

Afghan United Bank
Kabul, Afghanistan

Audited Financial Statements along with
Accompanying Information

For the year ended as at December 31, 2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

We have audited the accompanying financial statements of Afghan United 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, directives issued by the Central Bank of Afghanistan (DAB), and the Islamic Accounting Standards developed by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), 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 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 International Financial Reporting Standards (IFRSs), the Law of Banking in Afghanistan, directives issued by the Central Bank of Afghanistan (DAB), and the Islamic Accounting Standards developed by Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).


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Auditors & Business Advisors
Kabul



AFGHAN UNITED BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015

	Note	2015 Afs '000'	2014
ASSETS			
Cash and balances with central bank	5	7,944,097	7,919,553
Balances with other banks	6	2,274,301	1,916,434
Investments	7	341,850	583,200
Loans and advances to customers	8	6,094,660	5,386,286
Property and equipment	9	1,092,352	1,145,119
Intangible assets	10	13,094	26,334
Other assets	12	1,405,068	1,306,832
Total assets		19,165,422	18,283,758
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	1,522,030	1,000,000
Revaluation reserve	14	574,960	452,152
Retained earning		1,523	522,030
Total equity		2,098,513	1,974,182
LIABILITIES			
Deposits from customers	15	16,780,372	15,752,195
Deferred tax liability	11	162,708	353,585
Provision for tax		20,484	71,690
Other liabilities	16	103,345	132,106
Total liabilities		17,066,909	16,309,576
Total equity and liabilities		19,165,422	18,283,758
CONTINGENCIES AND COMMITMENTS			
	25		

The annexed notes 1 to 31 form an integral part of these financial statements.



DIRECTOR



CHIEF EXECUTIVE OFFICER

AFGHAN UNITED BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015

	Note	2015 Afs '000'	2014
Interest income		846,329	838,304
Interest expense		(80,379)	(151,105)
Net interest income	17	765,950	687,199
Fee and commission income		241,708	249,477
Fee and commission expense		(19,286)	(16,555)
Net fee and commission income	18	222,422	232,922
Other operating income	19	126,359	105,802
Operating income		1,114,731	1,025,923
Net impairment loss on financial assets	8.6	(610,904)	(23,421)
Depreciation	9	(46,913)	(53,968)
Amortization	10	(14,779)	(14,746)
Employee benefit expense	20	(208,534)	(203,921)
Operating lease expenses		(45,182)	(43,225)
Other expenses	21	(221,690)	(239,744)
Profit before tax		(33,271)	446,898
Taxation	22	34,794	(51,205)
Profit for the year		1,523	395,693
Other comprehensive income			
- Revaluation reserve - net / (Related deferred tax - net of incremental depreciation)		122,808	(204,185)
Total comprehensive income for the year		124,331	191,508

The annexed notes 1 to 31 form an integral part of these financial statements.



DIRECTOR



CHIEF EXECUTIVE OFFICER

AFGHAN UNITED BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015

	Share capital	Revaluation reserve	Retained earning	Total
	..... Afs '000'			
Balance as at January 01, 2014	1,000,000	656,337	126,337	1,782,674
Total comprehensive income for the year				
Profit for the year	-	-	395,693	395,693
Other comprehensive income	-	(204,185)	-	(204,185)
	-	(204,185)	395,693	191,508
Transactions with owners				
Issuance of shares	-	-	-	-
Balance as at December 31, 2014	<u>1,000,000</u>	<u>452,152</u>	<u>522,030</u>	<u>1,974,182</u>
Balance as at January 01, 2015	1,000,000	452,152	522,030	1,974,182
Total comprehensive income for the year				
Profit for the year	-	-	1,523	1,523
Other comprehensive income	-	122,808	-	122,808
	-	122,808	1,523	124,331
Transactions with owners				
Issuance of shares	522,030	-	(522,030)	-
Balance as at December 31, 2015	<u>1,522,030</u>	<u>574,960</u>	<u>1,523</u>	<u>2,098,513</u>

The annexed notes 1 to 31 form an integral part of these financial statements.



DIRECTOR



CHIEF EXECUTIVE OFFICER

AFGHAN UNITED BANK
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2015

	Note	2015 Afs '000'	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		(33,271)	446,898
Adjustments for:			
Net impairment loss on financial assets	8.6	571,965	36,145
Depreciation	9	46,913	53,968
Amortization	10	14,779	14,746
		<u>600,386</u>	<u>551,757</u>
Increase / decrease in current assets and liabilities			
Investments		241,350	1,221,916
Loans and advances to customers - net of provision		(1,280,339)	(775,017)
Other assets		(98,236)	79,697
Deposits from banks		-	(400,000)
Deposits from customers		1,028,177	(733,904)
Other liabilities		(21,755)	43,281
		<u>469,583</u>	<u>(12,270)</u>
Income tax paid		(58,211)	(18,928)
Net cash generated from operating activities		<u>411,372</u>	<u>(31,198)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(27,422)	(10,307)
Purchase of intangible assets		(1,539)	(2,784)
Net cash used in investing activities		<u>(28,961)</u>	<u>(13,091)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	-
Net cash generated from financing activities		<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents		382,411	(44,289)
Cash and cash equivalents, beginning of year		9,835,987	9,880,276
Cash and cash equivalents, end of year	23	<u>10,218,398</u>	<u>9,835,987</u>

The annexed notes 1 to 31 form an integral part of these financial statements.

DIRECTOR

CHIEF EXECUTIVE OFFICER

AFGHAN UNITED BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

1 STATUS AND NATURE OF BUSINESS

Afghan United Bank ("the Bank") is a commercial bank registered and operating in Afghanistan. The registered office of the bank is located in Kabul, Afghanistan.

The bank obtained business license from Afghanistan Investment Support Agency (AISA) bearing license no: D-27284. The bank commenced its operations on October 04, 2007 under the license for commercial banking issued by Da Afghanistan bank (DAB) under the law of banking in Afghanistan. Currently, the bank is being operated with twenty six branches including two full fledged Islamic banking branches (2014: twenty two branches) in different provinces of Afghanistan.

The financial statements for the year ended December 31, 2015 (including comparatives) have been approved and authorized for issue by the board of supervisors on March 27 2016.

2 STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with the requirements of the Law of Banking in Afghanistan, directives issued by the Central Bank of Afghanistan (DAB), and the Islamic Accounting Standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In case requirement differ the provisions of the law of banking in Afghanistan shall prevail.

2.2 Standards, amendments and IFRIC interpretations to 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 initiatives	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

AFGHAN UNITED BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

3 BASIS OF PREPARATION

3.1 Basis of measurement

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

3.2 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of accounting policies and reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the financial statements are described in the following:

- a) Note 8.6 Provision against non-performing loans and advances to customers
- b) Note 9 Valuation and depreciation rates for fixed assets
- c) Note 11 Deferred taxation
- d) Note 23 Income taxes

3.2 Functional And Presentation Currency

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

4 SUMMARY OF 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

4.1 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise of cash and balances with central bank (unrestricted) and balances with other bank.

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AFGHAN UNITED BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

4.2 Financial instruments

Recognition, initial measurement and de-recognition

Financial assets and financial liabilities are recognized when the bank becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial asset are de-recognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is de-recognized when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- a) loans and receivables
- b) financial assets at fair value through profit or loss (FVTPL)
- c) held-to-maturity (HTM) investments
- d) available-for-sale (AFS) financial assets

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial assets or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Currently, the Bank has financial assets only in the form of loans and receivables and held to maturity investments. Therefore, policies related to other categories of financial assets would not be relevant.

a) Loans and receivables

Loans and receivable are non-derivative financial assets with fixed or determinable Payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective. Interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The bank's cash and cash equivalents, loans and advances to customers and other assets fall into this category of financial instruments.

The Bank determines allowance for impairment loans and advances in accordance with regulation issued by DAB "Asset Classifications, Monitoring of problem assets, Reserve for losses, and Non-accrual Status'.

At each reporting date, the Bank assesses whether there is objective that financial assets not carried at fair value through profit or loss are impaired. Financial assets or a group of financial assets is (are) 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 asset(S) that can be estimated reliably.

AFGHAN UNITED BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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

In determining the potential loss in specific loans, groups of loans, or in the aggregate loan portfolio, all relevant factors are considered including, but not limited to: current economic conditions, historical loss experience, delinquency trends, the effectiveness of the Bank's lending policies and collection procedures, and the timelines and accuracy of its loan review function.

Impairment losses on assets carried at amortized costs 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 statement of comprehensive income 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. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through statement of comprehensive income.

The bank writes off certain loans and advances when they are determined to be uncollectable.

b) Held-to-maturity (HTM) investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the bank has the intention and ability to hold them until maturity. The bank currently holds "term placements with other banks" designated into this category.

HTM investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in statement of comprehensive income.

Classification and subsequent measurement of financial liabilities

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognized in statement of comprehensive income. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

AFGHAN UNITED BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

4.3 Loans and advances

Loans and advances are stated net of provisions against non-performing loans and advances. Specific and general provision are made based on an appraisal of the loan portfolio that takes into account Regulations and other directives issued by the Da Afghanistan Bank from time to time. The general provision is for the inherent risk of losses which are known from experience to be present in any loan portfolio.

The provisions made / reversed during the year are charged to the statement of comprehensive income and accumulated provision is netted off against loans and advances. Loans and advances are written off when there is no realistic prospect of recovery or when the regulation requires.

Murabaha financings are reflected as receivables at the sale price. Actual sale and purchase is not reflected as the goods are purchased by the customer as agent of the bank and all documents relating to purchase are in customer's name.

In Ijarah financing, the bank provides the asset on pre-agreed rentals for specific tenors to the customers.

4.4 Property and equipment - tangible

Owned

Property and equipment are stated at cost or revalued amounts less accumulated depreciation and accumulated impairment losses thereon. Cost includes expenditure that is directly attributable to the acquisition of fixed assets. Furniture and fixtures, computer equipments and office equipments are stated at revalued amounts less accumulated depreciation.

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

Building, Furniture and fixtures, computer equipments and office equipments are revalued by independent professionally qualified valuer(s). Surplus arising on revaluation is credit to the 'revaluation reserve' account (net of deferred tax) and deficit arising on revaluation of fixed assets is adjusted against the balance in the above-mentioned surplus account. The revaluation is carried out with sufficient regularity to ensure that the carrying amount does not differ materially from that which would have been determined using fair value at the balance sheet date.

Accumulated depreciation on furniture and fixtures, computer equipments and office equipments, at the date of revaluation, restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

AFGHAN UNITED BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

Surplus on revaluation of fixed assets (net of deferred tax) is transferred to accumulated loss to the extent of incremental depreciation charged on related assets.

Land is not depreciated. Depreciation on all other fixed assets is calculated using the straight line method to allocate their depreciable cost or revalued amount to their residual values over their estimated useful lives.

The residual values and useful lives of fixed assets are reviewed, and adjusted (if appropriate) at each balance sheet date.

Gains and losses on disposal of fixed assets are included in statement of comprehensive income currently.

Leased

Fixed assets held under finance lease are stated at the lower of fair value of asset and present value of minimum lease payments at the inception of lease, less accumulated depreciation. Financial charges are allocated over the period of lease term so as to provide a constant period rate of financial charge on the outstanding liability. Depreciation is charged on the basis similar to owned assets.

4.5 Intangible assets - computer softwares

Intangibles are stated at cost less accumulated amortization and accumulated impairment losses thereon. Computer softwares are capitalized on the basis of costs incurred to acquire and bring to use the specific software. 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 expenditure is expensed as incurred.

These costs are amortized over their useful lives using the straight line method 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.

4.6 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.

AFGHAN UNITED BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

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 asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in statement of comprehensive income. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units 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.

4.7 Deposits

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

4.8 Taxation

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax

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 balance sheet date), and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on temporary differences relating to: (i) the initial recognition of goodwill; (ii) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits; and (iii) differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

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

AFGHAN UNITED BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

As deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset 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.

4.9 Employee compensation

Short-term employee benefits are measured on an undiscounted basis and are expensed at the related service is provided.

4.10 Foreign currency transactions

Transactions in foreign currencies are translated to Afghani at exchange rate prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Afghani at the exchange rate prevailing at that reporting date. Foreign currency differences arising on retranslation are recognized in statement of comprehensive income.

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 transaction.

4.11 Interest income and expense

Interest income and expense are 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 period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees 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.

As per regulation issued by DAB title: "Asset Classifications, Monitoring of Problem Assets, Reserve for Losses, and Non-accrual Status", accrued interest is reversed on the loans and advances that are classified as non-accrual status. Interest from such loans and advances is recognized on receipt basis.

Profit under Murabaha is recognized on monthly basis, while it is recoverable at maturity.

AFGHAN UNITED BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

4.12 Fee and commission

Fees and commission income includes account servicing fees and sales commissions and are recognized as the related services are performed.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

4.13 Lease payments

Payments under operating leases are recognized in statement of comprehensive income on straight line basis over the term of the lease. Lease incentives are recognized as an integral part of the total lease expense, over the term of the lease.

4.14 Provisions

Provisions for restructuring costs and legal claims are recognized when:

- a) the bank has present legal or constructive obligation as a result of past events;
- b) it is more likely than not that an outflow of resources will be required to settle the obligation; and
- c) the amount has been reliably estimated.

Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligation.

4.15 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.

4.16 Appropriations subsequent to date of statement of financial position

Appropriations subsequent to year end are recognized during the year in which those appropriations are made.

AFGHAN UNITED BANK
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

	Note	2015	2014
		..... Afs '000'	
5 CASH AND BALANCES WITH CENTRAL BANK			
In hand			
Local currency		970,116	1,299,614
Foreign currencies		4,239,164	3,387,566
		<u>5,209,280</u>	<u>4,687,180</u>
With Da Afghanistan Bank in:			
Local currency current accounts		55,498	415,443
Foreign currency current accounts		2,581,847	2,670,792
Placements - Capital Notes	5.1	97,472	146,138
		<u>2,734,817</u>	<u>3,232,373</u>
		<u>7,944,097</u>	<u>7,919,553</u>

5.1 This represents capital note from Da Afghanistan bank carrying interest rate 5.13% (2014: 5.23%) per annum for 182 days with maturity date of May 10, 2016.

6 BALANCES WITH OTHER BANKS

In Afghanistan

National Bank of Pakistan		342,364	302,327
Pashtany Bank		309,447	339,725
		<u>651,811</u>	<u>642,052</u>


Outside Afghanistan

Commerz Bank, Germany		62,654	84,836
CSC Bank		15,927	18,269
Aktif Bank		1,026,236	992,951
New Kabul Bank		7	-
Axis Bank		511,038	154,655
Mashreq Bank		949	810
Bank of Baroda		-	22,844
Yinzhou Bank		19	17
Bahrain Middle East Bank		5,660	-
		<u>1,622,490</u>	<u>1,274,382</u>
		<u>2,274,301</u>	<u>1,916,434</u>

7 INVESTMENTS

Held to maturity

Aktif Bank	7.1	341,850	583,200
		<u>341,850</u>	<u>583,200</u>

7.1 This represents placements of US\$ 5 million (2014: US\$ 10 million), carrying interest at 3.10% (2014: 3.75%) per annum with maturity of November 10, 2016. 

AFGHAN UNITED BANK
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2015

	Note	2015	2014
		..... Afs '000'	.....
8 LOANS AND ADVANCES TO CUSTOMERS			
Conventional financing			
Running finance	8.2	5,309,287	4,339,230
Term finance	8.3	382,357	478,051
		<u>5,691,644</u>	<u>4,817,281</u>
Islamic financing			
Murabaha	8.4	264,013	237,587
Ijara	8.5	710,968	367,563
		<u>6,666,625</u>	<u>5,422,431</u>
Loans and advances to customers - gross			
Provision against non-performing loans and advances	8.6	(571,965)	(36,145)
Loans and advances to customers - net of provision		<u><u>6,094,660</u></u>	<u><u>5,386,286</u></u>

8.1 Particulars of loans and advances to customers - gross

In local currency	1,149,281	749,008
In foreign currencies	5,517,344	4,673,423
	<u>6,666,625</u>	<u>5,422,431</u>

8.2 These carry interest ranging between 13% to 16% per annum (2014: 13 % to 19% per annum). All facilities are extended for maximum period of 12 months and are expected to be recovered within 12 months of the reporting date. These are secured against personal guarantees, mortgage of immovable properties and hypothecation over stock in trade.

8.3 These carry interest rate at 15% to 16% per annum (2014: 15% per annum). These loans have been extended for periods ranging from one year to three years (2014: one year to four years) and are secured against personal guarantees, mortgage of immovable commercial & residential properties and assignment of receivables.

8.4 These represent sale and purchase agreement under which the Bank had paid finance for the purchase of goods and then sold the requisite goods to the customer on profit margin which is ranging from 15% to 18% and per annum (2014: 15% to 20% per annum). These facilities are extended for the period of 8 months to 1 year (2014: 2.5 months to 1 year) and secured against personal guarantees, mortgage of immovable properties and goods supplied under the sale and purchase agreement.

8.5 These represent sale and purchase agreement under which the Bank had paid finance for the purchase of goods and then sold the requisite goods to the customer on profit margin which is ranging from 14% to 18% per annum (2014: 10% to 18%).

8.6 Particulars of provision against non-performing loans and advances

	2015	2014
	..... Afs '000'	.....
Opening balance	36,145	13,541
Charge for the year	610,904	23,421
Write off during the year	(83,004)	(817)
Currency Fluctuation effect	7,920	-
	<u>535,820</u>	<u>22,604</u>
Closing balance	<u>571,965</u>	<u>36,145</u>

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9 PROPERTY AND EQUIPMENT

Note	Land	Office Buildings	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
	..... Afs '000'						
	241,934	1,056,388	66,474	126,450	92,443	88,098	1,671,787
9.1	-	-	1,419	4,704	-	4,182	10,305
	-	-	-	-	(2)	-	(2)
9.2	-	(32,632)	-	-	-	-	(32,632)
	241,934	1,023,756	67,893	131,154	92,441	92,280	1,649,458
	241,934	1,023,756	67,893	131,154	92,441	92,280	1,649,458
9.1	-	-	810	12,676	2	13,934	27,422
	-	-	-	-	(17)	-	(17)
9.2	-	-	-	-	-	-	-
	241,934	1,023,756	68,703	143,830	92,427	106,214	1,676,863

GROSS CARRYING AMOUNTS

Balance as at January 01, 2014

Additions during the year

Disposals during the year

Revaluation adjustments

Balance as at December 31, 2014

Balance as at January 01, 2015

Additions during the year

Adjustments /Disposals during the year

Revaluation adjustments

Balance as at December 31, 2015

ACCUMULATED DEPRECIATION

Balance as at January 01, 2014

Charge for the year

Depreciation on disposals

Revaluation adjustments

Balance as at December 31, 2014

Balance as at January 01, 2015

Charge for the year

Depreciation on disposals

Revaluation adjustments

Balance as at December 31, 2015

WRITTEN DOWN VALUE AS AT

- December 31, 2014

- December 31, 2015

Rate of depreciation in %

241,934	863,594	7,823	4,392	14,119	13,258	1,145,119
241,934	812,406	4,034	10,403	3,396	20,180	1,092,352

Nil 5 20 33 25 25

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

9.2 The Bank's land and building were revalued by independent accredited professional valuer, Waziri Consulting Services Company. The date of valuation were May 28, 2012 and July 29, 2012 for different locations. The revaluation has resulted in a net surplus of Afs 1,210 million over the book value. Da Afghanistan Bank had approved 70% of this surplus on July 21, 2012 which aggregates to Afs 847.22 million. Moreover, furniture and fixtures, computer equipment and office equipment were revalued by independent accredited professional valuers, Afttech International Company Limited and Osprey Logistics Services Company. The valuation performed by the valuers was based on active market prices, adjusted for any difference in the nature, location or condition of the specific revalued asset. The date of revaluation was 31 December 2012. The revaluation has resulted in a net surplus of Afs 29.395 million over the book value.

9.3 The gross carrying amount of fully depreciated property and equipment still in use are as follows:

	2015	2014
	..... Afs '000'	
Furniture and fixtures	49,150	29,601
Computer equipment	81,605	78,763
Vehicles	80,741	26,082
Office equipment	34,971	27,059
	<u>246,467</u>	<u>161,505</u>

10 INTANGIBLE ASSETS

Gross carrying amount

Opening balance	221,597	218,813
Additions during the year	1,539	2,784
Closing balance	<u>223,136</u>	<u>221,597</u>

Less: Accumulated amortization

Opening balance	195,263	180,517
Charge for the year	14,779	14,746
Closing balance	<u>210,042</u>	<u>195,263</u>

Written down value

	<u>13,094</u>	<u>26,334</u>
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10.1 The intangible assets include computer software which is being amortized at the rate of 33.33% (2014: 33.33%). The gross carrying amount of fully amortized intangible assets still in use is Afn 177,797 thousand.

11 DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes arising from temporary differences and unused tax losses are summarized as follows:

Deferred tax liabilities (assets)	January 01, 2015	Recognized in		December 31, 2015
		other comprehensive income	income statement	
	..... Afs '000'			
Property and equipment	360,721	(156,083)	(41,040)	163,598
Intangible assets	8,589	-	(6,275)	2,314
Unused tax losses	(15,725)	-	12,521	(3,204)
	<u>353,585</u>	<u>(156,083)</u>	<u>(34,794)</u>	<u>162,708</u>
Recognized as:				
- Deferred tax asset	(15,725)	-	12,521	(3,204)
- Deferred tax liability	369,310	(156,083)	(47,315)	165,912

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Deferred tax liabilities (assets)	January 01, 2014	Recognized in		December 31, 2014
		other comprehensive income	income statement	
		..... Afs '000'		
Property and equipment	204,638	156,083	-	360,721
Intangible assets	8,589	-	-	8,589
Unused tax losses	-	(15,725)	-	(15,725)
	<u>213,227</u>	<u>140,358</u>	<u>-</u>	<u>353,585</u>
Recognized as:				
- Deferred tax asset	-	(15,725)	-	(15,725)
- Deferred tax liability	<u>213,227</u>	<u>156,083</u>	<u>-</u>	<u>369,310</u>

11.1 The amounts recognized in other comprehensive income related to revaluation of land, building, furniture and fixtures, computer equipment and office equipment. See note 14 for the amount of the income tax relating to component of other comprehensive income.

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

12 OTHER ASSETS

Advances to suppliers and employees		4,413	22,708
Security deposits		71,273	59,623
Prepayments		36,548	27,679
Receivable from Xpress Money and Money Gram		8,502	38,667
Restricted deposits with Da Afghanistan Bank	12.1	1,193,663	1,069,636
Interest receivables		75,896	49,965
Others		14,773	38,554
		<u>1,405,068</u>	<u>1,306,832</u>

12.1 This represents statutory reserve maintained with DAB as minimum reserve in accordance with Banking Regulations issued by Da Afghanistan Bank. These minimum reserves carry interest ranging from 0.02548% to 0.0256% per annum (2014: 0.7% to 1.2% per annum).

13 SHARE CAPITAL

13.1 Authorized capital

2015	2014		2015	2014
Number of shares			..... Afs '000'	
40,000,000	40,000,000	Ordinary shares of Afs 250 each	<u>10,000,000</u>	<u>10,000,000</u>

13.2 Issued and paid up capital

2015	2014		2015	2014
Number of shares				
6,088,120	4,000,000	Ordinary shares of Afs 250 each	<u>1,522,030</u>	<u>1,000,000</u>

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13.3 Movement in issued and paid up number of shares

	2015	2014
	Number of shares	
Number of shares at beginning of the year	4,000,000	4,000,000
Shares issued during the year		
- against cash	2,088,120	-
	2,088,120	-
Number of shares at end of the year	6,088,120	4,000,000

Name	No. of shares	Par value	%age	Amount in	No. of shares	Par value	%age	Amount in
				(Afn) 2015				(Afn) 2014
Mr. Ahmad Javid Jaihoon	4,809,615	250	79%	1,202,403,700	3,840,000	250	96%	960,000,000
Mrs. Farzana Jaihoon	243,525	250	4%	60,881,200	160,000	250	4%	40,000,000
Mr. Ali Akbar Zhwandi	517,490	250	8.50%	129,372,550	-	-	-	-
Mr. Arifullah	517,490	250	8.50%	129,372,550	-	-	-	-
	6,088,120			1,522,030,000	4,000,000			1,000,000,000

13.3.1 This represents the amount of shares transferred by Mr. Javid Jaihoon in the name of Mr. Ali akbar and Mr. Arifullah during the year after transference of retained earnings to share capital. Amended Article of association after approval of Da Afghanistan Bank has been updated on March 2015.

14 REVALUATION RESERVE

This represents revaluation of land, building, furniture and fixtures, computer equipment and office equipment. The details of revaluation are as follows:

	Note	2015	2014
		..... Afs '000'	
Furniture and fixtures		2,812	2,812
Computer equipment		11,124	11,124
Office equipment		15,458	15,458
Land		149,069	149,069
Building		698,158	698,158
		876,621	876,621
Less: Incremental depreciation		(156,311)	(123,035)
Add: Related deferred tax liability - Incremental depreciation		31,262	24,607
Less: Deferred tax - Net of Incremental depreciation		(176,612)	(326,041)
		574,960	452,152

15 DEPOSITS FROM CUSTOMERS

Current deposits		9,391,379	10,136,495
Saving deposits	15.1	4,200,952	2,584,101
Term deposits	15.2	1,322,937	1,743,735
Margin deposits		1,865,104	1,287,864
		16,780,372	15,752,195

15.1 Saving deposits carry interest at the rate of 1% (2014: 1%) on USD balances and 3% (2014: 3%) on Afs balances per annum. The profit disbursed during the year on the Islamic saving deposits carry interest from 0.49% to 1% (2014:

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1.5% to 3%) per annum.

15.2 Term deposits carry interest ranging from 2% to 6% per annum (2014: 2% to 6% per annum) with maturity of three to twelve months (2014: three to twelve months). Profit disbursed during the year on the Islamic term deposits carry interest from 0.40% to 6.50% (2014: 2% to 7%) per annum.

	Note	2015	2014
		..... Afs '000'	.....
16 OTHER LIABILITIES			
Creditors and accruals		26,221	78,629
Auditor's remuneration payable		410	875
Withholding tax payable		2,491	9,497
Murabaha risk and equalization reserve		21,523	15,846
Interest payable		30,410	22,260
Others		22,290	4,999
		<u>103,345</u>	<u>132,106</u>
17 NET INTEREST INCOME			
Interest income			
- On loans and advances to customers		777,407	744,576
- On placements and balances with Da Afghanistan Bank		46,225	45,040
- On held to maturity investments		21,519	46,584
- On overnight deposits with NOSTRO banks		1,178	2,104
Total interest income		<u>846,329</u>	<u>838,304</u>
Interest expense			
Deposits from banks		-	(26,709)
Deposits from customers		(80,379)	(124,396)
Total interest expense		<u>(80,379)</u>	<u>(151,105)</u>
Net interest income		<u>765,950</u>	<u>687,199</u>
18 NET FEE AND COMMISSION INCOME			
Fee and commission income			
- Commission & processing fee on guarant ees issued		121,649	154,418
- Commission & processing fee on let ters of credit issued		4,457	3,629
- Fund transfer, cheque books issuance fee & other service charges		115,602	91,430
Total fee and commission income		<u>241,708</u>	<u>249,477</u>
Fee and commission expense			
- Inter bank transaction fee		(19,286)	(16,555)
Net fee and commission income		<u>222,422</u>	<u>232,922</u>
19 OTHER OPERATING INCOME			
Foreign Exchange Gain/ (Loss)	19.1	76,403	16,669
Recovery of written off loans		298	37,788
Loan Processing fee		46,627	50,181
Other income		3,031	1,163
		<u>126,359</u>	<u>105,802</u>

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	Note	2015	2014
	 Afs '000'
19.1 Foreign Exchange gain / (loss)			
- On dealing in foreign currencies		32,327	37,663
- On translation of monetary assets and liabilities		44,076	(20,994)
		<u>76,403</u>	<u>16,669</u>
20 EMPLOYEE BENEFIT EXPENSE			
Salaries and wages		166,591	167,610
Board members' remuneration		5,089	443
Staff welfare		36,854	35,868
		<u>208,534</u>	<u>203,921</u>
21 OTHER EXPENSES			
Communication		31,461	33,833
Travelling and conveyance		5,546	6,861
Insurance	21.1	36,492	43,668
Advertisement		5,839	12,909
Fuel expenses		7,770	9,905
Food expenses		420	415
Audit fee		5,685	7,871
Repairs and maintenance		44,740	45,019
Legal and professional charges		738	60
Stationery and printing		3,821	3,361
Staff training		2,415	3,026
Utilities		14,013	12,823
Security services		56,153	54,724
Miscellaneous expenses		6,597	5,269
		<u>221,690</u>	<u>239,744</u>

21.1 These represents charges paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.23% per annum of the total deposits as required by Da Afghanistan Bank.

22 INCOME TAX EXPENSE

The major components of tax expense and the reconciliation of the expected tax expense based on the effective tax rate of 20% (2014: 20%) and the reported tax expense in profit or loss are as follows:

Taxation:		-	51,205
Current		(34,794)	-
Deferred		(34,794)	51,205
<i>Reconciliation:</i>			
Accounting profit / (loss) before adjustments		(33,271)	446,898
Adjustments for non deductible expenses and temporary differences		17,252	-
Taxable profit / (loss) carried forward		(16,019)	446,898
Applicable rate		20%	20%
		(3,204)	89,380
Prior period adjustment		15,725	(15,725)
Origination and reversal of temporary differences		(47,315)	-
Tax deducted at source		-	(22,450)
		<u>(34,794)</u>	<u>51,205</u>

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	2015	2014
 Afs '000'	
23 CASH AND CASH EQUIVALENTS		
Cash and balances with central bank	7,944,097	7,919,553
Balances with other banks	2,274,301	1,916,434
	<u>10,218,398</u>	<u>9,835,987</u>

24 RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

The Bank is owned by individual shareholders who owns Bank's shares in different proportions.

Key management personnel

Key management personnel includes Acting Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Credit Officer and Chief Risk Officer.

Transactions with related parties

Transactions and balances with related parties, including remuneration and benefits paid to key management personnel under the terms of their employment are as follows:

	Balances		Transactions	
	2015	2014	2015	2014
	..... Afs '000'			
Shareholders				
Loans and advances	445,373	24,580	-	-
Interest income	-	-	38,793	1,381
Transactions with key management personnel				
Short term employee benefits				
Salary and other benefits	-	-	24,093	34,322

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

	2015	2014
	..... Afs '000'	
25 CONTINGENCIES AND COMMITMENTS		
Letter of credits and guarantees issued on behalf of customers	<u>6,308,627</u>	<u>3,429,936</u>
Commitment for rent payments		
- not later than one year	45,182	43,225
- later than one year and not later than five year	180,728	172,900
	<u>225,910</u>	<u>216,125</u>

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26 FINANCIAL ASSETS AND LIABILITIES

Categories of financial assets and financial liabilities

Note 4.2 provides a description of each category of financial assets and financial liabilities and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

	Available for sale financial assets	Held for trading (FVTPL)	Derivatives used for hedging	Held to maturity	Loans and receivables	Total
	(carried at amortized cost)					
Note	..... Afs '000'					
December 31, 2015						
Financial assets						
Cash and balances with central bank	-	-	-	-	7,846,625	7,846,625
Balances with other banks	-	-	-	-	2,274,301	2,274,301
Investments	-	-	-	439,322	-	439,322
Loans and advances to customers	-	-	-	-	6,094,660	6,094,660
Other assets	-	-	-	-	1,354,002	1,354,002
	-	-	-	439,322	17,569,588	18,008,910

	Derivatives used for hedging	Designated at FVTPL	Other liabilities at FVTPL	Other liabilities (amortized cost)	Total
	(carried at fair value)				
Note	..... Afs '000'				
December 31, 2015					
Financial liabilities					
Deposits from customers	-	-	-	16,780,372	16,780,372
Other liabilities	-	-	-	100,859	100,859
	-	-	-	16,881,231	16,881,231

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	Available for sale financial assets	Held for trading (FVTPL)	Derivatives used for hedging	Held to maturity	Loans and receivables	Total
Note	(carried at fair value)		(carried at amortized cost)			
	..... Afs '000'					
	-	-	-	-	7,773,415	7,773,415
	-	-	-	-	1,916,434	1,916,434
	-	-	-	729,338	-	729,338
	-	-	-	-	5,386,286	5,386,286
	-	-	-	-	1,256,445	1,256,445
	-	-	-	729,338	16,332,580	17,061,918

December 31, 2014

Financial assets

Cash and balances with central bank
 Balances with other banks
 Investments
 Loans and advances to customers
 Other assets

	Derivatives used for hedging	Designated liabilities at FVTPL	Other liabilities at FVTPL	Other liabilities (amortized cost)	Total
Note	(carried at fair value)		..... Afs '000'		
	-	-	-	15,752,195	15,752,195
	-	-	-	122,609	122,609
	-	-	-	15,874,804	15,874,804

Financial liabilities

Deposits from customers
 Other liabilities

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

27 FINANCIAL RISK MANAGEMENT

27.1 Introduction and overview

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

- a) credit risks
- b) liquidity risks
- c) market risks

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 has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Management Board, Asset and Liability Committee (ALCO), a Credit Committee which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Supervisors on their activities.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by the Internal Audit and compliance department.

a) **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 and placements with other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board has both Management level Head Office Credit Committee and Board level Credit Committee to mitigate the credit risks. Credit department reporting to the Credit Committee is responsible for managing the Bank's credit risk while the Board is responsible for oversight of same.

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). Credit officer along with credit department staff look 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. The credit evaluation system comprises of well designed credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio.

The amount of credit risk in this regard is represented by the carrying amounts of the assets on the balance sheet date. Exposure to credit risk is managed through regular analysis of borrower to met interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed against personal guarantee of the borrower and mortgage of immoveable property dully registered with the court of law and hypothecation over stock dully verified by the Bank's Credit Officer on monthly basis.

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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:

	2015	2014
	..... Afs '000'	
Classes of financial assets		
Cash and balances with central bank	7,846,625	7,773,415
Balances with other banks	2,274,301	1,916,434
Investments	439,322	729,338
Loans and advances to customers	6,094,660	5,386,286
Other assets	1,354,002	1,256,445
Total carrying amounts	18,008,910	17,061,918

As at balance sheet date, all the loan portfolio of the Bank is recoverable and all the assets which are past due are provided for as per DAB guidelines.

In addition to the above, the Bank has issued financial guarantees' and letter of credits contracts for which the maximum amount payable by the Bank assuming all guarantees / letter of credits (less margin) are called on, is Afs 4,443,522,748 (2014: Afn 2,797,655,032).

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 balances with central bank, balances with other banks, investments and other assets are 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.

Allowances for impairment


The Bank establishes an allowance for impairment losses on assets carried at amortized 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, 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 the loans are outstanding for more than 540 days, as per DAB regulation. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position or that proceeds from collateral will not be sufficient to pay back the entire exposure. Before allowing to written off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted.

The Bank holds collateral against loans and advances in the form of property documents, pledge of stocks and scratch cards, assignment of receivables and guarantees.

Concentration of credit risks by industry

The Bank monitors concentrations of credit risk by industry. An analysis of concentrations of credit risk of loans and advances to customers at reporting date is as follows: 

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	Note	2015 Afs '000'	2014
Carrying amount	8	<u>6,666,625</u>	<u>5,422,431</u>
Concentration by sector			
Construction		471,865	1,011,414
Communication		986,789	698,893
Services		564,913	410,633
Commercial		523,215	640,498
Manufacturing		198,955	177,343
Others		<u>3,920,888</u>	<u>2,483,650</u>
		<u>6,666,625</u>	<u>5,422,431</u>

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 10,218,398 thousands (2014: Afs 9,835,987 thousands) which represent its maximum credit exposure on these assets. The cash and cash equivalents are held with central bank and other banks. Management believes cash and cash equivalents are not exposed to significant credit risk.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of an entity to honor its obligation to deliver cash, other assets as contractually agreed.

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b) 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. 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.

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. For day to day liquidity risk management, the management relies on several liquidity scenarios to ensure that the Bank is best prepared to respond to any 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. 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:

	2015	2014
At the end of the year	51%	58%
Average for the period	55%	56%
Maximum for the period	56%	62%
Minimum for the period	51%	51%

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Maturity analysis for financial liabilities

	Carrying amount	Gross nominal outflow	Less than 1 month	1-3 months	3 months to 1 year	More than 01 to 05 years
Note						
			..... Afs '000'			
December 31, 2015						
Deposits from customers	15 16,780,372	(16,780,372)	(9,391,379)	(4,200,952)	(3,188,041)	-
Other liabilities	16 103,350	(103,350)	(103,350)	-	-	-
	16,883,722	(16,883,722)	(9,494,729)	(4,200,952)	(3,188,041)	-
December 31, 2014						
Deposits from customers	15 15,752,195	(15,752,195)	(10,768,469)	(1,336,034)	(3,647,692)	-
Other liabilities	16 132,106	(132,106)	(132,106)	-	-	-
	15,884,301	(15,884,301)	(10,900,575)	(1,336,034)	(3,647,692)	-

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 out flow disclosed in the above table is the contractual, undiscounted cash flow on the financial liability.

c) **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.

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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 change in market interest rates. Interest rate risk managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. 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 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 '000'
December 31, 2015							
5	97,472	97,472	-	-	-	-	
7	341,850	-	-	341,850	-	-	
8	6,666,625	2,900,890	1,567,014	2,198,721	-	-	
12	1,193,663	1,193,663	-	-	-	-	
	8,299,610	4,192,026	1,567,014	2,540,571	-	-	
15	5,523,889	4,200,952	1,322,937	-	-	-	
	5,523,889	4,200,952	1,322,937	-	-	-	
	13,823,499	8,392,977	2,889,951	2,540,570	-	-	
December 31, 2014							
5	146,138	146,138	-	-	-	-	
7	583,200	-	-	583,200	-	-	
8	5,422,431	2,833,763	789,998	1,605,776	192,893	-	
12	1,069,636	1,069,636	-	-	-	-	
	7,221,405	4,049,537	789,998	2,188,976	192,893	-	
15	4,327,836	1,449,763	1,454,799	1,423,274	-	-	
	4,327,836	1,449,763	1,454,799	1,423,274	-	-	
	11,549,241	5,499,300	2,244,797	3,612,250	192,893	-	

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Exposure to currency risk

The Bank's exposure to foreign currency risk based on notional amounts are as follows:

	Note	Total	Afs	USD	EURO	OTHERS
			..... Afs '000'			
December 31, 2015						
Cash and balances with central bank	5	7,944,097	1,123,086	6,461,781	345,998	13,232
Balances with other banks	6	2,274,301	286,248	1,742,112	1,711	244,230
Investments	7	341,850	-	341,850	-	-
Loans and advances to customers	8	6,666,625	1,149,281	5,517,344	-	-
Other assets	12	1,394,963	1,295,706	99,257	-	-
		18,621,836	3,854,321	14,162,344	347,709	257,462
Deposits from customers	15	(16,780,372)	(2,520,553)	(13,928,093)	(328,844)	(2,881)
Other liabilities	16	(103,350)	(60,970)	(42,356)	(25)	-
		(16,883,722)	(2,581,523)	(13,970,449)	(328,869)	(2,881)
Net foreign currency exposure		1,738,114	1,272,798	191,895	18,840	254,581
December 31, 2014						
Cash and balances with central bank	5	7,919,553	1,861,195	5,922,286	130,807	5,265
Balances with other banks	6	1,916,434	295,291	1,470,863	118,574	31,706
Investments	7	583,200	-	583,200	-	-
Loans and advances to customers	8	5,422,431	749,008	4,673,423	-	-
Other assets	12	1,306,832	1,188,355	140,927	-	-
		17,148,450	4,093,849	12,790,699	249,381	36,971
Deposits from customers	15	(15,752,195)	(3,024,492)	(12,540,991)	(184,913)	(1,800)
Other liabilities	16	(132,106)	(89,035)	(43,070)	(1)	-
		(15,884,301)	(3,113,527)	(12,584,061)	(184,914)	(1,800)
Net foreign currency exposure		1,264,149	980,322	206,638	64,467	35,171

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	December 31, 2015		December 31, 2014	
	Average rate	Reporting rate	Average rate	Reporting rate
USD	63.35	68.37	57.17	58.32
EURO	72.67	74.48	73.79	70.85

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD and EURO at December 31, 2015 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.

	December 31, 2015		December 31, 2014	
	Equity	Profit or loss	Equity	Profit or loss
USD	(15,352)	(19,189)	(16,531)	(20,664)
Euro	(1,507)	(1,884)	(5,157)	(6,447)
	..... Afs '000'			

A 10% weakening of the Afghani against the above currencies at December 31, 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 remain constant.

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28 CAPITAL MANAGEMENT

Regulatory capital

The Banks' 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.

- 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. Besides, Tier 2 capital cannot exceed from total amount of Tier 1 capital. The Bank complies with these regulations.

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

	2015	2014
	..... Afs '000'	
Tier 1 capital		
Total Equity	2,098,513	1,974,182
Less:		
Intangible assets	13,094	26,334
Profit for the year	1,523	395,693
Surplus on revaluation	574,960	452,152
	589,577	874,179
Total tier 1 (core) capital	1,508,936	1,100,003
Tier 2 capital		
Profit for the year	1,523	395,693
Surplus on revaluation	574,960	452,152
Total tier 2 (supplementary) capital	576,483	847,845
Total regulatory capital	2,085,419	1,947,848

29 POST-REPORTING DATE EVENTS

No adjusting or significant non-adjusting events have occurred between the reporting date "December, 31" and the date of authorisation of these financial statements.

30 RECLASSIFICATION OF PRIOR YEAR COMPARATIVE FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, to conform with current period presentation. These reclassifications had no effect on the reported results (net profit) of operations nor retained earnings/ aggregate financial position. Significant reclassifications are summarized below:

	2015	2014
	..... Afs '000'	
A) Interest Income on overnight deposits with NOSTRO banks	1,178	2,104
<u>Current classification</u>		
Interest Income (Note 17)		
<u>Previous classification</u>		
Clubbed in Other income - Other Operating Income (Last year Note 20)		

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	2015	2014
 Afs '000'	
B) Interest income on placements and balances with DAB	46,225	45,040
<u>Current classification</u>		
On placements and balances with Da Afghanistan Bank (Note 17)		
<u>Previous classification</u>		
On held to maturity investments (Last year Note 18)		
C) Interest income on held to maturity investments	21,519	46,584
<u>Current classification</u>		
On held to maturity investments (Note 17)		
<u>Previous classification</u>		
- On statutory reserve with Da Afghanistan Bank (Last year Note 18)		
D) Commission & processing fee on letters of credit issued	4,457	3,629
<u>Current classification</u>		
Commission & processing fee on letters of credit issued (Note 18)		
<u>Previous classification</u>		
Clubbed in Commission & processing fee on guarantees issued (Last year note 19)		
E) Foreign Exchange Gain/ (Loss)	32,327	37,663
<u>Current classification</u>		
Foreign Exchange Gain/ (Loss) on dealing in foreign currencies (Note 19.1)		
<u>Previous classification</u>		
Exchange gain clubbed in Recovery of written off loans (Last year note 20) whereas exchange loss clubbed in inter-bank transaction fee (Last year note 19)		
F) Foreign Exchange Gain/ (Loss)	44,076	(20,994)
<u>Current classification</u>		
Foreign Exchange Gain/ (Loss) on translation of monetary assets and liabilities (Note 19.1)		
<u>Previous classification</u>		
Clubbed in Other Expenses (Last year Note 22)		
G) Loan Processing fee	46,627	50,181
<u>Current classification</u>		
Other Operating Income (Note 19)		
<u>Previous classification</u>		
Interest Income on Loans and Advances from customers (Last year Note 18.1)		

31 GENERAL

Figures have been rounded off to the nearest Afghani *manah*



 DIRECTOR



 CHIEF EXECUTIVE OFFICER