Ghazanfar Bank – financial statements and auditors' report

For the year ended December 31, 2013

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Independent auditors' report to the shareholders of Ghazanfar Bank

Anjum Asim Shahid Rahman

House # 51[illegible], Street # [illegible]
Qala-e-Fatehullah, Kabul
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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, 20[illegible] and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

In our opinion, the financial statements give a true and fair view of the financial position of Ghazanfar Bank as at December 31, 2013 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: [illegible]

Anjum Asim Shahid Rahman
Chartered Accountants

GHAZANFAR BANK

Financial Statements

For the year ended December 31, 2013

GHAZANFAR BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013

	Note	2013	2012
		.... Afs '000'	
ASSETS			
Cash and cash equivalents	5	3,531,753	[illegible]
Loans and advances to customers	6	3,535,631	2,463,409
Property and equipment	7	167,972	133,866
Intangible assets	8	6,070	8,014
Deferred tax asset-net	9	-	18,020
Other assets	10	989,759	[illegible]
Total assets		8,231,205	[illegible]
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	1,162,370	[illegible]
Accumulated losses		(19,530)	[illegible]
Total equity		1,142,840	[illegible]
LIABILITIES			
Deposits from customers	12	6,899,696	5,256,531
Deferred tax liability-net	9	24,193	
Other liabilities	13	164,476	[illegible]
Total liabilities		7,088,365	[illegible]
Total equity and liabilities		8,231,205	6,353,806

CONTINGENCIES AND COMMITMENTS 20

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

CHIEF EXECUTIVE OFFICER

DIRECTOR

GHAZANFAR BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013

	Note	2013	2012
		.... Afs '000'	
Interest income		453,647	415,[illegible]
Interest expense		(85,509)	(131,382)
Net interest income	14	368,138	284,34[illegible]
Fee and commission income		110,042	25,910
Fee and commission expense		(15,673)	([illegible])
Net fee and commission income	15	94,369	18,5[illegible]
Other operating income	16	98,399	31,558
Operating income		560,906	33[illegible]
Impairment allowance and charge off	6.8	(26,566)	([illegible])
Employee compensation	17	(92,258)	(89,568)
Operating lease expenses		(19,717)	(1[illegible],839)
Depreciation		(35,579)	(2[illegible],388)
Amortization	8	(4,179)	(5,264)
Other expenses	18	(172,832)	(1[illegible])
		(351,131)	(325,238)
Profit before tax		209,775	9,566
Tax expense	19	(42,213)	(8,308)
Profit for the year		167,562	1,258
Other comprehensive income		-	-
Total comprehensive income for the year		167,562	1,258

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

CHIEF EXECUTIVE OFFICER

DIRECTOR

GHAZANFAR BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013

	Share capital Afs '000'	Accumulated losses Afs '000'	Total Afs '000'
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		1,258	1,258
Balance as at December 31, 2012	1,162,370	(86,004)	1,076,366
Balance as at January 01, 2013	1,162,370	(86,004)	1,076,366
Total comprehensive income for the year			
Profit for the year	-	167,562	167,562
Transactions with owners			
Dividend paid during the year	-	(101,088)	(101,088)
Balance as at December 31, 2013	1,162,370	(19,530)	1,142,840

The annexed notes 1 to 34 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

GHAZANFAR BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Note	2013	2012
		.... Afs '000'	....
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		209,775	9,565
Adjustments for:			
Net impairment loss on financial assets	6.5	26,566	43,219
Depreciation	7	35,579	27,382
Amortization	8	4,179	5,761
(Gain) / loss on disposal of fixed assets	16	(159)	[illegible]
		275,940	85,4[illegible]
(Increase) / decrease in current assets			
Loans and advances to customers - gross		(1,098,808)	(444,241)
Other assets		(466.371)	(165,[illegible])
Increase / (decrease) in current liabilities			
Deposits from customers		1,643,165	1,208,[illegible]
Other liabilities		145,479	(4,[illegible])
		223,466	591,1[illegible]
		499,406	676,[illegible]
Tax paid		(3,920)	(2,[illegible])
Net cash generated from operating activities	A	495,486	673,5[illegible]
CASH FLOWS FROM INVESTING ACTIVITIES	Note		
Purchase of property and equipment	7	(69,852)	(15,559)
Purchase of intangible assets	8	(2,234)	(12,020)
Proceed from disposal of property and equipment		326	10
Net cash used in investing activities	B	(71,760)	(27,599)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividend		(101,088)	
Proceeds from issue of shares		-	161,750
Net cash (used in) / generated from financing activities	C	(101,088)	161,750
Net increase in cash and cash equivalents (A+B−C)		322,638	1,140,[illegible]
Cash and cash equivalents, beginning of year		3,209,115	2,068,403
Cash and cash equivalents, end of year		3,531,753	3,209,115

The annexed notes 1 to 21 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

DIRECTOR

1 STATUS AND NATURE OF BUSINESS

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

The Bank obtained business license from Afghanistan Investment Support Agency (AISA) bearing license no. D-29098 renewed on 15 September, 2013 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 (2012: ten branches with Islamic banking operations) in different provinces of Afghanistan.

The financial statements for the year ended December 31, 2013 (including comparatives) have been approved and authorized for issue by the Board of Supervisors on [illegible] 2014.

2 STATEMENT OF COMPLIANCE

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

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

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 01, 2013:

- IAS 1 ' Financial statements presentation' has been amended effective January 1, 2013. The main change resulting from these amendments is a requirement for entities to group items presented in 'Other Comprehensive Income' (OCI) on the basis of whether they are potentially reclassifiable to profit and loss subsequently (reclassification adjustments). The specified change has been made in the statements of other comprehensive income for the year.

- IAS 19 'Employee Benefits (revised) ' which became effective for annual periods beginning on or after January 01, 2013 amends accounting for employees benefits. The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset.

- There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2013 but are considered not relevant or do not have a significant effect on the Bank's operations and therefore are not detailed in the financial statements.

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

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

	Effective Dates (accounting period beginning on or after)
- IAS 32 – Financial Instruments: Presentation (Amendments)	January 01, 2014
- IFRS 10 – Consolidated Financial Statements	January 01, 2014
- IFRS 12 – Disclosure of Interest in Other Entities	January 01, 2014
- IFAS 3 – Profit and Loss Sharing on Deposits	January 01, 2014

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

3 BASIS OF PREPARATION

3.1 Basis of measurement

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

3.2 Use of critical accounting estimates and judgments

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

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

a) Note 6 Provision against non-performing loans and advances to customers
b) Note 7 Depreciation rates for property and equipment
c) Note 8 Amortization rates for intangible assets
d) Note 9 Deferred taxation
e) Note 10 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 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 loans and advances for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

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

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

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

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b) Classification and subsequent measurement of financial liabilities

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

4.3 Loans and advances

Loans and advances are stated net of provisions against non–performing loans and advances. Specific and general provisions 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	50 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. Impairment losses are recognized in statement of comprehensive income.

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

4.7 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.

4.10 Employee compensation

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

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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 in instalments.

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.

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.

	Note	2013	2012
		.... Afs '000'	

5 CASH AND CASH EQUIVALENTS

	Note	2013	2012
Cash and balances with central bank	5.1	1,978,902	[illegible]
Balances with other banks	5.2	1,552,851	[illegible]
		3,531,753	[illegible]

5.1 Cash and balances with central bank

	Note	2013	2012
In hand			
Local currency		149,195	[illegible]
Foreign currencies		675,708	[illegible]
		824,903	[illegible]
With Da Afghanistan Bank in			
Local currency current accounts		310,965	834,726
Local currency deposit account	5.3	1,420	[illegible]
Foreign currency current accounts		841,614	[illegible]
		1,153,999	[illegible]
		1,978,902	[illegible]

5.2 Balances with other banks

	2013	2012
Outside Afghanistan		
Akif Bank, Turkey	1,493,316	[illegible]
Ziraat Bank, Turkey	38,536	
Commerz Bank, Germany	9,825	[illegible]
Bank Islami, Malaysia	5,616	-
Agriculture Bank of China, China	3,931	-
Axis Bank, India	1,577	-
	1,552,851	[illegible]

5.3 This represents overnight deposits with Da Afghanistan Bank carrying interest rates ranging from 0.95% to 1.13% per annum (2012: 0.95% to 1.10%)

	2013	2012
	.... Afs '000'	

6 LOANS AND ADVANCES TO CUSTOMERS

	2013	2012
Loans and advances to customers - at amortised cost	3,535,651	[illegible]

		2013			[illegible]		
		Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	Note	Afs '000'					
Conventional financing							
Running finance	6.1	2,132,297	(13,787)	2,118,510	1,115,877	(9,604)	1,106,273
SME loans	6.2	170,746	-	170,746	85,227		85,227
Term loans	6.3	37,258	(47)	37,211	84,095	-	84,095
		2,340,301	(13,834)	2,326,467	1,285,199	(9,604)	1,275,595
Islamic financing							
Musharakah financing	6.4	666,985	-	666,985	898,651	-	898,651
Murabaha financing	6.5	544,534	(2,336)	542,198	[illegible]		289,119
		1,211,520	(2,336)	1,209,184	[illegible]		[illegible]
		3,551,821	(16,170)	3,535,651	[illegible]	(9,604)	2,463,409

6.1 The facility carries interest ranging from @ 14.5% to 18% (2012: 15% to 19%) per annum. These facilities are extended for maximum period of twelve months. These are secured against personal guarantees, hypothecation over current assets, charge over fixed assets and mortgage of residential / commercial property of the borrower.

6.2 These are extended to the Small and Medium Enterprises with limit up to $ 750,000 (equivalent to Afs 38 million) and carry interest @ 15% to 18% (2012: 15% 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 secured against loan guarantee given by Afghanistan Credit Guarantee Program (ACGP), a fund owned by Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG).

6.3 These are term loan facilities extended to customers carries interest ranging from @ 15% to 18% (2012: 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.

6.4 Financing under musharakah agreement are to meet the working capital and other requirements of the borrower on a profit and loss sharing basis ranging from 15% to 19% (2012: 14% to 19.5%) 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

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 18% (2012: 15% to 19%). 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 or mortgage of residential/commercial property of the borrower.

6.6 At reporting date, loans and advances amounting to Afs 190.1 million (2012: 19.2 million) were classified against which an impairment allowance amounting to Afs 16.17 million (2012: 9.6 million) has been maintained.

6.7 Impairment allowance

	2013	2012
	Afs '000'	
Opening balance	9,604	9,918
Charge for the year	9,991	9,604
Reversal for the year	(3,425)	(9,918)
Net provision expense / (recovery)	6,566	(314)
Closing balance	16,170	9,604

6.8 Impairment allowance and charge off

	2013	2012
Net provision expense / (recovery)	6,566	(314)
Loan charged off during the year	20,000	45,527
	26,566	45,213

7 PROPERTY AND EQUIPMENT

DESCRIPTION	Land	Building	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
				Afs '000'			
GROSS CARRYING AMOUNT							
Balance as at January 01, 2012	35,362	40,168	28,875	61,43[illegible]	[illegible]	11,383	199,44[illegible]
Additions during the year	-	1,834	4,498	3,31[illegible]	198	5,547	15,589
Disposals during the year	-	-	-		(36)	-	(36)
Balance as at December 31, 2012	35,362	42,002	33,373	64,718	22,582	16,930	214,997
Balance as at January 01, 2013	35,362	42,002	33,373	64,718	22,582	16,930	214,997
Additions during the year	-	483	1,735	2,549	57,003	8,093	69,652
Disposals during the year	-	-	(57)	(309)	(23)	(180)	(656)
Balance as at December 31, 2013	35,362	42,485	35,044	66,888	79,562	24,843	284,184
ACCUMULATED DEPRECIATION							
Balance as at January 01, 2012		3,548	7,553	31,508	[illegible]	3,922	55,766
Depreciation for the year		1,169	3,638	16,156	[illegible]	2,793	27,383
Depreciation on disposals	-	-	-		(5)		(5)
Balance as at December 31, 2012	-	4,717	11,291	47,665	10,713	6,715	81,131
Balance as at January 01, 2013	-	4,717	11,291	47,665	10,713	6,715	81,131
Depreciation for the year	-	1,409	4,269	13,829	11,671	4,427	35,579
Depreciation on disposals	-	-	(31)	(358)	(23)	(57)	(498)
Balance as at December 31, 2013	-	6,126	15,529	61,106	22,361	11,085	116,212
WRITTEN DOWN VALUE AS AT							
December 31, 2012	35,362	37,285	22,082	17,053	11,869	10,214	133,866
December 31, 2013	35,362	36,359	19,515	5,782	57,198	13,757	167,972
Depreciation rates	Nil	3.33%	10% - 25%	25%	16.67%	20%	

	2013	2012
	.... Afs '000'	

8 INTANGIBLE ASSETS

	2013	2012
Gross carrying amount		
Opening balance	18,759	6,739
Additions during the year	2,234	12,020
Disposal-Fully amortised	(6,739)	
Closing balance	14,254	18,759
Accumulated amortization		
Opening balance	10,745	5,481
Amortization for the year	4,179	5,264
Disposal-Fully amortised	(6,739)	
Closing balance	8,185	10,745
Written down value	6,070	8,014

8.1 Computer softwares includes [illegible] 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, 2013	Recognized in profit and loss	December 31, 2013
	.... Afs '000'		
Property and equipment	(20,284)	(4,952)	(25,236)
Intangible assets	(395)	(308)	(993)
Unused tax losses	38,699	(36,753)	1,946
	18,020	(42,213)	(24,193)
Recognized as:			
- Deferred tax asset	38,699		1,945
- Deferred tax liability	(20,679)		(26,139)

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Deferred tax assets (liabilities)	January 01, 2012	Recognized in profit and loss	December 31, 2012
	....	Afs '000'	
Property and equipment	(14,776)	(5,508)	(20,284)
Intangible assets	(585)	(10)	(595)
Unused tax losses	41,689	(2,990)	38,699
	26,328	(8,508)	18,020
Recognized as:			
- Deferred tax asset	41,689		38,699
- Deferred tax liability	(15,361)		(20,879)

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	2013	2012
		.... Afs '000'	
Advances to employees		39	561
Advances against L/Cs		61,409	
Prepayments		317,089	14,848
Receivable from Western Union		6,012	698
Restricted deposits with DAB	10.1	565,510	452,302
Interest receivable		7,155	45,904
Receivable from Afghan Payment System (APS)	10.2	14,040	13,020
Withholding tax on interest income from DAB		3,557	1,550
Others		14,947	12,499
		989,758	541,382

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 (2012: 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 Payment System LLC in February 2011, however, due to some reason, now APS project has been commenced and expected to complete in the current year.

11 SHARE CAPITAL

	2013	2012
	.... Afs '000'	
Authorized capital - 55,000 shares of Afs 10,000 each (2012: 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 (2012: 116,237 shares of Afs 10,000 each)	1,162,370	1,162,370

11.1 Following is the reconciliation of number of shares

	Number of shares	
	2013	2012
Number of shares at beginning of the period	116,237	66,762
Issued during the year - for cash	-	49,475
Number of shares at end of the period	116,237	116,237

12 DEPOSITS FROM CUSTOMERS

	Note	2013	2012
		.... Afs '000'	
Conventional			
Current deposits		3,119,896	2,[illegible]38,683
Saving deposits	12.1	549,943	324,595
Term deposits	12.2	298,274	337,088
		3,998,113	2,[illegible]
Islamic			
Al Wadiah current deposits		161,488	64,[illegible]
Mudarabah saving deposits	12.3	435,165	377,984
Mudarabah fixed deposits	12.4	1,759,532	1,841,310
		2,656,184	2,382,795
Margin deposits		245,399	145,366
		6,899,696	5,256,531

12.1 Saving deposits carries interest ranging from 1% to 5% (2012: 1% to 5%) per annum.

12.2 Term deposits carries interest ranging from 1.25% to 10% (2012: 4.25% to 10%) per annum with maturities of 3 months to 5 years on the conventional side.

12.3 Profit disbursed during the year on the Islamic saving deposits ranged from [illegible] to 1.5% (2012: 2.3% to 3.[illegible]%) per annum.

12.4 Islamic Term deposits carried profit expense during the year ranging from [illegible] to 3.7% (2012: 5.85% to 7.[illegible]%) per annum with maturity of 3 months to 1 year.

13 OTHER LIABILITIES

	2013	2012
	.... Afs '000'	
Accrued interest	3,284	1,[illegible]
Auditors' remuneration payable	439	65[illegible]
Withholding taxes payable	20,809	9,[illegible]
Payable to Ghazanfar Naft Gaz	112,320	-
Unearned commission on bank guarantees	19,122	
Others	8,502	9,435
	164,476	20,[illegible]

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		Note	2013	2012
			.... Afs '000'	
14	**NET INTEREST INCOME**			
	Interest income			
	Cash and cash equivalents		12,767	2,286
	Loans and advances to customers		440,880	413,443
	Total interest income		453,647	415,729
	Interest expense			
	Deposits from customers	14.1	(85,509)	(131,382)
	Net interest income		368,138	284,347
14.1	**Deposits from customers**			
	Interest on:			
	Term deposits		73,774	113,437
	Saving deposits		11,735	17,945
			85,509	131,382
15	**NET FEE AND COMMISSION INCOME**			
	Fee and commission income			
	Commission on letter of credit and guarantees issued	15.1	69,503	11,660
	Fund transfer fee		39,570	10,959
	Deposit accounts servicing		968	651
	Total fee and commission income		110,042	22,910
	Fee and commission expense			
	Inter bank transaction fee		(15,673)	(4,411)
	Net fee and commission income		94,369	18,599

15.1 This amount includes commission on bank guarantees amounting to Afs 35.562 million (2012: 11.278 million).

		2013	2012
		.... Afs '000'	
16	**OTHER OPERATING INCOME**		
	Foreign exchange gain	33,322	14,277
	Loan processing fees	28,174	[illegible]
	Recovery of loan previously written off	36,395	-
	Gain on disposal of fixed assets	159	-
	Others	349	261
		98,399	31,538
17	**EMPLOYEE COMPENSATION**		
	Salaries and wages	89,849	88,292
	Bonus	2,055	1,124
	Staff welfare	354	152
		92,258	89,568

	Note	2013	2012
		.... Afs '000'	

18 OTHER EXPENSES

	Note	2013	2012
Security guards expenses		39,889	38,7[illegible]
Insurance	18.1	31,494	13,661
Communication		25,263	23,322
Advertisement		21,695	[illegible]
Travelling and conveyance		10,454	7,993
Utilities		9,393	[illegible]
Fuel		6,916	[illegible]
Repair and maintenance		5,549	3,731
Stationery and printing		5,211	4,07[illegible]
Food expenses		4,713	1,78[illegible]
Computer accessories and other supplies		3,386	2,9[illegible]
Staff training		2,264	185
Audit fee		702	[illegible]
Others		6,984	5,062
		[illegible]	[illegible]

18.1 These include insurance charges amounting to Afs 11,227 thousand (2012: [illegible] thousand) paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.25% per annum of total deposits as per instructions of DAB.

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% (2012: 20%) and the reported tax expense in statement of comprehensive income are as follows:

	Note	2013	2012
		.... Afs '000'	
Current		-	[illegible]
Deferred	9	42,213	[illegible]
	19.1	42,213	[illegible]

	2013	2012
19.1 Tax expense comprises		
Current tax expense	-	[illegible]
Deferred tax expense		
Origination and reversal of temporary differences	5,460	3,10[illegible]
Utilization of unused tax losses	36,753	[illegible]
Tax expense	42,213	5,30[illegible]

20 CONTINGENCIES AND COMMITMENTS

	2013	2012
	.... Afs '000'	
20.1 *Contingencies*		
Guarantees issued on behalf of customers	3,960,392	[illegible]

20.2 Lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2013	2012
Less than one year	23,154	[illegible]
Between one to five years	103,592	[illegible]
	127,046	[illegible]

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.

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:

	2013	2012
	.... Afs '000'	
Salary paid to the members of the Board of Supervisors	2,791	832
Short term employee benefits (Management Board)	2,673	2,719
	5,464	3,551

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

21.3 Transactions with other related parties

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

	2013	2012
	.... Afs '000'	
Associates		
Balances at year end		
Loans and advances to customers	1,051,814	643,561
Bank guarantees on behalf of customers	1,143,061	34,718
Advance against property	258,338	
Prepaid rent	55,692	
Deposit from customers - current	1,179,599	566,862
Payable to GNG	112,320	
Transaction during the year		
Purchase of ten armoured vehicles	56,645	
Net disbursement of loans and advances	407,853	[illegible]
Net issuance of bank guarantees	1,128,343	[illegible]
Interest income on loans and advances	72,448	108,[illegible]51
Commission on bank guarantees	25,221	12
Advance payment for purchase of building	238,338	-
Purchase diesel from Ghazanfar Naft Gas	112,320	-
Rent paid in advance	55,700	
Shareholders		
Balances at year end		
Deposit from customers	-	[illegible]

21.4 There were no related party transactions and outstanding balances other than those disclosed above in notes 20.1, 20.2 and 20.5 to the financial statements.

22 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
2013								
Cash and cash equivalents	5	-	-	-	3,531,753		-	3,531,753
Loans and advances to customers	6	-	-	-	3,551,821	-	-	3,551,821
Other assets	10	-		-	592,717	-	-	592,717
			-	-	7,676,291	-	-	7,676,291
Deposits from customers	12		-	-	-	-	6,899,696	6,899,696
Other liabilities	13	-	-	-	-	-	145,353	145,353
		-	-	-	-	-	7,045,050	7,015,950
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				504,423			504,423
					6,186,551			6,186,551
Deposits from customers	12	-	-	-	-	-	5,256,531	5,256,531
Other liabilities	13	-	-	-	-	-	20,9[illegible]	20,9[illegible]
		-	-	-	-		5,277,441	5,277,441

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

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.

Risk management framework

The Board of Supervisors 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.

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

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board. The credit evaluation system comprises of well designed credit appraisal, sanctioning and review procedures for the purpose 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 immovable 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 initiated 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.

Concentration of credit risk by sector

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

in Afs '000'	Note	2013	2012
Carrying amount	6	3,551,821	2,475,013
Concentration by sector			
Oil, petroleum & gas		682,326	575,276
Construction - material and development		789,666	605,212
IT and electronics - production and services		407,859	24,950
Steel and metals		467,149	248,148
Logistics and transportation		119,930	122,333
Agriculture and food		593,728	319,763
General trading		491,933	596,331
		3,551,821	2,475,013

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 2,706.85 million (2012: Afs [illegible] million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with central bank and other banks.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of an entity to honor its obligation to deliver 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 to meet possible withdrawal of deposits, other commitments or challenges associated with sudden changes in market conditions which enable the Bank to pursue valued business opportunities. For day to day liquidity risk management integration of liquidity scenarios 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 from customers generally has shorter maturities and large proportion of them are repayable on demand. For day to day liquidity risk management integration of liquidity scenarios 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 equivalents 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:

	2013	2012
At 31 December	38%	64%
Average for the period	59%	58%
Maximum for the period	74%	67%
Minimum for the period	36%	50%

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
2013								
Deposits from customers	12	6,899,696	(6,899,696)	(4,404,708)	(364,780)	(2,067,024)	(63,184)	-
Other liabilities	13	164,476	(164,476)	(145,353)	(5,906)	(13,236)	-	
		7,064,172	(7,064,172)	(4,550,061)	(370,686)	(2,080,260)	(63,184)	-
2012								
Deposits from customers	12	5,256,531	(5,256,531)	(3,314,779)	(429,657)	(1,383,031)	(95,324)	(33,740)
Other liabilities	13	20,909	(20,909)	(20,909)	-	-	-	-
		5,277,440	(5,277,440)	(3,335,688)	(429,657)	(1,383,031)	(95,324)	(33,740)

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/(outflow) 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 within acceptable parameters, while optimizing the return on risk.

Management of market risks

To manage and control market risk, 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's risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of change in market interest rates. Interest rate risk is 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
2013							
Cash and cash equivalents	7	1,420	1,420	-	-	-	-
Loans and advances to customers	6	3,551,821	2,087,765	753,374	697,329	13,354	-
Restricted deposits with DAB	10...	565,510	-	-		-	565,510
		4,118,750	2,089,185	753,374	697,329	13,354	565,510
Deposits from customers	12	(3,042,914)	(912,705)	(1,270,592)	(796,433)	(63,184)	-
		1,075,837	1,176,480	(517,218)	(99,104)	(49,831)	565,510

ABCL

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	100,234	100,234	-			
Loans and advances to customers	6	2,463,409	[illegible]	370,351	1,402,142	60,841	-
Restricted deposits with DAB	10.1	432,302				-	432,302
		2,995,995	730,359	370,351	1,402,142	60,841	432,302
Deposits from customers	12	(2,879,982)	(1,386,614)	(1,249,429)	(113,819)	(128,820)	-
		116,013	(656,255)	(879,078)	1,288,323	(67,979)	432,302

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	3,531,755	461,580	2,863,432	146,802	59,938
Loans and advances to customers	6	3,551,821	25,913	3,525,908	-	-
Other assets	16	989,759	885,295	61,922	42,542	-
		8,073,335	1,372,788	6,451,263	189,345	59,939
Deposits from customers	12	6,899,696	627,491	6,179,129	91,010	2,066
Other liabilities	13	164,476	25,694	138,614	167	-
		7,064,172	653,186	6,317,743	91,177	2,066
Net foreign currency exposure		1,009,161	719,602	133,520	98,168	57,872

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	2,473,015	21,803	2,451,212	-	
Other assets	10	521,382	465,901	55,481		-
		6,203,513	1,214,495	4,532,082	75,861	381,077
Deposits from customers	12	5,256,531	604,673	4,610,389	40,601	271
Other liabilities	13	20,969	2,236	18,433	167	19
		5,277,500	606,909	4,629,182	40,766	290
Net foreign currency exposure		926,012	607,592	(97,100)	35,093	380,787

The following significant exchange rates applied during the period:

	2013		2012	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
in Afs				
US$	55.50	56.16	50.66	52.08
Euro	73.37	77.46	66.06	68.54
GBP	85.85	91.80	78.51	83.31

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, euro and GBP at 31 December 2013 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.

	2013		2012	
	Equity	Profit or loss	Equity	Profit or loss
in Afs '000'				
US$	(10,682)	(13,352)	7,792	9,740
Euro	(7,853)	(9,817)	(2,806)	(3,509)
GBP	(4,630)	(5,787)	(38,463)	(58,129)

A 10% weakening of the Afghani against the above currencies at 31 December 2013 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.

24 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 [illegible] of the Bank is assessed [illegible] as per regulations of the DAB

- Tier 1 or core capital consisting of the highest quality capital elements that fully reflect 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 [illegible] amount of Tier 1 capital. The Bank complies with these regulations.

The Bank's regulatory capital position as on December 31, 2013 is as follows:

	2013	2012
	Afs '000'	
Tier 1 capital		
Share holders equity	1,142,840	[illegible]
Less: Profit for the year	(167,562)	[illegible]
Less: Intangible assets	(6,070)	(8,014)
Less: Deferred tax assets		(19,070)
Total tier 1 (core) capital	969,208	878,353
Tier 2 capital		
Profit for the year	167,562	1,258
Total tier 2 (supplementary) capital	167,562	1,258
Total regulatory capital	1,136,770	879,611

CHIEF EXECUTIVE OFFICER

DIRECTOR