# Afghanistan International Bank

Financial Statements
for the year ended December 31, 2012

Deloitte.

**M. Yousuf Adil Saleem & Co**
Chartered Accountants
# 932, Street 91
Sector I-8/4
Islamabad
Pakistan

Tel: +92(51) 8350601
+92(51) 4861571
Fax: +92(51) 8350602
Web: www.deloitte.com

# INDEPENDENT AUDIT REPORT TO THE SHAREHOLDERS

## Introduction

We have audited the accompanying annual financial statements of Afghanistan International Bank (the Bank), which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, the statement of cash flow, and the statement of changes in equity 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 the accounting framework as stated in note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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 Afghanistan International Bank as at December 31, 2012, and of their financial performance and cash flows for the year then ended in accordance with the accounting framework as stated in note 2 to the financial statements.

M. Yousuf Adil Saleem & Co
**Chartered Accountants**

**Engagement Partner:**
Nadeem Yousuf Adil

Islamabad
Date: March 01, 2013

**AFGHANISTAN INTERNATIONAL BANK**
**STATEMENT OF FINANCIAL POSITION**
**AS AT DECEMBER 31, 2012**

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | AFN '000 | |
| **ASSETS** | | | |
| Cash and balances with Da Afghanistan Bank (DAB) | 5 | 8,656,807 | 7,553,861 |
| Balances with other banks | 6 | 13,728,764 | 4,761,472 |
| Short term placements - net | 7 | 10,079,068 | 7,140,667 |
| Investments - net | 8 | 8,146,376 | 7,163,410 |
| Loans and advances to customers - net | 9 | 4,545,756 | 4,964,368 |
| Receivable from financial institutions | 10 | 191,208 | 122,576 |
| Operating fixed assets | 11 | 325,386 | 278,254 |
| Intangible assets | 12 | 199,604 | 52,622 |
| Other assets | 13 | 188,221 | 180,325 |
| Total assets | | 46,061,190 | 32,217,555 |
| **LIABILITIES** | | | |
| Customers' deposits | 14 | 43,142,654 | 29,940,227 |
| Deferred income on commercial letter of credit and guarantees | | 8,844 | 6,945 |
| Deferred income tax liabilities | 15 | 3,659 | 15,427 |
| Other liabilities | 16 | 345,538 | 157,528 |
| Total liabilities | | 43,500,695 | 30,120,127 |
| **EQUITY** | | | |
| Share capital | 17 | 1,465,071 | 1,465,071 |
| Retained earnings | | 1,143,303 | 643,296 |
| Deficit on revaluation on available for sale investments | | (47,879) | (10,939) |
| Total equity | | 2,560,495 | 2,097,428 |
| Total equity and liabilities | | 46,061,190 | 32,217,555 |
| **CONTINGENCIES AND COMMITMENTS** | 18 | | |

The annexed notes 1 to 31 form an integral part of these financial statements.

Chief Executive Officer

Director

**AFGHANISTAN INTERNATIONAL BANK**
**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | AFN '000 | |
| Interest income | 19 | 1,057,205 | 795,031 |
| Interest expense | 20 | (2,730) | (2,160) |
| Net interest income | | 1,054,475 | 792,871 |
| Fee and commission income | 21 | 418,790 | 345,000 |
| Fee and commission expense | 22 | (14,379) | (12,213) |
| Net fee and commission income | | 404,411 | 332,787 |
| Income from dealing in foreign currencies | 23 | 159,883 | 187,090 |
| | | 1,618,769 | 1,312,748 |
| Other income | 24 | 17,695 | 3,785 |
| Provision against loan losses | 9.3 | (37,814) | (23,652) |
| Provision on Investments | 8.4 | (6,839) | (18,138) |
| Provision on short term placements | 7.3 | 16,639 | (35,883) |
| General and administrative expenses | 25 | (1,004,051) | (778,605) |
| **PROFIT BEFORE INCOME TAX** | | 604,399 | 460,255 |
| Income Tax (Charge) | 26 | (104,392) | (81,336) |
| **PROFIT FOR THE YEAR** | | 500,007 | 378,919 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Net change in fair value on available-for-sale financial investments - net of tax | | (36,940) | (10,939) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 463,067 | 367,980 |
| Earnings per share - Basic and diluted | 29 | 16.67 | 12.63 |

The annexed notes 1 to 31 form an integral part of these financial statements.

MYAC

**Chief Executive Officer**

**Director**

**AFGHANISTAN INTERNATIONAL BANK**
**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

| | Share capital | Reserve-deficit on revaluation of available - for - sale investments | Retained Earnings | Total |
|---|---|---|---|---|
| | AFN '000 | | | |
| Balance as at December 31, 2010 | 991,571 | - | 737,877 | 1,729,448 |
| *Comprehensive income* | | | | |
| Profit for the year | - | - | 378,919 | 378,919 |
| Other comprehensive income | - | (13,674) | - | (13,674) |
| Deferred tax asset | - | 2,735 | - | 2,735 |
| Total comprehensive income | - | (10,939) | 378,919 | 367,980 |
| *Transactions with owners* | | | | |
| Bonus shares issued - note 17.1 | 473,500 | - | (473,500) | - |
| Balance as at December 31, 2011 | 1,465,071 | (10,939) | 643,296 | 2,097,428 |
| *Comprehensive income* | | | | |
| Profit for the year | - | - | 500,007 | 500,007 |
| Other comprehensive income | - | (45,492) | - | (45,492) |
| Deferred tax asset | - | 8,552 | - | 8,552 |
| Total comprehensive income | - | (36,940) | 500,007 | 463,067 |
| *Transactions with owners* | - | - | - | - |
| Balance as at December 31, 2012 | 1,465,071 | (47,879) | 1,143,303 | 2,560,495 |

The annexed notes 1 to 31 form an integral part of these financial statements.

Chief Executive Officer

Director

**AFGHANISTAN INTERNATIONAL BANK**
**STATEMENT OF CASH FLOWS**
**FOR YEAR ENDED DECEMBER 31, 2012**

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | AFN '000 | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest receipts | | 1,073,338 | 696,195 |
| Interest payments | | (2,683) | (2,140) |
| Fee and commission receipts | | 420,789 | 344,035 |
| Fee and commission payments | | (14,485) | (12,170) |
| Income from dealing in foreign currencies | | 159,883 | 187,090 |
| Other income | | 5,214 | 17,762 |
| General administrative expenses paid | | (961,254) | (689,117) |
| Cash flows from operating activities before changes in operating assets and liabilities | | 680,802 | 541,655 |
| **Changes in operating assets and liabilities:** | | | |
| Receivable from financial institutions | | (68,632) | 60,419 |
| Required reserve maintained with DAB | | (1,603,357) | (331,901) |
| Cash margin held with other banks | | 138,484 | (418,439) |
| Loans and advances to customers - net | | 380,798 | (1,437,986) |
| Other assets | | 13,779 | (8,462) |
| Customers' deposits | | 13,202,427 | 12,212,722 |
| Other liabilities | | 23,609 | 49,077 |
| **Net cash generated from operating assets and liabilities** | | 12,087,108 | 10,125,430 |
| Income tax paid | | (42,303) | (21,910) |
| **Net cash flow from operations** | | 12,725,607 | 10,645,175 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Net investments in short term placements (with maturity more than three months) | | (2,418,903) | 2,593,661 |
| Net proceeds in Investments | | (1,070,469) | (5,136,499) |
| Purchase of property and equipment | | (104,731) | (216,249) |
| Proceeds from sale of property and equipment | | 441 | - |
| Purchase of intangible assets | | (35,867) | (16,635) |
| **Net cash flow used in investing activities** | | (3,629,529) | (2,775,722) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividend paid | | - | (114,400) |
| Net cash flow used in financing activities | | - | (114,400) |
| Net increase / (decrease) in cash and cash equivalents | | 9,096,078 | 7,755,053 |
| Effect of foreign currency exchange loss on cash and cash equivalents | | 12,146 | (13,978) |
| Cash and cash equivalents at beginning of the year | | 15,453,584 | 7,712,509 |
| Cash and cash equivalents at end of the year | 28 | 24,561,808 | 15,453,584 |

The annexed notes 1 to 31 form an integral part of these financial statements.

Chief Executive Officer

Director

## 1. STATUS AND NATURE OF BUSINESS

Afghanistan International Bank (the Bank) was registered with Afghan Investment Support Agency (AISA on December 27, 2003 and on March 22, 2004 received formal commercial banking license from Da Afghanistan Bank (DAB), the Central Bank in Afghanistan, to operate nationwide.

The Bank is a limited liability Company and is incorporated and domiciled in Afghanistan. The principal business place of the Bank is at AIB head office, Shahr-e-naw, Haji Yaqoob Square, Shahabuddin Watt, Kabul, Afghanistan.

The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The Bank has thirty one branches and four cash outlets (2011: thirty branches and three cash outlets) in operation and 606 employees (2011: 524 employees)

## 2. BASIS OF PREPARATION AND MEASUREMENT

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

These financial statements have been prepared using accrual basis of accounting under the historical cost convention except for the following material items in the statement of financial position:

- Financial instruments designated as available for sales are measured at fair value [Note:3.3(d)]

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

### 2.1 New accounting standards / amendments and IFRS interpretations that are effective for the year ended December 31, 2012

The following standards, amendments and interpretations are effective for the year ended December 31, 2012. These standards, interpretations and the amendments are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

| | Effective from accounting period beginning on or after |
|---|---|
| Amendments to IAS 12 - Income Taxes – Deferred Tax: Recovery of Underlying Assets | January 01, 2012 |
| Amendments to IFRS 7 - Financial Instruments: Disclosures - Transfer of financial assets | July 01, 2011 |

MY4nc

**New accounting standards and IFRS interpretations that are not yet effective**

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Bank's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

| | Effective from accounting period beginning on or after |
|---|---|
| Amendments to IAS 1 - Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income | July 01, 2012 |
| Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information | January 01, 2013 |
| Amendments to IAS 16 - Property, Plant and Equipment – Classification of servicing equipment | January 01, 2013 |
| Amendments to IAS 19 - Employee Benefits | January 01, 2013 |
| Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction | January 01, 2013 |
| Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities | January 01, 2014 |
| Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities | January 01, 2013 |
| Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities | January 01, 2013 |
| IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine | January 01, 2013 |
| IFRS 9 - Financial Instruments | January 01, 2015 |
| IFRS 10 - Consolidated financial statements | January 01, 2013 |
| IFRS 11 – Joint Arrangements | January 01, 2013 |
| IFRS 12 – Disclosure of Interests in Other Entities | January 01, 2013 |
| IFRS 13 – Fair Value Measurement | January 01, 2013 |
| IAS 27 (Revised 2011) – Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11 | January 01, 2013 |
| IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to non- adoption of IFRS 10 and IFRS 11 | January 01, 2013 |

MVMC

3. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

3.1 **Cash and cash equivalents**

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

3.2 **Financial instruments**

Financial assets and liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument, and derecognized when the Bank loses control of the contractual rights that comprise the financial assets, and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or loss on derecognition of financial assets and financial liabilities is included in income for the year.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.3 **Financial assets**

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

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

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

A financial asset is classified as held-for-trading if it is acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives (if any) are also categorized as held for trading unless they are designated as hedges.

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

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and 'the underlying financial instruments were carried at amortized cost for such as loans and advances to customers or banks and debt securities in issue;

- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss;

- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss; and

- Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

MYM7 (

b) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Cash and balances with Da Afghanistan Bank (DAB), balances with banks and receivable from financial institution, loans and advances to customers and security deposits and other receivables are classified under this category.

c) **Held-to-maturity financial assets**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity financial assets before its maturity, the entire category would be reclassified as available for sale. Short term placements are classified under this category.

d) **Available-for-sale financial assets**

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets (AFS) are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are

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

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

## 3.4 Impairment of financial assets

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

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

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

- Delinquency in contractual payments of principal or interest;

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

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

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

b) **Loans and advances to customers**

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

i) **Standard:** These are loans and advances, which are paying in a current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any supporting it. A general provision is maintained in the books of account @ 2% of value of such loans and advances.

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

iii) **Substandard**: These are loans and advances which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral, if any, supporting it. Further, all loans and advances which are past due by 61 to 90 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account @ 25% of value of such loans and advances.

iv) **Doubtful:** These are loans and advances which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. Further, all loans and advances which are past due by 91 to 180 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account @ 50% of value of such loans and advances.

v) **Loss:** These are loans and advances which are not collectible and or such little value that its continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 180 days for principal or interest payments are also classified as Loss. A provision is maintained in the books of account @100% of value of such loans and advances and then these loans are charged off and the reserve for losses is reduced immediately upon determination of Loss status.

MYAL

c) **Assets classified as available for sale**

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets previously recognized in the statement of comprehensive income is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income, related to an event occurring after the impairment loss was recognized.

**3.5 Financial liabilities**

The Bank classifies its financial liabilities in following categories.

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

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

b) **Other financial liabilities measured at amortized cost**

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

**3.6 Operating fixed assets**

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

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

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

| | **Useful life (years)** |
|---|---|
| Leasehold improvements | 3 to 10 |
| Computers | 3 to 5 |
| Office equipment | 3 to 5 |
| Furniture and fixtures | 3 to 10 |
| ATMs | 5 |
| Vehicles | 5 |

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

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

### 3.7 Intangible assets

Intangible assets are capitalized only to the extent that the future economic benefits can be derived by the Bank having useful life of more than one year. Intangible assets are stated at cost less accumulated amortization. Amortization is charged to income applying the straight line method.

i) **Computer software**

Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of 3 to 10 years.

ii) **License fee**

Acquired trademarks and licenses are initially recognized at historical cost and subsequently recognized at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the licenses over their estimated useful life.

### 3.8 Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the equity interests issued by the Bank in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

### 3.9 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Please refer to note 12.1 for further details.

For the purposes of impairment testing, goodwill is allocated to each of the Bank's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated [statement of comprehensive income/income statement]. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### 3.10 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Non-financial assets that are subject to depreciation/ amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss or reversal of impairment loss is recognized in the statement of comprehensive income. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Reversal of the impairment losses is restricted to the original cost of the assets.

MY4IL

## 3.11 Taxation

***Current***

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

***Deferred***

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## 3.12 Revenue recognition

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

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

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

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

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

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

## 3.13 Foreign currency transactions and translation

a) **Functional and presentation currency**

   Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is Afghani (AF).

MY4a

b) **Transactions and balances**

Foreign currency transactions are translated into functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency assets and liabilities are translated using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of assets and liabilities denominated in foreign currencies are recognized in income currently.

| The exchange rate for following currencies against AFN were: | 1 USD | 1 EURO | 1 AED |
|---|---|---|---|
| As at December 31, 2012 | 52.08 | 68.54 | 14.12 |
| As at December 31, 2011 | 49.31 | 63.83 | 13.41 |

### 3.14 Provisions

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

### 3.15 Offsetting of financial instruments

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

### 3.16 Dividend Distribution

Final dividend distributions to the bank's shareholders are recognized as a liability in the financial statements in the period in which the dividends are approved by the Bank's shareholders at the Annual General Meeting while interim dividend are recognized in the period in which the dividends are declared by the Board of Supervisors.

## 4. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgments will, by definition, rarely equal the related actual results. The material estimates, assumptions and judgments used to measure and classify the carrying amounts of assets and liabilities are outlined below:

a) **Provision for loan losses**

The Bank reviews loans to customer balances quarterly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in note 9.3. The Bank maintains a general provision of 2% against outstanding loan and advances to customers as at the year end.

b) **Provision for income taxes**

The Bank recognizes tax liability in accordance with the provisions of Income Tax Law 2009. The final tax liability is dependent on assessment by Ministry of Finance Afghanistan.

c) **General provision on Investments and short term placements**

The management also maintains a provision of 0.5% on collective balance of investments (excluding those with DAB) and short term deposits (excluding balances held with Standard Chartered Bank) to cover the counter party risk.

**d) Useful life of property and equipment and intangible assets**

The Bank reviews the useful life and residual value of property and equipment and intangible assets on a regular basis. Any change in estimates may affect the carrying amounts of the respective items of property and equipment and intangible assets with a corresponding effect on the depreciation/ amortization charge.

**e) Held-to-maturity investments**

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

## 5. CASH AND BALANCES WITH DA AFGHANISTAN BANK (DAB)

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |
| Cash in hand | 1,656,823 | 1,169,827 |
| Cash at Automated Teller Machines (ATMs) | 339,844 | 264,426 |
| | 1,996,667 | 1,434,253 |
| With Da Afghanistan Bank | | |
| Local currency | | |
| - Deposit facility accounts | 1,250,000 | 482,755 |
| - Required reserve accounts | 3,369,104 | 1,765,747 |
| - Current accounts | 279,082 | 1,817,282 |
| | 4,898,186 | 4,065,784 |
| Foreign currency | | |
| - Current account | 1,761,954 | 2,053,824 |
| | 6,660,140 | 6,119,608 |
| | 8,656,807 | 7,553,861 |

Required reserve account is being maintained with DAB which is denominated in AFN to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. The required reserve and the deposit facility accounts kept with DAB are interest bearing.

## 6. BALANCES WITH OTHER BANKS

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |
| In Afghanistan | | |
| With Standard Chartered Bank | - | 62,881 |
| Outside Afghanistan | | |
| With Standard Chartered Bank - note 6.1 | 11,422,603 | - |
| With Commerzbank, Germany | | |
| - in nostro accounts - note 6.2 | 478,132 | 3,670,870 |
| - as cash margins held - note 6.3 | 803,211 | 941,695 |
| With other banks - note 6.4 | 1,024,818 | 86,026 |
| | 13,728,764 | 4,761,472 |

6.1 Balances maintained with Standard Chartered Bank are interest bearing and are available on demand.

6.2 This represents interest bearing nostro accounts. It carries interest @ Libor-0.25%.

6.3 It carries interest @ Libor-0.25%, held with Commerz Bank, Germany against letters of credit issued on behalf of the Bank.

6.4 It includes balances maintained with Credit Suisse (formerly Clariden Leu), Emirates NBD and other banks and are non-interest bearing and available on demand.

M YA7 C

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |

## 7. SHORT TERM PLACEMENTS

| | 2012 | 2011 |
|---|---|---|
| Held-to-maturity Investments | | |
| - with Standard Chartered Bank note 7.1 | 6,249,600 | - |
| - with other banks in foreign currency - note 7.2 | 3,848,712 | 7,176,550 |
| General provision held - note 7.3 | (19,244) | (35,883) |
| | 10,079,068 | 7,140,667 |

7.1 These represent overnight and fixed term placements with financial institutions outside Afghanistan up to a maximum period of one year in USD carrying interest at rates ranging from 0.23 % p.a. to 0.70 % p.a.

7.2 These represent overnight and fixed term placements with financial institutions outside Afghanistan up to a maximum period of one year (2011: one year) in USD carrying interest at rates ranging from 0.25 % p.a. to 1.75 % p.a (2011: 0.11 % p.a. to 3.25 % p.a.). There were no placements held in Euro and AED as at December 31, 2012 and in 2011 placements were made in EURO carried interest at rates ranging from 0.20 % p.a. to 0.82 % p.a. and in AED carrying interest at rates 1.18 % receivable on maturity of respective placements.

7.3 General provision of 0.5% on short term placements was provided except for placements with Standard Chartered Bank during the year to cover the counter party and market risk.

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |

## 8. INVESTMENTS - NET

| | 2012 | 2011 |
|---|---|---|
| Available for sale investment | | |
| - Investment bonds - note 8.1 | 3,199,559 | 2,224,093 |
| Held-to-maturity Investments | | |
| - Capital notes with DAB - note 8.2 | 3,175,867 | 3,553,936 |
| - Investment bonds - note 8.3 | 1,795,927 | 1,403,519 |
| | 4,971,794 | 4,957,455 |
| General provision held - note 8.4 | (24,977) | (18,138) |
| | 8,146,376 | 7,163,410 |

8.1 This represents investment made in investment bonds. Investment in bonds have maturity from January 2013 to November 2015 and carry coupon interest rates ranging from 0.25 % to 10.25 % (2011: 0.25 % to 10.25 %). These also includes investments managed by Credit Suisse (formerly Clariden Leu), Switzerland and Emirates NBD on behalf of the Bank.

8.2 This represents capital notes issued by DAB, up to a maximum period of six months (2011: six months) carrying coupon interest at rates ranging from 1.98% p.a. to 3.44% p.a. (2011: 2.0% p.a. to 3.36% p.a.) receivable on maturity of respective notes.

8.3 These represent investments in bonds from various financial institutions carrying coupon interest rates ranging from 2.99% to 8% (2011: 3.38% to 6.47%) . These investments have maturity ranging from February 2013 to August 2016. These investments are classified as "Held-to-maturity" because of the Bank's ability and intention to hold these investments up to maturity.

8.4 General provision of 0.5% on collective investments (excluding investment - Capital notes with Da Afghanistan Bank) was provided to cover the market and counter party risk.

MY[illegible]

| | | 2012 | 2011 |
|---|---|---|---|
| | | AFN '000 | |
| **9.** | **LOANS AND ADVANCES TO CUSTOMERS - NET** | | |
| | Overdrafts - note 9.1 | 4,407,991 | 4,911,265 |
| | Term loans - note 9.2 | 243,743 | 200,249 |
| | | 4,651,734 | 5,111,514 |
| | Provision against loans and advances - note 9.3 | (105,978) | (147,146) |
| | | 4,545,756 | 4,964,368 |
| | **Particulars of advances** | | |
| | Short term ( for up to one year) | 4,614,759 | 5,062,204 |
| | Non-current (for over one year) | 36,975 | 49,310 |
| | | 4,651,734 | 5,111,514 |

9.1 These represent balances due from customers at various interest rates ranging from 12.5% to 20% p.a (2011: 12.5% to 15% p.a) and are secured against mortgage of property, personal guarantees, lien on equipments, pledge of stocks and/ or assignment of receivables of the borrowers. The overdrafts are repayable on demand. These included loans and advances to customers amounting to AFN 149,868,600 (2011: AFN 288,674,224) which are partially backed by Deutsche Investitions-und Entwicklungsgesellschaft mbh (DEG) guarantees to the extent defined in agreement with DEG.

9.2 Term loans carry interest at various rates and are secured against mortgage of properties, personal guarantees, lien on equipments, pledge of stocks and / or assignment of receivables of the borrowers. These include loans and advances to customers amounting to AFN 37,821,972 (2011: AFN 29,780,117) which are partially backed by (DEG) guarantee to the extent defined in the agreement with DEG.

9.3 Particulars of the provision against loan and advances

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Specific** | **General** | **Total** | **Specific** | **General** | **Total** |
| | AFN '000 | | | | | |
| Opening | 46,941 | 100,205 | 147,146 | 8,355 | 107,485 | 115,840 |
| Charge for the year | 116,431 | 25,869 | 142,300 | 83,706 | 56,840 | 140,546 |
| Reversal of Provision | (64,374) | (40,112) | (104,486) | (46,056) | (70,838) | (116,894) |
| | 52,057 | (14,243) | 37,814 | 37,650 | (13,998) | 23,652 |
| Written off against provision - note 9.3.1 | (84,605) | - | (84,605) | (1,583) | - | (1,583) |
| Exchange rate difference | 2,248 | 3,375 | 5,623 | 2,519 | 6,718 | 9,237 |
| Closing | 16,641 | 89,337 | 105,978 | 46,941 | 100,205 | 147,146 |

9.3.1 These represent 'loss' category loans which have been written off in accordance with the requirements of the Banking Regulations issued by DAB (the DAB Regulations). However, in terms of paragraph 3.3.1(g) of part C of the DAB Regulations, the write-off does not affect the Bank's rights to recover the debt due from customers and does not eliminate the borrowers' responsibility to repay the loan.

MY4ML

9.4 **Loans and advances have been classified as:**

| Classification | *Provisionin | Amount | Provision required | Provision held |
|---|---|---|---|---|
| | | AFN '000 | | |
| Standard | 2% | 4,466,891 | 89,337 | 89,337 |
| Watch-List | 5% | 147,864 | 7,393 | 7,393 |
| Substandard | 25% | 36,975 | 9,244 | 9,244 |
| Doubtful | 50% | - | - | - |
| Loss note 9.5 | 100% | 4 | 4 | 4 |
| Loans and advances and provision held -2012 | | 4,651,734 | 105,978 | 105,978 |
| Loans and advances and provision held -2011 | | 5,111,514 | 147,146 | 147,146 |

* Provisioning rates are as per DAB Regulation

9.5 As per the DAB Regulation, Article three (part-B) (3.2.1), loan loss provision has been immediately charged off against the reserve for losses. The amount of these loans are AFN 41,393,214 (2011: AFN 95,832,091).

9.6 Classification of regular, overdue but not impaired and impaired loans and advances to customers in terms of product and overdue time period along with details of loans and advances to customers which are renegotiated during the year, has been disclosed in note 30.2.6 .No collaterals were reprocessed during the year.

9.7 The Bank has filed suits for the recovery of loans and advances principle and interest due against the defaulted borrowers amounting to AFN 47,636,311 (2011: AFN 107,552,816)as at the year end. These suits are pending decisions at various courts. The Bank's management is of the view that the aforementioned suits will be decided in its favour due to sound legal footings.

## 10. RECEIVABLE FROM FINANCIAL INSTITUTION

This represents non-interest bearing receivable balance due from CSC Overseas Development Limited (CSC). The Bank has entered into an agreement with CSC whereby credit card / debit card holders of various financial institutions can use ATM machines of the Bank and the amount withdrawn including bank charges will be paid by CSC to the Bank.

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |
| **11. OPERATING FIXED ASSETS** | | |
| Capital work in progress - note 11.1 | 58,652 | 15,609 |
| Property and equipment - note 11.2 | 266,734 | 262,645 |
| | 325,386 | 278,254 |
| **11.1 Capital Work in Progress** | | |
| Advances to suppliers and contractors - note 11.1.1 | 58,652 | 15,609 |
| | 58,652 | 15,609 |
| **11.1.1 Movement in Capital work in Progress** | | |
| As at January 01, | 15,609 | 7,324 |
| Additions during the year | 44,677 | 195,352 |
| Transferred to property and equipment | (1,634) | (187,067) |
| As at December 31, | 58,652 | 15,609 |

ᵐʏ৪ₙ

## 11.2 PROPERTY AND EQUIPMENT

| | Lease hold Land | Leasehold improvements | Computers | Office equipments | Furniture and fixtures | ATMs | Vehicles | Total |
|---|---|---|---|---|---|---|---|---|
| | AFN '000 | | | | | | | |
| At January 1, 2011 | | | | | | | | |
| Cost | - | 55,094 | 43,055 | 64,428 | 12,964 | 33,620 | 61,304 | 270,465 |
| Accumulated depreciation | - | (33,712) | (24,834) | (38,692) | (8,774) | (22,855) | (33,940) | (162,807) |
| Net book amount at January 1, 2011 | - | 21,382 | 18,221 | 25,736 | 4,190 | 10,765 | 27,364 | 107,658 |
| **Year ended December 31, 2011** | | | | | | | | |
| Net book amount at January 1, 2011 | - | 21,382 | 18,221 | 25,736 | 4,190 | 10,765 | 27,364 | 107,658 |
| Additions | - | - | 940 | 16,029 | 685 | 3,243 | - | 20,897 |
| Transfers from Capital Work in Progress | 177,568 | 8,324 | - | 1,175 | - | - | - | 187,067 |
| Deletions | - | - | - | - | - | - | - | - |
| Depreciation charge | - | (11,840) | (206) | (23,811) | (1,611) | (5,877) | (9,632) | (52,977) |
| Net book amount at December 31, 2011 | 177,568 | 17,866 | 18,955 | 19,129 | 3,264 | 8,131 | 17,732 | 262,645 |
| At January 1, 2012 | | | | | | | | |
| Cost | 177,568 | 63,418 | 43,995 | 81,632 | 13,649 | 36,863 | 61,304 | 478,429 |
| Accumulated depreciation | - | (45,552) | (25,040) | (62,503) | (10,385) | (28,732) | (43,572) | (215,784) |
| Net book amount at January 1, 2012 | 177,568 | 17,866 | 18,955 | 19,129 | 3,264 | 8,131 | 17,732 | 262,645 |
| **Year ended December 31, 2012** | | | | | | | | |
| Net book amount at January 1, 2012 | 177,568 | 17,866 | 18,955 | 19,129 | 3,264 | 8,131 | 17,732 | 262,645 |
| Additions | - | - | 6,571 | 14,460 | 497 | 31,588 | 6,938 | 60,054 |
| Transfers from Capital Work in Progress | - | 1,634 | - | - | - | - | - | 1,634 |
| Deletions / Written off - Note 11.2.1 | - | (382) | (1,797) | (61) | (543) | (3,538) | - | (6,321) |
| Depreciation charge | - | (11,071) | (11,105) | (13,362) | (1,535) | (11,058) | (7,699) | (55,830) |
| Depreciation on deletions | - | 265 | 1,701 | 34 | 356 | 2,196 | - | 4,552 |
| Net book amount at December 31, 2012 | 177,568 | 8,312 | 14,325 | 20,200 | 2,039 | 27,319 | 16,971 | 266,734 |
| At December 31, 2012 | | | | | | | | |
| Cost | 177,568 | 64,670 | 48,769 | 96,031 | 13,603 | 64,913 | 68,242 | 533,796 |
| Accumulated depreciation | - | (56,358) | (34,444) | (75,831) | (11,564) | (37,594) | (51,271) | (267,062) |
| Net book amount | 177,568 | 8,312 | 14,325 | 20,200 | 2,039 | 27,319 | 16,971 | 266,734 |
| Useful life | | 3 to 10 years | 3 to 5 years | 3 to 5 years | 3 to 10 years | 5 years | 5 years | |

11.2.1 Management carried out, 100% Physical verification of the fixed assets and as a result fixed assets having net book value amounting to AFN 1.6 million were written off during the period.

MYA_C

## 12. INTANGIBLE ASSETS

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | AFN '000 | |
| Computer softwares and licenses | 12.1 | 43,219 | 52,622 |
| Goodwill | 12.2 | 156,385 | - |
| | | 199,604 | 52,622 |

### 12.1

| | Computer softwares | License fee | Total |
|---|---|---|---|
| | AFN '000 | | |
| **At January 1, 2011** | | | |
| Cost | 103,308 | 505 | 103,813 |
| Accumulated amortization | (49,772) | (505) | (50,277) |
| Net book amount at January 1, 2011 | 53,536 | - | 53,536 |
| **Year ended December 31, 2011** | | | |
| Net book amount at January 1, 2011 | 53,536 | - | 53,536 |
| Additions | 1,990 | 14,645 | 16,635 |
| Transfers | (8,820) | 8,820 | - |
| Amortization charge | (15,816) | (1,733) | (17,549) |
| Amortization on transfer | 6,316 | (6,316) | - |
| Net book amount at December 31, 2011 | 37,206 | 15,416 | 52,622 |
| **At January 1, 2012** | | | |
| Cost | 96,478 | 23,970 | 120,448 |
| Accumulated amortization | (59,272) | (8,554) | (67,826) |
| Net book amount at January 1, 2012 | 37,206 | 15,416 | 52,622 |
| **Year ended December 31, 2012** | | | |
| Net book amount at January 1, 2012 | 37,206 | 15,416 | 52,622 |
| Additions | 4,387 | 5,415 | 9,802 |
| Amortization charge | (11,680) | (7,525) | (19,205) |
| Net book amount at December 31, 2012 | 29,913 | 13,306 | 43,219 |
| **At December 31, 2012** | | | |
| Cost | 100,865 | 29,385 | 130,250 |
| Accumulated amortization | (70,952) | (16,079) | (87,031) |
| Net book amount | 29,913 | 13,306 | 43,219 |
| **Useful life** | 3 to 10 years | 3 to 10 years | |

### 12.2 GOODWILL

The amount represents recognition of goodwill on acquisition of Standard Chartered Bank (SCB), Kabul Branch as at September 15, 2012. The bank has obtained control of 100% operations of the SCB in Afghanistan.

### 12.2.1 Consideration Transferred

The consideration is payable in three tranches:

I. An immediate payment of USD 500,000/-

II. A further payment of USD 1 Million after one year of acquisition; and

III. A further payment up to maximum of USD 1.5 Million depending upon profit attributable to transferred customers with in two years of acquisition. The management believes that the expected profits will exceed the minium threshold therefore, management has made a full provision of contingent consideration of USD 1.5 million in these financial statements.

The third payment that is conditional upon profit attributable to transferred customers is contingent considerations. At the date of acquisition, profit attributable to transferred customers as per management estimates is likely to exceed the threshold for maximum amount of contingent payment, therefore an amount of USD 1.5 million has been included in aggregate consideration transferred that amounts to USD 3 million (AFN 156,390,000).

Acquisition-related costs amounting to AFN 8.79 million have been excluded from the consideration transferred and have been recognised as expense in the current year, within the 'other expenses' line item in the income statement.

### 12.2.2 Identifiable assets acquired and liabilities assumed

The following summaries the recognized amounts of assets acquired and liabilities assumed at the acquisition date.

| | 2012<br>AFN '000 |
|---|---|
| **Current and non current assets** | |
| Operating fixed assets | 5 |
| Cash and cash equivalents | 8,719,388 |
| **Current and non current liabilities** | |
| Customer deposits | (8,719,388) |
| **Total net identifiable assets** | 5 |

There were no non-controlling interest on acquisition of SCB.

### 12.2.3 Goodwill arising on acquisition

Goodwill from the acquisition has been recognized as follows:

| | |
|---|---|
| Total Consideration transferred | 156,390 |
| Fair value of net identifiable assets | (5) |
| | 156,385 |

Goodwill has been recognized on the acquisition because the cost of acquisition included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth.

The goodwill amounts recognized in the financial statements are on provisional basis. The management is considering the acquisition transaction to assess whether such transaction requires seperate recognition of any intangible assets that may arise due to acquisition.

### 12.2.4 Net cash inflow on acquisition

| | 2012<br>AFN '000 |
|---|---|
| Consideration paid in cash | (26,065) |
| Less: cash and cash equivalent balances acquired | 8,719,388 |
| | 8,693,323 |

MYRza

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |

## 13. OTHER ASSETS

| | 2012 | 2011 |
|---|---|---|
| Advance to employees | 7,157 | 5,538 |
| Security deposits | 2,084 | 1,378 |
| Prepayments | 37,053 | 47,219 |
| Interest receivable | 125,359 | 104,105 |
| Other receivable | 20,242 | 27,331 |
| Money Gram International - note 13.1 | 4,194 | 2,622 |
| Less: | | |
| Provision against other receivable - note 13.2 | (7,868) | (7,868) |
| | 188,221 | 180,325 |

**13.1** This includes non-interest bearing balance (due to)/ from Money Gram International. The Bank is providing money transfer services to customers under arrangement with Money Gram International

**13.2** The provision is held against outstanding receivable from money service provider. The bank has made recovery during the year against such balance.

## 14. CUSTOMERS' DEPOSITS

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |
| Current deposits | 37,717,993 | 28,371,064 |
| Saving deposits - note 14.1 | 5,422,161 | 1,515,710 |
| | 43,140,154 | 29,886,774 |
| Term deposits - note 14.2 | 2,500 | 53,453 |
| | 43,142,654 | 29,940,227 |

**14.1** Saving deposit carry interest rate at 3% p.a (2011 : 3% p.a)

**14.2** Term deposits carry interest rate of 1.75% p.a (2011: 1.75% p.a) on local currency deposits.

## 15. DEFERRED INCOME TAX

| | 2012 | 2011 |
|---|---|---|
| **Deferred tax assets arising in respect of:** | | |
| Deficit on revaluation of investments | 11,286 | 2,735 |
| Less: | | |
| **Deferred tax liabilities arising in respect of:** | | |
| Accelerated tax depreciation and amortization | (14,945) | (18,162) |
| | (3,659) | (15,427) |

MYqrt

## 15.1 Movement in temporary differences during the year

**Deferred tax assets arising in respect of:**

| | Balance as at January 01,2011 | Recognised in profit and loss | Recognised in equity | Balance as at December 31, 2011 | Recognised in profit and loss during the period | Recognised in equity | December 31, 2012 |
|---|---|---|---|---|---|---|---|
| | AFN '000 | | | | | | |
| **Deferred tax asset arising in respect of:** | | | | | | | |
| Dividend on shareholder | 22,855 | (22,855) | - | - | - | - | - |
| Deficit on revaluation of investments | - | - | 2,735 | 2,735 | | 8,552 | 11,286 |
| | 22,855 | (22,855) | 2,735 | 2,735 | - | 8,552 | 11,286 |
| **Deferred tax liabilities arising in respect of:** | | | | | | | |
| Accelerated tax depreciation and amortization | (18,454) | 292 | - | (18,162) | 3,217 | - | (14,945) |
| | 4,401 | (22,563) | 2,735 | (15,427) | 3,217 | 8,552 | (3,659) |

## 16. OTHER LIABILITIES

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |
| Accruals and other payables | 37,204 | 48,198 |
| Income tax liability | 83,857 | 5,762 |
| Amounts pending transfer to customers' accounts - note 16.1 | 5,394 | 37,720 |
| Customers payment orders awaiting collection | 73 | - |
| Provision for bonus to employees | 59,080 | 45,883 |
| Payable to Standard Chartered Bank - note 12.2 | 26,040 | - |
| Provision for contingent consideration - note 12.2 | 104,160 | |
| Others | 29,730 | 19,965 |
| | 345,538 | 157,528 |

16.1 This represents amounts received on behalf of the customers, however not credited in the respective customers accounts due to incomplete identification data.

## 17. SHARE CAPITAL

| | | 2012 | 2011 |
|---|---|---|---|
| | | '000 | |
| 30,000,000 (2011: 30,000,000) authorized ordinary shares of USD 1 each | USD | 30,000 | 30,000 |
| | AFN | 1,384,200 | 1,384,200 |
| Issued, subscribed and paid-up 30,000,000 (2011: 30,000,000) ordinary shares of USD 1 each fully paid in cash | AF | 1,465,071 | 1,465,071 |

Issued, subscribed and paid up capital comprises 25% holding each by Afghanistan Investment Partners Corporation, Asian Development Bank, Horizon Associates LLC and Wilton Holdings Limited.

**Movement in number of shares during the year is given below:**

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |
| Number of shares at beginning of the year | 30,000 | 20,000 |
| Bonus shares issued during the year - note 17.1 | - | 10,000 |
| Number of shares at end of the year | 30,000 | 30,000 |

Mkhe

**17.1** In year 2011, the Bank issued 10 million bonus shares amounting to AFN 473,500,000 (US$ 10 million) on the basis of one share for every two shares held as per the approval of the shareholders in the Annual General Meeting held on February 21, 2011. There were no new shares issued during the current year.

## 18. CONTINGENCIES AND COMMITMENTS

### 18.1 Contingencies

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |
| **(a) Guarantees** | 632,048 | 212,974 |

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

**(b) Taxation**

Tax return submitted by the Bank from the tax years 2007 to 2011 shall be treated as an assessment of tax payable and tax return shall be treated as a notice of assessment. However, the Ministry of Finance may issue an assessment notice or amend an assessment notice only within five years from date of filing of return. In this respect, as per the tax advisor confirmation, tax audit by the LTO audit team for all previous years is in progress and final outcome is not known and no provision is required to be provided in these financial statements.

### 18.2 Commitments

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |
| (a) Undrawn loan and overdraft facilities | 1,449,639 | 813,107 |
| (b) Commercial letters of credit | 989,374 | 464,955 |
| | 2,439,013 | 1,278,062 |

## 19. INTEREST INCOME

| | 2012 | 2011 |
|---|---|---|
| Interest income on: | | |
| Balances with DAB | 44,773 | 33,678 |
| Investments and short term deposits | 332,204 | 183,255 |
| Loans and advances to customers | 680,228 | 578,098 |
| | 1,057,205 | 795,031 |

## 20. INTEREST EXPENSE

| | 2012 | 2011 |
|---|---|---|
| Interest expense on: | | |
| Customers' deposits | 2,730 | 2,160 |
| Borrowings from financial institutions | - | - |
| | 2,730 | 2,160 |

## 21. FEE AND COMMISSION INCOME

| | 2012 | 2011 |
|---|---|---|
| Fee and commission income on: | | |
| Loans and advances to customers | 61,563 | 57,591 |
| Trade finance products | 51,383 | 39,697 |
| Cash withdrawals | 151,182 | 155,985 |
| Customers' account service charges | 35,421 | 6,163 |
| Cash transfers | 38,589 | 38,491 |
| Income from ATMs | 54,085 | 30,691 |
| Others | 26,567 | 16,382 |
| | 418,790 | 345,000 |

Myths

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |

## 22. FEE AND COMMISSION EXPENSE

| | 2012 | 2011 |
|---|---|---|
| Guarantee commission | 7,197 | 4,291 |
| Bank charges | 7,182 | 7,922 |
| | 14,379 | 12,213 |

## 23. INCOME FROM DEALING IN FOREIGN CURRENCIES

| | 2012 | 2011 |
|---|---|---|
| Forex income | 159,883 | 187,090 |
| | 159,883 | 187,090 |

## 24. OTHER INCOME

| | 2012 | 2011 |
|---|---|---|
| Recovery of loans written off in prior years | - | 17,224 |
| Gain on sale of property and equipment | 335 | - |
| Exchange (loss)/gain | 12,146 | (13,978) |
| Others | 5,214 | 539 |
| | 17,695 | 3,785 |

## 25. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2012 | 2011 |
|---|---|---|
| Salaries and benefits - note 25.1 | 353,814 | 295,921 |
| Rental, rates and taxes | 75,145 | 47,561 |
| Electricity, generator and fuel | 37,698 | 26,648 |
| Repairs and maintenance | 37,581 | 23,517 |
| Security cost | 90,965 | 73,357 |
| Depreciation - note 11.2 | 55,830 | 52,978 |
| Amortization - note 12.1 | 19,205 | 17,549 |
| Directors fee and their meeting expenses | 17,918 | 8,589 |
| Travelling and accommodation | 17,282 | 10,085 |
| Communication, swift and internet | 41,221 | 36,546 |
| Stationary and printing | 29,226 | 25,491 |
| Legal and professional charges | 75,506 | 70,599 |
| Investment management fee to investment advisors | 5,259 | 1,622 |
| Audit fee | 3,403 | 3,022 |
| Marketing and promotion | 38,218 | 14,053 |
| Money service providers charges | 10,786 | 15,101 |
| Insurance | 68,662 | 52,702 |
| Subscriptions and memberships | 6,928 | 792 |
| Other charges | 10,997 | 1,902 |
| Write off fixed assets - note 11.2.1 | 6,321 | - |
| Taxes and penalties | 103 | 570 |
| Corporate social responsibility | 1,983 | - |
| | 1,004,051 | 778,605 |

25.1 Salaries and benefits included AFN 21,087,877 (2011: AFN 45,883,449) in respect of bonus to employees.

## 26. TAXATION

| | 2012 | 2011 |
|---|---|---|
| Current | | |
| For the year | 120,612 | 75,203 |
| Prior year | (13,003) | (16,430) |
| | 107,609 | 58,773 |
| Deferred | | |
| For the year | (3,217) | 22,563 |
| | 104,392 | 81,336 |

MYAnc

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |

## 26.1 Relationship between tax expense and accounting profit

| | 2012 | 2011 |
|---|---|---|
| Accounting profit for the year | 604,399 | 460,255 |
| Applicable tax @ 20% | 120,880 | 92,051 |
| Less: Effect of reversal of prior year charge | (13,003) | (16,430) |
| Effect of tax deferred tax (reversal) / charge | (3,217) | 22,563 |
| Effect of tax on carryforward loss | | (5,681) |
| Effect of foreign temporary differnece on dividend | | (22,855) |
| Add: Effect of tax on BRT | 4 | 10 |
| Effect of foreign currency gain on dividend paid | - | 155 |
| Effect of tax on Temporary difference | (1,960) | 10,804 |
| Effect of others | 1,688 | 719 |
| Tax charge - net | 104,392 | 81,336 |

## 27. RELATED PARTY TRANSACTIONS

The Bank has a related party relationship with its shareholders, their related entities, directors and key management personnel. The bank had transactions with following related parties at mutually agreed terms during the year:

| Nature of transactions | Directors and other key management personnel (and close family members) | | Share Holders and its associated companies | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | AFN '000 | | AFN '000 | |
| (a) ***Loans and advances to related parties*** | | | | |
| Loans outstanding at beginning of the year | - | - | 346,365 | 226,230 |
| Loans issued during the year | - | - | 2,348,213 | 3,591,385 |
| Loan repayments during the year | - | - | (2,395,373) | (3,467,726) |
| Exchange gain | - | - | 18,458 | (3,524) |
| Loans outstanding at end of the year | - | - | 317,663 | 346,365 |
| Interest income earned | - | - | 30,357 | 28,275 |

General provision on outstanding balances of loans and advances to related parties amounts to AFN 6,353,997 (2011: AFN 5,716,292).

The facility provided to related parties carries mark-up at variable interest rates ranging from US Prime + 4.5% p.a to 8% p.a payable on monthly basis with minimum rate of 12.5% p.a and is secured against mortgage of residential property and personal guarantees of directors of the Bank.

MY Ane

| Nature of transactions | Directors and other key management personnel (and close family members) | | Share holders and its associated companies | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | AFN '000 | | AFN '000 | |
| **(b) *Deposits from related parties*** | | | | |
| Deposits at beginning of the year | 1,692 | 3,809 | 237,341 | 166,374 |
| Deposits received during the year | 4,733,780 | 107,782 | 4,448,839 | 3,991,798 |
| Deposits repaid during the year | (5,252,358) | (110,036) | (4,320,593) | (3,933,793) |
| Exchange Rate Difference | (10,989) | 137 | (51,412) | 12,962 |
| Deposits at end of the year | (527,875) | 1,692 | 314,175 | 237,341 |
| Interest expense on deposits | - | - | - | - |

These represents current account of related parties, which carry Nil interest rate (2011: Nil).

| | Directors and other key management personnel (and close family members) | | Share Holders and Its Associated companies | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **(c) *Other transactions with related parties*** | AFN '000 | | AFN '000 | |
| Fee and commission income | - | - | 11,189 | 8,576 |
| Directors fee | 1,558 | 1,627 | - | - |
| Fee and commission expense | 2,717 | - | - | - |
| Rental expenses | 6,737 | 4,275 | - | - |
| Other expense | 269 | - | 4,246 | - |
| Guarantees issued by the Bank | - | - | 26,805 | 10,287 |
| Commercial letter of credits including accepted bills | - | - | - | - |
| and export bills purchased | - | 1,575 | 473,569 | 65,288 |
| | 11,281 | 7,477 | 515,809 | 84,151 |

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |
| **(d) *Key management compensation*** | | |
| Salaries and other short-term benefits | 86,122 | 63,246 |

Key management personnel of the Bank include the Chief Executive Officer, Chief Financial Officer, Chief Information Officer, Chief Operating Officer, Head of commercial Banking, Chief Risk Officer, Head of Internal Audit and Head of Human Resource.

mHara

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |

## 28. CASH AND CASH EQUIVALENTS

| | 2012 | 2011 |
|---|---|---|
| Cash in hand and at ATM | 1,996,667 | 1,434,253 |
| Cash and balances with DAB (other than minimum reserve requirement) | 3,291,036 | 4,353,861 |
| Balances with other banks | 12,925,553 | 3,819,777 |
| Short term placements (with maturity less than three months from the date of acquisition) | 6,348,552 | 5,845,693 |
| | 24,561,808 | 15,453,584 |

## 29. EARNINGS PER SHARE - BASIC AND DILUTED

| | 2012 | 2011 |
|---|---|---|
| Profit after taxation (AFN '000) | 500,007 | 378,919 |
| Weighted average number of ordinary shares - (numbers in thousand) | 30,000 | 30,000 |
| Basic earnings per share - Basic & diluted (AFN per share) | 16.67 | 12.63 |

29.1 There was no dilutive effect on basic earnings per share of the Bank.

## 30. FINANCIAL RISK MANAGEMENT

### 30.1 Financial Assets and Liabilities

| December 31, 2012 | Loans and Receivables | Held to maturity | Available for sale | Total |
|---|---|---|---|---|
| | AFN '000 | | | |
| **Financial Assets** | | | | |
| Cash and balances with Da Afghanistan Bank | 8,656,807 | - | - | 8,656,807 |
| Balances with other Banks | 13,728,764 | - | - | 13,728,764 |
| Short term placements - net | - | 10,079,068 | - | 10,079,068 |
| Investments - net | - | 4,962,814 | 3,183,562 | 8,146,376 |
| Loans and advances to customers - net | 4,545,756 | - | - | 4,545,756 |
| Receivables from financial institution | 191,208 | - | - | 191,208 |
| Security deposits and other receivables - net | 151,168 | - | - | 151,168 |
| | **27,273,703** | **15,041,882** | **3,183,562** | **45,499,147** |
| **Financial Liabilities** | | | | |
| Customers' Deposits | | | | |
| Term deposits | 2,500 | - | - | 2,500 |
| Current / Saving deposits | 43,140,154 | - | - | 43,140,154 |
| Other liabilities | 261,681 | - | - | 261,681 |
| | **43,404,335** | - | - | **43,404,335** |
| **Off balance sheet items** | | | | |
| Guarantees | 632,048 | - | - | 632,048 |
| Undrawn loan and overdraft facilities | 1,449,639 | - | - | 1,449,639 |
| Commercial letter of credits | 989,374 | - | - | 989,374 |
| | **3,071,061** | - | - | **3,071,061** |

MYRA

| December 31, 2011 | Loans and Receivables | Held to maturity | Available for sale | Total |
|---|---|---|---|---|
| | AFN '000 | | | |
| **Financial Assets** | | | | |
| Cash and balances with Da Afghanistan Bank | 7,553,861 | - | - | 7,553,861 |
| Balances with other Banks | 4,761,472 | - | - | 4,761,472 |
| Short term placements | - | 7,140,667 | - | 7,140,667 |
| Investments | - | 4,950,437 | 2,212,973 | 7,163,410 |
| Loans and advances to customer - net | 4,964,368 | - | - | 4,964,368 |
| Receivables from financial institutions | 122,576 | - | - | 122,576 |
| Security deposits and other receivables - Net | 151,766 | - | - | 151,766 |
| | **17,554,043** | **12,091,104** | **2,212,973** | **31,858,120** |
| **Financial Liabilities** | | | | |
| Customer Deposits | | | | |
| Term deposits | 53,453 | - | - | 53,453 |
| Current / Saving deposits | 29,886,774 | - | - | 29,886,774 |
| Other liabilities | 105,883 | - | - | 105,883 |
| | **30,046,110** | - | - | **30,046,110** |
| **Off balance sheet items** | | | | |
| Guarantees | 212,974 | - | - | 212,974 |
| Undrawn loan and overdraft facilities | 813,107 | - | - | 813,107 |
| Commercial letter of credit | 464,955 | - | - | 464,955 |
| | **1,491,036** | - | - | **1,491,036** |

## 30.2 Financial Risk factors

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a central treasury department (Bank Treasury) besides Risk Management Department under policies approved by the Management Board. Bank Treasury identifies, evaluates and manages financial risks in close co-operation with the Bank's operating units. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non-derivative financial instruments. The internal audit is responsible for the independent review of risk management and control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

### 30.2.1 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, balances with banks and receivable from financial institution and short term placements with other banks. Credit risk also arises in off-balance sheet financial instruments, such as Bank's contingencies and commitments. The credit risk management and control are centralized in credit risk management team of Bank and reported to the management team and head of each business unit regularly.

MYRhe

### 30.2.2 Credit risk measurement

*(a)* ***Loans and advances***

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the date of statement of financial position.

(i) Over due balances on loans to customers are segmented into four categories as described in note 3.4 (b). The percentage of provision created on such over due balances are as per guidelines issued by DAB and reflects the range of default probabilities defined for each category. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

(ii) Exposure at default is based on the amounts, the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

*(b)* ***Other than loans and advances***

Other than loans and advances includes balances with other banks and financial institutions and short term placements with other banks, investments in bonds and held with DAB and other assets. Judgments and instructions from the Bank's treasury are being used by the Bank's management in placing funds with other banks and are viewed as a way to gain better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time when required.

Further, the Bank has banking relationships with financial institutions which have good international reputation and strong financial standing and therefore, probability of default by such financial institutions is low.

### 30.2.3 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved quarterly by the Management Board.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations at the time of loan appraisal for initial and subsequent loans.

Some other specific control and mitigation measures are outlined below.

MYAL

*(a)* ***Collateral***

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties
- Charges over business assets such as premises, inventory and accounts receivable

In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

*(b)* ***Credit-related commitments***

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

**30.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements**

| | Maximum exposure | |
|---|---|---|
| | **2012** | **2011** |
| | **AFN '000** | |
| Credit risk exposures relating to on-balance sheet assets are as follows: | | |
| Balances with other banks | 13,728,764 | 4,761,472 |
| Short term placements - net | 10,079,068 | 7,140,667 |
| Investments - net (net of capital notes with DAB) | 4,970,509 | 3,609,474 |
| Loans and advances to customers - net | 4,545,756 | 4,964,368 |
| Receivables from other financial institutions | 191,208 | 122,576 |
| Security deposits and other receivables - net | 151,168 | 133,106 |
| | 33,666,473 | 20,731,663 |
| Credit risk exposures relating to off-balance sheet items are as follows: | | |
| Guarantees | 632,048 | 212,974 |
| Undrawn loan and overdraft facilities | 1,449,639 | 813,107 |
| Commercial letters of credit | 989,374 | 464,955 |
| | 3,071,061 | 1,491,036 |

The above table represents credit risk exposure to the Bank at December 31, 2012 and December 31, 2011, without taking account of any collateral held or other enhancements attached. For on-balance-sheet assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

The percentage of the credit majore exposure in balances with other banks, loans and advances and short term placements are as follows (in percentage of the total credit exposure):

| | **2012** | **2011** |
|---|---|---|
| Balances with other banks | 40.78% | 22.97% |
| Short term placements | 29.94% | 34.44% |
| Loans and advances to customers - net | 13.50% | 23.95% |

MYAK

### 30.2.5 Credit quality of financial Assets

The credit qualities of Bank's financial assets have been assessed below by the reference to external credit ratings of counter parties determined by various international credit rating agencies. The counterparties for which external credit ratings were not been available have been assessed by reference to internal credit ratings determined based on their historical information for any defaults in meeting obligations.

| Balance with other banks/ FIs | Credit rating | Credit rating agency | 2012 | 2011 |
|---|---|---|---|---|
| | | | AFN '000 | |
| Counter parties with external credit ratings | | | | |
| Standard Chartered Bank | A1 | Moody's | 11,422,603 | 62,881 |
| Commerz bank Germany | A3 | Moody's | 1,281,343 | 4,612,565 |
| Emirates NBD | Baa1 | Moody's | 957,389 | 47,067 |
| Ak bank, Turkey | Ba2 | Moody's | 13,864 | 37,462 |
| Credit Suisse | A1 | Moody's | 53,565 | 1,098 |

| Balance with other banks/ FIs | Credit rating | Credit rating agency | 2012 AFN '000 |
|---|---|---|---|
| **Short term Placements** | | | |
| Ak Bank | Ba2 | Moody's | 520,800 |
| Bank of Montereal | Aa2 | Moody's | 390,600 |
| Credit Suisse AG London ( USD) | A1 | Moody's | 390,600 |
| Emirates NBD | Baa1 | Moody's | 859,320 |
| Halk Bank | Baa2 | Moody's | 520,800 |
| PNB Hong Kong | Baa3 | Moody's | 520,800 |
| Rabo Bank | Aa2 | Moody's | 645,792 |
| SCB New York | A1 | Moody's | 2,083,200 |
| SCB Singapore | A1 | Moody's | 4,166,400 |

| | 2012 | 2011 |
|---|---|---|
| | AFN '000 | |
| **Receivables from financial institution** | | |
| Counter parties | 191,208 | 122,576 |
| **Loans and Advances - Net** | | |
| Counter parties | 4,545,756 | 4,964,368 |
| **Security deposits and other receivables** | | |
| Counter parties | 151,168 | 133,106 |

### 30.2.6 Loans and advances - net

Loans and advances are summarized as follows:

| | 2012 | 2011 |
|---|---|---|
| Neither past due nor impaired | 4,296,480 | 5,010,274 |
| Past due but not impaired | 170,411 | - |
| Impaired | 184,843 | 101,240 |
| Gross | 4,651,734 | 5,111,514 |
| Interest receivable | - | - |
| Less: allowance for impairment | | |
| General | (89,337) | (100,205) |
| Specific | (16,641) | (46,941) |
| | 4,545,756 | 4,964,368 |

The total impairment provision for loans and advances (including general provision) is AFN 105,978,383 (2011: AFN 147,146,087). Further information of the impairment allowance for loans and advances to customers is provided in note 9 to these financial statements.

During the year 2012, the Bank's total loans and advances decreased by 9% as a result of management strategy to focus on investment and other lower risk based investment.

MYAhL

*(a) Loans and advances neither past due nor impaired*

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank and DAB regulations

| | Loans and advances | | | | | | |
|---|---|---|---|---|---|---|---|
| | Large corporate customers | | | SMEs | | | Total |
| | Overdraft | Term loans | PIFs* | Overdraft | Term loans | PIFs | |
| | AFN '000 | | | | | | |
| December 31, 2012 | | | | | | | |
| Regular Loans | 3,750,637 | 65,972 | 25,736 | 416,157 | 37,978 | - | 4,296,480 |
| December 31, 2011 | | | | | | | |
| Regular Loans | 4,555,029 | 76,734 | 69,284 | 287,161 | 22,067 | - | 5,010,275 |

*(b) Loans and advances past due but not impaired*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| December 31, 2012 | | | | | | | |
| Past due up to 30 days | 83,869 | 3,894 | 304 | 76,891 | 5,453 | - | 170,411 |
| Fair value of collateral | 1,373,278 | - | - | 2,121,381 | 451,560 | 525,283 | 4,471,502 |
| December 31, 2011 | | | | | | | |
| Past due up to 30 days | - | - | - | - | - | - | - |
| Fair value of collateral | - | - | - | - | - | - | - |

** Post Import Finance*

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

*(c)* ***Loans and advances individually impaired***

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AFN 184,842,431 (December 31, 2011: AFN 197,071,651) including balances written off of AFN 84,604,903 (December 31, 2011; AFN 95,832,090).

| | Loans and advances | | | | | | |
|---|---|---|---|---|---|---|---|
| **December 31, 2012** | **Large corporate customers** | | | **SMEs** | | | **Total** |
| | **Overdraft** | **Term loans** | **PIFs** | **Overdraft** | **Term loans** | **PIFs** | |
| | AFN '000 | | | | | | |
| Watch | 11,812 | 31,648 | - | 98,952 | 5,452 | - | 147,864 |
| Substandard | - | - | - | 36,975 | | - | 36,975 |
| Doubtful | - | - | - | - | - | - | - |
| Loss | 1.04 | 0.52 | - | 1 | 1 | - | 4 |
| Total | 11,813 | 31,649 | - | 135,928 | 5,453 | - | 184,843 |
| Fair value of collateral | 10,577,934 | 328,390 | - | 4,676,142 | 778,090 | - | 16,360,556 |
| **December 31, 2011** | | | | | | | |
| Watch | - | 8,178 | - | - | - | - | 8,178 |
| Substandard | - | - | - | - | | - | - |
| Doubtful | 67,879 | 21,203 | - | 1,195 | 2,782 | - | 93,059 |
| Loss | 2 | - | - | - | 1 | - | 3 |
| Total | 67,881 | 29,381 | - | 1,195 | 2,783 | - | 101,240 |
| Fair value of collateral | 370,992 | 133,784 | - | 15,441 | 67,550 | - | 587,767 |

*(d)* ***Loans and advances renegotiated***

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which; in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to overdraft. Renegotiated loans that would otherwise be past due or impaired at December 31, 2012 were AFN Nil (December 31, 2011: Nil).

| | **2012** | | **2011** | |
|---|---|---|---|---|
| Loans and advances | **At renegotiation time** | **As at year end** | **At renegotiation time** | **As at period end** |
| | AFN '000 | | | |
| - Term loans | 83,760 | 53,494 | 114,892 | 106,877 |
| - Overdraft | 128,952 | 124,569 | - | - |
| - PIF | - | - | - | - |
| Total | 212,712 | 178,063 | 114,892 | 106,877 |

MYA

**30.2.7 Concentration of risk of financial assets with credit risk exposure**

**(a) Geographical sectors**

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of December 31, 2012. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

| | Afghanistan | Lebanon | Germany | Canada | Turkey | Switzerland | UAE | India | Hong Kong | Australia | England | Holland | USA | *Others | Amounts in AFN '000 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **On balance sheet** | | | | | | | | | | | | | | | |
| Balances with other banks | - | - | 1,501,574 | - | 13,864 | 53,565 | 978,580 | - | - | - | 154 | - | 3,106,319 | 8,074,708 | 13,728,764 |
| Short term placements - net | - | - | - | 388,647 | 1,036,392 | 388,647 | 855,023 | - | 516,196 | - | - | 642,563 | 2,083,200 | 4,166,400 | 10,078,068 |
| Investments-net | 3,175,867 | - | 95,268 | 97,100 | - | 13,263 | 340,718 | 251,428 | 150,591 | 38,524 | 239,343 | 271,439 | 1,054,061 | 2,418,776 | 8,146,376 |
| Loans and advances to customers - net | 4,545,756 | - | - | - | - | - | - | - | - | - | - | - | - | - | 4,545,756 |
| Receivables from other financial institutions | - | 191,208 | - | - | - | - | - | - | - | - | - | - | - | - | 191,208 |
| Security deposits and other receivables - net | 151,168 | - | - | - | - | | - | - | - | - | - | - | - | - | 151,168 |
| | 7,872,791 | 191,208 | 1,596,840 | 485,747 | 1,050,256 | 455,475 | 2,174,321 | 251,428 | 668,787 | 38,524 | 239,497 | 914,002 | 6,243,580 | 14,659,884 | 36,842,340 |
| **Off balance sheet** | | | | | | | | | | | | | | | |
| Contingencies and commitments | 3,071,061 | - | - | - | - | - | - | - | - | - | - | - | | | 3,071,061 |
| As at December 31, 2012 | 10,943,852 | 191,208 | 1,596,840 | 485,747 | 1,050,256 | 455,475 | 2,174,321 | 251,428 | 668,787 | 38,524 | 239,497 | 914,002 | 6,243,580 | 14,659,884 | 39,913,401 |
| As at December 31, 2011 | 10,205,327 | 122,576 | 4,640,542 | 390,496 | 1,018,731 | 764,586 | 1,602,138 | 2,202,983 | 514,326 | 326,892 | 1,394,580 | 661,714 | - | - | 23,834,871 |

* It includes exposure with Singapore, Austria, Russia, Korea, Malaysia, Qatar, Bahrain, Sweden and some other countries

**(b) Industry sectors**

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of counterparties.

| | Manufacturing | Agriculture | Construction | Tele-communication | Banks and financial institutions | Traders | Fuel suppliers | Others | Amounts in AFN '000 Total |
|---|---|---|---|---|---|---|---|---|---|
| **On balance sheet** | | | | | | | | | |
| Balances with other banks | - | - | - | - | 13,728,764 | - | - | - | 13,728,764 |
| Short term placements - net | - | - | - | - | 10,079,068 | - | - | - | 10,079,068 |
| Investments - net | 40,055 | 25,569 | - | 164,219 | 6,305,626 | 36,536 | - | 1,574,371 | 8,146,376 |
| Loans and advances to customers - net | 323,922 | - | 383,274 | 121,768 | - | 2,501,826 | 1,175,233 | 39,732 | - 4,545,756 |
| Receivable from financial institution | - | - | - | - | 191,208 | - | - | - | 191,208 |
| Security deposits and other receivables - net | - | - | - | - | - | - | - | 151,168 | 151,168 |
| | 363,977 | 25,569 | 383,274 | 285,987 | 30,304,666 | 2,538,362 | 1,175,233 | 1,765,271 | 36,842,340 |
| **Off balance sheet** | | | | | | | | | |
| Contingencies and commitments | 171,983 | - | 519,358 | 276,100 | - | 1,523,421 | 263,516 | 316,683 | 3,071,061 |
| As at December 31, 2012 | 535,960 | 25,569 | 902,632 | 562,087 | 30,304,666 | 4,061,783 | 1,438,749 | 2,081,954 | 39,913,401 |
| As at December 31, 2011 | 557,874 | - | 1,008,526 | - | 19,188,125 | 3,857,040 | - | 1,165,069 | 25,776,634 |

**30.2.8 Market risk**

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange.

MYA7C

### 30.2.9 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at December 31, 2012 and December 31, 2011. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

If the functional currency, at the year end date, strengthens/ weakens by 10% against the USD with all other variables held constant, the impact on profit after taxation for the period would have been AFN 128 million higher/ lower (2011: AFN 35 million higher/ lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the period end date, strengthens/ weakens by 10% against the EURO with all other variables held constant, the impact on profit after taxation for the period would have been AFN 12.86 million lower/ higher (2011: AFN 0.622 million lower/ higher) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the period end date, strengthens/ weakens by 10% against the AED with all other variables held constant, the impact on profit after taxation for the period would have been AFN 0.42 million higher/ lower (2011: AFN 37.4 million higher/ lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

| | AED | USD | EURO | GBP | INR | AFN | Total |
|---|---|---|---|---|---|---|---|
| | | | ----------Converted to AFN '000---------- | | | | |
| **As at December 31, 2012** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with Da Afghanistan Bank | - | 1,237,630 | 524,325 | | - | 6,894,852 | 8,656,807 |
| Balances with other banks | 4,245 | 13,169,834 | 553,906 | 779 | - | - | 13,728,764 |
| Short term placements - net | - | 10,079,068 | - | - | - | - | 10,079,068 |
| Investments - net | - | 4,970,509 | - | - | - | 3,175,867 | 8,146,376 |
| Loans and advances to customers - net | - | 4,051,813 | - | - | - | 493,943 | 4,545,756 |
| Receivables from financial institutions | - | 125,122 | 5,215 | - | - | 60,871 | 191,208 |
| Security deposits and other receivables - net | - | 104,129 | 93 | 10 | - | 46,936 | 151,168 |
| Total financial assets | 4,245 | 33,738,105 | 1,083,539 | 789 | - | 10,672,469 | 45,499,147 |
| **Liabilities** | | | | | | | |
| Customers' deposits | 59 | 35,038,740 | 1,212,184 | 232 | - | 6,891,439 | 43,142,654 |
| Other liabilities | - | - | - | | | 261,681 | 261,681 |
| Total financial liabilities | 59 | 35,038,740 | 1,212,184 | 232 | - | 7,153,120 | 43,404,335 |
| On-balance sheet financial position - net | 4,186 | (1,300,635) | (128,645) | 557 | - | 3,519,349 | 2,094,812 |
| **As at December 31, 2011** | | | | | | | |
| Total financial assets | 373,887 | 21,602,176 | 1,274,135 | - | 4 | 8,589,258 | 31,839,460 |
| Total financial liabilities | - | 21,955,348 | 1,280,358 | - | - | 6,810,404 | 30,046,110 |
| Net on-balance sheet financial position | 373,887 | (353,172) | (6,223) | - | 4 | 1,778,854 | 1,793,350 |

MVQNL

### 30.2.10 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. Bank's investments, loans and advances are primarily linked to EONIA, LIBOR and US Prime.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amount, categorised by the earlier of contractual repricing or maturity dates.

| As at December 31, 2012 | Interest bearing | | | | | Total interest bearing | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|
| | Upto 1 month | 1 to 3 months | 3 to 12 month | 1 to 5 years | Over 5 years | | | |
| | AFN '000 | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with Da Afghanistan Bank (DAB) | 4,619,104 | - | - | - | - | 4,619,104 | 4,037,703 | 8,656,807 |
| Balances with other Banks | 11,900,735 | - | - | - | - | 11,900,735 | 1,828,029 | 13,728,764 |
| Short term placements net | 2,800,862 | 4,156,010 | 3,122,196 | - | - | 10,079,068 | - | 10,079,068 |
| Investments - net | 1,073,210 | 1,195,711 | 2,911,848 | 2,886,057 | - | 8,066,826 | - | 8,066,826 |
| Loans and advances to customers - net | 24,498 | 1,545,880 | 2,975,378 | - | - | 4,545,756 | - | 4,545,756 |
| Receivables from other financial institution | | - | - | - | - | - | 191,208 | 191,208 |
| Security deposits and other receivables - net | - | - | - | - | - | - | 151,168 | 151,168 |
| Total financial assets | 20,418,409 | 6,897,601 | 9,009,422 | 2,886,057 | - | 39,211,489 | 6,208,108 | 45,419,597 |
| **Liabilities** | | | | | | | | |
| Customers' deposits | 74,341 | - | 2,500 | - | - | 76,841 | 43,065,813 | 43,142,654 |
| Other liabilities | - | - | - | - | - | - | 261,681 | 261,681 |
| Total financial liabilities | 74,341 | - | 2,500 | - | - | 76,841 | 43,327,494 | 43,404,335 |
| Total interest repricing gap | 20,344,068 | 6,897,601 | 9,006,922 | 2,886,057 | - | 39,134,648 | (37,119,386) | 2,015,262 |
| As at December 31, 2011 | | | | | | | | |
| Total financial assets | 9,203,856 | 2,797,888 | 7,697,596 | 3,057,182 | - | 22,756,522 | 9,082,938 | 31,839,460 |
| Total financial liabilities | 92,534 | 4,467 | 48,986 | - | - | 145,987 | 29,900,122 | 30,046,109 |
| Total interest repricing gap | 9,111,322 | 2,793,421 | 7,648,610 | 3,057,182 | - | 22,610,535 | (20,817,184) | 1,793,351 |

If the interest increase/(decrease) by 100 bps, the impact on profit after taxation for the year would have been AFN 392,399,900 (2011: AFN 182,493,609) lower/higher respectively.

## 30.3 Liquidity risk

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

### 30.3.1 Liquidity risk management process

The Bank's liquidity management process, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

### 30.3.2 Funding approach

Sources of liquidity are regularly reviewed by the treasury department to maintain a wide diversification by currency, geography, provider, product and term.

### 30.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held to manage liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

| | Up to 1 month | 1 to 3 months | 3 to 12 month | 1 to 5 years | Over 5 | Total |
|---|---|---|---|---|---|---|
| | | | AF | | | |
| **As at December 31, 2012** | | | | | | |
| **Liabilities** | | | | | | |
| Customers' deposits | 43,140,154 | - | 2,500 | - | - | 43,142,654 |
| Other liabilities | 261,681 | - | - | - | - | 261,681 |
| Total financial liabilities (contractual maturity dates) | 43,401,835 | - | 2,500 | - | - | 43,404,335 |
| Total financial assets (contractual maturity dates) | 26,626,517 | 6,897,601 | 9,009,422 | 2,886,057 | - | 45,419,597 |
| **As at December 31, 2011** | | | | | | |
| **Liabilities** | | | | | | |
| Customers' deposits | 29,886,774 | 4,467 | 48,986 | - | - | 29,940,227 |
| Other liabilities | 105,883 | - | - | - | - | 105,883 |
| Total financial liabilities (contractual maturity dates) | 29,992,657 | 4,467 | 48,986 | - | - | 30,046,110 |
| Total financial assets (contractual maturity dates) | 18,286,795 | 2,797,888 | 7,697,596 | 3,057,182 | - | 31,839,460 |

Assets available to meet all of the liabilities and to cover outstanding loans commitment include cash and balances with Da Afghanistan Bank, balances with banks and receivable from financial institution, short term placements, loans and advances to customers and security deposits and other receivables.

m4θ7a

### 30.3.4 Off-balance sheet items

#### (a) Guarantees and other financial assets

Guarantees are also included below based on earliest contractual maturity date.

#### (b) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below.

| As at December 31, 2012 | Not later than 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| | AFN | | | |
| Guarantees | 506,796 | 110,801 | 14,451 | 632,048 |
| Undrawn loan and overdraft facilities | 1,449,639 | - | - | 1,449,639 |
| Commercial letters of credit | 989,374 | - | - | 989,374 |
| Total | 2,945,809 | 110,801 | 14,451 | 3,071,061 |
| **As at December 31, 2011** | | | | |
| Guarantees | 197,102 | 15,872 | - | 212,974 |
| Undrawn loan and overdraft facilities | 813,107 | - | - | 813,107 |
| Commercial letters of credit | 464,955 | - | - | 464,955 |
| Total | 1,475,164 | 15,872 | - | 1,491,036 |

### 30.4 Fair value of financial assets and liabilities

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

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

Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Mugne

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| | | AFN | |
| Investment in Bonds - available for sales investments | 3,199,559 | - | - |
| As at December 31, 2012 | 3,199,559 | - | - |
| As at December 31, 2011 | 2,224,093 | - | - |

There were no transfers made among various levels of fair value hierarchy during the year.

### (b) *Financial instruments not measured at fair value*

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

| | Carrying Value | | Fair Value | |
|---|---|---|---|---|
| | December 31, 2012 | December 31, 2011 | December 31, 2012 | December 31, 2011 |
| | AFN | | | |
| ***Financial assets:*** | | | | |
| Cash and balances with Da Afghanistan Bank (DAE | 8,656,807 | 7,553,861 | 8,656,807 | 7,553,861 |
| Balances with other banks | 13,728,764 | 4,761,472 | 13,728,764 | 4,761,472 |
| Short term placements | 10,079,068 | 7,140,667 | 10,079,068 | 7,140,667 |
| Investments - net | 4,946,817 | 4,939,317 | 4,946,817 | 4,939,317 |
| Loans and advances to customers - net | 4,545,756 | 4,964,368 | 4,545,756 | 4,964,368 |
| Security deposits and other receivables - net | 151,168 | 133,106 | 151,168 | 133,106 |
| ***Financial liabilities:*** | | | | |
| Customers' deposits | 43,142,654 | 29,940,227 | 43,142,654 | 29,940,227 |
| Other liabilities | 261,681 | 151,766 | 261,681 | 151,766 |
| ***Off balance sheet financial instruments:*** | | | | |
| Bank's commitments | 2,439,013 | 1,278,062 | 2,439,013 | 1,278,062 |

The carrying values of these financial assets and liabilities approximates their fair values as at the date of statement of financial position

(i) **Investments**

Investments include short term placements and are recognised as held to maturity which is measured at amortised cost. The fair value of investments is equal to the carrying amount.

(ii) **Loans and advances, security deposits and other receivables, and financial liabilities**

Fair value of loans and advances, security deposits and other receivables and all the financial liabilities cannot be calculated with sufficient reliability due to absence of current and active market for such assets and reliable data regarding market rates for similar instruments, so its carrying amount is its fair value. The provision for loans and advances has been calculated in accordance with the Bank's policy and regulations issued by DAB.

(iii) **Off-balance sheet financial instruments**

The fair value of the off-balance sheet financial instruments is equal to the carrying amounts.

## 30.5 Capital management

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

i) To comply with the capital requirements set by the DAB;

ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to be self-sustainable; and

iii) To maintain a strong capital base to support the development of its business.

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

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

| | 2012<br>AF | 2011<br>AF |
|---|---|---|
| Regulatory Capital | | |
| Tier 1 (Core) Capital: | | |
| Total equity capital | 2,560,495 | 2,097,427 |
| *Less:* | | |
| Intangible assets | 199,604 | 52,622 |
| Net deferred tax assets | 11,286 | - |
| Profit for the period | 500,007 | 378,919 |
| | 1,849,598 | 1,665,886 |
| Tier 2 (Supplementary) Capital: | | |
| General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposures | 89,337 | 100,205 |
| Profit for the year | 500,007 | 378,919 |
| | 589,344 | 479,124 |

MYAZL

## 31. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue by the Board of Supervisors of the Bank on _________________________.

Myang

Chief Executive Officer

Director