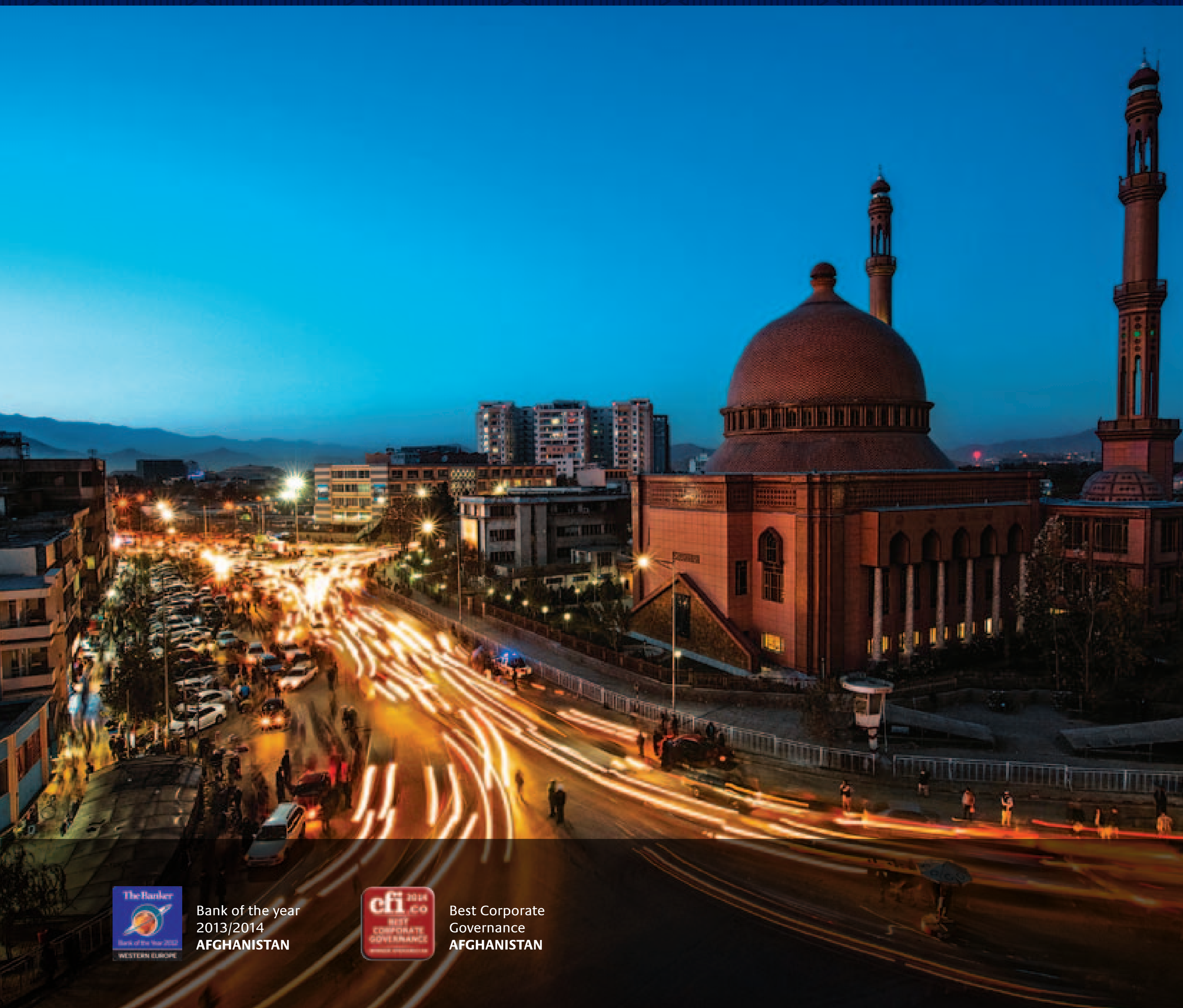
AIB

بانک بین المللی
افغانستان

Afghanistan
International Bank

Annual Report 2013

Your Partner for Growth



Bank of the year
2013/2014
AFGHANISTAN

Best Corporate
Governance
AFGHANISTAN

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A decade of trust built on understanding

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

Over the past 10 years, AIB has built an enduring business that combines international expertise with local knowledge, giving us a deep-rooted understanding of customer needs that is grounded in the highest industry standards and global best practice.

Our Vision

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

Our Mission

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

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

Our Future

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

As we look ahead to our 10th anniversary, we remain committed to enabling a better future for Afghanistan and we are proud to play a role in shaping the opportunities that lie ahead.

Exceptional performance

AIB's financial performance has been exceptional over the past few years, having realised considerable growth in assets, deposits, profits, and capital.

Best Corporate Governance

AIB has been proud of its corporate governance model, especially for a bank operating in a frontier economy. Just before going to press, AIB learned that Corporate Finance International, the prestigious London based organisation, awarded AIB Best Corporate Governance, Afghanistan, 2014 in recognition of our successful governance structure.

Over the past few years, Afghanistan International Bank has engaged in institutional building initiatives that focus on four areas: corporate governance, operational excellence, customer satisfaction, and financial stability. The objectives are twofold: to build the leading financial institution in Afghanistan; and to ensure that AIB has the fundamental structure and competence to meet the challenges that Afghanistan and the Bank might well face over the next several years.

The Board has instituted a number of governance improvements, including defining clear responsibilities for shareholders, the Board of Supervisors, and management. The Board has been expanded to nine members, five of whom are independent directors. To further provide clarity, the Articles of Association are being modified to define what constitutes an independent director. The Board has also created four committees that are responsible for detailed analysis of compensation and succession, strategy and planning, investments, and risk. All four committees are headed by Board members with in-depth experience in these fields.

The Bank has strengthened its planning process, which now includes specific business objectives with corresponding assignment of responsibilities to individual executives through a goal-setting mechanism, as well as preparation of financial budgets. Bonuses paid to executives are closely linked to the Bank's overall performance and each executive meeting his own goals. I am pleased to report that many of the key initiatives in the 2013 business plan were met by management. These included pilot programmes for small business loans, treasury products, and expansion of our consumer-related payroll products. The Board and management have also taken steps to strengthen the management team which will be joined by an experienced Deputy Chief Executive Officer early in 2014.

In 2013, management developed a three-year strategic plan to guide the Bank through a period that might prove to be volatile. This plan calls for a relatively conservative outcome for 2014 with growth improving in 2015 and 2016. A contingency plan is also in place, to be triggered if the macro situation in the country deteriorates materially.

AIB is also devoted to improving operational performance and customer service. To this end, the Bank undertook several initiatives in 2013 and plans to engage an outside consultancy in 2014 to re-engineer its customer-facing and back-office processes. Integration of the Standard Chartered Bank's business in Afghanistan into AIB continues to exceed expectations, with customers expressing satisfaction with the quality of the transition.

To ensure that the Bank has sufficient capacity to meet business growth expected by management over the next decade, a project to build a new head office in central Kabul began in 2011. Development of the new building progressed during 2013 but has been delayed due to changes in design and delays in receiving approvals. However, preparatory site-works have been completed and we are optimistic that construction will begin during 2014.

AIB's financial performance has been exceptional over the past few years, having realised considerable growth in assets, deposits, profits, and capital. The Bank's capital adequacy ratio has also been significantly above regulatory requirements.

In 2013, AIB experienced modest growth in revenues, deposits, assets, and capital. However, profitability was affected by two unexpected events. One of these involved a customer who is accused by the US Department of Justice of an alleged fraud on a contract in Afghanistan; the second was the default of a relatively significant loan. Both cases required AIB to make provisions to offset the potential losses. As a result, bottom line results were negatively impacted. Management believes that some, if not all, of the funds owed to the Bank will be recovered in the future.

In recognition of our institution-building initiatives, AIB was named Afghanistan Bank of the Year by *The Banker* magazine for the second successive year. Just before going to press, AIB learned that Corporate Finance International, the prestigious London based organization, awarded AIB Best Corporate Governance – Afghanistan, 2014 in recognition of our successful governance structure. Naturally, we are very proud of these awards and I thank the Bank's staff for making such recognition possible. Likewise, AIB has been proud of its corporate governance model, especially for a bank operating in a frontier economy.

I stress that the Bank's shareholders, Board, and management are mindful of the challenges facing Afghanistan in the next few years. A number of scenarios have been developed and a plan has been formulated around what we believe to be the most likely outcome. Security, political, and economic factors were considered during this exercise and a set of early warning indicators have been developed as monitoring mechanism. All these actions have been undertaken to ensure that the Bank is in a strong position to address any potential issues that might arise over the near future.

As 2013 came to a close, the Asian Development Bank (ADB) sold 20 percent of its shares to Wilton Holdings and Horizon Associates, leaving ADB with a 20 percent ownership stake. A further sale of 20 percent of its share to Wilton Holdings and Horizon Associates is planned for early 2014, reducing ADB's shareholding to 15 percent.

A third transaction is in process and will likely close early in 2014. Wilton Holdings and Horizon Associates are purchasing the 25 percent shareholding of Afghan Investment Partners Corporation. When these transactions are finalised, Wilton and Horizon's shareholdings in AIB will increase to 42.5 percent each. These transactions reflect corporate priorities and investment decisions of the respective shareholders.

In closing, I extend my thanks to the shareholders, Board members, management, and staff of AIB for your effort and dedication over the past year.

Ronald Stride
Chairman

Achieving targets

We achieved almost all our budget targets for the year, notably in loan and treasury interest income, while containing expenses to forecast levels.

AFN 1,965 million

AIB was able to increase revenue by almost 20 percent to AFN 1,965 million (2012: AFN 1,636 m), largely due to a 35 percent rise in fee and foreign exchange income to AFN 761 million (AFN 564m) that contributed 39 percent of total revenue. Deposits increased by five percent to AFN 45,120 million (2012: AFN 43,142 m) and showed compound annual growth of 55 percent between 2007 and 2013.

In a testing year for the Afghanistan economy and the banking sector in particular, AIB achieved a highly creditable performance. Uncertainty arising from ongoing political and security transitions inhibited growth and led to a considerable slow-down in economic activity and private investment.

Nevertheless, AIB was able to increase revenue by almost 20 percent to AFN 1,965 million (2012: AFN 1,636 m), largely due to a 35 percent rise in fee and foreign exchange income to AFN 761 million (AFN 564m) that contributed 39 percent of total revenue. Deposits increased by five percent to AFN 45,120 million (2012: AFN 43,142 m) and showed compound annual growth of 55 percent between 2007 and 2013. Compound revenue growth over the same period reached 30 percent. The main rating agencies continued to assign 'investment grade' status to the Bank's total bond portfolio of AFN 7,640 million. To be conservative in the face of uncertainties, more than 81 percent of this portfolio matures in three years or less.

Despite making provisions for potential losses, we achieved almost all our budget targets for the year, notably in loan and treasury interest income, while containing expenses to forecast levels. The 12.2 percent net profit margin for the year equates to earnings per share of AFN 7.99 and 8.64 percent return on equity. The Bank's net asset value per share now stands at AFN 93.

Total capital increased from AFN 2,560 million to AFN 2,775 million. Our capital adequacy ratio of 14 percent and our 89 percent liquidity are still very satisfactory, by domestic and international standards. AIB believes it scores highest of all Afghan banks in its 'CAMEL' rating – the acronym for the five key components of a bank's condition: Capital adequacy, Asset quality, Management, Earnings, and Liquidity.

AIB is also the only financial institution in Afghanistan to have two of the OECD country-based international banking groups as correspondents. These relationships provide our customers with speedy international transfers.

Our performance in 2013 achieved prominent international recognition in the form of two major awards. *The Banker* magazine ranked AIB 'Best Afghan Bank' for the second year in succession during its annual awards ceremony in London, and our commitment to strong corporate governance earned us the Corporate Governance Award, Afghanistan 2014, from Capital Finance International (CFI.co) as part of its world-wide awards programme for the financial services industry.

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

Growth in customer numbers continues. At year-end, the total customer account base was 120,129, up from 113,700 in 2012. The number of corporate accounts increased from 19,600 to 20,605 and individual accounts from 94,100 to 99,524. The increase in customer numbers is also reflected in the total volume of transactions, up from 465,630 to 581,972. Use of online and automated banking increased correspondingly with 43 ATMs now operational, 212 point-of-sale machines installed in shops, and 28 in branches for customer cash advances.

We are very conscious of the vital role of small business in economic development and are committed to fostering a culture of entrepreneurship in Afghanistan. Small business continued to be a prime area of focus, developing six products that will be formally launched for this segment in 2014 in response to clear business needs that we have identified. Our new products will provide much-needed assistance to small manufacturers and supply chain providers.

Employers and employees are benefiting from our new payroll lending product, which includes fast access to general purpose personal loans at competitive rates for our payroll account holders.

In response to market demand, we have developed and are introducing our 'Home Equity' loan for retail customers. This facility is designed to enable our customers to realise equity value from their wholly-owned properties for making home improvements or, in some cases, to acquire a second property.

AIB's Platinum and Titanium credit cards, first introduced for VIP customers early in 2013, have now been made available to the open market. The cards have been very well-received, with total issuance by year-end in line with targets.

We have also successfully launched our MasterCard and China Union Pay (CUP) prepaid cards. The CUP cards are proving particularly attractive to businesses travellers trading with China. Used as charge cards, they are readily available to business users and consumers without having to undergo credit checks.

The bank is planning to launch its new unembossed debit card under the MasterCard label in the course of 2014. It will be available to all account holders for use domestically and internationally.

We have made good progress with our move to create a Shariah-compliant window for Islamic banking and are awaiting approval from the Central Bank regulators. AIB will then offer customers the choice of Shariah or conventional products.

Commercial lending was relatively subdued in 2013, indicative of the increasingly conservative market attitude to political, economic, and security concerns. Nevertheless, Commercial Banking maintained its income levels.

We are very conscious of the vital role of small business in economic development and are committed to fostering a culture of entrepreneurship in Afghanistan. Small business continued to be a prime area of focus, developing six products that will be formally launched for this segment in 2014 in response to clear business needs that we have identified.

Electronic banking facilities and customer usage continue to grow. Free SMS services now provide a wide range of customer benefits, from balance enquiry to automatic alerts of account activity. Implementation of the new call centre and phone banking service is close to completion, giving customers prompt answers to any queries they may have about the Bank and their accounts. On-line banking offers the convenience of secure funds transfer and account management, and is an increasingly popular option with customers.

Business continuity is an ongoing priority and IT capability has been designed and implemented to cope with adverse contingencies. An upgrade of the core banking systems is under way and will be completed mid 2014.

An overseas-based disaster recovery site (DRS) backs up the domestic DRS, protecting against potential vulnerabilities at the domestic site and head office. Business contingency plan testing has demonstrated that the Bank could operate effectively from its domestic DRS, with the cross-border back-up site providing an extra level of security.

The employee complement grew by six percent from 606 to 643 in 2013. Female staff now account for roughly 10 percent of the total. In keeping with the growth in numbers, training remained a major focus.

As well as in-house training at head office and branch level, three staff members selected for fast-track career development benefited from specialist professional education with Pakistan's National Institute of Banking and Finance (NIBAF). In all, a total of 21 employees undertook NIBAF courses such as Business Communication, Accounting, Commercial Banking, Know Your Customer, Electronic Banking, Islamic Banking, Basel Capital Accord, and Risk Management in Banks.

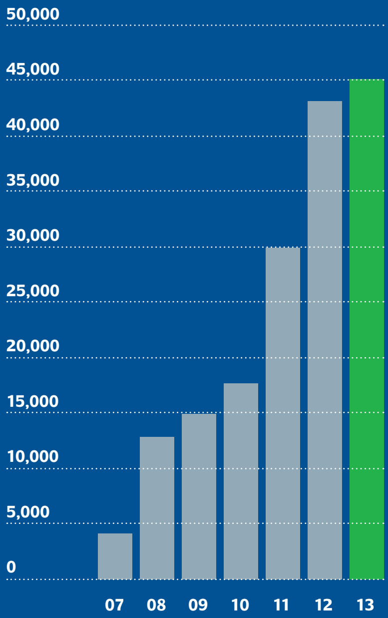
In keeping with the Bank's commitment to good corporate citizenship, AIB continues to undertake projects that have a beneficial impact on the communities where it operates. We sponsored the Kabul Municipality's fourth academic and research seminar on Milad-e-Kabul (Kabul birth), and maintained our financial support for the Education and Employment Center and the restoration of the Blue Mosque in Mazar.

In closing, I take this opportunity to express sincere thanks to our shareholders and Board for their continued confidence and support, to our loyal customers for their patronage, and to our management and employees for their dedication and hard work throughout 2013.

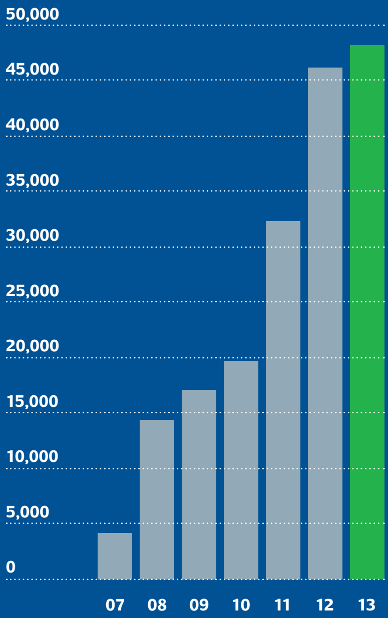
Khalilullah Sediq
Chief Executive Officer

AIB's growth over the recent past has positioned the Bank to be the leading financial institution in Afghanistan in terms of revenues, equity, total assets, and deposits.

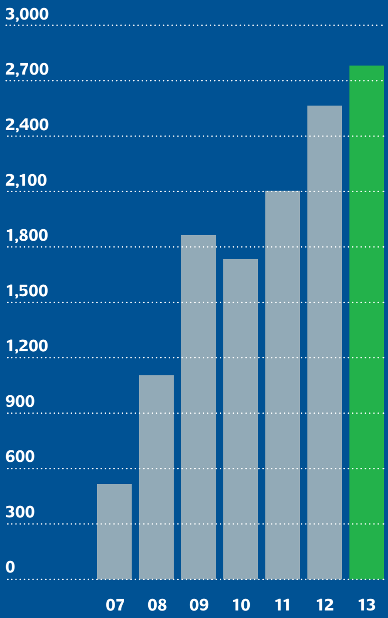
Deposits (AFN millions)



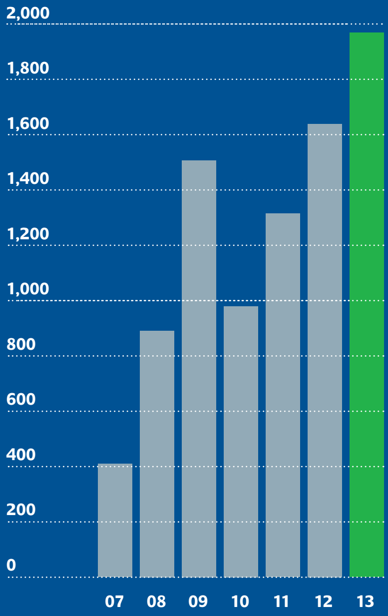
Total assets (AFN millions)



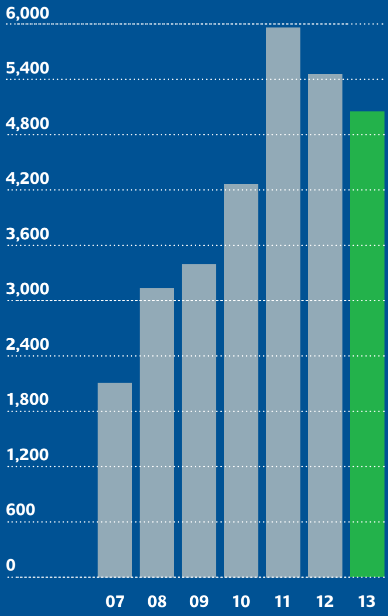
Capital growth (AFN millions)



Revenues (AFN millions)

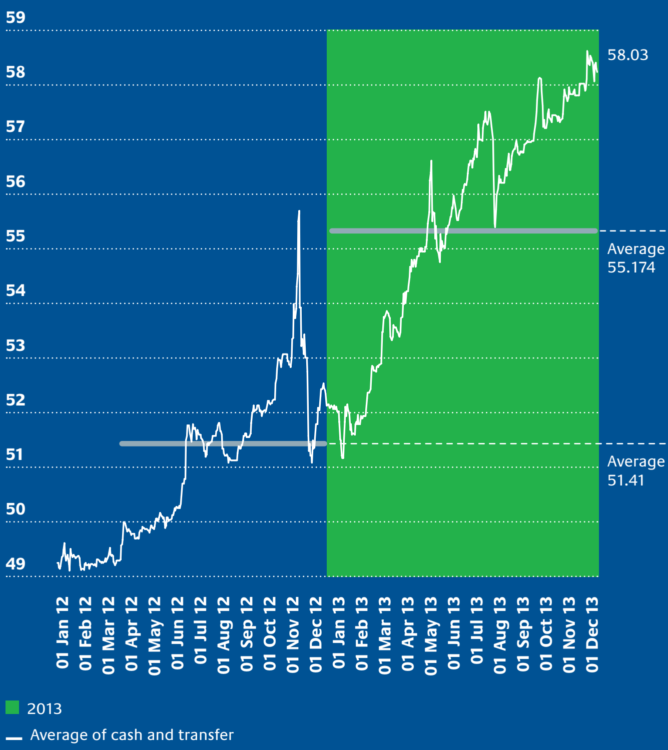


Loans and overdrafts (AFN millions)

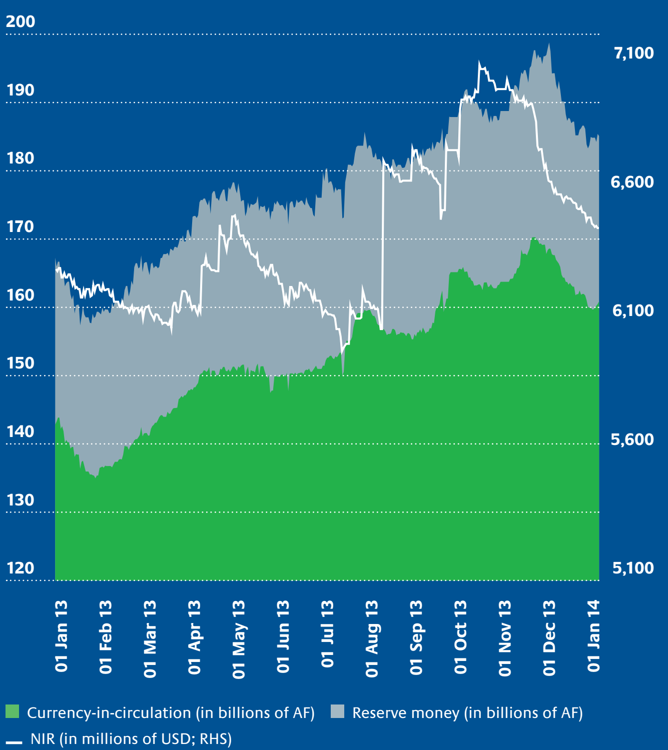


The amount of foreign reserves (net international reserves) held by the Central Bank is a key indicator of financial stability because it marks the country's ability to withstand capital flight. Foreign reserves stood at $6.9 billion at the beginning of December, 2013, slightly above the $6.2 billion considered sufficient to buffer any negative shocks.

Daily average exchange rate of AF per USD



Reserve money and net international reserves (NIR)



Afghan economic growth fell by more than 10 percentage points in 2013, down to 3.1 percent from 14.4 percent a year earlier. This dramatic decline marks the bursting of an economic bubble that had been inflated by a decade of extraordinarily high security spending and foreign aid, now winding down with the withdrawal of NATO forces in 2014.

The slowdown in aggregate economic performance was exacerbated by high-profile terrorist attacks in the heart of Kabul, political uncertainty surrounding the April 2014 presidential election, and disagreements among key allies concerning negotiations with the Taliban. Collectively, these factors clouded the economic outlook and depressed private sector expectations.

The impact of the decline in foreign aid is being felt unevenly across the country. Because of the choices made by donors, and the predominant role of stabilisation and military spending, the conflict-affected provinces have had significantly higher per capita aid than the more peaceful (and often poorer) provinces. As a result, the slowdown in aid has begun to be felt more acutely in the conflict-affected areas and in urban centres, which have lost jobs as military bases and provincial reconstruction teams close. In urban centres, such as Kabul, wage levels of higher-qualified people are declining due to fewer opportunities in donor-financed projects.

In a major blow to Afghan hopes for high and sustainable economic growth, security concerns have prompted Chinese investors to demand a review of a landmark $3 billion dollar contract to produce copper at Aynak. A smaller but symbolically important oil project in northern Afghanistan has also ground to a halt, raising doubts as to whether Afghanistan can realise the 'Silk Road' scenario of high and sustainable growth driven by exploitation of its considerable wealth of natural resources.

The Afghan economy remains highly dollar-dependent, making the dollar exchange rate of the Afghani an important barometer of private sector expectations. The Afghani continued its downward trend in 2013, depreciating by 11.25 percent against the dollar as the economy slowed and political uncertainty fuelled capital flight. A weakening currency makes imports more expensive and should boost exports, leading to a narrowing of the trade deficit. However, we observed the opposite in 2013, with the trade deficit widening to $8.3 billion from $6.0 billion in 2012.

The lack of a positive export response to the exchange rate depreciation is worrisome because it underscores the fact that Afghanistan's export base has relatively few tradable products and these are heavily concentrated in a few markets. Dry fruits, which account for around one-third of official exports, declined by 21 percent, and carpet exports, another major item, nearly halved to $23 million. The strong depreciation of the Pakistani rupee against the US dollar may have accounted for lower demand for Afghan carpets. Pakistan is traditionally the most important market for Afghan carpets, where they are processed and exported to European markets. The declining trend in dry fruits exports, however, seems to indicate a loss of competiveness in important EU markets.

The amount of foreign reserves (net international reserves) held by the Central Bank is a key indicator of financial stability because it marks the country's ability to withstand capital flight. Foreign reserves stood at $6.9 billion at the beginning of December, 2013, slightly above the $6.2 billion considered sufficient to buffer any negative shocks. The demand for money, measured by the level of reserve money, was weak in 2013 reflecting the slowing economy.

Systemic risk in the banking sector is a major concern in Afghanistan where a shock to an important bank can pose risks to otherwise sound banks. In that respect, the Afghan banking sector appears to be recovering slowly from the Kabul Bank crisis of 2010. Sector profits grew to AF 649 million in 2013, up from a loss of AF 1.71 billion in 2012. This was reflected in a slight improvement in return on assets to 0.30 percent, up from -0.99 percent in 2012.

Loans and deposits in the banking system also showed marked improvement with total gross loans increasing by 19.34 percent and deposits by 9.96 percent to AF 207.30 billion. The banking system as a whole was adequately capitalised, although a few problem banks were undercapitalised or only marginally so. One state-owned bank that has a capital adequacy ratio of less than 12 percent was given forbearance from the central bank until it is privatised, while two other banks have capital adequacy ratios close to the minimum threshold (12 percent of risk weighted assets).

The banking industry faces four pressing challenges:

- How to maintain double-digit returns on equity as adverse factors threaten profitability? The business landscape has changed and in the foreseeable future there will be a fundamentally lower ROE environment. This will be driven by a combination of revenue compression and changing capital and liquidity requirements as the central bank moves to strengthen the ability of banks to withstand periods of market stress, mounting cost pressures from critically needed investments (such as IT), and an increase in the costs of doing business in Afghanistan (heightened security spending).
- What kind of new products and sources of revenues are needed for retail and corporate clients in an environment of slow private-sector growth and heightened risk?
- How to grow a banking system hampered by the lack of high-quality and experienced staff to manage customer-facing units and the back office?
- How to attract and maintain quality customers as competition intensifies through willingness to reduce returns?

The fragile security environment has been the single most binding constraint to private-sector investment and private-sector-led growth. Prospects for the economy will therefore depend on Afghanistan's success in achieving peace, stability, and reconciliation and how banks respond to the changing business environment.

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

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

Hamidullah A. Mohib
Shareholder-appointed Member of the Board of Supervisors, Compensation Committee Member, Risk Committee Member

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

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

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

Veronica John
Independent Director, Chairperson of the Compensation Committee

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

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

Mr Ahmed has been a Board member since November, 2005 and chairs the Risk Committee. He is currently Principal Investment Specialist at the Asian Development Bank based in Manila, having previously had 26 years' experience with Citibank in a wide variety of positions in institutional and corporate banking, principally in New York and the Middle East. Mr Ahmed holds a Bachelor's degree in economics from Punjab University, Pakistan.

Brian Dickie
Independent Director, Chairman of the Strategy and Planning Committee

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

Aditya Srivastava
Independent Director, Member of the Risk Committee

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

Salman Shoaib
Independent Director, Chairman of the Investment Committee

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

Gokhan Erkal
Shareholder-appointed Member of the Board of Supervisors, Member of the Investment Committee

Mr Erkal was a member of the team that founded AIB and has been a Board member since 2004 except for 2008-09. He is a partner in an Istanbul-based private equity fund focusing on clean energy investments and has extensive experience in business development, project finance, and investment, in Turkey and emerging markets. He also has previous banking experience, with Ottoman Bank in London and as vice-president, project finance at Garanti Bank. Mr Erkal holds Bachelor's and Master's degrees in civil engineering.

The Shareholders and Board of Supervisors are committed to a high level of corporate governance and to ensuring that the Bank's management practices are always aligned with the principles of good governance.

Shareholders

The Bank has four shareholders, each with a holding of between 20 percent and 27.5 percent. The shareholders operate under a policy of non-interference in management decisions and the Bank's operations. The positive reputation and widespread business and government relations of the Bank's shareholders in Afghanistan have contributed significantly to the success of the institution. Each shareholder appoints one person to the Board of Supervisors.

Shareholder	Beneficial Shareholder	Type of Company	Incorporated	Board Members	Ownership %
Asian Development Bank (ADB)	N/A	Development Bank	Manila, Philippines	Hasib Ahmed	20
Afghanistan Investment Partners Corporation (AIPC)	Nemat Khwaja, Zaher Yaqubie	Investment Company	Delaware, USA	Gokhan Erkal	25
Horizon Associates	Mohammed Abrahim Mohib	Holding Company	Delaware, USA	Hamidullah A. Mohib	27.5
Wilton Holdings	Lutfullah Rahmat, Izzatullah Rahmat, Nasrullah Rahmat	Holding Company	Cayman Islands	Lutfullah Rahmat	27.5

Board of Supervisors

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

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

The Chairman is a non-executive director and is responsible for leadership of the Board and ensuring its effectiveness. The four shareholder representatives are appointed by the respective shareholders of the Bank and represent the interests of these shareholders. Finally, the independent directors are expected to bring impartial judgment to the Board through their expertise in the financial world as well as governance experience. Independent directors and directors who are shareholder representatives are appointed every four years.

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

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

Management Board

The Board has delegated day-to-day operational responsibilities to the Chief Executive and the Management Board. The Management Board is a formal entity with its role and responsibilities defined in the Law of Banking in Afghanistan and Central Bank regulations. The Board comprises: the Chief Executive, Head of Commercial Banking, Chief Operating Officer, and Chief Financial Officer. The Management Board meets frequently concerning matters of policy, procedures, and operations. Brief biographical profiles of Management Board members are given on page 14 of this report.

In addition to the Management Board, the management structure of the Bank includes the Head Office Credit Committee, the Head Office Risk Committee, and the Head Office Asset Liability Management Committee. All three operate under defined charters and sets of policies and procedures approved by the Board of Supervisors and the shareholders.

Compensation Committee

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

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

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

During the year, the committee completed the recruitment of a Deputy Chief Executive Officer who will join the bank in January, 2014, developed a plan for the recruitment of a new CEO on the retirement of the present CEO in 2015, designed a process for the selection of new directors, and approved an amended HR policy.

Risk Committee

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

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

The dramatic change in the business environment and market sentiment in 2013 made for a challenging year, particularly in managing risk and the need for constant vigilance. Close contact with customers, the market, and government agencies is absolutely critical. During the year, the committee approved policies covering investments in trade finance, developed guidelines for financing fuel traders, and developed and implemented the Bank's fraud policy and underwriting standards. Working with management, the committee initiated a review of the Bank's loan portfolio by an independent consultant and developed a process that enables consistent monitoring.

Strategy and Planning Committee

The Strategy and Planning Committee's mission is to provide oversight to AIB's strategic planning and annual budgeting and planning processes, as well as the development of major new initiatives.

Its members are: Brian Dickie (Chairman), Ronald Stride (both independent directors), Lutfullah Rahmat, and Hasib Ahmed.

In 2013, the committee approved planning scenarios for post-2014 and a related set of leading indicators designed to help AIB determine which scenario is unfolding. The committee also approved a three-year strategic plan, reviewed performance against the 2013 budget and business plan quarterly, and reviewed the proposed budget and business plan for 2014.

Further activities included approval of the introduction of new products, analysing the cost of funds and profitability of deposits, and evaluating approaches to improve operational efficiency and improve customer service.

Investment Committee

The Investment Committee comprises three directors – Salman Shoaib (Chairman and independent director), Hasib Ahmed, and Gokhal Erkan.

The committee's mandate covers allocation, investment, and oversight of a portfolio of fixed income bonds. Its principal role is to oversee the Bank's investment policy and to ensure it is modified and executed appropriately in the context of the Bank's risk and capital specifications.

During 2013 the committee worked with the Board and management to improve and keep current the investment policy, analyse and approve alternative investments of the Bank's surplus funds, monitored the mandate of the independent asset managers hired by the Bank and met them to discuss their performance, ways of increasing yields, and alternative investments. The committee seeks approval from the full Board when required and highlights issues that require attention.

In November, the committee assumed responsibility for approving the allocation of investable funds between different asset classes.

Audit Committee

The Audit Committee is established under the Banking Act in Afghanistan. The committee reports directly to the shareholders and the committee's chairman, and its members are appointed at the annual general meeting. Appointments are for not more than four years and may be renewed for like periods. Members of the Board of Supervisors or the Management Board may not serve on the Audit Committee. Members of the committee are subject to the same fit and proper requirements as members of the Board of Supervisors. The committee began 2013 with five members but two left Afghanistan during the year. The remaining members are all qualified and experienced in accounting or banking.

The Audit Committee is responsible for overseeing financial reporting, compliance with risk management policies and procedures, internal controls, ethics, and management and functioning of internal audit. It is also responsible for relationships with the external auditors and meets them on completion of the annual audit and quarterly reviews.

Meetings are usually held four times a year (as in 2013) in person and in conjunction with Board meetings. The meetings are attended by the Chief Executive Officer, Head of Internal Audit, and designated Management Board members. Minutes are presented at the next Board meeting when the committee chairman reports on issues requiring Board attention.

Khalilullah Sediq
Chief Executive Officer, Chairman of the Management Board

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

Lalit Kumar Jha
Chief Finance Officer, Member of Management Board

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

Asadullah Fayzi
Chief Operating Officer, Member of Management Board

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

Tamsil Rashid
Head of Commercial Banking, Member of Management Board

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

Rakesh Jethwani
Chief Risk Officer

Mr Jethwani joined AIB in 2011 as Chief Risk Officer. He has 30 years' experience in banking, with a specialisation in credit and risk management obtained during his service with Punjab National Bank in India. He holds a dual executive MBA in risk management and international finance and is a Certified Associate of the Indian Institute of Bankers.

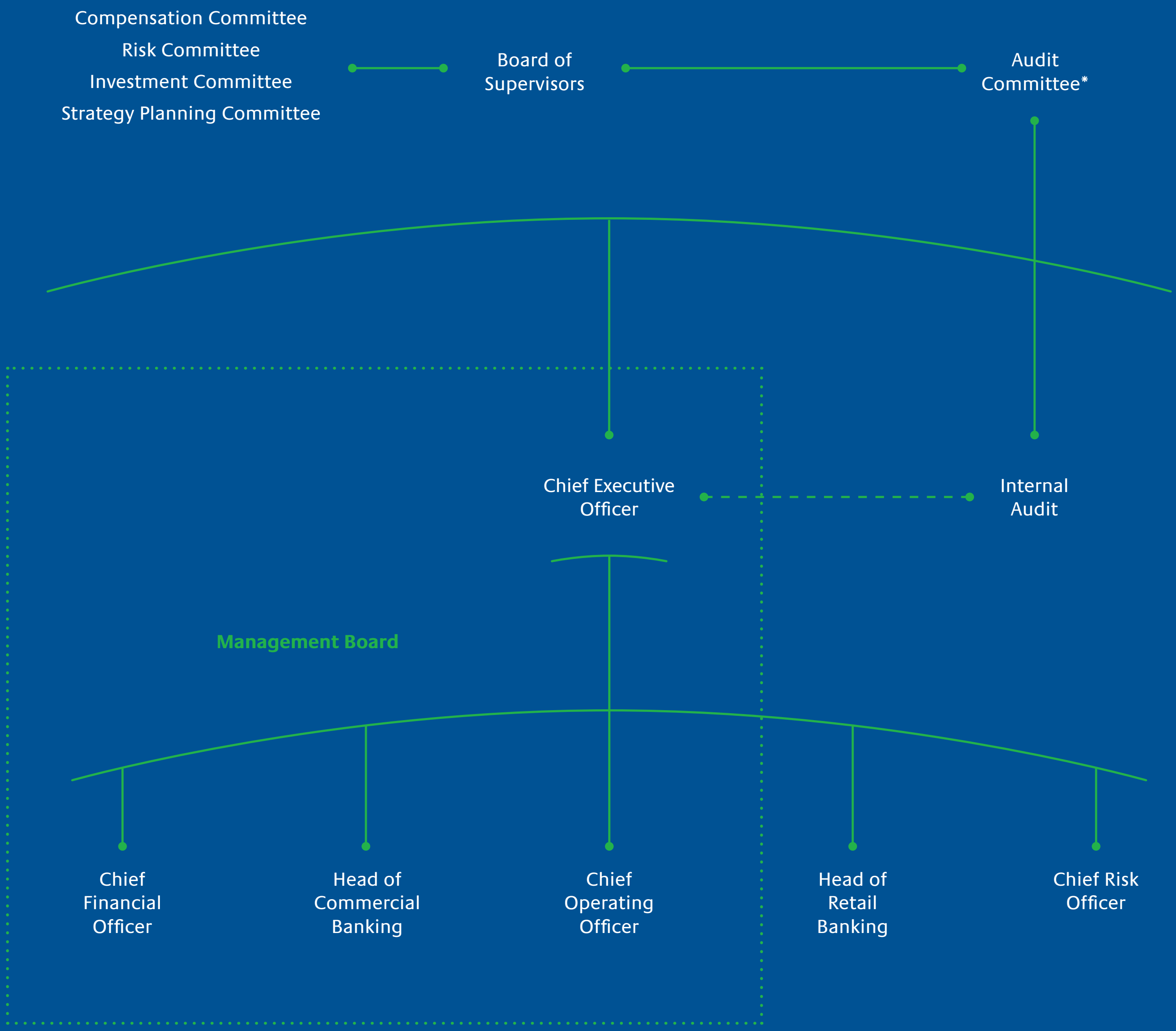
Khurram Sikander
Head of Internal Audit

Mr Sikander joined AIB in 2011 as Head of Internal Audit. He was previously with Aga Khan Development Network (AKDN), where he worked in internal audit, internal controls, and risk and compliance, also serving as a director of AKDN institutions. Mr Sikander is a member of the UK Association of Chartered Certified Accountants.

Mohammad Taofiq Mir
Head of Retail Banking

Mr Mir began his banking career in 2006 with AIB. He managed electronic banking channels and held a number of positions related to retail banking before becoming General Manager, Retail Banking in 2012. He holds a BSc in electrical engineering from Delft University of Technology, Netherlands.

Organization



* Reports directly to shareholders


AIB Head Office in Kabul

Herat Branch

Kandahar Branch

Jalalabad Branch

Khalilullah Sediq, CEO of Afghanistan International Bank, receiving the 'Bank of the Year, Afghanistan' award at The Banker Awards 2013 in London.

2004

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

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

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

2005

Opening of first branch outside Kabul.

2006

Khalilullah Sediq joins as Chief Executive Officer.

2007

AIB shows annual profit for the first time.

2008

Appointed bankers to the American forces in Afghanistan.

2009

Moved to new head office building in Kabul.

2010

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

2011

Deposits exceed $500 million.

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

2012

Deposits exceed $800 million.

AIB acquires Standard Chartered Bank's business in Afghanistan.

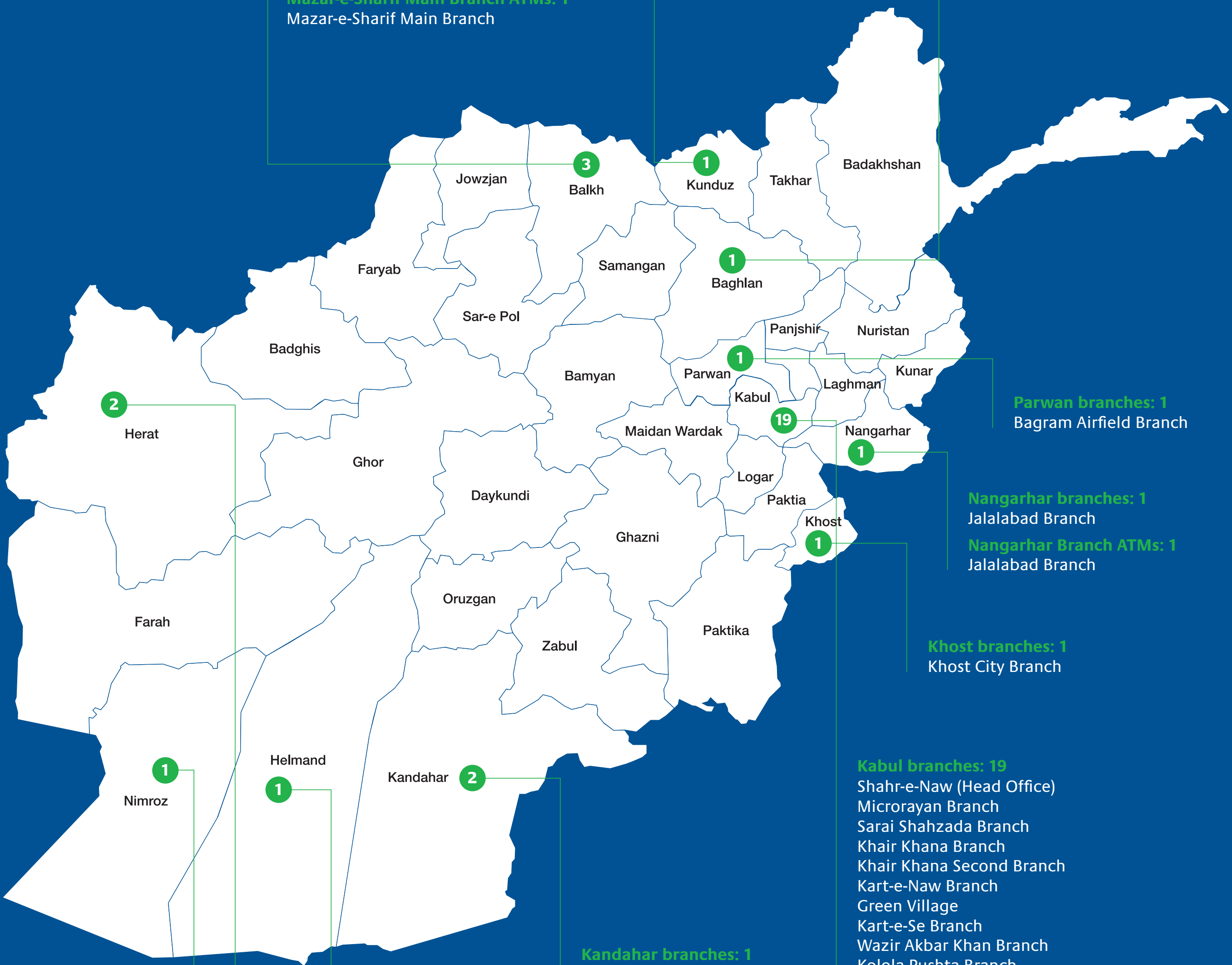
The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan.

2013

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

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

AIB Branch Network



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

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

Kunduz branches: 1
Kunduz City Branch

Baghlan branches: 1
Pole-e-Khumri Branch

Parwan branches: 1
Bagram Airfield Branch

Nangarhar branches: 1
Jalalabad Branch

Nangarhar Branch ATMs: 1
Jalalabad Branch

Khost branches: 1
Khost City Branch

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

Kabul cash outlets: 3
ISAF HQ
New Kabul Compound
KAIA

Kabul Branch ATMs: 9
Shahr-e-Naw (Head Office): 2
Shahr-e-Naw: 1
Wazir Akbar Khan: 2
Microryan: 1
UNOCA: 2
Kart-e-se: 1

Kandahar branches: 1
Kandahar City Branch

Kandahar cash outlet: 1
KAF, Kandahar

Kandahar Branch ATMs: 1
Kandahar City Branch

Helmand branches: 1
Lashkargah Branch

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

Herat Branch ATMs: 1
Herat Main Branch

Nimroz branches: 1
Nimroz City Branch

Financial Statements

Deloitte.

Member of
Deloitte Touche Tohmatsu Limited

M. Yousuf Adil Saleem & Co
Chartered Accountants
932, Street 91, Sector I-8/4
Islamabad, Pakistan

Tel: +92(51) 8350601
+92(51) 4861571
Fax: +92(51) 8350602
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

Introduction

We have audited the accompanying financial statements of Afghanistan International Bank (the Bank), which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, the statement of cash flow, and the statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Afghanistan International Bank as at December 31, 2013, and of their financial performance and cash flows for the year then ended in accordance with the accounting framework as stated in note 2 to the financial statements.

M. Yousuf Adil Saleem & Co

Chartered Accountants

Engagement Partner:
Nadeem Yousuf Adil

Karachi

Date: 8th March 2014

	Note	2013 AFN '000	2012 (restated) AFN '000
ASSETS			
Cash and balances with Da Afghanistan Bank (DAB)	5	**8,499,376**	8,656,807
Balances with other banks	6	**17,106,613**	13,728,764
Placements – net	7	**5,018,496**	10,079,068
Investments – net	8	**11,694,831**	8,146,376
Participation purchased – net	9	**529,992**	–
Loans and advances to customers – net	10	**4,204,751**	4,545,756
Receivable from financial institutions	11	**197,699**	191,208
Operating fixed assets	12	**430,683**	325,386
Intangible assets	13	**175,486**	199,604
Deferred tax assets	16	**3,994**	–
Other assets	14	**252,235**	188,221
Total assets		**48,114,156**	46,061,190
LIABILITIES			
Customers' deposits	15	**45,120,851**	43,142,654
Deferred income on commercial letter of credit and guarantees		**11,826**	8,844
Deferred tax liabilities	16	**–**	3,659
Other liabilities	17	**206,209**	345,538
Total liabilities		**45,338,886**	43,500,695
EQUITY			
Share capital	18	**1,465,071**	1,465,071
Capital reserves	19	**143,269**	131,279
Retained earnings		**1,239,824**	1,012,024
Deficit on revaluation on available for sale investments		**(72,894)**	(47,879)
Total equity		**2,775,270**	2,560,495
Total equity and liabilities		**48,114,156**	46,061,190
CONTINGENCIES AND COMMITMENTS	20		

Chief Executive Officer

Director

The annexed notes 1 to 33 form an integral part of these financial statements.

	Note	2013 AFN '000	2012 (restated) AFN '000
Interest income	21	1,144,695	1,057,205
Interest expense	22	(2,230)	(2,730)
Net interest income		1,142,465	1,054,475
Fee and commission income	23	570,314	418,790
Fee and commission expense	24	(14,238)	(14,379)
Net fee and commission income		556,076	404,411
Income from dealing in foreign currencies	25	205,690	159,883
		1,904,231	1,618,769
Other income	26	61,162	17,695
Provision against loan losses	10.3	(305,305)	(37,814)
Provision on Investments	8.4	(13,185)	(6,839)
Provision on participation purchased	9.2	(2,663)	–
Provision on placements	7.4	(3,160)	16,639
Provision against receivable from DoJ	14.2	(250,605)	–
General and administrative expenses	27	(1,079,713)	(1,004,051)
PROFIT BEFORE INCOME TAX		310,762	604,399
Income Tax (Charge)	28	(70,972)	(104,392)
PROFIT FOR THE YEAR		239,790	500,007
OTHER COMPREHENSIVE INCOME			
Items that may classify to profit and loss subsequently			
Net change in fair value on available-for-sale financial investments – net of tax		(25,015)	(36,940)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		214,775	463,067
Earnings per share – Basic and diluted	31	7.99	16.67

Chief Executive Officer

Director

The annexed notes 1 to 33 form an integral part of these financial statements.

	Share capital AFN '000	Reserve-deficit on revaluation of available-for-sale investments AFN '000	Capital Reserve (restated) AFN '000	Retained Earnings (restated) AFN '000	Total AFN '000
Balance as at January 1, 2012 – (Audited) As originally reported	1,465,071	(10,939)	–	643,296	2,097,428
Impact of prior year adjustment – note 19	–	–	106,279	(106,279)	–
Balance as at January 1, 2012 – (Audited) – restated	1,465,071	(10,939)	106,279	537,017	2,097,428
Comprehensive income					
Profit for the year	–	–	–	500,007	500,007
Transferred to Capital Reserve	–	–	25,000	(25,000)	–
Other comprehensive income	–	(45,492)	–	–	(45,492)
Deferred tax asset	–	8,552	–	–	8,552
Total comprehensive income	–	(36,940)	25,000	475,007	463,067
Transactions with owners	–	–	–	–	–
Balance as at December 31, 2012 – (Audited) – restated	1,465,071	(47,879)	131,279	1,012,024	2,560,495
Comprehensive income					
Profit for the year	–	–	–	239,790	239,790
Transferred to Capital Reserve	–	–	11,990	(11,990)	–
Other comprehensive income	–	(31,269)	–	–	(31,269)
Deferred tax asset	–	6,254	–	–	6,254
Total comprehensive income	–	(25,015)	11,990	227,800	214,775
Transactions with owners	–	–	–	–	–
Balance as at December 31, 2013	1,465,071	(72,894)	143,269	1,239,824	2,775,270

Chief Executive Officer

Director

The annexed notes 1 to 33 form an integral part of these financial statements.

	Note	2013 AFN '000	2012 AFN '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		1,092,879	1,073,338
Interest payments		(2,228)	(2,683)
Fee and commission receipts		570,360	420,789
Fee and commission payments		(14,214)	(14,485)
Income from dealing in foreign currencies		205,690	159,883
Other income		45,317	5,214
General administrative expenses paid		(1,013,819)	(961,254)
Cash flows from operating activities before changes in operating assets and liabilities		883,985	680,802
Changes in operating assets and liabilities:			
Receivable from financial institutions		(6,491)	(68,632)
Required reserve maintained with DAB		(233,055)	(1,603,357)
Cash margin held with other banks		(68,190)	138,484
Loans and advances to customers – net		35,700	380,798
Other assets		(285,229)	13,779
Customers' deposits		1,978,197	13,202,427
Other liabilities		(87,122)	23,609
Net cash generated from operating assets and liabilities		1,333,810	12,087,108
Income tax paid		(117,048)	(42,303)
Net cash flow from operations		2,100,747	12,725,607
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from placements (with maturity more than three months)		2,069,460	(2,418,903)
(Increase) in investments		(3,561,987)	(1,070,469)
Participation purchased (with maturity more than three months)		(397,671)	–
Purchase of property and equipment		(35,632)	(104,731)
Proceeds from sale of property and equipment		282	441
Additions to capital work in progress		(121,707)	–
Purchase of intangible assets		(2,850)	(35,867)
Net cash flow used in investing activities		(2,050,105)	(3,629,529)
Net increase in cash and cash equivalents		50,642	9,096,078
Effect of foreign currency exchange loss on cash and cash equivalents		15,563	12,146
Cash and cash equivalents at beginning of the year		24,561,808	15,453,584
Cash and cash equivalents at end of the year	30	24,628,013	24,561,808

Chief Executive Officer

Director

The annexed notes 1 to 33 form an integral part of these financial statements.

1. STATUS AND NATURE OF BUSINESS

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

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

The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The Bank has thirty two branches and four cash outlets (2012: thirty one branches and four cash outlets) in operation and 634 employees (2012: 606 employees)

2. BASIS OF PREPARATION AND MEASUREMENT

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

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

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

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

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

2.1 New accounting standards/amendments and IFRS interpretations that are effective for the year ended December 31, 2013

The following standards, amendments and interpretations are effective for the year ended December 31, 2013. These standards, interpretations and the amendments are either not relevant to the Bank’s operations or are not expected to have significant impact on the Bank’s financial statements other than certain additional disclosures.

	Effective from accounting period beginning on or after
Amendments to IAS 1 – Presentation of Financial Statements – Clarification of Requirements for Comparative information	January 01, 2013
Amendments to IAS 16 – Property, Plant and Equipment – Classification of servicing equipment	January 01, 2013
Amendments to IAS 19 – Employee Benefits – Elimination of corridor approach	January 01, 2013
Amendments to IAS 32 Financial Instruments: Presentation – Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction	January 01, 2013
Amendments to IAS 34 – Interim Financial Reporting – Interim reporting of segment information for total assets and total liabilities	January 01, 2013
Amendments to IFRS 1 – Government loans	January 01, 2013
Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting financial assets and financial liabilities	January 01, 2013
IFRS 10 – Consolidated financial statements	January 01, 2013
IFRS 11 – Joint arrangements	January 01, 2013
IFRS 12 – Disclosure of interests in other entities	January 01, 2013
IFRS 13 – Fair value measurements	January 01, 2013
Amendments to IAS 27 – Separate financial statements	January 01, 2013
Amendments to IAS 28 – Investments in associate and joint ventures	January 01, 2013
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	January 01, 2013

The amendments to IAS 1 – Presentation of items of other comprehensive income is effective from accounting period beginning on or after January 01, 2013 and have significant impact on the Bank’s financial statements for the year as discussed in the pursing paragraph. These changes are considered as change in policy.

IAS 1 – Presentation of Financial Statements – Presentation of items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). Income tax on items of other comprehensive income is required to be allocated on the same basis i.e. the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments require retrospective application.

As a result of amendments in IAS 1, The Bank modified the presentation of the item of OCI in its statements of Profit and Loss and Other Comprehensive Income, to present items that would be reclassified to profit and loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

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

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

	Effective from accounting period beginning on or after
IFRS 10 – Investment entities: Exemption from consolidation requirements	January 01, 2014
IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets	January 01, 2014
IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets	January 01, 2014
IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting	January 01, 2014
IFRS 1 – Exemption from the requirement to restate comparative information for IFRS-9	January 01, 2015
IFRS 9 – Financial instruments: Classification and measurement	January 01, 2015
IFRIC 21 – Levies	January 01, 2014

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 from the date of acquisition including cash in hand and at ATM, unrestricted balances with the DAB, balances with banks placements and participation purchased with other banks.

3.2 Financial instruments

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.3 Financial assets continued

a) Financial assets at fair value through profit or loss

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

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

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

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

b) Loans and receivables

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

c) Held-to-maturity financial assets

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

d) Available-for-sale financial assets

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

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

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

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

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

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

3.4 Impairment of financial assets

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

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

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

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

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

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

b) Loans and advances to customers

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

i) Standard: These are loans and advances, which are paying in a current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any supporting it. A general provision is maintained in the books of account @ 0.25% (2012: 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 @ 5% of value of such loans and advances.

iii) **Substandard:** These are loans and advances which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral, if any, supporting it. Further, all loans and advances which are past due by 61 to 90 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account @ 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 180 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account @ 50% of value of such loans and advances.

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

c) Participation purchased

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.4 Impairment of financial assets continued

d) Assets classified as available for sale

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

3.5 Financial liabilities

The Bank classifies its financial liabilities in following categories.

a) Financial liabilities at fair value through profit or loss

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

b) Other financial liabilities measured at amortized cost

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

3.6 Operating fixed assets

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

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

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

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

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

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

3.7 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.

3.8 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 recognised in profit or loss as incurred.

3.9 Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in statement of comprehensive income. An impairment loss recognised 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.

3.10 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.

3.11 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 recognised 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 recognised for all taxable temporary differences. Deferred tax assets are generally recognised 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 recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.12 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.

b) 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.

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.

3.13 Foreign currency transactions and translation

a) Functional and presentation currency

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

b) Transactions and balances

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

	1 USD	1 EURO	1 AED
The exchange rate for following currencies against AFN were:			
As at December 31, 2013	56.01	76.73	15.25
As at December 31, 2012	52.08	68.54	14.12

3.14 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.

3.15 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.

3.16 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.

4. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

a) Provision for loan losses

The Bank reviews loans to customer balances quarterly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in note 10.3. The Bank maintains a general provision of 0.25% (2012: 2%) against outstanding loan and advances to customers as at the year end.

4. Change in accounting estimates

The Bank reviews loans to customer balances quarterly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in note 10.3. Based on previous experience of classified portfolio and sufficiency of general and specific provision, the management has revised its estimates of general provision against loans and advances to customers. Previously, general provision was maintained at 2% of standard loans and advances which has been reduced to 0.25% of same balance. The general provision at previous and current rates amounts to AF 83,720,000 and AF 10,465,000 respectively.

b) Provision for income taxes

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

c) General provision on Investments and placements

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

d) General provision on participation purchased

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

e) Useful life of property and equipment and intangible assets

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

f) Held-to-maturity investments

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

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

	2013 AFN '000	2012 AFN '000
Cash in hand	2,465,830	1,656,823
Cash at Automated Teller Machines (ATMs)	329,371	339,844
	2,795,201	1,996,667
With Da Afghanistan Bank		
Local currency		
- Deposit facility accounts	352,062	1,250,000
- Required reserve accounts	3,602,159	3,369,104
- Current accounts	697,629	279,082
	4,651,850	4,898,186
Foreign currency		
- Current account	1,052,325	1,761,954
	5,704,175	6,660,140
	8,499,376	8,656,807

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

Required reserve account is being maintained with DAB which is denominated in AFN to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. The required reserve and the deposit facility accounts kept with DAB are interest bearing.

6. BALANCES WITH OTHER BANKS

	2013 AFN '000	2012 AFN '000
Outside Afghanistan		
With Standard Chartered Bank – note 6.1	**12,736,513**	11,422,603
With Commerzbank, Germany		
- in nostro accounts – note 6.2	**2,512,088**	478,132
- as cash margins held – note 6.3	**871,401**	803,211
With other banks – note 6.4	**986,611**	1,024,818
	17,106,613	13,728,764

6.1 Balances maintained with Standard Chartered Bank are interest bearing and are available on demand.

6.2 This represents interest bearing nostro accounts. It carries interest @ Libor-0.25%.

6.3 It carries interest @ Libor-0.25%, held with Commerz Bank, Germany against letters of credit issued on behalf of the Bank.

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

7. PLACEMENTS – NET

	2013 AFN '000	2012 AFN '000
Short term		
- with Standard Chartered Bank note 7.1	**560,100**	6,249,600
- with other banks in foreign currency – note 7.2	**3,920,700**	3,848,712
	4,480,800	10,098,312
Long term		
- with other bank in foreign currency – note 7.3	**560,100**	–
	560,100	–
General provision held – note 7.4	**(22,404)**	(19,244)
	5,018,496	10,079,068

7.1 These represent overnight and fixed term placement with Standard Chartered Bank outside Afghanistan having six months maturity in USD carrying interest at rate 0.41 %. (2012: 0.23 % p.a. to 0.70 % p.a).

7.2 These represent overnight and fixed term placements with financial institutions outside Afghanistan up to a maximum period of one year (2012: one year) in USD carrying interest at rates ranging from 0.70 % p.a. to 1.70 % p.a (2012: 0.25 % p.a. to 1.75 % p.a).

7.3 These represents fixed term placement with financial institutions outside Afghanistan in USD having maturity period till September 30, 2015 carrying interest rate 1.25% p.a. (2012: Nil).

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

8. INVESTMENTS – NET

	2013 AFN '000	2012 AFN '000
Available for sale investment		
- Investment bonds – note 8.1	4,675,718	3,199,559
Held-to-maturity Investments		
- Capital notes with DAB – note 8.2	4,100,597	3,175,867
- Investment bonds – note 8.3	2,956,678	1,795,927
	7,057,275	4,971,794
General provision held – note 8.4	(38,162)	(24,977)
	11,694,831	8,146,376

8.1 This represents investment made in investment bonds. Investment in bonds have maturity from January 2014 to December 2017 and carry coupon interest rates ranging from 0.75 % to 10.38 % (2012: 0.25 % to 10.25 %). These investments are managed by Julius Baer and Emirates NBD on behalf of the Bank.

8.2 This represents investments in capital notes issued by DAB, up to a maximum period of one year (2012: six months) carrying yield at rates ranging from 3.37% p.a. to 7.07% p.a. (2012: 1.98% p.a. to 3.44% p.a.) receivable on maturity of respective notes.

8.3 These represent investments in bonds from various financial institutions and sovereign corporates carrying coupon interest rates ranging from 2.99% to 8% (2012: 2.99% to 8%). These investments have maturity ranging from January 2014 to July 2017. 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.

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

9. PARTICIPATION PURCHASED

	2013 AFN '000	2012 AFN '000
Participation purchased – note 9.1	532,655	–
General provision held – note 9.2	(2,663)	–
	529,992	–

9.1 These represent Bank's share in amounts invested by the participant Banks under participation agreements with Emirates NBD and United Bank Limited Dubai, (grantor banks) carrying interest rate ranging from 2.5% (plus three months LIBOR) to 3.5% p.a. (plus six months LIBOR) with maturity from three to six months (2012: Nil).

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

10. LOANS AND ADVANCES TO CUSTOMERS – NET

	2013 AFN '000	2012 AFN '000
Overdrafts – note 10.1	3,976,853	4,407,991
Term loans – note 10.2	251,442	243,743
	4,228,295	4,651,734
Provision against loans and advances – note 10.3	(24,658)	(105,978)
	4,203,637	4,545,756
Consumer Loans – 10.6	1,114	–
	4,204,751	4,545,756
Particulars of advances		
Short term (for up to one year)	4,220,052	4,614,759
Non-current (for over one year)	8,243	36,975
	4,228,295	4,651,734

10.1 These represent balances due from customers at various interest rates ranging from 11% to 20% p.a (2012: 12.5% to 15% p.a) and are secured against mortgage of property, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. The overdrafts are repayable on demand. These included loans and advances to customers amounting to AFN 191,992,014 (2012: AFN 149,868,600) which are partially backed by Deutsche Investitions-und Entwicklungsgesellschaft mbh (DEG) guarantees to the extent defined in agreement with DEG.

10.2 Term loans carry interest at various rates and are secured against mortgage of properties, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. These include loans and advances to customers amounting to AFN 14,355,239 (2012: AFN 37,821,972) which are partially backed by (DEG) guarantee to the extent defined in the agreement with DEG.

10.3 Particulars of the provision against loan and advances

	2013			2012		
	Specific AFN '000	General AFN '000	Total AFN '000	Specific AFN '000	General AFN '000	Total AFN '000
Opening	16,641	89,337	105,978	46,941	100,205	147,146
Charge for the year	647,226	1,091	648,317	116,431	25,869	142,300
Reversal of Provision	(262,390)	(80,622)	(343,012)	(64,374)	(40,112)	(104,486)
	384,836	(79,531)	305,305	52,057	(14,243)	37,814
Written off against provision – note 10.3.1	(392,342)	–	(392,342)	(84,605)	–	(84,605)
Exchange rate difference	5,059	658	5,717	2,248	3,375	5,623
Closing	14,194	10,464	24,658	16,641	89,337	105,978

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

10.4 Loans and advances have been classified as:

Classification	2013			
	*Provisioning rates	Amount outstanding AFN '000	Provision required AFN '000	Provision held AFN '000
Standard – note – 4 (a)	0.25%	4,185,981	10,463	10,463
Watch-List	5%	–	–	–
Substandard	25%	27,863	6,966	6,966
Doubtful	50%	14,445	7,223	7,223
Loss note 10.5	100%	392,348	392,348	392,348
write-offs		(392,342)	(392,342)	(392,342)
		6	6	6
Loans and Advances and provision held – December 31, 2013		4,228,295	24,658	24,658

Classification	2012			
	*Provisioning rates	Amount outstanding AFN '000	Provision required AFN '000	Provision held AFN '000
Standard	2%	4,466,891	89,337	89,337
Watch-List	5%	147,864	7,393	7,393
Substandard	25%	36,975	9,244	9,244
Doubtful	50%	–	–	–
Loss note 10.5	100%	84,609	84,609	84,609
write-offs		(84,605)	(84,605)	(84,605)
		4	4	4
Loans and Advances and provision held – December 31, 2012		4,651,734	105,978	105,978

* Provisioning rates are as per DAB Regulation

* Provisioning rates are as per DAB Regulation except for in case of standard loans and advances; which is provided by the Bank as a prudent approach only.

10. LOANS AND ADVANCES TO CUSTOMERS – NET CONTINUED

10.5 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 392,342,000 (2012: AFN 84,604,903).

10.6 These represent consumer loans due from individual payroll account holders and employees of corporate customers having payroll account with the Bank. It carries interest upto @ 20% (2012: Nil) on annual basis. No provision is recorded on these balances.

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

10.8 The Bank has filed suits for the recovery of loans and advances principle and interest due against the defaulted borrowers amounting to AFN 179,557,754 (2012: AFN 47,636,311) as at the year end. These suits are pending decisions at various courts. The Bank's management is of the view that the aforementioned suits will be decided in its favour due to sound legal footings.

11. RECEIVABLE FROM FINANCIAL INSTITUTIONS

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

12. OPERATING FIXED ASSETS

	2013 AFN '000	2012 AFN '000
Capital work in progress – note 12.1	179,284	58,652
Property and equipment – note 12.2	251,399	266,734
	430,683	325,386

12.1 Capital Work in Progress

	2013 AFN '000	2012 AFN '000
Advances to suppliers and contractors – note 12.1.1	179,284	58,652
	179,284	58,652

12.1.1 Movement in Capital work in Progress

	2013 AFN '000	2012 AFN '000
As at January 01,	58,652	15,609
Additions during the year	121,707	44,677
Transferred to property and equipment	(1,075)	(1,634)
As at December 31,	179,284	58,652

12.2 PROPERTY AND EQUIPMENT

	Land AFN '000	Leasehold improvements AFN '000	Computers AFN '000	Office equipment AFN '000	Furniture and fixtures AFN '000	ATMs AFN '000	Vehicles AFN '000	Total AFN '000
At January 1, 2012								
Cost	177,568	63,418	43,995	81,632	13,649	36,863	61,304	478,429
Accumulated depreciation	–	(45,552)	(25,040)	(62,503)	(10,385)	(28,732)	(43,572)	(215,784)
Net book amount at January 1, 2012	177,568	17,866	18,955	19,129	3,264	8,131	17,732	262,645
Year ended December 31, 2012								
Net book amount at January 1, 2012	177,568	17,866	18,955	19,129	3,264	8,131	17,732	262,645
Additions	–	–	6,571	14,460	497	31,588	6,938	60,054
Transfers from Capital Work in Progress	–	1,634	–	–	–	–	–	1,634
Deletions	–	(382)	(1,797)	(61)	(543)	(3,538)	–	(6,321)
Depreciation charge	–	(11,071)	(11,105)	(13,362)	(1,535)	(11,058)	(7,699)	(55,830)
Depreciation on deletions	–	265	1,701	34	356	2,196	–	4,552
Net book amount at December 31, 2012	177,568	8,312	14,325	20,200	2,039	27,319	16,971	266,734
At January 1, 2013								
Cost	177,568	64,670	48,769	96,031	13,603	64,913	68,242	533,796
Accumulated depreciation	–	(56,358)	(34,444)	(75,831)	(11,564)	(37,594)	(51,271)	(267,062)
Net book amount at January 1, 2013	177,568	8,312	14,325	20,200	2,039	27,319	16,971	266,734
Year ended December 31, 2013								
Net book amount at January 1, 2013	177,568	8,312	14,325	20,200	2,039	27,319	16,971	266,734
Additions	–	1,235	22,777	5,176	1,053	2,481	2,910	35,632
Transfers from Capital Work in Progress	–	1,075	–	–	–	–	–	1,075
Deletions	–	–	–	–	–	(163)	–	(163)
Depreciation charge	–	(6,131)	(13,950)	(8,484)	(2,817)	(12,769)	(7,891)	(52,042)
Depreciation on deletions	–	–	–	–	–	163	–	163
Net book amount at December 31, 2013	177,568	4,491	23,152	16,892	275	17,031	11,990	251,399
At December 31, 2013								
Cost	177,568	66,980	71,546	101,207	14,656	67,231	71,152	570,340
Accumulated depreciation	–	(62,489)	(48,394)	(84,315)	(14,381)	(50,200)	(59,162)	(318,941)
Net book amount	177,568	4,491	23,152	16,892	275	17,031	11,990	251,399
Useful life		3 to 10 years	3 to 5 years	3 to 5 years	3 to 10 years	5 years	5 years	

13. INTANGIBLE ASSETS

	Note	2013 AFN '000	2012 AFN '000
Computer software and licenses	13.1	**19,101**	43,219
Goodwill	13.2	**156,385**	156,385
		175,486	199,604

13.1 At January 1, 2012

	Computer softwares AFN '000	License fee AFN '000	Total AFN '000
Cost	96,478	23,970	120,448
Accumulated amortization	(59,272)	(8,554)	(67,826)
Net book amount at January 1, 2012	37,206	15,416	52,622
Year ended December 31, 2012			
Net book amount at January 1, 2012	37,206	15,416	52,622
Additions	4,387	5,415	9,802
Amortization charge	(11,680)	(7,525)	(19,205)
Net book amount at December 31, 2012	29,913	13,306	43,219
At January 1, 2013			
Cost	**100,865**	**29,385**	**130,250**
Accumulated amortization	**(70,952)**	**(16,079)**	**(87,031)**
Net book amount at January 1, 2013	**29,913**	**13,306**	**43,219**
Year ended December 31, 2013			
Net book amount at January 1, 2013	**29,913**	**13,306**	**43,219**
Additions	**2,850**	**–**	**2,850**
Amortization charge	**(20,594)**	**(6,374)**	**(26,968)**
Net book amount at December 31, 2013	**12,169**	**6,932**	**19,101**
At December 31, 2013			
Cost	**103,715**	**29,385**	**133,100**
Accumulated amortization	**(91,546)**	**(22,453)**	**(113,999)**
Net book amount	**12,169**	**6,932**	**19,101**
Useful life	3 to 10 years	3 to 10 years	

13.2 GOODWILL

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

13.2.1 Consideration Transferred

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

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

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

III. A further payment up to maximum of USD 1.5 Million depending upon profit attributable to transferred deposit customers with in two years of acquisition if the profit reaches the threshold of USD 3 million, otherwise the contingency payment would be 50% of USD 1.5 million. The management believes that the expected profits will exceed the minimum threshold therefore, management has made a full provision of contingent consideration of USD 1.5 million in these financial statements.

The third payment is conditional upon profit attributable to transferred customers and is contingent considerations. At the date of acquisition, profit attributable to transferred customers as per management estimates is likely to exceed the threshold for maximum amount of contingent payment, therefore an amount of USD 1.5 million has been included in aggregate consideration transferred that amounts to USD 3 million (AFN 156,390,000).

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

13.2.2 Identifiable assets acquired and liabilities assumed

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

	2013 AFN '000
Current and non current assets	
Operating fixed assets	5
Cash and cash equivalents	8,719,388
Current and non current liabilities	
Customer deposits	(8,719,388)
Total net identifiable assets	5

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

13.2.3 Goodwill arising on acquisition

Goodwill from the acquisition has been recognized as follows:

	2013 AFN '000
Total Consideration transferred	156,390
Fair value of net identifiable assets	(5)
	156,385

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

13.2.4 Net cash inflow on acquisition

	2013 AFN '000
Consideration paid in cash	(26,065)
Less: cash and cash equivalent balances acquired	8,719,388
	8,693,323

13. INTANGIBLE ASSETS CONTINUED

13.2 GOODWILL continued

13.2.5 Impairment of goodwill

Goodwill has been allocated for impairment testing purposes to Standard Chartered Bank Kabul Operations as cash generating unit. The recoverable amount of this cash generating unit is determined based on a value in use calculation which uses cash flows projections based on financial budgets prepared by the management of the Bank covering a five year period, a discount rate of 5.5% and growth rate of 10% for 2014 and 15% thereafter have been used.

Cash flow projections during the budget period are based on same growth assumption throughout the budget period. The management of the Bank believes that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of cash-generating unit. The management believes that there are no indications that goodwill is impaired as at December 31, 2013.

14. OTHER ASSETS

	2013 AFN '000	2012 AFN '000
Advance to employees	8,485	7,157
Security deposits	2,127	2,084
Prepayments	42,157	37,053
Interest receivable	147,531	125,359
Other receivable	300,209	20,242
Money Gram International – note 14.3	4,639	4,194
Less:		
Provision against other receivable – note 14.1	(252,913)	(7,868)
	252,235	188,221

14.1 Movement of Provision during the period

	2013 AFN '000	2012 AFN '000
Opening Balance	7,868	7,868
Charge during the year against		
Receivable from DOJ – note 14.2	250,605	–
Receivable from employee – note 14.4	5,286	–
Reversal during the year – note 14.5	(10,846)	–
	245,045	–
	252,913	7,868

14.2 These balances include receivables amounting to AFN 250,605,000 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. The DOJ claimed a right to seize such funds based on U.S. law and in connection with a dispute between the United States Government and one of the Bank's customers, which is an Afghan-based provider of services to the United States Military. The Bank has disputed the DOJ's right to seize such funds and has been seeking the return of all of the funds. On September 13, 2013 the DOJ has returned USD 5.7 million of seized funds, plus accrued interest on it. The Bank continues to request the return of the remaining approximately USD 4.4 million of the seized funds. The specific provisions of the U.S. law that DOJ has relied upon to justify the seizure is relatively new and a claim challenging the DOJ's right to seize the funds under that law would likely be a matter of first impression for the courts. The United States maintains that the remaining funds are subject to forfeiture to the United States and the Bank disputes this claim. The Bank has filed a Verified Claim and response in the above-referenced proceeding seeking the return of the remaining amount seized from the Bank and has opposed the DOJ's motion for a stay of recovery. That motion remains pending before the Court., However, on prudent basis the Bank has made a provision of AFN 250,605,000 equivalent to USD 4.4 million in its books of accounts.

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

14.4 It includes provision against outstanding balance of an employee of the Bank amounting to AFN 2,308,000 (2012: Nil).

14.5 During the period reversal of AFN 7,867,000 and AFN 2,956,940 were made on recovery of these balances. These related to the balances from money service providers and employee of the Bank respectively.

15. CUSTOMERS' DEPOSITS

	2013 AFN '000	2012 AFN '000
Current deposits	43,762,247	37,717,993
Saving deposits – note 15.1	1,357,774	5,422,161
Term deposits – note 15.2	830	2,500
	45,120,851	43,142,654

15.1 Saving deposits carry interest rate at 3% p.a (2012: 3% p.a)

15.2 Term deposits carry interest rate of 1.75% p.a (2012: 1.75% p.a) on local currency deposits.

16. DEFERRED INCOME TAX

	2013 AFN '000	2012 AFN '000
Deferred tax assets arising in respect of:		
Deficit on revaluation of investments	17,540	11,286
Less:		
Deferred tax liabilities arising in respect of:		
Accelerated tax depreciation and amortization	(13,546)	(14,945)
	3,994	(3,659)

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

	Balance as at January 01,2012 AFN '000	Recognised in profit and loss AFN '000	Recognised in equity AFN '000	Balance as at December 31, 2012 AFN '000	Recognised in profit and loss during the period AFN '000	Recognised in equity AFN '000	December 31, 2013 AFN '000
Deferred tax asset arising in respect of:							
Dividend on shareholder	–	–	–	–	–	–	
Deficit on revaluation of investments	2,734	–	8,552	11,286	–	6,254	17,540
	2,734	–	8,552	11,286	–	6,254	17,540
Deferred tax liabilities arising in respect of:							
Accelerated tax depreciation and amortization	(18,162)	3,217	–	(14,945)	1,399	–	(13,546)
	(15,428)	3,217	8,552	(3,659)	1,399	6,254	3,994

17. OTHER LIABILITIES

	2013 AFN '000	2012 AFN '000
Accruals and other payables	4,886	37,204
Income tax liability	39,180	83,857
Amounts pending transfer to customers' accounts – note 17.1	6,941	5,394
Customers payment orders awaiting collection	57	73
Provision for bonus to employees	47,279	59,080
Payable to Standard Chartered Bank – note 13.2	–	26,040
Provision for contingent consideration – note 13.2	84,015	104,160
Others	23,851	29,730
	206,209	345,538

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

18. SHARE CAPITAL

		2013 '000	2012 '000
30,000,000 (2012: 30,000,000) authorized ordinary shares of USD 1 each	USD	**30,000**	30,000
	AFN	**1,384,200**	1,384,200
Issued, subscribed and paid-up 30,000,000 (2012: 30,000,000) ordinary shares of USD 1 each fully paid in cash	AFN	**1,465,071**	1,465,071

Issued, subscribed and paid up capital comprises 25% (2012: 25%) holding by Afghanistan Investment Partners Corporation, 20% (2012: 25%) holding by Asian Development Bank, 27.5% (2012: 25%) holding by Horizon Associates LLC and 27.5% (2012: 25%) holding by Wilton Holdings Limited.

During the year, Asian Development Bank (ADB) has divested 5% (1,500,000 shares) in the Bank to Horizon Associates LLC and Wilton Holdings Limited equally. This reduced Asian Development Bank's share in the Bank from 25% to 20% while increased share holding of Horizon Associates LLC and Wilton Holdings to 27.5% each (8,250,000 shares each (2012: 7,500,000 shares each)) in the Bank. Currently the Bank is in the process of complying statutory requirements with DAB.

After the balance sheet date, ADB called the put of 5% (1,500,000 shares) and Afghanistan Investment Partners Corporation (AIPC) divest 25% holding in the Bank to Horizon Associates LLC and Wilton Holdings Limited equally.

Horizon Associates LLC and Wilton Holdings Limited holding in the Bank has been increased from 25% to 42.5% each. Currently the Bank is in the process of complying statutory requirements with DAB.

19. CAPITAL RESERVES

As per article 93 "Reserve Capital" of Corporations and Limited Liability Companies Law of Afghanistan, requires that Bank should transfer 5% of its profit to Capital Reserve to compensate for future possible losses to the extend such capital reserves reaches upto 25% of the Bank's capital. Such capital reserve was not reclassified from its retained earnings of the Bank since its incorporation date. In these financial information the Bank has created and maintained the Capital reserve retrospectively since the date of incorporation and the prior year numbers have been restated to correct the balances in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". prior year amounts are restated as follows;

	As originally reported AFN '000	Prior period adjustments AFN '000	As restated AFN '000
December 31, 2012 – Audited			
Retained Earnings	1,143,303	(131,279)	1,012,024
Capital Reserve	–	131,279	131,279
December 31, 2011 – Audited			
Retained Earnings	643,296	(106,279)	537,017
Capital Reserve	–	106,279	106,279

20. CONTINGENCIES AND COMMITMENTS

20.1 Contingencies

	2013 AFN '000	2012 AFN '000
(a) Guarantees	**958,752**	632,048

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

(b) Taxation

Tax return submitted by the Bank from the tax years 2008 up to 2012 shall be treated as an assessment of tax payable and tax return shall be treated as a notice of assessment. However, the Ministry of Finance may issue an assessment notice or amend an assessment notice only within five years from date of filing of return. In this respect, as per the tax advisor confirmation, compliance department of the large tax payers office is conducting initial assessment of the Bank for the year 2012 and no provision is required to be provided in these financial statements as the expected tax liability cannot be assessed at this stage.

20.2 Commitments

	2013 AFN '000	2012 AFN '000
(a) Undrawn loan and overdraft facilities	1,110,050	1,449,639
(b) Commercial letters of credit	1,045,515	989,374
	2,155,565	2,439,013

21. INTEREST INCOME

	2013 AFN '000	2012 AFN '000
Interest income on:		
Balances with DAB	81,938	44,773
Investments and term deposits	416,521	332,204
Loans and advances to customers	629,560	680,228
Interest on participation purchased	16,676	–
	1,144,695	1,057,205

22. INTEREST EXPENSE

	2013 AFN '000	2012 AFN '000
Interest expense on:		
Customers' deposits	2,230	2,730
Borrowings from financial institutions	–	–
	2,230	2,730

23. FEE AND COMMISSION INCOME

	2013 AFN '000	2012 AFN '000
Fee and commission income on:		
Loans and advances to customers	66,576	61,563
Trade finance products	41,704	51,383
Cash withdrawals	196,377	151,182
Customers' account service charges	80,042	35,421
Cash transfers	52,448	38,589
Income from ATMs	79,704	54,085
Income from guarantees arrangement	36,400	22,189
Others	17,063	4,378
	570,314	418,790

24. FEE AND COMMISSION EXPENSE

	2013 AFN '000	2012 AFN '000
Guarantee commission	5,391	7,197
Bank charges	8,847	7,182
	14,238	14,379

25. INCOME FROM DEALING IN FOREIGN CURRENCIES

	2013 AFN '000	2012 AFN '000
Forex income	205,690	159,883
	205,690	159,883

26. OTHER INCOME

	2013 AFN '000	2012 AFN '000
Recovery of loans written off in prior years	45,230	–
Gain on sale of property and equipment	282	335
Exchange (loss)/gain	15,563	12,146
Others	87	5,214
	61,162	17,695

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2013 AFN '000	2012 AFN '000
Salaries and benefits – note 27.1	381,396	353,814
Rental, rates and taxes	85,150	75,145
Electricity, generator and fuel	40,771	37,698
Repairs and maintenance	43,064	37,581
Security cost	63,910	90,965
Depreciation – note 12.2	52,042	55,830
Amortization – note 13.1	26,968	19,205
Directors fee and their meeting expenses	20,789	17,918
Travelling and accommodation	10,719	17,282
Communication, swift and internet	40,605	41,221
Stationary and printing	29,210	29,226
Legal and professional charges	94,411	75,506
Investment management fee to investment advisors	20,334	5,259
Audit fee	4,381	3,403
Marketing and promotion	31,903	38,218
Money service providers charges	4,569	10,786
Insurance	90,535	68,662
Subscriptions and memberships	2,761	6,928
Other charges	31,339	10,997
Write off fixed assets	–	6,321
Taxes and penalties	8	103
Corporate social responsibility	4,848	1,983
	1,079,713	1,004,051

27.1 Salaries and benefits included AFN 39,092,000 (2012: AFN 21,087,877) in respect of bonus to employees.

28. TAXATION

	2013 AFN '000	2012 AFN '000
Current		
For the year	69,407	120,612
Prior year	2,964	(13,003)
	72,371	107,609
Deferred		
For the year	(1,399)	(3,217)
	70,972	104,392

28.1 Relationship between tax expense and accounting profit

	2013 AFN '000	2012 AFN '000
Accounting profit for the year	310,762	604,399
Applicable tax @ 20%	62,152	120,880
Less: Effect of reversal of prior year charge	2,964	(13,003)
Effect of tax deferred tax (reversal)/charge	(1,399)	(3,217)
Effect of tax on carry forward loss	–	–
Effect of foreign temporary difference on dividend	–	–
Add: Effect of tax on BRT	65	4
Effect of foreign currency gain on dividend paid	–	–
Effect of tax on Temporary difference	3,802	(1,960)
Effect of others	3,388	1,688
Tax charge – net	70,972	104,392

29. RELATED PARTY TRANSACTIONS

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

	Directors and other key management personnel (and close family members)		Share Holders and Its associated companies	
Nature of transactions	2013 AFN '000	2012 AFN '000	2013 AFN '000	2012 AFN '000
(a) Loans and advances to related parties				
Loans outstanding at beginning of the year	–	–	317,663	346,365
Loans issued during the year	–	–	1,372,568	2,348,213
Loan repayments during the year	–	–	(1,667,529)	(2,395,373)
Exchange gain	–	–	21,345	18,458
Loans outstanding at end of the year	–	–	44,047	317,663
Interest income earned	–	–	7,649	30,357

General provision on outstanding balances of loans and advances to related parties amounts to AFN 100,118 (2012: AFN 6,353,997).

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

29. RELATED PARTY TRANSACTIONS CONTINUED

Nature of transactions	Directors and other key management personnel (and close family members) 2013 AFN '000	2012 AFN '000	Share holders and Its associated companies 2013 AFN '000	2012 AFN '000
(b) Deposits from related parties				
Deposits at beginning of the year	(527,875)	1,692	314,175	237,341
Deposits received during the year	1,530,096	4,733,780	3,381,003	4,448,839
Deposits repaid during the year	(871,904)	(5,252,358)	(3,215,954)	(4,320,593)
Exchange rate difference	(50,514)	(10,989)	26,169	(51,412)
Deposits at end of the year	79,803	(527,875)	505,393	314,175
Interest expense on deposits	–	–	–	–

These represent current account of related parties, which carry Nil interest rate (2012: Nil).

	Directors and other key management personnel (and close family members) 2013 AFN '000	2012 AFN '000	Share Holders and Its Associated companies 2013 AFN '000	2012 AFN '000
(c) Other transactions with related parties				
Fee and commission income	–	–	10,105	11,189
Directors fee	7,122	1,558	–	–
Fee and commission expense	–	2,717	–	–
Rental expenses	–	6,737	4,036	–
Other expense	7,004	269	–	4,246
Guarantees issued by the Bank	–	–	28,018	26,805
Commercial letter of credits including accepted bills and export bills purchased	–	–	336,186	473,569
	14,126	11,281	378,345	515,809

	2013 AFN '000	2012 AFN '000
(d) Key management compensation		
Salaries and other short-term benefits	68,812	86,122

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

30. CASH AND CASH EQUIVALENTS

	2013 AFN '000	2012 AFN '000
Cash in hand and at ATM	2,795,201	1,996,667
Cash and balances with DAB (other than minimum reserve requirement)	2,102,016	3,291,036
Balances with other banks	16,235,212	12,925,553
Placements (with maturity less than three months from the date of acquisition)	3,360,600	6,348,552
Participation purchased (with maturity less than three months from the date of acquisition)	134,984	–
	24,628,013	24,561,808

31. EARNINGS PER SHARE – BASIC AND DILUTED

	2013	2012
Profit after taxation (AFN '000)	239,790	500,007
Weighted average number of ordinary shares – (numbers in thousand)	30,000	30,000
Basic earnings per share – Basic & diluted (AFN per share)	7.99	16.67

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

32. FINANCIAL RISK MANAGEMENT

32.1 Financial Assets and Liabilities

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

32. FINANCIAL RISK MANAGEMENT CONTINUED

32.1 Financial Assets and Liabilities continued

December 31, 2012	Loans and Receivables AFN '000	Held to maturity AFN '000	Available for sale AFN '000	Total AFN '000
Financial Assets				
Cash and balances with Da Afghanistan Bank	8,656,807	–	–	8,656,807
Balances with other Banks	13,728,764	–	–	13,728,764
Placements	–	10,079,068	–	10,079,068
Investments	–	4,962,814	3,183,562	8,146,376
Loans and advances to customer – net	4,545,756	–	–	4,545,756
Receivables from financial institutions	191,208	–	–	191,208
Security deposits and other receivables – Net	151,168	–	–	151,168
	27,273,703	15,041,882	3,183,562	45,499,147
Financial Liabilities				
Customers' Deposits				
Term deposits	2,500	–	–	2,500
Current/Saving deposits	43,140,154	–	–	43,140,154
Other liabilities	261,681	–	–	261,681
	43,404,335	–	–	43,404,335
Off balance sheet items				
Guarantees	632,048	–	–	632,048
Undrawn loan and overdraft facilities	1,449,639	–	–	1,449,639
Commercial letter of credit	989,374	–	–	989,374
	3,071,061	–	–	3,071,061

32.2 Financial Risk factors

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

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

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

32.2.1 Credit Risk

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

32.2.2 Credit risk measurement

(a) Loans and advances

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

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

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

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

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

(b) Other than loans and advances

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

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

32.2.3 Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

32. FINANCIAL RISK MANAGEMENT CONTINUED

32.2 Financial Risk factors continued

32.2.3 Risk limit control and mitigation policies continued

(b) Credit-related commitments

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

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

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

	Maximum exposure	
	2013 AFN '000	2012 AFN '000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with other banks	**17,106,613**	13,728,764
Placements – net	**5,018,496**	10,079,068
Investments – net (net of capital notes with DAB)	**7,594,234**	4,970,509
Participation purchased – net	**529,992**	–
Loans and advances to customers – net	**4,204,751**	4,545,756
Receivables from other financial institutions	**197,699**	191,208
Security deposits and other receivables – net	**210,078**	151,168
	34,861,863	33,666,473

	Maximum exposure	
	2013 AFN '000	2012 AFN '000
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	**958,752**	632,048
Undrawn loan and overdraft facilities	**1,110,050**	1,449,639
Commercial letters of credit	**1,045,515**	989,374
	3,114,317	3,071,061

The above table represents credit risk exposure to the Bank at December 31, 2013 and December 31, 2012, without taking account of any collateral held or other enhancements attached. For on-balance-sheet assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

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

	2013	2012
Balances with other banks	**49.07%**	40.78%
Placements – net	**14.40%**	29.94%
Loans and advances to customers – net	**12.06%**	13.50%

32.2.5 Credit quality of financial Assets

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

Balance with other banks/FIs	Credit rating	Credit rating agency	2013 AFN '000	2012 AFN '000
Counter parties with external credit ratings				
Standard Chartered Bank	A1	Moody's	12,736,513	11,422,603
Commerz Bank Germany	Baa1	Moody's	3,383,489	1,281,343
Emirates NBD	Baa1	Moody's	805,304	957,389
Ak Bank, Turkey	Baa2	Moody's	167,388	13,864
Julius Baer	A1	Moody's	13,919	–
Credit Suisse	A1	Moody's	–	53,565

	Credit rating	Credit rating agency	2013 AFN '000
Placements			
Abu Dhabi Commercial Bank	A1	Moody's	560,100
Alkhalij Bank Qatar	A–	Fitch	560,100
Halk Bank	Baa3	Moody's	560,100
Mashreq Bank UAE	Baa2	Moody's	560,100
National Bank of Abu Dhabi	Aa3	Moody's	840,150
Qatar National Bank	Aa3	Moody's	840,150
First Gulf Bank Abu Dhabi	A2	Moody's	560,100
SCB Singapore	A1	Moody's	560,100

		2013 AFN '000	2012 AFN '000
Receivables from financial institution			
Counter parties	BBB+	197,699	191,208
Loans and Advances – Net			
Counter parties		4,204,751	4,545,756
Security deposits and other receivables			
Counter parties		210,078	151,168

Investments

Investments held carrys various credit rating and ranges from BBB & Baa3 to A& Aaa, these investments are managed by investment managers M/s Emirates & Julius Bears under investment criteria defined by the Bank.

32. FINANCIAL RISK MANAGEMENT CONTINUED

32.2 Financial Risk factors continued

32.2.6 Loans and advances – net

	2013 AFN '000	2012 AFN '000
Loans and advances are summarized as follows:		
Neither past due nor impaired	4,170,655	4,296,480
Past due but not impaired	16,440	170,411
Impaired	42,308	184,843
Gross	4,229,403	4,651,734
Interest receivable	–	–
Less: allowance for impairment		
General	(10,463)	(89,337)
Specific	(14,189)	(16,641)
	4,204,751	4,545,756

The total impairment provision for loans and advances (including general provision) is AFN 24,657,903 (2012: AFN 105,978,383). Further information of the impairment allowance for loans and advances to customers is provided in note 10 to these financial statements.

During the year 2013, the Bank's total loans and advances decreased by 7.5% (2012: 9%) as a result of management strategy to focus on investment and other lower risk based investment.

(a) Loans and advances neither past due nor impaired

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

	Loans and advances						
	Large corporate customers			SMEs			
	Overdraft AFN '000	Term loans AFN '000	PIFs* AFN '000	Overdraft AFN '000	Term loans AFN '000	PIFs AFN '000	Total AFN '000
December 31, 2013							
Regular Loans	2,885,192	123,375	20,976	1,076,520	64,592	–	4,170,655
December 31, 2012							
Regular Loans	3,750,637	65,972	25,736	416,157	37,978	–	4,296,480

(b) Loans and advances past due but not impaired

	Loans and advances						
	Large corporate customers			SMEs			
	Overdraft AFN'000	Term loans AFN'000	PIFs* AFN'000	Overdraft AFN'000	Term loans AFN'000	PIFs AFN'000	Total AFN '000
December 31, 2013							
Past due up to 30 days	4,341	5,005	–	1,975	5,119	–	16,440
Fair value of collateral	30,889,067	1,244,563	82,895	9,160,506	2,666,580	–	44,043,611
December 31, 2012							
Past due up to 30 days	83,869	3,894	304	76,891	5,453	–	170,411
Fair value of collateral	1,373,278	–	–	2,121,381	451,560	525,283	4,471,502

* Post Import Finance

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

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AFN 42,347860 (December 31, 2012: AFN 184,842,431) including balances written off of AFN 392,341,815 (December 31, 2012; AFN 84,604,903).

	Loans and advances						
	Large corporate customers			SMEs			
	Overdraft AFN'000	Term loans AFN'000	PIFs* AFN'000	Overdraft AFN'000	Term loans AFN'000	PIFs AFN'000	Total AFN '000
December 31, 2013							
Watch	–	–	–	–	–	–	–
Substandard	7,245	–	–	1,575	19,043	–	27,863
Doubtful	–	–	–	–	14,445	–	14,445
Loss	2	1	–	2	1	–	6
Total	7,247	1	–	1,577	33,489	–	42,314
Fair value of collateral	1,986,925	26,157	–	627,984	747,565	–	3,388,631
December 31, 2012							
Watch	11,812	31,648	–	98,952	5,452	–	147,864
Substandard	–	–	–	36,975	–	–	36,975
Doubtful	–	–	–	–	–	–	–
Loss	1.04	0.52	–	1	1	–	4
Total	11,813	31,649	–	135,928	5,453	–	184,843
Fair value of collateral	10,577,934	328,390	–	4,676,142	778,090	–	16,360,556

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to overdraft. Renegotiated loans that would otherwise be past due or impaired at December 31, 2013 were AFN Nil (December 31, 2012: Nil).

	2013		2012	
Loans and advances	At renegotiation time AFN '000	As at year end AFN '000	At renegotiation time AFN '000	As at period end AFN '000
- Term loans	301,164	193,257	83,760	53,494
- Overdraft	191,200	38,758	128,952	124,569
- PIF	–	–	–	–
- Consumer loans	–	–	–	–
Total	492,364	232,015	212,712	178,063

32. FINANCIAL RISK MANAGEMENT CONTINUED

32.2 Financial Risk factors continued

32.2.7 Concentration of risk of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of December 31, 2013. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

	Afghanistan	Lebanon	Singapore	Germany	Canada	Turkey	Switzerland	UAE	India	Hong Kong	Australia	England	Netherlands	USA	*Others	Total
On balance sheet																
Balances with other banks	–	–	12,046,735	3,383,871	–	167,388	13,919	805,439	–	–	–	3,042	–	686,219	–	17,106,613
Placements – net	–	–	560,100	–	–	557,300	–	2,507,848	–	–	–	–	–	–	1,393,248	5,018,496
Investments – net	4,100,597	–	164,426	28,096	67,457	112,675	–	1,003,476	25,780	274,975	222,144	400,400	349,656	993,142	3,952,007	11,694,831
Participation purchased	–	–	–	–	–	–	–	529,992	–	–	–	–	–	–	–	529,992
Loans and advances to customers – net	4,204,751	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,204,751
Receivables from other financial institutions	–	197,699	–	–	–	–	–	–	–	–	–	–	–	–	–	197,699
Security deposits and other receivables – net	210,078	–	–	–	–	–	–	–	–	–	–	–	–	–	–	210,078
	8,515,426	197,699	12,771,261	3,411,967	67,457	837,363	13,919	4,846,755	25,780	274,975	222,144	403,442	349,656	1,679,361	5,345,255	38,962,460
Off balance sheet																
Contingencies and commitments	3,114,317	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,114,317
As at December 31, 2013	**11,629,743**	**197,699**	**12,771,261**	**3,411,967**	**67,457**	**837,363**	**13,919**	**4,846,755**	**25,780**	**274,975**	**222,144**	**403,442**	**349,656**	**1,679,361**	**5,345,255**	**42,076,777**
As at December 31, 2012	10,943,852	191,208	–	1,596,840	485,747	1,050,256	455,475	2,174,321	251,428	668,787	38,524	239,497	914,002	6,243,580	14,659,884	39,913,401

* It includes exposure with Cayman Islands, Russia, Korea, Malaysia, Qatar, Sweden and some other countries

(b) Industry sectors

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

	Manufacturing AFN '000	Agriculture AFN '000	Construction AFN '000	Tele-communication AFN '000	Banks and financial institutions AFN '000	Traders AFN '000	Fuel suppliers AFN '000	Others AFN '000	Total AFN '000
On balance sheet									
Balances with other banks	–	–	–	–	17,106,613	–	–	–	17,106,613
Placements – net	–	–	–	–	5,018,496	–	–	–	5,018,496
Investments – net	28,068	26,704	102,918	352,230	7,531,083	227,293	461,856	2,964,679	11,694,831
Participation purchased	–	–	–	–	529,992	–	–	–	529,992
Loans and advances to customers – net	371,918	–	386,157	337,531	–	1,941,554	1,069,955	97,636	4,204,751
Receivable from financial institution	–	–	–	–	197,699	–	–	–	197,699
Security deposits and other receivables – net	–	–	–	–	–	–	–	210,078	210,078
	399,986	26,704	489,075	689,761	30,383,883	2,168,847	1,531,811	3,272,393	38,962,460
Off balance sheet									
Contingencies and commitments	–	–	379,811	213,488	–	909,232	1,750	499,986	2,004,267
As at December 31, 2013	**399,986**	**26,704**	**868,886**	**903,249**	**30,383,883**	**3,078,079**	**1,533,561**	**3,772,379**	**40,966,727**
As at December 31, 2012	535,960	25,569	902,632	562,087	30,304,666	4,061,783	1,438,749	2,081,954	39,913,400

32.2.8 Market risk

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

32.2.9 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at December 31, 2013 and December 31, 2012. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

If the functional currency, at the year end date, strengthens/weakens by 10% against the USD with all other variables held constant, the impact on profit after taxation for the period would have been AFN 27.76 million higher/lower (2012: AFN 128 million higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the period end date, strengthens/weakens by 10% against the EURO with all other variables held constant, the impact on profit after taxation for the period would have been AFN 1.7 million lower/higher (2012: AFN 12.86 million lower/higher) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the period end date, strengthens/weakens by 10% against the AED with all other variables held constant, the impact on profit after taxation for the period would have been AFN 1.05 million higher/lower (2012: AFN 0.42 million higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

	AED	USD	EURO	GBP	INR		Total
	Converted to AFN '000					AFN '000	AFN '000
As at December 31, 2013							
Assets							
Cash and balances with Da Afghanistan Bank	–	2,480,889	531,568	538	–	5,486,381	8,499,376
Balances with other banks	10,528	16,024,438	1,068,599	3,048	–	–	17,106,613
Placements – net	–	5,018,496	–	–	–	–	5,018,496
Investments – net	–	7,594,234	–	–	–	4,100,597	11,694,831
Participation purchased	–	529,992	–	–	–	–	529,992
Loans and advances to customers – net	–	3,360,318	–	–	–	844,433	4,204,751
Receivables from financial institutions	–	156,928	11,857	–	–	28,914	197,699
Security deposits and other receivables – net	–	199,488	–	–	–	10,575	210,063
Total financial assets	10,528	35,364,783	1,612,024	3,586	–	10,470,900	47,461,821
Liabilities							
Customers' deposits	–	35,642,412	1,595,111	196	–	7,883,132	45,120,851
Other liabilities	–	–	–	–	–	119,750	119,750
Total financial liabilities	–	35,642,412	1,595,111	196	–	8,002,882	45,240,601
On-balance sheet financial position – net	10,528	(277,629)	16,913	3,390	–	2,468,018	2,221,220
As at December 31, 2012							
Total financial assets	4,245	33,738,105	1,083,539	789	–	10,672,469	45,499,147
Total financial liabilities	59	35,038,740	1,212,184	232	–	7,153,120	43,404,335
Net on-balance sheet financial position	4,186	(1,300,635)	(128,645)	557	–	3,519,349	2,094,812

32. FINANCIAL RISK MANAGEMENT CONTINUED

32.2 Financial Risk factors continued

32.2.10 Interest rate risk

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

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

	Interest bearing						Non-Interest bearing AFN '000	Total AFN '000
	Upto 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000		
As at December 31, 2013								
Cash and balances with Da Afghanistan Bank (DAB)	3,954,221	–	–	–	–	3,954,221	4,545,155	8,499,376
Balances with other Banks	12,736,513	–	–	–	–	12,736,513	4,370,100	17,106,613
Placements net	1,671,899	1,674,699	1,114,598	557,300	–	5,018,496	–	5,018,496
Investments – net	1,555,090	576,083	3,248,977	6,314,681	–	11,694,831	–	11,694,831
Participation purchased – net	–	–	529,992	–	–	529,992	–	529,992
Loans and advances to customers – net	988,210	778,642	2,429,674	8,225	–	4,204,751	–	4,204,751
Receivables from other financial institution	–	–	–	–	–	–	197,699	197,699
Security deposits and other receivables – net	–	–	–	–	–	–	210,063	210,063
Total financial assets	20,905,933	3,029,424	7,323,241	6,880,206	–	38,138,804	9,323,017	47,461,821
Liabilities								
Customers' deposits	1,357,774	–	830	–	–	1,358,604	43,762,247	45,120,851
Other liabilities	–	–	–	–	–	–	119,750	119,750
Total financial liabilities	1,357,774	–	830	–	–	1,358,604	43,881,997	45,240,601
Total interest repricing gap	19,548,159	3,029,424	7,322,411	6,880,206	–	36,780,200	(34,558,980)	2,221,220
As at December 31, 2012								
Total financial assets	20,418,409	6,897,601	9,009,422	2,886,057	–	39,211,489	6,208,108	45,419,597
Total financial liabilities	74,341	–	2,500	–	–	76,841	43,327,494	43,404,335
Total interest repricing gap	20,344,068	6,897,601	9,006,922	2,886,057	–	39,134,648	(37,119,386)	2,015,262

If the interest increase/(decrease) by 100 bps, the impact on profit after taxation for the year would have been AFN 365,912,000 (2012: AFN 392,399,900) lower/higher respectively.

32.3 Liquidity risk

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

32.3.1 Liquidity risk management process

The Bank's liquidity management process, includes:

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

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

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

32.3.2 Funding approach

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

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

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

	Up to 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at December 31, 2013						
Liabilities						
Customers' deposits	45,120,021	–	830	–	–	45,120,851
Other liabilities	119,750	–	–	–	–	119,750
Total financial liabilities (contractual maturity dates)	45,239,771	–	830	–	–	45,240,601
Total financial assets (contractual maturity dates)	30,228,950	3,029,424	7,323,241	6,880,206	–	47,461,821
As at December 31, 2012						
Liabilities						
Customers' deposits	43,140,154	–	2,500	–	–	43,142,654
Other liabilities	261,681	–	–	–	–	261,681
Total financial liabilities (contractual maturity dates)	43,401,835	–	2,500	–	–	43,404,335
Total financial assets (contractual maturity dates)	26,626,517	6,897,601	9,009,422	2,886,057	–	45,419,597

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

32. FINANCIAL RISK MANAGEMENT CONTINUED

32.3 Liquidity risk continued

32.3.4 Off-balance sheet items

(a) Guarantees and other financial assets

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

(b) Loan commitments

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

	Not later than 1 year AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at December 31, 2013				
Guarantees	805,026	173,199	–	978,225
Undrawn loan and overdraft facilities	1,110,050	–	–	1,110,050
Commercial letters of credit	1,045,515	–	–	1,045,515
Total	2,960,591	173,199	–	3,133,790
As at December 31, 2012				
Guarantees	506,796	110,801	14,451	632,048
Undrawn loan and overdraft facilities	1,449,639	–	–	1,449,639
Commercial letters of credit	989,374	–	–	989,374
Total	2,945,809	110,801	14,451	3,071,061

32.4 Fair value of financial assets and liabilities

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

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

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

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

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

	Level 1 AFN '000	Level 2 AFN '000	Level 3 AFN '000
Investment in Bonds – available for sales investments	4,675,718	–	–
As at December 31, 2013	4,675,718	–	–
As at December 31, 2012	3,199,559	–	–

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

(b) Financial instruments not measured at fair value

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

	Carrying Value		Fair Value	
	December 31, 2013 AFN '000	December 31, 2012 AFN '000	December 31, 2013 AFN '000	December 31, 2012 AFN '000
Financial assets:				
Cash and balances with Da Afghanistan Bank (DAB)	8,499,376	8,656,807	8,499,376	8,656,807
Balances with other banks	17,106,613	13,728,764	17,106,613	13,728,764
Placements	5,018,496	10,079,068	5,018,496	10,079,068
Investments – net	7,019,113	4,946,817	7,019,113	4,946,817
Participation purchased	529,992	–	529,992	–
Loans and advances to customers – net	4,204,751	4,545,756	4,204,751	4,545,756
Security deposits and other receivables – net	210,078	151,168	210,078	151,168
Financial liabilities:				
Customers' deposits	45,120,851	43,142,654	45,120,851	43,142,654
Other liabilities	119,750	261,681	119,750	261,681
Off balance sheet financial instruments:				
Bank's commitments	2,155,565	2,439,013	2,155,565	2,439,013

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

(i) Investments

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

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

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

(iii) Off-balance sheet financial instruments

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

32.5 Capital management

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

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

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

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

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

32. FINANCIAL RISK MANAGEMENT CONTINUED

32.5 Capital management continued

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

	2013 AFN '000	2012 AFN '000
Regulatory Capital		
Tier 1 (Core) Capital:		
Total equity capital	2,775,270	2,560,495
Less:		
Intangible assets	175,486	199,604
Net deferred tax assets	3,994	11,286
Profit for the period	239,790	500,007
	2,356,000	1,849,598
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposures	10,464	89,337
Profit for the year	239,790	500,007
	250,254	589,344
Tier 2 (supplementary) Capital		
(restricted to 100% of Tier 1 (Core) Capital)	250,254	589,344
Regulatory Capital = Tier 1 + Tier 2	2,606,254	2,438,942

Risk-weight categories

	2013 AFN '000	2012 AFN '000
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	2,795,201	1,996,667
Direct claims on DAB	9,804,772	9,836,007
Direct Claims on Central Banks and Central Governments of Category A Countries	157,214	218,669
Total	12,757,187	12,051,343
0% risk-weight total (above total x 0%)	–	–
20% risk weight:		
Balances with other banks	22,680,168	23,827,072
20% risk-weight total (above total x 20%)	4,536,034	4,765,414
100% risk weight		
All other assets	12,676,801	10,182,774
Less:		
Net Deferred tax asset	3,994	11,286
Intangible assets	175,486	199,604
All other assets – net	12,497,321	9,971,884
100% risk-weight total (above total x 100%)	12,497,321	9,971,884

Credit conversion factor

	2013 AFN '000	2012 AFN '000
0% risk weight:		
Undrawn loan and overdraft facilities	1,110,050	1,449,639
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	1,045,515	989,374
20% credit conversion factor total (risk-weighted total x 20%)	209,103	197,875
20% risk-weight total (above total x 20%)	41,821	39,575
100% risk weight		
Guarantees	978,225	632,048
100% credit conversion factor total (risk-weighted total x 100%)	978,225	632,048
100% risk-weight total (above total x 100%)	978,225	632,048
Total risk-weighted assets	18,053,401	15,408,921
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	13%	12%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	14%	16%

33. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue by the Board of Supervisors of the Bank on ______________________.

Chief Executive Officer

Director

بانك بين المللی
افغانستان
Afghanistan
International Bank

Headquarters
Shahr-e-Naw, Haji Yaqoob Square
Shahabudin Watt, Kabul, Afghanistan
Phone: +93 (0) 20 255 0255
Fax: +93 (0) 20 255 0256

www.aib.af