KPMG

KPMG Afghanistan Limited

Ghazanfar Bank

Financial Statements

For the period ended 31 December 2009

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KPMG

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Independent Auditors' Report

To: The shareholders
Ghazanfar Bank

We have audited the accompanying financial statements of Ghazanfar Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from 01 March 2009 to 31 December 2009, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance 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 opinion.

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Ghazanfar Bank as at 31 December 2009, and of its financial performance and its cash flows for the period from 01 March 2009 to 31 December 2009 in accordance with International Financial Reporting Standards and the requirements of the Law of Banking in Afghanistan.

KPMG Afghanistan Limited

KPMG Afghanistan Limited
29 March 2010
Kabul

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Ghazanfar Bank
Statement of financial position
As at 31 December 2009

	Note	2009 Afs '000'
Assets		
Cash and cash equivalents	4	731,268
Loans and advances to customers	5	823,605
Property and equipment	6	293,013
Intangible assets	7	4,885
Deferred tax assets	8	18,307
Other assets	9	60,431
Total assets		1,931,509
Liabilities		
Deposits from banks	10	48,803
Deposits from customers	11	1,385,785
Other liabilities	12	2,522
Total liabilities		1,437,110
Equity		
Share capital	13	567,625
Retained earnings		(73,226)
Total equity		494,399
Total liabilities and equity		1,931,509

The annexed notes 1 to 24 are an integral part of these financial statements.

Chief Executive Officer

Director

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Ghazanfar Bank
Statement of changes in equity
For the period from 01 March 2009 to 31 December2009

	Share capital Afs '000'	Retained earnings Afs '000'	Total Afs '000'
Contributions by shareholders:			
Issuance of share capital	567,625	-	567,625
Total comprehensive income for the period:			
Loss for the period	-	(73,226)	(73,226)
Balance as at 31 December 2009	**567,625**	**(73,226)**	**494,399**

The annexed notes 1 to 24 are an integral part of these financial statements.

Chief Executive Officer

Director

Ghazanfar Bank
Statement of cash flows
For the period from 01 March 2009 to 31 December2009

	Note	01 March 2009 to 31 December 2009 Afs '000'
Cash flows from operating activities		
Loss before income tax		(91,533)
Adjustments for:		
Depreciation	6	56,987
Amortization	7	1,879
Net Impairment allowance on financial assets	5	-
Net interest income	14	(35,064)
		(67,731)
Change in loans and advances to customers-net	5	(823,605)
Change in other assets	9	(60,431)
Change in deposits from banks	10	48,803
Change in deposits from customers	11	1,385,785
Change in other liabilities	12	2,219
		485,040
Interest received		52,544
Interest paid		(17,177)
Net cash from operating activities		**520,407**
Cash flows from investing activities		
Purchase of property and equipment	6	(350,000)
Purchase of intangible asset	7	(6,764)
Net cash used in investing activities		**(356,764)**
Cash flows from financing activities		
Proceeds from issue of shares	13	567,625
Net cash from financing activities		**567,625**
Net increase in cash and cash equivalents		**731,268**
Cash and cash equivalent at beginning of the period		-
Cash and cash equivalents at year end	4	**731,268**

The annexed notes 1 to 24 are an integral part of these financial statements.

Chief Executive Officer

Director

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Ghazanfar Bank

Statement of comprehensive income

For the period from 01 March 2009 to 31 December2009

	Note	01 March 2009 to 31 December 2009 Afs '000'
Interest income	14	52,847
Interest expense	14	(17,783)
Net interest income		35,064
Fee and commission income	15	1,048
Fee and commission expense	15	(2,158)
Net fee and commission income		(1,110)
Other operating income	16	1,956
		1,956
Operating income		35,910
Net impairment loss on financial assets	5	-
Personnel expenses	17	(35,908)
Operating lease expenses		(1,236)
Depreciation and amortization	6,7	(58,866)
Other expenses	18	(31,433)
Loss before income tax		(91,533)
Income tax income	19	18,307
Loss for the period		(73,226)
Other comprehensive income		-
Loss for the period		(73,226)

The annexed notes 1 to 24 are an integral part of these financial statements.

Chief Executive Officer

Director

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

Amortised cost measurement

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

Fair value measurement

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

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

Identification of measurement of impairment

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

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

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

(e) Income tax

Income tax expense/income comprises current and deferred tax. Income tax expense/income is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.
Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided 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 measured at the 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 recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be 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 realised.

(f) Financial assets and liabilities

Recognition

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

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

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership are of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the balance sheet.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in the other comprehensive income is recognized in profit or loss.

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

3. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date.

The foreign currency gain or loss arising on retranslation is recognised in profit or loss.

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.

(b) Interest

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

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Profit on murabaha financing is recognised on a time proportion basis taking into account effective yield on instrument.

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

(c) 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.

(d) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

1. Status and nature of operations

Ghazanfar Bank ("the Bank") is a commercial bank registered and operating in Afghanistan. The Bank obtained a business license from Afghanistan Investment Support Agency. The Bank commenced its operations on 01 March 2009 under the license for commercial banking issued to it by Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan. Currently, the Bank is being operated with six conventional and Islamic branches in different parts of Afghanistan.

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

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were approved by the Board of Supervisors on 29 March 2010.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements in note 3 (e), (i) and (j).

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 amortised 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 recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

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

(g) Cash and cash equivalents

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

Cash and cash equivalents are carried at amortized cost in the balance sheet.

(h) Loans and advances

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

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

Loans and advances including financing under murabha is stated net of provisions against non-performing advances.

(i) Property and equipment

Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs.

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

The gains or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized net within other income in profit or loss.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

■ Building	30 years
■ Furniture and fixtures	4-10 years
■ Computer equipment	3 years
■ Vehicles	4 years
■ Office equipment	5 years

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

(j) Intangible assets

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

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.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, 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.

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

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(k) Leased assets – lessee

Leases in terms of which the Bank assumes substantially all the risk and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, the leased assets are not recognized in the Bank's balance sheet.

(l) 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 recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit 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.

(m) 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.

(n) Provisions

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

(o) Employee benefits

Short-term benefits

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

(p) Share capital

Shares issued are classified as equity.

(q) Financial guarantees

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

(r) New standards and interpretations not yet adopted

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after 1 January 2010 and except for additional disclosures are not expected to have a significant effect on the Bank's financial statements or are not relevant to the Bank.

- IFRS 9 Financial Instrument, published on 12 November 2009 as part of phase 1 of the IASB's comprehensive project to replace 1AS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets: amortised cost and fair value.

  The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

- Amendment to IAS 39 Financial instruments Recognition and measurement.

	Note	2009 Afs '000'

4. Cash and cash equivalents

	Note	2009 Afs '000'
Cash on hand		163,769
Balances with Da Afghanistan Bank	4.1	342,775
Balance with other banks	4.2	224,724
		731,268

4.1 This includes interest bearing local currency statutory reserves maintained with Da Afghanistan Bank as minimum reserve in accordance with Banking Regulations issued by Da Afghanistan Bank. Minimum reserves carries interest ranging 3 % to 5 % per annum.

4.2 Balances with other banks

	2009 Afs '000'
Commerz Bank, Germany	220,513
Bank-e-Millie Afghan	4,211
	224,724

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	2009
	Afs '000'

5 Loans and advances to customers

Loans and advances to customers- at amortised cost	823,605

	Note	Gross amount	Impairment allowance	Carrying amount
			Afs '000'	
			2009	
Conventional financing				
Running finance	5.1	650,356	-	650,356
		650,356	-	650,356
Islamic financing				
Murahaba	5.2	173,249	-	173,249
		823,605	-	823,605

5.1 Loan and advances to customers carried interest @ 15% per annum. All facilities are extended for maximum period of twelve months and are expected to be recovered within 12 months after the balance sheet date. These are secured hypothecation over stock in trade and charge over fixed assets.

5.2 It is a sale and purchase agreement under which the Bank had paid finance to meet working capital and other requirements on profit and loss sharing basis which is ranging from 15-16% per annum. These facilities are extended for the maximum period of one year and secured against personal guarantees, mortgage of immovable properties and hypothecation over stock in trade.

5.3 As at 31 December 2009 none of loans and advances to customers are expected to be recovered more than twelve months after the balance sheet date.

	2009
	Afs '000'
Allowances for impairment	
Collective allowances for impairment:	
Balance at beginning of year	-
Impairment loss for the year:	
Charge for the year	-
Balance as at 31 December	-

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6. Property and equipment

	Land	Building	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
				Afs '000'			
Cost							
Additions during the period	35,362	40,168	82,691	128,838	59,076	3,865	350,000
Balance at 31 December 2009	**35,362**	**40,168**	**82,691**	**128,838**	**59,076**	**3,865**	**350,000**
Depreciation							
Depreciation for the period	-	1,116	7,134	35,785	12,308	644	56,987
Balance at 31 December 2009	-	**1,116**	**7,134**	**35,785**	**12,308**	**644**	**56,987**
Carrying amounts							
At 31 December 2009	**35,362**	**39,052**	**75,557**	**93,053**	**46,768**	**3,221**	**293,013**

6.1 There were no capitalized borrowing costs related to the acquisition of property and equipment during the period.

6.2 Ownership title of land purchased from shareholders has not yet been transferred in the name of the Bank. KMY

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6. Property and equipment

	Land	Building	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
				Afs '000'			
Cost							
Additions during the period	35,362	40,168	82,691	128,838	59,076	3,865	350,000
Balance at 31 December 2009	**35,362**	**40,168**	**82,691**	**128,838**	**59,076**	**3,865**	**350,000**
Depreciation							
Depreciation for the period	-	1,116	7,134	35,785	12,308	644	56,987
Balance at 31 December 2009	-	**1,116**	**7,134**	**35,785**	**12,308**	**644**	**56,987**
Carrying amounts							
At 31 December 2009	**35,362**	**39,052**	**75,557**	**93,053**	**46,768**	**3,221**	**293,013**

6.1 There were no capitalized borrowing costs related to the acquisition of property and equipment during the period.

6.2 Ownership title of land purchased from shareholders has not yet been transferred in the name of the Bank. KMy

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	Note	2009 Afs '000'

7. Intangible assets

Purchased software

	2009 Afs '000'
Cost	
Acquisitions during the period	6,764
Balance at 31 December 2009	6,764
Amortisation	
Amortization for the period	1,879
Balance at 31 December 2009	1,879
Carrying amounts	
Balance at 31 December 2009	4,885

8. Deferred tax assets and liabilities

8.1 ***Recognized deferred tax assets and liabilities***

Deferred tax assets and liabilities are attributable to following:

	Assets	Liabilities	Net
		As at 31 Dec 2009	
	Afs '000'	Afs '000'	Afs '000'
Property and equipment	-	(16,935)	(16,935)
Tax loss carry forward	35,242	-	35,242
Net tax assets/(liabilities)	35,242	(16,935)	18,307

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

8.2 ***Movement in temporary differences during the period***

	Recognized in profit or loss	Closing balance
	Afs '000'	Afs '000'
31 December 2009		
Property and equipment	(16,935)	(16,935)
Tax loss carry forward	35,242	35,242
	18,307	18,307

9. Other assets

	2009 Afs '000'
Advances to employees	2,236
Prepayments	57,711
Receivable from Western Union	334
Others	150
	60,431

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		Note	2009 Afs '000'
10.	**Deposits from banks**		
	BRAC Bank	*10.1*	48,803

10.1 This represents short term deposits carrying interest @ 9.25% per annum for the period of one month, renewal on mutual agreed basis.

		Note	2009 Afs '000'
11.	**Deposits from customers**		
	Current deposits		986,102
	Saving deposits		85,589
	Term deposits	*11.1*	314,094
			1,385,785

11.1 Term deposits carried interest ranging from 6.5 % to 12.00 % per annum with maturity of three months to 2 years.

11.2 At 31 December 2009 AFS 1,054 thousand of deposits from customers are expected to be settled in more than twelve months of balance sheet date.

		2009 Afs '000'
12.	**Other liabilities**	
	Accrued interest	303
	Auditor's remuneration payable	439
	Withholding tax payable	1,480
	Others	300
		2,522
13.	**Share capital**	
	Authorised capital - 55,000 shares of AFS 10,000 each (US$ 11,000,000)	550,000
	Issued and paid up share capital - 55,000 shares of AFS 10,000 each (US$ 11,000,000)	567,625

		Number of shares 2009
13.1	Following is the reconciliation of number of shares:	
	Number of shares at beginning of the period	-
	Shares issued during the period	55,000
	Number of shares at end of the period	55,000

13.2 Difference in auhtorised and issued and paid up share capital is due to difference in exchange rates used for translation by the Bank and Afghanistan Investment Support Agency.

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		Note	01 March 2009 to 31 December 2009 Afs '000'
14.	**Interest income**		
	Interest income		
	Cash and cash equivalents		2,222
	Loans and advances to customers		50,625
	Total interest income		52,847
	Interest expense		
	Deposits from banks		(7,697)
	Deposits from customers	14.1	(10,086)
	Total interest expense		(17,783)
	Net interest income		35,064
14.1	**Interest expense on deposits from customers**		
	Interest on:		
	Term deposits		2,461
	Saving deposits		7,625
			10,086
15.	**Net fee and commission income**		
	Fee and commission income		
	Commission on letter of credit issued		184
	Fund transfer fee		778
	Accounts servicing fee		86
	Total fee and commission income		1,048
	Fee and commission expense		
	Inter bank transaction fee		(2,158)
	Total fee and commission expense		(2,158)
	Net fee and commission income		(1,110)

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		Note	01 March 2009 to 31 December 2009 Afs '000'
16.	**Other operating income**		
	Foreign exchange gain		1,890
	Others		66
			1,956
17.	**Personnel expenses**		
	Salaries and wages		34,539
	Staff welfare		1,369
			35,908
18.	**Other expenses**		
	Communication		6,704
	Travelling and conveyance		3,672
	Business development		1,222
	Advertisement		9,485
	Fuel		1,368
	Food expenses		1,932
	Consultancy		435
	Audit fee		732
	Repair and maintenance		685
	Vehicle repair		645
	Computer and other supplies		188
	Stationery and printing		1,676
	Courier and postage		54
	Staff training		344
	Utilities		1,448
	Others		843
			31,433

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		Note	01 March 2009 to 31 December 2009 Afs '000'
19.	**Income tax income**		
	Current tax expense		-
	Deferred tax income		18,307
			18,307

19.1 Reconciliation of effective tax rate

	Rate Dec-09 (%)	
Loss before income tax		(91,533)
Income tax using tax rate	20.00	(18,307)
Total income tax expense in income statement	20.00	(18,307)

20. Related parties

20.1 Parent and ultimate controlling party

The Bank is owned by individual persons, who are partners of Ghazanfar Group of Companies (GGC), and own the Bank's shares in different proportions. Therefore related parties include all related entities of GCC.

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

	2009 Afs '000'
Associates	
Balances at year end	
Loans and advances to customers	74,141
Deposit from customers	376,984
Transactions during the period	
Interest income	8,427
Shareholders	
Balances at year end	
Deposit from customers	195
Transactions during the period	
Purchase of land and building	75,345

20.2 Transactions with key management personnel

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

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Key management personnel compensation

	01 March 2009 to 31 December 2009 Afs '000'
Salary paid to Member of Supervisory Board	425
Short term employee benefits	14,477

In addition to their salaries, the Bank also provides non-cash benefits to executives which includes furnished accommodation, meals and travel.

20.3 There were no related party transactions and outstanding balances other than those disclosed above and in notes -20.1 and 20.2 to the financial statements.

21 Lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2009 Afs '000'
Less than one year	6,852
Between one to five years	9,839
More than five years	703
	17,394

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

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22 Financial assets and liabilities

Accounting classifications and fair values

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

in Afs '000'	*Note*	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
2009									
Cash and cash equivalents	*4*	-	-	-	-	-	731,268	731,268	731,268
Loans and advances to customers	*5*	-	-	-	823,605	-	-	823,605	823,605
Others assets	*9*	-	-	-	-	-	334	334	334
		-	-	-	823,605	-	731,602	1,555,207	1,555,207
Deposits from banks	*10*	-	-	-	-	-	48,803	48,803	48,803
Deposits from customers	*11*	-	-	-	-	-	1,385,785	1,385,785	1,385,785
Other liabilities	*12*	-	-	-	-	-	2,522	2,522	2,522
		-	-	-	-	-	1,437,110	1,437,110	1,437,110

23 Financial risk management

23.1 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.

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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 Management Board is assisted in these functions by the Internal Audit.

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.

23.2 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.

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). 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 on the balance sheet date. Exposure to credit risk managed through regular analysis of borrower to met 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 dully registered with the court of law and hypothecation over stock dully verified by the Bank's Credit Officer on monthly basis.

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Exposure to credit risk

in Afs'000'	*Note*	Assets at amortised cost	Available-for-sale assets	Assets at fair value through profit or loss	Total carrying amount
2009					
Loans and advances to customers	5	823,605	-	-	823,605
Collectively impaired *					
Gross amount		-	-	-	-
Allowance for impairment		-	-	-	-
Carrying amount		-	-	-	-
Past due but not impaired:		-	-	-	-
Gross amount		-	-	-	-
Neither past due but nor impaired:					
Gross amount		823,605	-	-	823,605
Carrying amount-amortised cost:		**823,605**	-	-	**823,605**

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

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

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 amortised 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.

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

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

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

	2009 Afs '000'
Against neither past due nor impaired	
Property	51,784
Debt securities	-
Equities	-
Others	1,458,234
Total	1,510,018

Concentration of credit risks by sector
All the loans has 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*	2009
Carrying amount	5	823,605
Concentration by sector		
Lubricant, Oil & gas		492,966
General trading		330,640
		823,606

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Cash and cash equivalents

The Bank held's cash and cash equivalents of Afs 731,268 thousands 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 Banks 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.

23.3 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.

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 problem.

Exposure to liquidity risk

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

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	2009
At 31 December	49%
Average for the period	87%
Maximum for the period	248%
Minimum for the period	(24)%

Maturity analysis for financial liabilities

in Afs '000'	*Note*	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
2009								
Deposits from banks	*10*	**48,803**	(48,803)	(48,803)	-	-	-	-
Deposits from customers	*11*	**1,385,785**	(1,385,785)	(1,071,691)	(9,081)	(303,959)	(1,054)	-
Other liabilities	*12*	**2,522**	(2,522)	(2,522)	-	-	-	-
		1,437,110	**(1,437,110)**	**(1,123,016)**	**(9,081)**	**(303,959)**	**(1,054)**	-

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.

23.4 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 placę. 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.

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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 repricing 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
2009							
Cash and cash equivalents	*4*	**731,268**	731,268	-	-	-	-
Loans and advances to customers	*5*	**823,605**	-	225,437	598,168	-	-
		1,554,873	**731,268**	**225,437**	**598,168**	-	-
Deposits from banks	*10*	**(48,803)**	(48,803)	-	-	-	-
Deposits from customers	*11*	**(1,385,785)**	(1,071,691)	(298,374)	(14,666)	(1,054)	-
		(1,434,588)	**(1,120,494)**	**(298,374)**	**(14,666)**	**(1,054)**	-
		120,285	**(389,226)**	**(72,937)**	**583,502**	**(1,054)**	-

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Exposure to currency risk

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

in Afs '000'	Afs	US$	Euro	GBP
31 December 2009				
Cash and cash equivalents	109,109	615,002	7,124	33
Loans and advances to customers	452,654	370,951	-	-
Other assets	54,604	5,827	-	-
	616,367	**991,780**	**7,124**	**33**
Deposits from banks	-	48,803	-	-
Deposits from customers	477,721	900,916	7,134	14
Other liabilities	918	1,594	10	-
	478,639	**951,313**	**7,144**	**14**
Net foreign currency exposure	**137,728**	**40,467**	**(20)**	**19**

The following significant exchange rates applied during the period.

	31-Dec-09	
in Afs '000'	Average rate	Reporting date spot rate
US$	50	48.80
Euro	71	70.115
GBP	78	78.015

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, euro and GBP at 31 December 2009 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.

loans

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in Afs '000'	31-Dec-09	
	Equity	Profit or loss
31 December 2009		
US$	4,047	4,047
Euro	(2)	(2)
GBP	2	2

A 10% weakening of the Afghani against the above currencies at 31 December 2009 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.

23.5 Capital management

Regulatory capital

The Banks' regulator Da Afghanistan Bank sets and monitors capital requirements for the Bank. The Bank is required to maintain at all times the paid up capital plus reserves in excess of AFS 250 million 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 Da Afghanistan Bank.

- 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.

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The Bank's regulatory capital position at 31 December 2009 was as follows:

	2009 Afs '000'
Tier 1 capital	471,207
Tier 2 capital	-
Total regulatory capital	471,207

24 Contingencies

Guarantees issued on behalf of customers	**3,599**

Chief Executive Officer

Director

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