Financial Statements

KPMG Afghanistan Limited
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## Independent Auditor's Report

**Shareholders**

Afghanistan International Bank

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

### Management's responsibility for the financial statements

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

### Auditors' responsibility

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

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

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

### Opinion

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

### Other matter

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

KPMG Afghan Limited

KPMG Afghanistan Limited

Kabul
Date: 19 March 2016

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

Chief Financial Officer

Chairman

## STATEMENT OF PROFIT OR LOSS OR OTHER COMPREHENSIVE INCOME | For the year ended 31 December 2015

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

Chief Financial Officer

Chairman

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

Chief Financial Officer

Chairman

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

Chief Financial Officer

Chairman

## 1. STATUS AND NATURE OF BUSINESS

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

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

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

## 2. BASIS OF PREPARATION AND MEASUREMENT

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

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

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

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

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

### 2.1 Standards issued but not yet adopted

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 3.1 Cash and cash equivalents

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

### 3.2 Financial instruments

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

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

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

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

### 3.3 Financial assets

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

#### a) Financial assets at fair value through profit or loss

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

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

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

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

#### b) Loans and receivables

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

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

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

#### c) Held-to-maturity financial assets

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

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

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

#### d) Available-for-sale financial assets

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

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

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

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

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

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

### 3.4 Impairment of financial assets

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

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

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 3.4 Impairment of financial assets continued

#### b) Loans and advances to customers

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

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

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

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

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

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

#### c) Assets classified as available for sale

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

### 3.5 Financial liabilities

The Bank classifies its financial liabilities in following categories.

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

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

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

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

### 3.6 Fair value measurement

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

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

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

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

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

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

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

### 3.7 Operating fixed assets

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

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

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

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

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

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

### 3.8 Intangible assets

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

#### i) Computer software

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

#### ii) License fee

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

### 3.9 Business combination

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

### 3.10 Goodwill

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

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

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

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

### 3.11 Impairment of non-financial assets

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

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

### 3.12 Taxation

#### Current

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

#### Deferred

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

### 3.13 Revenue recognition

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

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

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

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### 3.14 Foreign currency transactions and translation

#### a) Functional and presentation currency

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

#### b) Transactions and balances

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

The exchange rate for following currencies against AFN were:

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

### 3.15 Provisions

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

### 3.16 Offsetting of financial instruments

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

### 3.17 Dividend Distribution

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

### 3.18 Earnings per share

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

### 3.19 Employee benefits

#### Defined contribution plan

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

#### Short-term benefits

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

## 4. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

#### a) Provision for loan losses

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

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

#### b) Provision of income taxes

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

#### c) General provision on investments and placements

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

#### d) Useful life of property and equipment and intangible assets

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

#### e) Held-to-maturity investments

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

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

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

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

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

## 6. BALANCES WITH OTHER BANKS

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

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

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

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

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

## 7. PLACEMENTS – NET

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

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

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

### 7.3 Movement in provision during the year

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

## 8. INVESTMENTS – NET

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

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

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

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

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

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

## 9. LOANS AND ADVANCES TO CUSTOMERS – NET

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

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

## 9. LOANS AND ADVANCES TO CUSTOMERS – NET CONTINUED

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

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

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

### 9.4 Provision against loans and advances

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

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

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

### 9.5 Classification of loans and advances

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

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

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

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

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

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

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

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

## 10. RECEIVABLE FROM FINANCIAL INSTITUTIONS

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

## 11. OPERATING FIXED ASSETS

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

### 11.1 Capital work in progress

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

### 11.1.1 Movement in Capital work in Progress

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

### 11.2 Property and equipment

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

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

## 12. INTANGIBLE ASSETS

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

### 12.1 Computer software and licenses

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

### 12.2 Goodwill

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

#### 12.2.1 Identifiable assets acquired and liabilities assumed

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

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

## 12. INTANGIBLE ASSETS CONTINUED

### 12.2.2 Goodwill arising on acquisition

Goodwill from the acquisition has been recognized as follows:

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

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

### 12.2.3 Impairment of goodwill

Goodwill has been allocated for impairment testing purposes to Standard Chartered Bank Kabul Operations as cash generating unit. The recoverable amount of this cash generating unit is determined based on a value in use calculation which uses cash flows projections based on financial budgets prepared by the management of the Bank based on discount rate of 6.5%.

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

## 13. DEFERRED TAX

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

### 13.1 Movement in temporary differences during the year

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

## 14. OTHER ASSETS

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

### 14.1 Receivable from DoJ

This represents receivables from the United States Government department, Department of Justice (the "DoJ"). The DoJ seized an amount of AFN 565,701,000 (equivalent to USD 10,100,000) from the Bank's account with Standard Chartered's branch in New York. Pursuant to Title 18, U.S. Code Section 981(k), the United States sought to reach the customer's Afghan-based accounts by seizing funds from the Bank's correspondent account in the United States. The United States has not alleged any wrongdoing against the Bank. In September 2013, the United States returned to the Bank approximately US$ 5.7 million, plus accrued interest, of the seized funds. The United States then moved to strike AIB's claim as to the remaining monies. In September 2015, that motion was denied as to all but USD 147,939, leaving approximately USD 4.1 million at issue. AIB has had some discussions with the U.S. government regarding settlement of the funds, but the U.S. government has advised that it is unable to engage in further discussions given the pendency of customer's competing claim to the same money. The U.S. government has moved to strike customer's claim, and, if the motion is granted, the Bank intends to pursue settlement discussions with the U.S. government. However, on prudent basis, the Bank has made provision of AFN 250,605 thousands in its books of account.

## 15. CUSTOMERS' DEPOSITS

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

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

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

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

## 16. OTHER LIABILITIES

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

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

## 17. SHARE CAPITAL

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

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

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

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

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

## 18. CAPITAL RESERVES

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

## 19. CONTINGENCIES AND COMMITMENTS

### 19.1 Contingencies

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

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

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

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

### 19.2 Commitments

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

## 20. INTEREST INCOME

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

## 21. INTEREST EXPENSE

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

## 22. FEE AND COMMISSION INCOME

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

## 23. FEE AND COMMISSION EXPENSE

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

## 24. INCOME FROM DEALING IN FOREIGN CURRENCIES

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

## 25. OTHER (EXPENSE)/INCOME

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

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

## 26. GENERAL AND ADMINISTRATIVE EXPENSES

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

## 27. TAXATION

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

### 27.1 Relationship between tax expense and accounting profit

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

## 28. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

## 29. CASH AND CASH EQUIVALENTS

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

## 30. EARNINGS PER SHARE – BASIC AND DILUTED

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

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

## 31. FINANCIAL RISK MANAGEMENT

### 31.1 Financial Assets and Liabilities

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

| 31 December 2014 | Loans and receivables AFN '000 | Held-to-maturity AFN '000 | Available-for-sale AFN '000 | Other financial liabilities AFN '000 | Total AFN '000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and balances with Da Afghanistan Bank | 11,163,004 | – | – | – | 11,163,004 |
| Balances with other banks | 11,624,614 | – | – | – | 11,624,614 |
| Placements – net | 14,898,004 | – | – | – | 14,898,004 |
| Investments – net | – | 9,706,779 | 4,734,011 | – | 14,440,790 |
| Loans and advances to customers – net | 2,889,723 | – | – | – | 2,889,723 |
| Receivables from financial institutions | 103,017 | – | – | – | 103,017 |
| Other assets | 275,133 | – | – | – | 275,133 |
| | 40,953,495 | 9,706,779 | 4,734,011 | – | 55,394,285 |
| **Financial liabilities** | | | | | |
| Customers' deposits | – | – | – | 52,908,347 | 52,908,347 |
| Other liabilities | – | – | – | 172,340 | 172,340 |
| | – | – | – | 53,080,687 | 53,080,687 |

## 31. FINANCIAL RISK MANAGEMENT CONTINUED

### 31.2 Financial Risk factors

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

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

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

### 31.2.1 Credit Risk

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

### 31.2.2 Credit risk measurement

*(a) Loans and advances*

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

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

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

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

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

*(b) Other than loans and advances*

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

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

### 31.2.3 Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below.

*(a) Collateral*

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

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

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

*(b) Credit-related commitments*

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

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

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

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

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

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

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

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

### 31.2.5 Credit quality of financial Assets

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

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

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

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

### Investments

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

### 31.2.6 Loans and advances – net

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

**31. FINANCIAL RISK MANAGEMENT** CONTINUED

**31.2 Financial Risk factors** continued

### 31.2.6 Loans and advances – net continued

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

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

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

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

*(c) Loans and advances individually impaired*

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

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

*(d) Loans and advances restructured/rescheduled*

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

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

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

*(a) Geographical sectors*

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

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

| 2014 | Afghanistan | Lebanon | Singapore | Germany | Canada | Turkey | Switzerland | UAE | India | Hong Kong | Australia | England | Netherlands | USA | *Others | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **On balance sheet:** | | | | | | | | | | | | | | | | |
| Balances with other banks | – | – | 7,349,011 | 2,919,211 | – | 6,199 | 33,323 | 169,224 | – | – | – | 6,049 | – | 1,141,597 | – | 11,624,614 |
| Placements – net | – | – | – | – | – | 580,284 | – | 7,644,454 | 1,160,568 | – | – | 580,284 | – | – | 4,932,414 | 14,898,004 |
| Investments – net (excluding capital notes) | – | – | 168,092 | 29,217 | 87,069 | 113,820 | – | 2,805,049 | – | 310,227 | 228,774 | 340,443 | 283,511 | 802,656 | 3,960,663 | 9,129,521 |
| Loans and advances to customers – net | 2,889,723 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 2,889,723 |
| Receivable from financial institutions | – | 103,017 | – | – | – | – | – | – | – | – | – | – | – | – | – | 103,017 |
| Other assets | 275,133 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 275,133 |
| | 3,164,856 | 103,017 | 7,517,103 | 2,948,428 | 87,069 | 700,303 | 33,323 | 10,618,727 | 1,160,568 | 310,227 | 228,774 | 926,776 | 283,511 | 1,944,253 | 8,893,077 | 38,920,012 |
| **Off balance sheet:** | | | | | | | | | | | | | | | | |
| Contingencies and commitments | 4,038,098 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 4,038,098 |
| | 7,202,954 | 103,017 | 7,517,103 | 2,948,428 | 87,069 | 700,303 | 33,323 | 10,618,727 | 1,160,568 | 310,227 | 228,774 | 926,776 | 283,511 | 1,944,253 | 8,893,077 | 42,958,110 |

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

## 31. FINANCIAL RISK MANAGEMENT CONTINUED

### 31.2 Financial Risk factors continued

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

*(b) Industry sectors*

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

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

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

### 31.3 Market risk

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

### 31.3.1 Foreign exchange risk

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

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

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

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

If the functional currency, at the year end date, strengthens/weakens by 10% against the AED with all other variables held constant, the impact on profit or loss for the period would have been AFN 71,557 thousands higher/lower (2014: AFN 931 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

### 31.3.2 Interest rate risk

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

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

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

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

## 31. FINANCIAL RISK MANAGEMENT CONTINUED

### 31.4 Liquidity risk

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

### 31.4.1 Liquidity risk management process

The Bank's liquidity management process, includes:

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

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

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

### 31.4.2 Funding approach

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

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

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

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

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

### 31.4.4 Off-balance sheet items

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

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

### 31.5 Fair value of financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

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

*(b) Financial instruments not measured at fair value*

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

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

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

*(i) Investments:*

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

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

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

*(iii) Off-balance sheet financial instruments*

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

**31.6 Capital management**

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

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

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

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

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

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

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

## Risk-weight categories

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

## 31. FINANCIAL RISK MANAGEMENT CONTINUED

### 31.6 Capital management continued

#### Credit conversion factor

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

## 32. ISLAMIC BANKING PRODUCTS

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

#### Qardul Hasana Current Account

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

#### Mudarabah Savings Account

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

#### Mudarabah Term Investment Deposit

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

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

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

## 33. DATE OF AUTHORIZATION FOR ISSUE

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

Chief Financial Officer

Chairman