Bakhtar Bank

100% Subsidiary of Azizi Bank

Kabul, Afghanistan

Audited Financial Statements along with accompanying information

For theYear Ended as at December 31, 2015

Crowe Horwath™
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INDEPENDENT AUDITOR'S REPORT TO BOARD OF SUPERVISORS

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRSs), the requirements of the Law of Banking in Afghanistan and directives issued by the Central Bank of Afghanistan (DAB), 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.

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2015, and of its financial performance and its cash flows for the year ended in accordance with the requirements of International Financial Reporting Standards (IFRSs), the Law of Banking in Afghanistan and directives issued by the Central Bank of Afghanistan (DAB).

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Auditors and Business Advisors

Kabul

Crowe Horwath
Horwath MAK
26 MAR 2016
Auditors & Business Advisors
Kabul Afghanistan.

BAKHTAR BANK

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2015

2015	2014		Note	2015	2014
..........US$ '000'..........				..........Afs '000'..........	
		ASSETS			
149,574	128,687	Cash and cash equivalents	5	10,226,404	7,330,063
18,944	25,746	Loans and advances to customers	6	1,295,179	1,501,502
55,322	12,392	Investments	7	3,782,358	897,688
2,465	2,784	Property and equipment	8	168,550	162,385
2,047	2,349	Intangible assets	9	139,920	137,020
798	123	Deferred tax asset	10	54,554	7,162
16,663	12,444	Other assets	11	1,139,231	725,706
245,813	184,525	**Total assets**		16,806,196	10,761,526
		EQUITY AND LIABILITIES			
		Equity			
22,305	23,148	Share capital	12	1,525,000	1,350,000
(4,571)	(764)	Retained earning / (Accumulated loss)		(312,544)	(44,605)
17,734	22,384	**Total equity**		1,212,456	1,305,395
		Liabilities			
141,487	131,128	Deposits from customers	13	9,673,498	7,647,433
84,623	29,842	Deposits from banks	14	5,785,655	1,740,397
1,969	1,171	Other liabilities	15	134,587	68,301
228,079	162,141	**Total liabilities**		15,593,740	9,456,131
245,813	184,525	**Total equity and liabilities**		16,806,196	10,761,526
		Contingencies and commitments	23		

The annexed notes 1 to 27 form an integral part of these financial statements.

Chairman	Chief Executive Officer	Chief Finance Officer

BAKHTAR BANK

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015

2015 US$ '000'	2014 US$ '000'		Note	2015 Afs '000'	2014 Afs '000'
6,435	6,768	Interest income		439,944	394,736
(2,770)	(1,210)	Interest expense		(189,406)	(70,559)
3,665	5,558	**Net interest income**	16	250,538	324,177
1,937	2,296	Fee and commission income		132,437	133,918
(259)	(323)	Fee and commission expense		(17,679)	(18,861)
1,678	1,973	**Net fee and commission income**	17	114,758	115,057
462	227	Foreign exchange gain	18	31,587	13,229
387	661	Other non-interest income	18	26,469	38,578
6,192	8,419	**Operating income**		423,352	491,041
(2,221)	201	Impairment (loss) / gain on loans and advances	6.8	(151,862)	11,714
(2,794)	(2,963)	Employee benefit expenses	19	(191,026)	(172,793)
(979)	(1,016)	Operating lease expenses		(66,922)	(59,264)
(589)	(566)	Depreciation	8	(40,282)	(33,026)
(9)	(1)	Amortization	9	(636)	(72)
(3,889)	(3,613)	Other expenses	20	(265,897)	(210,683)
(10,481)	(7,958)	**Operating expenses**		(716,625)	(464,124)
(4,290)	461	**Profit before taxation**		(293,273)	26,917
		Provision for taxation			
371	(147)	Deferred	21	25,334	(8,575)
(3,919)	315	**Profit for the year**		(267,939)	18,342
-	-	Other comprehensive income		-	-
(3,919)	315	**Total comprehensive income for the year**		(267,939)	18,342

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The annexed notes 1 to 27 form an integral part of these financial statements.

Chairman	Chief Executive Officer	Chief Finance Officer

BAKHTAR BANK

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2015

Share capital	Retained earnings / (Accumulated Loss	Total		Share capital	Retained earnings / (Accumulated Loss	Total
US$ '000'				Afs '000'		
23,148	(1,079)	22,069	Balance as at January 01, 2014	1,350,000	(62,947)	1,287,053
			Comprehensive income:			
-	315	315	Net profit for the year	-	18,342	18,342
			Transactions with owners:			
-	-	-	Ordinary shares redeemed	-	-	-
23,148	(764)	22,384	Balance as at December 31, 2014	1,350,000	(44,605)	1,305,395
19,746	**(652)**	**19,094**	**Balance as at January 01, 2015**	**1,350,000**	**(44,605)**	**1,305,395**
			Comprehensive income:			
-	**(3,919)**	**(3,919)**	**Net profit for the year**	**-**	**(267,939)**	**(267,939)**
			Transactions with owners:			
2,560	**-**	**2,560**	**Ordinary shares issued**	**175,000**	**-**	**175,000**
22,306	**(4,571)**	**17,735**	**Balance as at December 31, 2015**	**1,525,000**	**(312,544)**	**1,212,456**

The annexed notes 1 to 27 form an integral part of these financial statements.

Chairman

Chief Executive Officer

Chief Finance Officer

BAKHTAR BANK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

2015 US$ '000'	2014 US$ '000'		Note	2015 AFN '000'	2014 AFN '000'
		CASH FLOWS FROM OPERATING ACTIVITIES			
(4,289)	462	Profit before taxation		(293,273)	26,917
		Adjustments for:			
589	566	Depreciation	8	40,282	33,026
9	1	Amortization	9	636	72
(782)	(797)	Accrued interest on cash and cash equivalents		(53,490)	(46,463)
2,221	(201)	Impairment (gain)/ loss on loans and advances	6.8	151,862	(11,714)
(2,252)	31			(153,983)	1,838
		Increase / decrease in operating assets and liabilities:			
797	(6,565)	Loans and advances to customers	6	54,461	(382,848)
(5,035)	(3,187)	Other assets	11	(344,215)	(185,840)
29,634	45,928	Deposits from customers	13	2,026,065	2,678,506
59,167	703	Deposits from banks	14	4,045,258	41,009
970	(515)	Other liabilities	15	66,286	(30,052)
83,280	36,396	**Net cash generated from operating activities before interest and taxation**		5,693,872	2,122,613
(565)	(405)	Net Withholding taxes (paid) / collected		(38,638)	(23,539)
82,715	35,991	**Net cash generated from operating activities**		5,655,234	2,099,074
		CASH FLOWS FROM INVESTING ACTIVITIES			
(42,192)	16,259	Investments - Net of interest	7	(2,884,670)	948,223
(52)	(19)	Acquisition of intangible assets		(3,536)	(1,107)
(668)	(713)	Acquisition of property and equipment - Net of disposals	8	(45,687)	(41,554)
(42,912)	15,528	**Net cash used in investing activities**		(2,933,893)	905,562
		CASH FLOWS FROM FINANCING ACTIVITIES			
2,560	-	Issuance / Redemption of share capital	12	175,000	-
2,560	-	**Net cash used in / generated from financing activities**		175,000	-
42,363	51,519	**Net increase in cash and cash equivalents**		2,896,341	3,004,636
107,211	74,167	Cash and cash equivalents at beginning of the year		7,330,063	4,325,427
149,574	125,687	**Cash and cash equivalents at the end of the year**	5	10,226,404	7,330,063

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The annexed notes 1 to 27 form an integral part of these financial statements.

Chairman	Chief Executive Officer	Chief Finance Officer

1. STATUS AND NATURE OF OPERATIONS

Bakhtar Bank ("the Bank") is a wholly owned subsidiary of Azizi Bank, Kabul, Afghanistan. The Bank has been licensed by Da Afghanistan Bank (DAB) ("the Central Bank of Afghanistan") (refer to Note: 12.3 to the financial statements) since 2009 as a "Commercial Bank". The Bank obtained a business license from Afghanistan Investment Support Agency and is a limited liability company. The registered office of the Bank is located at Charahi Sher Pur, Shahr-e-Naw, District 10, Kabul, Afghanistan.

The Bank has 59 branches & 3 Extension Counters(2014: 57 branches) and 585 staff members (2014: 556 staff members).

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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

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

	Effective from accounting period beginning on or after
IAS 01- Presentation of financial statements, Amended by disclosure	January 01, 2016
IAS 07- Cash Flows Statements, Amended by disclosure initiatives	January 01, 2016
IAS 12- Income Taxes, Amended by Recognition of Deferred Tax Assets for Unrealised Losses	January 01, 2017
IAS 16- Property, Plant and Equipment, Amended by Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	January 01, 2016
IAS 19-Employee Benefits, Amended by Improvements to IFRSs 2014 (discount rate: regional market issue)	January 01, 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	January 01, 2016
Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)	January 01, 2016

2.2 Basis of measurement

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

2.3 Functional and presentation currency

These financial statements are presented in Afghani ("AFN") which is the bank's functional & National currency. Except or otherwise indicated, the financial information presented in AFN has been rounded to nearest thousand.

2.3 Functional and presentation currency

These financial statements are presented in Afghani ("AFN") which is the bank's functional & National currency. Except or otherwise indicated, the financial information presented in AFN has been rounded to nearest thousand.

The US Dollar amounts shown in the financial statements are stated solely for information convenience. For the purpose of translation to USD Dollars, the rate of AFN for the year 2015 is **68.37** (2014: 58.32) per US Dollar has been used.

3. 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 years. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgment 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 loan to customer balances quarterly for possible impairment and records the provisions for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in Note: 6.

b) Provision for income taxes

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

c) 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 regular basis. Any change in estimates may effect the carrying amounts of the respective items of property and equipment and intangible assets with a corresponding effect on the depreciation / amortization charge.

d) Held to maturity investments

Investments classified as 'held to maturity' are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless or otherwise stated.

4.1 Foreign currency transaction and translation

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 the Comprehensive Income currently.

Foreign currency transactions are translated into functional currency using the exchange rates. prevailing at the rates.

	USD	Sterling	Euro
The exchange rate for following currencies against AFN were : As at 31st December 2015	68.37	100.77	74.48

4.2 Revenue recognition

a) Interest income and expense is recognized in the statement of comprehensive income using the effective interest 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 periods. The effective interest rate is the rate that discounts estimated future cast 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. The calculation includes all fee paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

b) Due but unpaid interest income is accrued on overdue advances for periods up to 90 Days in compliance with the regulations issued by DAB. After 90 days, overdue advances are classified as non-performing loans 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 after adjusting necessary Book value & Accumulated Depreciation on such disposed items of Property and Equipments.

d) Fees and commission income are recognized on an accrual basis when the service has been provided, except commission on guarantee and letter of credit which is non-refundable and recognized at the time of issuance of guarantees and letter of credit.

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

4.3 Operating leases

Operating lease rentals are recorded in profit and loss account on a time proportion basis over the term of the lease arrangements.

4.4 Taxation

Current

The current income tax is calculated in accordance with the Income Tax Law, 2009. Management periodically evaluates position taken in tax return with respect to situation in which applicable tax regulation is subject to interpretation and establishes provision 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 the taxable profits will be available against which those deductible temporary can be utilized. Such differences of deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that effect neither the taxable profit nor the accounting profit.

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.

4.5 Financial assets and Financial liabilities

Financial Assets

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

a) Financial assets at fair value through profit or loss

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

A financial asset is classified as held-for-trading if it is acquired principally for the purpose of selling in the short term or 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.

b) Loans and receivables

Loans and receivables are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market, other than:

i) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit and loss;

ii) those that the entity upon initial recognition designates as available for sale; or

iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Cash and balances with Da Afghanistan Bank (DAB), balances with banks and receivables from financial institution, loan 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 and 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. Short term placements are classified under this category.

d) Available-for-sale financial assets

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to need 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 (i) loans and receivables, (ii) held-to-maturity investment or (iii) financial assets at fair value through profit or loss.

Recognition, subsequent measurement and adjustments of fair values of financial assets

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

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest 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 statements of comprehensive income as a part of other income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gain 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.

Impairment of financial assets

a) Assets carried at amortized cost except for loans and advance

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

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

- Delinquency in contractual payments of principal or interest;
- Cash Flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiations of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration below investment grade level.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credits losses that have 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 statement of comprehensive income.

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

b) Loans and receivables

These are stated net of general provisions on loan and advances considered "Standard" and specific provisions 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.

Standard

These are loans and advances, which are paying in a current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any supporting it.

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 of Substandard. further, all loans and advances which are past due by 31 to 60 days for principal or interest payment are classified as Watch. A provision is maintained in the books of account @5% of value of such loans and advances.

Substandard

These are loans and advances, which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral , if any, supporting it. Further, all loans and advances which are past due by 61 or 90 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account @25% of value of such loans and advances.

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 540 days (2012: 91 to 180 days) for principal or interest payments are also classified as Doubtful as per Asset Classification Schedule Amended dated December 04, 2013. A provision is maintained in the books of account @50% of value of such loans and advances.

Loss

These are loans and advances, which are not collectable and or such little value that in continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 540 days (2012: 180 days) for principal or interest payments are also classified as Loss as per Asset Classification Schedule Amended dated December 04, 2013. 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 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 statements 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 instrument 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.

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 designed as hedges.

b) Other financial liabilities measured at amortized cost

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

4.6 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 indicates 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 value 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 purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. (cash-generating units)

4.7 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprises balances with less than three months maturity from the date of acquisition including cash in hand, unrestricted balances with Da Afghanistan Bank (DAB) and balances with other banks. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4.8 Loans and advances

Loans and advances initially measured at fair value plus incremental direct transaction cost and subsequently measured at their amortized cost using the effective interest method. Determination of allowance for impairment, reserve for losses and non-accrual status cases is made in accordance with the regulations issued by Da Afghanistan Bank (DAB).

4.9 Property and equipment

Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets 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.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and 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 an item of property and equipment, and are recognized net within other income in profit or loss.

Subsequent costs

The cost of replacing part of an item of property or 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.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each items of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Full month's depreciation is charged on property and equipment in the month of addition and no depreciation is charged in the month of deletion. The estimated useful lives of the items of property and equipment for the current and comparative period are as follows:

- Lease hold improvements
- Office equipment
- Furniture and fitting
- IT equipment
- Motor vehicles

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

4.10 Intangible assets

Software acquired by the bank is stated at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure on software asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Amortization is recognized in the statement of comprehensive income 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 pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years.

Amortization methods, useful lives and residual values are reassessed at each financial year end and adjusted, if appropriate.

4.11 Deposits

Deposits are the bank's source of funding. Deposits are initially measured at fair value plus **incremental direct transaction costs**, and subsequently measured at their amortized cost using effective interest method, except where the bank choose to carry the liabilities at fair value through profit and loss.

4.12 Provisions

A provision is recognized if, as a result of a past event, the bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

4.13 Employee compensation

Short-term employee benefits, if any, are measured on an undiscounted basis and are expensed as the related service is provided.

4.14 Off-setting

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 by the accounting standards, or for gain and losses arising from a group of similar transactions.

	Note	2015	2014
		..........Afs '000'..........	
5. CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	**1,452,121**	1,108,327
Balances with banks:			
Balances with Da Afghanistan Bank		**3,046,013**	1,514,613
Balances with other banks	5.2	**5,728,270**	4,707,123
		8,774,283	6,221,736
		10,226,404	7,330,063

5.1 Cash in hand

		2015	2014
Local currency		**530,813**	473,709
Foreign currency		**921,308**	634,618
		1,452,121	1,108,327

5.2 Balances with other banks

	Note	2015	2014
Commerz Bank		**8,178**	72,561
Azizi Bank	5.2.1	**5,190,151**	4,194,362
Western Union International Bank GmbH		**4,558**	61,279
Aktif Bank		**100,796**	67,808
Yinzhou Bank		**8**	1,776
Development Credit Bank Ltd		**3,328**	3,206
BMCE BANK		**121,147**	-
Yes Bank India		**104**	94
Pashtany Bank	14.2	**300,000**	306,037
		5,728,270	4,707,123

5.2.1 Call deposit with Azizi Bank initially it carries interest at 5% on USD and 7.25% per annum on Afs till 31st March 2015 and onward from April 01, 2015 it carries interest at 4% on USD and 6.80% per annum on AFS. Calcualtion of interest is based on monthly average of daily balances of each month. (2014: 5% per annum on USD and 7.25% per annum on Afs). The Bank has earned interest income amounting to Afs 159,712,496.73 during the year 2015 (2014: Afs 89,475,666).

5.2.2 The aggregate exposure with Azizi Bank as on 31st December 2015 is 8.66% of Regulatory Capital (2014: 261.55% of regulatory capital).

5.2.3 Asset concentration with Azizi Bank as at December 31, 2015 was at 5.78% of Primary Capital of the Bank (as on December 31, 2014 : 225% of primary capital of the bank), which is very well within the prescribed limit of 40% as per clause 6.1.2 (A) "Asset concentration" of Article Six "Asset Diversification and Limitations on Large Exposures of Banking Organization" of Da Afghanistan Bank rules and regulations.

	Note	2015	2014
		.......Afs '000'.........	
6. LOAN AND ADVANCES TO CUSTOMERS			
Loans and advances to customers at amortized cost	6.1	1,590,444	1,648,219

All loans and advances are expected to be recovered within five years of the balance sheet date.

6.1

	Note	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		31 December 2015			31 December 2014		
		..........................Afs '000'..................................					
Retail customers- running finances	6.2	938,010	66,504	871,506	1,045,391	24,458	1,020,933
Long term commercial loans	6.3	383,866	125,690	258,176	319,726	99,391	220,335
Small and medium enterprise loan	6.4	67,567	18,748	48,819	96,845	5,707	91,137
Short term loans to employees	6.5	10,016	-	10,016	1,942	-	1,942
Other public consumer loans	6.6	11,333	5,079	6,254	15,097	2,372	12,725
Residential mortgage loans	6.7	179,652	79,244	100,408	169,218	14,788	154,430
		1,590,444	295,265	1,295,179	1,648,219	146,717	1,501,502

6.2 Running finance facilities are extended to corporate customers for a maximum period of one year subject to renewal at the end of term for another one year. These facilities carry interest ranging from 13% to 20% per annum (2014: 15% to 20%). The facilities are secured against immovable properties, stock and receivables of the borrowers and personal guarantees in certain cases.

6.3 Long term loan are extended to corporate customers for period of one to five years. These facilities carry interest ranging from 12% to 15% per annum (2014: 12% to 15% per annum) . The facilities are secured against immovable properties, stock and receivables of the borrowers and personal guarantees.

6.4 Small and medium enterprise (SME) loans are extended for meeting working capital requirements. These SME loans are extended to customers for a maximum period of five years. These facilities carry interest of 12% to 15% per annum (2014: 12% to 15% per annum). The facilities are secured against movable and immovable fixed assets, stock and receivables of the borrowers and personal guarantees.

6.5 Short term loans to employees are secured only by personal guarantees. Interest rate on loans to employees is 6% per annum (2014: 6% and these loans are extended for a period of one year.

6.6 Other public consumer loans are extended to individuals for a period of one to three years. These loans carry interest ranging from 12% to 17% per annum (2014: 12% to 17% per annum) and are secured against immovable properties and personal guarantees.

6.7 Residential mortgage loans were not extended to any individual borrower during financial year 2015.

6.8 Impairment loss on loans and advances
Collective allowances for impairment:

	2015	2014
	.........Afs '000'..........	
Balance at beginning of year	146,717	158,432
Allowance for the year	151,862	(11,714)
Currency fluctuation		
Charged off during the year	(3,314)	-
Balance as at the end of the year	295,265	146,717

7. INVESTMENTS

	Note	2015	2014
Capital Notes with DAB	7.1	3,440,508	722,728
Placement with Aktif Bank	7.2	341,850	174,960
		3,782,358	897,688

7.1 Capital Notes with DAB

	Interest rate range	2015	2014
Capital notes - 28 days	3.535% (2014: 1.91%) per annum	997,258	-
Capital notes -182 days	5.15% to 5.19% (2014: 4.97% to 5.18%) per annum	321,626	-
Capital notes - 364 days	6.678% to 6.679% (2014: 7.10% to 7.25%) per annum	2,121,624	722,728
		3,440,508	722,728

7.2 Balances kept with Aktif Bank includes 1 year & 1 day time deposits of 5,000,000 USD. Of this USD 2,000,000 carries interest at 3% per annum & USD 3,000,000 carries interest @ 2.55% per annum (2014: USD 3,000,000 @ 2.65% per annum).

8 PROPERTY AND EQUIPMENT

	Leasehold improvements	Office Equipment	Furniture & Fittings	IT equipment	Motor Vehicles	Assets held for capitalization / Advance against capital commitments	Total
				Afs '000'			
Gross carrying amount							
Balance as at January 01, 2014	37,337	69,290	16,771	47,807	17,951	50,800	239,956
Additions	2,541	4,511	2,045	21,311	333	10,813	41,554
Balance as at December 31, 2014	39,878	73,801	18,816	69,118	18,284	61,613	281,510
Balance as at January 01, 2015	**39,878**	**73,801**	**18,816**	**69,118**	**18,284**	**61,613**	**281,510**
Additions	**5,611**	**15,033**	**1,060**	**11,494**	**2,099**	**89,547**	**124,844**
Disposals / Adjustments	-	**(343)**	**(69)**	**(20)**	**(502)**	**(78,223)**	**(79,157)**
Balance as at December 31, 2015	**45,489**	**88,491**	**19,807**	**80,592**	**19,881**	**72,937**	**327,197**
Depreciation							
Balance as at January 01, 2014	14,414	26,764	3,098	32,576	9,247	-	86,099
Depreciation for the year	6,836	12,741	1,714	9,021	2,713	-	33,026
Balance as at December 31, 2014	21,250	39,505	4,812	41,597	11,960	-	119,125
Balance as at January 01, 2015	**21,250**	**39,505**	**4,812**	**41,597**	**11,960**	-	**119,125**
Depreciation for the year	**6,170**	**11,366**	**1,780**	**18,171**	**2,794**	-	**40,282**
Adjustments		**(231)**	**(36)**	**(54)**	**(439)**		**(760)**
Balance as at December 31, 2015	**27,420**	**50,640**	**6,556**	**59,714**	**14,315**	-	**158,647**
Carrying amount							
Balance as at January 01,2014	22,923	42,526	13,673	15,231	8,704	50,800	153,857
Balance as at December 31, 2014	18,628	34,296	14,004	27,521	6,324	61,613	162,384
Balance as at December 31, 2015	**18,069**	**37,851**	**13,251**	**20,878**	**5,566**	**72,937**	**168,550**
Depreciation rates	20%	20%	5-20%	33.33%	15%	Nil	

9 INTANGIBLE ASSETS

	Purchased software	Goodwill	Total
	.... Afs '000'...............		
Gross carrying amount			
Balance as at January 01, 2014	8,900	135,985	144,885
Additions	1,107	-	1,107
Balance as at December 31, 2014	10,007	135,985	145,992
Balance as at January 01, 2015	**10,007**	**135,985**	**145,992**
Additions	**3,536**	**-**	**3,536**
Balance as at December 31, 2015	**13,543**	**135,985**	**149,528**
Amortization			
Balance as at January 01, 2014	8,900	-	8,900
Amortization during the year	72	-	72
Balance as at December 31, 2014	8,972	-	8,972
Balance as at January 01, 2015	**8,972**	**-**	**8,972**
Amortization during the year	**636**	**-**	**636**
Balance as at December 31, 2015	**9,608**	**-**	**9,608**
Carrying amount as at December 31, 2014	1,035	135,985	137,020
Carrying amount as at December 31, 2015	**3,935**	**135,985**	**139,920**

9.1 Purchased software has estimated useful life of 3 years and is being amortized at the rate of 33.33 %.

9.2 Goodwill represents the difference between the assets acquired and liabilities assumed by the Bank on the acquisition of the business of the Development Bank of Afghanistan ("DBA") which was acquired under an agreement, dated 18 March 2009, between DAB and Azizi Bank (parent entity of the Bank). Da Afghanistan Bank issued fresh license to the Bank on conclusion of the above mentioned agreement alongwith 16 existing Branch licenses. This goodwill has indefinite useful life. Following assets and liabilities were taken over by the Bank:

	Amount (Afs '000')
Assets	
Cash and cash equivalents	178,637
Property and equipment	19,872
Other Assets	15,313
	213,822
Liabilities	
Customer deposits	349,807
Net liabilities - representing cost of acquisition	**(135,985)**
Represented by:	
Net liabilities assumed	**(135,985)**

10 DEFERRED TAX ASSET

Recognized deferred tax asset

Deferred tax asset is attributable to the following:

	Note	Assets	Charged to Profit and Loss	Net
		..............Afs '000'..............		
As at December 31, 2015				
Tax loss carry - forward		**7,162**	**47,392**	**54,554**
	10.1	**7,162**	**47,392**	**54,554**
As at December 31, 2014				
Tax loss carry-forward		15,737	(8,575)	7,162
		15,737	(8,575)	7,162

10.1 Deferred tax asset has been recognized on estimated losses carried forward, in view of management's projections of sufficient taxable profits in the foreseeable future against which such deferred asset could be realized.

11 OTHER ASSETS

	Note	2015	2014
		.... Afs '000'.........	
Prepayments		**53,418**	34,459
Receivable from DAB	11.1	**15,313**	15,313
Required reserve held with DAB	11.2	**684,400**	567,140
Security deposit		**1,367**	1,166
Advance income tax		**85,151**	47,009
Western union - In bound balance		**202,452**	-
Accrued interest		**53,490**	22,322
Others	11.3	**43,640**	38,297
		1,139,231	725,706

11.1 This represents assets receivable from DAB under an agreement on the inception of the Bank (Refer note 9.2).

11.2 This represent the required reserve account maintained with DAB to meet minimum reserves requirement in accordance with Article 64 "Required reserves of banks" of the Da Afghanistan Bank Law. This carry mark-up rates ranging from 0.7% to 1.2% per annum till 27th June 2015. DAB vide their circular no. 1795 / 1797 dated 5th June 2015 stopped the payment of Interest on Required Reserve w.e.f 28th June 2015.

11.3 Others

	2015	2014
	.... Afs '000'.........	
Gross amount	**43,640**	38,297
Less: Allowances for impairment losses	**-**	-
	43,640	38,297

12 SHARE CAPITAL

	2015	2014
Authorized		
250,000 ordinary shares of Afs 10,000 each	2,500,000	2,500,000
Issued and paid up		
152,500 ordinary shares (2014: 135,000) of Afs 10,000 each	**1,525,000**	1,350,000

12.1 Following is the reconciliation of number of shares:

	Number of shares 2015	Number of shares 2014
Number of shares at beginning of the year	**135,000**	135,000
Shares issued during the year	**17,500**	-
Number of shares at end of the year	**152,500**	135,000

12.2 Following is the reconciliation of amount of share capital:

	2015	2014
	.... Afs '000'.........	
Share capital at beginning of the year	**1,350,000**	1,350,000
Shares issued during the year	**175,000**	-
Share capital at end of the year	**1,525,000**	1,350,000

12.3 With respect to the conversion of Bakhtar Bank from conventional bank to a full fledged Islamic Bank, Bank has already received permission from DAB on 22nd November 2015. DAB has accorded permission to Bank to commence the conversion process from 1st January 2016.

13 DEPOSITS FROM CUSTOMERS

	Note	2015	2014
Term deposits	13.2	**1,517,586**	1,005,369
Current deposits		**6,275,024**	5,275,545
Saving deposits	13.3	**1,880,889**	1,366,519
		9,673,499	7,647,433

13.1 None of the deposits from the customers are expected to be settled beyond 36 months after the reporting date.

13.2 These carry interest rate ranging from 3.25% to 6% per annum (2014: 3.25% to 6% per annum). It includes Afn 1,439.89 Million (2014: Afn 999.127 Million) of fixed deposit against Margin money carrying zero rate of interest payable at maturity of guarantees issued there against.

13.3 These carry interest ranging from 3% to 4% per annum (2014: 3% to 4% per annum).

14 DEPOSITS FROM BANKS

	Note	2015	2014
		..........Afs '000'..........	
Azizi Bank	5.2.1	**5,101,955**	1,150,584
Pashtany Bank	14.1	**683,700**	589,813
		5,785,655	1,740,397

14.1 During the year Bank made arrangement with Pashtany bank for liquidity support of Bakhtar Bank by pledging Capital Notes of AFS 700 Million (2014: AFS 600 Million) in the name of Pashtany Bank against which Pashtany Bank has deposits with Bakhtar Bank of 10 Million USD carries interest at 3% per annum. The Bank has paid interest expense amounting to AFS 16.209 Million during the year 2015 (2014: AFS 8.593 Million). On 7th January 2016, the said arrangement was terminated by making repayment of USD 10 Million to Pashtany Bank & consequently the pledge on DAB Capital Note of AFS 700 Million also released by Pashtany Bank.

15 OTHER LIABILITIES

	Note	2015	2014
		..........Afs '000'..........	
Withholding tax payable		**6,694**	3,601
Creditors and accruals		**104,767**	45,271
Others		**23,126**	19,429
		134,587	68,301

16 NET INTEREST INCOME

	2015	2014
Interest income		
Cash and cash equivalents	**264,688**	176,814
Loans and advances to customers	**175,256**	217,922
Total interest income	**439,944**	394,736
Interest expense		
Deposits from customers	**173,200**	61,966
Deposits from banks	**16,206**	8,593
Total interest expense	**189,406**	70,559
Net interest income	**250,538**	324,177

		2015	2014
		..........Afs '000'..........	

17 NET FEE AND COMMISSION INCOME

		2015	2014
Fee and commission income			
Commission income		**132,016**	133,251
Account servicing fee		**421**	667
Total fee and commission income		**132,437**	133,918
Fee and commission expense			
Inter-bank transaction fees		**17,679**	18,861
Total fee and commission expense		**17,679**	18,861
Net fee and commission income		**114,758**	115,057

18 OTHER NON-INTEREST INCOME

		2015	2014
Foreign exchange gain		**31,587**	13,229
Others		**26,469**	38,578
		58,056	51,807

19 EMPLOYEE BENEFIT EXPENSES

		2015	2014
Salaries and wages		**171,362**	151,312
Staff welfare		**19,664**	21,481
		191,026	172,793

20 OTHER EXPENSES

		2015	2014
Repair and maintenance		**8,419**	6,013
Travelling expense		**9,535**	10,132
Advertising and publicity		**42,247**	35,077
Printing and stationery		**9,470**	6,060
Communication		**1,965**	2,137
Internet and connectivity		**15,999**	14,169
Electricity and power		**22,339**	22,791
Office supplies		**3,137**	2,378
Security expenses		**119,202**	84,062
Audit fee		**1,026**	758
Legal and professional charges		**1,924**	1,110
Postage and courier		-	93
Software maintenance fee		**3,739**	3,760
Deposit insurance premium	20.1	**20,241**	12,270
Others		**6,654**	9,873
		265,897	210,683

20.1 This premium is paid to Afghanistan Deposit Insurance Corporation (ADIC) at the rate of 0.23% (2014: 0.23%) of total deposits as required by DAB.

	2015	2014
	..........Afs '000'..........	

21 TAXATION

	2015	2014
Current		
- for the year	-	(5,384)
Deferred	(25,334)	(3,191)
	(25,334)	(8,575)

22 RELATED PARTIES

Parent and ultimate control party

The Bank is a 100% owned subsidiary of Azizi Bank, therefore all subsidiaries and associated entities are related parties of the Bank. The related entities also comprise entities in which directors are able to exercise significant influence and key management.

Transactions with key management personnel and other related parties

Key management personnel and their immediate relatives have transacted with the Bank during the period as follows:

	2015		2014	
	Maximum balance	Closing balance	Maximum balance	Closing balance
	......................Afs '000'......................			
Loan to M/s German Afghan Industrial Corp.	-	-	48,641	48,641
Deposits with Azizi Bank	6,128,178	5,190,151	4,355,125	4,194,507
Deposits from Azizi Bank	5,318,035	5,101,955	3,467,112	1,150,584
Net Interest received from Azizi Bank	159,712	159,712	89,476	89,476
Loans to Key Managerial Personnel	7,789	7,789	-	-

Interest charged on balances outstanding from related parties fall within the same rates that would be charged in arms length transactions.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and other related parties, and no specific allowance has been made for impairment losses on these balances at the period end.

Key management personnel compensation for the period comprised:

	2015	2014
	..........Afs '000'..........	
Short-term employee benefits	34,768	29,010

In addition to their salaries, the Bank also provides non-cash benefits to executives which include furnished accommodation, meals and travel. Key management personnel include the following:

Chief Executive Officer

Deputy Chief Executive Officer

Chief Credit Officer

Chief Finance Officer

Chief Operations Officer

Chief Risk Officer

	2015	2014
23 CONTINGENCIES AND COMMITMENTS	..........Afs '000'..........	
Guarantees and Letter of Credit issued on behalf of customers	**2,338,420**	2,165,377
Commitment for rent payments:		
- not later than one year	**13,480**	8,712
- later than one year and not later than five years	**76,801**	126,679
	90,281	**135,391**

The Bank leases number of branches and office premises under operating leases. The leases typically run for a period of up to five years, with an option to renew the lease after that period.

24 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of the Bank's financial assets and financial liabilities:

	Note	At fair value through profit and loss (FVTPL)		At amortized cost using effective interest rate			Available for sale financial assets	Non - financial assets / liabilities	Total for line item	Fair value
		Held for trading	Designated at FVTPL	Held to maturity	Loans and receivables	Financial liabilities				
		Afs '000'								
December 31, 2015										
Cash and cash equivalents	5	-	-	-	10,226,404	-	-	-	10,226,404	10,226,404
Loans and advances to customers	6	-	-	-	1,295,179	-	-	-	1,295,179	1,295,179
Investments	7	-	-	3,782,358	-	-	-	-	3,782,358	3,782,358
Other assets	11	-	-	-	684,400	-	-	454,831	1,139,231	1,139,231
		-	-	3,782,358	12,205,983	-	-	454,831	16,443,172	16,443,172
Deposits from customers	13	-	-	-	-	9,673,498	-	-	9,673,498	9,673,498
Deposits from banks	14	-	-	-	-	5,785,655	-	-	5,785,655	5,785,655
Other liabilities	15	-	-	-	-	111,461	-	23,126	134,587	134,587
		-	-	-	-	15,570,614	-	23,126	15,593,740	15,593,740
December 31, 2014										
Cash and cash equivalents	5	-	-	-	7,505,023	-	-	-	7,505,023	7,505,023
Loans and advances to customers	6	-	-	-	1,501,502	-	-	-	1,501,502	1,501,502
Investments	7	-	-	722,728	-	-	-	-	722,728	722,728
Other assets	11	-	-	-	567,140	-	-	158,566	725,706	725,706
		-	-	722,728	9,573,665	-	-	158,566	10,454,959	10,454,959
Deposits from customers	13	-	-	-	-	7,647,433	-	-	7,647,433	7,647,433
Deposits from banks	14	-	-	-	-	1,740,397	-	-	1,740,397	1,740,397
Other liabilities	15	-	-	-	-	67,986	-	315	68,301	68,301
		-	-	-	-	9,455,816	-	315	9,456,131	9,456,131

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

25 FINANCIAL RISK MANAGEMENT

25.1 Introduction and overview

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

a) credit risk;
b) liquidity risk;
c) market risk; and
d) Operation Risk

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

Risk management framework

The Board of Supervisor's have the overall responsibility for the establishment and oversight of the Bank's risk management framework. Bank has established a separate Risk Management Department headed by the Chief Risk Officer. The Chief Risk Officer is independently and directly reporting to the Board. The Board has established Management Board, Asset & Liability Committee (ALCO), Credit Committee and Operational Risk Management Committee (ORMC) which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees have executive members and report regularly to the Board of Supervisor's on their activities.

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed are described below.

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

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board of Supervisors. The credit evaluation system comprises of credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio.

Exposure to credit risk

The Bank's maximum exposure to credit risk is the carrying amount of financial assets at the reporting date, as summarized below:

	Note	2015	2014
		..........Afs '000'..........	
Classes of financial assets			
Cash and cash equivalents	5 & 7	**12,556,641**	7,119,424
Loans and advances to customers	6	**1,295,179**	1,501,502
Other assets	11	**684,400**	582,453
Total carrying amounts		**14,536,220**	9,203,379

As at balance sheet date, all the loan portfolio of the Bank are recoverable and all the assets which are past due are provided for as per DAB guidelines. However, noncompliance, if any, to asset concentration requirements have been disclosed in Note 5.2.3 to the financial statements.

In addition to the above, the Bank has issued financial guarantees contracts and letter of credits for which the maximum amount payable by the Bank, assuming all guarantees are called on, is Afs 2,338 million (2014: 2,165 million).

The Bank's management considers that all the above financial assets that are not impaired or past due for the reporting dates under review are of good credit quality. The credit risk for cash and cash equivalents comprising of capital notes, balances with other banks, nostro accounts and short term placements is considered negligible, since the counterparties are either the branches of Bank's own group with high quality external credit ratings or the central bank of Afghanistan / International Banks.

Allowances for impairment

The Bank establishes an allowance for impairment loss on assets carried at amortized cost that represent 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, and a collective loan loss allowance established for the groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off policy

The Bank writes off loans or advances and any related allowances for impairment losses, when it meets criteria for loss category as required by DAB regulations. 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. Before allowing write 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 to customers in the form of mortgage interest over property, other registered charge over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Value of collateral held by the Bank as at year end amounts to Afs 6,110 million (2014: Afs 6,711 million).

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 9,116 million as at December 31, 2015 (2014: 6,396 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with parent bank and other banks.

25.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations arising 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. Asset & Liability Committee (ALCO) is entrusted with the responsibility of managing the mismatch in maturities to ensure sufficient available cash flow 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. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquidity assets to deposits from customers and banks. For this purpose net liquid assets are considered as including cash and cash equivalent net off 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 and banks at the reporting date and during the reporting year was as follows:

	2015	2014
At the end of the year	**83%**	76%
Average for the year	**77%**	68%
Maximum for the year	**83%**	76%
Minimum for the year	**75%**	60%

Maturity analysis for financial liabilities

	Note	Carrying amount	Gross nominal inflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		Afs '000'						
December 31, 2015								
Deposits from customers	13	**9,673,498**	**9,673,498**	**1,129,801**	-	**8,868**	**8,534,829**	-
Deposits from banks	14	**5,785,655**	**5,785,655**	**867,848**	-	-	**4,917,807**	-
Other liabilities	15	**134,587**	**134,587**	**133,806**	**44**	**302**	**435**	-
		15,593,740	**15,593,740**	**2,131,455**	**44**	**9,170**	**13,453,071**	-
December 31, 2014								
Deposits from customers	13	7,647,433	7,647,433	929,569	275	61,193	6,656,396	-
Deposits from banks	14	1,740,397	1,740,397	261,060	-	-	1,479,337	-
Other liabilities	15	68,301	68,301	49,187	-	19,114	-	-
		9,456,131	9,456,131	1,239,816	275	80,307	8,135,733	-

25.4 Market risk

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

Overall authority for market risk is vested in ALCO. The Bank's Assets and Liability Committee (ALCO) 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 risk to which not-trading portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day to day monitoring activities. A summary of the Bank's interest rate gap position is as follows:

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
		....	....	........Afs '000'........	....	....	....
December 31, 2015							
Cash and cash equivalents	5	5,490,151	5,490,151	-	-	-	-
Loans and advances to customers	6	1,295,179	555,167	390,948	141,474	207,590	-
Investments	7	3,782,358	997,258	663,476	2,121,624	-	-
Other assets	11	684,400	-	-	-	-	684,400
		5,077,537	7,042,576	1,054,424	2,263,098	207,590	684,400
Deposits from customers	13	1,958,585	459	1,700,617	1,050	256,459	-
Deposits from banks	14	5,785,655	683,700	5,101,955	-	-	-
		7,744,240	684,159	6,802,572	1,050	256,459	-

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
		....	....	Afs '000'	....	....	....
December 31, 2014							
Cash and cash equivalents	5	4,594,403	4,594,403	-	-	-	-
Loans and advances to customers	6	1,501,502	696,592	315,155	462,975	173,496	-
Investments	7	897,688	-	174,960	722,728	-	-
Other assets	11	567,140	-	-	-	-	567,140
		2,966,330	5,290,995	490,115	1,185,703	173,496	567,140
Deposits from customers	13	1,372,761	1,861	1,230,732	3,516	136,652	-
Deposits from banks	14	1,740,397	583,200	1,157,197	-	-	-
		3,113,158	585,061	2,387,929	3,516	136,652	-

Exposure to currency risk

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

	Total	Afs	US$	Euro	INR	CNY
	....	....	Afs '000'	....	....	
December 31, 2015						
Cash and cash equivalents	10,568,254	3,772,607	6,612,605	179,603	3,432	7
Loans and advances to customers (Gross)	1,590,444	356,818	1,233,626	-	-	
Investments	3,782,358	3,440,508	341,850	-	-	
Other assets	1,139,231	883,729	255,502	-	-	
	17,080,287	8,453,662	8,443,584	179,603	3,432	7
Deposits from customers	9,673,498	4,838,839	4,693,139	141,520	-	-
Deposits from banks	5,785,655	2,617,400	3,168,255	-	-	-
Other liabilities	134,587	29,875	104,712	-	-	-
	15,593,740	7,486,114	7,966,106	141,520	-	-
Net foreign currency exposure	1,486,547	967,548	477,478	38,083	3,432	7

	Total	Afs	US$	Euro	INR	CNY
			Afs '000'			
December 31, 2014						
Cash and cash equivalents	7,495,760	4,860,164	2,472,262	160,028	3,300	6
Loans and advances to customers	1,501,501	508,270	993,231	-	-	
Investments	897,688	722,728	174,960	-	-	
Other assets	725,590	708,221	17,369	-	-	
	10,620,539	6,799,383	3,657,822	160,028	3,300	6
Deposits from customers	15,294,866	7,647,433	4,975,754	2,545,174	126,505	-
Deposits from banks	3,480,794	1,740,397	877,146	863,251	-	-
Other liabilities	193,872	96,936	20,451	76,485	-	-
	18,969,532	9,484,766	5,873,351	3,484,910	126,505	-
Net foreign currency exposure	(8,348,993)	(2,685,383)	(2,215,529)	(3,324,882)	(123,205)	6

The following significant exchange rates were applied during the period.

	2015		2014	
	Average rate	**Reporting date spot rate**	Average rate	Reporting date spot rate
USD	**61.43**	**68.37**	57.28	58.32
EURO	**68.13**	**74.48**	76.11	70.85
INR	**0.9713**	**1.0360**	0.9502	0.9412
CNY	**10.1495**	**11.1622**	9.4517	9.6222

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and Euro 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.

	Equity	Profit or loss
	.... Afs '000'	....
December 31, 2015		
USD	**(38,198)**	**(47,748)**
Euro	**(3,046)**	**(3,808)**
December 31, 2014		
USD	(191,239)	(239,049)
Euro	(265,990)	(332,488)

A 10% weakening of the Afghani against the above currencies at 31 December 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

25.5 Operation Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. At the macro level it aims towards identification of possible risks, development and implementation of risk control strategies and monitoring & reviewing the effectiveness of the risk management systems.

Operational Risk Management

The responsibility for the oversight of the operational risk in the Bank has been delegated to the Operational Risk Management Committee (ORMC). The committee ensures establishment, monitoring and review of procedures to identify, monitor and mitigate operational risk in accordance with the Bank's risk management policies. It adopts integrated approach in managing all the risks.

25.6 Capital management

Minimum capital requirement

Current requirement for minimum financial capital is Afs 1,000 million. DAB through Circular Reference No 703/914 dated August 08, 2010 and 2179/1825 dated March 01, 2011 has required all the commercial banks to increase their capital to Afs 1 billion (or equivalent USD) before June 06, 2012. Accordingly the Bank has maintained the paid up capital to Afs 1,525 million as on 31st December 2015, which is well above the minimum requirement of DAB.

Regulatory capital

The Bank's regulator Da Afghanistan Bank sets and monitors capital requirements for the Bank. The capital adequacy of the Bank is assessed in two tiers as per regulations of the Da Afghanistan Bank.

26 - 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 amount of Tier 1 capital. The Bank complies with these regulations.

The Bank's regulatory capital position at 31 December 2015 was as follows:

	2015	2014
	..........Afs '000'..........	
Tier 1 capital		
Total equity capital	**1,212,456**	1,287,052
Less: Intangible assets	**(139,920)**	(137,020)
Less: Deferred tax assets	**(54,554)**	(7,162)
Total tier 1 (core) capital	**1,017,982**	1,142,870
Tier 2 capital		
Total tier 2 (supplementary) capital	**-**	18,342
	-	18,342
Total regulatory capital	**1,017,982**	1,161,212

26.1 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. These rearrangements and reclassifications were of immaterial nature.

27. AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on 28-03, 2016.

Chairman

Chief Executive Officer

Chief Finance Officer