The First MicroFinance Bank

Financial Statements

For the year ended 31 December 2015

Independent Auditors' Report

Shareholders
The First MicroFinance Bank

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015, and of its financial performance and its cash flows for the

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year ended 31 December 2015 in accordance with the accounting framework as stated in note 2 to the financial statements.

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KPMG Afghanistan Limited
------------ 2016
Kabul

The First MicroFinance Bank
Statement of financial position
As at 31 December 2015

	Note	2015 AFN '000	2014 AFN '000
Assets			
Cash and cash equivalents	7	**3,243,121**	3,256,240
Placements	8	**1,595,792**	1,256,113
Loans and advances to customers	9	**3,795,937**	3,349,689
Operating fixed assets	10	**141,721**	38,964
Intangible assets	11	**551**	975
Other assets	12	**579,762**	509,319
Total assets		**9,356,885**	8,411,300
Liabilities			
Deposits from customers	13	**4,992,027**	4,280,380
Loans and borrowings	14	**2,558,509**	2,457,617
Income tax payable		**26,483**	13,683
Deferred tax liabilities-net	15	**2,172**	4,454
Deferred grants	16	**9,231**	2,203
Other liabilities	17	**119,904**	189,694
Total liabilities		**7,708,326**	6,948,031
Equity			
Share capital	18	**796,008**	796,008
Share premium	19	**206,038**	206,038
Retained earnings		**646,514**	461,223
Total equity attributable to equity holders of the Bank		**1,648,560**	1,463,269
Total liabilities and equity		**9,356,885**	8,411,300

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

Chief Financial Officer **Acting Chief Executive Officer** **Chairman**

The First MicroFinance Bank
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2015

	Note	2015 AFN '000	2014 AFN '000
Interest income	21	**1,024,578**	1,002,245
Interest expense	21	**(152,451)**	(187,839)
Net interest income		**872,127**	814,406
Fee and commission income	22	**83,387**	80,246
Fee and commission expense	22	**(30,367)**	(33,440)
Net fee and commission income		**53,020**	46,806
Other revenue	23	**196,677**	145,632
Revenue		**1,121,824**	1,006,844
Other income	24	**9,339**	1,298
Net impairment loss on financial assets	9.2	**(48,469)**	(82,396)
Impairment loss on placements	7 & 8	**(12,990)**	-
Personnel expenses		**(500,373)**	(468,903)
Depreciation and amortisation	10.2.2	**(19,902)**	(18,143)
Other expenses	25	**(309,603)**	(290,463)
Net operating income		**239,827**	148,237
Non-operating revenue and expenses:			
Grants income recognized against deferred grant	16	**16,022**	4,253
Grants income recognized on expenditures in advance		**6,668**	-
Expenditure against grants	26	**(22,690)**	(4,253)
		-	-
Profit before tax		**239,827**	148,237
Income tax expense		**(54,536)**	(31,961)
Profit		**185,291**	116,276
Other comprehensive income		**-**	-
Total comprehensive income		**185,291**	116,276
Earnings per share	27	**2.10**	1.32

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Chief Financial Officer **Acting Chief Executive Officer** **Chairman**

The First MicroFinance Bank
Statement of changes in equity
For the year ended 31 December 2015

	Capital	Premium on capital	Retained earnings	Total equity
	AFN '000			
Balance at 01 January 2014	796,008	206,038	344,947	1,346,993
Total comprehensive income				
Profit	-	-	116,276	116,276
Balance at 31 December 2014	796,008	206,038	461,223	1,463,269
Total comprehensive income				
Profit	-	-	**185,291**	**185,291**
Balance at 31 December 2015	**796,008**	**206,038**	**646,514**	**1,648,560**

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

Chief Financial Officer **Acting Chief Executive Officer** **Chairman**

The First MicroFinance Bank
Statement of cash flows
For the year ended 31 December 2015

	Note	2015 AFN '000	2014 AFN '000
Cash flows from operating activities			
Profit		**185,291**	116,276
Adjustments for:			
Depreciation and amortisation	10	**20,620**	18,981
Net impairment loss on financial assets	9.2	**48,469**	82,396
General provision held on placements	8.3	**684**	-
Net interest income	21	**(872,127)**	(814,406)
Loss on sale of property and equipment		**77**	43
Recognition of previously written off vehicles		**(9,416)**	-
Foreign exchange gain		**(2,004)**	(7,664)
Grant income		**(16,022)**	(4,253)
Tax expense		**54,536**	31,961
		(589,892)	(576,666)
Changes in:			
Loans and advances to customers		**(494,717)**	551,281
Other assets		**(51,314)**	69,347
Deposits from banks		**-**	(300,000)
Deposits from customers		**711,647**	(690,798)
Other liabilities		**(69,789)**	(92,500)
		(494,066)	(1,039,337)
Interest received		**1,010,160**	1,000,777
Interest paid		**(148,025)**	(180,755)
Income tax paid		**(44,018)**	(44,607)
Grant received		**27,387**	7,864
Net cash from / (used in) operating activities		**351,438**	(256,058)
Cash flows from investing activities			
Acquisition of property and equipment	10	**(122,910)**	(15,851)
Proceeds from sale of property and equipment		**243**	158
Investment in placements-net	8	**(340,363)**	(914,408)
Net cash used in investing activities		**(463,029)**	(930,101)
Cash flows from financing activities			
Proceeds from loans and borrowings		**149,194**	-
Repayment of loans and borrowings		**(52,725)**	(111,313)
Net cash flows from / (used in) financing activities		**96,468**	(111,313)
Net decrease in cash and cash equivalents		**(15,123)**	(1,297,471)
Cash and cash equivalents at 01 January		**3,256,240**	4,546,047
Effect of foreign currency exchange gain on cash and cash equivalents		**2,004**	7,664
Cash and cash equivalents at 31 December	7	**3,243,121**	3,256,240

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

Chief Financial Officer **Acting Chief Executive Officer** **Chairman**

1. Status and nature of operations

The First MicroFinance Bank (the 'Bank') was registered with Afghan Investment Support Agency (AISA) in December 2003 and received formal banking license from Da Afghanistan Bank (DAB), the central bank of Afghanistan, on 18 March 2004 to operate nationwide. The Bank is a limited liability company and is incorporated and domiciled in Afghanistan. Since commencement of operations on 01 May 2004, the Bank has been operating as the leading financial services provider in Afghanistan contributing to poverty alleviation and economic development, through provision of sustainable financial services primarily targeted at the micro and small businesses and households.

The registered office of the Bank is situated in Kabul, Afghanistan. The Bank had 38 branches (2014: 38) in operation including 16 (2014: 16) urban branches and 22 (2014: 22) rural/peri urban branches in operation as at 31 December 2015 and employed 1,020 (2014: 1,018) staff and consultants.

2. Basis of preparation and measurement

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

These financial statements have been prepared using accrual basis of accounting under the historical cost convention.

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

The financial statements were approved by the shareholders of the Bank on ----------.

2.1 Standards issued but not yet adopted

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

New or amended standard	Summary of the requirement	Possible impact on financial statements
IFRS 9 *Financial Instruments*	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: *Recognition and Measurement*. IFRS 9 includes revised guidance on classification and measurement of financial instruments, a new expected credit loss model for	The Bank will assess the potential impact on its financial statements resulting from the application of IFRS 9.

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	calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	
IFRS 15 *Revenue from Contracts with Customers*	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue,* IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes.* IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Bank will assess the potential impact on its financial statements resulting from the application of IFRS 18.
Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)	These amendments require a bearer plant, defined as a living plant, to be accounted for as property, plant and equipment and included in the scope of IAS 16 *Property, Plant and Equipment,* instead of IAS 41 *Agriculture.* The amendments are effective for annual reporting periods beginning on or after 1 January 2016, with early adoption permitted.	None. The Bank does not have any bearer plants.

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

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

3. Disclosure Guidelines for Financial Reporting by Microfinance Institutions

These financial statements comply with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions (MFIs) which are voluntary norms recommended by a group of sponsors, including the donors who make up the Consultative Group to Assist Poor (CGAP) and the members of Small Enterprise Education and Promotion Network (SEEP).

4. Functional and presentation currency

These financial statements are presented in Afghani ('AFN'), which is the Bank's functional currency. All amounts have been rounded to the nearest thousand.

5. Use of estimates and judgments

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are given below:

(a) Provision of income taxes

The Bank recognizes tax liabilities for pending tax assessments using estimates based on expert opinion obtained from legal/tax advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined.

(b) Property and equipment

The Bank reviews useful lives, residual values and methods of depreciation of property and equipment (note 6(J)) on regular basis. Any changes in estimates may affect the carrying amounts of the respective items of property and equipment with a corresponding effect on the depreciation charge.

(c) Impairment of financial instruments

The Bank reviews customers' loan balances on monthly basis for impairment and records the impairment allowance for possible loan losses as per the Bank's policy, funding covenants and DAB regulation as disclosed in note 6(F) (vii).

The Bank reviews loans to customer balances quarterly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in note 9.3. The Bank maintains a general provision of 4.74% (31 December 2014: 5.12%) against outstanding loan and advances to customers as at the period end.

The Bank has revised its estimates of general provision against loans and advances to customers. Previously, general provision was maintained at 5.12% of standard loans and advances which has been decreased to 4.74%. The general provision at previous and current rates amounts to AFN 202,131 thousands and AFN 186,955 thousands respectively.

The Bank also maintains general provision of 1% (31 December 2014: Nil) on placements having maturity of one month or above as required by revised regulation of Da Afghanistan Bank " Asset Classification and Provisioning Regulation".

(d) Held-to-maturity investments

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

6. Significant accounting policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

A. Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation is recognized in profit or loss.

B. Interest

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

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

In accordance with the banking regulation *"Asset Classification, Monitoring of Problem Assets, Reserve losses, and Non-accrual status"*, interest accrual is suspended on all interest-earning assets where principal or interest payments have been past due for periods exceeding 90 days except for assets that are well-secured and in process of collection. When an asset is placed on non-accrual status, all accrued unpaid interest are reversed.

C. Fees and commission

Fees and commission income - including commission income on bank guarantees, account servicing fees, funds transfer fee and placement fee - are recognized as the related services are performed.

Other fees and commission expense relate mainly to guarantee fee, Afghan Deposit Insurance Corporation (ADIC) premium and transaction and service fees, which are expensed as the services are received.

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D. Lease payments

Payments under operating leases are recognized in profit or loss 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.

E. Income tax

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

i. Current tax

'Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

ii. Deferred tax

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

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. 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.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.
Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

iii. Tax exposures

In determining the amount of current and deferred tax, the Bank considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such as changes to tax liabilities would impact tax expense in the period in which such a determination is made.

F. Financial assets and financial liabilities

i. Recognition

The Bank initially recognizes loans and advances, debts, deposits from customers on

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the date on which they are originated. All other financial assets and liabilities (including financial assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

ii. ***Classification***

Financial assets

The Bank classifies its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; and
- at fair value through profit or loss, and within this category as:
  - held for trading; or
  - designated at fair value through profit or loss

See Note 6(I).

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or fair value through profit or loss. See Note 6(F)(v).

iii. ***Derecognition***

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risk and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset drecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in the other comprehensive income, is recognized in profit or loss. Any interest in the transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

Financial liabilities

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

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iv. ***Offsetting***

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

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

v. ***Amortized cost measurement***

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

vi. ***Fair value measurement***

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or transaction is closed out.

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

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis that the net exposure to either market or credit risk are measured on the basis of a price that would be received

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to sell on a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

vii. *Identification of measurement of impairment*

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

Objective evidence that the financial assets are impaired includes:

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

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

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 timeliness and accuracy of its loan review function.

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

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

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

All loans and advances are classified in accordance with the regulations of DAB as detailed below.

Standard: These are loans and advances, which are paying in a current manner and are supported by sound net worth and paying capability of the borrower. In terms of policy of the Bank for more prudent approach, a general risk based provision is maintained in the books of accounts @ 4.74% (2014: 5.12 %) of value of such loans and advances. However, as per Classification and Loss Reserve Requirement (CLRR) issued by DAB, at least 1% provision should be maintained of value of such loans and advances.

Watch: These are loans and advances which are adequately protected, but are potentially weak. All loans and advances where principal or interest payments are past due by 31 to 60 days for microfinance loans and 1 to 30 for other loans, are classified as watch-list. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification to Substandard. A provision is maintained in the books of account @ 5% (2014: 6%) of value of such loans and advances as required under CLRR issued by DAB.

Substandard: These are loans and advances which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral, if any, supporting it. Further, all microfinance loans and advances which are past due by 61 to 90 days and other loans past due by 31 to 90 days in case of for principal or interest payments are classified as "Substandard". A provision is maintained in the books of account @ 25% of value of such loans and advances as per CLRR issued by DAB.

Doubtful: These are loans and advances which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. Further, loans and advances which are past due by 91 to 180 days for principal or interest payments are required to be classified as "Doubtful" as per the Bank's policy. A provision is maintained in the books of account @ 50% of value of such loans and advances.

Loss: These are loans and advances which are not collectible and or such little value that their continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 180 days for principal or interest payments are required to be classified as "Loss" as per the Bank policy.

Rescheduled: Rescheduled loans and advances are fully provided as per funding covenant requirements.

G. Cash and cash equivalents

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

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

H. Loans and advances

'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances to customers are classified as loans and receivables.

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

I. Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available-for-sale.

Held-to-maturity

'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the classification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

J. Property and equipment

i. Recognition and measurement

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

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss of disposal of an item of property and equipment is recognized within other income in profit or loss.

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ii. Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognized in profit or loss. Leased assets are depreciated over the shorter of the lease terms and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term.

The estimated useful lives of significant items of property and equipment are as follows:

• Leasehold improvements	05 years
• Furniture and fixture	05 years
• Vehicles	05 years
• Office equipment	04 years
• Computer equipment	03 years

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

K. Intangible assets

Software

Software acquired by the Bank is measured at cost less accumulated amortization and any accumulated impairment losses.

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

Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is five years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

L. Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of the Bank's non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.
For impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash generating units (CGUs).

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their

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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 or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

M. Deposits and borrowings

Deposits and borrowings are the Bank's sourcing of loan financing. Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Bank designates liabilities at fair value through profit or loss.

N. Provisions

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

A provision for bank levies is recognized when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligating event is reaching a minimum activity, then a provision is recognized when that minimum activity threshold is reached.

O. Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantee or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortized over the life of the guarantee or commitment. The liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

P. Employee benefits

Short term employee benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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Q. Earnings per share (EPS)

The Bank presents basic EPS data for its ordinary shares. EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

R. Grants

Grants are recognized at their fair value where there is reasonable assurance that the grant will be received and the Bank will comply with all the required conditions.

i. Revenue grants

Grants relating to costs are recognized as income over the period necessary to match these grants with the related costs that they are intended to compensate. Fixed obligation grants are recognized when the right to receive the grant has been established on achievement of certain milestones as stated in the grant agreement.

ii. Deferred grants

Grants for property and equipment are recorded as deferred grants in the statement of financial position and recognized as non-operating income on a systematic basis over the useful life of assets acquired from the grant.

Grants that compensate the Bank for expenses incurred are recognized in profit or loss on a systematic basis in the periods in which the expenses are recognized.

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		Note	2015	2014
			AFN '000	AFN '000
7.	**Cash and cash equivalents**			
	Cash on hand		**261,840**	258,980
	Unrestricted balances with Da Afghanistan Bank		**703,183**	472,038
	Balances with other banks	7.1	**668,030**	505,470
	Short tem placements with banks	7.2	**1,610,067**	2,019,752
			3,243,121	3,256,240
7.1	**Balances with other banks**			
	Balances with:			
	Commerz Bank		**621,488**	393,626
	UBS, Switzerland		**-**	1,765
	Habib Bank Limited, New York		**43,358**	103,130
	Bank Alfalah Limited		**3,185**	6,949
		7.1.1	**668,030**	505,470

7.1.1 These balances are interest free and include AFN 43,358 thousands (2014: AFN 103,130 thousands) held with a related party.

		Note	2015	2014
7.2	**Short tem placements with banks**			
	Capital notes (maturity less than three months)	7.2.1	**49,863**	114,682
	Time deposits with other banks	7.2.2	**1,560,204**	1,905,070
			1,610,067	2,019,752

7.2.1 These represents capital notes issued by DAB for maturity periods of 28 days. These capital notes carry interest rate of 3.534% per annum (2014: 3.56% per annum).

		Note	2015	2014
7.2.2	**Time deposits with other banks**			
	Habib Bank Limited	7.2.2.1	**1,230,660**	1,905,070
	Commerz Bank	7.2.2.2	**341,850**	-
	Less: General provision held	7.2.2.3	**(12,306)**	-
			1,560,204	1,905,070

7.2.2.1 These deposits are held with related parties having maturity ranging from 7 days to three months and carry interest ranging from 0.33% to 0.50% per annum (2014: 0.04% to 4.00% per annum).

7.2.2.2 These deposits are having maturity of 3 months and carry interest rate of 0.5% per annum.

7.2.2.3 General provision of 1% (31 December 2014: Nil) on placements having maturity of one month or above is maintained as required by revised regulation of Da Afghanistan Bank " Asset Classification and Provisioning Regulation". As time deposits with Habib Bank Limited include AFN 341,850 thousands which have maturity of less than one month, therefore, general provision @ 1% is not required against this amount under this regulation.

		Note	2015	2014
8.	**Placements**		AFN '000	AFN '000
	Capital notes issued by DAB	8.1	**1,528,106**	1,256,113
	Placement with Commerz Bank	8.2	**68,370**	-
	Less: General provision held	8.3	**(684)**	-
			1,595,792	1,256,113

8.1 These represents capital notes issued by DAB for maturity periods ranging from 6 months to 1 year (2014: 6 months to 1 year). These capital notes carry interest ranging from 5.15% to 6.70% per annum (2014: 5.23% to 7.25% per annum).

8.2 These deposits are having maturity of 6 months and carry interest rate of 0.74% per annum.

8.3 General provision of 1% (31 December 2014: Nil) on placements having maturity of one month or above is maintained as required by revised regulation of Da Afghanistan Bank " Asset Classification and Provisioning Regulation".

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9. Loans and advances to customers

	Note	2015 AFN '000	2014 AFN '000
Loans and advances to customers at amortised cost	9.1	**4,033,161**	3,567,123
Less: Allowance for impairment	9.2	**(237,224)**	(217,434)
Net loans and advances to customers		**3,795,937**	3,349,689

9.1 Loans and advances to customers at amortised cost

	Note	2015 Gross amount	2015 Impairment allowance	2015 Carrying amount	2014 Gross amount	2014 Impairment allowance	2014 Carrying amount
		--------AFN '000--------			--------AFN '000--------		
Microfinance loans	9.1.1	**3,175,776**	**(168,917)**	**3,006,859**	2,908,346	(157,523)	2,750,823
Loans to small and medium size enterprises	9.1.1	**663,645**	**(68,307)**	**595,338**	658,777	(59,911)	598,866
Overdraft financing	9.1.1	**193,740**	**-**	**193,740**	-	-	-
		4,033,161	**(237,224)**	**3,795,937**	3,567,123	(217,434)	3,349,689

9.1.1 Microfinance loans carry interest at rates ranging from 9% to 27% (2014: 9% to 25%) per annum, whereas interest on loans to small and medium size enterprises (SMEs) is charged at the rates ranging from 16.2% to 23% (2014: 16.2% to 23%) per annum. Overdraft carries interest rate ranging from 9.25% to 10.5% per annum. All loans are secured by various kind of properties and personal guarantees. Overdraft is issued to Telecom Development Company Afghanistan Limited (TDCA), a related party, carrying interest rates ranging from 9.25% to 10.5% per annum.

9.2 Allowance for impairment

	Note	2015 Specific	2015 General	2015 Total	2014 Specific	2014 General	2014 Total
		-------AFN '000-------			-------AFN '000-------		
Balance at 1st January		**37,299**	**180,135**	**217,434**	67,366	233,049	300,415
Charge for the year:							
Microfinance loans		**7,929**	**31,651**	**39,580**	3,491	64,720	68,211
Loans to small and medium size enterprises (SME)		**11,636**	**(2,747)**	**8,889**	4,883	8,001	12,884
		19,566	**28,904**	**48,469**	8,374	72,721	81,095
Written off against impairment allowance:							
Microfinance loans		**(6,104)**	**(19,639)**	**(25,742)**	(32,049)	(102,921)	(134,970)
Loans to small and medium size enterprises (SME)		**(493)**	**(2,444)**	**(2,937)**	(6,392)	(22,714)	(29,106)
	9.2.1	**(6,597)**	**(22,083)**	**(28,679)**	(38,441)	(125,635)	(164,076)
Balance at 31 December		**50,268**	**186,956**	**237,224**	37,299	180,135	217,434

9.2.1 These represent 'loss' category loans which have been written off in accordance with the policy of the Bank as given in note 6(F)(vii) to the financial statements. However, in terms of paragraph 3.3.1(g) of Part C of the CLRR, the write-off does not affect the Bank's right to recover the debt due from customers and does not eliminate the borrowers' responsibility to repay the loan.

9.3 Classification of loans and advances for the purpose of allowance for impairment in accordance with the Bank's accounting policy is as follov

Classification-Microfinance Loans	**Amount outstanding**	**Impairment allowance required as per CLRR**		**Impairment allowance held**		**Number of customers**
2015	**AFN '000**	**Rate**	**AFN '000**	**Rate**	**AFN '000**	
Standard	**3,131,676**	**1%**	**31,317**	**4.74%**	**148,316**	**51,613**
Overdue:						
Watch-List	**12,821**	**5%**	**641**	**5%**	**641**	**263**
Substandard	**11,827**	**25%**	**2,957**	**25%**	**2,957**	**272**
Doubtful	**16,147**	**50%**	**8,074**	**50%**	**8,074**	**308**
Rescheduled	**3,304**	**100%**	**3,304**	**100%**	**3,304**	**56**

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Classification-Overdraft and SME Loans	**2015** Amount outstanding	Impairment allowance required as per CLRR		Impairment allowance held		Number of customers
	AFN '000	Rate	AFN '000	Rate	AFN '000	
Standard	816,198	1%	8,162	4.74%	38,639	1,064
Overdue:						
Watch-List	1,541	5%	77	5%	77	4
Substandard	1,951	25%	488	25%	488	14
Doubtful	5,935	50%	2,968	50%	2,968	13
Rescheduled	31,761	100%	31,761	100%	31,761	32
	857,386		43,455		73,932	1,127

Classification	**2014** Amount outstanding	Impairment allowance required as per CLLR		Impairment allowance held		Number of customers
	AFN '000	Rate	AFN '000	Rate	AFN '000	
Standard	3,520,636	-	-	5.12%	180,135	51,343
Overdue:						
Watch-List	2,600	5%	130	6%	156	60
Substandard	2,367	25%	592	25%	592	55
Doubtful	9,937	50%	4,969	50%	4,969	161
Rescheduled	31,583	100%	31,583	100%	31,583	118
	3,567,123		37,273		217,434	51,737

9.4 Portfolio Quality

The Bank's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending upon the number of days these are overdue. For each such class of loan, the outstanding principal balance of such loan is divided by the outstanding principal balance of the gross loan portfolio before deducting allowance for impairment.

Loans are considered overdue if any payment has fallen due and remained unpaid for more than 30 days. Loan payments are applied first to any penalty interest applicable, then to the interest due and then to the any remaining balance of principal. The number of days of delay is based on the due date of the earliest loan installment that has not been fully paid. The Bank does not convert interest on late payment / penalty into principal.

The Bank allows loan rescheduling only under limited and rare circumstances. Loan rescheduling is not allowed as a means of delaying an imminent bad debt situation; a loan can be rescheduled solely if a genuine and acceptable reason can be demonstrated and the rescheduling terms must clearly show that the borrower is subsequently able to meet the loan repayments.

In 2015, loans were disbursed relating to products with tenures generally ranging from 06 months to 07 years, in accordance with the needs of the borrowers. Loan repayments are scheduled monthly. The management estimates that average term of its loan portfolio is about 69 weeks [1.33 years] (2014: 65 weeks [1.25 years]) based on disbursements made during the year.

9.5 Current Recovery Ratio

Current recovery ratios are calculated and reported on a quarterly basis. The numerator of this ratio is total cash payments of principal received during the reporting period. The denominator is the total loans falling due during the period along with the payments in arrears at the start of the period. Penalty interest is not included in the numerator or the denominator of the ratio. Loan delinquency is measured using the Non Performing Loans (NPL) ratio.

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Period	Current recovery ratio (%) 2015	2014
1st Quarter	97.87	92.39
2nd Quarter	96.82	93.33
3rd Quarter	94.64	95.51
4th Quarter	88.66	98.11
January - December	94.50	94.84

The loans are repayable in 69 weeks (1.33 year) on average computed on the basis of a sample of tenure of loans disbursed during the year.

Under these circumstances, a current recovery ratio of 94.50 percent for 69 week loans is approximately equivalent to an Annual Loss Rate (ALR) of 8.27% percent, considering the year end Portfolio at Risk (PAR) of 1.39% and high early repayments. ALR for 2014 was 8.26%.

The calculation of Annual Loss Rate is based on the following formula.

$$ALR = [(1 - CR) / T] \times 2$$
$$ALR = [(1 - 94.50\,\%) / 1.33] \times 2$$
$$= 8.27\%$$

Where:

ALR = Annual Loss Rate
CR = Collection rate
T = Loan term

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10. Operating fixed assets

	Note	2015 AFN '000	2014 AFN '000
Capital work in progress	10.1	**92,950**	-
Property and equipment	10.2	**48,771**	38,964
		141,721	38,964

10.1 This represents cost of hardware and software for new banking system, FlexCube which is expected to be implemented in last quarter of 2016.

10.2 Property and equipment

	Note	Leasehold improvements	Furniture & fittings	Vehicles	Office equipment	Computer equipment	Total
		AFN '000					
Cost							
Balance at 1 Jan 2014		40,336	28,296	9,650	45,748	46,764	170,794
Additions		1,710	1,409	-	7,622	4,872	15,614
Disposals		(342)	(347)	-	(999)	(374)	(2,062)
Balance at 31 December 2014		41,704	29,358	9,650	52,371	51,262	184,345
Balance at 1 Jan 2015		**41,705**	**29,358**	**234**	**52,371**	**51,262**	**174,930**
Additions		**4,853**	**1,903**	**11,173**	**7,277**	**4,753**	**29,960**
Disposals		**(2,122)**	**(527)**	-	**(1,290)**	**(555)**	**(4,494)**
Adjustment	12.2.2	-	-	**9,416**	-	-	**9,416**
Balance at 31 December 2015		**44,436**	**30,734**	**20,823**	**58,358**	**55,461**	**209,812**
Depreciation							
Balance at 1 Jan 2014		31,763	21,141	7,992	32,376	36,088	129,360
Charge for the year		3,122	2,205	688	6,228	5,639	17,882
Disposals		(331)	(291)	-	(905)	(334)	(1,861)
Balance at 31 December 2014		34,554	23,055	8,680	37,699	41,393	145,381
Balance at 1 Jan 2015		**34,554**	**23,054**	**8,680**	**37,699**	**41,393**	**145,380**
Charge for the year		**2,755**	**2,012**	**1,962**	**6,916**	**6,189**	**19,834**
Disposals		**(2,077)**	**(477)**	-	**(1,095)**	**(525)**	**(4,173)**
Balance at 31 December 2015		**35,232**	**24,589**	**10,642**	**43,520**	**47,058**	**161,041**
Carrying amounts							
Balance at 1 Jan 2014		8,573	7,155	1,658	13,372	10,676	41,434
Balance at 31 December 2014		7,150	6,303	970	14,672	9,869	38,964
Balance at 31 December 2015		**9,204**	**6,146**	**10,181**	**14,838**	**8,403**	**48,771**

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

10.2.2 The Bank purchased two armored vehicles in May 2013 at the cost of Afs 15,000 thousands. However, these vehicles were derecognised in books of accounts due to lack of title documents including approval from Ministry of Interior. These vehicles are now recognised in the books again as title documents have been completed.

10.2.3 Allocation of depreciation and amortisation

	Note	2015 AFN '000	2014 AFN '000
Depreciation charged for the year		**19,834**	17,882
Amortisation of intangible assets	11	**786**	1,099
		20,620	18,981
Less: Amount classified under grant expense	11.1	**(719)**	(838)
		19,902	18,143

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		Note	2015 AFN '000	2014 AFN '000
11.	**Intangible assets**			
	Computer software:			
	Cost			
	Balance at 1st Jan		**20,636**	20,399
	Acquisitions		**363**	237
	Balance at 31 December		**20,999**	20,636
	Amortisation			
	Balance at 1st Jan		**(19,661)**	(18,562)
	Charge for the year		**(786)**	(1,099)
	Balance at 31 December		**(20,447)**	(19,661)
	Carrying amounts at 31 December		**551**	975
12.	**Other assets**			
	Advances to staff		**2,913**	1,424
	Other advances		**809**	776
	Prepayments		**28,070**	18,552
	Grants receivable from donors		**6,827**	11,164
	Interest receivable		**143,067**	128,650
	Receivable from Roshan against M-Paisa payments		**7,535**	13,165
	Restricted deposits with DAB	12.1	**354,513**	334,180
	Receivable against DEG claim		**35,050**	-
	Office supplies and stationery in inventory		**978**	1,408
			579,762	509,319
	Other receivables		-	9,049
	Less: Allowance for impairment against other receivables	12.2	-	(9,049)
			-	-
			579,762	509,319

12.1 This represents the required reserve account maintained with DAB to meet minimum reserve requirement in accordance with Article 64 "Required reserve for banks" of the Da Afghanistan Bank Law. The balance carries mark-up @ 0.0% (2014: 2.56%) per annum. Required reserves with DAB are not available for use in the Bank's day-to-day operations.

12.2 This represents cash shortages identified at Bank's branches. Movement in allowance for impairment against these receivables is as follows:

	2015 AFN '000	2014 AFN '000
Balance at 1 Jan	**9,049**	7,748
Charge for the year	-	1,301
Write offs	**(9,049)**	-
Balance at 31 December	-	9,049

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13. Deposits from customers	**Note**	**2015**	2014
		AFN '000	AFN '000
Retail customers:			
Term deposits	13.1	**8,289**	1,272
Current deposits		**366,556**	187,954
Saving deposits	13.2	**1,613,530**	1,390,346
Corporate customers:			
Term deposits		**15,769**	550
Current deposits		**2,453,434**	2,331,540
Saving deposits		**534,449**	368,718
	13.3	**4,992,027**	4,280,380

13.1 The rate of interest on term deposits ranges from 0.50 % to 4.00% (2014: 0.50% to 7.25%) per annum.

13.2 The rate of interest on saving deposits ranges from 0% to 0.5% (2014: 0% to 0.5%) per annum.

13.3 Deposits include AFN 1,379,814 thousands (2014: AFN 1,337,000 thousands) due to related parties.

14. Loans and borrowings	**Note**	**2015**	2014
		AFN '000	AFN '000
Loans and borrowings from:			
Ministry of Finance, Government of Afghanistan	14.1	**375,595**	397,818
Microfinance Investment Support Facility for Afghanistan Ltd	14.2	**2,099,194**	1,950,000
Agence Française de Développement	14.3	**-**	9,080
Nederlandse Financierings-Maatschappij Voor Ontwikkelingsla	14.4	**42,848**	64,272
Interest payable on long term loans		**40,873**	36,447
		2,558,509	2,457,617

14.1 A 15-year credit line of AFN 222,000 thousands was extended by the Ministry of Finance - Government of Islamic Republic of Afghanistan (MOF) on behalf of Kreditanstalt fur Wiederaufbau (KfW) under the financing and project agreement signed in November 2005. The facility was disbursed in 3 tranches carrying financial charges at the rate of 7.68% per annum, 7.48% per annum and 6.36% per annum. These rates were revised during 2014 to 3.55% per annum, 3.55% per annum and 3.56% per annum respectively. Loan is repayable through 20 bi-annual installments, starting from 17 November 2010.

Another 15-year credit line of Euro 4,000 thousands in local currency was extended by the MOF on behalf of KfW under the financing and project agreement signed in March 2009. The facility was availed on 21 May 2011 at an annual interest rate of 5% per annum payable in arrears which was revised to 6% in last quarter of 2014 in accordance with terms of the agreement. This loan is repayable through 20 bi-annual installments, starting from 30 June 2016.

14.2 On 02 October 2010 Microfinance Investment Support Facility for Afghanistan Ltd (MISFA) and the Bank signed an agreement under which MISFA consolidated all the loans provided to the Bank to an aggregate amount of AFN 950,000 thousands for a period of ten years. This loan agreement carries interest at the rate of 5% per annum effective from 01 July 2010. Loan is repayable through 20 quarterly installments, starting from 01 September 2015.

On 17 June 2012 MISFA and the Bank signed a further loan agreement for an amount of AFN 500,000 thousands carrying interest rate of 6% per annum. This loan is repayable through 20 quarterly installments, starting from 30 June 2017, and was fully drawn in 2012.

On 01 April 2013 MISFA and the Bank signed a further loan agreement for an amount of AFN 500,000 thousands carrying interest rate of 6% per annum. This loan is repayable through 20 quarterly installments, starting from 31 March 2018, and was fully drawn in 2013.

On 23 of July 2014 MISFA / KFW and the Bank signed a further loan agreement for an amount of EUR 7.75 million (equivalent in AFN) of which the bank received the first tranch of AFN 244,194 thousands on the 17th of March 2015 carrying interest rate of 6% per annum. This loan is repayable through 20 quarterly installments, starting from 31 March 2020.

The total outstanding loan facilities from MISFA of AFN 2,099,194 thousands are supported by promissory notes issued by the Bank to MISFA. As a security for these promissory notes the Bank has assigned all rights and interests in the whole or such portion of the Bank's loan portfolio as MISFA may select in its sole discretion up to the amount of the loans outstanding under the loan agreements.

14.3 A credit facility agreement in Afghanis for an amount equivalent to Euro 1,000 thousands was extended by Agence Française de Développement (AFD) in July 2007. This facility carries interest rate of 3.5 % + Libor (2014: 3.5 % + Libor) per annum. Loan is repayable through 8 bi-annual installments, starting from 30 September 2011. This facility was fully paid by 31st December 2015.

14.4 A 10-year sub-ordinated credit facility in Afghanis for AFN 150,000 thousands by Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) under agreements signed with the Bank in February 2008. This fully drawn facility carries interest rate of 3.5% per annum plus the weighted average rate for the 5 latest 28 days capital notes as auctioned by DAB. Loan is repayable through 14 bi-annual installments, starting from 15 April 2011, started from 15 April 2010 respectively. This loan is not secured.

14.5 The Bank has not had any default of principal or interest or other breaches with respect to its loans and borrowings during the years ended 31 December 2015.

15. Income taxes

15.1 Amounts recognised in profit or loss

	2015 AFN '000	2014 AFN '000
Current tax expense		
Current year	**50,247**	28,694
Change to estimates for prior years	**6,571**	-
	56,818	28,694
Deferred tax income	**2,282**	3,267
	2,282	3,267
Total income tax expense	**54,536**	31,961

15.2 Reconciliation of effective tax rate

	2015 Rate	2015 AFN '000	2014 Rate	2014 AFN '000
Profit before tax		**239,827**		148,237
Tax using the Bank's domestic tax rate	20.00%	**47,965**	20.00%	29,647
Change to estimates for prior years	2.74%	**6,571**	0.00%	-
Effect of previously unrecognised tax	0.00%	-	1.56%	2,314
	22.74%	**54,536**	21.56%	31,961

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15.3 Movement in deferred tax balances

	31 December 2015				
	Net balance at 1 January	**Recognised in profit or loss**	**Net**	**Deferred tax assets**	**Deferred tax liabilities-net**
			AFN '000		
Property and equipment	(4,454)	(316)	(4,770)	-	(4,770)
General provision held on placement	-	2,598	2,598	2,598	2,598
	(4,454)	2,282	(2,172)	2,598	(2,172)

	31 December 2014				
	Net balance at 1 January	**Recognised in profit or loss**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
			AFN '000		
Property and equipment	1,187	3,267	4,454	-	(4,454)
	1,187	3,267	4,454	-	(4,454)

16. Deferred grants

	Note	2015	2014
		AFN '000	AFN '000
Balance at 1 January		2,203	2,162
Grants recognised during the year:			
U.S. Agency for International Development (USAID)		-	2,112
Microfinance Investment Support Facility for Afghanistan Ltd	16.1	2,956	2,182
Aga Khan Foundation (AKF)-USA (SAGAL)	16.2	20,094	-
		23,050	4,294
Less: Deferred grants recognised as income		(16,022)	(4,253)
Balance at 31 December		9,231	2,203

16.1 This represents grant received from MISFA Ltd under an agreement signed dated 16 August 2011 to strengthen the Bank's capacity in rural and agricultural financial products and services.

16.2 This represents grant received from AKF under an agreement signed dated 21 July 2014 to Strengthen Afghan Government and Alternative Livelihood (SAGAL) through promoting alternative crops to poppy cultivation and development of value chain financing in agriculture sector.

17. Other liabilities

	Note	2015	2014
		AFN '000	AFN '000
Performance bonus payable		19,479	11,439
Withholding taxes payable		19,530	5,521
Accrued expenses		59,765	24,850
Customer draw down accounts	17.1	19,579	123,686
Payable to Aga Khan Agency for Microfinance (AKAM)		1,551	2,900
Other		-	21,298
		119,904	189,694

17.1 These represent amounts lying in the draw down accounts of customers on account of loan payments received in advance from customers. The Bank now does not disburse loans in draw down accounts.

		2015 USD	2014 USD	2015 AFN '000	2014 AFN '000
18.	**Share capital**				
	Authorized				
	88,800 ordinary shares of US $ 177 each (2014: 88,800 of US $ 177)	**15,717,600**	15,717,600	**800,624**	800,624
	Paid up				
	88,288 ordinary shares of US $ 177 each (2014; 88,288 of US $ 177)	**15,626,976**	15,626,976	**796,008**	796,008

18.1 The capital is contributed by the shareholders as follows:

	2015	2014	2015	2014
	Number of shares		AFN '000	AFN '000
Aga Khan Agency for Microfinance (AKAM)	**34,784**	34,784	**310,646**	310,646
Kreditanstalt fur Wiederaufbau (KfW)	**28,200**	28,200	**254,811**	254,811
International Finance Corporation (IFC)	**14,800**	14,800	**133,974**	133,974
Aga Khan Foundation USA (AKF USA)	**10,504**	10,504	**96,577**	96,577
	88,288	88,288	**796,008**	796,008

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Bank.

18.2 Pursuant to letter no.918/703 dated 17 May 2010 issued by Da Afghanistan Bank (DAB), all commercial banks in Afghanistan were required to increase their paid-up capital to AFN 1,000,000 thousands (equivalent to US $ 20,000 thousands) by 30 June 2012. The Bank complies with this requirement keeping in view its share capital and share premium (refer note 19).

19. Share premium

In 2012, 28,800 new ordinary shares of US$ 100 each were issued at a premium of US$ 138 per share resulting in total premium of AFN 206,038 thousands.

		2015 AFN '000	2014 AFN '000
20.	**Contingencies and commitments**		
	Bank guarantees issued	**28,502**	24,917
		28,502	24,917
21.	**Net interest income**		
	Interest income		
	Cash and cash equivalents	**34,968**	31,027
	Placements	**56,363**	29,426
	Loans and advances to customers		
	Loans to small and medium size enterprises	**149,341**	163,084
	Microfinance loans	**776,772**	763,922
	Interest on overdraft facility to TDCA	**2,781**	-
		928,894	927,005
	Restricted deposits with DAB	**4,017**	9,662
	Others	**336**	5,125
	Total interest income	**1,024,578**	1,002,245
	Interest expense		
	Deposits from banks	**-**	7,263
	Deposits from customers	**6,806**	45,740
	Loans and borrowings	**145,645**	134,836
	Total interest expense	**152,451**	187,839
	Net interest income	**872,127**	814,406

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	Note	2015 AFN '000	2014 AFN '000
22. Net fee and commission income			
Fee and commission income			
Loan processing fee		51,376	47,029
Bank charges relating to foreign remittances and other services		32,011	33,217
Total fee and commission income		83,387	80,246
Fee and commission expense			
Guarantee fee		19,065	22,355
Afghanistan Deposit Insurance Corporation (ADIC) premium		7,466	7,200
Other Fee		3,836	3,885
Total fee and commission expense		30,367	33,440
Net fee and commission income		53,020	46,806
23. Other revenue			
Foreign exchange service income		123,815	110,114
Exchange gain		2,004	7,664
Loans and advances written off recovered		21,442	25,972
Receipts against claims		33,548	833
Receipts against insurance claim for fire on Khulam branch		10,368	-
Other		5,501	1,049
		196,677	145,632
24. Other income			
Recognition of previously written off vehicles	10.2.2	9,416	-
Loss on disposal of property and equipment		(77)	(43)
Others		-	1,341
		9,339	1,298
25. Other expenses			
Consultancy fee		16,820	10,334
Office rent		35,087	32,458
Communication		27,503	21,413
System maintenance		8,082	1,742
Generator fuel and maintenance		14,651	18,010
Insurance		9,725	9,723
Legal, professional and statutory fee		7,885	13,024
Audit fee		1,429	1,483
Office security		109,262	111,988
Office stationery and supplies		15,719	8,847
Other operating expenses		6,043	4,607
Repairs and maintenance		3,225	3,353
Travel and transportation		37,364	40,078
Director's traveling		3,169	3,027
Trainings		1,525	894
Utilities		6,641	8,077
Marketing and promotional expenses		1,450	456
Miscellaneous		4,024	949
		309,603	290,463
26. Expenditure against grants			
Salaries and benefits		7,555	898
Office supplies		116	-
Insurance		227	-
Travel and transportation		715	102
Consultancy fee		12,999	2,112
Training fee		70	112
Printing and stationery		290	191
Depreciation and amortization	12.2	719	838
		22,690	4,253

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	Note	2015	2014
27. Earning per share			
Basic earning per share			
Profit for the year attributable to ordinary shareholders (AFN '000)		**185,291**	116,276
Weighted-average number of ordinary shares (numbers)		**88,288**	88,288
Basic earning per share (AFN '000)		**2.10**	1.32

28. Related parties

28.1 Parent and ultimate controlling entity

Pattern of shareholding in the Bank is disclosed in note 18.1. Aga Khan Development Network entities collectively owns 51% of the Bank's capital as at 31 December 2015 (2014: 51%).

28.2 Transactions with key management personnel

	2015	2014
	AFN '000	AFN '000
Key management personnel compensation		
Short term employee benefits	**46,412**	40,984

Compensation of the Bank's key management personnel includes salaries and benefits.

Key management personnel transactions

The aggregate value of transactions and outstanding balances related to key management personnel were as follows:

	Transaction values for the year ended 31 December		**Maximum balance for the year ended 31**		**Balance outstanding as at 31 December**	
	2015	2014	**2015**	2014	**2015**	2014
	AFN '000	AFN '000	**AFN '000**	AFN '000	**AFN '000**	AFN '000
Advances to staff	**294**	3,065	**487**	1,049	**487**	-
Deposits received	**62,065**	36,088	**14,422**	4,890	**5,358**	3,670

28.3 Other related party transactions

	Balance outstanding as at 31 December	
	2015	2014
	AFN '000	AFN '000
Balances with related parties		
Balances with banks	**43,358**	103,130
Time deposits with banks	**1,230,660**	1,905,070
Loan to Telecom Development Company Afghanistan Limited (TDCA)	**193,740**	-
Receivable from Roshan against M-Paisa payments	**7,535**	13,165
Deposits from customers	**1,379,814**	1,337,000
Payable to Aga Khan Agency for Microfinance (AKAM)	**1,551**	2,900

	Transaction values for the year ended 31 December	
	2015	2014
Transactions with related parties	**AFN '000**	AFN '000
Interest income	**7,994**	15,456
Fee and commission income	**9,107**	6,878
Fee and commission expense	**1**	56
Interest expense on deposits from customers	**6,899**	7,464
Directors' fee and other expenses	**3,169**	3,027
Costs incurred for AKAM loan recovery reimbursed	**3,229**	1,260

28.4 The transactions were made on similar terms that would be applied in arm's length transaction. No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the reporting date. These balances are not secured and no guarantees have been obtained.

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29. Accounting classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

	Note	Carrying amount						
		Held-for-trading	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total
					AFN '000			
31 December 2015								
Financial assets								
Cash and cash equivalents	7	-	-	-	3,243,121	-	-	3,243,121
Placements	8	-	-	1,528,106	67,686	-	-	1,595,792
Loans and advances to customers	9	-	-	-	3,795,937	-	-	3,795,937
Other assets	12	-	-	-	550,715	-	-	550,715
		-	-	1,528,106	7,657,458	-	-	9,185,564
Financial liabilities								
Deposits from customers	13	-	-	-	-	-	4,992,027	4,992,027
Loans and borrowings	14	-	-	-	-	-	2,558,509	2,558,509
Other liabilities	17	-	-	-	-	-	21,130	21,130
		-	-	-	-	-	7,571,666	7,571,666
31 December 2014								
Financial assets								
Cash and cash equivalents	7	-	-	-	3,256,240	-	-	3,256,240
Placements	8	-	-	1,256,113	-	-	-	1,256,113
Loans and advances to customers	9	-	-	-	3,349,689	-	-	3,349,689
Other assets	12	-	-	-	489,359	-	-	489,359
		-	-	1,256,113	7,095,288	-	-	8,351,401
Financial liabilities								
Deposits from customers	13	-	-	-	-	-	4,280,380	4,280,380
Loans and borrowings	14	-	-	-	-	-	2,457,617	2,457,617
Other liabilities	17		-	-	-	-	147,884	147,884
		-	-	-	-	-	6,885,881	6,885,881

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

	Carrying Value		Fair Value	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	AFN '000	AFN '000	AFN '000	AFN '000
Financial assets				
Cash and cash equivalents	3,243,121	3,256,240	3,243,121	3,256,240
Placements	1,595,792	1,256,113	1,595,792	1,256,113
Loans and advances to customers	3,795,937	3,349,689	3,795,937	3,349,689
Other assets	550,715	489,359	550,715	489,359
Financial liabilities				
Deposits from customers	4,992,027	4,280,380	4,992,027	4,280,380
Loans and borrowings	2,558,509	2,457,617	2,558,509	2,457,617
Other liabilities	21,130	147,884	21,130	147,884

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30. Financial risk review and management

This note presents information about the Bank's exposure to financial risks, Bank's financial risk management and the Bank's management of capital.

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

- credit risk
- liquidity risk; and
- market risks

Risk management framework

The Bank's Board of Supervisors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Supervisors has established the Bank's Asset and Liability Committee (ALCO), which is responsible for developing and monitoring Bank's risk management policies.

The Bank's Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures.

30.1 Credit risk

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

30.1.1 Management of credit risk

The Bank manages credit risk by limiting and controlling concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or counterparty . Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Exposure to credit risk is also managed through analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations at the time of loan appraisal for initial and subsequent loans.

Regular audits of business units and Bank's credit processes are undertaken by Internal Audit.

30.1.2 Credit quality analysis

The table below set out information about the credit quality of the Banks's loans and advances to customers and the allowance for impairment/loss held by the Bank against those assets. The maximum exposure to credit risk in respect of other financial assets and gauntness are equivalent to their carrying amounts as disclosed in the respective notes.

	Note	2015	2014
		AFN '000	AFN '000
Maximum exposure to credit risk			
Carrying amount	9	**3,795,937**	3,349,689
At amortised cost			
Standard		**3,947,874**	3,520,636
Watch-list		**14,362**	2,600
Substandard		**13,778**	2,367
Doubtful		**22,082**	9,937
Loss		**35,065**	31,583
Total gross amount		**4,033,161**	3,567,123
Allowance for impairment (individual and collective)		**(237,224)**	(217,434)
Net carrying amount		**3,795,937**	3,349,689
Loans with renegotiated terms			
Gross carrying amount		**35,065**	31,583
Impaired amount		**35,065**	31,583
Allowance for impairment		**(35,065)**	(31,583)
Net carrying amount		**-**	-
Neither past due nor impaired			
Standard (low-fair risk)		**3,730,678**	3,515,024
		3,730,678	3,515,024

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Individually impaired	**2015** AFN '000	2014 AFN '000
Watch-list	14,362	2,600
Substandard	13,778	2,367
Doubtful	22,082	9,937
Loss & rescheduled	35,065	31,583
	85,287	46,487
Allowance for impairment		
Individual	50,268	37,299
Collective	186,956	180,135
Total allowance for impairment	237,224	217,434

Impaired loans and advances

See accounting policy - Note 6(F)(vii)

The Bank regards a loan and advance as impaired in the following circumstances:

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.
- A loan is overdue for 30 days or more.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicator of impairment.

Loans and advances that are past due but not impaired

Loans and advances 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amount owed to the Bank.

Cash and cash equivalents

The Bank held cash and cash equivalents of AFN 2,993,587 thousands at 31 December 2015 (2014: AFN 2,997,260 thousands). The cash and cash equivalents are held with central bank and financial institutions.

30.1.3 Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	**Note**	**Percentage of exposure that is subject to collateral requirements**		**Principal type of collateral held**
		31 December 2015	31 December 2014	
Loans and advances to customers				
Microfinance loans	9	77.51	82.37	Property
Microfinance loans	9	1.64	-	Personal guarantee
Microfinance loans-Group loans	9	0.06	0.12	None
Over draft	9	5.10	-	Property
Loans to small and medium size	9	15.68	17.51	Property

30.1.4 Offsetting financial assets and financial liabilities

No financial assets and financial liabilities have been set of during the year (2014: none).

30.1.5 Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and geographic location.

Geographic sector

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

31 December 2015	**Balances with banks**	**Placements**	**Loans and advances to customers**	**Other assets**	**Total (on-balance sheet)**	**Contingencies and commitments**	**Total**
	--------	--------	--AFN '000--	--------	--------	--------	
Afghanistan	1,769,475	1,528,106	3,795,937	550,715	7,644,232	28,502	7,672,734
Germany	1,031,708	67,686	-	-	1,099,394	-	1,099,394
United Kingdom	136,740	-	-	-	136,740	-	136,740
United States	43,358	-	-	-	43,358	-	43,358
	2,981,281	1,595,792	3,795,937	550,715	8,923,724	28,502	8,952,226

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31 December 2014	Balances with banks	Placements	Loans and advances to customers	Other assets	Total (on-balance sheet)	Contingencies and commitments	Total
Afghanistan	2,065,460	1,256,113	3,349,689	489,359	7,160,621	24,917	7,185,538
Germany	393,626	-	-	-	393,626	-	393,626
United Kingdom	433,279	-	-	-	433,279	-	433,279
Switzerland	1,765	-	-	-	1,765	-	1,765
United States	103,130	-	-	-	103,130	-	103,130
	2,997,260	1,256,113	3,349,689	489,359	8,092,421	24,917	8,117,338

Industry sector

The following table breaks down the Bank's main credit exposure at their carrying amount, as categorised by industry sector as of 31 December 2015.

31 December 2015	Banks	Agriculture	Telecom	Trade	Others	Total
Cash and cash equivalents	2,981,281	-	-	-	-	2,981,281
Placements	1,595,792	-	-	-	-	1,595,792
Loans and advances to customers	-	999,099	193,740	2,102,504	500,593	3,795,937
Other assets	354,513	-	-	-	196,202	550,715
Bank guarantees	-	-	-	-	28,502	28,502
	4,931,586	999,099	193,740	2,102,504	725,297	8,952,226

31 December 2014	Banks	Agriculture	Telecom	Trade	Others	Total
Cash and cash equivalents	2,997,260	-	-	-	-	2,997,260
Placements	1,256,113	-	-	-	-	1,256,113
Loans and advances	-	1,021,358	-	1,435,579	892,752	3,349,689
Other assets	334,180	-	-	-	155,179	489,359
Bank guarantees	-	-	-	-	24,917	24,917
	4,587,553	1,021,358	-	1,435,579	1,072,848	8,117,338

30.1.6 Impaired loans and advances

For details of impairment allowance for loans and advances to customers, see note 9.

30.2 Liquidity risk

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

30.2.1 Management of liquidity risk

The Bank's Board of Supervisors sets the Bank's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. The key elements of the Bank's liquidity strategy are as follows:

- Day-to-day funding, managed by monitoring future cash flows by currency and business segment to ensure that requirements can be met, expressed through a maturity mismatch approach within different time bands on a maturity ladder.

- Maintaining a portfolio of highly marketable assets and/or standby credit lines that can easily be liquidated/drawn as protection against any unforeseen interruption to cash flow.

- Monitoring balance sheet liquidity ratios against internal and regulatory requirements.

- Managing the concentration and profile of deposit and debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections by currency and business segment for the next day, week and month respectively, using the maturity mismatch approach outlined above, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. The Bank also monitors unmatched medium-term assets, the level and type of un-drawn lending commitments. Sources of liquidity are regularly reviewed by the ALCO to maintain a wide diversification by currency, provider, product and term.

30.2.2 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' includes cash and cash equivalents less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows.

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	2015	2014
At 31 December	68.22%	72.74%
Average for the period	66.79%	70.49%
Maximum for the period	71.61%	74.56%
Minimum for the period	62.92%	67.57%

30.2.3 Maturity analysis for financial liabilities

The tables below set out the remaining contractual maturities of the Bank's financial liabilities.

	Note	31 December 2015						
		Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		AFN '000						
Financial liability by type								
Deposits from customers	15	4,992,027	(4,998,833)	(4,974,611)	-	(24,222)	-	-
Loans and borrowings	16	2,558,509	(2,663,156)	(11,754)	-	(187,810)	(1,628,293)	(835,300)
Other liabilities	19	21,130	(21,130)	-	(19,479)	(21,130)	-	-
Issued financial guarantees	22	28,502	(28,502)	-	-	-	(28,502)	-
		7,600,168	(7,711,621)	(4,986,364)	(19,479)	(233,162)	(1,656,795)	(835,300)

	Note	31 December 2014						
		Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		AFN '000						
Financial liability by type								
Deposits from customers	15	4,280,380	(4,289,185)	(4,287,354)	-	(1,831)	-	-
Loans and borrowings	16	2,457,617	(2,995,023)	(57,746)	-	(238,966)	(1,834,679)	(863,632)
Other liabilities	19	147,884	(147,884)	(5,521)	(35,637)	(123,686)	-	-
Issued financial guarantees		24,917	(24,917)	-	-	-	(24,917)	-
		6,910,798	(7,457,009)	(4,350,621)	(35,637)	(364,483)	(1,859,596)	(863,632)

The amounts in the table above have been compiled as follows:

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities	Undiscounted cash flows, which include estimated interest payments
Issued financial guarantee contracts and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The table below sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

	Note	2015 AFN '000	2014 AFN '000
Financial assets			
Loans and advances to customers	9	647,919	530,613
Financial liabilities			
Loans and borrowings	14	2,328,977	2,262,332

30.3 Market risk

Market risk is the risk that changes in market prices - such as interest rates and foreign exchange rates - will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk.

30.3.1 Management of market risks

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

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30.3.2 Exposure to interest rate risk

The following table is a summary of the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amount, categorised by the earlier of contractual repricing or maturity dates.

	Note	31 December 2015 Interest bearing Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total	Not interest bearing	Carrying amount
		AFN '000							
Financial assets									
Cash and cash equivalents	7	1,610,067	-	-	-	-	1,610,067	1,633,054	3,243,121
Placements	8	-	954,116	641,676	-	-	1,595,792	-	1,595,792
Loans and advances to customers	9	1,218,634	758,130	1,171,254	641,700	6,219	3,795,937	-	3,795,937
Other assets	12	-	-	-	-	-	-	550,715	550,715
Total financial assets		2,828,701	1,712,246	1,812,929	641,700	6,219	7,001,796	2,183,768	9,185,564
Financial liabilities									
Deposits from customers	13	98,764	10,867	5,924	-	-	115,555	4,876,472	4,992,027
Loans and borrowings	14	11,111	58,212	119,335	1,539,320	789,657	2,517,636	40,873	2,558,509
Other liabilities	17	-	-	-	-	-	-	21,130	21,130
Total financial liabilities		109,875	69,079	125,259	1,539,320	789,657	2,633,191	4,938,475	7,571,666
Total interest rate gap		2,718,826	1,643,167	1,687,670	(897,620)	(783,438)	4,368,605	(2,754,707)	1,613,898

	Note	31 December 2014 Interest bearing Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total	Not interest bearing	Carrying amount
		AFN '000							
Financial assets									
Cash and cash equivalents	7	2,019,752	-	-	-	-	2,019,752	1,236,488	3,256,240
Placement	8	139,786	423,802	692,525	-	-	1,256,113	-	1,256,113
Loans and advances to customers	9	815,593	740,631	1,262,852	506,983	23,630	3,349,689	-	3,349,689
Other assets	12	-	-	-	-	334,180	334,180	155,179	489,359
Total financial assets		2,975,131	1,164,433	1,955,377	506,983	357,810	6,959,734	1,391,667	8,351,401
Financial liabilities									
Deposits from banks		-	-	-	-	-	-	-	-
Deposits from customers	13	1,473,369	958	864	-	-	1,475,191	2,805,189	4,280,380
Loans and borrowings	14	20,190	21,824	116,824	1,472,532	789,800	2,421,170	36,447	2,457,617
Other liabilities	17	-	-	-	-	-	-	147,884	147,884
Total financial liabilities		1,493,559	22,782	117,688	1,472,532	789,800	3,896,361	2,989,520	6,885,881
Total interest rate gap		1,481,572	1,141,651	1,837,689	(965,549)	(431,990)	3,063,373	(1,597,853)	1,465,520

If the interest rate increase/(decrease) by 100 bps, the impact on profit or loss for the year would have been AFN 43,686 thousands (2014: AFN 31,382 thousands) lower/higher respectively.

30.3.3 Exposure to currency risk

The table below summarises the Bank's exposure to foreign currency exchange rate risk. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

	USD	EUR	Total	AFN '000	Carrying amount
	Converted to AFN '000				AFN '000
31 December 2015					
Financial assets					
Cash and cash equivalents	1,980,132	690,947	2,671,079	572,042	3,243,121
Placements	68,370	-	68,370	1,527,422	1,595,792
Loans and advances to customers	490,815	-	490,815	3,305,122	3,795,937
Other assets	48,945	-	48,945	501,770	550,715
Total financial assets	2,588,262	690,947	3,279,209	5,906,356	9,185,564
Financial liabilities					
Deposits from customers	2,501,817	686,517	3,188,334	1,803,693	4,992,027
Loans and borrowings	-	-	-	2,558,509	2,558,509
Other liabilities	10,049	62	10,111	11,019	21,130
Total financial liabilities	2,511,866	686,579	3,198,445	4,373,221	7,571,666
Net position	76,396	4,368	80,764	1,533,134	1,613,898

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	USD	EUR	Total	AFN '000	Carrying amount
	--------- Converted to AFN '000 ---------				AFN '000
31 December 2014					
Financial assets					
Cash and cash equivalents	1,963,828	646,273	2,610,101	646,138	3,256,240
Placements	-	-	-	1,256,113	1,256,113
Loans and advances to customers	239,343	-	239,343	3,110,346	3,349,689
Other assets	7,595	-	7,595	481,764	489,359
Total financial assets	2,210,767	646,273	2,857,040	5,494,361	8,351,401
Financial liabilities					
Deposits from customers	2,051,036	630,744	2,681,780	1,598,600	4,280,380
Loans and borrowings	-	-	-	2,457,617	2,457,617
Other liabilities	53,913	59	53,972	93,912	147,884
Total financial liabilities	2,104,949	630,803	2,735,753	4,150,129	6,885,881
Net position	**105,818**	**15,469**	**121,287**	**1,344,233**	**1,465,520**

Sensitivity analysis

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

	2015		2014	
	Equity	Profit or loss	Equity	Profit or loss
USD	**(7,640)**	**(7,640)**	(10,582)	(10,582)
Euro	**(437)**	**(437)**	(1,547)	(1,547)

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

30.4 Capital management

30.4.1 Regulatory capital

The Bank's regulator, Da Afghanistan Bank (DAB), sets and monitors capital requirements for the Bank.

The Bank's regulatory capital consists of the sum of the following elements:

- Tier 1 capital (core capital) which includes ordinary share capital, related premium on capital, retained earnings and deductions for intangible assets.

- Tier 2 capital (supplementary capital)

DAB requires each bank to maintain its Tier 1 Capital ratio and Regulatory Capital ratio to be at least 6% and 12% respectively. The Bank is maintaining this ratio above the required level.

The table below summarises the composition of the regulatory capital and ratio of the Bank.

	2015	2014
	AFN '000	AFN '000
Regulatory Capital		
Tier 1 (Core) Capital:		
Total equity capital	**1,648,560**	1,463,269
Less: Intangible assets	**(551)**	(975)
Profit for the year	**(185,291)**	(116,276)
	1,462,718	1,346,018

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	2015 AFN '000	2014 AFN '000
Tier 2 (Supplementary) Capital:		
General loss reserves on credits as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposures	**58,453**	53,716
Subordinated debt	**34,278**	51,418
Profit for the year	**185,291**	116,276
	278,022	221,410
Total tier 2 (supplementary) capital (restricted to 100% of Tier 1 (Core) Capital)	**278,022**	221,410
Regulatory Capital (Tier 1 + Tier 2)	**1,740,740**	1,567,428
Risk-weighted assets		
On-balance sheet		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	**261,840**	258,980
Direct claims on DAB	**2,635,665**	2,177,013
Total	**2,897,505**	2,435,993
0% risk-weight total (above total x 0%)	**-**	-
20% risk weight:		
Balances with other banks	**2,228,234**	2,410,540
Direct claims on central banks and central governments of Category A countries	**-**	-
20% risk-weight total (above total x 20%)	**445,647**	482,108
100% risk weight:		
All other assets	**4,231,145**	3,791,251
Less: intangible assets	**(551)**	(975)
All other assets - net	**4,230,594**	3,790,275
100% risk-weight total (above total x 100%)	**4,230,594**	3,790,275
Off-balance sheet		
100% risk weight:		
Guarantees issued	**28,502**	24,917
100% risk-weight total (above total x 100%)	**28,502**	24,917
Total risk-weighted assets	**4,676,241**	4,297,300
Tier1 (Core) Capital ratio to risk-weighted assets	**31%**	31%
Regulatory Capital ratio to risk-weighted assets	**37.2%**	36.5%

31. Operating leases

The Bank leases a number of branch and office premises under operating leases. The leases typically run for a period 1 to 5 year, however, mostly cancellable on one month notice.

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Chief Financial Officer | **Acting Chief Executive Officer** | **Chairman**