FINANCIAL STATEMENTS AND AUDITORS' REPORT

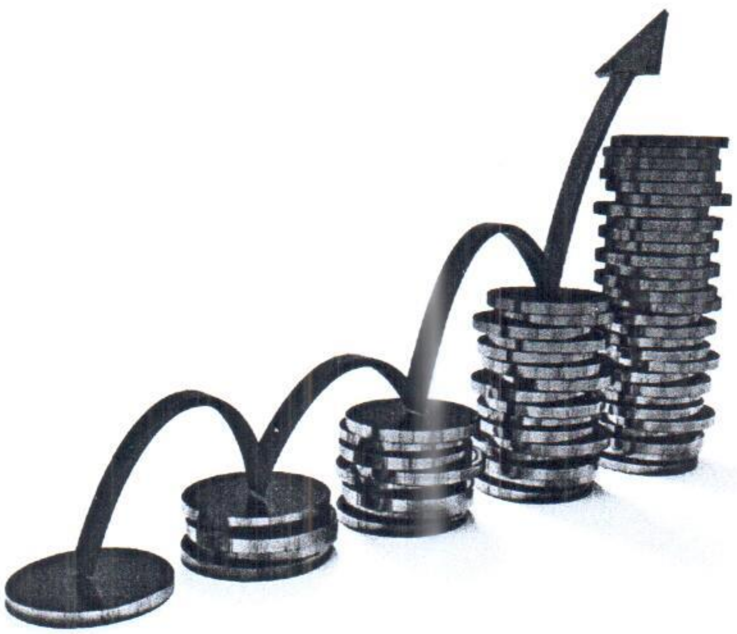
غضنفر بانک
GHAZANFAR BANK

GHAZANFAR BANK

FOR THE YEAR ENDED DECEMBER 31, 2012

Grant Thornton
An instinct for growth

Anjum Asim Shahid Rahman
Chartered Accountants



GHAZANFAR BANK

FOR THE YEAR ENDED DECEMBER 31, 2012

Contents

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The Board of Supervisors
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April 14, 2013

Gentlemen,

DRAFT FINANCIAL STATEMENTS - FOR THE YEAR ENDED DECEMBER 31, 2012

We are pleased to enclose three copies of the draft financial statements of Ghazanfar Bank ("the Bank"), for the year ended December 31, 2012, prepared by the management, together with our draft audit report thereon. The financial statements have been initialed by us for the purpose of identification only. We shall be pleased to sign our report in the present form or with modifications after you have considered the matters raised in this letter and after:

i. the enclosed financial statements, in present form or with modifications, have been approved and signed by the Chief Executive Officer and Chief Financial Officer of the Bank;

ii. we have received minutes of the board's meeting where the financial statements are placed for approval;

iii. we have received the management representation letter duly signed by the Chief Executive Officer and Chief Financial Officer of the Bank;

iv. we have completed our audit procedures for subsequent events up to the date of our audit report; and

v. we have received the information outstanding referred in paragraph 4 below.

2. RESPONSIBILITIES OF THE AUDITORS AND THE MANAGEMENT IN RELATION TO THE FINANCIAL STATEMENTS

The responsibilities of the independent auditors in a usual examination of the financial statements are explained in International Standards on Auditing. While the auditors are responsible for forming and expressing their opinion on the financial statements, the responsibility for their preparation is primarily that of the Bank's management. The management's responsibilities include the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies and safeguarding of the assets of the Bank. The audit of the financial statements does not relieve the management of its responsibilities. Accordingly, our examination of the books of account and records should not be relied upon to disclose all the errors or irregularities, which are not material in relation to the financial statements.

Further the inclusion, publication, or reproduction by the Bank of our report in documents containing information in addition to the financial statements and our report thereon may require us to perform additional procedures to fulfill our professional responsibilities. For this management shall provide us that additional information for our review.

3. SIGNIFICANT MATTERS FOR BOARDS' ATTENTION

We have also included in this letter our observations and comments on the Bank's financial statements, underlying accounting records, controls and related matters, which we believe require your attention.

We emphasize that as auditors, we are not required to report on the adequacy and effectiveness of the internal control system. Therefore, our issuing observations and comments are based on the matters that came to our notice during the course of our audit and are being submitted as part of our value added service provided to you with our insight into certain important aspects of accounting, internal controls and related matters.

3.1 Issued, subscribed and paid-up share capital

It was observed that issued, subscribed and paid up share capital of the Bank is issued in excess of authorized share capital. As on December 31, 2012 authorized share capital of Bank is 55,000 shares of Afs 10,000 each amounting to Afs 550,000,000 as per AISA license # D-29098 whereas the issued, subscribed and paid up share capital is of 116,237 shares of Afs 10,000 each amounting to Afs 1,162,370,000.

3.2 Publication of independent auditors' report on financial statements

It was observed that the management has not published the complete independent auditors' report for the year ended December 31, 2011 in the newspaper as per accounting circular 86/02 dated 17 June 2007 issued by Da Afghanistan Bank (DAB). Further second page of independent auditors' report containing two emphasis of matter paragraphs and auditors' signature was not included in the publication of independent auditors' report as required by the said circular of DAB. Financial statements and independent auditors' report were also not observed on the Bank's website.

Accounting Circular 86/02, dated 17 June 2007, states:

"All institutions covered by Article 44 of the Banking Law shall additionally publish its statements:

1. In the two most widely circulated printed periodicals;
2. On the institution's website, if the institution has one;

3. By delivering a copy in hard or soft form to each of its shareholder; and

4. By distribution to its depositing public by ensuring that all offices of the institution have a sufficient supply of these reports available in plain in sight in the banking halls for the month following publication.

Audited financial statements shall be as of the close of the fiscal year of the institution and shall include, as a minimum:

1. The balance sheet (statement of financial position),
2. The income statement,
3. The Cash Flow Statement, and
4. The Auditor's Opinion"

3.3 Compensation and Nomination committees

We noted that Board of Supervisors have not formed compensation and nomination committee as recommended by Corporate Governance of DAB.

According to clause 10.2.9 "Committees" of Corporate Governance Regulation of DAB:

"The Board of Supervisors should give consideration to creating the following committees:

1. *Audit committee;*
2. *Loan Committee;*
3. *Investment/Asset Liability/Risk Management Committee;*
4. *Compensation committee; and*
5. *Nomination committee".*

3.4 Bonus and other cash allowance not included in salary for taxation purposes

It was observed that management computes taxes on salaries of the employees without including the impact of cash bonus paid to employees through bank transfer amounting to Afs 394,138, cash allowance for telephone and transportation amounting to Afs 1,339,905 and Afs 4,502,432 respectively.

Article 13 of Income Tax Law states, *(1) the following receipts are subject to income tax:*

- *salaries, wages, fees and commissions,*
- *all receipts derived from business, industry, construction and other economic activities,*
- *receipts from sale of movable and immovable property,*
- *interest, dividends, rents, royalties, rewards, prizes, winning from lotteries, bakhshishis (gratuities, bonus payments etc.),*
- *distributive shares of partnership income,*
- *any other income from labor, capital, or economic activity,*
- *income from other circumstances provided in this Law.*
- *any other income which has not been provided in this Law.*

It is recommended that the management should compute taxation on salaries of the employees after taking into consideration of the above mentioned bonuses and allowances as per the requirements of the Income Tax Law.

3.5 Treasury function and excess cash liquidity

The treasury function in any bank has always been important in making sure that the business has sufficient liquidity to meet its obligations, whilst managing payments, receipts and financial risks effectively. The bank has established the treasury function during the year 2012 with minimum staff and a manager whereas there has been no investment during the whole year. It was also noted that there is excess liquidity with the bank and balance in current accounts with DAB has increased by Afs. 949.1 million. During the year share capital has also been issued amounting to Afs. 494 million, which might has been invested.

3.6 Fixed assets register

We have observed that management has not maintained proper fixed asset register in compliance with best practices. The fixed asset register should at minimum include following items:

- date of purchase of asset;
- class and description of the asset;
- cost of asset;
- opening carrying value (net book value);
- closing carrying value (net book value);
- opening balance of accumulated depreciation;
- closing balance of accumulated depreciation;
- date of asset put into use;
- date of disposal of asset;
- depreciation charge for the year; and
- code and location of the asset.

We have been provided with the class wise total balances of assets and GLs containing movement in these classes.

3.7 Exposure to single obligor

According to large exposure regulation of DAB, *"No bank is permitted to grant credit to a single obligor or group of related obligors, if as a result of that action the exposure to that obligor or group exceeds 15 percent of regulatory capital"*.

However, we noted that the Bank extended credit to Ghazanfar Group which exceeds 15 percent of regulatory capital, which is violation of the above mention regulation. The detail of exposure to these obligors is as follow:

Sr. No.	Borrowers related to GNG Group	Nature of Facility	Disbursed loan	CCY	Outstanding loan (Afs)	%age
1	Sahil Ahmadi Ltd	Mus	136,035	USD	7,084,696	0.68%
2	Saba Omid Zada Ltd	Mus	900,000	USD	46,872,000	4.51%
3	Molludin Nazari Ltd	Mus	900,000	USD	46,872,000	4.51%
4	Noor Rahmatullah Ltd	Mus	950,000	USD	49,476,000	4.77%
5	Hamed Aman Ltd	Mus	950,000	USD	9,476,000	0.91%
6	Anwari International Ltd	Mus	1,500,000	USD	78,120,000	7.52%
7	Farhad Baber Azimi Ltd	Mus	1,500,000	USD	78,120,000	7.52%
8	Bahar-e-Balkh Ltd	Mus	1,020,000	USD	53,121,600	5.12%
9	Rahmat Ahmadabad Ltd	Mus	1,000,000	USD	52,080,000	5.02%
10	Ghazanfar Naft Gas Ltd	BG	242,609	USD	12,635,077	1.22%
Total			**9,098,644**		**433,857,373**	**41.79%**

- Regulatory capital Afs 1,038.190 million

3.8 No intimation to the DAB and incomplete documentations for renewal of credit facilities to related parties

According to supervisory circular # 89-08 (amended) dated January 22, 2012 (02/11/1390) of Da Afghanistan Bank (DAB):

"Bank should inform DAB prior to disbursing or renewing any funded or unfunded facility to the related parties".

S. No	Borrowers of Ghazanfar Group	Nature of Facility	Renewal date	Disbursed facility	CCY	Outstanding balance (Afs)	% of reg. capital
1	Toranian Co Ltd	Mus	10 Sep 12	1,600,000	USD	83,328,000	8.0%
2	Anwari International Ltd	Mus	10 Sep 12	1,500,000	USD	78,120,000	7.54%
3	Ankara balkh Cons Ltd	Mus	10 Sep 12	1,600,000	USD	83,328,000	8.0%
4	Farhad Baber Azimi Ltd	Mus	10 Sep 12	1,500,000	USD	78,120,000	7.54%
Total				6,200,000	USD	322,896,000	31.2%

It was also noted that there was no proper documentation of borrowers financial statements, bank confirmations, risk analysis and revaluation reports etc. in all above cases at the time of renewal of the facility.

3.9 Cleanup of overdraft facilities

Overdrafts are facilities for organizations to meet their working capital requirements, backed by operating cash flows of the entity. It was observed that following borrowers are not paying off their outstanding liability at the expiry of term of facility which is typically of one year in case of overdraft facilities.

This practice is a clear violation of DAB circular # 86-02 of 2008 which states:

"Revolving line of credit of overdraft loan used for working capital should expand and contract as goods are purchased and sold. There should be an annual four consecutive day clean-up or zero balance period unless the loan is fully secured by readily marketable collateral such as perfected assignment or hypothecation of funds on deposits, investment securities or commodities which have an active trading market and are readily accessible by the bank for liquidation and repayment of the loan. The clean-up should not result in additional loans granted for this purpose."

Sr. No	Name	Facility grant date	CCY	Disbursed balance	Amount in AFN	Year end USD
1	Green House Construction Co	16 Jul 2011	USD	1,500,000	78,120,000	1,540,394
2	Omid Oil Group Ltd	29 Aug 2011	USD	800,000	41,664,000	810,891
3	Zelgai Azimi Oil Ltd	10 Oct 2011	USD	800,000	41,664,000	726,075
Total					161,448,000	

3.10 Inadequate securities against loans

The entire credit portfolio of the Bank as at December 31, 2012 is Afs 2,463 million. These credits are secured against various forms of collaterals. However, it was observed that the loans amounting to Afs. 461.4 million on December 31, 2012 have been sanctioned against hypothecation of stock or personal guarantee without obtaining primary security. Following are the instances where no proper primary security has been obtained:

S. No	Borrower	Facility type	CCY	Principal sanctioned (AFN)	Outstanding Amount (AFN)	Nature of security
1	Sarajudeen	Term Loan	AFN	450,000	197,725	Personal guarantee
2	Sahil Ahmadi Ltd	Mus	USD	7,134,960	7,084,696	Hyp of stock
3	Saba Omid Zada Ltd	Mus	USD	46,872,000	46,872,000	Hyp of stock
4	Molludin Nazari Ltd	Mus	USD	46,872,000	46,872,000	Hyp of stock
5	M/S Noor Rahmatullah Ltd	Mus	USD	49,476,000	49,476,000	Hyp of stock
6	M/S Hamed Aman Ltd	Mus	USD	49,476,000	49,476,000	Hyp of stock
7	Anwari International Co	Mus	USD	78,120,000	78,120,000	Hyp of stock
8	Farhad Baber Azimi	Mus	USD	78,120,000	78,120,000	Hyp of stock
9	Bahar-E-Balkh Ltd	Mus	USD	53,121,600	53,121,600	Hyp of stock
10	Rahmat Ahmadabad Ltd.	Mus	USD	52,080,000	52,080,000	Hyp of stock
Total				461,722,560	461,420,021	

3.11 No procedures for identifying balances and transactions with related parties

We observed that the Bank has not written standard procedures for identifying the balances and transactions with the related parties including contingencies and commitments. Similarly, for related parties, no separate approval/ authorization procedure was observed.

4. OTHER MATTERS FOR BOARDS' INFORMATION

There are certain other matters which either require information or boards' approval that are detailed below:

4.1 Outstanding confirmations

a) "Legal confirmation" from Mr. Kalimullah Malikzai (legal advisor) and Mr. Haji Rahmatullah (legal advisor) of the Bank;

b) Confirmation, bank statement and reconciliation, if any, of the balance due from Western Union.

4.2 Fraud and errors

We have been informed by the management that no case of fraud and error has been brought to their knowledge which would have occurred during the year and which could have a material effect on these financial statements.

4.3 Contingencies and commitments

We have been informed by the management that there are no contingencies and commitments other than those disclosed in note 22 to the financial statements.

4.4 Related party transactions

We have been informed by the management that related party transactions have been properly disclosed in note 21 to the financial statements and there are no other related party transactions which have not been recorded in the financial statements. Further, related party transactions have been recorded on an arm's length basis.

4.5 Management letter

A management letter highlighting weaknesses in the internal control system which have come to our knowledge, together with our recommendations for improvements, will be forwarded to the management in due course.

We also take this opportunity to place on record our appreciation for the co-operation extended to us by the management of the Bank during the course of our audit.

Yours truly,

Anjum Asim Shahid Rahman
Chartered Accountants
Encl.: as above

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Independent auditors' report to the shareholders of Ghazanfar Bank

Anjum Asim Shahid Rahman

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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, 2012 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 determines 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, 2012 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.

Anjum Asim Shahid Rahman

Kabul
Date: April 17, 2013

Anjum Asim Shahid Rahman
Chartered Accountants
Shahid Ahmed Khan

GHAZANFAR BANK

Financial Statements

For the year ended December 31, 2012

GHAZANFAR BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012 Afs '000'	(Restated) 2011 Afs '000'
Interest income		**415,729**	316,881
Interest expense		**(131,382)**	(102,911)
Net interest income	14	**284,347**	213,970
Fee and commission income		**23,010**	8,168
Fee and commission expense		**(4,411)**	(1,928)
Net fee and commission income	15	**18,599**	6,240
Other operating income	16	**31,858**	24,226
Operating income		**334,804**	244,436
Impairment allowance and charge off	6.8	**(43,219)**	(9,918)
Employee compensation	17	**(89,568)**	(68,336)
Operating lease expenses		**(17,839)**	(10,703)
Depreciation for the year	7	**(27,383)**	(25,175)
Amortization for the year	8	**(5,264)**	(2,246)
Other expenses	18	**(141,967)**	(113,086)
Profit before tax		**9,565**	14,972
Tax expense	19	**(8,308)**	(2,559)
Profit for the year		**1,257**	12,413
Other comprehensive income		**-**	-
Total comprehensive income for the year		**1,257**	12,413

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

14 04 2013

CEO Office
Ghazanfar Bank

CHIEF EXECUTIVE OFFICER

DIRECTOR

AASR

GHAZANFAR BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

	Note	2012 Afs '000'	(Restated) 2011 Afs '000'	(Restated) 2010 Afs '000'
ASSETS				
Cash and cash equivalents	5	**3,209,115**	2,068,403	2,014,841
Loans and advances to customers	6	**2,463,409**	2,062,386	1,968,341
Property and equipment	7	**133,866**	145,679	163,160
Intangible assets	8	**8,014**	1,258	3,529
Deferred tax asset	9	**18,020**	26,328	28,887
Other assets	10	**521,382**	356,283	233,218
Total assets		**6,353,806**	4,660,337	4,411,977
EQUITY AND LIABILITIES				
EQUITY				
Share capital	11	**1,162,370**	667,620	667,620
Accumulated losses		**(86,004)**	(87,262)	(99,675)
Total equity		**1,076,366**	580,358	567,945
LIABILITIES				
Deposits from customers	12	**5,256,531**	4,051,382	3,797,996
Other liabilities	13	**20,909**	28,597	46,036
Total liabilities		**5,277,441**	4,079,979	3,844,032
Total equity and liabilities		**6,353,806**	4,660,337	4,411,977

CONTINGENCIES AND COMMITMENTS 22

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

14.04.2013

CHIEF EXECUTIVE OFFICER

CEO Office
Ghazanfar Bank

DIRECTOR

GHAZANFAR BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	Share capital	Accumulated losses	Total
	Afs '000'	Afs '000'	Afs '000'
Balance as at January 01, 2011 - (Restated)	667,620	(99,675)	567,945
Transactions with owners	-	-	-
Total comprehensive income for the year			
Profit for the year	-	12,413	12,413
Balance as at December 31, 2011 - - (Restated)	667,620	(87,262)	580,358
Balance as at January 01, 2012	**667,620**	**(87,262)**	**580,358**
Transactions with owners			
Issuance of shares	**494,750**	**-**	**494,750**
Total comprehensive income for the year			
Profit for the year	**-**	**1,257**	**1,257**
Balance as at December 31, 2012	**1,162,370**	**(86,004)**	**1,076,366**

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

14.04.2013

CHIEF EXECUTIVE OFFICER

DIRECTOR

APSR

GHAZANFAR BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012 Afs '000'	(Restated) 2011 Afs '000'
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**9,565**	14,972
Adjustments for:			
Net impairment loss on financial assets	6.8	**43,219**	9,918
Depreciation	7	**27,383**	25,175
Amortization	8	**5,264**	2,246
Loss on disposal of fixed assets		**9**	-
		85,439	52,311
Increase / decrease in current assets and liabilities			
Loans and advances to customers - gross		**(444,241)**	(105,317)
Other assets		**(165,099)**	(95,136)
Deposits from customers		**1,205,149**	253,386
Other liabilities		**(7,688)**	(12,946)
Net cash generated from operating activities		**673,561**	92,298
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		**(15,589)**	(8,054)
Purchase of intangible assets		**(12,020)**	-
Proceed from disposal of property and equipment		**10**	-
Net cash used in investing activities		**(27,599)**	(8,054)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**494,750**	-
Net cash generated from financing activities		**494,750**	-
Net increase in cash and cash equivalents		**1,140,712**	84,244
Cash and cash equivalents, beginning of year		**2,068,403**	1,984,159
Cash and cash equivalents, end of year	5	**3,209,115**	2,068,403

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

14 04 2013

CHIEF EXECUTIVE OFFICER

CEO Office
Ghazanfar Bank

DIRECTOR

AASR

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 25 September, 2012 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 (2011: ten branches with Islamic banking operations) in different provinces of Afghanistan.

The financial statements for the year ended December 31, 2012 (including comparatives) have been approved and authorized for issue by the Board of Supervisors on ____________ 2013.

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 IFRIC interpretations to approved accounting standards that are not yet effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Bank.

Management anticipates that all of the relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the bank's financial statements.

a) IFRS 9 - Financial Instruments

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after 1 January 2015. Chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues. The Bank's management has yet to assess the impact of this new standard on the Bank's financial statements. However, Management does not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

AASR

b) IFRS 13 - Fair Value Measurement

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to complete its assessment of their impact on the Bank's financial statements.

c) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Bank.

d) Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS-7)

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively. Management does not anticipate a material impact on the Bank's financial statements from these amendments.

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.

AASR

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 7	Provision against non-performing loans and advances to customers
b)	Note 8	Depreciation rates for property and equipment
c)	Note 9	Amortization rates for intangible assets
d)	Note 10	Deferred taxation
e)	Note 20	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) financial assets at fair value through profit or loss (FVTPL)

All financial assets except for those at FVTPL 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

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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.

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

b) Classification and subsequent measurement of financial liabilities

Financial liabilities are measured subsequently at amortised 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 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.

4.4 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.

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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.

4.5 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.

4.6 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 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 recognized in statement of comprehensive income. Impairment losses recognized 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

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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.

4.7 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.

4.8 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.

4.9 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.

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4.10 Employee compensation

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

4.11 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.

4.12 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.

4.13 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.

4.14 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.

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4.15 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.

4.16 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.

4.17 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.

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	Note	2012	2011
		.... Afs '000'	

5 CASH AND CASH EQUIVALENTS

	Note	2012	2011
Cash and balances with central bank	5.1	**2,832,793**	1,718,448
Balances with other banks	5.2	**376,322**	349,955
		3,209,115	2,068,403

5.1 Cash and balances with central bank

	Note	2012	2011
In hand			
Local currency		**192,065**	127,896
Foreign currencies		**401,363**	400,560
		593,428	528,456
With Da Afghanistan Bank in			
Local currency current accounts		**534,726**	285,786
Local currency deposit account	5.3	**100,284**	-
Foreign currency current accounts		**1,604,355**	904,206
		2,239,365	1,189,992
		2,832,793	1,718,448

5.2 Balances with other banks

	2012	2011
In Afghanistan		
New Kabul Bank	-	80
	-	80
Outside Afghanistan		
Commerz Bank, Germany	**286,068**	349,875
Aktif Bank, Turkey	**90,254**	-
	376,322	349,875
	376,322	349,955

5.3 This represents overnight deposits with Da Afghanistan Bank, carrying interest rates ranging from 0.95% to 1.10% per annum (2011: nil)

6 LOANS AND ADVANCES TO CUSTOMERS

	2012	2011
Loans and advances to customers - at amortized cost	**2,463,409**	2,062,386

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	Note	2012 Gross amount	2012 Impairment allowance	2012 Carrying amount	2011 Gross amount	2011 Impairment allowance	2011 Carrying amount
		Afs '000'					
Conventional financing							
Running finance	6.1	1,115,877	(9,604)	1,106,273	966,806	(9,918)	956,888
SME loans	6.2	85,227	-	85,227	1,920	-	1,920
Term loans	6.3	84,095	-	84,095	-	-	-
		1,285,199	(9,604)	1,275,595	968,726	(9,918)	958,808
Islamic financing							
Musharakah financing	6.4	898,694	-	898,694	1,103,578	-	1,103,578
Murabaha financing	6.5	289,119	-	289,119	-	-	-
		1,187,813	-	1,187,813	1,103,578	-	1,103,578
		2,473,013	(9,604)	2,463,409	2,072,304	(9,918)	2,062,386

6.1 The facility carries interest ranging from @ 15% to 19% (2011: 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/ commercial property of the borrower.

6.2 These are extended to the Small and Medium Enterprises with limit up to $ 500,000 (equivalent to Afs 26 million) and carry interest @ 15% to 18 % (2011: 16% to 18%) per annum and have maturity period of twelve months. These are secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of residential/commercial property of the borrower and secures against loan guarantee given by ACSP/DEG.

6.3 These are term loan facilities extended to customers carries interest ranging from @ 15% to 18% (2011: Nil) 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/commercial property of the

6.4 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 14% to 19.5% (2011: 14% to 23%) 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/commercial property of the borrower.

6.5 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 15% to 19% (2011: Nil). 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/commercial property of the borrower.

6.6 At at reporting date, loans and advances amounting to Afs 19.2 million (2011: 39.672 milliion) were classified against which an impairment loss amounting to Afs 9.6 million (2011: 9.9 million) has been maintained.

6.7 Impairment allowance

	2012	2011
	Afs '000'	
Opening balance	9,918	-
Charge for the year	9,604	9,918
Reversal for the year	(9,918)	-
Net provision expense / (recovery)	(314)	9,918
Closing balance	9,604	9,918

6.8 Impairment allowance and charge off

	2012	2011
Net provision expense / (recovery)	(314)	9,918
Loan charged off during the year	43,533	-
	43,219	9,918

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7 PROPERTY AND EQUIPMENT

	Land	Building	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
	Afs '000'						
GROSS CARRYING AMOUNT							
Balance as at January 01, 2010	35,362	40,168	82,691	128,838	59,076	3,865	350,000
Additions during the year	-	-	5,347	7,121	4,944	6,087	23,499
Disposals during the year	-	-	(77,304)	(60,276)	(44,168)	-	(181,748)
Balance as at December 31, 2010	35,362	40,168	10,734	75,683	19,852	9,952	191,751
Balance as at January 01, 2011	35,362	40,168	10,734	75,683	19,852	9,952	191,751
Additions during the year	-	-	1,128	2,782	2,630	1,514	8,054
Adjustment during the year	-	-	17,028	(17,028)	-	-	-
Disposals during the year	-	-	(15)	-	(263)	(83)	(361)
Balance as at December 31, 2011	35,362	40,168	28,875	61,437	22,219	11,383	199,444
Balance as at January 01, 2012	**35,362**	**40,168**	**28,875**	**61,437**	**22,219**	**11,383**	**199,444**
Additions during the year	**-**	**1,834**	**4,498**	**3,311**	**399**	**5,547**	**15,589**
Disposals during the year	**-**	**-**	**-**	**-**	**(36)**	**-**	**(36)**
Balance as at December 31, 2012	**35,362**	**42,002**	**33,373**	**64,748**	**22,582**	**16,930**	**214,997**
ACCUMULATED DEPRECIATION							
Balance as at January 01, 2010 - (Restated)	-	670	1,174	2,684	1,015	246	5,789
Depreciation for the year - (Restated)	-	1,339	3,005	14,175	2,727	1,557	22,802
Balance as at December 31, 2010 - (Restated)	-	2,009	4,179	16,859	3,743	1,802	28,591
Balance as at January 01, 2011 - (Restated)	-	2,009	4,179	16,859	3,743	1,802	28,591
Depreciation for the year - (Restated)	-	1,339	3,374	15,050	3,292	2,120	25,175
Balance as at December 31, 2011 - (Restated)	-	3,348	7,553	31,908	7,035	3,922	53,766
Balance as at January 01, 2012	**-**	**3,348**	**7,553**	**31,908**	**7,035**	**3,922**	**53,766**
Depreciation for the year	**-**	**1,369**	**3,738**	**15,756**	**3,726**	**2,793**	**27,383**
Depreciation on disposals	**-**	**-**	**-**	**-**	**(17)**	**-**	**(17)**
Balance as at December 31, 2012	**-**	**4,717**	**11,291**	**47,665**	**10,743**	**6,715**	**81,131**
WRITTEN DOWN VALUE AS AT							
- December 31, 2011	35,362	36,820	21,322	29,529	15,185	7,461	145,679
- December 31, 2012	**35,362**	**37,285**	**22,081**	**17,084**	**11,839**	**10,214**	**133,866**
Depreciation rates	**Nil**	**3.33%**	**10% - 25%**	**25%**	**16.67%**	**20%**	

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	2012	(Restated) 2011
	.... Afs '000'	
8 INTANGIBLE ASSETS		
Gross carrying amount		
Opening balance	6,739	6,764
Additions / (Disposals)	12,020	(25)
Closing balance	18,759	6,739
Accumulated amortization		
Opening balance	5,481	3,235
Amortization for the year	5,264	2,246
Closing balance	10,745	5,481
Written down value	8,014	1,258

8.1 Computer softwares includes Vermati accounting system and Redbeam assets tracking software. Useful life of each software is three years.

9 DEFERRED TAX ASSETS

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

Deferred tax assets (liabilities)	January 01, 2012	Recognized in profit and loss	December 31, 2012
	.... Afs '000'		
Property and equipment	(14,976)	(5,308)	(20,284)
Intangible assets	(385)	(10)	(395)
Unused tax losses	41,689	(2,990)	38,699
	26,328	(8,308)	18,020
Recognized as:			
- Deferred tax asset	41,689		38,699
- Deferred tax liability	(15,361)		(20,679)

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Deferred tax assets (liabilities)	January 01, 2011	Recognized in profit and loss	December 31, 2011
	.... Afs '000'		
Property and equipment	(17,039)	2,063	(14,976)
Intangible assets	2,363	(2,748)	(385)
Unused tax losses	43,563	(1,874)	41,689
	28,887	(2,559)	26,328
Recognized as:			
- Deferred tax asset	45,926		41,689
- Deferred tax liability	(17,039)		(15,361)

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.

10 OTHER ASSETS

	Note	2012	2011
		.... Afs '000'	
Advances to employees		**661**	943
Prepayments		**14,748**	25,365
Receivable from Western Union		**698**	1,185
Restricted deposits with DAB	10.1	**432,302**	286,857
Interest receivable		**45,904**	27,929
Receivable from Afghan Payment System (APS)	10.2	**13,020**	12,397
Others		**14,049**	1,607
		521,382	356,283

10.1 This represents interest bearing local currency statutory reserves maintained with DAB as minimum reserve in accordance with Banking Regulations issued by DAB. Minimum reserves carries interest ranging 1.25% to 1.5% per annum (2011: 1.25% to 1.5% per annum).

10.2 Receivable from Afghanistan Payment System represents amount transferred to Millie Bank (Afghanistan) for establishment of Afghanistan Payments System L.L.C. in February 2011, however, due to some reason, APS has not been constituted and advance paid is now receivable from Millie Bank.

11 SHARE CAPITAL

	2012	2011
	.... Afs '000'	
Authorized capital - 55,000 shares of Afs 10,000 each (2011: 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 (2011: 66,762 shares of Afs 10,000 each)	**1,162,370**	667,620

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11.1 Following is the reconciliation of number of shares:

	Number of shares 2012	Number of shares 2011
Number of shares at beginning of the period	**66,762**	66,762
Issued during the year - for cash	**49,475**	-
Number of shares at end of the period	**116,237**	66,762

12 DEPOSITS FROM CUSTOMERS

	Note	2012 Afs '000'	2011 Afs '000'
Conventional			
Current deposits		**2,068,683**	1,716,598
Saving deposits	12.1	**324,599**	182,653
Term deposits	12.2	**337,088**	312,178
		2,730,370	2,211,429
Islamic			
Al Wadiah current deposits		**164,501**	204,941
Mudarabah saving deposits	12.3	**377,984**	360,983
Mudarabah fixed deposits	12.4	**1,840,310**	1,199,881
		2,382,795	1,765,805
Margin deposits		**143,366**	74,148
		5,256,531	4,051,382

12.1 Saving deposits carries interest ranging from 4% to 5% (2011: 4% to 5%) per annum.

12.2 Term deposits carries interest ranging from 4.25% to 10% (2011: 6.5% to 10%) per annum with maturity of 3 months to 5 years on the conventional side.

12.3 Profit disbursed during the year, on the Islamic saving deposits ranged from 2.30% to 3.10% (2011: 2.5% to 3.5%) per annum.

12.4 Islamic Term deposits carried profit expense during the year ranging from 5.85% to 7.20% (2011: 5% to 7%) per annum with maturity of 6 months to 1 year.

13 OTHER LIABILITIES

	2012 Afs '000'	2011 Afs '000'
Accrued interest	**1,087**	4,475
Auditors' remuneration payable	**651**	769
Withholding taxes payable	**9,676**	15,290
Others	**9,495**	8,063
	20,909	28,597

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	Note	2012	2011
		.... Afs '000'	

14 NET INTEREST INCOME

	Note	2012	2011
Interest income			
Cash and cash equivalents		**2,286**	73
Loans and advances to customers		**413,443**	316,808
Total interest income		**415,729**	316,881
Interest expense			
Deposits from banks		**-**	(2,540)
Deposits from customers	14.1	**(131,382)**	(100,371)
Total interest expense		**(131,382)**	(102,911)
Net interest income		**284,347**	213,970

14.1 Deposits from customers

	2012	2011
Interest on:		
Term deposits	**113,437**	88,874
Saving deposits	**17,945**	11,497
	131,382	100,371

15 NET FEE AND COMMISSION INCOME

	2012	2011
Fee and commission income		
Commission on letter of credit and guarantees issued	**11,400**	1,383
Fund transfer fee	**10,959**	6,388
Deposit accounts servicing	**651**	397
Total fee and commission income	**23,010**	8,168
Fee and commission expense		
Inter bank transaction fee	**(4,411)**	(1,928)
Total fee and commission expense	**(4,411)**	(1,928)
Net fee and commission income	**18,599**	6,240

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	Note	2012	2011
		.... Afs '000'	
16 OTHER OPERATING INCOME			
Foreign exchange gain		**14,257**	7,597
Loan processing fee		**17,380**	15,344
Others		**221**	1,285
		31,858	24,226
17 EMPLOYEE COMPENSATION			
Salaries and wages		**88,292**	67,182
Bonus		**1,124**	554
Staff welfare		**153**	600
		89,568	68,336
18 OTHER EXPENSES			
Security guards expenses		**38,742**	27,367
Communication		**23,322**	24,729
Travelling and conveyance		**7,993**	4,404
Advertisement		**20,599**	10,526
Fuel		**6,494**	5,506
Food expenses		**4,784**	4,652
Insurance	19.1	**13,661**	16,492
Audit fee		**3,352**	1,339
Repair and maintenance		**3,731**	4,532
Computer accessories and other supplies		**2,944**	3,361
Stationery and printing		**4,074**	1,899
Staff training		**485**	690
Utilities		**5,724**	5,294
Others		**6,062**	2,295
		141,967	113,086

18.1 These include insurance charges amounting to Afs 5,567 thousands (2011: 9,500 thousands) paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.23% per annum of total deposits as per instructions of DAB.

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19 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% (2011: 20%) and the reported tax expense in statement of comprehensive income are as follows:

	2012	2011
	.... Afs '000'	
Profit before tax	9,565	14,972
Tax rate for Ghazanfar Bank	20%	20%
	1,913	2,994
Adjustment for prior years	-	-
Adjustment for non-deductible expenses / (income)	6,395	(432)
Actual tax expense	8,308	2,563
Tax expense comprises		
Current tax expense	-	-
Prior tax expense	-	-
Deferred tax expense:		
Origination and reversal of temporary differences	5,318	685
Utilization of unused tax losses	2,990	1,874
Tax expense	8,308	2,559

20 RESTATEMENT OF CORRESPONDING FIGURES

Accumulated depreciation and accumulated amortization have been incorrectly overstated by Afs 15,534 thousand and Afs 899 thousand respectively in the statement of financial position as of December 31, 2010. Depreciation for the year 2011 have been overstated by Afs 43 thousand and amortization for the year 2011 have been understated by Afs 25 thousand. Financial statements of 2011 have been restated to correct these errors. There is no effect in 2012 and the effects of restatements on the financial statements of 2011 are summarized below:

	2010
	Afs '000'
Decrease in accumulated depreciation	15,534
Decrease in accumulated amortization	899
Increase in equity	16,433

	2011
	Afs '000'
Decrease in depreciation for the year	43
Increase in amortization for the year	(25)
Increase in equity	18

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21 RELATED PARTIES

21.1 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 group companies of the GGC as associates.

21.2 Transactions with key management personnel

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

Key management personnel compensation

	2012	2011
	.... Afs '000'	
Salary paid to the members of the Board of Supervisors	**832**	-
Short term employee benefits (Management Board)	**2,719**	420
	3,551	420

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

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21.3 Transactions with other related parties

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

	2012	2011
	.... Afs '000'	
Associates		
Balances at year end		
Loans and advences to customer	**643,961**	471,006
Deposit from customers	**564,962**	547,641
Bank guarantees on behalf of customers	**14,718**	-
Transaction during the year		
Interest income on loans and advances	**108,151**	82,217
Commission on bank guarantees	**12**	-
Shareholders		
Balances at year end		
Deposit from customers	**2,225**	881

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

22 CONTINGENCIES AND COMMITMENTS

	2012	2011
	.... Afs '000'	
22.1 *Contingencies*		
Guarantees issued on behalf of customers	**401,421**	153,832

22.2 Lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2012	2011
Less than one year	**17,839**	10,703
Between one to five years	**71,354**	42,812
	89,193	53,515

The Bank leases a number of branch 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.

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23 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
2012								
Cash and cash equivalents	5	-	-	-	**3,209,115**	-		**3,209,115**
Loans and advances to customers	6	-	-	-	**2,473,013**	-	-	**2,473,013**
Others assets	10	-	-	-	**506,634**	-	-	**506,634**
		-	-	-	**6,188,762**	-	-	**6,188,762**
Deposits from customers	12		-	-	-	-	**5,256,531**	**5,256,531**
Other liabilities	13	-	-	-	-	-	**20,909**	**20,909**
		-	-	-	-	-	**5,277,441**	**5,277,441**
2011								
Cash and cash equivalents	5	-	-	-	2,068,403	-	-	2,068,403
Loans and advances to customers	6	-	-	-	2,072,304	-	-	2,072,304
Others assets	10	-	-	-	330,918	-	-	330,918
		-	-	-	4,471,625	-	-	4,471,625
Deposits from customers	12	-	-	-	-	-	4,051,382	4,051,382
Other liabilities	13	-	-	-	-	-	28,597	28,597
		-	-	-	-	-	4,079,979	4,079,979

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

24 FINANCIAL RISK MANAGEMENT

24.1 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.

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.

24.2 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). Chief Credit Officer along with credit department staff looks after credit risk matters and conduct portfolio analysis for managing credit risk.

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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.

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.

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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	2012	2011
Carrying amount	6	**2,473,013**	2,072,304
Concentration by sector			
Petrolium & gas		**525,276**	877,331
Construction - material and development		**606,212**	397,930
IT and Electronics		**24,950**	75,522
Steel and metals trading		**248,148**	248,943
Transport		**122,331**	1,189
Agriculture		**349,763**	237,105
General trading		**596,331**	234,283
		2,473,011	2,072,304

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 2,615,690 thousands (2011 Afs 1,539,947 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 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.

24.3 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 of 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.

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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:

	2012	2011
At 31 December	64%	56%
Average for the period	58%	54%
Maximum for the period	67%	65%
Minimum for the period	50%	43%

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
2012								
Deposits from customers	12	5,256,531	(5,256,531)	(3,314,779)	(429,657)	(1,383,031)	(95,325)	(33,741)
Other liabilities	13	20,909	(20,909)	(20,289)	-	-	-	-
		5,277,441	(5,277,441)	(3,335,068)	(429,657)	(1,383,031)	(95,325)	(33,741)
2011								
Deposits from customers	12	4,051,382	(4,051,382)	(3,111,680)	(274,358)	(594,062)	(37,709)	(33,573)
Other liabilities	13	28,597	(28,597)	(28,597)	-	-	-	-
		4,079,979	(4,079,979)	(3,140,277)	(274,358)	(594,062)	(37,709)	(33,573)

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.

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24.4 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.

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
2012							
Cash and cash equivalents	5	100,284	100,284	-	-	-	-
Loans and advances to customers	6	2,463,409	630,373	370,051	1,402,142	60,841	-
Restricted balance with DAB	10.1	432,302	-	-	-	-	432,302
		2,995,995	730,657	370,051	1,402,142	60,841	432,302
Deposits from customers	12	(2,879,982)	(1,386,914)	(1,249,429)	(114,819)	(128,820)	-
		116,013	(656,257)	(879,378)	1,287,323	(67,978)	432,302

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in Afs '000'	Note	Carrying amount	Less than three months	3-6 months	6-12 months	1-5 years	More than 5 years
2011							
Cash and cash equivalents	5	-	-	-	-	-	-
Loans and advances to customers	6	2,062,386	58,186	514,669	1,489,531	-	-
Restricted balance with DAB	10.1	286,857	-	-	-	-	286,857
		2,349,243	58,186	514,669	1,489,531	-	286,857
Deposits from customers	12	(2,055,695)	(644,237)	(331,020)	(1,001,838)	(45,027)	(33,573)
		293,548	(586,051)	183,648	487,693	(45,027)	253,284

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 2012						
Cash and cash equivalents	5	**3,209,118**	**726,791**	**2,025,389**	**75,861**	**381,077**
Loans and advances to customers	6	**2,473,013**	**21,801**	**2,451,212**	-	-
Other assets	10	**521,382**	**465,901**	**55,481**	-	-
		6,203,512	**1,214,493**	**4,532,082**	**75,861**	**381,077**
Deposits from customers	12	**5,256,533**	**604,670**	**4,610,989**	**40,603**	**271**
Other liabilities	13	**20,909**	**2,230**	**18,493**	**167**	**19**
		5,277,442	**606,900**	**4,629,482**	**40,770**	**290**
Net foreign currency exposure		**926,070**	**607,593**	**(97,400)**	**35,091**	**380,787**

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in Afs '000'	Note	Total	Afs	US$	Euro	GBP
				Equivalent Afs '000'		
31 December 2011						
Cash and cash equivalents	5	2,014,841	218,912	1,739,873	54,036	2,020
Loans and advances to customers	6	1,968,341	427,701	1,540,640	-	-
Other assets	10	233,218	233,614	(396)	-	-
		4,216,400	880,227	3,280,117	54,036	2,020
Deposits from customers	12	4,051,382	577,514	3,440,304	31,703	1,861
Other liabilities	13	46,036	36,574	9,306	121	35
		4,097,418	614,088	3,449,610	31,824	1,896
Net foreign currency exposure		118,982	266,139	(169,493)	22,212	124

The following significant exchange rates applied during the period.

	2012		2011	
in Afs	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
US$	**50.66**	**52.08**	49.34	49.24
Euro	**66.06**	**68.54**	63.87	63.57
GBP	**79.54**	**83.31**	76.61	75.76

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, euro and GBP at 31 December 2012 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.

	2012		2011	
in Afs '000'	Equity	Profit or loss	Equity	Profit or loss
US$	**9,740**	**9,740**	16,949	16,949
Euro	**(3,509)**	**(3,509)**	(2,221)	(2,221)
GBP	**(38,079)**	**(38,079)**	(12)	(12)

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A 10% weakening of the Afghani against the above currencies at 31 December 2010 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.

25 Capital management

Regulatory capital

Da Afghanistan Bank (DAB) sets and monitors capital requirements for all Banks. Ghazanfar Bank is required to maintain at all times the paid up capital plus reserves in excess of Afs 500 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 DAB.

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

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

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

The Bank's regulatory capital position as on December 31, 2011 was as follows:

	2012	2011
	.... Afs '000'	
Tier 1 capital		
Share capital	**1,162,370**	667,620
Add: Accumulated (loss)/ profits	**(86,004)**	(87,262)
Less: Intangible assets	**(8,014)**	(385)
Less: Deferred tax assets	**(18,020)**	(26,328)
Total tier 1 (core) capital	**1,050,331**	553,645
Tier 2 capital		
Profit for the year	**1,257**	12,413
Total tier 2 (supplementary) capital	**1,257**	12,413
Total regulatory capital	**1,051,589**	566,059

26 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. These rearrangements and reclassifications are not significant. Further the restatements made are disclosed in note 20 to the financial statements.

14. 04. 2013

CHIEF EXECUTIVE OFFICER

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