Bank Alfalah Limited Afghanistan
Statement of Financial Position
As at 31 December 2014

	Note	2014 Afs '000'	2013 Afs '000'
Assets			
Cash and cash equivalents	4	7,096,421	11,426,521
Investments	5	5,198,208	2,245,636
Loans and advances to banks	6	1,503,748	555,286
Loans and advances to customers	7	317,403	1,542,406
Property and equipment	8	12,881	14,076
Deferred tax asset	9	4,617	-
Other assets	10	207,413	294,452
Total assets		14,340,691	16,078,377
Liabilities			
Deposits from banks	11	390,060	707,981
Deposits from customers	12	12,640,753	13,875,469
Income tax payable	13	-	71,708
Deferred tax liability	9	-	2,052
Other liabilities	14	48,761	18,646
Total liabilities		13,079,574	14,675,856
Equity			
Capital contributed by the Head Office	15	1,000,000	299,262
Deficit on remeasurement of available-for-sale investments	5.2.1	(8,354)	(260)
Retained earnings		269,471	1,103,519
Total equity		1,261,117	1,402,521
Total liabilities and equity		14,340,691	16,078,377
Contingencies and commitments	16		

The annexed notes from 1 to 28 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 2014

	Note	2014 Afs '000'	2013 Afs '000'
Interest income	17	**320,799**	323,290
Interest expense	17	**(26,784)**	(27,937)
Net interest income		**294,015**	295,353
Fee and commission income - net	18	**191,695**	210,308
Income from dealing in foreign currencies		**30,332**	55,891
Other income	19	**9,970**	2,804
		526,012	564,356
Reversal of provision against non-performing advances	7.6	**12,393**	5,669
Personnel expenses	20	**(103,567)**	(99,712)
Depreciation	8	**(6,537)**	(7,852)
Other operating expenses	21	**(108,209)**	(111,463)
Other provisions	10.2.1	**(115,202)**	-
Profit before taxation		**204,890**	350,998
Taxation	22	**5,180**	(70,197)
Profit after taxation		**210,070**	280,801

Other comprehensive income

Item that may be reclassified subsequently to profit and loss

	2014	2013
Deficit on remeasurement of available-for-sale investments	**(10,117)**	(325)
Related deferred tax	**2,023**	65
	(8,094)	(260)
Total comprehensive income	**201,976**	280,541

The annexed notes from 1 to 28 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 2014

	Note	2014 Afs '000'	2013 Afs '000'
Cash flows from operating activities			
Profit before taxation		**204,890**	350,998
Adjustments for:			
Depreciation	*8*	**6,537**	7,852
Reversal of provision against non-performing advances	*7.6*	**(12,393)**	(5,669)
Other provisions	*10.2.1*	**115,202**	-
Interest income	*17*	**(320,799)**	(323,290)
Interest expense	*17*	**26,784**	27,937
Gain on disposal of property and equipment	*19*	**(233)**	-
		19,988	57,828
(Increase) / decrease in operating assets			
Loans and advances to banks		**(948,462)**	1,214,117
Loans and advances to customers		**1,237,396**	(48,411)
Other assets		**113,348**	638,201
		402,282	1,803,907
(Decrease) / increase / in operating liabilities			
Deposits from banks		**(317,921)**	229,294
Deposits from customers		**(1,234,716)**	1,180,774
Other liabilities		**(85,997)**	(4,073)
		(1,216,364)	3,267,730
Interest received		**300,327**	342,245
Interest paid		**(25,875)**	(46,583)
Income tax paid		**(77,011)**	(60,397)
Net cash (used in) / generated from operating activities		**(1,018,923)**	3,502,995
Cash flows from investing activities			
Increase in investments - net		**(2,962,688)**	(1,201,184)
Purchase of property and equipment		**(5,342)**	(3,364)
Proceeds from disposal of property and equipment		**233**	17
Net cash used in investing activities		**(2,967,797)**	(1,204,531)
Cash flows from financing activities			
Remittances made to the Head Office		**(343,380)**	-
Net cash used in financing activities		**(343,380)**	-
Net (decrease) / increase in cash and cash equivalents		**(4,330,100)**	2,298,464
Cash and cash equivalent at beginning of the year		**11,426,521**	9,128,057
Cash and cash equivalents at end of the year	*4*	**7,096,421**	11,426,521

The annexed notes from 1 to 28 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 2014

	Capital contributed by the Head Office Afs '000'	Deficit on remeasurement of available-for-sale investments Afs '000'	Retained earnings Afs '000'	Total Afs '000'
Balance at 01 January 2013	299,262	-	822,718	1,121,980
Total comprehensive income				
Profit for the year	-	-	280,801	280,801
Other comprehensive income				
Deficit on remeasurement of available-for-sale investments - net of tax	-	(260)	-	(260)
Balance at 31 December 2013	**299,262**	**(260)**	**1,103,519**	**1,402,521**
Total comprehensive income				
Profit for the year	-	-	**210,070**	**210,070**
Other comprehensive income				
Deficit on remeasurement of available-for-sale investments - net of tax	-	**(8,094)**	-	**(8,094)**
Transactions with owners of the Bank				
Transfer of retained earnings to capital contributed by the Head Office	**700,738**	-	**(700,738)**	-
Profit remitted to the Head Office	-	-	**(343,380)**	**(343,380)**
Balance at 31 December 2014	**1,000,000**	**(8,354)**	**269,471**	**1,261,117**

The annexed notes from 1 to 28 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 licence from Afghanistan Investment Support Agency which has been renewed on 09 August, 2014. 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

These 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 Afghanis which is also the Bank's functional currency. Except as otherwise indicated, the amounts in the financial statements have been rounded off 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 judgments, 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. Revision to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected.

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

a) Provision for loan losses (note 3.3.1);
b) Impairment in investments (note 3.9);
c) Provision for income taxes (note 3.16);
d) Useful life of property and equipment (note 3.5);

2.3 New accounting standards / amendments and IFRS interpretations that are effective for the year ended 31 December, 2014

The following standards, amendments and interpretations are effective for the year ended 31 December, 2014. 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.

	Effective for accounting periods beginning on or after
Amendments to IAS 32 - Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	January 01, 2014
IAS 36 Impairment of Assets - Recoverable amount disclosures for non-financial assets	January 01, 2014
IAS 39 Financial Instruments: Recognition and measurement - Novation of derivatives and continuation of hedge accounting	January 01, 2014
IFRIC 21 - Levies	January 01, 2014
IAS 27 (Revised 2011) – Separate Financial Statements	January 01, 2014
IFRS 10 – Consolidated Financial Statements	January 01, 2014
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2014

2.4 New accounting standards and IFRS interpretations that are 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.

	Effective for accounting periods beginning on or after
IFRS 9 – Financial Instruments	January 01, 2018*
IFRS 15 – Revenue from Contracts with Customers	January 01, 2017
Amendments to IFRS 10 - Consolidated Financial Statements	January 01, 2016
Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations	January 01, 2016
Amendments to IAS 16 and IAS 38 - Clarification of acceptable methods of depreciation and amortization	January 01, 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer plants	January 01, 2016
Amendments to IAS 19 - Employee Benefits: Employee contributions	July 01, 2014
Amendments to IAS 27 - Equity Method in Separate Financial Statements	January 01, 2016
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures	January 01, 2015
Amendments to IFRS 2 - Definition of Vesting Conditions	July 01, 2014
Amendments to IFRS 3 - Accounting for Contingent Consideration in a Business Combination	July 01, 2014

* For periods beginning before 01 January, 2018, previous version of IFRS 9 may be adopted provided the relevant data of initial application is before February 2015.

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, 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.

(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 are non-derivatives that are either designated as available-for-sale 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:

	Prior year	Current year
Lease hold improvements	5 years	5 years
Furniture and fixtures	4 - 10 years	4 - 10 years
Electrical office and computer equipment	5 years	5 years
Vehicles	5 years	5 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 recorded at amount of proceeds received. Markup accrued on deposits is recognized separately as part of other liabilities and is accrued to the statement of comprehensive income 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 the statement of comprehensive income.

The Bank derecognizes 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 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 maximizes the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants 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 a identical asset or liability nor based on a valuation technique that uses only data from observable markets, 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 and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a 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 of the net exposure to either market risk or credit risk are measured on the basis of a price that would be received to sell 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 Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

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

3.8.6 Derivative held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Bank designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair values or cashflows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%.

Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of a change in fair value of a recognized asset or liability that could affect the profit and loss, changes in the fair value of the derivative are recognized immediately in profit and loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit and loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to the central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation ,then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit and loss as part of the recalculated effective interest rate of the item over its remaining life.

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 market 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 continues 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 security is 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.

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 determined, net of depreciation, had no impairment loss been recognized 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

Capital contributed by the Head Office, retained earnings and surplus / deficit on remeasurment of investment 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 for 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 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

Transactions in foreign currency are translated into respective functional currency of the Bank at the spot exchange rates at the date of transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into functional currency at the spot exchange rate at that date. The foreign currency gain loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in foreign currency are translated into functional currency at the spot exchange rate at the date on which the fair value is determined. Non monetary items that are measured on historical cost in a foreign currency are translated using the spot exchange rate at the date of transaction.

3.19 Appropriation of reserves

Appropriation to reserves are recognized in the financial statements in the year in which these are approved.

4. CASH AND CASH EQUIVALENTS

	Note	2014 Afs '000'	2013 Afs '000'
Cash in hand			
Local currency		**20,303**	44,565
Foreign currencies		**80,668**	222,624
		100,971	267,189
Balances with Da Afghanistan Bank	4.1	**2,919,045**	4,807,544
Balances with other banks and financial institutions	4.2	**4,076,405**	6,351,788
		7,096,421	11,426,521

4.1 Balances with Da Afghanistan Bank

	Note	2014 Afs '000'	2013 Afs '000'
Local currency	4.1.1	**1,983,042**	3,625,450
Foreign currencies		**936,003**	1,182,094
		2,919,045	4,807,544

4.1.1 It includes required reserve balance of Afs 866.56 million to meet minimum reserve requirements in accordance with Article 64 "Required reserves of banks" of "The Afghanistan Bank Law". This carries mark-up at the rates ranging from 2.43% to 2.56% (2013: 0.91% to 2.4%) per annum.

4.2 Balances with other banks and financial institutions

	Note	2014 Afs '000'	2013 Afs '000'
- Foreign currencies			
Current accounts	4.2.1	**2,372,239**	2,452,719
Placements	4.2.2	**1,704,166**	3,899,069
		4,076,405	6,351,788

4.2.1 These represent balances in nostro accounts with various financial institutions.

4.2.2 These include balances with a related party amounting to Afs 291.70 million (2013: Nil) and carry mark-up ranging from 0.10% to 4% (2013: 0.12% to 4%) per annum.

	Note	2014 Afs '000'	2013 Afs '000'
4.3 *Geographical profile of cash and cash equivalents is as follows*			
Afghanistan		**2,153,458**	4,836,604
Europe		**1,443,645**	1,224,323
North America		**2,086,841**	2,027,323
Far East Asia		**630,072**	2,541,307
Middle East		**782,405**	796,964
		7,096,421	11,426,521

5. INVESTMENTS

	Note	2014	2013
Available-for-sale			
Foreign Bonds	5.1	**1,893,098**	847,369
Deficit on remeasurement of foreign bonds	5.2	**(5,772)**	(325)
		1,887,326	847,044
Held to maturity			
Capital notes	5.3	**2,423,941**	828,419
Pakistan Euro Bonds	5.4	**886,941**	570,173
		3,310,882	1,398,592
		5,198,208	2,245,636

5.1 ***The breakup of market values and cost of foreign bonds is as follows:***

			2014		2013	
			Afs in 000			
	Rating	**Rating agency**	**Market value**	**Cost**	Market value	Cost
Abu Dhabi Commercial Bank Finance Cayman Limited (ADCB) Bonds	A+	Fitch	**588,435**	**583,927**	563,968	564,262
Qatar National Bank Finance Limited (QNB) Bond	A+	Fitch	**294,658**	**292,617**	283,076	283,107
Kingdom of Bahrain Bond - note 5.1.1	BBB-	Fitch	**312,294**	**318,453**	-	-
Indonesia Sovereign Bonds (Sukuks) - note 5.1.1	BBB-	Fitch	**291,577**	**292,938**	-	-
South Africa Sovereign Bonds (Sukuks) - note 5.1.1	BBB-	Fitch	**235,915**	**233,360**	-	-
Kazakhstan Sovereign Bonds - note 5.1.1	BBB+	Fitch	**164,447**	**171,803**	-	-
			1,887,326	**1,893,098**	847,044	847,369

These bonds are listed at London Stock Exchange. The rate of profit on ADCB bonds and QNB Bonds ranging from 3 months US LIBOR + 125 bps to 3 months US LIBOR + 130 bps per annum whereas rate of profit on other bonds ranging from 3.88% to 5.5% per annum maturing latest by October 14, 2024.

5.1.1 Derivative held for risk management - fair value hedges of interest

During the year, the Bank entered into an Interest Rate Swap (IRS) arrangement from a foreign bank to hedge its exposure of changes in fair value of its investments in fixed interest rate foreign currency bonds due to fluctuation in interest rates in international market (fair value hedge). According to the terms of the IRS, the Bank is required to pay fixed amount ranging from 1.94% to 2.59% per annum of the notional principal to the foreign bank and receives amount ranging from LIBOR + spread basis. The receivable / payable amounts and gain / loss on remeasurement of hedge instruments have been accounted for in accordance with the requirements of IAS 39 - Financial Instruments - Recognition and Measurement.

Fair value hedges of interest rate risk

The fair value of derivative designated as fair value hedge as at December 31, 2014 is as follows:

	2014	
	Afs '000'	Afs '000'
	Assets	**Liabilities**
Instrument type		
Interest Rate Swap (IRS)	-	**9,418,233**

	Note	2014 Afs '000'	2013 Afs '000'
5.2 Deficit on remeasurement of foreign bonds			
Changes in fair value of foreign currency bonds (gain) attributable to change in interest rates (hedged risk) recognized in profit and loss	19	**4,670**	-
Changes in fair value of foreign currency bonds attributable to other factors recognised in equity through other comprehensive income	5.2.1	**(10,442)**	(325)
		(5,772)	(325)

5.2.1 ***The movement in deficit on remeasurement of foreign bonds reflected in equity is as follows:***

Balance at beginning of the year - net of tax	**(260)**	-
Recognized in other comprehensive income during the year	**(8,094)**	(260)
Balance at end of the year - net of tax	**(8,354)**	(260)

5.3 These are issued by Da Afghanistan Bank carrying interest rate ranging from 3.6% to 7.1% (2013: 3.4% to 5.9%) per annum.

5.4 This represents investment amounting to USD 15.3 million in Pakistan Euro Bonds. These carry interest at the ranging from 7.13% to 7.25% (2013: 7.13%) per annum maturing latest by April 2019.

	Note	2014 Afs '000'	2013 Afs '000'
6. LOANS AND ADVANCES TO BANKS			
Foreign bills discounted and purchased		**1,453,748**	455,286
Term loan	6.1	**50,000**	100,000
		1,503,748	555,286

6.1 Term loan carries markup of 7.22% (2013: 6.96%) per annum.

6.2 ***Maturity profile of the loans and advances to banks is as under:***

Current portion	**1,503,748**	505,286
Long term portion	-	50,000
	1,503,748	555,286

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		2014 Afs '000'	2013 Afs '000'
6.3	***Currency profile of the loans and advances to banks is as under:***		
	Local currency	**50,000**	100,000
	Foreign currencies	**1,453,748**	455,286
		1,503,748	555,286

7. LOANS AND ADVANCES TO CUSTOMERS

	2014	2013
Loans and advances to customers at amortized cost	**317,403**	1,542,406

	Note	**Gross amount** (2014)	**Allowance for impairment** (2014)	**Carrying amount** (2014)	Gross amount (2013)	Allowance for impairment (2013)	Carrying amount (2013)
			Afs '000'			Afs '000'	
Running finance	*7.1*	**116,676**	**(1,750)**	**114,926**	162,044	(2,431)	159,613
Term finance	*7.2*	**203,315**	**(3,050)**	**200,265**	1,395,799	(14,348)	1,381,451
Advance against credit cards	*7.3*	**2,212**	**-**	**2,212**	1,342	-	1,342
	7.4	**322,203**	**(4,800)**	**317,403**	1,559,185	(16,779)	1,542,406

7.1 Running finance carries interest ranging from 8.4% to 12.5% (2013: 11.5% to 13%) 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 4.16% to 7.23% (2013: 1.94% to 14 %) 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% (2013: 20%) per annum. These are fully secured against cash margin, therefore, allowance for impairment has not been maintained against the outstanding principal amount

		Note	2014 Afs '000'	2013 Afs '000'
7.4	***Maturity profile of the loans and advances to customers (gross) is as under:***			
	Current portion		**118,888**	1,438,382
	Long term portion		**203,315**	120,803
			322,203	1,559,185
7.5	***Currency profile of loans and advances to customers (gross) is as follows:***			
	Local currency		**-**	-
	Foreign currencies		**322,203**	1,559,185
			322,203	1,559,185
7.6	**Allowances for impairment**			
	Collective allowances for impairment			
	Balance at beginning of the year		**16,779**	22,638
	Reversal during the year		**(12,393)**	(5,669)
	Exchange adjustment		**414**	(190)
	Balance at end of the year	*7.6.1*	**4,800**	16,779

7.6.1 As at 31 December, 2014, there is no overdue loan to be classified in the category of watch-list, substandard, doubtful or loss. However, on prudence basis, the management of the Bank has recorded general provision at the rate of 1.5% of the total advances (excluding 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 2013					
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
Year ended 31 December 2014					
Opening net book value	**462**	**3,253**	**8,856**	**1,505**	**14,076**
Additions	**1,464**	**18**	**3,860**	-	**5,342**
Disposals					
Cost	-	-	**(1,779)**	-	**(1,779)**
Depreciation	-	-	**1,779**	-	**1,779**
	-	-	-	-	-
Depreciation charge	**(247)**	**(1,223)**	**(3,563)**	**(1,504)**	**(6,537)**
Closing net book value	**1,679**	**2,048**	**9,153**	**1**	**12,881**
As at 31 December 2014					
Cost	**22,308**	**11,857**	**39,104**	**9,720**	**82,989**
Accumulated depreciation	**(20,629)**	**(9,809)**	**(29,951)**	**(9,719)**	**(70,108)**
Net book value	**1,679**	**2,048**	**9,153**	**1**	**12,881**
Annual rate of depreciation (%)	**20**	**10 - 25**	**20**	**20**	

8.1 Included in cost of property and equipment are fully depreciated assets still in use having cost of Afs. 54.03 million (2013: Afs 43.65 million)

	2014	2013
	Afs '000'	Afs '000'

9. DEFERRED TAX ASSET / (LIABILITY)

	2014	2013
Allowable temporary differences arising in respect of:		
Tax losses	**4,318**	-
Deficit on remeasurement of available-for-sale investments	**2,088**	65
Taxable temporary differences arising in respect of:		
Property and equipment	**(1,789)**	(2,117)
	4,617	(2,052)

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9.1 **Reconciliation of deferred tax asset / (liability)**

	Balance at 1 January 2013	Recognised in the statement of comprehensive income	Recognised in equity through other comprehensive income	Balance at 31 December 2013	Recognised in the statement of comprehensive income	Recognised in equity through other comprehensive income	Balance at 31 December 2014
	(Afs in '000)						
Deferred debits arising in respect of:							
Deficit on remeasurement of available for sale investments	-	-	65	65	-	2,023	2,088
Tax losses for the year	-	-	-	-	4,318	-	4,318
Deferred credits arising due to							
Accelerated tax depreciation	(2,708)	591	-	(2,117)	328	-	(1,789)
	(2,708)	591	65	(2,052)	4,646	2,023	4,617

	Note	2014 Afs '000'	2013 Afs '000'
10. OTHER ASSETS			
Interest accrued		**53,694**	33,222
Advances, deposits and prepayments		**4,292**	4,569
Receivable against credit card transactions		**4,161**	12,655
Branch adjustment account		**139**	-
Advance tax		**21,527**	15,690
Commission receivable		**8,080**	5,771
Interest receivable on Interest Rate Swap		**318**	-
Others	*10.2*	**230,404**	222,545
		322,615	294,452
Less: Provision held against other assets	*10.2.1*	**(115,202)**	-
Other assets - net of provision		**207,413**	294,452

10.1 ***Currency profile of other assets (gross) is as follows:***

	2014	2013
Local currency	**25,895**	20,624
Foreign currencies	**296,720**	273,828
	322,615	294,452

10.2 This represents an amount placed in Bank's nostro account in New York, United States of America which 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. In January 2014, the Bank had to release the accounts of the Third Party – Customers on specific instructions of the Central Bank of Afghanistan (DAB). The Bank, through its legal advisors, requested DOJ that the US Attorney General should exercise his discretion to release the said amount as the Bank did not have any involvement in the dispute between DOJ and the Third Party - Customers. The matter is currently pending for adjudication.

Based on the fact that the said amount is not readily available for use of the Bank, the management has reclassified this amount from "cash and cash equivalents" to "other assets" and as a matter of prudence, recorded 50% provision amounting to Afs 115.20 million in its books of account and financial statements. Comparative figures have also been reclassified for comparison purposes.

10.2.1 ***Movement of provision against other assets is as under:***

	2014 Afs '000'	2013 Afs '000'
Balance at beginning of the year	-	-
Charge for the year	**115,202**	-
Balance at end of the year	**115,202**	-

	Note	2014 Afs '000'	2013 Afs '000'

11. DEPOSITS FROM BANKS

		2014 Afs '000'	2013 Afs '000'
Current deposits - local currency			
Citibank International Plc.		**383,110**	678,643
The First Micro Finance Bank (FMFB)		**6,950**	29,338
		390,060	707,981

12. DEPOSITS FROM CUSTOMERS

	Note	2014 Afs '000'	2013 Afs '000'
Current deposits		**11,169,278**	12,308,129
Saving deposits	*12.1*	**834,033**	871,583
Term deposits	*12.2*	**217,088**	232,996
Margin deposits		**420,354**	462,761
		12,640,753	13,875,469

12.1 Saving deposits carry interest ranging from 0.25% to 0.55% (2013: 0.25% to 0.55%) per annum.

12.2 Term deposits carry interest ranging from 0.75% to 5.22% (2013: 1.1% to 4.96%) per annum and have maturity period ranging from 01 to 12 months (2013: 01 to 12 months).

12.3 None of deposits from customers are expected to be settled in more than 12 months

12.4 Currency profile of deposits from customers is as follows:

	2014 Afs '000'	2013 Afs '000'
Local currency	**2,752,891**	2,765,961
Foreign currencies	**9,887,862**	11,109,508
	12,640,753	13,875,469

13. INCOME TAX PAYABLE

During the year there is a tax loss of Afs 21.6 million, therefore, there is no charge / liability for current taxation.

14. OTHER LIABILITIES

	Note	2014 Afs '000'	2013 Afs '000'
Unearned commission on letter of credit and letter of guarantee		**17,877**	1,852
Unrealized loss on remeasurement of Interest Rate Swap		**9,418**	-
Interest payable on Interest Rate Swap		**4,789**	-
Accrued expenses		**5,331**	6,305
Interest payable		**2,076**	1,167
Payable against staff retirement gratuity	*14.1*	**4,173**	4,173
DAB assessment fee payable		**3,040**	3,040
Auditors' remuneration		**1,305**	1,014
Bills payable		**345**	220
Other		**407**	875
		48,761	18,646

14.1 The payment of gratuity is made directly from head office therefore, with effect from January 01, 2012, the management of the bank has decided to stop making further provision of gratuity in its books of account.

15. CAPITAL CONTRIBUTED BY THE HEAD OFFICE

Da Afghanistan Bank (DAB) vide its Letter No. 3783/3971 dated January 07, 2014 required on all branches of foreign banks to convert their minimum equity from other currencies to local currency Afs 1,000 million gradually till March 31, 2014. Accordingly, the Board of Directors (BOD) of the Head Office, in its meeting held on March 02, 2014 approved capitalization of unappropriated profit to meet the minimum equity requirements of Afs 1,000 million. The BOD also approved the remittance of remaining unappropriated profit to Head Office to the extent as decided by the management of the Bank. Accordingly, the management remitted profit of Afs 343.38 million to the Head Office in March 2014.

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

16. CONTINGENCIES AND COMMITMENTS

	Note	2014 Afs '000'	2013 Afs '000'
Letters of credit and acceptances		**82,178**	1,209,105
Guarantees	*16.1*	**749,195**	611,332

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

16.2 Other contingency

An amount of USD 3,949,335 (equivalent to Afs 230.40 million as at December 31, 2014) in Bank's nostro account in New York, United States of America has been put on hold by a commercial bank as fully explained in note 10.2 to these financial statements. 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 favor.

The Bank filed case against the above mentioned Third Party Customers in primary commercial Court in Afghanistan. In June 2014, the Court did not accede claim of the Bank and advised it to pay USD 0.52 million (Afs 30.14 million) as compensation to the customer along with government/ court fee of Afs 5.27 million. The Bank has filed an appeal in the appellate court against the said judgment, which has been admitted for regular hearing. Based on advice of legal counsel of the Bank, the management is confident that the matter will be decided in Bank's favor in the appellate court and thus no provision for the said amounts is required in these financial statements.

17. NET INTEREST INCOME

	Note	2014 Afs '000'	2013 Afs '000'
Interest income			
Cash and cash equivalents		**78,415**	74,811
Loans and advances to banks and customers		**89,319**	164,168
Investments		**152,270**	84,311
Interest income on Interest Rate Swap		**795**	-
		320,799	323,290
Interest expense			
Deposits from customers	*17.1*	**(16,260)**	(27,430)
Interest rate swap expense		**(7,360)**	-
Amortization of premium on investment bonds		**(3,164)**	(507)
		(26,784)	(27,937)
Net interest income		**294,015**	295,353

	2014 Afs '000'	2013 Afs '000'

17.1 Interest expense on deposits from customers

	2014 Afs '000'	2013 Afs '000'
Interest on:		
Term deposits	(11,156)	(24,820)
Saving deposits	(5,104)	(2,610)
	(16,260)	(27,430)

18. FEE AND COMMISSION INCOME - NET

Fee and commission income

	2014 Afs '000'	2013 Afs '000'
Commission on letters of credit and guarantees issued	16,342	32,675
Commission on credit cards	31,083	41,990
Fund transfer fee	120,341	114,046
Accounts servicing fee	32,044	29,691
	199,810	218,402

Fee and commission expense

	2014 Afs '000'	2013 Afs '000'
Inter bank transaction fee	(8,115)	(8,094)
Net fee and commission income	191,695	210,308

19. OTHER INCOME

	2014 Afs '000'	2013 Afs '000'
Customer charges	5,067	2,804
Gain due to increase in fair value of foreign currency bonds pursuant to change in interest rates (hedged risk)	4,670	-
Gain on disposal of property and equipment	233	-
	9,970	2,804

20. PERSONNEL EXPENSES

	2014 Afs '000'	2013 Afs '000'
Salaries and benefits	102,801	98,958
Staff retirement benefits	766	754
	103,567	99,712

	Note	2014 Afs '000'	2013 Afs '000'

21. OTHER OPERATING EXPENSES

	Note	2014 Afs '000'	2013 Afs '000'
Rent, taxes, insurance, electricity, etc.	*21.1*	**41,020**	46,033
Legal and professional		**6,554**	5,891
Communication		**8,007**	10,694
Repairs and maintenance		**3,635**	3,922
Printing and stationery		**1,195**	1,076
Advertisement and publicity		**1,190**	1,054
Auditors' remuneration		**1,342**	1,061
Entertainment		**2,482**	2,652
Travelling and conveyance		**2,486**	3,721
Security		**13,960**	15,521
VISA charges		**9,869**	12,723
Loss on remeasurement of Interest Rate Swap (IRS)		**9,433**	-
DAB penalty		**13**	24
Business receipt tax		**8**	7
Other		**7,015**	7,084
		108,209	111,463

21.1 This include annual charge amounting to Afs 15.14 million (2013: 19.14 million) for Afghan Deposit Insurance Corporation (ADIC) @ 0.13% per annum of total deposits as required by Da Afghanistan Bank.

22. TAXATION

	2014 Afs '000'	2013 Afs '000'
Current	**-**	70,788
Prior year	**(534)**	-
	(534)	70,788
Deferred	**(4,646)**	(591)
	(5,180)	70,197

The Bank has filed its tax returns till tax year 2013.

Relationship between tax expense and accounting profit

During the year, there is a tax loss of Afs 21.60 million therefore there is no charge for current taxation and numeric reconciliation between tax expense and accounting profit has not been presented in these financial statements.

23. RELATED PARTIES

The Bank is a fully owned branch of Bank Alfalah Limited Pakistan (Head Office). Related parties comprise associated undertakings, 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:

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	For the year ended 31 December, 2014	For the year ended 31 December, 2013
	Afs in'000	Afs in '000

23.1 Transactions with key management personnel

Salaries and benefits	**55,122**	60,422

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

23.2 Transactions with other related parties

Name of group companies	Nature of transactions	2014 Afs in'000	2013
Bank Alfalah Limited - Bahrain	Placements made	**1,691,860**	468,545
	Placement matured	**(1,400,160)**	(468,545)
	Income earned on placements	**2,981**	1,928
Bank Alfalah Limited - Pakistan	Profit remitted to the Head Office	**343,380**	-
	Reimbursement of insurance premium paid to Alfalah Insurance Company Limited	**3,824**	2,579
	Placements made	-	579,000
	Placement matured	-	(579,000)
	Income earned on placements	-	546

24. FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

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

	Notes	Held to maturity	Loans and receivables	Available-for-sale	Total carrying amount	Fair value
		<		Afs 000		
2014						
Cash and cash equivalents	**4**	-	**7,096,421**	-	**7,096,421**	**7,096,421**
Investments	**5**	**3,310,882**	-	**1,887,326**	**5,198,208**	**5,222,694**
Loans and advances to banks	**6**	-	**1,503,748**	-	**1,503,748**	**1,503,748**
Loans and advances to customers	**7**	-	**317,403**	-	**317,403**	**317,403**
Others assets	**10**	-	**180,700**	-	**180,700**	**180,700**
		3,310,882	**9,098,272**	**1,887,326**	**14,296,480**	**14,320,966**
Deposits from banks	**11**	-	**390,060**	-	**390,060**	**390,060**
Deposits from customers	**12**	-	**12,640,753**	-	**12,640,753**	**12,640,753**
Other liabilities	**14**	-	**26,711**	-	**26,711**	**26,711**
		-	**13,057,524**	-	**13,057,524**	**13,057,524**
2013						
Cash and cash equivalents	4	-	11,426,521	-	11,426,521	11,426,521
Investments	5	1,398,592	-	847,044	2,245,636	2,245,636
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	10	-	274,193	-	274,193	274,193
		1,398,592	13,798,406	847,044	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

25. 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.

25.1 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 is 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.

The adherence to Risk-appetite statement approved by the Board is monitored by RMD. Further the compliance of regulatory and internal limits is also monitored and any deviations are ratified by the competent authorities.

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	
	2014	**2013**
	Afs '000'	**Afs '000'**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and cash equivalents	**4,076,405**	6,351,788
Investments	**5,198,208**	2,245,636
Loans and advances to banks	**1,503,748**	555,286
Loans and advances to customers	**317,403**	1,542,406
Other assets	**180,700**	274,193
	11,276,464	10,969,309
Credit risk exposures relating to off-balance sheet items are as follows:		
Letter of credit and acceptances	**82,178**	1,209,105
Guarantees	**749,195**	611,332
	831,373	1,820,437

The above table represents credit risk exposure to the Bank at 31 December, 2014 and 31 December, 2013, 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 cash equivalents

As of the reporting date, the Bank held cash and cash equivalents amounting to Afs 7,096.42 million (2013: Afs 11,426.50 million) out of which there is a credit risk on balances amounting to Afs 4,076.41 million (2013: Afs 6,351.79 million) as the management believes that there is no credit risk on balances maintained with DAB amounting to Afs 2,919.04 million (2013: Afs 4,807.54 million) . Balances with other banks / placements are held with reputable banks with high quality external credit rating. The geographical profile of cash and cash equivalents has been disclosed in note 4.3 to these financial statements.

	Note	2014 Afs '000'	2013 Afs '000'
Loans and advances			
2014			
Loans and advances to customers and banks	*6 & 7*	**1,821,151**	2,097,692
Neither past due but nor impaired:			
Gross amount		**1,825,951**	2,114,471
Allowance for impairment		**(4,800)**	(16,779)
Carrying amount		**1,821,151**	2,097,692
Carrying amount-amortized cost:		**1,821,151**	2,097,692

Carrying amount-amortized cost:

As at balance sheet date, loan portfolio of the Bank was not impaired. However, the Bank maintains general provision of 1.5% on certain loan balances as per the requirements of DAB Regulations.

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, 2014, the loans are neither past due nor impaired.

Allowances for impairment - Specific allowance

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	91-539 days	50%
Loss	Over 539 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.

As at 31 December 2014, an estimate of the fair value of the collateral and other security enhancements held against loans and advances has adequately covered the amount of loans and advances.

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 (gross) at reporting date is as follows:

	2014	**2013**
	Afs '000'	Afs '000'
Segments by class of business		
Beverages	**116,676**	162,044
Chemical and Pharmaceuticals	**-**	7,889
Exports/Imports	**-**	215,380
Financial	**1,503,748**	556,632
Individuals	**2,212**	-
Power (electricity), Gas, Water, Sanitary	**-**	501,787
Travel and Leisure	**203,315**	402,554
Wholesale and Retail Trade	**-**	268,185
	1,825,951	2,114,471

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 honor 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.

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

	2014	2013
At 31 December	47.77%	78.65%
Average for the period	75.93%	85.58%
Maximum for the period	82.80%	99.33%
Minimum for the period	47.77%	78.65%

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	------>	
2014								
Deposits from banks	*11*	390,060	(390,060)	(6,501)	(13,002)	(58,509)	(312,048)	-
Deposits from customers	*12*	12,640,753	(12,640,753)	(214,297)	(428,594)	(1,711,587)	(10,286,275)	-
Other liabilities	*14*	26,711	(26,711)	(345)	(15,643)	(1,305)	-	(9,418)
		13,057,524	(13,057,524)	(221,143)	(457,239)	(1,771,401)	(10,598,323)	(9,418)
2013								
Deposits from banks	*11*	707,981	(707,981)	(707,981)	-	-	-	-
Deposits from customers	*12*	13,875,469	(13,875,469)	(13,659,378)	-	(216,091)	-	-
Other liabilities	*14*	12,621	(12,621)	-	(11,387)	(1,014.00)	-	-
		14,596,071	(14,596,071)	(14,367,359)	(11,387)	(217,105)	-	-

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

25.3 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 divided into:

25.3.1 *Interest rate risk*

The interest rate risk arises from the fluctuation in the value of financial instruments consequent to the changes in the 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	3-12 months	1-5 years	More than 5 years	Non - interest bearing
			<------	------	Afs 000	------>	
2014							
Cash and cash equivalents	*4*	7,096,421	128,536	385,609	2,056,579	-	4,525,697
Investment	*5*	5,198,208	1,497,517	926,424	886,941	1,887,326	-
Loans and advances to banks	*6*	1,503,748	804,583	601,941	97,224	-	-
Loans and advances to customers	*7*	317,403	2,212	315,191		-	-
Other assets	*10*	180,700	-	-	-	-	180,700
		14,296,480	2,432,848	2,229,165	3,040,744	1,887,326	4,706,397
Deposits from customers	*11*	12,640,753	41,703	41,703	300,467	667,248	11,589,632
Deposits from banks	*12*	390,060	-	-	-	-	390,060
Other liabilities	*14*	26,711	-	-	-	-	26,711
Total yield/ interest risk sensitivity gap		1,238,956	2,391,145	2,187,462	2,740,277	1,220,078	(7,300,006)

	Note	Carrying amount	Upto three months	3-12 months	1-5 years	More than 5 years	Non - interest bearing
			<		Afs 000	>	
2013							
Cash and cash equivalents	4	11,426,521	248,281	744,843	3,972,494	-	6,460,903
Investment	5	2,245,636	828,419	-	570,173	847,044	-
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	10	274,193	-	-	-	-	274,193
		16,044,042	1,970,009	1,507,773	4,765,129	1,066,035	6,735,096
Deposits from customers	11	13,875,469	991,519	420,080	738,712	-	11,725,158
Deposits from banks	12	707,981	-	-	-	-	707,981
Other liabilities	14	12,621	-	-	-	-	12,621
Total yield/ interest risk sensitivity gap		1,460,592	978,490	1,087,693	4,026,417	1,066,035	(5,698,043)

	2014 Afs '000	2013 Afs '000
Variable rate instruments		
Financial assets and liabilities at variable interest rates		
Investments	**883,093**	847,044
Loans and advances to banks	**50,000**	100,000
Loans and advances to customers	**315,191**	1,541,064
Deposits from customers	**(834,033)**	(871,583)
	414,251	1,616,525

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the year end would have increased / decreased profit and loss for the year and Head Office' equity by 4.14 million. This analysis assumes that all other variables remain constant.

	2014 Afs '000	2013 Afs '000
Fixed rate instruments		
Financial assets and liabilities at fixed interest rates		
Cash and cash equivalents	**2,570,724**	4,965,618
Investments	**4,315,115**	1,398,592
Loans and advances to banks	**1,453,748**	455,286
Loans and advances to customers	**2,212**	1,342
Deposits from customers	**(217,088)**	(232,996)
	8,124,711	6,587,842

Fair value sensitivity analysis for fixed rate instruments

The Bank 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.

25.3.2 *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
2014					
Cash and cash equivalents	2,384,686	4,383,670	285,032	43,033	7,096,421
Investments	2,423,941	2,774,267	-	-	5,198,208
Loans and advances to banks	-	317,403	-	-	317,403
Loans and advances to customers	50,000	1,421,761	31,987	-	1,503,748
Other assets	26,033	181,317	63	-	207,413
	4,884,660	9,078,418	317,082	43,033	14,323,193
Deposits from banks	390,060	-	-	-	390,060
Deposits from customers	2,746,024	9,536,990	314,797	42,942	12,640,753
Other liabilities	9,902	38,859	-	-	48,761
	3,145,986	9,575,849	314,797	42,942	13,079,574
Net foreign currency exposure	1,738,674	(497,431)	2,285	91	1,243,619
2013					
Cash and cash equivalents	3,432,027	7,641,419	145,105	207,970	11,426,521
Investments	828,419	1,417,217	-	-	2,245,636
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	26,030	268,389	7	26	294,452
	4,533,081	11,170,570	152,654	207,996	16,064,301
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	1,042,697	419,672	(118,791)	118,627	1,462,205

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

	2014		2013	
	Average rate	**Reporting date spot rate**	**Average rate**	**Reporting date spot rate**
in Afs				
US$	57.35	58.34	55.60	56.35
Euro	74.02	70.86	73.60	77.17
GBP	90.82	89.95	86.11	91.68

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 2014 would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2014		2013	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
	<----------	Afs 000		---------->
US$	(49,743)	(49,743)	(41,967)	(41,967)
Euro	229	229	11,879	11,879
GBP	9	9	(11,863)	(11,863)

A 10% weakening of the Afghani against the above currencies at 31 December 2014 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

25.3.3 Fair value of financial instruments

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines the fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation Models

The Bank measures fair values using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Financial instruments measured at fair value - fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	Rupees in '000			
Investment in foreign bonds - available-for-sale	1,887,326	-	-	1,887,326
	1,887,326	-	-	1,887,326

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
Investment in foreign bonds - available-for-sale	847,044	-	-	847,044
	847,044	-	-	847,044

These bonds are traded in London Stock Exchange and their fair values have been obtained from the quotations of the said stock exchange. During the year, there is no transfer between any level of hierarchy.

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25.3.4 *Operational risks*

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management to which they relate, with summaries submitted to the the Committee and senior management of the Bank.

26. CAPITAL MANAGEMENT

Regulatory capital

The Banks' Regulator, Da Afghanistan Bank (DAB) 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 15 to these financial statements, the Bank is required to maintain the capital of Afs 1 billion. As at 31 December, 2014, the Bank has capital of Afs 1,000 million and net equity of Afs 1,261.12 million and was in compliance with the capital requirements 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. As at 31, December 2014, the Bank is in compliance with these regulations.

The Bank's regulatory capital position at 31 December 2014 was as follows:

	2014	2013
	Afs '000'	Afs '000'
Tier 1 capital	**1,261,117**	1,402,521
Tier 2 capital	**-**	-
Total regulatory capital	**1,261,117**	1,402,521

27 RECLASSIFICATION OF COMPARATIVE FIGURES

Comparative figures have been reclassified and re-arranged where necessary for the purpose of better presentation. Major

	From	To	Amount Afs 000
Required reserve account with DAB	assets	Cash and cash equivalent	1,066,549
Capital notes	Cash and cash equivalent	Investments	828,419
Nostro account (note 10.2)	Cash and cash equivalent	Other assets	222,545
Advance tax	Income tax payable	assets	15,690

28. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Country Manager and Country Operations Head of the Bank on 26 Feb 2015.

Country Operations Head

Country Manager