# Independent auditors' report to the Board of Directors of New Kabul Bank

Grant Thornton Afghanistan

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We have audited the accompanying financial statements of New Kabul Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2014, and the 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 and the requirements of the Law of Banking in Afghanistan, and for such internal control as management determine 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

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accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Law of Banking in Afghanistan.

Grant Thornton Afghanistan

Grant Thornton GTA Afghanistan

**Kabul**
Date: 28th March, 2015

**Grant Thornton Afghanistan**
Chartered Accountants

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# NEW KABUL BANK

## Financial Statements

For the year ended December 31, 2014

NEW KABUL BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014

| 31-Dec-2014 | 31-Dec-2013 (Restatd) | 1-Jan-2013 (Restatd) | | Note | 31-Dec-2014 | 31-Dec-2013 (Restatd) | 1-Jan-2013 (Restatd) |
|---|---|---|---|---|---|---|---|
| ................. USD ................. | | | | | ..................... AFN ..................... | | |
| | | | **ASSETS** | | | | |
| **182,418,578** | 183,641,097 | 292,507,765 | Cash and cash equivalents | 5 | **10,638,651,447** | 10,285,737,778 | 15,233,804,422 |
| **54,810,531** | 88,105,639 | 86,273,898 | Investment in capital notes | 6 | **3,196,550,178** | 4,934,796,826 | 4,493,144,627 |
| **1,579,276** | 2,026,671 | 5,715,587 | Property and equipment | 7 | **92,103,375** | 113,513,856 | 297,667,760 |
| **-** | 1,391,281 | 3,041,942 | Intangible assets | 8 | **-** | 77,925,667 | 158,424,350 |
| **48,315,650** | 46,018,656 | 103,386,586 | Claim receivable from MOF | 9 | **2,817,768,710** | 2,577,504,935 | 5,384,373,389 |
| **49,018,207** | 49,819,410 | 50,313,461 | Other assets | 11 | **2,858,741,847** | 2,790,385,170 | 2,620,325,036 |
| **336,142,242** | 371,002,754 | 541,239,239 | **Total assets** | | **19,603,815,557** | 20,779,864,232 | 28,187,739,584 |
| | | | **EQUITY AND LIABILITIES** | | | | |
| | | | **EQUITY** | | | | |
| **-** | - | - | Share capital | 12 | **-** | - | - |
| **(58,120,284)** | (55,430,134) | (42,391,201) | Accumulated losses | | **(3,389,575,016)** | (3,104,641,810) | (2,691,856,077) |
| **(58,120,284)** | (55,430,134) | (42,391,201) | **Total equity** | | **(3,389,575,016)** | (3,104,641,810) | (2,691,856,077) |
| | | | **LIABILITIES** | | | | |
| **382,447,223** | 416,091,877 | 507,374,317 | Deposits from customers | 13 | **22,304,322,077** | 23,305,306,043 | 26,424,054,411 |
| **11,815,303** | 10,341,011 | 19,596,939 | Other liabilities | 14 | **689,068,496** | 579,199,999 | 1,020,608,583 |
| **-** | - | 56,659,185 | Suspense liability | 10 | **-** | - | 3,434,932,667 |
| **394,262,526** | 426,432,888 | 583,630,440 | **Total liabilities** | | **22,993,390,573** | 23,884,506,042 | 30,879,595,661 |
| **336,142,242** | 371,002,754 | 541,239,239 | **Total equity and liabilities** | | **19,603,815,557** | 20,779,864,232 | 28,187,739,584 |

The annexed notes 1 to 25 form an integral part of these financial statements.

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**Muzammil Noor**
**(Chief Financial Officer)**

**Ahmad Zia Zia**
**(Deputy Chief Executive Officer)**

**Mohammad Aqa Kohistani**
**(Chairman)**

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

| 2014 | 2013 | | Note | 2014 | 2013 |
|---|---|---|---|---|---|
| ......... USD ......... | | | | ............ AFN ............ | |
| **4,683,288** | 3,540,347 | Interest income | | **273,129,367** | 196,503,378 |
| **-** | (545,805) | Interest expense | | **-** | (30,294,373) |
| **4,683,288** | 2,994,542 | **Net interest income** | 16 | **273,129,367** | 166,209,005 |
| **18,524,921** | 20,438,629 | Fee and commission income | | **1,080,373,368** | 1,134,425,341 |
| **(625,435)** | (453,800) | Fee and commission expense | | **(36,475,391)** | (25,187,706) |
| **17,899,485** | 19,984,829 | **Net fee and commission income** | 17 | **1,043,897,977** | 1,109,237,635 |
| **2,497,765** | 2,222,675 | Other operating income | 18 | **145,669,683** | 123,367,317 |
| **25,080,539** | 25,202,046 | **Net operating income** | | **1,462,697,027** | 1,398,813,957 |
| **(12,580,082)** | (11,939,143) | Employee benefit expense | 19 | **(733,670,381)** | (662,669,988) |
| **(1,318,417)** | (3,500,330) | Depreciation | 7 | **(76,890,083)** | (194,282,284) |
| **(1,336,174)** | (1,450,323) | Amortization | 8 | **(77,925,667)** | (80,498,683) |
| **(2,136)** | (527,814) | Provision against other assets | 11.4 | **(124,584)** | (29,295,790) |
| **(14,729,416)** | (15,221,483) | Other expenses | 2 | **(859,019,518)** | (844,852,945) |
| **(29,966,225)** | (32,639,093) | **Operating expenses** | | **(1,747,630,233)** | (1,811,599,690) |
| **(4,885,686)** | (7,437,047) | **Loss before tax** | | **(284,933,206)** | (412,785,733) |
| **-** | - | Taxation | 21 | **-** | - |
| **(4,885,686)** | (7,437,047) | **Loss for the year / period** | | **(284,933,206)** | (412,785,733) |
| **-** | - | Other comprehensive income | | **-** | - |
| **(4,885,686)** | (7,437,047) | **Total comprehensive loss** | | **(284,933,206)** | (412,785,733) |

The annexed notes 1 to 25 form an integral part of these financial statements.

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**Muzammil Noor**
**(Chief Financial Officer)**

**Ahmad Zia Zia**
**(Deputy Chief Executive Officer)**

**Mohammad Aqa Kohistani**
**(Chairman)**

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

| Share capital | Accumulated loss | Total | | Share capital | Accumulated loss (Restated) | Total |
|---|---|---|---|---|---|---|
| | ………………. USD ………………. | | | | ………………. AFN ………………. | |
| - | (47,699,190) | (47,699,190) | Balance as at January 01, 2013 (restated: note 10) | - | (2,691,856,077) | (2,691,856,077) |
| - | (296,420) | (296,420) | Exchange difference | - | - | - |
| - | (7,369,858) | (7,369,858) | Total comprehensive loss for the year 2013 | - | (412,785,733) | (412,785,733) |
| - | (55,365,468) | (55,365,468) | **Balance as at December 31, 2013 (Restated)** | - | (3,104,641,810) | (3,104,641,810) |
| **-** | **(55,365,468)** | **(55,365,468)** | **Balance as at January 01, 2014** | **-** | **(3,104,641,810)** | **(3,104,641,810)** |
| - | **2,130,870** | **2,130,870** | **Exchange difference** | - | - | **-** |
| **-** | **(4,885,686)** | **(4,885,686)** | **Total comprehensive loss for the year 2014** | **-** | **(284,933,206)** | **(284,933,206)** |
| **-** | **(58,120,284)** | **(58,120,284)** | **Balance as at December 31, 2014** | **-** | **(3,389,575,016)** | **(3,389,575,016)** |

The annexed notes 1 to 25 form an integral part of these financial statements.

Muzammil Noor
(Chief Financial Officer)

Ahmad Zia Zia
(Deputy Chief Executive Officer)

Mohammad Aqa Kohistani
(Chairman)

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

| 2014 | 2013 | | Note | 2014 | 2013 |
|---|---|---|---|---|---|
| ........... USD ........... | | | | ........... AFN ........... | |
| | | **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **(4,885,686)** | (7,369,858) | Loss before tax | | **(284,933,206)** | (412,785,733) |
| | | **Adjustments for:** | | | |
| **1,318,417** | 3,468,707 | Depreciation | 7 | **76,890,083** | 194,282,284 |
| **1,336,174** | 1,437,220 | Amortization | 8 | **77,925,667** | 80,498,683 |
| **377,898** | 353,425 | Transfer of assets | 7 | **22,039,006** | 19,795,334 |
| **(1,853,197)** | (2,110,506) | | | **(108,078,450)** | (118,209,432) |
| | | **Increase/decrease in current assets and liabilities** | | | |
| **(4,119,749)** | 41,470,204 | Claim receivable from MOF | 9 | **(240,263,775)** | 2,322,746,119 |
| **2,100,384** | (1,772,474) | Other assets | 11 | **122,494,410** | (99,276,285) |
| **(17,163,648)** | (55,681,992) | Deposits from customers | 13 | **(1,000,983,966)** | (3,118,748,367) |
| **1,883,891** | (7,880,889) | Other liabilities | 14 | **109,868,497** | (441,408,584) |
| **-** | (52,683,634) | Suspense liability | | **-** | (2,950,810,332) |
| **(19,152,319)** | (78,659,291) | | | **(1,116,963,284)** | (4,405,706,881) |
| **(3,272,481)** | (1,263,772) | Advance tax paid | | **(190,851,087)** | (70,783,850) |
| **(22,424,800)** | (79,923,063) | **Net cash (used in)/generated from operating activities** | | **(1,307,814,371)** | (4,476,490,731) |
| | | **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| **(1,329,194)** | (534,257) | Investment in operating fixed assets | 7 | **(77,518,608)** | (29,923,714) |
| **29,805,327** | (7,885,238) | Investment in capital notes - net | 6 | **1,738,246,648** | (441,652,199) |
| **28,476,133** | (8,419,495) | **Net cash (used in)/ generated from investing activities** | | **1,660,728,040** | (471,575,913) |
| **-** | - | **CASH FLOWS FROM FINANCING ACTIVITIES** | | **-** | - |
| **6,051,333** | (88,342,557) | **Net decrease in cash and cash equivalents** | | **352,913,669** | (4,948,066,644) |
| **176,367,245** | 271,983,653 | Cash and cash equivalents at beginning of the year | | **10,285,737,778** | 15,233,804,422 |
| **-** | - | Effect of exchange differences | | **-** | - |
| **182,418,578** | 183,641,096 | **Cash and cash equivalents at end of the year** | 5 | **10,638,651,447** | 10,285,737,778 |

The annexed notes 1 to 25 form an integral part of these financial statements.

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| | | |
|---|---|---|
| **Muzammil Noor** | **Ahmad Zia Zia** | **Mohammad Aqa Kohistani** |
| **(Chief Financial Officer)** | **(Deputy Chief Executive Officer)** | **(Chairman)** |

## 1 STATUS AND NATURE OF BUSINESS

New Kabul Bank ("the Bank"') is a limited liability company incorporated under the Law in Afghanistan. The registered office of the Bank is located in Kabul, Afghanistan and has seventy nine branches and thirty eight extension counters. The Bank was registered with Afghanistan Investment Support Agency (AISA) on August 09, 2011 and received commercial banking license from the Da Afghanistan Bank (DAB) central bank of Afghanistan on April 18, 2011. The Bank started its operation on April 21, 2011 upon the liquidation of Kabul Bank and transfer of all good assets, liabilities and operations to the New Kabul Bank.

The control of the bank is with Government of Islamic Republic of Afghanistan and is exercised by the Ministry of Finance who currently intends to hold its control over the Bank. The Bank was established as a bridge bank with the objective of its privatization to private sector or liquidation/ rehabilitation in case of unsuccessful privatization. The Bank is primarily engaged in restrictive commercial banking services in Afghanistan including deposits, collection, disbursement and issuance of bank guarantees.

The financial statements for the year ended December 31, 2014 (including comparatives) have been approved and authorized for issue by the Board of Directors on March 28, 2015.

## 2 STATEMENT OF COMPLIANCE

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

The following are the amendments and interpretation of approved accounting standard which became effective for the current year:

- IAS 32 – Financial Instruments : Presentation – (Amendment) – Offsetting Financial Assets and Financial Liabilities
- IAS 36 – Impairment of Assets – (Amendment) – Recoverable Amount Disclosures for Non-Financial Assets
- IFRIC 21 – Levies

The adoption of the above did not have any effect on the financial statements of the Bank for the current year.

### 2.2 Application of new and revised approved accounting standards not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning after January 01, 2015:

- Amendments to IAS 38 'Intangible Assets' and IAS 16 'Property, Plant and Equipment' (effective for annual periods beginning on or after January 01, 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on the Bank's financial statements.

- IFRS 10 'Consolidated Financial Statements' – (effective for annual periods beginning on or after January 01, 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements'. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements. Certain further amendments have been made to IFRS 10, IFRS 12 and IAS 28 clarifying the requirements relating to accounting for investment entities and would be effective for annual periods beginning on or after January 01, 2016. The adoption of this standard is not likely to have an impact on the Bank's financial statements.

- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after January 01, 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets / operations under IAS 31 and are now called joint operations. Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after January 01, 2016. The adoption of this standard is not likely to have an impact on the Bank's financial statements.

- IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after January 01, 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and / or unconsolidated structured entities, into one place. The adoption of this standard is not likely to have an impact on the Bank's financial statements.

- Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning on or after January 01, 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are not likely to have an impact on the Bank's financial statements.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) [effective for annual periods beginning on or after January 01, 2016]. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The amendments are not likely to have an impact on the Bank's financial statements.

Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after July 01, 2014). The new cycle of improvements contain amendments to the following standards:

- IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'.

- IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination.

- IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria.

- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets': The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.

- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

Annual Improvements 2012-2014 cycles (amendments are effective for annual periods beginning on or after January 01, 2016). The new cycle of improvements contain amendments to the following standards:

- IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. IFRS 5 is amended to clarify that if an entity changes the method of disposal of an asset (or disposal group) i.e. reclassifies an asset from held for distribution to owners to held for sale or vice versa without any time lag, then such change in classification is considered as continuation of the original plan of disposal and if an entity determines that an asset (or disposal group) no longer meets the criteria to be classified as held for distribution, then it ceases held for distribution accounting in the same way as it would cease held for sale accounting.

- IAS 19 'Employee Benefits'. IAS 19 is amended to clarify that high quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.

- IAS 34 'Interim Financial Reporting'. IAS 34 is amended to clarify that certain disclosures, if they are not included in the notes to interim financial statements and disclosed elsewhere should be cross referred.

## 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 amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods 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 the most significant effect on the amounts recognized in the financial statements are described in the following:

| | | |
|---|---|---|
| **a)** | Note 11.4 | Provision against other assets |
| **b)** | Note 7 | Depreciation rates for property and equipment |
| **c)** | Note 8 | Amortization rate for intangible assets |

### 3.3 Functional and presentation currency

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

The US Dollar amounts reported in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows are stated as additional information, solely for the convenient of the user of these financial statements. The US Dollar amounts in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows have been translated into US Dollar at the rate of AFN 58.32 to USD 1 (2013: AFN 56.01 to USD 1).

## 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 state.

### 4.1 Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central bank, balances in Nostro accounts and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

## 4.2 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 assets 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 asset 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 held to maturity investments. Therefore, policies related to other categories of financial assets would not be relevant.

**a) 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 "Investment in capital notes with Da Afghanistan Bank" 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.

## 4.3 Property and equipment

**Owned**

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses thereon. Cost includes expenditure that is directly attributable to the acquisition of fixed assets.

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.

Depreciation on all fixed assets is calculated using the straight line method to allocate their depreciable cost 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 periodic rate of financial charge on the outstanding liability. Depreciation is charged on the basis similar to owned assets.

## 4.4 Intangible assets

Acquired computer software's 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 expected 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 five years.

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

## 4.5 Impairment of non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable 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.

## 4.6 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.

## 4.7 Taxation

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in the statement of comprehensive 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 profit; 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 been enacted or substantively enacted by the reporting date.

A 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.

### 4.8 Employee compensation

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

### 4.9 Foreign currency transactions

Transactions in foreign currencies are translated to Afghani at exchange rates 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.

### 4.10 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.

### 4.11 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.

### 4.12 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 received are recognized as an integral part of the total lease expense, over the term of the lease.

### 4.13 Provisions

Provisions for restructuring costs and legal claims are recognized when:

a) the Bank has a 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 obligations.

### 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.

## 5 CASH AND CASH EQUIVALENTS

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | ………… AFN ………… | |
| **Cash in hand:** | | | |
| Local currency | | **865,378,050** | 932,974,506 |
| Foreign currency | | **396,671,586** | 763,466,762 |
| | | **1,262,049,636** | 1,696,441,268 |
| **Balances with banks:** | | | |
| Balances with Da Afghanistan Bank | 5.1 | **7,020,890,663** | 7,199,810,585 |
| Balances with other banks | 5.2 | **2,355,711,148** | 1,389,485,925 |
| | | **9,376,601,811** | 8,589,296,510 |
| | | **10,638,651,447** | 10,285,737,778 |

### 5.1 Balances with Da Afghanistan Bank

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Overnight deposits** | | | |
| Local currency | 5.1.1 | **-** | 763,563,522 |
| **Current account** | | | |
| Local currency | | **1,892,951,820** | 2,284,788,778 |
| Foreign currency | | **5,127,938,843** | 4,151,458,285 |
| | | **7,020,890,663** | 6,436,247,063 |
| | | **7,020,890,663** | 7,199,810,585 |

**5.1.1** This represents overnight deposits with Da Afghanistan Bank, carrying interest rates ranging from 2.40% to 2.56% (2013: 0.89% to 2.39%) per annum.

### 5.2 Balances with other banks

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | ………… AFN ………… | |
| **Current accounts** | | | |
| Local currency | | **17,000** | 17,076 |
| Foreign currency | | **2,344,030,148** | 1,249,443,849 |
| | | **2,344,047,148** | 1,249,460,925 |
| **Deposit accounts** | | | |
| Foreign currency | | **11,664,000** | 140,025,000 |
| | | **2,355,711,148** | 1,389,485,925 |

## 6 INVESTMENT IN CAPITAL NOTES

| | Note | 2014 | 2013 |
|---|---|---|---|
| **Held to maturity** | | | |
| 28 days capital notes | | **398,898,597** | 2,044,652,762 |
| 182 days capital notes | | **-** | 1,953,146,724 |
| 1 year capital notes | | **2,797,651,581** | 936,997,340 |
| | 6.1 | **3,196,550,178** | 4,934,796,826 |

**6.1** These are classified as held to maturity having maximum period of 1 year carrying interest rate ranging from 3.39% to 7.19% (2013: 1.89% to 3.39%) per annum.

## 7 PROPERTY AND EQUIPMENT

| | Note | Furniture and fixtures | Electric equipments | Computer and IT equipments | Motor vehicles | Containers | Total |
|---|---|---|---|---|---|---|---|
| | | …………………… AFN …………………… | | | | | |
| **GROSS CARRYING AMOUNT** | | | | | | | |
| Balance as at January 01, 2013 | | 43,147,533 | 96,020,935 | 323,872,601 | 144,061,630 | 21,671,746 | 628,774,445 |
| Additions during the year | | 3,187,265 | 7,463,389 | 16,436,220 | 2,836,840 | - | 29,923,714 |
| Transfer of acquired assets | | - | (1,120,200) | - | (10,413,659) | (8,261,475) | (19,795,334) |
| Balance as at December 31, 2013 | | 46,334,798 | 102,364,124 | 340,308,821 | 136,484,811 | 13,410,271 | 638,902,825 |
| **Balance as at January 01, 2014** | | **46,334,798** | **102,364,124** | **340,308,821** | **136,484,811** | **13,410,271** | **638,902,825** |
| **Additions during the year** | | **4,535,078** | **11,838,264** | **61,145,266** | **-** | **-** | **77,518,608** |
| **Transfer of acquired assets** | 7.2 | **-** | **(9,298,535)** | **-** | **(1,719,686)** | **(11,020,785)** | **(22,039,006)** |
| **Balance as at December 31, 2014** | | **50,869,876** | **104,903,853** | **401,454,087** | **134,765,125** | **2,389,486** | **694,382,427** |
| **ACCUMULATED DEPRECIATION** | | | | | | | |
| Balance as at January 01, 2013 | | 24,353,595 | 53,797,029 | 167,705,690 | 81,569,143 | 3,681,228 | 331,106,685 |
| Charge for the period | | 15,439,194 | 34,119,171 | 105,821,797 | 45,494,937 | 1,341,027 | 202,216,126 |
| Depreciation on transferred assets | | - | (634,205) | - | (5,896,318) | (1,403,319) | (7,933,842) |
| Balance as at December 31, 2013 | | 39,792,789 | 87,281,995 | 273,527,487 | 121,167,762 | 3,618,936 | 525,388,969 |
| **Balance as at January 01, 2014** | | **39,792,789** | **87,281,995** | **273,527,487** | **121,167,762** | **3,618,936** | **525,388,969** |
| **Charge for the year** | | **3,935,201** | **10,563,203** | **63,145,926** | **13,331,261** | **238,948** | **91,214,539** |
| **Depreciation on transferred assets** | 7.2 | **-** | **(9,298,535)** | **-** | **(1,719,686)** | **(3,306,235)** | **(14,324,456)** |
| **Balance as at December 31, 2014** | | **43,727,990** | **88,546,663** | **336,673,413** | **132,779,337** | **551,649** | **602,279,052** |
| **WRITTEN DOWN VALUE AS AT** | | | | | | | |
| - December 31, 2013 | | 6,542,009 | 15,082,129 | 66,781,334 | 15,317,049 | 9,791,335 | 113,513,856 |
| **- December 31, 2014** | | **7,141,886** | **16,357,190** | **64,780,674** | **1,985,788** | **1,837,837** | **92,103,375** |
| **Rate of depreciation in %** | | **10** | **20** | **33.33** | **20** | **10** | |

**7.1** There were no capitalized borrowing costs related to the acquisition of property and equipment during the year (2013: nil).

**7.2** These assets transferred at cost to Kabul Bank Receivership through settlement process.

| | Note | **2014** | 2013 |
|---|---|---|---|
| | | ............ AFN ............ | |
| **8 INTANGIBLE ASSETS** | | | |
| **Gross carrying amount** | | | |
| Opening balance | | **295,161,839** | 295,161,839 |
| Additions during the period | | **-** | - |
| Closing balance | | **295,161,839** | 295,161,839 |
| **Accumulated amortization** | | | |
| Opening balance | | **217,236,172** | 136,737,489 |
| Charge for the year / period | | **77,925,667** | 80,498,683 |
| Closing balance | | **295,161,839** | 217,236,172 |
| **Written down value** | 8.1 | **-** | 77,925,667 |

**8.1** Intangible assets includes software licensing, customization and implementation costs for oracle database, mobile and point of sale banking applications which are amortized at the rate of 33%.

| | **2014** | **2013 (restated)** |
|---|---|---|
| | ............ AFN ............ | |
| **9 CLAIM RECEIVABLE FROM MOF** | | |
| Gross amount of claim from MOF | 8,947,235,661 | 7,518,736,219 |
| Unrealized foreign currency revaluation gain | (6,129,466,951) | (4,941,231,284) |
| | **2,817,768,710** | 2,577,504,935 |

**9.1** Claim represents receivable from Ministry of Finance (MOF), Government of Islamic Republic of Afghanistan against the net liabilities (excess of liabilities over assets) acquired from Kabul Bank Receivership (KBR). It comprises of currency wise amounts using the prevailing exchange rate as at December 31, 2014. The claim has been lodged with KBR for their consideration, however, as confirmed through letter #127793 dated March 11, 2015 MOF will bear the difference of asset and liabilities.

Unrealized foreign currency revaluation gain has been restated for 31-Dec-2013 giving effect to the accumulated losses as disclosed in note 10.

## 10 RESTATEMENT

During the year 2011, unrealized gain on revaluation of foreign currencies was erroneously included in "other operating income" while debiting suspense liability (reflecting position account at that time) due to non valuation of monetory assets and liabities by the system. During the year 2014, foreign currency transaction and translation module developed that gave rise to fireign exchange gain that had been accounted earlier in 2011 as other operating income. Statement of changes in equity has been restated to correct this error. There is no effect in 2014. Following is the summary of restatement due to error in the prior period financial statements:

| | **Suspense liability** | **Accumulated losses** |
|---|---|---|
| | ............ AFN ............ | |
| Balance reported on Jan 01, 2013 | 2,950,810,332 | (2,207,733,742) |
| Adjustment | 484,122,335 | (484,122,335) |
| **Restated balance reported on Jan 01, 2013** | **3,434,932,667** | **(2,691,856,077)** |

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | ………… AFN ………… | |
| **11 OTHER ASSETS** | | | |
| Required reserve with Da Afghanistan Bank | 11.1 | **1,906,645,000** | 1,979,639,000 |
| Advances and prepayments | 11.2 | **83,797,341** | 81,633,560 |
| Receivable from remittances | | **44,568,884** | 120,439,847 |
| Accrued interest and commission | 11.3 | **547,993,880** | 517,323,622 |
| Advance tax | | **261,634,936** | 70,783,849 |
| Cash in transit | | **-** | 11,980,800 |
| Staff loan | | **998,516** | 6,781,642 |
| Others | 11.4 | **13,103,290** | 1,802,850 |
| | | **2,858,741,847** | 2,790,385,170 |

**11.1** This represents the required reserve account maintained with Da Afghanistan Bank to meet minimum reserve requirement in accordance with Article 64 "Required reserve for banks" of Da Afghanistan Bank Law. This carries mark-up ranging from 2.40% to 2.56% (2013: 1.25% to 1.5%) per annum. Required reserve is a restricted balance with DAB and is not available for use in the Bank's day-to-day operations.

| | 2014 | 2013 |
|---|---|---|
| | ………… AFN ………… | |
| **11.2 Advances and prepayments** | | |
| Advance payment to contractors | **37,461,763** | 40,788,926 |
| Prepaid rent | **46,335,578** | 40,844,634 |
| | **83,797,341** | 81,633,560 |

**11.3** This represents accrued interest on capital notes and accrued commission on distribution of government employees salaries receivable from Ministry of Finance.

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | ………… AFN ………… | |
| **11.4 Others** | | | |
| **Gross amount** | | **103,589,401** | 115,220,127 |
| **Allowance for doubtful receivables** | | | |
| Opening balance | | **(113,417,277)** | (84,121,487) |
| Charge for the year | | **(124,584)** | (29,295,790) |
| Reversal due to recovery | | **23,055,750** | - |
| Closing balance | | **(90,486,111)** | (113,417,277) |
| **Net amount** | 11.4.1 | **13,103,290** | 1,802,850 |

**11.4.1** This include receivable from staff and others on account of cash shortages. Allowance has been recognized on the basis of recoverability of these shortages on cases to case basis, while recovery represent amount received from insurer against cash shortages.

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | ............ AFN ............ | |
| **12 SHARE CAPITAL** | | | |
| **Authorized** | | | |
| 1,000,000 ordinary shares of AFN 1,000 each | | **1,000,000,000** | 1,000,000,000 |
| Issued, subscribed and paid-up capital | 12.1 | **-** | - |

**12.1** The bank is owned by Ministry of Finance which has acquired its ownership through the process of splitting Kabul Bank without injection of any capital. As the bank has been established as a bridge entity to take over operations of Kabul Bank with an objective of ultimate selling it to a new investor or continue the operations as deemed appropriate by MOF. Therefore Supreme Council of Da Afghanistan Bank (DAB) in its meeting held on March 15, 2011 has granted forbearance to the bank for regulatory requirement related to the size and structure of its capital.

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | ............ AFN ............ | |
| **13 DEPOSITS FROM CUSTOMERS** | | | |
| **Local currency** | | | |
| Current deposits | | **6,613,516,942** | 5,389,201,172 |
| Saving deposits | 13.1 | **6,022,235,934** | 5,839,106,747 |
| Term deposits | 13.2 | **-** | 4,775 |
| | | **12,635,752,876** | 11,228,312,694 |
| **Foreign currency** | | | |
| Current deposits | | **5,539,827,555** | 6,128,609,321 |
| Saving deposits | 13.1 | **4,128,741,646** | 5,948,382,140 |
| Term deposits | 13.2 | **-** | 1,888 |
| | | **9,668,569,201** | 12,076,993,349 |
| | | **22,304,322,077** | 23,305,306,043 |

**13.1** Saving deposits carry no interest (2013: 0% to 1.25% ) per annum.

**13.2** Term deposits carry no interest and include deposits of credit card customers and Mudaraba investment accounts.

| | 2014 | 2013 |
|---|---|---|
| | ............ AFN ............ | |
| **14 OTHER LIABILITIES** | | |
| Margin money against bank guarantees | **427,484,554** | 436,919,719 |
| Remittances payable | **1,718,779** | 13,930,731 |
| CSC Bank payables | **1,759,508** | - |
| Withholding taxes payable | **4,454,004** | 4,477,844 |
| Accrued expenses and other liabilities | **253,651,651** | 123,871,705 |
| | **689,068,496** | 579,199,999 |

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| | | | ………… AFN ………… | |
| **15** | **CONTINGENCIES AND COMMITMENTS** | | | |
| | **Contingencies** | | | |
| | Guarantees issued on behalf of customers | 15.1 | **237,580,707** | 199,102,236 |

**15.1** All guarantees are secured against 100% cash margin.

| | | 2014 | 2013 |
|---|---|---|---|
| **Lease Commitments** | | | |
| Cancellable operating lease rentals are payable as follows: | | | |
| Less than one year | | **153,839,976** | 149,608,355 |
| Between one and five years | | **461,519,929** | 598,433,419 |
| More than five years | | **-** | - |
| | | **615,359,905** | 748,041,774 |

| | | Note | 2014 | 2013 |
|---|---|---|---|---|
| **16** | **NET INTEREST INCOME / (EXPENSE)** | | | |
| | **Interest income on:** | | | |
| | Investment in capital notes | | **219,371,053** | 144,156,073 |
| | Interest bearing bank accounts | | **53,758,314** | 52,347,305 |
| | | | **273,129,367** | 196,503,378 |
| | **Interest expense on:** | | | |
| | Deposits from customers | 16.1 | **-** | (30,294,373) |
| | **Net interest income** | | **273,129,367** | 166,209,005 |
| **16.1** | **Interest expense on:** | | | |
| | Term deposits | | **-** | - |
| | Saving deposits | | **-** | 30,294,373 |
| | | | **-** | 30,294,373 |
| **17** | **NET FEE AND COMMISSION INCOME** | | | |
| | **Fee and commission income** | | | |
| | Commission on remittances | | **156,752,951** | 103,453,783 |
| | Commission on Western Union operations | | **79,129,167** | 82,248,481 |
| | Commission on collections | | **13,027,214** | 15,098,444 |
| | Commission on salary distribution | | **604,255,532** | 594,319,036 |
| | Commission on bank guarantees | | **1,126,975** | 2,942,092 |
| | Account maintenance fee | | **226,081,529** | 336,363,505 |
| | | | **1,080,373,368** | 1,134,425,341 |
| | **Fee and commission expense** | | | |
| | Inter-bank transaction fee | | **(36,475,391)** | (25,187,706) |
| | **Net fee and commission income** | | **1,043,897,977** | 1,109,237,635 |

| | | 2014 | 2013 |
|---|---|---|---|
| | | ............ AFN ............ | |
| **18** | **OTHER OPERATING INCOME** | | |
| | Income from cash operations | **52,538,869** | 41,926,695 |
| | Foreign exchange gain | **21,570,031** | 11,536,824 |
| | Income from call centre services | **35,306,363** | 38,939,474 |
| | Miscellaneous | **36,254,420** | 30,964,324 |
| | | **145,669,683** | 123,367,317 |
| **19** | **EMPLOYEE BENEFIT EXPENSE** | | |
| | Salaries and wages | **663,528,493** | 583,768,293 |
| | Food and other amenities | **70,141,888** | 78,901,695 |
| | | **733,670,381** | 662,669,988 |
| **20** | **OTHER EXPENSES** | | |
| | Rent and taxes | **159,811,929** | 165,432,905 |
| | Communication expense | **98,321,415** | 129,356,582 |
| | Security expense | **299,697,186** | 283,771,960 |
| | Insurance | **64,770,525** | 46,069,474 |
| | Fuel and electricity | **79,157,336** | 78,079,561 |
| | Software services | **75,341,319** | 63,607,780 |
| | Advertisement | **11,100,970** | 11,994,040 |
| | Repair and maintenance | **18,598,695** | 18,010,591 |
| | Stationery and printing | **30,586,194** | 28,859,362 |
| | Audit fee | **3,831,896** | 2,881,266 |
| | Others | **17,802,053** | 16,789,424 |
| | | **859,019,518** | 844,852,945 |

## 21 TAXATION

**Current and deferred tax**

No provision for the current year income tax has been made in these financial statements due to net tax loss for the year and no deferred tax asset has been recognized due to non-availability of future taxable profits.

## 22 RELATED PARTIES

**Ultimate controlling entity**
Ministry of Finance (MOF) is the ultimate controlling entity of the bank.

**Other related parties**
As the bank is owned by Ministry of Finance therefore the government and all entities owned by the government are related to the bank.

**Key management personnel**
Key management personnel includes Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.

**Transactions with key management personnel**
Key management personnel have executed following transaction with the Bank during the year:

| Short-term staff advances | Maximum balance | Closing balance |
|---|---|---|
| | ………… AFN …………. | |
| Chief Executive Officer | 703,248 | 351,624 |
| Chief Financial Officer | 475,600 | - |
| Chief Operating Officer | 202,860 | - |

No impairment losses have been recorded against balances outstanding during the year with key management personnel.

Moreover, during the year AFN 16,983,792 paid to key management personnel as remuneration.

**Other transactions with related parties**
There are no significant related party transaction except for normal banking services to government and its institutions for salary distribution and related deposit accounts.

## 23 FINANCIAL ASSETS AND LIABILITIES

**Categories of financial assets and financial liabilities**

Note 4.2 of the financial statements 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 follow:

| December 31, 2014 | Note | Available for sale financial assets | Held for trading (FVTPL) | Derivatives used for hedging | Held to maturity | Loans and receivables | Total |
|---|---|---|---|---|---|---|---|
| | | (carried at fair value) | | | (carried at amortised cost) | | |
| | | ……………… AFN ……………… | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 5 | - | - | - | - | 10,638,651,447 | 10,638,651,447 |
| Investment in capital notes | 6 | - | - | - | 3,196,550,178 | - | 3,196,550,178 |
| Claim receivable from MOF | 9 | - | - | - | - | 2,817,768,710 | 2,817,768,710 |
| Other assets | 11 | - | - | - | - | 2,513,309,570 | 2,513,309,570 |
| | | - | - | - | 3,196,550,178 | 15,969,729,727 | 19,166,279,905 |

| | Note | Derivatives used for hedging | Designated at FVTPL | Other liabilities at FVTPL | Other liabilities (amortised cost) | Total |
|---|---|---|---|---|---|---|
| | | (carried at fair value) | | | | |
| | | ……………… AFN ……………… | | | | |
| **Financial liabilities** | | | | | | |
| Deposits from customers | 13 | - | - | - | 22,304,322,077 | 22,304,322,077 |
| Other liabilities | 14 | - | - | - | 689,068,496 | 689,068,496 |
| | | - | - | - | 22,993,390,573 | 22,993,390,573 |

| December 31, 2013 | Note | Available for sale financial assets | Held for trading (FVTPL) | Derivatives used for hedging | Held to maturity | Loans and receivables | Total |
|---|---|---|---|---|---|---|---|
| | | (carried at fair value) | | | (carried at amortised cost) | | |
| | | …..……..……………………….. AFN ……..…………………………..... | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 5 | - | - | - | - | 10,285,737,778 | 10,285,737,778 |
| Investment in capital notes | 6 | - | - | - | 4,934,796,826 | - | 4,934,796,826 |
| Claim receivable from MOF (Restated) | 9 | - | - | - | - | 2,577,504,935 | 2,577,504,935 |
| Other assets | 11 | - | - | - | - | 2,637,967,761 | 2,637,967,761 |
| | | - | - | - | 4,934,796,826 | 15,501,210,474 | 20,436,007,300 |

| | Note | Derivatives used for hedging | Designated at FVTPL | Other liabilities at FVTPL | Other liabilities (amortised cost) | Total |
|---|---|---|---|---|---|---|
| | | (carried at fair value) | | | | |
| | | …...……………………….. AFN …………………………..….. | | | | |
| **Financial liabilities** | | | | | | |
| Deposits from customers | 13 | - | - | - | 23,305,306,043 | 23,305,306,043 |
| Other liabilities | 14 | - | - | - | 579,199,999 | 579,199,999 |
| | | - | - | - | 23,884,506,042 | 23,884,506,042 |

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.

## 24 FINANCIAL RISK MANAGEMENT

### 24.1 Introduction and overview

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

a) credit risk
b) liquidity risk
c) market risks
d) operational 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 Supervisors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established 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 committees have both executive and non-executive members and report regularly to the Board of Supervisors on their activities.

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

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. Compliance Departments are 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.

### 24.2 Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Bank. The Bank is exposed to this risk mainly due to Placements, current account and nostro account balances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

**Management of credit risk**

The CEO has delegated responsibility for the management of credit risk related to bank guarantees to risk management and credit department who are responsible for oversight of the bank's credit risk.

**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 | 2014 | 2013 (Restated) |
|---|---|---|---|
| | | ………… AFN ………… | |
| **Classes of financial assets** | | | |
| Cash and cash equivalents | 5 | **9,376,601,811** | 8,589,296,510 |
| Investment in capital notes | 6 | **3,196,550,178** | 4,493,144,627 |
| Claim receivable from MOF (Restated) | 9 | **2,817,768,710** | 2,577,504,935 |
| Other assets | 11 | **2,513,309,570** | 2,708,751,610 |
| **Total carrying amounts** | | **17,904,230,269** | 18,368,697,682 |

In addition to the above, the Bank has issued financial guarantees contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is AFN 237,580,707 (2012: AFN 199,102,236).

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.

**Cash and cash equivalents**

The Bank holds AFN 9,376 million (2013: AFN 8,589 million) at the year end with central bank and other banks which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the central bank and other local and foreign banks having good credit ratings.

**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 deliverable cash and other assets as contractually agreed.

## 24.3 Liquidity risk

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

**Management of liquidity risk**

The Board ensures that the Bank has necessary tools and framework to cater the requirements of liquidity risk management and the Bank is capable to confronting uneven liquidity scenarios. The Bank's management is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board. Asset and 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, whist enabling the Bank to pursue valued business opportunities.

The Bank relies on deposits from customers as its primary source of funding. Deposits from customers generally has shorter maturities and large proportion of them are repayable on demand. 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 liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalent less any deposits from banks. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's Regulator (Da Afghanistan Bank). Detail of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period was as follows:

| | **2014** | 2013 |
|---|---|---|
| | **………… % age** | **…………** |
| As at period end | **70%** | 75% |
| Average for the period | **70%** | 78% |
| Maximum for the period | **73%** | 80% |
| Minimum for the period | **67%** | 74% |

**Maturity analysis for financial liabilities**

| | Note | Carrying amount | Gross nominal out flow | Less than 1 month | 1-3 months | 3 months to 1 year | More than 1 year |
|---|---|---|---|---|---|---|---|
| | | ........................................... AFN ........................................... | | | | | |
| **December 31, 2014** | | | | | | | |
| Deposits from customers | 13 | **22,304,322,077** | **22,304,322,077** | **22,304,322,077** | **-** | **-** | **-** |
| Other liabilities | 14 | **689,068,496** | **689,068,496** | **261,583,942** | **427,484,554** | **-** | **-** |
| | | **22,993,390,573** | **22,993,390,573** | **22,565,906,019** | **427,484,554** | **-** | **-** |
| **December 31, 2013** | | | | | | | |
| Deposits from customers | 13 | 23,305,306,043 | 23,305,306,043 | 23,305,299,380 | 6,663 | - | - |
| Other liabilities | 14 | 579,199,999 | 579,199,999 | 142,280,280 | 109,229,930 | 327,689,789 | - |
| | | 23,884,506,042 | 23,884,506,042 | 23,447,579,660 | 109,236,593 | 327,689,789 | - |

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

## 24.4 Market risks

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

**Management of market risks**

To manage and control market risk a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. Overall authority for managing market risk is vested with Chief Risk Manager.

**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 is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing 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 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 |
|---|---|---|---|---|---|---|---|
| | | ..... AFN ..... | | | | | |
| **December 31, 2014** | | | | | | | |
| **Cash and cash equivalents** | 5 | - | - | - | - | - | - |
| **Investment in capital notes** | 6 | 3,196,550,178 | 398,898,597 | - | 2,797,651,581 | - | - |
| **Other assets** | 11 | 1,906,645,000 | 1,906,645,000 | - | - | - | - |
| | | 5,103,195,178 | 2,305,543,597 | - | 2,797,651,581 | - | - |
| **Deposits from customers** | 13 | - | - | - | - | - | - |
| | | 5,103,195,178 | 2,305,543,597 | - | 2,797,651,581 | - | - |
| December 31, 2013 | | | | | | | |
| Cash and cash equivalents | 5 | 763,563,522 | 763,563,522 | - | - | - | - |
| Investment in capital notes | 6 | 4,934,796,826 | 3,997,799,486 | - | 936,997,340 | - | - |
| Other assets | 11 | 1,979,639,000 | 1,979,639,000 | - | - | - | - |
| | | 7,677,999,348 | 6,741,002,008 | - | 936,997,340 | - | - |
| Deposits from customers | 13 | - | - | - | - | - | - |
| | | 7,677,999,348 | 6,741,002,008 | - | 936,997,340 | - | - |

**Exposure to currency risk**

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

| | Total | AFN | USD | EUR | Others |
|---|---|---|---|---|---|
| | ……………… AFN ……………… | | | | |
| **December 31, 2014** | | | | | |
| **Cash and cash equivalents** | **10,638,651,447** | **2,758,347,045** | **7,403,084,462** | **463,229,205** | **13,990,735** |
| **Investment in capital notes** | **3,196,550,178** | **3,196,550,178** | **-** | **-** | **-** |
| **Claim receivable from MOF** | **2,817,768,710** | **2,817,768,710** | **-** | **-** | **-** |
| **Other assets** | **2,858,741,847** | **2,826,544,325** | **32,190,437** | **7,085** | **-** |
| | **19,511,712,182** | **11,599,210,258** | **7,435,274,899** | **463,236,290** | **13,990,735** |
| **Deposits from customers** | **22,304,322,077** | **12,635,752,997** | **9,505,214,763** | **163,000,904** | **353,413** |
| **Other liabilities** | **689,068,496** | **261,788,791** | **426,728,433** | **551,273** | **-** |
| | **22,993,390,574** | **12,897,541,788** | **9,931,943,196** | **163,552,177** | **353,413** |
| **Net foreign currency exposure** | **(3,481,678,392)** | **(1,298,331,530)** | **(2,496,668,297)** | **299,684,113** | **13,637,322** |
| December 31, 2013 | | | | | |
| Cash and cash equivalents | 10,285,737,778 | 3,498,054,058 | 6,311,957,056 | 462,870,099 | 12,856,565 |
| Investment in capital notes | 4,934,796,826 | 4,934,796,826 | - | - | - |
| Claim receivable from MOF - restated | 2,577,504,935 | 2,577,504,935 | - | - | - |
| Other assets | 2,790,385,170 | 2,623,344,396 | 165,134,319 | 1,906,455 | - |
| | 20,588,424,709 | 13,633,700,215 | 6,477,091,375 | 464,776,554 | 12,856,565 |
| Deposits from customers | 23,305,306,043 | 11,578,378,461 | 11,462,356,213 | 264,066,850 | 504,519 |
| Other liabilities | 579,199,999 | 519,844,811 | 59,355,188 | - | - |
| | 23,884,506,042 | 12,098,223,272 | 11,521,711,401 | 264,066,850 | 504,519 |
| Net foreign currency exposure | (2,811,958,998) | 2,019,599,278 | (5,044,620,026) | 200,709,704 | 12,352,046 |

The following significant exchange rates applied during the year

| | **December 31, 2014** | | December 31, 2013 | |
|---|---|---|---|---|
| | **Average rate** | **Reporting rate** | Average rate | Reporting rate |
| USD | **57.38** | **58.32** | 55.50 | 56.01 |
| EUR | **76.10** | **70.85** | 73.37 | 76.73 |

**Sensitivity analysis**

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

| | **December 31, 2014** | | December 31, 2013 | |
|---|---|---|---|---|
| | **Equity** | **Profit or loss** | Equity | Profit or loss |
| | ........................ **AFN** ........................ | | | |
| USD | **199,733,464** | **249,666,830** | 403,569,602 | 504,462,003 |
| EUR | **(23,974,729)** | **(29,968,411)** | (16,056,776) | (20,070,970) |

A 10% weakening of the Afghani against the above currencies at December 31, 2014 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.

## 25 CORRESPONDING FIGURES

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

GTA

| | | |
|---|---|---|
| **Muzammil Noor** | **Ahmad Zia Zia** | **Mohammad Aqa Kohistani** |
| **(Chief Financial Officer)** | **(Deputy Chief Executive Officer)** | **(Chairman)** |