KPMG Afghanistan Limited

Bank Alfalah Limited Afghanistan

Financial Statements

For the year ended 31 December 2015

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Independent Auditors' Report

Country Manager
Bank Alfalah Limited Afghanistan

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

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of

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the Bank as at 31 December 2015, and of its financial performance and its cash flows for the year ended 31 December 2015 in accordance with the accounting framework as stated in note 2 to the financial statements.

Other matter

The financial statements of the Bank as at and for the year ended 31 December 2014 were audited by another auditor who expressed an unqualified opinion on those statements on 26 February 2015.

KPMG Afghanistan Limited

KPMG Afghanistan Limited
29 March 2016
Kabul

Bank Alfalah Limited Afghanistan
Statement of Financial Position
As at 31 December 2015

	Note	2015 (Afs '000')	2014 (Afs '000')
Assets			
Cash and cash equivalents	5	**7,778,009**	6,229,863
Investments	6	**4,225,347**	5,198,208
Loans and advances to banks	7	**990,189**	1,503,748
Loans and advances to customers	8	**113,584**	317,403
Property and equipment	9	**9,172**	12,881
Deferred tax asset	10	**59,382**	4,617
Other assets	11	**1,171,594**	1,073,971
Total assets		**14,347,277**	14,340,691
Liabilities			
Deposits from banks		**364,609**	390,060
Deposits from customers	12	**12,702,839**	12,640,753
Other liabilities	13	**128,018**	48,761
Total liabilities		**13,195,466**	13,079,574
Equity			
Share capital	14	**1,000,000**	1,000,000
Capital reserve	15	**7,484**	-
Deficit on revaluation on available for sale investments		**(57,338)**	(8,354)
Retained earnings		**201,665**	269,471
Total equity		**1,151,811**	1,261,117
Total liabilities and equity		**14,347,277**	14,340,691
Contingencies and commitments	16		

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The annexed notes 1 to 27 form an integral part of these financial statements.

Country Finance Manager

Country Manager

Bank Alfalah Limited Afghanistan
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2015

	Note	2015 (Afs '000')	2014 (Afs '000')
Interest income	17	295,102	317,635
Interest expense	17	(24,893)	(23,620)
Net interest income		270,209	294,015
Fee and commission income	18	180,789	163,488
Fee and commission expense	18	(11,131)	(8,115)
Net fee and commission income		169,658	155,373
Income from dealing in foreign currencies		27,338	30,332
Revenue		467,205	479,720
Other income	19	54,204	46,292
Reversal of provision against non-performing advances	8.2	3,088	12,393
Other provisions	11.2.2	(155,117)	(115,202)
Personnel expenses	20	(100,904)	(103,567)
Depreciation	9	(4,652)	(6,537)
Other operating expenses	21	(156,666)	(108,209)
Profit before taxation		107,158	204,890
Taxation	22	42,519	5,180
Profit		149,677	210,070
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Deficit on revaluation on available for sale investments		(61,230)	(10,117)
Related deferred tax		12,246	2,023
Other comprehensive income, net of tax		(48,984)	(8,094)
Total comprehensive income		100,693	201,976

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The annexed notes 1 to 27 form an integral part of these financial statements.

Country Finance Manager

Country Manager

Bank Alfalah Limited Afghanistan
Statement of changes in equity
For the year ended 31 December 2015

	Note	Capital contributed by Head Office	Deficit on available for sale investments	Capital reserve	Retained earnings	Total
				(Afs '000')		
Balance at 01 January 2014		299,262	(260)	-	1,103,519	1,402,521
Total comprehensive income for the year:						
Profit		-	-	-	210,070	210,070
Other comprehensive income:						
Fair value reserve (available-for-sale financial assets):						
Net change in fair value		-	(10,117)	-	-	(10,117)
Related tax		-	2,023	-	-	2,023
		-	(8,094)	-	-	(8,094)
Total comprehensive income		-	(8,094)	-	-	201,976
Transactions with owners of the Bank						
Transfer of retained earnings to share capital	14	700,738	-	-	(700,738)	-
Profits remitted to Head Office		-	-	-	(343,380)	(343,380)
Balance at 31 December 2014		**1,000,000**	**(8,354)**	-	**269,471**	**1,261,117**
Total comprehensive income for the year:						
Profit		-	-	-	149,677	149,677
Other comprehensive income:						
Fair value reserve (available-for-sale financial assets):						
Net change in fair value		-	(61,230)	-	-	(61,230)
Related tax		-	12,246	-	-	12,246
		-	(48,984)	-	-	(48,984)
Total comprehensive income		-	(48,984)	-	-	100,693
Transferred to Capital Reserve	15	-	-	7,484	(7,484)	-
Transactions with owners of the Bank						
Profits remitted to Head Office		-	-	-	(210,000)	(210,000)
Balance at 31 December 2015		**1,000,000**	**(57,338)**	**7,484**	**201,665**	**1,151,811**

The annexed notes 1 to 27 form an integral part of these financial statements.

Country Finance Manager

Country Manager

Bank Alfalah Limited Afghanistan
Statement of cash flows
For the year ended 31 December 2015

	Note	2015 (Afs '000')	2014 (Afs '000')
Cash flows from operating activities			
Profit		**149,677**	210,070
Adjustments for:			
Depreciation	9	**4,652**	6,537
Reversal of provision against non-performing advances	8.2	**(3,088)**	(12,393)
Other provisions	11.2.2	**155,117**	115,202
Net interest income	17	**(270,209)**	(294,015)
Gain on disposal of property and equipment	19	**(69)**	(233)
Tax expense		**(42,519)**	(5,180)
Unrealised gain on hedged instrument	19	**(7,978)**	-
		(14,417)	19,988
Changes in:			
Loans and advances to banks		**513,559**	(948,462)
Loans and advances to customers		**206,907**	1,237,396
Other assets		**(193,024)**	(753,210)
Deposits from banks		**(25,451)**	(317,921)
Deposits from customers		**62,086**	(1,234,716)
Other liabilities		**75,616**	(85,997)
		639,693	(2,102,910)
Interest received		**277,944**	300,327
Interest paid		**(21,252)**	(25,875)
Income tax paid		**(42,558)**	(77,011)
Net cash generated from / (used in) operating activities		**839,410**	(1,885,481)
Cash flows from investing activities			
Increase in investments - net		**919,610**	(2,962,688)
Purchase of property and equipment		**(1,087)**	(5,342)
Proceeds from disposal of property and equipment		**213**	233
Net cash used in investing activities		**918,736**	(2,967,797)
Cash flows from financing activities			
Remittances to the Head Office		**(210,000)**	(343,380)
Net cash used in financing activities		**(210,000)**	(343,380)
Net increase / (decrease) in cash and cash equivalents		**1,548,146**	(5,196,658)
Cash and cash equivalent at beginning of the year		**6,229,863**	11,426,521
Cash and cash equivalents at end of the year	5	**7,778,009**	6,229,863

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The annexed notes 1 to 27 form an integral part of these financial statements.

Country Finance Manager

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 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 at Kabul and Herat including one sub-branch in UN Compound Kabul.

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

2. Basis of preparation and measurement

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

These financial statements have been prepared using accrual basis of accounting under the historical cost convention except for the financial instruments designated as available-for-sale which are measured at fair value (Note 4.3(d)).

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2.1 Standards issued but not yet adopted

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

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

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

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

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

3. Use of critical accounting estimates and judgments

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

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

(a) Provision of income taxes

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

(b) Property and equipment

The Bank reviews useful lives, residual values and methods of depreciation of property and equipment (note 4.6) on regular basis. Any changes in estimates may affect the carrying amounts of the respective items of property and equipment with a corresponding effect on the depreciation charge.

(c) Impairment of financial instruments

The Bank reviews customers' loan balances on monthly basis for impairment and records the impairment allowance for possible loan losses as per the Bank's policy, funding covenants and DAB regulation as disclosed in (note 4.4 (b)) .

The Bank reviews loans to customer balances for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations. The Bank maintains a general provision of 1.5% (31 December 2014: 1.5%) against outstanding loan and advances to customers as at the year end.

(d) Held-to-maturity investments

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

4. Summary of significant accounting policies

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

4.1 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity including cash in hand and at ATM, unrestricted balances with the DAB, balances with banks and placements.

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

These are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or loss on de-recognition 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 recognized immediately in statement of comprehensive income.

When a sales or transfer of held to maturity securities represents a material contradiction with the Bank's stated intent to hold those securities to maturity or when a pattern of such sales has occurred, any remaining held to maturity securities are reclassified to available for sale. The reclassification is recorded in the reporting period in which the sale or transfer occurs and accounted for as a transfer.

4.3 Financial assets

The Bank classifies its financial assets in four categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) *Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when the financial asset is either held-for-trading or it is designated as at fair value through profit of loss.

A financial asset 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. Derivatives (if any) are also categorized as held for trading unless they are designated as hedges.

Financial assets are designated at fair value through profit or loss at inception when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or

investment strategy and reported to key management personnel on that basis are designated at fair value through profit or loss;

- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify that cash flows, are designated at fair value through profit or loss; and
- Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

b) 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 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 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.

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

Cash and balances with DAB, balances with other banks, placements, receivable from financial institutions, loans and advances to customers and security deposits and other receivables are classified under this category.

c) Held-to-maturity financial assets

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 were to sell other than an insignificant amount of held-to-maturity financial assets before its maturity, the entire category would be reclassified as available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses (see 3.4(a)).

Capital notes with DAB and certain investment bonds are classified under this category.

d) Available-for-sale financial assets

Available-for-sale financial 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.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale are recognized on trade-date i.e. the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flow from the financial asset have expired or where the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets carried at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the statement of comprehensive income as a part of other income in the period in which they arise. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

4.4 Impairment of financial assets

a) Assets carried at amortized cost except for loans and advances to customers

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower)for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as and improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in the statement of comprehensive income in impairment charge for credit losses.

b) Loans and advances to customers

These are stated net of general provision on loans and advances considered 'Standard' and specific provision for non-performing loans and advances' if any. The outstanding principal of the advances are classified in accordance with the Classification and Loss Reserve Requirement (CLRR) issued by DAB and the following:

i) **Standard:** These are loans and advances, which are paying in current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any, supporting it. A general provision is maintained in the books of account @ 1.5% (31 December 2014: 1.5%) of value of such loans and advances.

ii) **Watch:** These are loans and advances which are adequately protected by the collateral, if any, supporting it, but are potentially weak. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification to Substandard. Further, all loans and advances which are past due by 31 to 60 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account not less than 5% of value of such loans and advances.

iii) **Substandard:** These are loans and advances which are inadequately protected by current sound net worth and paying capacity of the borrower or by collateral, if any, supporting it. Further, all loans and advances which are past due by 61 to 90 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account not less than 25% of value of such loans and advances.

iv) **Doubtful:** These are loans and advances which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. Further all loans and advances which are past due by 91 to 539 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account not less than 50% of value of such loans and advances.

v) **Loss:** These are loans and advances which are not collectable ad or such little value that its continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 539 days for principal and interest payments are also classified as Loss. A provision is maintained in the books of account @100% of value of such loans and advances and then these loans are charged off and the reserve for losses is reduced immediately upon determination of Loss status.

c) 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 the 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,

4.5 Financial liabilities

The Bank classifies its financial liabilities in following categories.

a) *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified in this category if incurred principally for the purpose of trading or payment in the short term. Derivatives (if any) are also categorized as held for trading unless they are designated as hedges

b) *Other financial liabilities measured at amortized cost*

These are non-derivatives financial liabilities with fixed or determinable payments that are not quoted in an active market. These are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement.

4.6 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 the 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 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 an 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 in an appropriate basis over the life of the

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instrument but no later than when valuation is wholly supported by observable market data or 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 position 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 or 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 transfer between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

4.7 Property and equipment

These are stated at historical cost less accumulated depreciation and impairment, if any, except for land and capital work in progress which is stated at cost less impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

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

Depreciation is calculated using the straight-line method to allocate the depreciable amount of the assets over their estimated useful life as follows:

Leasehold improvements	5 years
Furniture and fittings	4 to 10 years
Electrical, office and computer equipment	5 years
Vehicles	5 years

Depreciation is charged on additions during the year from the month they become available for their intended use while no depreciation is charged in the month of disposal of assets.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount. These are included in other income in the statement of comprehensive income.

4.8 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. Reversal of the impairment losses is restricted to the original cost of the assets.

4.9 Taxation

Current

The current income tax charge is calculated in accordance with Income Tax Law, 2009. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4.10 Revenue recognition

a) Interest income and expenses for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within `interest income' and `interest expense' in the statement of comprehensive income using the effective interest rate method.

   The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

b) Due but unpaid interest income is accrued on overdue advances for periods up to 90 days in compliance with the Banking regulations issued by DAB. After 90 days, overdue advances are classified as non-performing and further accrual of unpaid interest income ceases.

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

d) Fees and commission income and expense are recognized on an accrual basis when the service has been provided/received.

e) Fee and commission income that are integral part to the effective interest rate on financial assets and liability are included in the measurement of effective interest rate. Other fee and commission expenses related mainly to the transactions are services fee, which are expensed as the services are received.

4.11 Foreign currency transactions and translation

a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is Afghani (Afs). All amounts have been rounded to the nearest thousands, except when otherwise indicated

b) Transactions and balances

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.

The exchange rate for following currencies against Afs were:

	1 USD	1 Euro	1 AED
As at 31 December 2015	68.43	74.54	18.55
As at 31 December 2014	58.32	70.85	15.83

4.12 Provisions

Provisions are recognized when there are present, legal or constructive obligations as a result of past events; it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amounts can be made. Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations.

4.13 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements when there is a legally enforceable right to offset the recognized amounts and the Bank intends to settle either on a net basis or realize the assets and settle the liabilities simultaneously.

4.14 Employee benefits

Short-term benefits

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

	Note	2015	2014
		(Afs '000')	(Afs '000')
5. Cash and cash equivalents			
Cash in hand			
Local currency		71,003	20,303
Foreign currency		308,276	80,668
		379,279	100,971
Unrestricted balances with Da Afghanistan Bank			
Local currency		620,424	1,116,484
Foreign currency		1,579,452	936,003
		2,199,876	2,052,487
Balances with other banks and financial institutions			
Current accounts	5.1	1,645,981	2,372,239
Short tem placements with banks			
Capital notes (maturity less than three months)	5.2	374,390	-
Time deposits with other banks	5.3	3,178,483	1,704,166
		3,552,874	1,704,166
		7,778,009	6,229,863

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

5.2 These represent capital notes issued by DAB for maturity periods from 7 days to 28 days. These capital notes carry interest rate ranging from 1.8% to 3.54% per annum.

5.3 These represent overnight and fixed term placements with financial institutions outside Afghanistan up to a maximum period of three months (2014: three months) in USD carrying interest at rates ranging from 1% to 2% p.a. (31 December 2014: 0.1% to 4% p.a.).

	Note	2015	2014
6. Investments		(Afs '000')	(Afs '000')
Available for sale			
- Foreign bonds	6.1	2,340,904	1,887,326
Held to maturity			
- Capital notes with DAB	6.2	839,478	2,423,941
- Pakistan Euro Bond	6.3	1,044,965	886,941
		1,884,443	3,310,882
		4,225,347	5,198,208

6.1 The breakup of foreign bonds is as follows;

	Rating	Rating Agency	2015	2014
Abu Dhabi Commercial Bank Finance Cayman Limited (ADCB) Bonds	A+	Fitch	685,335	588,435
Qatar National Bank Finance Limited (QNB) Bond	A+	Fitch	343,181	294,658
Kingdom of Bahrain Bond	BBB-	Fitch	348,869	312,294
Indonesia Sovereign Bonds (Sukuks)	BBB-	Fitch	469,514	291,577
South Africa Sovereign Bonds (Sukuks)	BBB-	Fitch	264,294	235,915
Kazakhstan Sovereign Bonds	BBB+	Fitch	193,930	164,447
United Mexican State Bonds	BBB+	Fitch	35,780	-
			2,340,904	1,887,326

These bonds are listed at London Stock Exchange. The rate of profit on QNB Bonds and ADCB 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 14 October 2024.

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6.1.1 Derivatives held for risk management- fair value hedges of interest

The Bank has 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 arrangement, 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.*

6.2 These represent investments in capital notes issued by DAB up to a maximum period of one year (31 December 2014: one year) carrying yield at rates ranging from 5.15% to 6.70%. (31 December 2014: 3.56% p.a. to 7.25% p.a.) receivable on maturity of respective notes.

6.3 This represents investment amounting to USD 15,300 thousands in Pakistan Euro Bonds. These carry interest rates ranging from 7.13% to 7.25% (2014: 7.13% to 7.25%) per annum maturing latest by April 2019.

	Note	2015 (Afs '000')	2014 (Afs '000')
7. Loans and advances to banks			
Foreign bills discounted and purchased	7.1	**870,189**	1,453,748
Term loan	7.2	**120,000**	50,000
		990,189	1,503,748

7.1 These bills are purchased from various financial institutions. These have maximum maturity of six months and carrying interest rates ranging from 0.6% to 3.65% (2014: .85% to 4%) per annum.

7.2 Term loan is issued to Microfinance Investment Support Facility for Afghanistan (MISFA), having maturity of one year and carrying interest rate of 8% (2014: 7.22%) per annum. This loan is secured against Citibank guarantee.

8. Loans and advances to customers	Note	2015 (Afs '000')	2014 (Afs '000')
Loans and advances to customers at amortized cost	8.1	**115,296**	322,203
Less: Impairment loss on loan and advances	8.2	**(1,712)**	(4,800)
Net loans and advances to customers		**113,584**	317,403

8.1 Loans and advances to customers at amortized cost

	Note	Gross amount	Allowance for impairment	Carrying amount	Gross amount	Allowance for impairment	Carrying amount
		Afs in "000"					
		2015			2014		
Overdrafts		-	-	-	116,676	(1,750)	114,926
Term finance	8.1.1	**114,106**	**(1,712)**	**112,394**	203,315	(3,050)	200,265
Advance against credit cards	8.1.2	**1,190**	-	**1,190**	2,212	-	2,212
		115,296	**(1,712)**	**113,584**	322,203	(4,800)	317,403

8.1.1 Term finance carries interest ranging from Libor + 4% (2014: Libor + 4%) per annum. Such facilities are extended for period ranging from 1 year to 4.5 years. This amount is secured against Citibank guarantee.

8.1.2 These balances are carrying interest at the rate of 20% (2014: 20%) per annum. These are fully secured against cash margin.

	Note	2015 (Afs '000')	2014 (Afs '000')
8.2 Allowance for impairment (General)			
Movement in allowance for impairment			
Balance at beginning of the year		**4,800**	16,779
Reversal during the year		**(3,381)**	(12,393)
Exchange adjustment		**293**	414
Balance at end of the year	8.3	**1,712**	4,800

8.3 As at 31 December, 2015, 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 cash margins.

9. Property and equipment

	Leasehold land improvements	Furniture & fixtures	Electrical, office and computer equipment	Vehicles	Total
			Afs"000		
Cost					
Balance at 1 January 2014	20,635	11,763	37,068	9,722	79,188
Additions	1,464	18	3,860	-	5,342
Disposals	-	-	(1,779)	-	(1,779)
Balance at 31 December 2014	22,099	11,781	39,149	9,722	82,751
Balance at 1 January 2015	**22,099**	**11,781**	**39,149**	**9,722**	**82,751**
Additions	**-**	**34**	**1,053**	**-**	**1,087**
Disposals	**-**	**(464)**	**(3,595)**	**-**	**(4,059)**
Balance at 31 December 2015	**22,099**	**11,351**	**36,607**	**9,722**	**79,779**
Depreciation					
Balance at 1 January 2014	20,169	8,303	28,422	8,218	65,112
Charge for the year	247	1,223	3,563	1,504	6,537
Depreciation on disposals	-	-	(1,779)	-	(1,779)
Balance at 31 December 2014	20,416	9,526	30,206	9,722	69,870
Balance at 1 January 2015	**20,416**	**9,526**	**30,206**	**9,722**	**69,870**
Charge for the year	**379**	**862**	**3,411**	**-**	**4,652**
Depreciation on disposals	**-**	**(387)**	**(3,528)**	**-**	**(3,915)**
Balance at 31 December 2015	**20,795**	**10,001**	**30,089**	**9,722**	**70,607**
Carrying amounts					
Balance at 31 December 2014	1,683	2,255	8,943	-	12,881
Balance at 31 December 2015	**1,304**	**1,350**	**6,518**	**-**	**9,172**

9.1 Included in cost of property and equipment are fully depreciated assets still in use having cost of Afs 52,470 thousands (2014: 54,030 thousands).

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		2015	2014
		(Afs '000')	(Afs '000')
10.	**Deferred tax assets/(liabilities) arising in respect**		
	Tax losses		
	Deficit on re-measurement of available for sale investments	15,563	4,318
	Provision against other assets	14,334	2,088
	Unrealised loss on interest rate SWAP	28,362	-
	Accelerated tax depreciation and amortization	2,696	-
		(1,573)	(1,789)
		59,382	4,617

10.1 Movement in temporary differences during the year

	Balance as at 01 January 2014	Recognized in statement of comprehensive income	Recognized in equity through other comprehensive income	Balance at 31 December 2014	Recognized in statement of comprehensive income	Recognized in equity through other comprehensive income	Balance at 31 December 2015
				Afs "000			
Deferred tax assets arising in respect of:							
Deficit on available for sale investments	65	-	2,023	2,088	-	12,246	14,334
Tax losses carried forward	-	4,318	-	4,318	11,245	-	15,563
Provision against other assets	-	-	-	-	28,362	-	28,362
Unrealised loss on interest rate SWAP	-	-	-	-	2,696	-	2,696
Deferred tax liabilities arising in respect of:							
Accelerated tax depreciation	(2,117)	328	-	(1,789)	216	-	(1,573)
	(2,052)	4,646	2,023	4,617	42,519	12,246	59,382

		Note	2015	2014
			(Afs '000')	(Afs '000')
11.	**Other assets**			
	Accrued interest		56,068	38,910
	Accrued commission on bank gurantees		41,203	14,784
	Advances and deposits		3,258	3,894
	Prepayments		463	398
	Restricted deposits with DAB	11.1	987,876	866,558
	Receivable against credit card transactions		14,853	4,161
	Branch adjustment account		420	139
	Advance tax		64,085	21,527
	Commission receivable		3,368	8,080
	Interest receivable on Interest Rate Swap (IRS)		-	318
	Others	11.2	270,319	230,404
			1,441,913	1,189,173
	Less: Provision against other assets	11.2.2	(270,319)	(115,202)
			1,171,594	1,073,971

11.1 Required reserve account is being maintained with DAB to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. Theses balances are interest free (31 December 2014: 2.56%).

11.2 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 . However, 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.

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11.2.1 Based on the fact that the said amount is not readily available for use of the Bank, the management has reclassified this amount from "balances with other banks" to "other assets" and as a matter of prudence, recorded full provision amounting to Afs 270,319 thousands in its books of account and financial statements.

11.2.2 Movement of provision against other assets

	Note	2015 (Afs '000')	2014 (Afs '000')
Balance at the beginning of the year		**115,202**	-
Charge for the year		**155,117**	115,202
Balance at the end of the year		**270,319**	115,202

12. Deposits from customers

	Note	2015 (Afs '000')	2014 (Afs '000')
Current deposits		**11,689,773**	11,169,278
Saving deposits	12.1	**772,792**	834,033
Term deposits	12.2	**54,762**	217,088
Margin deposits		**185,512**	420,354
		12,702,839	12,640,753

12.1 Saving deposits carry interest rate ranging from 0.25% to 0.40% (2014: 0.25% to 0.55%) per annum.

12.2 Term deposits carry interest rate ranging from 0.75% to 5.22% (2014: 0.75% to 5.25%) per annum and have maturity period ranging from 01 to 12 months (2014: 01 to 12 months)

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

13. Other liabilities

	Note	2015 (Afs '000')	2014 (Afs '000')
Unearned commission on letter of credit and letter of guarantee		**35,331**	17,877
Unrealized loss on re-measurement of Interest Rate Swap		**26,490**	9,418
Interest payable on Interest Rate Swap		**5,605**	4,789
Accrued expenses		**4,857**	5,331
Interest payable		**5,717**	2,076
Payable to HO against staff retirement gratuity		**4,173**	4,173
DAB assessment fee payable		**2,540**	3,040
Auditor's remuneration		**734**	1,305
Bills payable		**447**	345
Compensation relating to customer's blocked funds	13.1	**40,861**	-
Others		**1,263**	407
		128,018	48,761

13.1 This represents court fee and compensation relating to customer's blocked funds as explained in note 11.2 to the financial statements.

14. Capital contributed by Head Office

Da Afghanistan Bank (DAB) vide its Letter No. 3783/3971 dated January 07, 2014 requires all branches of foreign banks to convert their minimum equity from other currencies to local currency Afs 1,000,000 thousands 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 1,000,000 thousands. 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 210,000 thousands to the Head Office in June 2015 (2014: 343,380 thousands).

15. Capital Reserves

Article 93 "Reserve Capital" of Corporations and Limited Liability Companies Law of Afghanistan, requires that Bank should transfer 5% of its profit to Capital Reserve to compensate for future possible losses to the extent such capital reserves reaches up to 25% of the Bank's capital.

	Note	**2015**	2014
		(Afs '000')	(Afs '000')
16. Contingencies and commitments			
Letter of credit and acceptances		**13,142**	82,178
Guarantees	16.1	**1,159,516**	749,195

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

16.2 Afghanistan tax legislation is subject to varying interpretations with changes occurring from time to time. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Bank may not coincide with the treatment used in the financial statements. As a result, transactions may be challenged by tax authorities and the Bank may be assessed additional taxes and penalties, which can be significant. The periods remain open to review by the tax authorities with respect to tax liabilities for five years.

During the year, the Bank received amended assessment notice as a result of tax audit conducted by Ministry of Finance with additional demand amounting to Afs 28,095 thousands and Afs 17,173 thousands for the tax years 2009 and 2010 respectively. The Bank has filed appeal against this amended assessment notice with Large Tax Payer Office (LTO), Afghanistan Revenue Department dated 07 December 2015. No provision has been maintained in the financial statements for this amount as management is of the view that there is a likelihood of favorable decision from LTO.

		Note	2015 (Afs '000')	2014 (Afs '000')
17.	**Net interest income**			
	Interest income			
	Cash and cash equivalents		46,913	78,415
	Loans and advances to banks and customers		39,473	89,319
	Investments		205,615	149,106
	Interest income on Interest Rate Swap		3,101	795
			295,102	317,635
	Interest expense			
	Deposits from customers			
	Term deposits		(167)	(11,156)
	Saving deposits		(963)	(5,104)
	Interest Rate Swap expense		(23,763)	(7,360)
			(24,893)	(23,620)
	Net interest income		270,209	294,015
18.	**Net fee and commission income**			
	Fee and commission income			
	Commission on letter of credit and guarantees issued		19,995	16,342
	Commission on credit cards		18,004	31,083
	Funds transfer fee		114,766	84,019
	Accounts servicing fee		28,025	32,044
			180,789	163,488
	Fee and commission expense		(11,131)	(8,115)
	Net fee and commission income		169,658	155,373
19.	**Other income**			
	Customer charges		45,793	41,389
	Gain due to increase in fair value of foreign currency bonds pursuant to change in interest rates (hedge risk)		7,978	4,670
	Gain on disposal of property and equipment		69	233
	Income on unutilized limits on credit cards		364	-
			54,204	46,292
20.	**Personnel expenses**			
	Salaries and benefits		100,096	102,801
	Staff retirement benefits		808	766
			100,904	103,567

		Note	2015 (Afs '000')	2014 (Afs '000')
21.	**Other operating expenses**			
	Rent, taxes, insurance, electricity, etc.		**42,239**	41,020
	Legal and professional charges		**11,911**	6,554
	Communications		**6,051**	8,007
	Repairs and maintenance		**4,419**	3,635
	Stationery and printing		**1,026**	1,195
	Advertisement and publicity		**956**	1,190
	Auditors' remuneration		**1,239**	1,342
	Entertainment		**2,651**	2,482
	Travelling and conveyance		**2,863**	2,486
	Security		**13,468**	13,960
	Visa charges		**5,698**	9,869
	Loss on remeasurement of Interest Rate Swap (IRS)		**17,056**	9,433
	Compensation relating to customer's blocked funds as explained in note 11.2 note 13.1		**35,591**	-
	Others		**11,498**	7,036
			156,666	108,209

22. Taxation

Amounts recognized in profit and loss

	Note	2015	2014
Current tax expense			
Current year		-	-
Adjustment to prior years		-	(534)
		-	(534)
Deferred tax			
Origination and reversal of temporary differences		**(20,572)**	(4,646)
Change in recognized deductible temporary differences		**(21,947)**	-
	10.1	**(42,519)**	(4,646)
Tax expense/(benefit)		**(42,519)**	(5,180)

22.1 The Bank has filled its tax return till tax year 2014. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

22.2 Reconciliation of effective tax rate

	2015 Rate	2015 (Afs '000')	2014 Rate	2014 (Afs '000')
Accounting profit for the year		**107,158**		204,890
Applicable tax @ 20%	**20%**	**21,432**	20%	40,978
Effect of tax on dividend to shareholders	**-39%**	**(42,000)**	-34%	(68,676)
Effect of deferred tax asset not recognised previously on:			0%	
-unreleased loss on IRS	**-1%**	**(950)**	0%	-
-provision against other assets previously disallowed	**-14%**	**(15,360)**	0%	-
Effect of difference in assessment of tax losses by MoF	**-5%**	**(5,637)**	0%	-
Effect of inadmissible expenses	**0%**	**-**	11%	23,040
Others	**0%**	**(3)**	0%	(522)
	-40%	**(42,519)**	-3%	(5,180)

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23. Financial assets and liabilities

Accounting classification of financial assets and financial liabilities and fair values

The following table shows the carrying amounts and classification of financial assets and financial liabilities.

	Note	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Total
		Afs'000				
31 December 2015						
Assets						
Cash and cash equivalents	5	-	7,778,009	-	-	7,778,009
Investments	6	1,884,443	-	2,340,904	-	4,225,347
Loans and advances to banks	7	-	990,189	-	-	990,189
Loans and advances to customers	8	-	115,296	-	-	115,296
Other assets	11	-	1,009,355	-	-	1,009,355
		1,884,443	9,892,850	2,340,904	-	14,118,196
Liabilities						
Deposits from banks		-	-	-	364,609	364,609
Deposits from customers	12	-	-	-	12,702,839	12,702,839
Other liabilities	13	-	-	-	61,340	61,340
		-	-	-	13,128,788	13,128,788
31 December 2014						
Assets						
Cash and cash equivalents	5	-	6,229,863	-	-	6,229,863
Investments	6	3,310,882	-	1,887,326	-	5,198,208
Loans and advances to banks	7	-	1,503,748	-	-	1,503,748
Loans and advances to customers	8	-	322,203	-	-	322,203
Other assets	11	-	998,213	-	-	998,213
		3,310,882	9,054,027	1,887,326	-	14,252,235
Liabilities						
Deposits from banks		-	-	-	390,060	390,060
Deposits from customers	12	-	-	-	12,640,753	12,640,753
Other liabilities	13	-	-	-	16,135	16,135
		-	-	-	13,046,948	13,046,948

23.1 Fair value of financial assets and financial liabilities

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

(a) Financial instruments measured at fair value using a valuation technique

The table below analyses financial instruments carried at fair value, by valuation method. The various fair value levels have been defined as follows:

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 asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	**Level 2**	**Level 3**
Investments in bonds - available for sale investments	---------------Afs"000---------------		
As at 31 December 2015	**2,340,904**	-	-
As at 31 December 2014	1,887,326	-	-

Valuation technique and key inputs used for investments in bonds were quoted market bid price in active market.

(b) Financial instruments not measured at fair value

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

	Carrying Value		**Fair Value**	
	31 December 2015	31 December 2014	**31 December 2015**	31 December 2014
	Afs '000	Afs '000	**Afs '000**	Afs '000
Financial assets				
Cash and cash equivalents	**7,778,009**	6,229,863	**7,778,009**	6,229,863
Investments	**4,225,347**	5,198,208	**4,225,347**	5,198,208
Loans and advances to banks	**990,189**	1,503,748	**990,189**	1,503,748
Loans and advances to customers	**115,296**	322,203	**115,296**	322,203
Other assets	**1,009,355**	998,213	**1,009,355**	998,213
Financial liabilities				
Deposits from banks	**364,609**	390,060	**364,609**	390,060
Deposits from customers	**12,702,839**	12,640,753	**12,702,839**	12,640,753
Other liabilities	**61,340**	16,135	**61,340**	16,135

24. Risk management policies

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 Head Office has in place an approved integrated risk management framework for managing credit risk, market risk, liquidity risk, and operational risk as evidenced by its Board approved "Risk Management Policy" and "Risk Management Manual". 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. Internal audit function is an independent risk review function that reports directly to the Board Audit Committee 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. As a policy, the reporting line of the risk management function has been kept completely independent of the business division.

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

- Credit risk
- Liquidity risk
- Market risk

24.1 Credit risk

Credit risk management processes 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 separate credit department has been established by the Bank for its Afghanistan operations that is responsible for oversight of the Bank's credit risk and which is reportable to the Credit Committee. The Credit department is headed by Group Head Credit along with credit department staff who looks after credit risk matters and conduct portfolio analysis and stress testing on regular basis 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.

The adherence to Risk-appetite statement approved by the Board is monitored by RMD. Further the compliance of regulatory & internal limits is also monitored and any deviations are ratified from 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. The Bank's annual credit plan spells out the maximum allowable exposure that it can take on specific industries for every business group.

	Note	2015 (Afs '000')	2014 (Afs '000')
Credit risk relating to on-balance sheet items is as follows;			
Cash and cash equivalents	5	4,824,464	4,076,405
Investments	6	3,385,869	2,774,267
Loans and advances to banks	7	990,189	1,503,748
Loans and advances to customers	8	115,296	322,203
Other assets	11	1,009,355	998,213
		10,325,173	9,674,836
Credit risk relating to off-balance sheet items is as follows;			
Letter of credit and acceptances	16	13,142	82,178
Guarantees	16	1,159,516	749,195
		1,172,658	831,373

The above table represents credit risk exposure to the Bank at 31 December, 2015 and 31 December 2014, 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 reference to the 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 7,778,009 thousands (2014: 6,229,863 thousands) out of which there is a credit risk on balances amounting to Afs 4,824,464 thousands (2014: 4,076,405 thousands) as the management believes that there is no credit risk on balances maintained with DAB amounting to 2,574,266 thousands (2014: 2,052,487 thousands). Balances with other banks/ placements are held with reputable banks with high quality external credit rating.

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Loans and advances	Note	2015	2014
		(Afs '000')	(Afs '000')
Loans and advances to customers and banks	7 & 8	1,103,773	1,821,151
Neither past due but nor impaired:			
Gross amount		1,105,485	1,825,951
Allowance for impairment		(1,712)	(4,800)
Carrying amount		1,103,773	1,821,151
Carrying amount-amortized cost:		1,103,773	1,821,151

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 its policy.

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 31 December 2015, 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**	**Percentage %**
Standard	1-30 days	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 2015, 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.

24.2 Concentration of credit risk

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:

	2015	2014
Segments by class of business-Gross amount	(Afs '000')	(Afs '000')
Beverages	-	116,676
Financial	990,189	1,503,748
Individuals	1,190	2,212
Travel and Leisure	114,106	203,315
	1,105,485	1,825,951

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.

24.3 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:

	2015	2014
At 31 December	68.77%	47.77%
Average for the period	70.02%	75.93%
Maximum for the period	76.31%	82.80%
Minimum for the period	64.56%	47.77%

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Maturity analysis for financial liabilities

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

	Note	Gross nominal inflow/ (outflow)	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Carrying amount
		Afs'000						
As at 31 December 2015								
Liabilities								
Deposits from banks		(364,609)	(6,077)	(12,154)	(54,691)	(291,687)	-	364,609
Deposits from customers	12	(12,702,839)	(1,497,439)	(1,173,885)	(3,490,975)	(1,244,546)	(5,295,994)	12,702,839
Other liabilities	13	(61,341)	(447)	(60,160)	(734)	-	-	61,341
		(13,128,789)	(1,503,963)	(1,246,199)	(3,546,400)	(1,536,233)	(5,295,994)	13,128,789
As at 31 December 2014								
Liabilities								
Deposits from banks		(390,060)	(6,501)	(13,002)	(58,509)	(312,048)	-	(390,060)
Deposits from customers	12	(12,640,753)	(214,297)	(428,594)	(1,711,587)	(10,286,275)	-	(12,640,753)
Other liabilities	13	(26,711)	(345)	(15,643)	(1,305)	-	(9,418)	(26,711)
		(13,057,524)	(221,143)	(457,239)	(1,771,401)	(10,598,323)	(9,418)	(13,057,524)

24.4 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:

24.4.1 Interest rate risk exposure

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	Interest bearing						Non-interest bearing	Total
		Interest rates (p.a)	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years		
			Afs ('000')						
31 December 2015									
Assets									
Cash and cash equivalents	5	*1.8% to 3.54%*	3,552,874	-	-	-	-	4,225,136	7,778,009
Investments	6	*3.88% to 7.25%*	-	-	1,916,583	1,298,080	1,385,074	-	4,599,737
Loans and advances to banks	7	*0.6% to 8%*	841,363	28,826	120,000	-	-	-	990,189
Loans and advances to customers	8	*Libor + 4%*	-	-	113,584	-	-	-	113,584
Other assets	11		-	-	-	-	-	1,009,355	1,009,355
			4,394,237	28,826	2,150,167	1,298,080	1,385,074	5,234,491	14,490,875

	Note	Interest bearing: Interest rates (p.a)	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
			Afs ('000')						
Liabilities									
Deposits from banks									
Deposits from customers	12		-	-	-	-	-	364,609	364,609
Other liabilities	13	.25% to 5.22%	793,329	34,225	-	-	-	11,875,285	12,702,839
			-	-	-	-	-	61,340	61,340
			793,329	34,225	-	-	-	12,301,234	12,764,179
On balance sheet interest sensitivity gap									
Cumulative gap			3,600,908	(5,399)	2,150,167	1,298,080	1,385,074	(7,066,743)	1,726,695

If the interest rate increase/(decrease) by 100 bps, the impact on profit or loss for the year would have been Afs 13,851 thousands (2014: Afs 85 thousands) lower/higher respectively.

31 December 2014	Note	Interest bearing: Interest rates (p.a)	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
						As ('000')			
Assets									
Cash and cash equivalents	5	.10% to 4%	128,536	-	385,609	2,056,579	-	4,525,697	7,096,421
Investments	6	1.49% to 7.25%	1,497,517	-	926,424	886,941	1,887,326	-	5,198,208
Loans and advances to banks	7	1.93% to 7.2%	804,583	-	601,941	97,224	-	-	1,503,748
Loans and advances to customers	8	1.93% to 7.2%	2,212	-	315,191		-	-	317,403
Other assets	11		-	-	-	-	-	998,213	998,213
			2,432,848	-	2,229,165	3,040,744	1,887,326	5,523,910	15,113,993
Liabilities									
Deposits from banks			-	-	-	-	-	390,060	390,060
Deposits from customers	12	0.25% to 4.96%	41,703	-	41,703	300,467	667,248	11,589,632	12,640,753
Other liabilities	13		-	-	-	-	-	26,711	26,711
			41,703	-	41,703	300,467	667,248	12,006,403	13,057,524
On balance sheet interest sensitivity gap			2,391,145	-	2,187,462	2,740,277	1,220,078	(6,482,493)	2,056,469

Variable rate instruments

Financial assets and liabilities at variable interest rates	**2015**	2014
	Afs '000	Afs '000
Investments	**1,028,516**	883,093
Loans and advances to banks	**120,000**	50,000
Loans and advances to customers	**112,394**	315,191
	1,260,910	414,251

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 equity by Afs 12,609 thousands. This analysis assumes that all other variables remain constant.

Fixed rate instruments	**2015**	2014
	(Afs '000')	(Afs '000')
Financial assets and liabilities at fixed interest rates		
Cash and cash equivalents	**4,166,359**	2,570,724
Investments	**3,196,831**	4,315,115
Loans and advances to banks	**870,189**	1,453,748
Loans and advances to customers	**1,190**	2,212
Deposits from customers	**(827,554)**	(1,051,121)
	7,407,015	7,290,678

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.

24.5 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:

Foreign currency financial assets and liabilities

	Note	Afs	USD	Euro	GBP	Others	Total
31 December 2015				Afs"000			
Financial assets							
Cash and cash equivalents	5	1,065,817	6,651,004	39,251	21,938	-	7,778,009
Investments	6	839,479	3,209,288	176,580	-	-	4,225,347
Loans and advances to banks	7	120,000	831,487	38,701	-	-	990,189
Loans and advances to customers	8	-	113,584	-	-	-	113,584
Other assets	11	894,573	112,120	2,661	-	-	1,009,355
		2,919,869	10,917,483	257,194	21,938	-	14,116,484
Financial liabilities							
Deposits from banks		364,609	-	-	-	-	364,609
Deposits from customers	12	1,348,609	11,069,376	263,813	21,040	-	12,702,839
Other liabilities	13	55,191	6,150	-	-	-	61,340
		1,768,408	11,075,526	263,813	21,040	-	13,128,788
Net foreign currency exposure		1,151,461	(158,043)	(6,620)	897	-	987,696

	Note	Afs	USD	Euro	GBP	Others	Total
31 December 2014				Afs"000			
Financial assets							
Cash and cash equivalents	5	1,136,787	4,765,011	285,032	43,033	-	6,229,863
Investments	6	2,423,941	2,774,267	-	-	-	5,198,208
Loans and advances to banks	7	-	322,203	-	-	-	322,203
Loans and advances to customers	8	50,000	1,421,761	31,987	-	-	1,503,748
Other assets	11	816,833	181,317	63	-	-	998,213
		4,427,561	9,464,559	317,082	43,033	-	14,252,235
Financial liabilities							
Deposits from banks		390,060	-	-	-	-	390,060
Deposits from customers	12	2,746,024	9,536,990	314,797	42,942	-	12,640,753
Other liabilities	13	9,902	16,809	-	-	-	26,711
		3,145,986	9,553,799	314,797	42,942	-	13,057,524
Net foreign currency exposure		1,281,575	(89,240)	2,285	91	-	1,194,711

24.5.1 Sensitivity analysis on foreign currency financial assets and liabilities

A 1% strengthening of the Afghani, as indicated below, against the USD, GBP, Euro at 31 December 2015 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

31 December 2015	Afs	USD	Euro	GBP	Others	Total
	Afs'000					
Effect of 1% increase in exchange rate						
Financial assets						
Cash and cash equivalents	-	(66,510)	(393)	(219)	-	(67,122)
Investments	-	(32,093)	(1,766)	-	-	(33,859)
Loans and advances to banks	-	(8,315)	(387)	-	-	(8,702)
Loans and advances to customers	-	(1,136)	-	-	-	(1,136)
Other assets	-	(1,121)	(27)	-	-	(10,094)
Losses from financial assets	-	(109,175)	(2,572)	(219)	-	(120,912)
Financial liabilities						
Deposits from banks	-	-	-	-	-	
Deposits from customers	-	110,694	2,638	210	-	113,542
Other liabilities	-	61	-	-	-	61
Gains from financial liabilities	-	110,755	2,638		-	113,604
Net-unrealised gains/(losses) on foreign currency	-	1,580	66	(219)	-	(7,308)

31 December 2014	Afs	USD	Euro	GBP	Others	Total
	Afs					
Effect of 1% increase in exchange rates						
Financial assets						
Cash and cash equivalents	-	(47,650)	(2,850)	(430)	-	(50,931)
Investments	-	(27,743)	-	-		(27,743)
Loans and advances to banks	-	(3,222)	-	-		(3,222)
Loans and advances to customers	-	(14,218)	(320)	-		(14,537)
Other assets	-	(1,813)	(1)	-		(1,814)
Losses from financial assets	-	(94,646)	(3,171)	(430)	-	(98,247)
Financial liabilities						
Deposits from banks	-	-	-	-	-	-
Deposits from customers	-	95,370	3,148	429	-	98,947
Other liabilities	-	168	-	-	-	168
Gain from financial liabilities	-	95,538	3,148	429	-	99,115
Net un-realised gain/ (loss) losses on foreign currency	-	892	(23)	(1)	-	869

24.5.2 Effect of 1% decrease in exchange rates will have same effect on net unrealized gains/(losses) for both years but in opposite direction.

25. 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:

25.1 Transactions with other related parties

Name of group companies	Nature of transactions	2015	2014
		Afs in'000	
Bank Alfalah Limited Bahrain	Placements made	**3,986,425**	1,691,860
	Placements matured	**3,798,975**	1,400,160
	Income earned on placements	**4,707**	2,981
	Interest income on Interest Rate Swap	**3,103**	795
	Interest receivable on Interest Rate Swap	**-**	319
	Interest expense on Interest Rate Swap	**23,763**	7,360
	Interest payable on Interest Rate Swap	**5,605**	4,789
Bank Alfalah Limited - Pakistan	Profit remitted to Head Office	**210,000**	343,380
	Reimbursement of insurance premium paid to Alfalah Insurance Company Limited	**5,106**	3,824

25.2 Balances with related parties

		2015	2014
Bank Alfalah Limited Bahrain	Placement	**479,150**	291,700

25.3 Transactions with key management personnel

	2015	2014
	Afs in'000	
Salaries and benefits	**63,528**	55,122

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

26. Capital Management

Regulatory Capital

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

(i) to comply with the capital requirements set by the DAB;
(ii) to safeguard the Bank's ability to continue as a going concern so that it can continue to be
(iii) to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. DAB requires each bank to maintain its Tier 1 Capital ratio and Regulatory Capital ratio to be at least 6 % and 12 % respectively. The Bank is maintaining this ratio well above the required level.

The table below summarizes the composition of the regulatory capital and ratio of the Bank:

	31 December 2015	31 December 2014
	Afs in'000	
Tier 1 (Core) Capital:		
Total equity capital	1,151,811	1,261,117
Less:		
Net deferred tax assets	59,382	4,617
Profit for the year	149,677	210,070
	942,751	1,046,430
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	1,712	4,800
Profit for the year	149,677	210,070
	151,389	214,870
Tier 2 (Supplementary) Capital (restricted 100% of Tier 1 (Core) Capital)	151,389	214,870
'Regulatory Capital = Tier 1 + Tier 2	1,094,141	1,261,300
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	379,279	100,971
Direct claims on DAB	4,220,247	2,423,941
Total	4,599,526	2,524,912
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Balances with other banks	5,814,653	1,503,748
20% risk-weight total (above total x 20%)	1,162,931	300,750
100% risk weight:		
All other assets	3,933,098	10,312,031
Less: Deferred tax assets	(59,382)	(4,617)
All other assets - net	3,873,716	10,307,414
100% risk-weight total (above total x 100%)	3,873,716	10,307,414
Credit conversion factor		
0% risk weight:		
Undrawn loan and overdraft facilities	-	-
0% credit conversion factor total (risk-weighted total x 0%)	-	-
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Commercial letters of credit	13,142	82,178
20% credit conversion factor total (risk-weighted total x 20%)	2,628	16,436
20% risk-weight total (above total x 20%)	526	3,287

100% risk weight:		
Guarantees	**1,159,516**	749195
100% credit conversion factor total (risk-weighted total x 100%)	**1,159,516**	749,195
100% risk-weight total (above total x 100%)	**1,159,516**	749,195
Total risk-weighted assets	**6,196,688**	11,360,646
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	**15.21%**	9.21%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	**17.66%**	11.10%

27. Date of authorization of financial statements

These financial statements were authorized for issue by the Country Finance Manager and Country Manger of the Bank on 29 MAR 2016

KPMG

Country Finance Manager

Country Manager