is being maintained with DAB which is denominated in AFN to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. These balances are interest free (31 December 2014: 1%).

6. BALANCES WITH OTHER BANKS

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

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

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

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

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

7. PLACEMENTS – NET

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

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

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

7.3 Movement in provision during the year

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

8. INVESTMENTS – NET

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

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

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

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

8.4 These represent investments in bonds from various financial institutions and sovereign corporates carrying coupon interest rates ranging from 1.50% to 7.75% (2014: 2.99% to 8%). These investments have maturity ranging from January 2016 to July 2021. These investments are classified as "Held-to-maturity" because of the Bank's ability and intention to hold these investments up to maturity. These investments are managed by Julius Baer and Emirates NBD on behalf of the Bank.

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

9. LOANS AND ADVANCES TO CUSTOMERS – NET

	Note	2015 AFN '000	2014 AFN '000
Overdrafts	9.1	3,333,061	2,886,581
Term loans	9.2	277,955	137,100
Consumer loans	9.3	29,441	5,629
		3,640,457	3,029,310
Provision against loans and advances	9.4	(182,605)	(139,587)
		3,457,852	2,889,723

Particulars of loans and advances-(Gross)

	2015 AFN '000	2014 AFN '000
Short term (for up to one year)	3,450,149	2,920,249
Non-current (for over one year)	190,308	109,061
	3,640,457	3,029,310

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

9. LOANS AND ADVANCES TO CUSTOMERS – NET CONTINUED

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

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

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

9.4 Provision against loans and advances

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

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

In terms of paragraph 3.3.1(g) of part C of the DAB Regulations, the write-off does not affect the Bank's rights to recover the debt due from customers and does not eliminate the borrowers' responsibility to repay the loan.

9.5 Classification of loans and advances

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

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

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

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

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

9.8 As per the DAB Regulation, Article three (part-B) (3.2.1), loan loss provision has been immediately charged off against the reserve for losses. The amount of these loans are AFN 79,769 thousands (31 December 2014: AFN 14,807 thousands).

9.9 Classification of regular, overdue but not impaired and impaired loans and advances to customers in terms of product and overdue time period along with details of loans and advances to customers which are renegotiated during the year, has been disclosed in note 31.2.6.

9.10 The Bank has filed suits for the recovery of loans and advances principal due against the defaulted borrowers amounting to AFN 777,926 thousands (31 December 2014: AFN 513,421 thousands) as at the year-end. These suits are pending decisions at various courts. The Bank's management is of the view that the aforementioned suits will be decided in its favor due to sound legal footings.

10. RECEIVABLE FROM FINANCIAL INSTITUTIONS

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

11. OPERATING FIXED ASSETS

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

11.1 Capital work in progress

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

11.1.1 Movement in Capital work in Progress

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

11.2 Property and equipment

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

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

12. INTANGIBLE ASSETS

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

12.1 Computer software and licenses

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

12.2 Goodwill

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

12.2.1 Identifiable assets acquired and liabilities assumed

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

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

12. INTANGIBLE ASSETS CONTINUED

12.2.2 Goodwill arising on acquisition

Goodwill from the acquisition has been recognized as follows:

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

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

12.2.3 Impairment of goodwill

Goodwill has been allocated for impairment testing purposes to Standard Chartered Bank Kabul Operations as cash generating unit. The recoverable amount of this cash generating unit is determined based on a value in use

calculation which uses cash flows projections based on financial budgets prepared by the management of the Bank based on discount rate of 6.5%.

Cash flow projections during the budget period are based on same growth assumption throughout the budget period. The management of the Bank believes that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of cash-generating unit. Based on the existing and expected growth and performance of the Bank, the management believes that there are no indications that goodwill is impaired as at 31 December 2015.

13. DEFERRED TAX

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

13.1 Movement in temporary differences during the year

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

14. OTHER ASSETS

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

14.1 Receivable from DoJ

This represents receivables from the United States Government department, Department of Justice (the "DoJ"). The DoJ seized an amount of AFN 565,701,000 (equivalent to USD 10,100,000) from the Bank's account with Standard Chartered's branch in New York. Pursuant to Title 18, U.S. Code Section 981(k), the United States sought to reach the customer's Afghan-based accounts by seizing funds from the Bank's correspondent account in the United States. The United States has not alleged any wrongdoing against the Bank. In September 2013, the United States returned to the Bank approximately US\$ 5.7 million, plus accrued interest, of the seized funds. The United States then moved to strike AIB's claim as to the remaining monies.

In September 2015, that motion was denied as to all but USD 147,939, leaving approximately USD 4.1 million at issue. AIB has had some discussions with the U.S. government regarding settlement of the funds, but the U.S. government has advised that it is unable to engage in further discussions given the pendency of customer's competing claim to the same money. The U.S. government has moved to strike customer's claim, and, if the motion is granted, the Bank intends to pursue settlement discussions with the U.S. government. However, on prudent basis, the Bank has made provision of AFN 250,605 thousands in its books of account.

15. CUSTOMERS' DEPOSITS

	2015 AFN '000	2014 AFN '000
Current deposits	55,862,674	50,841,816
Saving deposits	132,679	1,398,274
Term deposits	683,798	250
Islamic deposits	253,443	9,509
Cash margin held against bank guarantees and letters of credit	1,064,932	658,498
	57,997,526	52,908,347

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

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

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

16. OTHER LIABILITIES

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

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

17. SHARE CAPITAL

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

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

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

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

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

18. CAPITAL RESERVES

Article 93 "Reserve Capital" of Corporations and Limited Liability Companies Law of Afghanistan, requires that Bank should transfer 5% of its profit to Capital Reserve to compensate for future possible losses to the extent such capital reserves reaches unto 25% of the Bank's capital. The Bank's capital reserves as at 31 December 2015 stands at AFN 194,455 thousands (31 December 2014: AFN 168,262 thousands).

19. CONTINGENCIES AND COMMITMENTS

19.1 Contingencies

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

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

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

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

19.2 Commitments

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

20. INTEREST INCOME

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

21. INTEREST EXPENSE

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

22. FEE AND COMMISSION INCOME

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

23. FEE AND COMMISSION EXPENSE

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

24. INCOME FROM DEALING IN FOREIGN CURRENCIES

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

25. OTHER (EXPENSE)/INCOME

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

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

26. GENERAL AND ADMINISTRATIVE EXPENSES

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

27. TAXATION

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

27.1 Relationship between tax expense and accounting profit

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

28. RELATED PARTY TRANSACTIONS

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

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

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

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

The facilities provided to related parties carries mark-up at interest rates 10% p.a. (2014: 12% to 14% p.a.) payable on monthly basis and are secured against mortgage of residential property and personal guarantees of directors and representative of shareholders of the Bank.

Nature of transactions	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
	2015 AFN '000	2014 AFN '000	2015 AFN '000	2014 AFN '000
(b) Deposits from related parties				
Deposits at the beginning of the year	196,797	79,803	44,424	505,393
Deposits received during the year	413,378	1,298,147	1,491,958	2,419,134
Deposits repaid during the year	(542,546)	(1,185,609)	(1,400,146)	(2,893,691)
Exchange rate difference	19,422	4,456	17,970	13,588
Deposits at the end of the year	87,051	196,797	154,206	44,424
Interest expense of deposits	-	-	-	-

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

Nature of transactions	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
	2015 AFN '000	2014 AFN '000	2015 AFN '000	2014 AFN '000
(c) Other related party transactions				
Fee and commission income	-	-	6,092	14,487
Director's fee	11,198	13,814	-	-
Fee and commission expense	-	-	-	-
Rental expenses	-	-	4,088	2,554
Other expenses	8,519	7,882	-	-
Guarantees issued by the Bank	-	-	10,400	17,740
Commercial Letters of credit issued including accepted bills and export bills purchased	-	-	207,764	67,587
			2015 AFN '000	2014 AFN '000
(d) key management compensation				
Salaries and other short-term benefits			86,216	71,220
			86,216	71,220

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

29. CASH AND CASH EQUIVALENTS

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

30. EARNINGS PER SHARE – BASIC AND DILUTED

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

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

31. FINANCIAL RISK MANAGEMENT

31.1 Financial Assets and Liabilities

31 December 2015	Loans and receivables AFN '000	Held-to-maturity AFN '000	Available-for-sale AFN '000	Other financial liabilities AFN '000	Total AFN '000
Financial assets					
Cash and balances with Da Afghanistan Bank	17,816,406	-	-	-	17,816,406
Balances with other banks	5,042,670	-	-	-	5,042,670
Placements – net	19,797,852	-	-	-	19,797,852
Investments – net	-	5,639,776	7,892,609	-	13,532,385
Loans and advances to customers – net	3,457,852	-	-	-	3,457,852
Receivables from financial institutions	172,482	-	-	-	172,482
Other assets	330,352	-	-	-	330,352
	46,617,614	5,639,776	7,892,609	-	60,149,999
Financial liabilities					
Customers' deposits	-	-	-	57,997,526	57,997,526
Other liabilities	-	-	-	174,325	174,325
	-	-	-	58,171,851	58,171,851
31 December 2014					
Financial assets					
Cash and balances with Da Afghanistan Bank	11,163,004	-	-	-	11,163,004
Balances with other banks	11,624,614	-	-	-	11,624,614
Placements – net	14,898,004	-	-	-	14,898,004
Investments – net	-	9,706,779	4,734,011	-	14,440,790
Loans and advances to customers – net	2,889,723	-	-	-	2,889,723
Receivables from financial institutions	103,017	-	-	-	103,017
Other assets	275,133	-	-	-	275,133
	40,953,495	9,706,779	4,734,011	-	55,394,285
Financial liabilities					
Customers' deposits	-	-	-	52,908,347	52,908,347
Other liabilities	-	-	-	172,340	172,340
	-	-	-	53,080,687	53,080,687

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial Risk factors

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

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

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

31.2.1 Credit Risk

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

31.2.2 Credit risk measurement

(a) Loans and advances

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

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

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

(b) Other than loans and advances

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

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

31.2.3 Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b) Credit-related commitments

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

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

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

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

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

The above table represents credit risk exposure to the Bank at 31 December 2015 and 31 December 2014, without taking account of any collateral held or other enhancements attached. For on-balance-sheet assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

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

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

31.2.5 Credit quality of financial Assets

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

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

Placements	Credit rating	Credit rating agency	2015 AFN '000	2014 AFN '000
Industrial Development Bank of India	Baa3	Moody's	683,700	
CIMB Malaysia	A3	Moody's	1,025,550	
Al Khaliji Bank	A3	Moody's	1,025,550	
Bank of Baroda	Baa3	Moody's	683,700	
Unicredit, London	Baa1	Moody's	683,700	
First Gulf Bank Dubai	A1	Moody's	683,700	
Union National Bank	A1	Moody's	1,025,550	
Doha Bank	A2	Moody's	683,700	
Yes Bank, India	Baa3	Moody's	683,700	
Noor Bank	Baa1	Moody's	683,700	
National Bank of Fujairah	Baa1	Moody's	683,700	
Qatar Islamic Bank	A2	Moody's	683,700	
Qatar National Bank	Aa3	Moody's	1,025,550	
National Bank of Oman	A3	Moody's	683,700	
Bank of China Ltd	A1	Moody's	1,025,550	
Dubai Islamic Bank	Baa1	Moody's	683,700	
Abu Dhabi Commercial Bank	A1	Moody's	341,850	
Emirates NBD	Baa1	Moody's	6,565,189	
Samba Bank, Pakistan	Aa3	Moody's	341,850	

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

Investments

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

31.2.6 Loans and advances – net

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

31. FINANCIAL RISK MANAGEMENT CONTINUED
31.2 Financial Risk factors continued

31.2.6 Loans and advances – net continued

(a) Loans and advances neither past due nor impaired

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

	Commercial loans		SME loans	Consumer loans	Total AFN '000
	Overdraft AFN '000	Term loans AFN '000	Term loans AFN '000	Term loans AFN '000	
31 December 2015					
Regular loans	2,057,391	160,637	23,876	21,425	2,263,329
31 December 2014					
Regular loans	2,150,020	81,911	7,360	5,629	2,244,920
(b) Loans and advances past due but not impaired					
31 December 2015					
Past due up to 30 days	699,518	40,613	3,346	–	743,477
Fair value of collateral	10,256,565	1,374,451	134,005	–	11,765,021
31 December 2014					
Past due up to 30 days	401,018	232,617	–	–	633,635
Fair value of collateral	29,878,156	2,578,271	108,521	–	32,564,948

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

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AFN 633,652 thousands (31 December 2014: AFN 150,755 thousands).

	Commercial loans		Total AFN '000
	Overdraft AFN '000	Term loans AFN '000	
31 December 2015			
Watch	454,733	3,590	458,323
Substandard	–	9,338	9,338
Doubtful	129,867	36,123	165,990
Loss	–	–	–
Total	584,600	49,051	633,651
Fair value of collateral	12,251,163	1,541,720	13,792,882
31 December 2014			
Watch	–	19,120	19,120
Substandard	17,714	4,568	22,282
Doubtful	99,358	9,990	109,348
Loss	3	2	5
Total	117,075	33,680	150,755
Fair value of collateral	5,352,181	1,338,764	6,690,945

(d) Loans and advances restructured/rescheduled

Restructuring activities include extended payment arrangements and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired at 31 December 2015 were AFN nil (31 December 2014: 91,600,155).

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

31.2.7 Concentration of risk of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2015. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

2015	Afghanistan	Lebanon	Singapore	Germany	Canada	Turkey	Switzerland	UAE	India	Hong Kong	Australia	England	Netherlands	USA	*Others	Total
On balance sheet:																
Balances with other banks	-	-	728,533	2,085,154	-	4,185	92,494	313,905	122	-	-	1,601	-	1,816,676	-	5,042,670
Placements – net	-	-	-	-	-	-	-	10,614,052	2,040,845	-	-	-	-	-	7,142,955	19,797,852
Investments – net (excluding capital notes)	-	-	34,317	-	33,213	233,607	-	3,089,931	282,787	451,039	102,135	165,467	35,058	501,895	6,897,533	11,826,982
Loans and advances to customers – net	3,457,852	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,457,852
Receivable from financial institutions	-	172,482	-	-	-	-	-	-	-	-	-	-	-	-	-	172,482
Other assets	330,351	-	-	-	-	-	-	-	-	-	-	-	-	-	-	330,351
	3,788,203	172,482	762,849	2,085,154	33,213	237,792	92,494	14,017,888	2,323,754	451,039	102,135	167,068	35,058	2,318,571	14,040,488	40,628,189
Off balance sheet:																
Contingencies and commitments	4,492,071	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,492,071
	8,280,274	172,482	762,850	2,085,154	33,213	237,792	92,494	14,017,888	2,323,754	451,039	102,135	167,068	35,058	2,318,571	14,040,488	45,120,260
2014																
On balance sheet:																
Balances with other banks	-	-	7,349,011	2,919,211	-	6,199	33,323	169,224	-	-	-	6,049	-	1,141,597	-	11,624,614
Placements – net	-	-	-	-	-	580,284	-	7,644,454	1,160,568	-	-	580,284	-	-	4,932,414	14,898,004
Investments – net (excluding capital notes)	-	-	168,092	29,217	87,069	113,820	-	2,805,049	-	310,227	228,774	340,443	283,511	802,656	3,960,663	9,129,521
Loans and advances to customers – net	2,889,723	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,889,723
Receivable from financial institutions	-	103,017	-	-	-	-	-	-	-	-	-	-	-	-	-	103,017
Other assets	275,133	-	-	-	-	-	-	-	-	-	-	-	-	-	-	275,133
	3,164,856	103,017	7,517,103	2,948,428	87,069	700,303	33,323	10,618,727	1,160,568	310,227	228,774	926,776	283,511	1,944,253	8,893,077	38,920,012
Off balance sheet:																
Contingencies and commitments	4,038,098	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,038,098
	7,202,954	103,017	7,517,103	2,948,428	87,069	700,303	33,323	10,618,727	1,160,568	310,227	228,774	926,776	283,511	1,944,253	8,893,077	42,958,110

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

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial Risk factors continued

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

(b) Industry sectors

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

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

2014	Government/ Public sector AFN '000	Manufacturing AFN '000	Agriculture AFN '000	Construction AFN '000	Tele- communication AFN '000	Banks and financial institutions AFN '000	Traders AFN '000	Fuel suppliers AFN '000	Others AFN '000	Total AFN '000
On balance sheet:										
Balances with other banks	-	-	-	-	-	11,624,614	-	-	-	11,624,614
Placements – net	-	-	-	-	-	14,898,004	-	-	-	14,898,004
Investments – net (excluding capital notes)	2,307,530	58,185	26,937	85,527	202,049	4,078,144	196,784	363,949	1,810,416	9,129,521
Loans and advances to customers – net	-	347,405	45,983	891,900	-	-	617,446	897,067	89,922	2,889,723
Receivable from financial institutions	-	-	-	-	-	103,017	-	-	-	103,017
Other assets	-	-	-	-	-	-	-	-	275,133	275,133
	2,307,530	405,590	72,920	977,427	202,049	30,703,779	814,230	1,261,016	2,175,471	38,920,012
Off balance sheet:										
Contingencies and commitments	-	400	9,915	186,949	147,817	-	182,980	3,919	877,865	1,409,845
	2,307,530	405,990	82,835	1,164,376	349,866	30,703,779	997,210	1,264,935	3,053,336	40,329,857

31.3 Market risk

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

31.3.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2015 and 31 December 2014. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

	AED	USD	Euro	GBP	INR		Total
	Converted to AFN '000					AFN '000	AFN '000
As at 31 December 2015							
Assets							
Cash and balances with Da Afghanistan Bank	-	10,561,201	359,956	572	-	6,894,677	17,816,406
Balances with other banks	100,236	4,007,903	918,358	16,051	122	-	5,042,670
Placements – net	615,330	19,182,522	-	-	-	-	19,797,852
Investments – net	-	11,826,982	-	-	-	1,705,404	13,532,385
Loans and advances to customers – net	-	3,101,034	-	-	-	356,818	3,457,852
Receivables from financial institutions	-	131,705	2,436	-	-	38,341	172,482
Other assets	-	378,208	7,210	-	-	48,802	434,221
Total financial assets	715,566	49,189,555	1,287,960	16,623	122	9,044,042	60,253,868
Liabilities							
Customers' deposits	-	49,034,872	1,234,835	29,908	-	7,697,911	57,997,526
Other liabilities	-	68,172	126	-	-	106,027	174,325
Total financial liabilities	-	49,103,044	1,234,961	29,908	-	7,803,938	58,171,851
On-balance sheet financial position – net	715,566	86,511	52,999	(13,285)	122	1,240,104	2,082,017
As at 31 December 2014							
Total financial assets	9,313	42,502,889	1,296,016	11,639	-	11,574,428	55,394,285
Total financial liabilities	-	42,639,115	1,282,873	100	-	9,158,599	53,080,687
On-balance sheet financial position – net	9,313	(136,226)	13,143	11,539	-	2,415,829	2,313,598

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

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

If the functional currency, at the year end date, strengthens/weakens by 10% against the AED with all other variables held constant, the impact on profit or loss for the period would have been AFN 71,557 thousands higher/lower

(2014: AFN 931 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

31.3.2 Interest rate risk

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

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

	Interest bearing					Total interest bearing	Non-interest bearing	Total
	Up to 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	AFN '000	AFN '000	AFN '000
As at 31 December 2015								
Assets								
Cash and balances with Da Afghanistan Bank	4,430,820	-	-	-	-	4,430,820	13,385,586	17,816,406
Balances with other banks	-	-	-	-	-	-	5,042,670	5,042,670
Placements – net	10,001,799	5,714,364	4,081,689	-	-	19,797,852	-	19,797,852
Investments – net	653,440	524,493	3,298,497	7,850,644	1,205,311	13,532,385	-	13,532,385
Loans and advances to customers – net	79,401	664,615	2,549,546	164,290	-	3,457,852	-	3,457,852
Receivables from financial institutions	-	-	-	-	-	-	172,482	172,482
Other assets	-	-	-	-	-	-	330,352	330,352
Total financial assets	15,165,460	6,903,472	9,929,732	8,014,934	1,205,311	41,218,909	18,931,090	60,149,999
Liabilities								
Customers' deposits	816,476	-	-	-	-	816,477	56,116,117	56,932,594
Other liabilities	-	-	-	-	-	-	174,325	174,325
Total financial liabilities	816,477	-	-	-	-	816,477	56,290,442	57,106,919
Total interest reprising gap	14,348,984	6,903,472	9,929,732	8,014,934	1,205,311	40,402,432	(37,359,352)	3,043,080
As at 31 December 2014								
Total financial assets	17,034,771	5,561,386	15,376,034	6,734,015	152,810	44,859,016	10,535,269	55,394,285
Total financial liabilities	1,398,274	-	250	-	-	1,398,524	51,682,163	53,080,687
Total interest reprising gap	15,636,497	5,561,386	15,375,784	6,734,015	152,810	43,460,492	(41,146,894)	2,313,598

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

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.4 Liquidity risk

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

31.4.1 Liquidity risk management process

The Bank's liquidity management process, includes:

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

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

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

	Up to 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at 31 December 2015						
Liabilities						
Customers' deposits	57,313,728	683,798	-	-	-	57,997,526
Other liabilities	174,325	-	-	-	-	174,325
Total financial liabilities (contractual maturity dates)	57,488,053	683,798	-	-	-	58,171,851
Total financial assets (contractual maturity dates)	34,096,550	6,903,472	9,929,732	8,014,934	1,205,311	60,149,999
As at 31 December 2014						
Liabilities						
Customers' deposits	52,908,097	-	250	-	-	52,908,347
Other liabilities	172,340	-	-	-	-	172,340
Total financial liabilities (contractual maturity dates)	53,080,437	-	250	-	-	53,080,687
Total financial assets (contractual maturity dates)	27,570,040	5,561,386	15,376,034	6,734,015	152,810	55,394,285

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

31.4.4 Off-balance sheet items

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

	Not later than 1 year AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at 31 December 2015				
Guarantees	1,326,591	1,076,615	-	2,403,206
Undrawn loans and overdraft facilities	1,894,331	-	-	1,894,331
Commercial letters of credit	311,043	-	-	311,043
Total	3,531,965	1,076,615	-	4,608,580
As at 31 December 2014				
Guarantees	546,960	611,720	-	1,158,680
Undrawn loans and overdraft facilities	2,628,253	-	-	2,628,253
Commercial letters of credit	251,165	-	-	251,165
Total	3,426,378	611,720	-	4,038,098

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

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

31.4.2 Funding approach

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

31.5 Fair value of financial assets and financial liabilities

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

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

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

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

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

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

	Level 1 AFN '000	Level 2 AFN '000	Level 3 AFN '000
Investments in bonds – available for sale investments	5,639,776	-	-
As at 31 December 2015	5,639,776	-	-
As at 31 December 2014	4,734,011	-	-

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

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

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

(b) Financial instruments not measured at fair value

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

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

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

(i) Investments:

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

(ii) Loans and advances, other assets and other financial liabilities

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

(iii) Off-balance sheet financial instruments

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

31.6 Capital management

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

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

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

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

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

Risk-weight categories

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

31. FINANCIAL RISK MANAGEMENT CONTINUED
31.6 Capital management continued

Credit conversion factor

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

32. ISLAMIC BANKING PRODUCTS

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

Qardul Hasana Current Account

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

Mudarabah Savings Account

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

Mudarabah Term Investment Deposit

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

Below is the figures relating to Islamic banking as at 31 December 2015

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

33. DATE OF AUTHORIZATION FOR ISSUE

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



Chief Financial Officer



Chairman