EY

Building a better working world

Maiwand Bank

Financial Statements for the year ended 31 December 2014

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
House 1011, Street 2
Shirpoor Road, Kabul
Afghanistan

Tel: +93 752 055 025
Eyfrsh.kab@gmail.com
ey.com/pk

MAIWAND BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014

	Note	December 31, 2014	December 31, 2013
		----------- (Afs in '000) -----------	
ASSETS			
Cash and cash equivalents	5	**12,012,431**	11,878,688
Loans and advances to customers	6	**7,380,207**	6,985,081
Property and equipment	7	**297,767**	247,451
Intangible assets	8	**3,097**	3,544
Other assets	9	**48,299**	77,260
Total assets		**19,741,801**	19,192,024
LIABILITIES			
Deposits from customers	10	**18,502,907**	17,980,562
Other liabilities	11	**98,993**	78,080
Deferred tax liability - net	12	**44,729**	43,256
Total liabilities		**18,646,629**	18,101,898
EQUITY			
Paid-up capital	13	**1,125,000**	1,125,000
Accumulated loss		**(29,828)**	(34,874)
Total equity		**1,095,172**	1,090,126
Total liabilities and equity		**19,741,801**	19,192,024
CONTINGENCIES AND COMMITMENTS	14		

The annexed notes 1 to 24 form an integral part of these financial statements.

Chairman

Chief Executive Officer

MAIWAND BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	December 31, 2014	December 31, 2013
		(Afs in '000)	
Interest income	15	941,032	896,942
Interest expense	15	(168,516)	(172,525)
Net interest income		772,516	724,417
Profit / return on Islamic financing		67,801	58,208
Return on Islamic deposits		(23,617)	(26,604)
Net spread earned		44,184	31,604
Fee and commission income	16	223,999	311,816
Fee and commission expense	16	(116,309)	(100,087)
Net fee and commission income		107,690	211,729
Foreign exchange gain		1,078	8,220
Bad debts recovered	6	5,966	-
Operating income		931,434	975,970
Personnel expenses	17	(315,781)	(265,145)
Allowance for impairment loss - net	6	(113,459)	(72,707)
Depreciation and amortisation	7 & 8	(37,639)	(58,762)
Other operating expenses	18	(458,036)	(433,240)
PROFIT BEFORE TAX		6,519	146,116
Tax expense	19	(1,473)	(84,023)
PROFIT FOR THE YEAR		5,046	62,093
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		5,046	62,093

The annexed notes 1 to 24 form an integral part of these financial statements.

Chairman

Chief Executive Officer

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

	Paid-up capital	Accumulated loss	Total
	----------------------	(Afs in '000)	----------------------
Balance as at January 01, 2013	1,000,000	(96,967)	903,033
Profit for the year	-	62,093	62,093
Capital injected during the year	125,000	-	125,000
Balance as at December 31, 2013	1,125,000	(34,874)	1,090,126
Balance as at January 01, 2014	**1,125,000**	**(34,874)**	**1,090,126**
Profit for the year	-	**5,046**	**5,046**
Balance as at December 31, 2014	**1,125,000**	**(29,828)**	**1,095,172**

The annexed notes 1 to 24 form an integral part of these financial statements.

Chairman

Chief Executive Officer

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

	Note	December 31, 2014	December 31, 2013
		----------- (Afs in '000) -----------	
Cash flows from operating activities			
Profit before income tax		**6,519**	146,116
Adjustments for:			
Depreciation and amortisation	7 & 8	**37,639**	58,762
Net interest income	14	**(772,516)**	(724,417)
Net spread earned		**(44,184)**	(31,604)
Unrealized exchange gain		**(1,078)**	(8,220)
Allowance for impairment loss - net	6	**113,459**	72,707
		(660,161)	(486,656)
Working capital changes:			
Change in loans and advances to customers	6	**(502,005)**	(2,264,913)
Change in other assets	9	**22,800**	170,133
Change in deposits from banks		**-**	477
Change in deposits from customers	10	**522,345**	7,814,445
Change in other liabilities	11	**20,913**	(1,186,045)
Cash generated from operations		**(596,108)**	4,047,441
Interest / profit received		**1,008,833**	900,228
Interest / profit paid		**(191,474)**	(204,193)
Net cash flows from operating activities		**221,251**	4,743,476
Cash flows from investing activities			
Acquisition of property and equipment	7	**(86,658)**	(102,241)
Acquisition of intangible assets	8	**(850)**	-
Net cash flow used in investing activities		**(87,508)**	(102,241)
Cash flows from financing activities			
Proceeds from capital injected		**-**	125,000
Net cash flows from financing activities		**-**	125,000
Net increase in cash and cash equivalents		**133,743**	4,766,235
Cash and cash equivalents at beginning of the year		**11,878,688**	7,112,453
Cash and cash equivalents at end of the year	5	**12,012,431**	11,878,688

The annexed notes 1 to 24 form an integral part of these financial statements.

Chairman

Chief Executive Officer

MAIWAND BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

1. STATUS AND NATURE OF BUSINESS

1.1 Maiwand Bank (the Bank) is a commercial bank registered and operating in Afghanistan. The Bank is primarily involved in commercial banking in Afghanistan. The Bank has obtained business license from Afghanistan Investment Support Agency (AISA) to operate as a limited liability company. The Bank obtained its banking license from Da Afghanistan Bank ("DAB") under the Law of Banking in Afghanistan on December 31, 2008 and commenced its operations on January 01, 2009. Currently, the Bank is being operated with 25 branches and 17 extension counters in different parts of Afghanistan.

1.2 The registered office of the Bank is situated at Charrahi Torabaz Khan, Shar-e-Naw, Kabul, Afghanistan.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the requirements of the Law of Banking in Afghanistan. In case requirements differ, the provisions of the Law of Banking in Afghanistan shall prevail.

3. BASIS OF MEASUREMENT

3.1 These financial statements have been prepared on the historical cost basis except as otherwise disclosed in accounting policies.

3.2 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 financial statements are presented in Afghani (AFN), which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented in Afs has been rounded to the nearest thousand.

3.3 Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in notes 4.4, 4.6 and 4.9.

3.4 Standards, interpretations and amendments to approved accounting standards that are not yet effective

The following amendments and interpretations with respect to the approved accounting standards as applicable would be effective from the dates mentioned below against the respective standard or interpretation:

Standard, interpretation or amendment	Effective date (accounting periods on or after beginning on or after)
IFRS 10 – Consolidated Financial Statements	January 01, 2015
IFRS 11 – Joint Arrangements	January 01, 2015
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2015
IFRS 13 – Fair Value Measurement	January 01, 2015
IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)	January 01, 2016
IAS 16 & 38 – Property, Plant and Equipment & intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	January 01, 2016
IAS 16 & 41 – Property, Plant and Equipment & Agriculture: Agriculture: Bearer Plants (Amendment)	January 01, 2016
IAS 19 – Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendment)	July 01, 2014

The above standards and amendments are not expected to have any material impact on the Bank's financial statements in the period of initial application.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after July 01, 2014 and January 01, 2016. The Bank expects that such improvements to the standards will not have any material impact on the Bank's financial statements in the period of initial application.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below in note 4.1:

4.1 New and amended standards and interpretations

The Bank has adopted the following revised standards, amendments and interpretations of IFRSs which became effective during the current year:

IFAS 3 – Profit and Loss Sharing on Deposits

IAS 32 – Financial Instruments: Presentation – (Amendment)
– Offsetting Financial Assets and Financial Liabilities

IAS 36 – Impairment of Assets – (Amendment)
– Recoverable Amount Disclosures for Non-Financial Assets

IAS 39 – Financial Instruments: Recognition and Measurement – (Amendment)
– Novation of Derivatives and Continuation of Hedge Accounting

IFRIC 21 – Levies

The adoption of the above revision, amendments, improvements and interpretation of the standards did not have any effect on the financial statements.

4.2 Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central bank and capital notes, balances in Nostro accounts and highly liquid financial assets with maturities of three months or less from acquisition date that are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4.3 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near future.

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

Loans and advances considered to be uncollectable are written off as and when determined.

All loans and advances are classified in accordance with the regulations of Da Afghanistan Bank.

4.4 Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, (if any).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Full month's depreciation is charged on property and equipment in the month of addition and no depreciation is charged in the month of disposal.

The estimated useful lives of the items of property and equipment for the current and comparative period are as follows:

Leasehold improvements	20 years
Office equipment	3 - 10 years
Furniture and fixture	10 years
IT equipment	03 years
Vehicles	05 years
ATM	10 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate.

During the year, the Bank changed its depreciation method from reducing balance to straight-line basis. This change in accounting estimate has been applied prospectively w.e.f. 01 January 2014. The effect of this change is not material to the financial statements.

4.5 Intangible assets

Banking software acquired by the Bank is stated at cost less accumulated amortization and accumulated impairment losses, if any.

Subsequent expenditure on the software is capitalized only when it increases the future economic benefits embodied in the asset. All other expenditure is expensed as incurred.

Eman

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, from the date it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of the software is three years.

Amortization method, useful life and residual value are reviewed at each financial year-end and adjusted if appropriate.

4.6 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

4.7 Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the entity and the current tax liabilities and assets are intended to be settled on a net basis and are expected to be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4.8 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up accrued on deposits is recognised separately as part of other liabilities and is charged to the profit and loss account on a time proportion basis.

4.9 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and are adjusted to reflect the current best estimate.

4.10 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable.

4.11 Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rate at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation is recognized in profit or loss.

4.12 Revenue recognition

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

Profit on Murabaha, Musharaka and Diminishing Musharaka is recognized on receipt basis.

4.13 Fee and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of effective interest rate.

Other fee and commission income, including account servicing fee, funds transfer fee and placement fee, are recognized as the related services are performed. When a loan commitment fee is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fee and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

4.14 Financial assets and financial liabilities

(i) Recognition and initial measurement

The Bank initially recognizes loans and advances to customers and deposits from customers on the date that they are originated. All other financial assets and liabilities (including financial assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or 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.

(ii) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control over the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position.

On derecognition of a financial asset, (i) the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in the other comprehensive income, is recognized in profit or loss.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

(iv) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(v) Impairment of financial assets

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial asset or group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows on the asset(s) that can be estimated reliably.

Objective evidence that the financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indication that a borrower or issuer will enter bankruptcy, disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of a borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount (if applicable).

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

The Bank writes off certain loans and advances when they are determined to be uncollectable and are classified in accordance with the regulations of Da Afghanistan Bank.

	Note	December 31, 2014	December 31, 2013
		----------- (Afs in '000) -----------	
5. CASH AND CASH EQUIVALENTS			
Cash in hand:			
Local currency		1,347,614	1,145,021
Foreign currency	5.1	3,326,860	3,073,150
		4,674,474	4,218,171
Balances with Da Afghanistan Bank (DAB)	5.2	6,450,207	6,676,055
Balances with other banks and financial institutions	5.3	887,750	984,462
		7,337,957	7,660,517
		12,012,431	11,878,688

5.1 Foreign currency profile

US Dollar		2,905,532	2,801,103
Euro		367,816	196,252
GB Pound		53,512	75,795
		3,326,860	3,073,150

5.2 Balances with Da Afghanistan Bank (DAB)

Current accounts:			
Local currency		1,296,703	573,857
Foreign currency	5.2.1	3,263,161	3,774,570
	5.2.2	4,559,864	4,348,427
Saving accounts - Local currency:			
Capital notes	5.2.3	498,619	197,418
Over-night deposits	5.2.4	-	807,411
		498,619	1,004,829
Security deposit with DAB		1,500	1,500
Required reserve with DAB	5.2.5	1,390,224	1,321,299
		6,450,207	6,676,055

5.2.1 Foreign currency profile:

US Dollar		3,234,456	3,744,554
Euro		28,705	30,016
		3,263,161	3,774,570

5.2.2 The current accounts held with DAB are interest free.

5.2.3 This represents capital notes issued by DAB with maturity period of 28 to 182 days with interest rates ranging from 3.36% to 4.70% (2013: 3.36% to 4.70%) per annum.

5.2.4 This represents overnight deposit facility provided by DAB. These deposits earn interest rates ranging from 2.36% to 3.70% (2013: 2.36% to 3.70%) per annum.

5.2.5 This represents the required reserve account being maintained with DAB which is denominated in AFN to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. The balance carries mark-up ranging from 0.93% to 3.58% (2013: 0.93% to 2.00%) per annum. Required reserves with DAB are not available for use in the Bank's day-to-day operations.

	Note	December 31, 2014	December 31, 2013
		----------- (Afs in '000)	-----------
5.3 Balances with other banks and financial institutions			
Punjab National Bank, London		-	104,208
HDFC Bank, India		**5,897**	67,268
Summit Bank Limited, Pakistan		-	344
Bahrain Middle East Bank BSC		-	7,471
Punjab National Bank, Kabul		-	1,021
Pashtanay Bank		**682**	659
Bank-e-Millie Afghan		**30,548**	10,308
Emirates NBD Bank, UAE		**28,822**	158,838
UniCredit S.p.A, Italy		**5,712**	227,946
KBC Bank		**31,162**	45,977
Bank of China		**771,149**	190,594
Aktif Yatirim Banasi A.S. Turkey		-	89,267
Banca Poplare Di Vicenza, Itlay		-	80,561
Yinzhou Bank		**13,778**	-
		887,750	984,462

5.3.1 Currency profile of balances with other banks and financial institutions is as follows:

	Note	December 31, 2014	December 31, 2013
Current accounts:			
Local currency		**30,648**	10,408
Foreign currency	5.3.1.1	**857,102**	974,054
		887,750	984,462

5.3.1.1 Foreign currency profile:

	December 31, 2014	December 31, 2013
US Dollar	**820,228**	851,609
Euro	**36,874**	110,609
GB Pound	-	11,836
	857,102	974,054

5.3.2 Geographic profile of balances with other banks and financial institutions is as follows:

	December 31, 2014	December 31, 2013
Europe	**36,874**	547,959
South Asia	**790,824**	258,206
Middle East	**28,822**	166,309
Afghanistan	**31,230**	11,988
	887,750	984,462

5.3.3 The current accounts held with other banks and financial institutions are interest free.

6. LOANS AND ADVANCES TO CUSTOMERS

	Note	December 31, 2014	December 31, 2013
		--------- (Afs in '000) ---------	
Conventional - at amortised cost	6.1	**6,136,663**	6,050,153
Islamic - at amortised cost	6.2	**1,243,544**	934,928
		7,380,207	6,985,081

6.1 Conventional - at amortised cost

	Note	December 31, 2014 Gross amount	December 31, 2014 Impairment	December 31, 2014 Carrying	December 31, 2013 Gross amount	December 31, 2013 Impairment	December 31, 2013 Carrying
		---------- (Afs in '000) ----------			---------- (Afs in '000) ----------		
Retail customers - running finances	6.1.1	**6,302,211**	**(169,246)**	**6,132,965**	6,089,913	(69,103)	6,020,810
Term loans	6.1.2	**-**	**-**	**-**	27,653	(20)	27,633
Short term loans to employees	6.1.3	**1,822**	**-**	**1,822**	867	-	867
Other consumer loans	6.1.4	**1,876**	**-**	**1,876**	843	-	843
		6,305,909	**(169,246)**	**6,136,663**	6,119,276	(69,123)	6,050,153

6.1.1 Running finance facilities are extended to borrowers for a maximum period of two years. These facilities carry interest ranging from 15% to 20% (2013: 15% to 20%) per annum. The facilities are secured against immovable properties, stock and receivables of the borrowers and personal guarantees in certain cases.

None of these loans are expected to be recovered after 12 months of the reporting date (2013: Nil).

	December 31, 2014	December 31, 2013
	--------- (Afs in '000) ---------	
Allowance for impairment:		
Balance at beginning of the year	**69,103**	19,978
Loans written off during the year	**(13,316)**	(22,217)
Charge to profit and loss		
Recoveries	**(5,829)**	-
Impairment loss for the year	**119,288**	71,342
	113,459	71,342
Balance as at December 31	**169,246**	69,103

6.1.2 Term loans are extended for a maximum period of two years. These loans carry interest ranging from 15% to 20% (2013: 15% to 20%) per annum and are secured against immoveable property, stock and receivables of the borrowers.

	December 31, 2014	December 31, 2013
	--------- (Afs in '000) ---------	
Allowance for impairment:		
Balance at beginning of the year	**20**	20
Loans written off during the year	**(20)**	-
Impairment loss for the year	**-**	-
Balance as at December 31	**-**	20

6.1.3 Short term loans to employees are repayable within twelve months. These loans carry interest rate of 10% (2013: 10%) per annum.

None of these loans are expected to be recovered after 12 months of the reporting date (2013: Nil).

No impairment allowance has been accounted for on these loans.

6.1.4 Other consumer loans are extended for a maximum period of one year. These carry interest ranging from 10% to 15% (2013: 10% to 15%) per annum and are secured against immovable properties and personal guarantees.

No impairment allowance has been accounted for on these loans.

	Note	December 31, 2014	December 31, 2013
		--------- (Afs in '000) ---------	
6.1.5 Currency profile of loans and advances - conventional at gross is as follows:			
Local currency		**949,859**	879,411
Foreign currency - US Dollar		**5,356,050**	5,239,865
	6.1	**6,305,909**	6,119,276

8m

16

	Note	December 31, 2014 Gross amount	Impairment	Carrying	December 31, 2013 Gross amount	Impairment	Carrying
		----	(Afs in '000)	----	----	(Afs in '000)	----
6.2 Islamic - at amortised cost							
Musharaka financing	6.2.1	**110,476**	-	**110,476**	121,249	-	121,249
Diminishing Musharaka	6.2.1	**383,957**	-	**383,957**	383,089	-	383,089
Murahaba finance	6.2.2	**748,761**	-	**748,761**	430,566	-	430,566
Qarza-e-Hasna		**350**	-	**350**	24	-	24
		1,243,544	-	**1,243,544**	934,928	-	934,928

6.2.1 Musharaka and Diminishing Musharaka facilities are extended to customers on profit / loss sharing basis. These carry profit sharing ratio of 20% - 50% on quarterly basis. These are secured against immovable properties and stocks.

	December 31, 2014	December 31, 2013
	(Afs in '000)	
Allowance for impairment:		
Balance at beginning of the year	-	-
Loans written off during the year	-	(1,365)
Impairment loss for the year	-	1,365
Balance as at December 31	-	-

6.2.2 Murabaha facilities are extended to customers for construction / purchase of immovable properties. These are secured against the underlying properties.

No impairment allowance has been recorded for on these loans.

	Note	December 31, 2014	December 31, 2013
		(Afs in '000)	
6.2.3 Currency profile of loans and advances - Islamic is as follows:			
Local currency		**158,872**	138,832
Foreign currency - US Dollar		**1,084,672**	796,096
	6.2	**1,243,544**	934,928

7. PROPERTY AND EQUIPMENT

	Leasehold improvements	Office equipment	Furniture and fittings	IT equipment	Motor vehicles	ATM	Capital work-in-progress	Total
	(Afs in '000)							
Cost								
Balance as at January 01, 2013	75,348	82,566	17,659	92,869	50,778	22,471	12,573	354,264
Additions	41,219	15,805	2,054	26,810	12,251	11,767	-	109,906
Disposals	-	-	-	-	-	-	(12,573)	(12,573)
Balance as at December 31, 2013	116,567	98,372	19,713	119,679	63,029	34,238	-	451,597
Balance as at January 01, 2014	**116,567**	**98,372**	**19,713**	**119,679**	**63,029**	**34,238**	**-**	**451,598**
Additions	**10,791**	**50,961**	**861**	**10,676**	**13,361**	**8**	**-**	**86,658**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance as at December 31, 2014	**127,358**	**149,333**	**20,574**	**130,251**	**76,390**	**34,246**	**-**	**538,256**
Rate	**5%**	**10% - 33%**	**10%**	**33%**	**20%**	**10%**		
Depreciation								
Balance as at January 01, 2013	17,213	21,740	4,492	75,217	22,383	5,638	-	146,683
Charge for the year	20,966	7,397	1,848	16,207	8,366	2,680	-	57,464
Balance as at December 31, 2013	38,179	29,137	6,340	91,424	30,749	8,318	-	204,147
Balance as at January 01, 2014	**38,179**	**29,137**	**6,340**	**91,424**	**30,749**	**8,318**	**-**	**204,147**
Charge for the year	**4,212**	**9,657**	**1,762**	**11,318**	**6,801**	**2,592**	**-**	**36,342**
Balance as at December 31, 2014	**42,391**	**38,794**	**8,102**	**102,742**	**37,550**	**10,910**	**-**	**240,489**
Carrying amounts								
As at December 31, 2013	78,388	69,235	13,373	28,255	32,280	25,920	-	247,451
As at December 31, 2014	**84,967**	**110,539**	**12,472**	**27,509**	**38,840**	**23,336**	**-**	**297,767**

	Note	December 31, 2014	December 31, 2013
		--------- (Afs in '000) ---------	

8. INTANGIBLE ASSETS

	Note	December 31, 2014	December 31, 2013
Cost			
Balance as at January 01		24,397	24,397
Acquisitions		850	-
Balance as at December 31		25,247	24,397
Amortization			
Balance as at January 01		20,853	19,007
Charge for the year		1,297	1,298
Balance as at December 31		22,150	20,853
Carrying amounts		3,097	3,544

9. OTHER ASSETS

	Note	December 31, 2014	December 31, 2013
Prepaid rent		23,038	20,178
Advances to suppliers		1,925	2,772
Receivable from Ministry of Labour	9.1	677	7,615
Profit receivable on Musharaka financing		-	6,161
Advance salary to employees		1,053	1,072
Security deposit - Western Union		11,664	11,202
Security deposit - others		1,262	-
Receivable from Western Union		8,249	25,677
Others		431	2,583
		48,299	77,260

9.1 This represents payments made on behalf of Ministry of Labour, Government of Afghanistan to Government employees on account of pension.

9.2 Currency profile of other assets is as follows:

	December 31, 2014	December 31, 2013
	--------- (Afs in '000) ---------	
Local currency	10,045	21,724
Foreign currency (US Dollars)	38,254	55,536
	48,299	77,260

	Note	December 31, 2014	December 31, 2013
		--------- (Afs in '000) ---------	
10. DEPOSITS FROM CUSTOMERS			
Conventional deposits	10.1	**16,020,165**	16,051,152
Islamic deposits	10.2	**2,482,742**	1,929,410
		18,502,907	17,980,562

10.1 Conventional deposits

	Note	December 31, 2014	December 31, 2013
Term deposits	10.1.1	**668,683**	457,772
Current deposits	10.1.2	**13,594,139**	14,006,569
Saving deposits	10.1.3	**1,757,343**	1,586,811
		16,020,165	16,051,152

10.1.1 Term deposits carry interest rate ranging from 7.5% to 8% (2013: 7%) per annum.

10.1.2 Current deposits are interest free.

10.1.3 Saving deposits carry interest at the rate of 6% (2013: 6%) per annum.

10.1.4 Currency profile of customer deposits - Conventional is as follows:

	Note	December 31, 2014	December 31, 2013
		--------- (Afs in '000) ---------	
Local currency:			
Term deposits		**42,514**	20,193
Current deposits		**3,487,408**	3,405,502
Saving deposits		**595,707**	463,362
		4,125,629	3,889,057
Foreign currency:			
Term deposits		**626,169**	437,579
Current deposits		**10,106,729**	10,601,067
Saving deposits		**1,161,638**	1,123,449
	10.2.1	**11,894,536**	12,162,095
		16,020,165	16,051,152

10.2.1 Foreign currency profile		
US Dollar	**11,593,222**	11,976,969
Euro	**282,843**	149,335
GB Pound	**18,471**	35,791
	11,894,536	12,162,095

10.2 Islamic deposits

	Note	December 31, 2014	December 31, 2013
Term deposits	10.2.1	**148,923**	92,044
Current deposits	10.2.2	**313,942**	127,230
Saving deposits	10.2.3	**2,019,877**	1,710,136
		2,482,742	1,929,410

10.2.1 Term deposits include Meaadi Certificates having maturity of 3 to 24 months carrying profit rate ranging from 3% to 7% (2013: 3% to 7%) per annum.

10.2.2 Current deposits (Al-Wadiah accounts) are being operated at no profit or loss basis.

10.2.3 Saving deposits include the following:

1. Musharaka Saving
2. Mutalim Musharaka
3. Khass Musharaka

These deposits carry profit at the rate ranging from 0.8% to 1.5% (2013: 1.5%) per annum.

10.2.4 Currency profile of customer deposits - Islamic is as follows:

	Note	December 31, 2014	December 31, 2013
		--------- (Afs in '000) ---------	
Local currency:			
Term deposits		**5,415**	3,105
Current deposits		**61,991**	24,250
Saving deposits		**699,435**	569,442
		766,841	596,797
Foreign currency:			
Term deposits		**143,508**	88,939
Current deposits		**251,951**	102,980
Saving deposits		**1,320,442**	1,140,694
	10.2.4.1	**1,715,901**	1,332,613
	10.2	**2,482,742**	1,929,410

10.2.4.1 Foreign currency profile

	December 31, 2014	December 31, 2013
US Dollar	**1,699,430**	1,330,765
Euro	**16,471**	1,848
	1,715,901	1,332,613

11. OTHER LIABILITIES

	Note	December 31, 2014	December 31, 2013
Afghan Deposit Insurance Corporation (ADIC) premium payable	11.1	**10,046**	9,819
Others		**88,947**	47,524
Provision for income tax		**-**	20,737
		98,993	78,080

11.1 This represents premium paid to ADIC in respect of deposit insurance to protect depositors within a certain coverage amount against the loss of their deposits placed at the Bank in the unlikely events of the Bank's failure.

	Note	December 31, 2014	December 31, 2013
		--------- (Afs in '000) ---------	
11.2 Currency profile of other liabilities is as follows:			
Local currency		34,222	75,895
Foreign currency	11.2.1	64,771	2,185
		98,993	78,080

11.2.1 Foreign currency profile

US Dollar	64,768	2,182
GBP	3	3
	64,771	2,185

12. DEFERRED TAX LIABILITY - NET

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2014		
	Assets	Liabilities	Net
	----------------- (Afs in '000) -----------------		
Unused tax losses	10,825	-	-
Property and equipment and intangible assets	-	(55,554)	(44,729)
	10,825	(55,554)	(44,729)

	December 31, 2013		
	Assets	Liabilities	Net
	----------------- (Afs in '000) -----------------		
Unused tax losses	-	-	-
Property and equipment and intangible assets	-	(43,256)	(43,256)
	-	(43,256)	(43,256)

Movements in temporary differences during the year

	Opening balance	Recognised in profit and loss	Closing balance
	----------------- (Afs in '000) -----------------		
2014			
Property and equipment and intangible assets	(43,256)	(12,298)	(55,554)
Accumulated tax losses	-	10,825	10,825
Deferred tax asset / (liability)	(43,256)	(1,473)	(44,729)
2013			
Property and equipment and intangible assets	(29,627)	(13,629)	(43,256)
Accumulated tax losses	49,657	(49,657)	-
Deferred tax asset / (liability)	20,030	(63,286)	(43,256)

	Note	December 31, 2014	December 31, 2013
		--------- (Afs in '000) ---------	
13. PAID-UP CAPITAL			
Share capital		**1,125,000**	1,125,000

13.1 As of December 31, the shareholding pattern of the Bank was as follows:

	December 31, 2014	December 31, 2013
	------------- % -------------	
Dr. Fraidoon Norzada	**50**	50
Haji Nasir Ahmed	**20**	20
Haji Qayoom Pardes	**10**	10
Eng. Allauddin	**10**	10
Haji Samad	**10**	10
	100	100

Movement in share capital during the year is as follows:

Balance as at January 01	**1,125,000**	1,000,000
Capital injected during the year	**-**	125,000
Balance as at December 31	**1,125,000**	1,125,000

14. CONTINGENCIES AND COMMITMENTS

Trade-related contingent liabilities

	Note		
Letters of guarantee	14.1	**2,641,460**	3,367,140

14.1 These are guarantees extended to corporate entities against performance of contracts and bids and compliance of the terms and conditions annexed thereto.

	Note	December 31, 2014	December 31, 2013
		--------- (Afs in '000) ---------	
15. NET INTEREST INCOME			
Interest income			
Cash and cash equivalents		**28,717**	18,835
Loans and advances to customers	15.1	**912,315**	878,107
Total interest income		**941,032**	896,942
Interest expense			
Deposits from customers	15.2	**168,516**	172,525
Total interest expense		**168,516**	172,525
Net interest income		**772,516**	724,417

	Note	December 31, 2014	December 31, 2013
		--------- (Afs in '000) ---------	
15.1 Interest income - loans and advances to customers			
On			
Running finances		910,132	871,158
Short term loans to employees		211	150
Term loans		1,811	6,659
Other consumer loans		161	140
		912,315	878,107
15.2 Interest expense - deposits from customers			
On			
Term deposits		47,345	49,368
Saving deposits		121,171	123,157
		168,516	172,525

16. NET FEE AND COMMISSION INCOME

	Note	December 31, 2014	December 31, 2013
Fee and commission income			
Commission on guarantees issued		24,372	45,671
Commission on remittances		137,466	182,161
Loan processing fee		51,185	74,040
Account servicing fee		7,272	5,763
Others		3,704	4,181
Total fee and commission income		223,999	311,816
Fee and commission expense			
Commission on remittances		(84,913)	(54,070)
Inter-bank transaction fees		(31,396)	(46,017)
Total fee and commission expense		(116,309)	(100,087)
		107,690	211,729

17. PERSONNEL EXPENSES

	Note	December 31, 2014	December 31, 2013
Salaries and wages	17.1	285,851	237,630
Staff welfare		29,930	27,515
		315,781	265,145

17.1 It includes an amount of Afn 16.388 million (2013: Afn 24.868 million) in respect of short-term employee benefits paid to Key Management Personnel.

18. OTHER OPERATING EXPENSES

	Note	December 31, 2014	December 31, 2013
		--------- (Afs in '000) ---------	
Rent		61,295	42,444
Internet and connectivity		65,977	56,302
Electricity and power		54,660	44,615
Legal and professional charges		22,268	17,461
Advertisement expenses		20,278	16,802
Travel		16,678	18,845
ADIC charges	18.1	36,719	39,500
Repair and maintenance		21,785	37,191
Printing and stationery		13,244	15,542
Software maintenance fee		3,248	3,948
Security expenses		114,219	113,332
Donations		2,546	4,756
Communication		1,767	2,634
Directors' remuneration	18.2	6,890	6,721
Office expenses		7,865	9,001
Others		8,597	4,146
		458,036	433,240

18.1 These charges are paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.23% of total deposits.

18.2 It includes an amount in respect of consultancy fee paid to members of Board of Supervisors amounting to Afs.5.686 million (2013: Afs.6.524 million).

19. TAX EXPENSE

	Note	December 31, 2014	December 31, 2013
		--------- (Afs in '000) ---------	
Current tax		-	(20,737)
Deferred tax	12	1,473	(63,286)
		1,473	(84,023)

19.1 Reconciliation of accounting profit / (loss)

	December 31, 2014	December 31, 2013
Profit before tax - capital gain	-	-
Profit before tax other than capital gain	6,519	146,116
Profit before tax	6,519	146,116
Tax on profit @ 20%	-	(29,223)
Change in recognised deductible temporary differences	10,825	(49,657)
Change in recognised taxable temporary differences	(12,298)	(13,629)
Non-deductible expenses	-	8,486
Current tax expense for the year		
	(1,473)	(84,023)

Bmr

25

20. RELATED PARTIES

Ultimate controlling party

The Bank is owned by individual persons, who own the Bank's shares in different proportions (refer note 13.1).

Transactions with key management personnel

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

	Key management personnel (and close family members)		Directors and Shareholders	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	--------- (Afs in '000) ---------		--------- (Afs in '000) ---------	
(a) Deposits from related parties				
Deposits at beginning of the year	69	162	**6,894**	15,068
Deposits received during the year	**18,550**	6,520	**2,788,165**	816,525
Deposits repaid during the year	**(18,475)**	(6,613)	**(2,761,911)**	(824,699)
Deposits at end of the year	**144**	69	**33,148**	6,894
(b) Other transactions with related parties				
Consultancy fee paid to members of Board of Supervisors	-	-	**6,890**	6,721
(c) Key managament compensation				
Short-term employee benefits (Management Board)	**16,388**	24,868	-	-

Key management personnel of the Bank include the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Internal Auditor and Chief Risk Officer.

In addition to their salaries, the Bank also provides non-cash benefits to executives which includes furnished accommodation, meals and travel.

There were no related party transactions and outstanding balances other than those disclosed above.

21. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

Accounting classifications and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values.

	Note	Designated at fair value	Held to maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
		(Afs in '000)						
December 31, 2014								
Financial assets:								
Cash and cash equivalents	5	-	-	-	-	12,012,431	12,012,431	12,012,431
Loans and advances to customers	6	-	-	7,380,207	-	-	7,380,207	7,380,207
Other assets	9	-	-	-	-	25,261	25,261	25,261
		-	-	7,380,207	-	12,037,692	19,417,899	19,417,899
Financial liabilities:								
Deposits from customers	10	-	-	-	-	18,502,907	18,502,907	18,502,907
Other liabilities	11	-	-	-	-	98,993	98,993	98,993
		-	-	-	-	18,601,900	18,601,900	18,601,900
December 31, 2013								
Financial assets:								
Cash and cash equivalents	5	-	-	-	-	11,878,688	11,878,688	11,878,688
Loans and advances to customers	6	-	-	6,985,081	-	-	6,985,081	6,985,081
Other assets	9	-	-	-	-	57,082	57,082	57,082
		-	-	6,985,081	-	11,935,770	18,920,851	18,920,851
Financial liabilities:								
Deposits from customers	10	-	-	-	-	17,980,562	17,980,562	17,980,562
Other liabilities	11	-	-	-	-	78,080	78,080	78,080
		-	-	-	-	18,058,642	18,058,642	18,058,642

The carrying amounts approximate fair values as most of the assets and liabilities have short maturities and are expected to be recovered / settled at their carrying amounts.

22. FINANCIAL RISK MANAGEMENT

22.1 Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

a) credit risk
b) liquidity risk
c) market risks
d) operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's management of capital.

Risk management framework

The Board of Supervisors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established Management Board and a Credit Committee which are responsible for developing and monitoring Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, new regulatory requirements, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

22.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board has delegated responsibility for the management of credit risk to its Bank's Credit Committee which is responsible for oversight of the Bank's credit risk.

A separate credit department has been established by the Bank that is responsible for oversight of the Bank's credit risk and which is reportable to the Credit Committee. The Credit department is headed by Chief Credit Officer (CCO). CCO along with credit department staff looks after credit risk matters and conducts portfolio analysis for managing credit risk.

The Bank has established and maintained loan portfolio in line with the Bank's credit policy. The credit evaluation system comprises of credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring high quality of asset portfolio.

Exposure to credit risk is managed through regular analysis of the borrowers to meet their respective interest and capital repayment obligations, by reviewing their lending limits and rationalizing where appropriate. Exposure to credit risk is also managed against personal guarantee of the borrower and mortgage of immoveable property duly registered with the court of law and hypothecation over stock.

Exposure to credit risk

	Note	Loans and advances to customers 2014	Loans and advances to customers 2013	Total carrying amount 2014	Total carrying amount 2013
		(Afs in '000)		(Afs in '000)	
Carrying amount - at amortized cost	6	**7,380,207**	6,985,081	**7,380,207**	6,985,081
Gross amount		**7,549,453**	7,054,204	**7,549,453**	7,054,204
Allowance for impairment		**(169,246)**	(69,123)	**(169,246)**	(69,123)
Carrying amount		**7,380,207**	6,985,081	**7,380,207**	6,985,081
Past due but not impaired:					
Gross amount		-	-	-	-
		-	-	-	-
Neither past due nor impaired:					
Gross amount		-	-	-	-
Carrying amount - amortised cost:		**7,380,207**	6,985,081	**7,380,207**	6,985,081

Cash and cash equivalents

As of the reporting date, the Bank held cash and cash equivalents amounting to Afs 12.012 million (2013: Afs 11.878 million) which represents its maximum credit exposure on these assets. The bank balances are held with central bank and other banks and financial institutions. Management believes that cash and cash equivalents are not exposed to significant credit risk. The geographical profile of cash and cash equivalents has been disclosed in note 5.3.2 to these financial statements.

In addition to above, the Bank has issued financial guarantees / contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is Afs 2.641 million (2013: Afs 3.367 million) (Refer note 14).

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due but the Bank believes impairment is not appropriate.

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures.

All loans and other assets are classified into one of the five classification grades mentioned below for provisioning in accordance with the regulations of DAB. General and specific allowance for impairment is made by the Bank with the following percentages:

Loan Grading	Days past due	Percentage %
Standard	None	0%
Watch	31-60 days	5%
Substandard	61-90 days	25%
Doubtful	91-539 days	50%
Loss	Over 539 days	100%

Write-off policy

The Bank writes off loans or advances and any related allowances for impairment losses, when the Bank's Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and in accordance with the regulations of Da Afghanistan Bank. For smaller balance standardized loans, write off decisions generally are based on a product specific past due status. Before allowing to written off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted or legal action is not advisable.

The Bank holds collateral against loans and advances in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing by one of the five external valuers of the Bank.

An estimate of the fair value of the collateral and other security enhancements held against loans and advances to customers is shown below:

	2014	2013
	(Afs in '000)	
Against impaired:		
Property	382,405	155,264
Others	-	11,054
Against past due but not impaired:		
Property	87,348	83,813
Against neither past due nor impaired	7,079,700	6,827,654
	7,549,453	7,077,785

Concentration of credit risks by sector

All the loans have been disbursed in geographical territory of Afghanistan. The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of loans and advances to customers at reporting date is as follows:

	Note	2014	2013
		(Afs in '000)	
Carrying amount	6	7,380,207	6,985,081

	2014		2013	
	Afs. In 000	%	Afs. In 000	%
Manufacturing	315,262	4.27%	240,106	3.44%
Trade	3,049,302	41.32%	3,130,772	44.82%
Construction	3,286,194	44.53%	2,516,556	36.03%
Services	701,848	9.51%	998,888	14.30%
Others	27,601	0.37%	98,759	1.41%
	7,380,207	100%	6,985,081	100%

	Note	2014	2013
		(Afs in '000)	
Concentration by location			
Afghanistan		7,380,207	6,985,081

Concentration by location for loans and advances is measured based on the location of the entity holding the asset, which has a high correlation with the location of the borrower.

22.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Board ensures that the Bank has necessary tools and framework to cater the requirements of liquidity risk management and the Bank is capable to confronting uneven liquidity scenarios. The Bank's management is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board. Management Board is entrusted with the responsibility of managing the mismatch in maturities to ensure sufficient available cash flows to meet possible withdrawal of deposits, other commitment or challenges associated with sudden changes in market conditions, whilst enabling the Bank to pursue valued business opportunities.

The Bank relies on deposits from customers as its primary source of funding. Deposits from customers generally have shorter maturities and large proportion of them are repayable on demand.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalent less any deposits from banks. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's Regulator (Da Afghanistan Bank). Detail of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period was as follows:

	2014	2013
	(%)	
At December 31	58%	56%
Maximum for the year	63%	56%
Minimum for the year	45%	46%

Maturity analysis for financial liabilities

2014	Note	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		(Afs in '000)						
Deposits from customers	10	18,502,907	(18,502,907)	(14,556,439)	(878,103)	(3,068,365)	-	-
Other liabilities	11	98,993	(98,993)	(98,993)	-	-	-	-
		18,601,900	(18,601,900)	(14,655,432)	(878,103)	(3,068,365)	-	-

2013	Note	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		(Afs in '000)						
Deposits from customers	10	17,980,562	(17,980,562)	(4,105,217)	(2,608,586)	(2,555,377)	(8,711,382)	-
Other liabilities	11	78,080	(78,080)	(78,080)	-	-	-	-
		18,058,642	(18,058,642)	(4,183,297)	(2,608,586)	(2,555,377)	(8,711,382)	-

The above table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal inflow/(out flow) disclosed in the above table is the contractual, undiscounted cash flow on the financial liability.

Maturity analysis for off balance sheet items

2014	Note	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		(Afs in '000)						
Issued financial guarantees contracts	14	2,641,460	(2,641,460)	(1,003,755)	(633,950)	(660,365)	(343,390)	-
		2,641,460	(2,641,460)	(1,003,755)	(633,950)	(660,365)	(343,390)	-

	Note	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		(Afs in '000)						
2013								
Issued financial guarantees contracts	14	3,367,140	(3,367,140)	(1,276,796)	(792,266)	(869,913)	(428,165)	-
		3,367,140	(3,367,140)	(1,276,796)	(792,266)	(869,913)	(428,165)	-

22.4 Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/ issuer's credit standing) will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures with in acceptable parameters, while optimizing the return on risk.

Management of market risks

To manage and control market risk a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. Overall authority for market risk is vested in Management Board of the Bank. The Management Board is responsible for the development of detailed risk management policies and day to day review of their implementation.

Exposure to interest rate risk

The Bank's risk to which not-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Management Board is the monitoring body for compliance with these limits and is assisted by risk management in its monthly monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolio is as follows:

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
		(Afs in '000)					
2014							
Financial assets							
Loans and advances to customers	6	**7,549,453**	**1,770,939**	**1,265,736**	**4,356,140**	**156,638**	**-**
		7,549,453	**1,770,939**	**1,265,736**	**4,356,140**	**156,638**	**-**
Financial liabilities							
Deposits from customers	10	**(4,594,826)**	**(1,526,461)**	**(1,296,622)**	**(1,771,743)**	**-**	**-**
		(4,594,826)	**(1,526,461)**	**(1,296,622)**	**(1,771,743)**	**-**	**-**
		2,954,627	**244,478**	**(30,886)**	**2,584,397**	**156,638**	**-**

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
		(Afs in '000)					
2013							
Financial assets							
Loans and advances to customers	6	7,054,204	2,453,036	2,123,509	2,405,693	71,966	-
		7,054,204	2,453,036	2,123,509	2,405,693	71,966	-
Financial liabilities							
Deposits from customers	10	3,846,763	(1,291,385)	(1,099,048)	(1,456,330)	-	-
		3,846,763	(1,291,385)	(1,099,048)	(1,456,330)	-	-
		10,900,967	1,161,651	1,024,461	949,363	71,966	-

Exposure to currency risk

The Bank's exposure to foreign currency risk was as follows based on notional amounts.

	Note	Total (Afs in '000)	Afs '000'	USD '000'	Euro '000'	GBP '000'
2014						
Financial assets						
Cash and cash equivalents	5	12,012,431	4,565,308	6,960,216	433,395	53,512
Loans and advances to customers	6	7,549,453	1,108,731	6,440,722	-	-
Other assets	9	48,299	10,045	38,254	-	-
		19,610,183	5,684,084	13,439,192	433,395	53,512
Financial liabilities						
Deposits from customers	10	18,502,907	4,892,470	13,292,652	299,314	18,471
Other liabilities	11	98,993	34,222	64,768	-	3
		18,601,900	4,926,692	13,357,420	299,314	18,474
Net foreign currency exposure		1,008,283	757,392	81,772	134,081	35,038
2013						
Financial assets						
Cash and cash equivalents	5	11,878,688	4,056,914	7,397,266	336,877	87,631
Loans and advances to customers	6	7,054,204	1,018,242	6,035,961	-	-
Other assets	9	77,260	21,724	55,536	-	-
		19,010,152	5,096,880	13,488,763	336,877	87,631

	Note	Total (Afs in '000)	Afs '000'	USD '000'	Euro '000'	GBP '000'
Financial liabilities						
Deposits from customers	10	17,980,562	4,485,854	13,307,734	151,183	35,791
Other liabilities	11	78,080	75,895	2,182	-	3
		18,058,642	4,561,749	13,309,916	151,183	35,794
Net foreign currency exposure		951,510	535,131	178,847	185,694	51,837

The following significant exchange rates applied during the period.

	2014 Average rate	2014 Reporting date spot rate	2013 Average rate	2013 Reporting date spot
	(Afs)		(Afs)	
USD	**57.40**	**58.32**	55.46	56.01
Euro	**76.03**	**70.85**	73.31	76.73
GBP	**93.63**	**88.90**	85.68	91.36

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, Euro and GBP at December 31, 2014 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

Afs in 000'	2014 Equity	2014 Profit or loss	2013 Equity	2013 Profit or loss
USD	**(8,177)**	**(8,177)**	(17,877)	(17,877)
Euro	**(13,408)**	**(13,408)**	(18,569)	(18,569)
GBP	**(3,504)**	**(3,504)**	(5,184)	(5,184)

A 10% weakening of the Afghani against the above currencies at 31 December 2014 would have had the equal but opposite effect on the above currencies to the amounts shown above assuming all other variables remain constant.

22.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

22.6 Capital management

Regulatory capital

The Bank's regulator DAB sets and monitors capital requirements for the Bank. The capital adequacy of the Bank is assessed in two tiers as per regulations of the DAB. As of reporting date, DAB requires the Bank to maintain financial capital of not less than Afs 500 million and regulatory capital to risk-weighted asset ratio of not less than 12 percent and a core (Tier 1) capital to risk-weighted asset ratio of not less than 6 percent.

- Tier 1 or core capital, consisting of the highest quality capital elements that fully meet all the essential characteristics of capital; to be 6% of risk weighted assets.

- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank as a going concern.

- Regulatory capital is the sum of Tier 1 and Tier 2 capital and Tier 2 capital cannot exceed the amount of Tier 1 capital.

The Bank's regulatory capital position at 31 December was as follows:

	Note	2014	2013
		-------- (Afs in '000) --------	
Tier 1 capital			
Total equity capital		1,095,172	1,090,126
Less: Profit for the year		(5,046)	(62,093)
Less: Intangible assets	8	(3,097)	(3,544)
Total tier 1 (core) capital		1,087,029	1,024,489
Impairment allowance against loans and advances		17,840	69,123
Add: Profit for the year		5,046	62,093
Total tier 2 (supplementary) capital		22,886	131,216
Total regulatory capital		1,109,915	1,155,705

23. RE-ARRANGEMENTS AND RECLASSIFICATION

Corresponding figures have been re-arranged and re-classified where necessary for more appropriate presentation of transactions and events for the purpose of comparison. Significant re-arrangements and re-classifications are as follows:

From	To	2014 (Afs in '000)
Other assets (required reserve with DAB)	Cash and cash equivalents (required reserve with DAB)	1,321,299
Other assets (security deposit with DAB)	Cash and cash equivalents (security deposit with DAB)	1,500
Other liabilities (margin money against letter of guarantees)	Deposits from customers (conventional deposits)	1,688,970
Fee and commission income	Fee and commission expense	43,777
Personnel expenses	Fee and commission expense	10,293
Personnel expenses	Other operating expenses (others)	9,342
Interest income (loans and advances to customers)	Interest income (cash and cash equivalents)	5,157

24. DATE OF AUTHORISATION FOR ISSUE

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

Chairman

Chief Executive Officer