Bank Alfalah Limited Afghanistan
Statement of Financial Position
As at 31 December 2013

	Note	**2013** **Afs '000'**	2012 Afs '000'
Assets			
Cash and cash equivalents	4	**11,410,936**	9,128,057
Investments	5	**1,417,217**	1,044,777
Loans and advances to banks	6	**555,286**	1,769,403
Loans and advances to customers	7	**1,542,406**	1,488,326
Property and equipment	8	**14,076**	18,581
Other assets	9	**1,122,766**	935,918
Total assets		**16,062,687**	14,385,062
Liabilities			
Deposits from banks	10	**707,981**	478,687
Deposits from customers	11	**13,875,469**	12,694,695
Income tax payable		**56,018**	45,623
Deferred tax liability	12	**2,052**	2,708
Other liabilities	13	**18,646**	41,369
Total liabilities		**14,660,166**	13,263,082
Equity			
Assigned capital	14	**299,262**	299,262
Retained earnings		**1,103,519**	822,718
Unrealized loss on remeasurement of available-for-sale investments		**(260)**	-
		1,402,521	1,121,980
Total liabilities and equity		**16,062,687**	14,385,062
Contingencies and commitments	15		

The annexed notes from 1 to 26 form an integral part of these financial statements.

Country Operations Head

Country Manager

Bank Alfalah Limited Afghanistan
Statement of Comprehensive Income
For the year ended 31 December 2013

	Note	**2013 Afs '000'**	2012 Afs '000'
Interest income	*16*	**323,290**	391,604
Interest expense	*16*	**(27,937)**	(40,851)
Net interest income		**295,353**	350,753
Fee and commission income - net	*17*	**210,308**	186,374
Income from dealing in foreign currencies		**55,891**	50,818
Other operating income	*18*	**2,804**	2,744
Operating income		**564,356**	590,689
Reversal / (charge) for provision against non-performing advances	*7.6*	**5,669**	(14,403)
Personnel expenses	*19*	**(99,712)**	(94,752)
Depreciation	*8*	**(7,852)**	(9,485)
Other operating expenses	*20*	**(111,463)**	(101,499)
Profit before taxation		**350,998**	370,550
Taxation	*21*	**(70,197)**	(75,481)
Profit after taxation		**280,801**	295,069
Other comprehensive income			
Item that may be reclassified subsequently to profit and loss			
Unrealised loss on remeasurement of available-for-sale investments - net of tax		**(260)**	-
Total comprehensive income for the year		**280,541**	295,069

The annexed notes from 1 to 26 form an integral part of these financial statements.

Country Operations Head

Country Manager

Bank Alfalah Limited Afghanistan
Statement of Changes in Equity
For the year ended 31 December 2013

	Assigned capital Afs '000'	Unrealized loss on remeasurement of available-for-sale investments Afs '000'	Retained earnings Afs '000'	Total Afs '000'
Balance at 01 January, 2012	299,262	-	527,649	826,911
Profit for the year	-	-	295,069	295,069
Balance at 31 December 2012	**299,262**	**-**	**822,718**	**1,121,980**
Profit for the year	-	-	**280,801**	**280,801**
Other comprehensive income				
Unrealized loss on remeasurement of available-for-sale investments	-	**(260)**	-	**(260)**
Balance at 31 December 2013	**299,262**	**(260)**	**1,103,519**	**1,402,521**

The annexed notes from 1 to 26 form an integral part of these financial statements.

Country Operations Head

Country Manager

Bank Alfalah Limited Afghanistan
Statement of Cash Flows
For the year ended 31 December 2013

	Note	2013 Afs '000'	2012 Afs '000'
Cash flows from operating activities			
Profit before taxation		350,998	370,550
Adjustments for:			
Depreciation		7,852	9,485
Reversal / (charge) for provision against non-performing advances		(5,669)	14,403
Interest income		(323,290)	(391,604)
Interest expense		27,937	40,851
Loss on disposal of property and equipment		-	381
		57,828	44,066
(Increase) / decrease in operating assets			
Loans and advances to banks		1,214,117	(115,781)
Loans and advances to customers		(48,411)	131,882
Other assets		(205,803)	(8,423)
		959,903	7,678
Increase / (decrease) in operating liabilities			
Deposits from banks		229,294	474,672
Deposits from customers		1,180,774	(611,986)
Other liabilities		(4,073)	2,979
		1,405,995	(134,335)
		2,423,726	(82,591)
Interest received		342,245	378,617
Interest paid		(46,583)	(28,646)
Income tax paid		(60,397)	(59,541)
Net cash generated from operating activities		2,658,991	207,839
Cash flows from investing activities			
Increase in investments - net		(372,765)	(60,100)
Purchase of property and equipment		(3,364)	(6,560)
Proceeds from disposal of property and equipment		17	213
Net cash used in investing activities		(376,112)	(66,447)
Net increase in cash and cash equivalents		2,282,879	141,392
Cash and cash equivalent at beginning of the year		9,128,057	8,986,665
Cash and cash equivalents at end of the year	4	11,410,936	9,128,057

The annexed notes from 1 to 26 form an integral part of these financial statements.

Country Operations Head

Country Manager

1. STATUS AND NATURE OF BUSINESS

Bank Alfalah Limited Afghanistan ("the Bank") is a foreign branch of Bank Alfalah Limited, Pakistan and is registered and operating in Afghanistan as a commercial bank. The Bank obtained business license from Afghanistan Investment Support Agency renewed on 13 August, 2013 and is a limited liability company. The Bank commenced its operations on 05 September, 2005 under the license for commercial banking issued by Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan. Currently , the Bank has two conventional banking branches each at Kabul and Herat and one Islamic sub-branch in Kabul.

The registered office of the Bank is located in Kabul, Afghanistan.

2. BASIS OF PRESENTATION

2.1 STATEMENT OF COMPLIANCE

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

2.2 BASIS OF MEASUREMENT

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

2.2.1 Functional and presentation currency

These financial statements are presented in Afghani which is also the Banks's functional currency. Except as otherwise indicated, the amounts in the financial statements have been rounded to the nearest thousand Afghanis.

2.2.2 Critical accounting estimates and key sources of estimation uncertainty

The preparation of financial statements in conformity with the International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affects the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

The material estimates, assumptions and judgements used to measure and classify the carrying amounts of assets and liabilities are outlined below:

a) Provision for loan losses;
b) Impairment in investments;
c) Provision for income taxes;
d) Useful life of property and equipment.

2.3 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2013

The following standards, amendments and interpretations are effective for the year ended 31 December, 2013. These standards, interpretations and amendments are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

Standards/Amendments/Interpretations	Effective from accounting period beginning on or after
Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information	January 1, 2013
Amendments to IAS 16 - Property, Plant and Equipment – Classification of servicing equipment	January 1, 2013
IAS 19 (revised) - Employee Benefits (refer note 3.17)	January 1, 2013
Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction	January 1, 2013
Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction	January 1, 2013
Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities	January 1, 2013
Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities	January 1, 2013

2.4 Standards, interpretations and amendments to the published approved accounting standards not yet effective

The following Standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

Standards/amendments/interpretations	Effective from accounting period beginning on or after
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	January 1, 2014
IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets	January 1, 2014
Amendments to IAS 27 - Separate Financial Statements	January 1, 2014
Amendments to IAS 28 - Investments in Associates and Joint Ventures	January 1, 2014
IFRS 9 - Financial Instruments	January 1, 2015
Amendment to IFRS 10 – Consolidated Financial Statements	January 1, 2014
IFRS 11 – Joint Arrangements	January 1, 2014
IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
IFRIC 21 - Levies	January 1, 2014

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the periods presented in these financial statements.

3.1 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and highly liquid financial assets with original maturities of less than three months including capital notes issued by Da Afghanistan Bank, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

3.2 Financial instruments

Financial assets and liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument, and derecognized when the Bank loses control of the contractual rights that comprise the financial assets, and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or loss on derecognition of financial assets and financial liabilities is included in income for the year.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the statement of comprehensive income.

3.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Cash and cash equivalents, loans and advances to banks and customers , security deposits and other receivables are classified under this category.

3.3.1 Loans and advances

Loans and advances are initially measured at fair value plus incremental direct transaction cost and subsequently measure at their amortized cost less allowance for impairment loss. Specific and general allowance for impairment are made in accordance with the requirements of the Banking Law of Afghanistan from time to time and the regulations issued by DAB in this regard. The net allowance made / reversed during the year is charged to statement of comprehensive income and accumulated provision is netted-off against advances. Advances are written off when the party is classified as loss as per DAB Regulations or when there are no realistic prospects of recovery.

3.4 Investments

3.4.1 Classification

The Bank classifies its investments as follows:

(a) At fair value through profit or loss

Investment is classified as fair value through profit or loss when it is either held-for-trading or it is designated as at fair value through profit or loss. It is classified as held-for-trading if it is acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

(b) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank sales other than an insignificant amount of held-to-maturity financial assets before its maturity, the entire category would be reclassified as available for sale. Foreign placements are classified under this category.

(c) Available for sale

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets (AFS) are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

3.4.2 Regular way contracts

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognized at trade date, which is the date at which the Bank commits to purchase or sell the investments.

3.4.3 Initial recognition and measurement

Investments other than those categorized as 'held for trading' are initially recognized at fair value which includes transaction costs associated with the investment. Investments classified as 'held for trading' are initially recognized at fair value and transaction costs are charged in the statement of comprehensive income.

3.4.4 Subsequent measurement

Securities other than those classified as 'held to maturity' are subsequently remeasured to market value. Surplus / deficit arising on revaluation of securities classified as 'available for sale' is included in the statement of comprehensive income and is taken to equity in the statement of financial position. Surplus/ deficit arising on revaluation of quoted securities which are 'held for trading' is taken to the statement of comprehensive income. Investments classified as 'held to maturity' are carried at amortized cost less impairment, if any.

3.5 Property and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. The gain or loss on disposal of an item of property and equipment is charged in the statement of comprehensive income.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is charged in statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation on additions is charged from the date on which the assets are available for use and ceases on the date on which they are disposed off.

The estimated useful lives for the current and comparative periods are as follows:

	Current year	Prior year
Lease hold improvements	5 years	5 years
Furniture and fixtures	4 - 10 years	4 - 10 years
Electrical and office equipment	5 years	5 years
Computers	4 years	4 years
Vehicles	4 years	4 years

Depreciation methods, useful lives and residual values are reassessed at each balance sheet date and adjusted if appropriate.

3.6 Deposits

Deposits are the Bank's source of funding. Deposits are initially recorded at the amount of proceeds received. Mark accrued on deposits is recognized separately as part of other liabilities and is accrued to the profit and loss account on a time proportion basis.

3.7 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.

Provision against identified non-funded losses is recognized when intimated and reasonable certainty exists for the Bank to settle the obligation. The loss is charged to the statement of comprehensive income net of expected recovery and is classified under other liabilities.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

3.8 Financial assets and financial liabilities

3.8.1 Recognition

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

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

3.8.2 Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial asset that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. on de-recognition of a financial asset, the difference between the carrying amount of an asset 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.

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

3.8.3 Offsetting

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

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

3.8.4 Amortized cost measurement

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

3.8.5 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for the instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique.

3.9 Impairment of financial assets

3.9.1 *Impairment of financial assets carried at amortized cost*

At each reporting date, the Bank assess whether there is objective evidence that financial assets carried at amortized cost are impaired. Financial assets or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

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

The Bank determines allowance for impairment of loans and advances in accordance with regulations issued by DAB "Asset Classifications, Monitoring of Problem Assets, Reserve for losses, and Non-approval Status".

The Bank considers evidence for impairment for loans and advances at both a specific and collective level. All individually significant loans and advances are assessed for specific impairment. All significant loan and advance found not to be significantly impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar characteristics.

In determining the potential loss in specific loans, group of loans, or in the aggregate loan portfolio, relevant factors are considered including, but not limited to : current economic condition, historical loss experience, delinquency trends, the effectiveness of the Bank's lending policy and collective procedures, and the timeliness and accuracy of its loan review function.

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

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in the statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on the impaired asset continuous to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impaired loss is reversed through the statement of comprehensive income.

3.9.2 Impairment of financial assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets previously recognized in the statement of comprehensive income is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income, related to an event occurring after the impairment loss was recognized.

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3.10 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Non-financial assets that are subject to depreciation/ amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss or reversal of impairment loss is recognized in the statement of comprehensive income. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount,nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

3.11 Financial guarantees

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

3.12 Equity

Assigned capital from Head Office plus retained earnings and unrelaized gains / losses on remeasurement of investments classified as available for sale comprise equity of the Bank.

3.13 Interest income and expense and other income

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

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

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

As per regulations issued by Da Afghanistan Bank titled " Asset Classifications, Monitoring of problem Assets, Reserve for losses, and Non - accrual Status", accrued interest is reversed for loans and advances that are classified in non-accrual status.

Gains and losses on disposal of property and equipment are recognized in the period in which disposal is made.

3.14 Fees and commission

Fee, commission and brokerage income except income from letters of credit and guarantees are accounted for on receipt basis. Commission on letters of credit and guarantees is recognised on time proportion basis.

3.15 Lease payments

Payments made under operating leases are recognized in the statement of comprehensive income on a 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.

3.16 Taxation

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

Current

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. The current income tax charge is calculated in accordance with Income Tax Law, 2009.

Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

3.17 Staff retirement benefits

Defined benefit plan

The Bank operated an approved funded gratuity scheme covering eligible employees whose period of employment with the Bank is five years or more. Gratuity is payable to the staff on completion of the prescribed qualifying period of service. However, the payment of gratuity is made directly from the Head Office therefore, with effect from 01 January 2012, the management of the Bank has decided to stop making further provision of gratuity in its books of account.

During the current year, the Bank has changed its accounting policy in respect of post retirement defined benefits plans as required under International Accounting Standard (IAS) 19, 'Employee Benefits'. According to new policy actuarial gains and losses are recognized in other comprehensive income (OCI) in the periods in which they occur. Amounts recorded in the profit and loss account are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit obligation are recognized directly in other comprehensive income with no subsequent recycling through the profit and loss account.

However, the said changes do not have any impact either on the financial statements of the Bank for the year ended December 31, 2013 or in the financial statements for the year ended December 31, 2012 and 2011 due to reasons mentioned in preceding paragraphs.

Defined contribution plan

The Bank operates a recognized provident fund scheme for all its permanent employees to which equal monthly contributions are made both by the Bank and employees at the rate of 8.33 percent of basic salary. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. The scheme is managed through Head Office.

3.18 Foreign currencies translation

Foreign currency transactions are translated into functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency assets and liabilities are translated using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of assets and liabilities denominated in foreign currencies are recognized in income currently.

	Note	**2013 Afs '000'**	2012 Afs '000'
4. Cash and cash equivalents			
Cash in hand			
Local currency		**44,565**	75,064
Foreign currencies		**222,624**	294,351
		267,189	369,415
Balances with Da Afghanistan Bank	*4.1*	**3,740,995**	2,882,848
Balances with other banks and financial institutions	*4.2*	**6,574,333**	4,370,945
Placements - capital notes	*4.3*	**828,419**	1,504,849
		11,410,936	9,128,057

4.1 Balances with Da Afghanistan Bank

		2013	2012
Foreign currencies			
Current accounts		**1,182,094**	1,440,737
Deposit account		**-**	-
		1,182,094	1,440,737
Local currency			
Current accounts		**2,558,901**	1,442,111
		3,740,995	2,882,848

4.2 Balances with other banks and financial institutions

	Note	2013	2012
Current accounts - foreign currencies		**2,452,719**	1,690,520
Placements	*4.2.1*	**4,121,614**	2,680,425
		6,574,333	4,370,945

4.2.1 These carry interest rate ranges from 0.12% to 4% (2012: 0.20% to 3.50%) per annum.

4.3 These are issued by Da Afghanistan Bank carrying interest rate of 3.4% to 5.9% (2012: 1.95% to 3.38%) per annum and have maturity period of upto 12 months.

4.4 Geographical profile of cash and cash equivalents is as follows:

	Note	2013 Afs '000'	2012 Afs '000'
Afghanistan		**4,836,604**	5,069,952
Europe		**1,224,323**	676,751
North America		**2,011,738**	1,900,150
Far East Asia		**2,541,307**	1,459,920
Middle East		**796,964**	21,284
		11,410,936	9,128,057

5. Investments

	Note	2013 Afs '000'	2012 Afs '000'
Available-for-sale			
Foreign Bonds	*5.1*	**847,369**	-
Deficit on revaluation of available-for-sale securities		**(325)**	-
		847,044	-
Held to maturity			
Pakistan Euro Bonds	*5.2*	**570,173**	523,377
Placement with Standard Chartered Bank (Pakistan) Limited		**-**	521,400
		570,173	1,044,777
		1,417,217	1,044,777

5.1 These represent investment in two bonds of Abu Dhabi Commercial Bank Finance Cayman Limited of USD 5 million each and one bond of Qatar National Bank of USD 5 million. These are listed at London Stock Exchange. The rate of profit on these bonds ranging from 3 months US LIBOR + 125 bps to 3 months US LIBOR + 130 bps per annum. These bonds will be matured latest by 09 January, 2017.

5.2 This represents investment amounting to USD 10 million in Pakistan Euro Bond. This carries interest at the rate of 7.125% per annum and will be matured on 31 March, 2016. The effective yield on the bond is equal to 8.10 % per annum during the year.

6. Loans and advances to banks

	Note	2013 Afs '000'	2012 Afs '000'
Foreign bills discounted and purchased		**455,286**	1,508,703
Term loan	*6.1*	**100,000**	260,700
		555,286	1,769,403

6.1 Term loan carries markup of 6.96% (2012: 2.74%) per annum.

	Note	0 Afs '000'	0 Afs '000'

7. Loans and advances to customers

Loans and advances to customers- at amortized cost		1,542,406	1,488,326

	Note	Gross amount (2013)	Impairment allowance (2013)	Carrying amount (2013)	Gross amount (2012)	Impairment allowance (2012)	Carrying amount (2012)
		Afs '000'			Afs '000'		
Running finance	7.1	162,044	(2,431)	159,613	153,003	(2,295)	150,708
Term finance	7.2	1,395,799	(14,348)	1,381,451	464,809	(6,972)	457,837
Finance against trust receipts (FATR)		-	-	-	891,427	(13,371)	878,056
Advance against credit cards	7.3	1,342	-	1,342	1,725	-	1,725
	7.4	1,559,185	(16,779)	1,542,406	1,510,964	(22,638)	1,488,326

7.1 Running finance carries interest ranging from 11.5% to 13% (2012: 11% to 13.5%) per annum. Such facilities are extended for maximum period of twelve months and are expected to be recovered within 12 months after the balance sheet date. These are secured against mortgage of residential and commercial property of the borrower, personal guarantee, hypothecation over stock in trade and charge over fixed assets.

7.2 Term finance carries interest ranging from 1.94% to 14 % (2012: 2.2% to 12.5%) per annum. Such facilities are extended for period ranging from 1 year to 4.5 years. These are secured against mortgage of residential and commercial properties of the borrowers and hypothecation over stock in trade and charge over fixed assets.

7.3 It carries interest at the rate of 20% (2012: 20%) per annum and are fully secured against cash margin.

	Note	2013 Afs '000'	2012 Afs '000'
7.4 Maturity profile of the loans and advances to customers (gross) is as under:			
Current portion		1,438,382	1,170,041
Long term portion		120,803	340,923
		1,559,185	1,510,964
7.5 Currency profile of loans and advances to customers (gross) is as follows:			
Local currency		-	513
Foreign currencies		1,559,185	1,510,451
		1,559,185	1,510,964
7.6 Allowances for impairment			
Collective allowances for impairment		22,638	24,887
Balance at beginning of the year		-	15,870
Charge for the year		(5,669)	(1,467)
Reversal during the year		(190)	-
Exchange adjustment		(5,859)	14,403
Write off during the year		-	(16,652)
Balance at end of the year	7.6.1	16,779	22,638

7.6.1 As at 31 December, 2013, there is no overdue loan to be classified in the category watch-list, substandard or doubtful. However, on prudence basis, the management of the Bank has recorded general provision at the rate of 1.5% of the total advances (excluding, loans backed by the government guarantees and credit card loans). Credit card loans are fully secured against cash margins.

8. Property and equipment

	Lease hold improvements	Furniture and fixtures	Electrical, office and computer equipment	Vehicles	Total
			Afs'000'		
As at 01 January, 2012					
Cost	20,517	15,008	34,428	9,721	79,674
Accumulated depreciation	(18,263)	(7,979)	(27,463)	(3,869)	(57,574)
Net book value	2,254	7,029	6,965	5,852	22,100
Year ended 31 December, 2012					
Opening net book value	2,254	7,029	6,965	5,852	22,100
Additions	85	164	6,311	-	6,560
Disposals					
Cost	-	(3,680)	(6,450)	-	(10,130)
Depreciation	-	3,086	6,450	-	9,536
	-	(594)	-	-	(594)
Depreciation charge	(1,215)	(2,425)	(3,644)	(2,201)	(9,485)
Closing net book value	1,124	4,174	9,632	3,651	18,581
As at 31 December, 2012					
Cost	20,602	11,492	34,289	9,720	76,103
Accumulated depreciation	(19,478)	(7,318)	(24,657)	(6,069)	(57,522)
Net book value	1,124	4,174	9,632	3,651	18,581
Year ended 31 December, 2013					
Opening net book value	**1,124**	**4,174**	**9,632**	**3,651**	**18,581**
Additions	**242**	**347**	**2,775**	**-**	**3,364**
Disposals					
Cost	-	-	**(41)**	-	**(41)**
Depreciation	-	-	**24**	-	**24**
	-	-	**(17)**	-	**(17)**
Depreciation charge	**(904)**	**(1,268)**	**(3,534)**	**(2,146)**	**(7,852)**
Closing net book value	**462**	**3,253**	**8,856**	**1,505**	**14,076**
As at 31 December, 2013					
Cost	**20,844**	**11,839**	**37,023**	**9,720**	**79,426**
Accumulated depreciation	**(20,382)**	**(8,586)**	**(28,167)**	**(8,215)**	**(65,350)**
Net book value	**462**	**3,253**	**8,856**	**1,505**	**14,076**
Annual rate of depreciation (%)	**20**	**10 - 25**	**20**	**25**	

8.1 Included in cost of property and equipment are fully depreciated assets still in use having cost of Afs. 43.65 million.

	Note	2013 Afs '000'	2012 Afs '000'
9. Other assets			
Restricted balance held with Da Afghanistan Bank	*9.1*	**1,066,549**	862,628
Interest accrued		**33,222**	52,177
Advances, deposits and prepayments		**4,569**	5,439
Receivable against credit card transactions		**12,655**	2,983
Commission receivable		**5,771**	7,425
Others		**-**	5,266
		1,122,766	935,918

9.1 This represents the required reserve account maintained with Da Afghanistan Bank to meet minimum reserves requirement in accordance with Article 64 "Required reserves of banks" of the Da Afghanistan Bank Law. This carries mark-up at the rates ranging from 0.91% to 2.4% (2012: 0.98% to 1.00%) per annum.

	Note	2013 Afs '000'	2012 Afs '000'
9.2 Currency profile of other assets is as follows:			
Local currency		**1,071,483**	876,316
Foreign currencies		**51,283**	59,602
		1,122,766	935,918

	Note	2013 Afs '000'	2012 Afs '000'
10. Deposits from banks			
Current deposits			
Citibank International Plc.		**678,643**	466,551
The First Micro Finance Bank (FMFB)		**29,338**	11,988
Afghan United Bank		**-**	148
		707,981	478,687
11. Deposits from customers			
Current deposits		**12,308,129**	10,084,528
Saving deposits	*11.1*	**871,583**	991,519
Term deposits	*11.2*	**232,996**	1,158,712
Margin deposits		**462,761**	459,936
		13,875,469	12,694,695

11.1 Saving deposits carry interest ranging from 0.25% to 0.55% (2012: 0.25% to 0.55%) per annum.

11.2 Term deposits carry interest ranging from 1.1% to 4.96% (2012: 1% to 3.8%) per annum and have maturity period ranging from 01 to 12 months (2012: 01 to 12 months).

11.3 None of deposits from customers are expected to be settled in more than 12 months after the reporting date.

	2013 Afs '000'	2012 Afs '000'
11.4 Currency profile of deposits from customers is as follows:		
Local currency	**2,765,961**	2,999,295
Foreign currencies	**11,109,508**	9,695,400
	13,875,469	12,694,695

12. Deferred tax liability

The details of the tax effect of taxable and deductible temporary differences are as follows:

	2013 Afs '000'	2012 Afs '000'
Deferred credit arising in respect of:		
Accelerated tax depreciation	2,117	2,708
Deferred debit arising in respect of:		
Unrealized loss on remeasurement of available-for-sale investments	(65)	-
	2,052	2,708

Reconciliation of deferred tax	Balance at 01 January 2012	Recognised in the profit and loss	Recognised in equity	Balance at 31 December 2012	Recognised in the profit and loss	Recognised in equity	Balance at 31 December 2013
		(Afs in '000)					
Deferred credit arising in respect of: Accelerated tax depreciation	3,413	(705)	-	2,708	(591)	-	2,117
Deferred debit arising in respect of: Unrealized loss on remeasurement of available-for-sale investments	-	-	-	-	-	(65)	(65)
	3,413	(705)	-	2,708	(591)	(65)	2,052

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	Note	2013 Afs '000'	2012 Afs '000'
13. Other liabilities			
Bills payable		**220**	270
Interest payable		**1,167**	19,817
Unearned commission on letter of credits and letter of guarantees		**1,852**	3,047
Auditors' remuneration		**1,014**	953
Accrued expenses		**6,305**	12,660
Payable against staff retirement gratuity	*13.1*	**4,173**	4,173
DAB assessment fee payable		**3,040**	-
Others		**875**	449
		18,646	41,369

13.1 The payment of gratuity is made directly from the Head Office therefore, with effect from 01 January 2012, the management of the Bank has decided to stop making further provision of gratuity in its books of account.

14. Assigned capital

	2013	2012
Assigned capital	**299,262**	299,262

Da Afghanistan Bank (DAB) vide its Circular No. 703/914 dated 08 August 2010 requires all commercial banks to increase their minimum equity to Afs 1,000 million (USD 20 million) in the next two years with effect from the date of the said Circular. As at 31 December 2013, the Bank has net equity of Afs 1,402.52 million and is in compliance with the net equity requirements of the DAB. Further, DAB vide its Letter No. 3783/3971 dated 07 January 2014 requires all branches of foreign banks to convert their capital from other currencies to local currency Afs 1,000 million gradually till 31 March 2014. The Bank is in the process of converting its USD capital into Afs.

The Bank, being a foreign branch of Bank Alfalah Limited Pakistan, does not require any authorized capital.

	Note	2013 Afs '000'	2012 Afs '000'
15. Contingencies and commitments			
Letters of credit and acceptances		**1,209,105**	989,978
Guarantees	*15.1*	**611,332**	621,744

15.1 These represent bid bonds and performance based guarantees issued by the Bank.

15.2 Other contingency

An amount of USD 3,949,335 ("the Amount") in Bank's nostro account in New York, United States of America has been put on hold by a commercial bank pursuant to receipt of notice of seizure based on the order passed by the District Court, District of Columbia, USA. The order was issued at the request of United States Department of Justice (DOJ) which claimed its rights through filing a complaint for forfeiture in rem of assets of third parties in Afghanistan – two customers of the Bank ("Third Party-Customers") and obtained a court order to hold/seize a certain amount in the nostro accounts of different banks (including Bank Alfalah Limited) wherein the Third Party – Customers were maintaining the bank accounts. As a result, the amount has been put on hold for the time being in nostro account of the Bank in New York. The dispute is between the United States Government and the Third Party - Customers, who provided logistic services to the United States Military in Afghanistan. The amount put on hold was equivalent to the customers' balances held/blocked by the Bank during the period. In January 2014, the Bank had to release the accounts of the Third Party – Customers on specific instructions of the Central Bank of Afghanistan. The Bank has filed a representation with the DOJ to challenge its (DOJ) right to hold the amount with a request to release the same as the Bank did not have any involvement in the dispute between DOJ and the Third Party - Customers.

Based on careful analysis and internal assessment of the matter, the management is confident that the Bank has a strong case and the matter will be decided in the Bank's favour, accordingly no provision is required to be made in this regard in these financial statements.

	Note	2013 Afs '000'	2012 Afs '000'
16. Net interest income			
Interest income			
Cash and cash equivalents		74,811	74,894
Loans and advances to banks and customers		164,168	214,912
Investments		84,311	101,798
		323,290	391,604
Interest expense			
Deposits from customers	16.1	(27,430)	(40,458)
Amortization of premium on investment bonds		(507)	-
Call borrowings		-	(393)
		(27,937)	(40,851)
Net interest income		295,353	350,753

16.1 Interest expense on deposits from customers

	2013 Afs '000'	2012 Afs '000'
Interest on:		
Term deposits	(24,820)	(38,249)
Saving deposits	(2,610)	(2,209)
	(27,430)	(40,458)

17. Fee and commission income - net

	2013 Afs '000'	2012 Afs '000'
Fee and commission income		
Commission on letters of credit and guarantees issued	32,675	15,167
Commission on credit cards	41,990	35,672
Fund transfer fee	114,046	94,992
Accounts servicing fee	29,691	45,017
	218,402	190,848
Fee and commission expense		
Inter bank transaction fee	(8,094)	(4,474)
	210,308	186,374

18. Other operating income

	2013 Afs '000'	2012 Afs '000'
Customer charges	2,804	3,125
Loss on disposal of property and equipment	-	(381)
	2,804	2,744

19. Personnel expenses

	2013 Afs '000'	2012 Afs '000'
Salaries and benefits	98,958	94,000
Staff retirement benefits	754	752
	99,712	94,752

	Note	2013 Afs '000'	2012 Afs '000'
20. Other operating expenses			
Rent, taxes, insurance, electricity, etc.	*20.1*	**46,033**	41,545
Legal and professional		**5,891**	5,468
Communication		**10,694**	9,024
Repairs and maintenance		**3,922**	3,971
Printing and stationery		**1,076**	1,188
Advertisement and publicity		**1,054**	703
Auditors' remuneration		**1,061**	1,108
Entertainment		**2,652**	2,534
Travelling and conveyance		**3,721**	2,802
Security charges		**15,521**	14,887
VISA charges		**12,723**	10,976
DAB penalty		**24**	12
Business receipt tax		**7**	5
Other expenses		**7,084**	7,276
		111,463	101,499

20.1 These include annual charges amounting to Afs 19.14 million (2012: 16.2 million) paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.15% per annum of total deposits of the Bank as per the requirements of Da Afghanistan Bank.

	2013 Afs '000'	2012 Afs '000'
21. Taxation		
Current	**70,788**	74,798
Prior year	**-**	1,388
	70,788	76,186
Deferred	**(591)**	(705)
	70,197	75,481

Relationship between tax expense and accounting profit

	2013 Afs '000'	2012 Afs '000'
Income before taxation	**350,998**	370,550
Tax at the applicable rate of 20% (2012: 20%)	**70,200**	74,110
Effect of temporary differences between the accounting base and tax base of operating fixed assets	**(3)**	(17)
Tax for prior year	**-**	1,388
Tax expense for the year	**70,197**	75,481

22. Related parties

The Bank is a fully owned branch of Bank Alfalah Limited Pakistan. Related parties comprise associated undertakings, majority shareholders, retirement benefit plans, directors of the Head Office of the Bank and the key management personnel of the Bank and its Head Office. Transactions with key management personnel have been carried out as per terms of their employment. Details of transactions and balances with related parties are as follows:

		For the year ended 31 December, 2013	For the year ended 31 December, 2012
		Afs in'000	Afs in '000
22.1 Transactions with key management personnel			
Salaries and benefits		**14,429**	16,014

In addition to their salaries, the Bank also provides non-cash benefits to executives which include furnished accommodation.

22.2 Transactions with other related parties

Name of group companies	**Nature of transactions**		
Bank Alfalah Limited Bahrain	Placements made during the year	**468,545**	1,761,600
	Placements matured during the year	**(468,545)**	(1,761,600)
	Income earned on placements	**1,928**	4,850
Bank Alfalah Limited - Pakistan	Reimbursement of insurance premium paid to Alfalah Insurance Company Limited	**2,579**	2,427
	Placements made during the year	**579,000**	-
	Placements matured during the year	**(579,000)**	-
	Income earned on placements	**546**	-

23. **Financial assets and liabilities**

Accounting classifications and fair values

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

	Notes	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Fair value
		<———				Afs 000			———>
2013									
Cash and cash equivalents	4	-	-	-	-	-	11,410,936	11,410,936	11,410,936
Investments	5	-	-	570,173	-	847,044	-	1,417,217	1,417,217
Loans and advances to banks	6	-	-	-	555,286	-	-	555,286	555,286
Loans and advances to customers	7	-	-	-	1,542,406	-	-	1,542,406	1,542,406
Others assets	9	-	-	-	-	-	1,118,197	1,118,197	1,118,197
		-	-	570,173	2,097,692	847,044	12,529,133	16,044,042	16,044,042
Deposits from banks	11	-	-	-	-	-	707,981	707,981	707,981
Deposits from customers	12	-	-	-	-	-	13,875,469	13,875,469	13,875,469
Other liabilities	14	-	-	-	-	-	12,621	12,621	12,621
		-	-	-	-	-	14,596,071	14,596,071	14,596,071
2012									
Cash and cash equivalents	4	-	-	-	-	-	9,128,057	9,128,057	9,128,057
Investments	5	-	-	1,044,777	-	-	-	1,044,777	1,044,777
Loans and advances to banks	6	-	-	-	1,769,403	-	-	1,769,403	1,769,403
Loans and advances to customers	7	-	-	-	1,488,326	-	-	1,488,326	1,488,326
Others assets	9	-	-	-	-	-	931,721	931,721	931,721
		-	-	1,044,777	3,257,729	-	10,059,778	14,362,284	14,362,284
Deposits from banks	11	-	-	-	-	-	478,687	478,687	478,687
Deposits from customers	12	-	-	-	-	-	12,694,695	12,694,695	12,694,695
Other liabilities	14	-	-	-	-	-	34,149	34,149	34,149
		-	-	-	-	-	13,207,531	13,207,531	13,207,531

24. Financial risk management

The Bank is a foreign branch of Bank Alfalah Limited Pakistan (Head office), therefore, the Board of Directors of the Head Office (the Board) has overall responsibility for the establishment and oversight of risk management framework of the Head Office as well as overseas branches. The Board has established the Management Board, Asset and Liability Committee (ALCO), a Credit Committee and Board Risk Management Committee and Board Audit Committee which are responsible for developing and monitoring risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Management Board assists in these functions by the Internal Audit, Compliance and Risk Management Division at the Head Office. The Head Office appoints Country Head specifically to oversee operations in Afghanistan and to manage the risks in accordance with the risk management policies of the Head Office.

The Bank's Internal Audit and Compliance Departments in Afghanistan are responsible for monitoring compliance with the risk management policies and procedures, and for reviewing adequacy of risk management framework in relation to the risks faced by the Bank.

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

a) Credit risk
b) Liquidity risk
c) Market risk

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

24.1 Credit risk

Credit risk management process encompass identification, assessment, measurement, monitoring and control of credit risk exposure. In the Bank's experience, a key to effective credit risk management is a well thought out business strategy. The Bank's focus over the coming years will be to further enhance risk models, processes and systems infrastructure, in line with its ambition to bring maximum sophistication to the risk management function.

The Board has delegated responsibility for the management of credit risk to its Head Office Credit Committee. A credit department has been established by the Bank that is responsible for oversight of the Bank's credit risk and which is reportable to the Head Office Credit Committee. The Credit department is headed by Group Head Credit who with the assistance of credit department staff looks after credit risk matters and conduct portfolio analysis for managing credit risk.

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board of Directors. The credit evaluation system comprises of well designed credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio. The function is also supported by Credit Administration and Credit Monitoring Departments at Head Office level to ensure segregation of duties and efficient management of credit risk. The Banks manages its portfolio of loan assets with a view to limit its concentrations in terms of risk quality, geography, industry, maturity and large exposure.

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

A sophisticated Internal Credit Rating System has been developed by the Bank, which is capable of quantifying counter-party and transaction risk in accordance with the best practices. The system takes into consideration qualitative and quantitative factors of the counter-party, transaction structure, security etc. and generates an internal rating vis-a-vis anticipated customer behavior.

Credit concentration risk

Credit concentration risk arises mainly due to concentration of exposures under various categories viz. industry, geography, and single/group borrower exposures. Within credit portfolio, as a prudential measure aimed at better risk management and avoidance of concentration of risks, Da Afghanistan Bank has prescribed regulatory limits on bank's maximum exposure to single borrower and group borrowers. DAB's regulations restrict concentration in any sector beyond 12% of total assets. The Bank annual credit plan spells out the maximum allowable exposure that it can take on specific industries for every business group.

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2013	2012
	Afs '000'	
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and cash equivalents	6,574,333	4,370,945
Investments	-	521,400
Loans and advances to banks	555,286	1,769,403
Loans and advances to customers	1,542,406	1,488,326
Others assets	1,118,197	931,721
	9,790,222	9,081,795
Credit risk exposures relating to off-balance sheet items are as follows:		
Letter of credit and acceptances	1,209,105	989,978
Guarantees	611,332	621,744
	1,820,437	1,611,722

The above table represents credit risk exposure to the Bank at 31 December, 2013 and 31 December, 2012, without taking account of any collateral held or other enhancements attached. For on-balance-sheet assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

Credit quality of financial assets

The credit qualities of Bank's financial assets have been assessed below by the reference to external credit ratings of counter parties determined by various international credit rating agencies. The counterparties for which external credit ratings were not been available have been assessed by reference to internal credit ratings determined based on their historical information for any defaults in meeting obligations. Cash and placements are held with reputable banks with high quality external credit ratings.

Loans and advances

	Note	Assets at amortized cost	Available-for-sale assets	Assets at fair value through profit or loss	Total carrying amount
		<	Afs 000		>
Loans and advances to customers and banks	*6 & 7*	2,097,692	-	-	2,097,692
Neither past due but nor impaired:					
Gross amount		2,114,471	-	-	2,114,471
Allowance for impairment		(16,779)	-	-	(16,779)
Carrying amount		2,097,692			2,097,692
Carrying amount-amortized cost:		2,097,692	-	-	2,097,692

	Note	Assets at amortized cost	Available-for-sale assets	Assets at fair value through profit or loss	Total carrying amount
		<	——— Afs 000	——— >	
2012					
Loans and advances to customers and banks	*6 & 7*	3,257,729	-	-	3,257,729
Neither past due but nor impaired:					
Gross amount		3,280,367	-	-	3,280,367
Allowance for impairment		(22,638)	-	-	(22,638)
Gross amount		3,257,729	-	-	3,257,729
Carrying amount-amortized cost:		3,257,729	-	-	3,257,729

As at balance sheet date, loan portfolio of the Bank was not impaired.

In addition to the above, there were no lending commitments which is pending for disbursement.

Cash and cash equivalents

As of the reporting date, the Bank held cash and cash equivalents amounting to Afs 11,410.93 million (2012: Afs 9,128.05 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the Da Afghanistan Bank and other banks. Management believes that cash and cash equivalents are not exposed to significant credit risk as disclosed. The geographical profile of cash and cash equivalents has been disclosed in note 4.4 to these financial statements.

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due but the Bank believes impairment is not appropriate. As at December 31, 2013, the loans are neither past due nor impaired.

Allowances for impairment

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

All loans and advances are classified into one of the five classification grades mentioned below for minimum provisioning amounts in accordance with the regulations of Da Afghanistan Bank

Loan grading	Days past due	Percentage
Standard	None	0
Watch	31 - 60 days	5
Substandard	61 - 90 days	25
Doubtful	91 - 180 days	50
Loss	Over 180 days	100

Write-off policy

The Bank writes off loans or advances and any related allowances for impairment losses, when the Bank's Credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Before allowing to written off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted or legal action is not advisable.

The Bank holds collateral against loans and advances in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

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

	2013 Afs '000'	2012 Afs '000'
Against neither past due nor impaired		
Properties	1,711,315	2,820,158
Others	1,097,254	2,045,646
Total	2,808,569	4,865,804

Concentration of credit risks by sector

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

	2013 Afs '000'	2012 Afs '000'
Segments by class of business		
Chemical and Pharmaceuticals	7,889	60,467
Construction	-	91,681
Exports/Imports	377,424	418,451
Financial	556,632	1,769,403
Food & Allied Products	-	260,348
Individuals	-	1,725
Power (electricity), Gas, Water, Sanitary	501,787	389,247
Travel and Leisure	402,554	220,117
Wholesale and Retail Trade	268,185	22,638
Others	-	46,290
	2,114,471	3,280,367

Settlement risk

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

For certain types of transactions, the Bank mitigate this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades require transactions specific or counterparty specific approvals from the Bank's risk department.

24.2 Liquidity risk

Liquidity risk is the potential for loss to the bank arising from either its inability to meet its obligations or to fund increase in assets as they fall due without incurring unacceptable cost or losses.

The Bank's Asset and Liability Committee (ALCO) manages the liquidity position on a regular basis and is primarily responsible for the formulation of the overall strategy and oversight of the asset liability function. ALCO monitors the maintenance of liquidity ratios, depositors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits. Moreover, as a core retail deposits form a considerable part of the Bank's overall funding mix therefore significant importance is being given to the stability and growth of these deposits. The BOD has approved a comprehensive liquidity management policy which stipulates the early warning indicators of liquidity risk and maintenance of various ratios. Further, the Bank has designed different scenarios of cash outflows to stress test efficacy of its liquid assets and its impact on profit and loss. The results are regularly reviewed by ALCO for taking appropriate measures.

The Bank relies on deposits from customers as its primary source of funding. Deposits form customers generally has shorter maturities and large proportion of them are repayable on demand. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

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

	2013	**2012**
At 31 December	**78.70%**	81.91%
Average for the period	**85.58%**	79.71%
Maximum for the period	**99.33%**	84.48%
Minimum for the period	**78.65%**	72.13%

Maturity analysis for financial liabilities

	Note	Carrying amount	Gross nominal inflow/ (outflow)	Upto 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
				<----------	Afs 000	---------->		
2013								
Deposits from banks	*10*	707,981	(707,981)	(707,981)	-	-	-	-
Deposits from customers	*11*	13,875,469	(13,875,469)	(13,659,378)	-	(216,091)	-	-
Other liabilities	*13*	12,621	(12,621)	-	-	(12,621)	-	-
		14,596,071	(14,596,071)	(14,367,359)	-	(228,712)	-	-
2012								
Deposits from banks	*10*	478,687	(478,687)	(478,687)	-	-	-	-
Deposits from customers	*11*	12,694,695	(12,694,695)	(11,535,983)	-	(1,158,712)	-	-
Other liabilities	*13*	34,149	(34,149)	(34,149)	-	-	-	-
		13,207,531	(13,207,531)	(12,048,819)	-	(1,158,712)	-	-

The above table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturities.

24.3 Market risk

Market risk is the risk of loss in earnings and capital due to on and off balance sheet positions arising out of adverse changes in interest rates, foreign exchange rates, equity prices and market conditions. It also includes investments and structural positions in the banking books of the Bank. To manage and control market risk a well defined limits structure is in place. These limits received, adjusted and approved periodically. Market risk can be further described into:

24.3.1 *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. In order to ensure that this risk is managed within acceptable limits, the Bank's Asset and Liability Management Committee (ALCO) monitors the re-pricing of the assets and liabilities on a regular basis. The Bank's interest rate risk is limited since the majority of customer deposits are retrospectively re-priced on a biannual basis on the profit and loss sharing principles. The Bank's interest rate gap position on its financial assets and financial liabilities is as follows:

	Note	Carrying amount	Upto three months	3-6 months	6-12 months	1-5 years	More than 5 years
			<------------	---------- Afs 000	----------	------------>	
2013							
Cash and cash equivalents	4	4,950,033	4,950,033	-	-	-	-
Investment s	5	1,417,217	-	-	-	1,417,217	-
Loans and advances to banks	6	555,286	167,901	287,385	-	100,000	-
Loans and advances to customers	7	1,542,406	725,408	475,545	222,462	118,991	-
Other assets	9	1,066,549	1,066,549	-	-	-	-
		9,531,491	6,909,891	762,930	222,462	1,636,208	-
Deposits from customers	11	1,104,579	991,519	420,000	738,712	-	-
Total yield/ interest risk sensitivity gap		8,426,912	5,918,372	342,930	(516,250)	1,636,208	-
2012							
Cash and cash equivalents	4	4,185,274	4,185,274	-	-	-	-
Investments	5	1,044,777	521,400	-	-	-	523,377
Loans and advances to banks	6	1,769,403	1,263,079	506,324	-	-	-
Loans and advances to customers	7	1,488,326	713,964	185,199	255,053	334,110	-
Other assets	9	862,628	862,628	-	-	-	-
		9,350,408	7,546,345	691,523	255,053	334,110	523,377
Deposits from customers	11	2,150,231	991,519	420,080	738,712	-	-
Total yield/ interest risk sensitivity gap		7,200,177	6,554,826	271,443	(483,659)	334,110	523,377

	2013 Afs '000'	2012 Afs '000'
Variable rate instrumen		
Financial assets and liabilities at variable interest rates		
Cash and cash equivalents	4,950,033	4,185,274
Investments	847,044	-
Loans and advances to banks	100,000	260,700
Loans and advances to customers	1,541,064	617,812
Other assets	1,066,549	862,628
Deposits from customers	(232,996)	(1,158,712)
	8,271,694	4,767,702

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the year end would have increased or decreased the profit/ loss for the year and Head Office's equity by Rs. 82.71 million. This analysis assumes that all other variables remain constant.

	2013 Afs '000'	2012 Afs '000'
Fixed rate instruments		
Financial assets and liabilities at fixed rate		
Investments	570,173	1,044,777
Loans and advances to banks	455,286	1,508,703
Loans and advances to customers	1,342	1,725
Deposits from customers	(871,583)	(991,519)
	155,218	1,563,686

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets at fair value through profit and loss account. Therefore, a change in interest rates at the reporting date would not affect profit and loss account of the Bank.

24.3.2 *Foreign currency risk*

Foreign exchange risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The Bank manages this risk by setting and monitoring dealer, currency and counter-party limits for on and off-balance sheet financial instruments.

Off-balance sheet financial instruments are contracts which are the resultant outcome of the import and export transactions. Moreover, counterparties enter into forward transactions in inter-bank market on behalf of customers to cover-up their position against stipulated risks. The buy and sell transactions are matched in view of their maturities in the different predefined time buckets.

The Bank's exposure to foreign currency risk, based on notional amount, is as follows:

	Afs	US$	Euro	GBP	Total
2013					
Cash and cash equivalents	3,432,027	7,625,834	145,105	207,970	11,410,936
Investments	-	1,417,217	-	-	1,417,217
Loans and advances to banks	100,000	447,744	7,542	-	555,286
Loans and advances to customers	146,605	1,395,801	-	-	1,542,406
Other assets	1,071,911	50,822	7	26	1,122,766
	4,750,543	10,937,418	152,654	207,996	16,048,611
Deposits from banks	703,703	4,278	-	-	707,981
Deposits from customers	2,770,239	10,744,416	271,445	89,369	13,875,469
Other liabilities	16,442	2,204	-	-	18,646
	3,490,384	10,750,898	271,445	89,369	14,602,096
Net foreign currency exposure	1,260,159	186,520	(118,791)	118,627	1,446,515
2012					
Cash and cash equivalents	2,501,325	6,222,037	355,042	49,653	9,128,057
Investments	-	1,044,777	-	-	1,044,777
Loans and advances to banks	-	1,769,403	-	-	1,769,403
Loans and advances to customers	505	1,487,821	-	-	1,488,326
Other assets	884,100	51,818	-	-	935,918
	3,385,930	10,575,856	355,042	49,653	14,366,481
Deposits from banks	475,715	2,972	-	-	478,687
Deposits from customers	2,523,580	9,768,359	354,410	48,346	12,694,695
Other liabilities	37,254	4,115	-	-	41,369
	3,036,549	9,775,446	354,410	48,346	13,214,751
Net foreign currency exposure	349,381	800,410	632	1,307	1,151,730

The following significant exchange rates have been applied during the year.

	2013		2012	
	Average rate	date spot rate	Average rate	Reporting date spot rate
In Afs				
US$	**55.60**	**56.35**	51.03	52.14
Euro	**73.60**	**77.17**	65.66	68.65
GBP	**86.11**	**91.68**	80.15	83.25

The average rates represent average of 12 months mid rate of each month end.

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, euro and GBP at 31 December 2013 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.

	2013		2012	
	Equity	Profit or loss	Equity	Profit or loss
	< Afs 000			>
US$	**(18,652)**	**(18,652)**	(80,041)	(80,041)
Euro	**11,879**	**11,879**	(63)	(63)
GBP	**(11,863)**	**(11,863)**	(131)	(131)

A 10% weakening of the Afghani against the above currencies at 31 December 2013 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

24.3.3 Financial instruments measured at fair value using a valuation technique

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Fund is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book values as the items are either short term in nature or periodically repriced.

International Financial Reporting Standard 7, Financial Instruments : Disclosure requires an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs).

	2013			
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
Available-for-sale				
Investment in foreign bonds	847,044	-	-	847,044

As at December 31, 2012, the Bank did not hold any financial asset measured at fair value.

25. Capital management

Regulatory capital

The Banks' Regulator Da Afghanistan Bank sets and monitors capital requirements for the Bank. The capital adequacy of the Bank is assessed in two tiers as per regulations of the Da Afghanistan Bank. As referred in Note 14 to these financial statements, the Bank is required to maintain the capital of Afs 1 billion. As at 31 December, 2013, the Bank has net equity of Afs 1,402.52 million and was in compliance with the net equity requirement of the DAB.

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

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

Regulatory capital is the sum of Tier 1 and Tier 2 capital and Tier 2 capital cannot exceed amount of Tier 1 capital. The Bank complies with these regulations.

The Bank's regulatory capital position at 31 December 2013 was as follows:

	2013 Afs '000'	2012 Afs '000'
Tier 1 capital	1,402,521	1,121,980
Tier 2 capital	-	-
Total regulatory capital	1,402,521	1,121,980

26. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Country Manager and Country Operations Head of the Bank on 05 MARCH 2014.

Country Operations Head

Country Manager