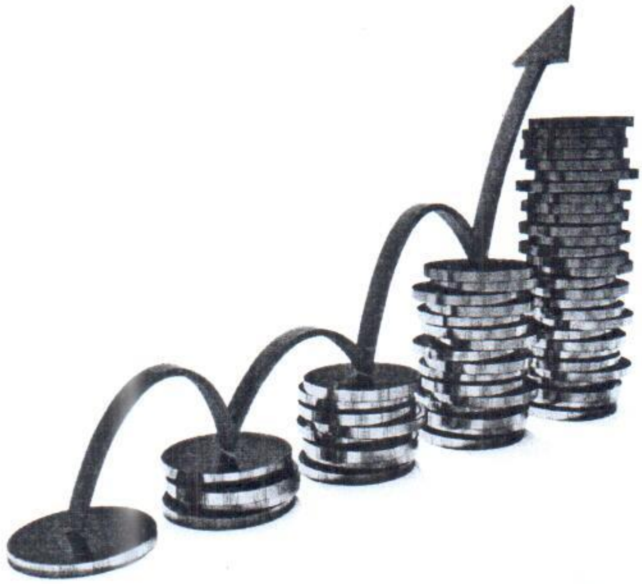
Ghazanfar Bank – financial statements and auditors' report

For the year ended December 31, 2014



GHAZANFAR BANK

Financial Statements

For the year ended December 31, 2014

Grant Thornton
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Independent auditors' report to the shareholders of Ghazanfar Bank

Grant Thornton Afghanistan

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We have audited the accompanying financial statements of Ghazanfar Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2014 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Law of Banking in Afghanistan, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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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 Ghazanfar Bank as at December 31, 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Law of Banking in Afghanistan.

Grant Thornton Afghanistan

Kabul
Date: 26 March, 2015

Grant Thornton Afghanistan
Chartered Accountants

Grant Thornton Afghanistan GTA

GHAZANFAR BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014

2014	2013		Note	2014	2013
.... USD '000'				.... Afs '000'	
		ASSETS			
78,714	62,887	Cash and cash equivalents	5	4,602,430	3,531,753
250	250	Investment in associate	6	14,618	14,040
9,381	-	Investment in capital notes	7	548,482	-
43,700	62,957	Loans and advances	8	2,555,158	3,535,650
2,848	2,991	Property and equipment	9	166,514	167,972
45	108	Intangible assets	10	2,611	6,069
14,706	17,374	Other assets	11	859,868	975,718
149,644	146,567	**Total assets**		8,749,681	8,231,202
		EQUITY AND LIABILITIES			
		EQUITY			
19,880	20,697	Share capital	12	1,162,370	1,162,370
(324)	(348)	Accumulated losses		(18,931)	(19,533)
19,556	20,349	**Total equity**		1,143,439	1,142,837
		LIABILITIES			
490	431	Deferred tax liability-net	13	28,640	24,193
128,301	122,858	Deposits from customers	14	7,501,739	6,899,697
894	2,929	Other liabilities	15	52,290	164,475
403	-	Provision for non funded facilities		23,573	-
130,088	126,218	**Total liabilities**		7,606,242	7,088,365
149,644	146,567	**Total equity and liabilities**		8,749,681	8,231,202
		Contingencies and commitments	22		

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

CHIEF EXECUTIVE OFFICER

CEO Office

DIRECTOR

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

2014	2013		Note	2014	2013
.... USD '000'				.... Afs '000'	
7,940	8,078	Interest income		464,265	453,647
(590)	(1,523)	Interest expense		(34,495)	(85,509)
7,350	6,555	**Net interest income**	16	429,770	368,138
2,585	1,959	Fee and commission income		151,135	110,041
(643)	(279)	Fee and commission expense		(37,608)	(15,673)
1,942	1,680	**Net fee and commission income**	17	113,527	94,368
(106)	1,752	Other operating (loss) / income	18	(6,219)	98,399
9,186	9,987	**Operating income**		537,078	560,905
(2,958)	(473)	Impairment allowances and charge off	8.8	(172,957)	(26,566)
(1,944)	(1,643)	Employee compensation	19	(113,694)	(92,258)
(506)	(351)	Operating lease expenses		(29,608)	(19,717)
(517)	(634)	Depreciation	9	(30,223)	(35,579)
(85)	(74)	Amortization	10	(4,975)	(4,179)
(3,088)	(3,078)	Other expenses	20	(180,573)	(172,833)
(9,098)	(6,253)			(532,029)	(351,132)
88	3,734	**Profit before tax**		5,049	209,773
(76)	(752)	Tax expense	21	(4,447)	(42,213)
12	2,982	**Profit for the year**		602	167,560
-	-	Other comprehensive income		-	-
12	2,982	**Total comprehensive income for the year**		602	167,560

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

CHIEF EXECUTIVE OFFICER

CEO Office
Ghazanfar Bank

DIRECTOR

Ghazanfar Bank

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

Share capital	Accumulated losses	Total		Share capital	Accumulated losses	Total
........USD '000'........				........AFN '000'........		
20,697	(1,531)	19,166	Balance as at January 01, 2013	1,162,370	(86,004)	1,076,366
			Total comprehensive income for the year			
	2,982	2,982	Profit for the year	-	167,560	167,560
			Transactions with owners			
	(1,800)	(1,800)	Dividend paid during the year	-	(101,088)	(101,088)
20,697	(349)	20,348	Balance as at December 31, 2013	1,162,370	(19,533)	1,142,837
19,880	(334)	19,546	**Balance as at January 01, 2014**	1,162,370	(19,533)	1,142,837
			Total comprehensive income for the year			
-	12	12	Profit for the year	-	602	602
19,880	(322)	19,558	**Balance as at December 31, 2014**	1,162,370	(18,931)	1,143,439

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

CEO Office
Ghazanfar Bank

CHIEF EXECUTIVE OFFICER

BOS
Ghazanfar Bank

DIRECTOR

GTA

GHAZANFAR BANK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

2014	2013		Note	2014	2013
.... USD '000'				.... Afs '000'	
		CASH FLOWS FROM OPERATING ACTIVITIES			
86	3,735	Profit before tax		5,049	209,773
		Adjustments for:			
2,958	473	Net impairment loss on financial assets	8.8	172,957	26,566
517	634	Depreciation	9	30,223	35,579
85	74	Amortization	10	4,975	4,179
(1)	(3)	Gain on disposal of fixed assets	18	(58)	(159)
3,645	4,913			213,145	275,938
		(Increase) / decrease in current assets			
13,811	(19,566)	Loans and advances		807,535	(1,098,808)
2,033	(8,286)	Other assets		118,857	(465,351)
		Increase / (decrease) in current liabilities			
10,297	29,259	Deposits from customers		602,042	1,643,165
(1,919)	2,590	Other liabilities		(112,185)	145,479
403	-	Provision for non funded facilities		23,573	-
24,625	3,997			1,439,822	224,486
28,270	8,910			1,652,967	500,424
(51)	(70)	Tax paid		(3,006)	(3,918)
28,219	8,840	**Net cash generated from operating activities**	A	1,649,961	496,506
		CASH FLOWS FROM INVESTING ACTIVITIES	Note		
(502)	(1,244)	Purchase of property and equipment	9	(29,369)	(69,852)
(26)	(40)	Purchase of intangible assets	10	(1,517)	(2,234)
11	6	Proceed from disposal of property and equipment		662	326
(9,381)	-	Investment in capital notes		(548,482)	-
(10)	(18)	Investment in associate		(578)	(1,020)
(9,908)	(1,296)	**Net cash used in investing activities**	B	(579,284)	(72,780)
		CASH FLOWS FROM FINANCING ACTIVITIES			
-	(1,800)	Payment of dividend		-	(101,088)
-	(1,800)	**Net cash used in financing activities**	C	-	(101,088)
18,311	5,745	**Net increase in cash and cash equivalents (A+B+C)**		1,070,677	322,638
60,403	57,142	Cash and cash equivalents, beginning of year		3,531,753	3,209,115
78,714	62,887	**Cash and cash equivalents, end of year**		4,602,430	3,531,753

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

CHIEF EXECUTIVE OFFICER

CEO Office

DIRECTOR

1 STATUS AND NATURE OF BUSINESS

Ghazanfar Bank ("the Bank") is a commercial bank incorporated under the Law in Afghanistan. The registered office of the bank is located at Wazir Akbar Khan Street, Shir Por, District 10, Kabul, Afghanistan.

The Bank obtained business license from Afghanistan Investment Support Agency (AISA) bearing license no: D-29098 renewed on 16 September, 2014 and is registered as a limited liability company. The Bank commenced its operations on 01 March 2009 under the license for commercial banking issued by the Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan. Currently, the Bank is being operated with ten branches with Islamic banking operations (2013: ten branches with Islamic banking operations) in different provinces of Afghanistan.

The financial statements for the year ended December 31, 2014 (including comparatives) have been approved and authorized for issue by the Board of Supervisors on 10/03/ 2015.

2 STATEMENT OF COMPLIANCE

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

2.2 Standards, amendments and interpretations to publish approved accounting standards that are effective in the current year

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 01, 2014:

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

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

- **IAS 19** 'Employee Benefits' Employee Contributions- The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. The amendment has no material impact on the Bank's financial position

- There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2014 but are considered not relevant or do not have a significant effect on the Bank's operations and therefore are not detailed in the financial statements.

2.3 Standards, amendments and interpretations to publish approved accounting standards that are not yet effective

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

	Effective Dates (accounting period beginning on or after)
- **IAS 27** – Separate Financial Statements (Amendments)	January 01, 2015
- **IFRS 10** – Consolidated Financial Statements (Amendments)	January 01, 2015
- **IFRS 11** – Joint Arrangements	January 01, 2015
- **IFRS 12** – Disclosure of Interest in Other Entities (Amendments)	January 01, 2015
- **IFRS 13** – Fair value measurement	January 01, 2015
- **IAS 16** – Property, plant and equipment (Amendments)	January 01, 2016
- **IAS 38** – Intangible Assets (Amendments)	January 01, 2016

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2015 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

3 BASIS OF PREPARATION

3.1 Basis of measurement

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

3.2 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following:

a)	Note 6	Provision against non-performing loans and advances to customers
b)	Note 7	Depreciation rates for property and equipment
c)	Note 8	Amortization rates for intangible assets
d)	Note 9	Deferred taxation
e)	Note 19	Income taxes

3.3 Functional and presentation currency

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless or otherwise state.

4.1 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise of cash and balances with central bank (unrestricted) and balances with other banks.

4.2 Financial instruments

Recognition, initial measurement and de-recognition

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is de-recognized when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

a) loans and receivables
b) investment held to maturity (HTM)

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Currently, the Bank has financial assets only in the form of loans and receivables and held to maturity investments. Therefore, policies related to other categories of financial assets would not be relevant.

a) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, loans and advances to customers and other assets fall into this category of financial instruments.

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

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

The criteria that Bank uses to determine that there is objective evidence that there is an indication to impairment loss includes 1) default or delinquency by a borrower 2) restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider 3) indication that a borrower or issuer will enter bankruptcy 4) disappearance of an active for a security 5) other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

The Bank considers evidence of impairment for impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

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

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

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

b) Investment held to maturity (HTM)

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Bank has the intention and ability to hold them until maturity. The Bank currently holds "term placements with other banks" designated into this category.

HTM investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in statement of comprehensive income.

Classification and subsequent measurement of financial liabilities

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognized in statement of comprehensive income. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

4.3 Investment in associate

Investment in associate is carried at cost less impairment if any.

4.4 Loans and advances

Loans and advances are stated net of provisions against non–performing loans and advances. Specific and general provision are made based on an appraisal of the loan portfolio that takes into account Regulations and other directives issued by the Da Afghanistan Bank from time to time. The general provision is for the inherent risk of losses which are known from experience to be present in any loan portfolio.

The provisions made / reversed during the year are charged to the statement of comprehensive income and accumulated provision is netted off against loans and advances. Loans and advances are written off when there is no realistic prospect of recovery or when the regulation requires.

Murabaha financings are reflected as receivables at the sale price. Actual sale and purchase is not reflected as the goods are purchased by the customer as agent of the Bank and all documents relating to purchase are in customer's name.

In Musharaka financing, the Bank provides the facility on profit and loss sharing basis for specific tenors to the customers.

4.5 Property and equipment

Owned

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

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

Land is not depreciated. Depreciation on all other fixed assets is calculated using the straight line method to allocate their depreciable cost or revalued amount to their residual values over their estimated useful lives.

The residual values and useful lives of fixed assets are reviewed, and adjusted (if appropriate) at each balance sheet date.

Depreciation

Depreciation is recognized in profit and loss account on straight-line basis from the month of use over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

-	Building	30 years
-	Furniture and fixture	4-10 years
-	Computer equipment	4 years
-	Vehicles	6 years
-	Office equipment	5 years

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

Gains and losses on disposal of fixed assets are included in statement of comprehensive income currently.

4.6 Intangible assets

Acquired computer software's are capitalized on the basis of costs incurred to acquire and bring to use the specific software. Subsequent expenditure on software asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

These costs are amortized over their expected useful lives using the straight line method from the date it is available for use since this most closely reflects the pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years.

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

4.7 Impairment of non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset. Impairment losses are recognized in statement of comprehensive income.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

4.8 Deposits

Deposits are the Bank's sources of funding. Deposits are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the bank choose to carry the liabilities at fair value through profit or loss.

4.9 Taxation

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

Current tax

Current tax is the expected tax payable or receivable on the taxable income for the year (using tax rates enacted or substantively enacted at the balance sheet date), and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on temporary differences relating to: (i) the initial recognition of goodwill; (ii) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and (iii) differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4.10 Financial guarantees

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

4.11 Employee compensation

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

4.12 Foreign currency transactions

Transactions in foreign currencies are translated to Afghani at exchange rates prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Afghani at the exchange rate prevailing at that reporting date. Foreign currency differences arising on retranslation are recognized in statement of comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

4.13 Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

As per regulation issued by DAB title: "Asset Classifications, Monitoring of Problem Assets, Reserve for Losses, and Non-accrual Status", accrued interest is reversed on the loans and advances that are classified as non-accrual status. Interest from such loans and advances is recognized on receipt basis.

Profit under Murabaha financing is recognized on monthly basis, while it is recoverable at maturity.

4.14 Fee and commission

Fees and commission income includes account servicing fees and sales commissions and are recognized as the related services are performed.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

4.15 Lease payments

Payments under operating leases are recognized in statement of comprehensive income on straight line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

4.16 Provisions

Provisions for restructuring costs and legal claims are recognized when:

a) the Bank has a present legal or constructive obligation as a result of past events;
b) it is more likely than not that an outflow of resources will be required to settle the obligation; and
c) the amount has been reliably estimated.

Provision for guarantee claims and other off balance sheet obligations is recognised when intimated and reasonable certainty exists to settle the obligations.

4.17 Off-setting

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

4.18 Appropriations subsequent to date of statement of financial position

Appropriations subsequent to year end are recognized during the year in which those appropriations are made.

	Note	2014	2013
		.... Afs '000'	
5 CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	**731,390**	824,903
Balances with banks	5.2	**3,871,040**	2,706,850
		4,602,430	3,531,753
5.1 Cash in hand			
Local currency		**126,215**	149,195
Foreign currencies		**605,175**	675,708
		731,390	824,903
5.2 Balances with central banks			
Local currency current accounts		**372,604**	310,965
Local currency deposit account		**-**	1,420
Foreign currency current accounts		**2,344,219**	841,614
		2,716,823	1,153,999
Balances with foreign banks			
Aktif Bank, Turkey		**726,670**	1,493,316
Zirat Bank, Turkey		**48,257**	38,586
Commerz Bank, Germany		**33,590**	9,825
Bank Islami, Malaysia		**585**	5,616
Agriculture Bank of China, China		**135,998**	3,931
CSC Bank, Lebanon		**4,109**	-
Yes Bank, India		**836**	-
Turkiye is Bankasi, Turkey		**15,780**	-
Yinzhou Bank, China		**1,126**	-
Axis Bank, India		**187,266**	1,577
		1,154,217	1,552,851
		3,871,040	2,706,850

6 INVESTMENT IN ASSOCIATE

	2014	2013
Investment in associate - Afghan Payment System	**14,618**	14,040

This represents 33.33 % equity investment in Afghanistan Payment Systems (APS) incorporated as limited liability company with AISA on January 31, 2011. APS, a special purpose vehicle created with the support of World Bank and under special permission of Da Afghanistan Bank (DAB), was established to provide a non-cash domestic payments switch and related processing services to all the banks operating in Afghanistan and as such will benefit the banking industry as a whole. APS intends to support an electronic fund transfer platform for shared ATMs, creation of shared mobile banking infrastructure and the initiation of point of sale devices. This investment is carried at initial cost of USD 250,000 (2013: 250,000) without taking into account any impairment losses and yearly differences are appearing due to currency translations to Afs.

	Note	2014	2013
		.... Afs '000'	
7 INVESTMENT IN CAPITAL NOTES			
Capital notes - 28 days		548,482	-

These are classified as held to maturity having maximum period of 28 days carrying interest rate ranging from 3.55% to 3.56% per annum.

8 LOANS AND ADVANCES

	Note	2014			2013		
		Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		.... Afs '000'					
Conventional financing							
Running finance	8.1	1,564,445	(48,051)	1,516,394	2,132,297	(13,787)	2,118,510
SME loans	8.2	98,100	(5,436)	92,664	170,746	-	170,746
Term loans	8.3	206,495	(38,888)	167,607	37,258	(47)	37,211
		1,869,040	(92,375)	1,776,665	2,340,301	(13,834)	2,326,467
Islamic financing							
Musharakah financing	8.4	339,398	(1,663)	337,735	666,985	-	666,985
Murabaha financing	8.5	490,874	(50,116)	440,758	544,534	(2,336)	542,198
		830,272	(51,779)	778,493	1,211,519	(2,336)	1,209,183
		2,699,312	(144,154)	2,555,158	3,551,820	(16,170)	3,535,650

8.1 The facility to meet working capital requirements carries interest ranging from 13% to 15% (2013: 14.5% to 18%) per annum. These facilities are extended for maximum period of twelve months. These are secured against personal guarantees, hypothecation over current assets, charge over fixed assets and mortgage of residential or commercial property of the borrower.

8.2 These are extended to the Small and Medium Enterprises with limit up to $ 500,000 (equivalent to Afs 29.235 million) and carry interest 15% to 18% (2013: 15% to 18%) per annum with maturity period of twelve months. These are secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of residential or commercial properties of the borrower and secured against guarantee given by Afghanistan Credit Support Program (ACSP), implemented by Deutsche Investitions- und Enwicklungsgesellschaft mbH (DEG).

8.3 These are term loan facilities extended to customers carries interest ranging from 13% to 18% (2013: 15% to 18%) per annum. These facilities are extended for maximum period of twelve months. These are secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of residential or commercial properties of the borrower.

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8.4 Financing under musharakah agreement are to meet the working capital and other requirements of the borrower on a profit and loss sharing basis ranging from 15% to 18% (2013: 15% to 19%) per annum of the musharakah amount. These facilities are extended for the maximum period of twelve months and secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of residential or commercial properties of the borrower.

8.5 These represent financing under murabaha agreement under which the Bank has paid finance to meet capital and other requirements of the borrower on a fixed profit sharing basis ranging from 13% to 18% (2013: 15% to 18%). These facilities are extended for the maximum period of twelve months and secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of properties of the borrower.

8.6 At reporting date, loans and advances amounting to Afs 2,699.3 million (2013: 190.1 milliion) were classified against which an impairment allowance amounting to Afs 144.153 million (2013: 16.17 million) has been maintained.

	2014	2013
	...... Afs '000'	
8.7 Impairment allowance on loans and advances		
Opening balance	**16,170**	9,604
Charge for the year	**132,939**	9,991
Reversal made during the year	**(4,955)**	(3,425)
Net impairment allowance on funded facilities	**127,984**	6,566
Closing balance	**144,154**	16,170
8.8 Impairment allowances and charge off		
Net impairment allowance on funded facilities	**127,984**	6,566
Loan charged off during the year	**21,400**	20,000
General provision on non funded facilities	**23,573**	-
	172,957	26,566

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9 PROPERTY AND EQUIPMENT

	Land	Building	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
				Afs '000'			
GROSS CARRYING AMOUNT							
Balance as at January 01, 2013	35,362	42,002	33,373	64,749	22,582	16,930	214,998
Additions during the year	-	482	1,725	2,549	57,003	8,093	69,852
Disposals during the year	-	-	(54)	(409)	(23)	(180)	(666)
Balance as at December 31, 2013	35,362	42,484	35,044	66,889	79,562	24,843	284,184
Balance as at January 01, 2014	**35,362**	**42,484**	**35,044**	**66,889**	**79,562**	**24,843**	**284,184**
Additions during the year	**-**	**140**	**4,053**	**13,031**	**9,200**	**2,945**	**29,369**
Disposals during the year	**-**	**-**	**(201)**	**-**	**(1,195)**	**(159)**	**(1,555)**
Balance as at December 31, 2014	**35,362**	**42,624**	**38,896**	**79,920**	**87,567**	**27,629**	**311,998**
ACCUMULATED DEPRECIATION							
Balance as at January 01,2013	-	4,717	11,291	47,665	10,743	6,715	81,131
Depreciation for the year	-	1,409	4,269	13,829	11,644	4,427	35,579
Depreciation on disposals	-	-	(31)	(388)	(23)	(57)	(498)
Balance as at December 31, 2013	-	6,126	15,529	61,106	22,364	11,086	116,212
Balance as at January 01,2014	**-**	**6,126**	**15,529**	**61,106**	**22,364**	**11,086**	**116,212**
Depreciation for the year	**-**	**1,419**	**4,364**	**4,646**	**14,538**	**5,256**	**30,223**
Depreciation on disposals	**-**	**-**	**(119)**	**-**	**(714)**	**(118)**	**(951)**
Balance as at December 31, 2014	**-**	**7,545**	**19,774**	**65,752**	**36,188**	**16,224**	**145,484**
WRITTEN DOWN VALUE AS AT							
- December 31, 2013	35,362	36,358	19,515	5,783	57,198	13,757	167,972
- December 31, 2014	**35,362**	**35,079**	**19,121**	**14,168**	**51,379**	**11,405**	**166,514**
Depreciation rates	**Nil**	**3.33%**	**10% - 25%**	**25%**	**16.67%**	**20%**	

GTA

	2014	2013
	.... Afs '000'	

10 INTANGIBLE ASSETS

	2014	2013
Gross carrying amount		
Opening balance	**14,254**	18,759
Additions during the year	**1,517**	2,234
Disposal-Fully amortised	**-**	(6,739)
Closing balance	**15,771**	14,254
Accumulated amortization		
Opening balance	**8,185**	10,745
Amortization for the year	**4,975**	4,179
Disposal-Fully amortised	**-**	(6,739)
Closing balance	**13,160**	8,185
Written down value	**2,611**	6,069

10.1 Intangible assets comprise of two softwares i.e. Vermati accounting system and Redbeam assets tracking software. Useful life of each software is three years.

	Note	2014	2013
		.... Afs '000'	

11 OTHER ASSETS

	Note	2014	2013
Restricted deposits with DAB	11.1	**507,784**	565,510
Prepayments		**65,610**	78,751
Advances against property	11.2	**238,338**	238,338
Advances against LC		**11,621**	61,409
Receivable from Western Union		**11,262**	6,012
Interest receivable		**3,189**	7,155
Security deposits to western union		**14,033**	13,478
Advance tax		**6,564**	3,557
Others		**1,467**	1,508
		859,868	975,718

11.1 This represents interest bearing local currency statutory reserves maintained with DAB as minimum reserve in accordance with Banking Regulations. Minimum reserves carries interest ranging 0.11% to 0.33% per annum (2013: 1.25% to 1.5% per annum).

11.2 This amount represents advance against purchase of property in Mazar e Shareef for opening a new branch.

	2014	2013
	.... Afs '000'	

12 SHARE CAPITAL

	2014	2013
Authorized capital - 55,000 shares of Afs 10,000 each (2013: 55,000 shares of Afs 10,000 each)	**550,000**	550,000
Issued and paid-up share capital - 116,237 shares of Afs 10,000 each (2013: 116,237 shares of Afs 10,000 each)	**1,162,370**	1,162,370

13 DEFERRED TAX LIABILITY

Deferred taxes arising from temporary differences and unused tax losses are summarized as follows:

Deferred tax liabilities	**January 01, 2014**	**Recognized in profit and loss**	**December 31, 2014**
	.... Afs '000'		
Deferred tax liability			
Property and equipment	**(25,236)**	**(4,616)**	**(29,852)**
Intangible assets	**(903)**	**656**	**(247)**
	(26,139)	**(3,960)**	**(30,099)**
Deferred tax asset			
Unused tax losses	**1,946**	**(487)**	**1,459**
	(24,193)	**(4,447)**	**(28,640)**

Deferred tax assets (liabilities)	January 01, 2013	Recognized in profit and loss	December 31, 2013
	.... Afs '000'		
Deferred tax liability			
Property and equipment	(20,284)	(4,952)	(25,236)
Intangible assets	(395)	(508)	(903)
	(20,679)	(5,460)	(26,139)
Deferred tax asset			
Unused tax losses	38,699	(36,753)	1,946
	18,020	(42,213)	(24,193)

Deferred tax asset has been recognized on estimated carried forward tax losses based on projected future profitable operations and taxable profits against which the deferred tax asset could be realized.

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14 DEPOSITS FROM CUSTOMERS

	Note	2014	2013
		.... Afs '000'	
Conventional			
Current deposits		**4,127,829**	3,149,896
Saving deposits	14.1	**597,863**	549,943
Term deposits	14.2	**652,093**	298,274
		5,377,785	3,998,113
Islamic			
Al Wadiah current deposits		**560,310**	461,488
Mudarabah saving deposits	14.3	**502,571**	435,165
Mudarabah fixed deposits	14.4	**751,667**	1,759,532
		1,814,548	2,656,185
Margin deposits		**309,406**	245,399
		7,501,739	6,899,697

14.1 Conventional saving deposits carries interest ranging from 1% to 5% (2013: 1% to 5%) per annum.

14.2 Conventional term deposits carries interest ranging from 1.25% to 10% (2013: 1.25% to 10%) per annum with maturity of 3 months to 5 years on the conventional side.

14.3 Profit disbursed during the year, on Islamic saving deposits ranged from 0.2% to 1% (2013: 0.3% to 1.5%) per annum.

14.4 Islamic term deposits carry profit rates ranging from 0.65% to 3.5% (2013: 1% to 3.7%) per annum with maturity of 6 months to 1 year.

15 OTHER LIABILITIES

	Note	2014	2013
		.... Afs '000'	
Accrued interest		**3,772**	3,284
Withholding tax		**932**	20,809
Payable to supplier for muarabaha finance		**-**	112,320
Unearned commission on bank guarantees		**31,611**	19,122
Accrued expenses		**3,767**	4,384
DEG claim	15.1	**10,886**	-
Others		**1,322**	4,556
		52,290	164,475

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15.1 This amount represents payable to Deutsche Investitions- und Enwicklungsgesellschaft mbH (DEG) for insurance agianst recovery of defaulted term loan and those defaulted loans have been recovered subsequently during the year.

	Note	2014	2013
		.... Afs '000'	
16 NET INTEREST INCOME			
Interest income on:			
Cash and cash equivalents		**13,940**	12,767
Loans and advances		**448,026**	440,880
Capital notes		**2,299**	-
Total interest income		**464,265**	453,647
Interest expense			
Deposits from customers	16.1	**(34,495)**	(85,509)
Net interest income		**429,770**	368,138
16.1 Deposits from customers			
Interest on:			
Term deposits		**25,794**	73,774
Saving deposits		**8,701**	11,735
		34,495	85,509
17 NET FEE AND COMMISSION INCOME			
Fee and commission income			
Commission on letter of credits	17.1	**98,916**	59,562
Commission on bank guarantees		**1,765**	9,941
Fund transfer fee		**49,592**	39,570
Deposit accounts servicing		**862**	968
Total fee and commission income		**151,135**	110,041
Fee and commission expense			
Inter bank transaction fee		**(37,608)**	(15,673)
Net fee and commission income		**113,527**	94,368

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	Note	2014	2013
		.... Afs '000'	

18 OTHER OPERATING (LOSS) / INCOME

		2014	2013
Foreign exchange (loss) / gain		**(28,413)**	33,322
Loan processing fee		**19,559**	28,174
Recovery of loan previously written off		**1,985**	36,395
Gain on disposal of fixed assets		**58**	159
Others		**592**	349
		(6,219)	98,399

19 EMPLOYEE COMPENSATION

		2014	2013
Salaries and wages		**110,792**	89,849
Bonus to staff		**2,462**	2,055
Staff welfare		**440**	354
		113,694	92,258

20 OTHER EXPENSES

	Note	2014	2013
Security guards expenses		**47,396**	39,889
Insurance	20.1	**30,283**	31,494
Communication		**21,941**	25,263
Advertisement		**21,674**	21,695
Travelling and conveyance		**12,162**	10,454
Utilities		**6,421**	8,393
Fuel		**7,075**	6,916
Repair and maintenance		**5,110**	5,549
Stationery and printing		**4,996**	5,211
Food expenses		**4,782**	4,713
Staff training		**3,007**	2,264
Audit fee		**731**	702
Others		**14,995**	10,290
		180,573	172,833

20.1 These include insurance charges amounting to Afs 14.548 million (2013: 14.228 million) paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.23% per annum of total deposits as per instructions of DAB.

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21 INCOME TAX EXPENSE

The major components of tax expense and the reconciliation of the expected tax expense based on the effective tax rate of 20% and the reported tax expense in statement of comprehensive income are as follows:

	Note	**2014**	2013
		.... **Afs '000'**	
Current		-	-
Deferred	13	**4,447**	42,213
	21.1	**4,447**	42,213

21.1 Tax expense comprises

	2014	2013
Current tax expense	-	-
Deferred tax expense:		
Origination and reversal of temporary differences	**3,960**	5,460
Utilization of unused tax losses	**487**	36,753
Tax expense	**4,447**	42,213

22 CONTINGENCIES AND COMMITMENTS

22.1 *Contingencies*

	2014	2013
Guarantees issued on behalf of customers	**5,958,755**	3,960,392

22.2 Lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2014	2013
Less than one year	**23,685**	23,454
Between one to five years	**80,031**	103,592
	103,716	127,046

The Bank leases a number of branches and office premises under operating leases. The leases typically runs for a period of up to five years, with an option to renew the lease after that period.

23 RELATED PARTIES

23.1 Parent and ultimate controlling party

The Bank is owned by individuals who are shareholders of Ghazanfar Group of Companies (GGC), and own the Bank's shares in different proportions. Therefore, related parties include all group companies of GGC as associates.

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23.2 **Transactions with key management personnel**

Key management personnel and their immediate relatives have transacted with the Bank during the period as follows:

	2014	2013
	.... Afs '000'	
Salary paid to the members of the board of supervisors	**3,492**	2,791
Benefits to the management board	**3,647**	2,673
	7,139	5,464

In addition to salaries, the Bank also provides non-cash benefits to executives which includes furnished accommodation, meals and travel associated with the business of the bank.

23.3 **Transactions with related parties**

Following are transactions with related parties, during the period, and outstanding balances at the reporting date:

	2014	2013
	.... Afs '000'	
Associates		
Balances at year end		
Loans and advances	**317,731**	1,051,814
Bank guarantees	**2,988,558**	1,143,061
Advance against property	**238,338**	238,338
Prepaid rent	**52,136**	55,692
Customer deposits	**124,581**	1,179,599
Payable to GNG	-	112,320
Transaction during the year		
Purchase of armoured vehicles	-	56,645
(Repayment) / disbursement of loans and advances	**(734,083)**	407,853
Issuance of bank guarantees	**1,845,497**	1,128,343
Interest income on loans and advances	**70,360**	72,448
Commission on bank guarantees	**47,112**	25,221
Advance against property	-	238,338
Fuel purchase	**(112,320)**	112,320
Rent paid	**5,740**	1,435

23.4 There were no related party transactions and outstanding balances other than those disclosed above in notes 23.1, 23.2 and 23.3 to the financial statements.

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24 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

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

in Afs '000'	Note	Held for trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount
2014								
Cash and cash equivalents	5	-	-	-	4,602,430	-	-	4,602,430
Investment in capital notes	7	-	-	-	548,482	-	-	548,482
Loans and advances to customers	8	-	-	-	2,555,158	-	-	2,555,158
Others assets	11	-	-	-	522,235	-	-	522,235
		-	-	-	8,228,305	-	-	8,228,305
Deposits from customers	14	-	-	-	-	-	7,501,739	7,501,739
Other liabilities	15	-	-	-	-	-	20,679	20,679
		-	-	-	-	-	7,522,418	7,522,418
2013								
Cash and cash equivalents	5	-	-	-	3,531,753	-	-	3,531,753
Loans and advances to customers	8	-	-	-	3,551,820	-	-	3,551,820
Others assets	11	-	-	-	578,677	-	-	578,677
		-	-	-	7,662,250	-	-	7,662,250
Deposits from customers	14	-	-	-	-	-	6,899,697	6,899,697
Other liabilities	15	-	-	-	-	-	145,353	145,353
		-	-	-	-	-	7,045,050	7,045,050

24.1 The fair values of financial assets and financial liabilities approximates their carrying amounts at the reporting date.

25 FINANCIAL RISK MANAGEMENT

25.1 Introduction and overview

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

a) credit risk
b) liquidity risk
c) market risks

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

Risk management framework

The Board of Supervisor has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Management Board, Asset and Liability Committee (ALCO), and a Credit Committee which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Supervisors on their activities. The Bank's Management Board is assisted in these functions by the internal audit department.

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

25.2 Credit risk

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

Management of credit risk

The Board has delegated responsibility for the management of credit risk to its Bank's Credit Committee. Credit department reporting to the Bank Credit Committee is responsible for oversight of the Bank's credit risk.

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A separate credit department has been established by the Bank that is responsible for oversight of the Bank's credit risk and which is reportable to the Credit Committee. The Credit department is headed by Chief Credit Officer (CCO). Chief Credit Officer along with credit department staff looks after credit risk matters and conduct portfolio analysis for managing credit risk.

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board. 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 amount of credit risk in this regard is represented by the carrying amounts of the assets at the reporting date. Exposure to credit risk is managed through regular analysis of borrower to meet interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed against personal guarantee of the borrower and mortgage of immoveable property duly registered with the court of law and hypothecation over stock duly verified by the Bank's Credit Officer on monthly basis.

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

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.

Allowances for impairment

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

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.

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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.

Concentration of credit risks by sector

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

in Afs '000'	Note	2014	2013
Gross amount	8	**2,699,312**	3,551,820
Concentration by sector			
Oil, petrolium & gas		**356,860**	682,326
Construction - material and development		**639,915**	789,666
IT and electronics - products and services		**196,178**	407,089
Steel and metals		**440,738**	467,149
Logistics and transportation		**300,808**	119,930
Agriculture and food		**484,090**	593,728
General trading		**280,723**	491,933
		2,699,312	3,551,821

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 3,871.041 million (2013: Afs 2,706.85 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with central bank and other banks.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of an entity to honor its obligation to deliverable cash, other assets as contractually agreed.

25.3 **Liquidity risk**

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

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Management of liquidity risk

The Board ensures that the Bank has necessary tools and framework to cater the requirements of liquidity risk management and the Bank is capable to confronting uneven liquidity scenarios. The Bank's management is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board. Asset & Liability Committee (ALCO) is entrusted with the responsibility of managing the mismatch in maturities to ensure sufficient available cash flow to meet possible withdrawal of deposits, other commitment or challenges associated with sudden changes in market conditions, whist enabling the Bank to pursue valued business opportunities. 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 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

Exposure to liquidity risk

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

	2014	2013
At 31 December	**42%**	38%
Average for the period	**36%**	59%
Maximum for the period	**50%**	74%
Minimum for the period	**30%**	36%

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Maturity analysis for financial liabilities

in Afs '000'	Note	Carrying amount	Gross nominal outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
2014								
Deposits from customers	14	**7,501,739**	**(7,501,739)**	**(5,701,061)**	**(109,960)**	**(1,690,336)**	**(384)**	-
Other liabilities	15	**52,290**	**(52,290)**	**(20,679)**	**(18,967)**	**(12,644)**	-	-
		7,554,029	**(7,554,029)**	**(5,721,740)**	**(128,927)**	**(1,702,980)**	**(384)**	**-**
2013								
Deposits from customers	14	6,899,697	(6,899,697)	(4,404,708)	(364,780)	(2,067,024)	(63,184)	-
Other liabilities	15	164,475	(164,475)	(145,353)	(5,906)	(13,216)	-	-
		7,064,172	(7,064,172)	(4,550,061)	(370,686)	(2,080,241)	(63,184)	-

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

25.4 **Market risks**

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

Management of market risks

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

GIA

Exposure to interest rate risk

The Bank risk to which not-trading portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of change in market interest rates. Interest rate risk managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day to day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolio is as follows:

in Afs '000'	Note	Carrying amount	Less than three months	3-6 months	6-12 months	1-5 years	More than 5 years
2014							
Loans and advances to customers	8	**2,699,312**	**1,151,091**	**618,823**	**929,397**	-	-
Restricted deposits with DAB	11.1	**507,784**	-	-	-	-	**507,784**
		3,207,096	**1,151,091**	**618,823**	**929,397**	-	**507,784**
Deposits from customers	14	**(2,504,194)**	**(813,476)**	**(115,971)**	**(1,574,365)**	**(384)**	-
		702,902	**337,616**	**502,852**	**(644,968)**	**(384)**	**507,784**

in Afs '000'	Note	Carrying amount	Less than three months	3-6 months	6-12 months	1-5 years	More than 5 years
2013							
Cash and cash equivalents	5	1,420	1,420	-	-	-	-
Loans and advances to customers	8	3,551,820	2,087,765	753,374	697,329	13,354	-
Restricted deposits with DAB	11.1	565,510	-	-	-	-	565,510
		4,118,750	2,089,185	753,374	697,329	13,354	565,510
Deposits from customers	14	(3,042,914)	(912,705)	(1,270,592)	(796,433)	(63,184)	-
		1,075,836	1,176,480	(517,218)	(99,104)	(49,831)	565,510

GIA

Exposure to currency risk

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

in Afs '000'	Note	**Total**	**Afs**	**US$**	**Euro**	**GBP**
				Equivalent Afs '000'		
31 December 2014						
Cash and cash equivalents	5	**4,602,430**	**498,972**	**3,767,445**	**217,839**	**118,174**
Investment in associate	6	**14,618**	**-**	**14,618**	**-**	**-**
Inevestment in capital notes	7	**548,482**	**548,482**	**-**	**-**	**-**
Loans and advances to customers	8	**2,699,311**	**250**	**2,699,061**	**-**	**-**
Other assets	11	**860,428**	**824,580**	**35,841**	**7**	**-**
		8,725,269	**1,872,284**	**6,516,965**	**217,845**	**118,174**
Deposits from customers	14	**7,501,739**	**1,223,940**	**6,142,109**	**119,605**	**16,085**
Other liabilities	15	**52,290**	**4,014**	**48,219**	**57**	**-**
		7,554,028	**1,227,953**	**6,190,328**	**119,662**	**16,085**
Net foreign currency exposure		**1,171,240**	**644,330**	**326,637**	**98,183**	**102,090**

in Afs '000'	Note	Total	Afs	US$	Euro	GBP
				Equivalent Afs '000'		
31 December 2013						
Cash and cash equivalents	5	3,531,753	461,580	2,863,432	146,802	59,938
Loans and advances to customers	8	3,551,820	25,913	3,525,907	-	-
Other assets	11	989,759	885,295	61,922	42,542	-
		8,073,333	1,372,788	6,451,262	189,345	59,938
Deposits from customers	14	24,193	627,491	6,179,129	91,010	2,066
Other liabilities	15	164,475	25,694	138,614	167	-
		188,668	653,186	6,317,743	91,177	2,066
Net foreign currency exposure		7,884,665	719,602	133,519	98,168	57,872

GIA

in Afs	2014 Average rate	2014 Reporting date spot rate	2013 Average rate	2013 Reporting date spot rate
US$	57.40	58.47	55.50	56.16
Euro	**76.10**	**71.28**	73.37	77.16
GBP	**93.60**	**90.40**	85.85	91.80

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, euro and GBP at 31 December 2014 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

in Afs '000'	2014 Equity	2014 Profit or loss	2013 Equity	2013 Profit or loss
US$	**(26,131)**	**(32,664)**	(10,682)	(13,352)
Euro	**(7,855)**	**(9,818)**	(7,853)	(9,817)
GBP	**(8,167)**	**(10,209)**	(4,630)	(5,787)

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

26 Capital management

Regulatory capital

Da Afghanistan Bank (DAB) sets and monitors capital requirements for all Banks. Bank is required to maintain at all times the paid up capital plus reserves in excess of Afs 1 billion and regulatory capital to be 12% of the risk weighted assets. The capital adequacy of the Bank is assessed in two tiers as per regulations of the DAB.

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

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

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

The Bank's regulatory capital position as on December 31, 2014 is as follows:

	2014	2013
	.... Afs '000'	
Tier 1 capital		
Share holders' equity	1,143,439	1,142,837
Less: loss / (profit) for the year	(602)	(167,560)
Less: Intangible assets	(2,611)	(6,069)
Total tier 1 (core) capital	1,140,226	969,209
Tier 2 capital		
Profit for the year	602	167,560
Total tier 2 (supplementary) capital	602	167,560
Total regulatory capital	1,140,828	1,136,768

CHIEF EXECUTIVE OFFICER

DIRECTOR

GTA