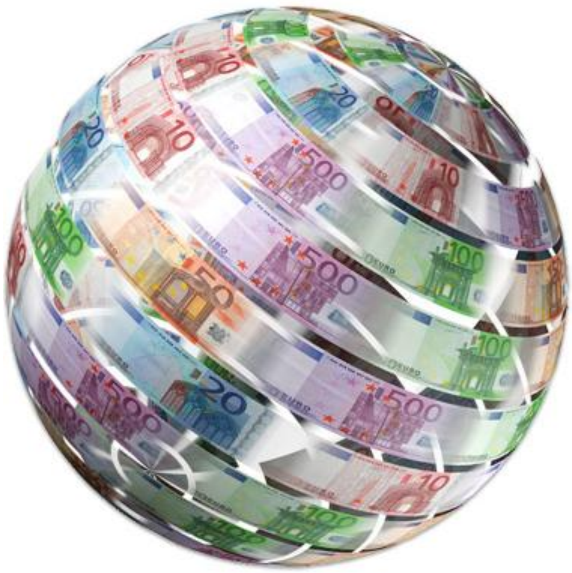
2012

New Kabul Bank financial statements and auditors' report

For the year ended December 31, 2012



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Independent auditors' report to the Board of Directors of New Kabul Bank

We have audited the accompanying financial statements of New Kabul Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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reasonableness of accounting estimates made by the 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 qualified audit opinion.

Basis for Qualified Opinion

Due to non-reconciliation relating to balances in respect of foreign currency transactions of AFN 2,950.81 million (2011: AFN 1,425 million), [USD 56.659 million (2011: USD 28.907 million)] shown under suspense liability account (note 14.1) the consequential adjustments, if any, on the financial statements remain unascertained.

Qualified Opinion

In our opinion, except for the effects on the financial statements of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Law of Banking in Afghanistan.

Emphasis of matter

We draw attention to note 3.2 to the financial statements, which indicates the material uncertainty of the Bank to continue business for the foreseeable future due to unsuccessful privatization which may lead to the liquidation of the Bank. Moreover, the Bank is operating with limitations on lending and investing activities that create restriction on profitability of the Bank. These along with the other matters set forth in note 3.2 indicate the existence of a material uncertainty of the Bank's ability to continue as a going concern. Our opinion is not qualified in respect of these matters.

Anjum Asim Shahid Rahman.

Kabul
Date: **July 30, 2013**

Anjum Asim Shahid Rahman
Chartered Accountants

New Kabul Bank

Financial statements

For the year ended December 31, 2012

NEW KABUL BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

2012	2011		Note	2012	2011
.... USD	....			.... AFN	....
		ASSETS			
292,507,765	337,793,013	Cash and cash equivalents	5	**15,233,804,422**	16,656,573,479
86,273,898	121,039,970	Investment in capital notes	6	**4,493,144,627**	5,968,480,929
5,715,587	9,736,117	Property and equipment	7	**297,667,760**	480,087,926
3,041,942	4,845,326	Intangible assets	8	**158,424,350**	238,923,033
103,386,586	58,526,919	Receivable from Kabul Bank in Receivership	9	**5,384,373,389**	2,885,962,355
50,313,461	64,429,275	Other assets	10	**2,620,325,036**	3,177,007,599
541,239,239	596,370,620	**Total assets**		**28,187,739,584**	29,407,035,321
		EQUITY AND LIABILITIES			
		EQUITY			
-	-	Share capital	11	-	-
(42,391,201)	(19,194,020)	Accumulated losses		**(2,207,733,742)**	(946,457,090)
(42,391,201)	(19,194,020)	**Total equity**		**(2,207,733,742)**	(946,457,090)
		LIABILITIES			
507,374,317	562,340,031	Deposits from customers	12	**26,424,054,411**	27,728,986,945
19,596,939	24,317,571	Other liabilities	13	**1,020,608,583**	1,199,099,410
56,659,185	28,907,038	Suspense liability	14	**2,950,810,332**	1,425,406,056
583,630,441	615,564,640	**Total liabilities**		**30,395,473,326**	30,353,492,411
541,239,239	596,370,620	**Total equity and liabilities**		**28,187,739,584**	29,407,035,321

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

S. Muzammil Noor (Chief Financial Officer)	Masood Khan Musa Ghazi (Chief Executive Officer)	Mohammad Aqa Kohistani (Chairman)

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

2012 USD	2011 USD		Note	2012 AFN	2011 AFN
4,364,670	996,125	Interest income		227,312,037	49,118,909
(1,411,301)	(2,775,669)	Interest expense		(73,500,565)	(136,868,259)
2,953,369	(1,779,544)	**Net interest income / (loss)**	16	153,811,472	(87,749,350)
11,141,851	7,986,951	Fee and commission income		580,267,605	393,836,569
(532,953)	(530,526)	Fee and commission expense		(27,756,184)	(26,160,230)
10,608,898	7,456,425	**Net fee and commission income**	17	552,511,421	367,676,339
3,989,254	8,333,828	Other operating income	18	207,760,352	410,941,083
17,551,522	14,010,709	**Operating income**		914,083,245	690,868,072
(13,399,049)	(11,168,497)	Employee benefit expense	19	(697,822,467)	(550,718,566)
(3,780,963)	(2,721,439)	Depreciation	7	(196,912,534)	(134,194,151)
(1,545,674)	(1,140,515)	Amortization	8	(80,498,683)	(56,238,806)
(276,437)	-	Provision against cash shortages	10.3	(14,396,831)	-
(1,353,448)	-	Provision against other assets	10.4	(70,487,583)	-
(1,995,706)	-	Loss on foreign currency translation		(103,936,361)	-
(17,422,601)	(18,174,278)	Other expenses	20	(907,369,077)	(896,173,639)
(39,773,877)	(33,204,729)	**Operating expenses**		(2,071,423,536)	(1,637,325,162)
(22,222,356)	(19,194,020)	**Loss before tax**		(1,157,340,291)	(946,457,090)
-	-	Income tax	21	-	-
(22,222,356)	(19,194,020)	**Loss for the year / period**		(1,157,340,291)	(946,457,090)
-	-	Other comprehensive income		-	-
(22,222,356)	(19,194,020)	**Total comprehensive income**		(1,157,340,291)	(946,457,090)

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

S. Muzammil Noor
(Chief Financial Officer)

Masood Khan Musa Ghazi
(Chief Executive Officer)

Mohammad Aqa Kohistani
(Chairman)

AASR

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

Share capital (USD)	Accumulated loss (USD)	Total (USD)		Share capital (AFN)	Accumulated loss (AFN)	Total (AFN)
-	-	-	Balance as at April 21, 2011	-	-	-
-	(19,194,019)	(19,194,019)	Total comprehensive income for the period	-	(946,457,090)	(946,457,090)
-	(19,194,019)	(19,194,019)	Balance as at December 31, 2011	-	(946,457,090)	(946,457,090)
-	**(18,173,139)**	**(18,173,139)**	**Balance as at January 01, 2012**	**-**	**(946,457,090)**	**(946,457,090)**
-	**(22,222,356)**	**(22,222,356)**	**Total comprehensive income for the year**	**-**	**(1,157,340,291)**	**(1,157,340,291)**
-	**(1,995,706)**	**(1,995,706)**	**Exchange difference due to translation of foreign currencies**	**-**	**(103,936,361)**	**(103,936,361)**
-	**(42,391,201)**	**(42,391,201)**	**Balance as at December 31, 2012**	**-**	**(2,207,733,742)**	**(2,207,733,742)**

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

S. Muzammil Noor
(Chief Financial Officer)

Masood Khan Musa Ghazi
(Chief Executive Officer)

Mohammad Aqa Kohistani
(Chairman)

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

2012	2011			2012	2011
.... USD			Note	.... AFN	
		CASH FLOWS FROM OPERATING ACTIVITIES			
(22,222,356)	(19,194,020)	Loss for the year / period		**(1,157,340,291)**	(946,457,090)
		Adjustments for:			
3,780,963	2,721,439	Depreciation	7	**196,912,534**	134,194,151
1,545,674	1,140,515	Amortization	8	**80,498,683**	56,238,806
(16,895,720)	(15,332,066)			**(879,929,074)**	(756,024,132)
		Increase/decrease in current assets and liabilities			
(47,972,562)	(58,526,919)	Receivable from Kabul Bank in Receivership	9	**(2,498,411,034)**	(2,885,962,355)
10,688,989	(64,429,276)	Other assets	10	**556,682,563**	(3,177,007,599)
(25,056,308)	562,340,031	Deposits from customers	12	**(1,304,932,534)**	27,728,986,945
(3,427,243)	24,317,571	Other liabilities	13	**(178,490,827)**	1,199,099,410
29,289,637	28,907,038	Suspense liability	14	**1,525,404,276**	1,425,406,056
(53,373,207)	477,276,381			**(2,779,676,630)**	23,534,498,325
-	-	Income tax paid		-	-
(53,373,207)	477,276,381	**Net cash (used in)/generated from operating activities**		**(2,779,676,630)**	23,534,498,325
		CASH FLOWS FROM INVESTING ACTIVITIES			
(278,271)	(12,457,556)	Addition in property and equipment	7	**(14,492,368)**	(614,282,077)
-	(5,985,841)	Addition in intangibles	8	-	(295,161,839)
28,328,270	(121,039,970)	Investment in capital notes - net	6	**1,475,336,302**	(5,968,480,929)
28,049,999	(139,483,367)	**Net cash generated from/(used in) investing activities**		**1,460,843,934**	(6,877,924,846)
-	-	**CASH FLOWS FROM FINANCING ACTIVITIES**		-	-
(25,323,208)	337,793,013	**Net (decrease)/increase in cash and cash equivalents**		**(1,318,832,696)**	16,656,573,479
319,826,680	-	Cash and cash equivalents, beginning of year / period	5	**16,656,573,479**	-
(1,995,706)	-	Effect of exchange differences		**(103,936,361)**	-
292,507,765	337,793,013	**Cash and cash equivalents, end of year / period**	5	**15,233,804,422**	16,656,573,479

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

S. Muzammil Noor	**Masood Khan Musa Ghazi**	**Mohammad Aqa Kohistani**
(Chief Financial Officer)	**(Chief Executive Officer)**	**(Chairman)**

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1 STATUS AND NATURE OF BUSINESS

New Kabul Bank ("the Bank"') is a limited liability company incorporated under the Law in Afghanistan. The Bank was registered with Afghanistan Investment Support Agency (AISA) on August 09, 2011 and received commercial banking license from the Da Afghanistan Bank (DAB) central bank of Afghanistan on April 18, 2011. The Bank started its operation on April 21, 2011 upon the liquidation of Kabul Bank and transfer of all good assets and operations to the New Kabul Bank. The registered office of the Bank is located in Kabul, Afghanistan and has sixty five branches and forty seven extension counters.

The Bank is established as a bridge bank with the objective of its privatization to private sector or liquidation in case of unsuccessful privatization. The control of the bank is temporarily with Government of Islamic Republic of Afghanistan and is exercised by the Ministry of Finance. The Bank is primarily engaged in restrictive commercial banking services in Afghanistan including deposits, transfers and issuance of bank guarantees.

The financial statements for the year ended December 31, 2012 (including comparatives) have been approved and authorized for issue by the Board of Directors on July 30, 2013.

2 STATEMENT OF COMPLIANCE

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

2.2 Standards, amendments and IFRIC interpretations to approved accounting standards that are not yet effective

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

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

a) IFRS 9 - Financial Instruments

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

b) IFRS 13 - Fair Value Measurement

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

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

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

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

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

3 BASIS OF PREPARATION

3.1 Basis of measurement

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

3.2 Going concern assumption

The Bank was established on April 21, 2011 with the main objective to privatize the Bank or to liquidate it in case of unsuccessful privatization. The bank is still in the process of restructuring and has already been incurred a net loss of AFN 1,157.34 million (USD 22.22 million) for the current year ended on December 31, 2012. Further, the Bank has no paid-up capital which caused it to have negative equity of AFN 2,207.73 million (USD 42.40 million).

These conditions indicate the existence of material uncertainty on the Bank's ability to continue as a going concern, and therefore, it may not be able to realize its assets and discharge its liabilities in the normal course. However, management is hopeful regarding the successful completion of restructuring process in the near future. Therefore, the financial statements have been prepared on going concern assumption basis.

3.3 Use of critical accounting estimates and judgments

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

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

a)	Note 10.3	Provision against cash shortages
b)	Note 10.4	Provision against other assets
c)	Note 7	Depreciation rates for property and equipment
d)	Note 8	Amortization rate for intangible assets

3.4 Functional and presentation currency

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

The US Dollar amounts reported in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows are stated as additional information, solely for the convenient of the user of these financial statements. The US Dollar amounts in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows have been translated into US Dollar at the rate of AFN 52.08 US$ 1 (2011: AFN 49.31).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Cash and cash equivalents

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

4.2 Financial instruments

Recognition, initial measurement and de-recognition

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

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

Classification and subsequent measurement of financial assets

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

a) loans and receivables
b) financial assets at fair value through profit or loss (FVTPL)
c) held-to-maturity (HTM) investments
d) available-for-sale (AFS) financial assets

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

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

a) Held-to-maturity (HTM) investments

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

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

Classification and subsequent measurement of financial liabilities

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

4.3 Property and equipment - tangible

Owned

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

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

Depreciation on all fixed assets is calculated using the straight line method to allocate their depreciable cost to their residual values over their estimated useful lives. The residual values and useful lives of fixed assets are reviewed, and adjusted (if appropriate) at each balance sheet date.

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

Leased

Fixed assets held under finance lease are stated at the lower of fair value of asset and present value of minimum lease payments at the inception of lease, less accumulated depreciation. Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding liability. Depreciation is charged on the basis similar to owned assets.

4.4 Intangible assets – computer software's

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

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

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

4.5 Impairment of non-financial assets

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

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

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

4.6 Deposits

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

4.7 Taxation

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

Current tax

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

Deferred tax

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

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

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

4.8 Employee compensation

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

4.9 Foreign currency transactions

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

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

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

4.10 Interest income and expense

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

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

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

4.11 Fee and commission

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

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

4.12 Lease payments

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

4.13 Provisions

Provisions for restructuring costs and legal claims are recognised when:

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

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

4.14 Off-setting

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

	Note	2012	2011
		………… AFN …………	
5 CASH AND CASH EQUIVALENTS			
Cash in hand:			
Local currency		**1,582,228,971**	1,773,586,569
Foreign currency		**1,185,100,580**	2,231,206,104
		2,767,329,551	4,004,792,673
Balances with banks:			
Balances with Da Afghanistan Bank	5.1	**7,704,306,358**	9,792,592,092
Balances with other banks	5.2	**4,762,168,513**	2,859,188,714
		12,466,474,871	12,651,780,806
		15,233,804,422	16,656,573,479
5.1 Balances with Da Afghanistan Bank			
Overnight deposits			
Local currency	5.1.1	**1,004,214,354**	250,448,609
Current account			
Local currency		**4,604,265,775**	6,537,100,090
Foreign currency		**2,095,826,229**	3,005,043,393
		6,700,092,004	9,542,143,483
		7,704,306,358	9,792,592,092

5.1.1 This represents overnight deposits with Da Afghanistan Bank, carrying interest rates ranging from 0.95% to 1.12% (2011: 0.95% to 1.10%) per annum.

	Note	2012	2011
		………… AFN …………	
5.2 Balances with other banks			
Current accounts			
Local currency		**15,677,226**	117,928,704
Foreign currency		**4,728,974,627**	2,546,664,801
		4,744,651,853	2,664,593,505
Deposit accounts			
Foreign currency	5.2.1	**17,516,660**	194,595,209
		4,762,168,513	2,859,188,714

5.2.1 This represents collateral deposits with CSC bank amounting to AFN 10,416,000 (2011: AFN 9,862,000) and with Commerz bank amounting to AFN 7,100,660 (2011: AFN 184,733,209) carrying nil markup (2011: Nil).

	2012	2011
	………… AFN …………	
6 INVESTMENT IN CAPITAL NOTES		
Held to maturity		
28 days capital notes	**4,493,144,627**	4,492,679,427
182 days capital notes	**-**	1,475,801,502
	4,493,144,627	5,968,480,929

6.1 These are classified as held to maturity having maximum period of 28 days carrying interest at rates ranging from 1.95% to 2.12% (2011: 2.09% to 2.30%) per annum.

7 PROPERTY AND EQUIPMENT

	Furniture and fixtures	Electric equipments	Computer and IT equipments	Motor vehicles	Containers	Total
	…… AFN ……					
GROSS CARRYING AMOUNT						
Balance as at April 21, 2011	-	-	-	-	-	-
Acquisition/additions during the period	42,858,871	93,583,329	312,106,501	144,061,631	21,671,746	614,282,077
Balance as at December 31, 2011	42,858,871	93,583,329	312,106,501	144,061,631	21,671,746	614,282,077
Balance as at January 01, 2012	**42,858,871**	**93,583,329**	**312,106,501**	**144,061,631**	**21,671,746**	**614,282,077**
Acquisition/additions during the year	**288,661**	**2,437,607**	**11,766,100**	**-**	**-**	**14,492,368**
Balance as at December 31, 2012	**43,147,532**	**96,020,936**	**323,872,601**	**144,061,631**	**21,671,746**	**628,774,445**
ACCUMULATED DEPRECIATION						
Balance as at April 21, 2011	-	-	-	-	-	-
Charge for the period	9,976,823	21,792,043	67,362,633	33,548,599	1,514,053	134,194,151
Balance as at December 31, 2011	9,976,823	21,792,043	67,362,633	33,548,599	1,514,053	134,194,151
Balance as at January 01, 2012	**9,976,823**	**21,792,043**	**67,362,633**	**33,548,599**	**1,514,053**	**134,194,151**
Charge for the year	**14,376,772**	**32,004,986**	**100,343,057**	**48,020,544**	**2,167,175**	**196,912,534**
Balance as at December 31, 2012	**24,353,595**	**53,797,029**	**167,705,690**	**81,569,143**	**3,681,228**	**331,106,685**
WRITTEN DOWN VALUE AS AT						
- December 31, 2011	32,882,048	71,791,286	244,743,868	110,513,032	20,157,693	480,087,926
- December 31, 2012	**18,793,937**	**42,223,907**	**156,166,911**	**62,492,488**	**17,990,518**	**297,667,760**
Rate of depreciation in %	**10**	**20**	**33.33**	**20**	**10**	

7.1 There were no capitalized borrowing costs related to the acquisition of property and equipment during the year (2011: nil).

		Note	2012	2011
			.... AFN	
8	**INTANGIBLE ASSETS**			
	Gross carrying amount			
	Opening balance		**295,161,839**	-
	Additions during the period		**-**	295,161,839
	Closing balance		**295,161,839**	295,161,839
	Accumulated amortization			
	Opening balance		**56,238,806**	-
	Charge for the year / period		**80,498,683**	56,238,806
	Closing balance		**136,737,489**	56,238,806
	Written down value	8.1	**158,424,350**	238,923,033

8.1 Intangible assets includes software licensing, customization and implementation costs for oracle database and mobile banking applications which is being amortized at the rate of 33.33% (2011: 33.33%).

			2012	2011
9	**RECEIVABLE FROM KABUL BANK IN RECEIVERSHIP**		**5,384,373,389**	2,885,962,355

Claim against Receivership represents the currency wise amount receivable from Ministry of Finance (MoF), Government of Islamic Republic of Afghanistan. These currency wsie amounts are transferred into reported currency (Afghani) using the prevaling exchange rate as at December 31, 2012. Moreover, the settlement process is not yet completed as of reporting date. A special certification of New Kabul Bank claim against Kabul Bank in receivership is in progress as of the date of authorization of these financial statements. As per privatization plan approved by Council of Ministers, Islamic Republic of Afghanistan and subsequently communicated through letter number 237321 dated Jaddi 11, 1391 (August 27, 2012), MoF will bear the difference of asset and liabilities. This settlement will be made through the sale proceed of NKB and realization of old Kabul Bank assets.

		Note	2012	2011
			.... AFN	
10	**OTHER ASSETS**			
	Required reserve with Da Afghanistan Bank	10.1	**2,212,566,000**	2,105,705,498
	Advances and prepayments	10.2	**92,866,493**	53,656,694
	Receivable from remittances		**75,361,968**	82,748,874
	Cash in transit		**106,278,702**	432,418,338
	Receivable from DAB		**-**	188,851,862
	Staff loan		**17,952,463**	30,474,210
	Overdraft accounts		**13,037,952**	12,811,086
	Shortage of cash	10.3	**-**	26,465,446
	Others	10.4	**102,261,458**	243,875,591
			2,620,325,036	3,177,007,599

10.1 This represents the required reserve account maintained with Da Afghanistan Bank to meet minimum reserve requirement in accordance with Article 64 "Required reserve for banks" of Da Afghanistan Bank Law. This carries mark-up ranging from 0.975% to 1.10% (2011: 1.25% to 2%) per annum. Required reserve with DAB are not available for use in the Bank's day-to-day operations.

	Note	2012	2011
		………… AFN …………	
10.2 Advances and prepayments			
Advance payment		**44,245,009**	-
Prepaid Rent		**48,712,023**	53,295,122
Others		**(90,539)**	361,572
		92,866,493	53,656,694
10.3 Cash shortages			
Cash shortages - gross		**14,396,831**	26,465,446
Provision against cash shortages		**(14,396,831)**	-
Cash shortages - net		**-**	26,465,446
10.4 Others			
Gross amount		**172,749,041**	243,875,591
Provision against other assets		**(70,487,583)**	-
Others - net		**102,261,458**	243,875,591

11 SHARE CAPITAL

	Note	2012	2011
Authorized			
1,000,000 ordinary shares of AFN 1,000 each		**1,000,000,000**	1,000,000,000
Issued, subscribed and paid-up capital	11.1	-	-

11.1 The bank is owned by Ministry of Finance which has acquired its ownership through the process of splitting Kabul Bank without injection of any capital. As the bank has been established as a bridge entity to take over operations of Kabul Bank with an objective of ultimate selling it to a new investor within a period of eighteen months therefore Supreme Council (SC) of Da Afghanistan Bank (DAB) in its meeting held on 24/12/1389 has granted forbearance to the bank for regulatory requirement related to the size and structure of its capital.

12 DEPOSITS FROM CUSTOMERS

	Note	2012	2011
		………… AFN …………	
Local currency			
Current deposits		**5,288,508,395**	5,314,742,286
Saving deposits	12.1	**6,630,230,694**	6,934,282,436
Term deposits	12.2	**571,659**	257,831,505
		11,919,310,748	12,506,856,227
Foreign currency			
Current deposits		**7,449,474,334**	8,001,482,677
Saving deposits	12.1	**7,018,772,794**	7,093,340,992
Term deposits	12.2	**36,496,535**	127,307,049
		14,504,743,663	15,222,130,718
		26,424,054,411	27,728,986,945

12.1 Saving deposits carry interest at the rate of 1.25% to 1.876% (2011: 1.25% to 1.5%) per annum.

12.2 Term deposits carry no interest (2011: 1.70% to 1.90% per annum) and include security deposits of credit card customers and Mudaraba investment accounts.

13 OTHER LIABILITIES

	Note	2012	2011
		.... AFN	
Margin money on bank guarantees		**484,615,759**	715,217,965
Remittance payable		**65,604,825**	155,856,129
CSC account payables		**301,688,222**	138,801,549
Withholding taxes payable		**6,665,961**	61,447,507
Accrued and other liabilities		**162,033,816**	127,776,260
		1,020,608,583	1,199,099,410

14 SUSPENSE LIABILITY

	Note	2012	2011
Suspense liability	14.1	**2,950,810,332**	1,425,406,056

14.1 Suspense liability account represent balance outstanding in the position account due to the cross currency transactions. As the resolution of the outstanding balance is pending on the system correction, therefore the balance is classified in the suspense liability account as per the guidlines of Da Afghanistan Bank (DAB).

15 CONTINGENCIES AND COMMITMENTS

	Note	2012	2011
		.... AFN	
Contingencies			
Guarantees issued on behalf of customers	15.1	**250,553,965**	164,466,145

15.1 All guarantees are issued with 100% margin.

Lease Commitments

Cancellable operating lease rentals are payable as follows:

		2012	2011
Less than one year		**123,119,416**	139,844,210
Between one and five years		**492,477,665**	210,007,748
More than five years		**-**	98,198,400
		615,597,081	448,050,358

16 NET INTEREST INCOME / (LOSS)

	Note	2012	2011
Interest income on:			
Investment in capital notes		**180,312,631**	35,988,909
Interest bearing bank accounts		**46,999,406**	13,130,000
		227,312,037	49,118,909
Interest expense on:			
Deposits from banks		**-**	(10,558,869)
Deposits from customers		**(73,500,565)**	(126,309,390)
	16.1	**(73,500,565)**	(136,868,259)
Net interest income / (loss)		**153,811,472**	(87,749,350)

		2012	2011
		.... AFN	
16.1	**Interest expense on:**		
	Term deposits	**2,384,038**	14,409,081
	Saving deposits	**71,116,527**	122,459,178
		73,500,565	136,868,259

17 NET FEE AND COMMISSION INCOME

	2012	2011
Fee and commission income		
Commission on remittances	**89,583,394**	51,560,663
Commission on WU operations	**73,072,640**	57,762,273
Commission on collections	**13,068,201**	14,376,226
Commission on salary distribution	**345,284,967**	253,521,399
Commission on bank guarantees	**3,044,458**	919,832
Account maintenance fee	**56,213,945**	15,696,176
	580,267,605	393,836,569
Fee and commission expense		
Inter-bank transaction fee	**(27,756,184)**	(26,160,230)
Net fee and commission income	**552,511,421**	367,676,340

18 OTHER OPERATING INCOME

	2012	2011
Income from cash operations	**36,008,046**	22,261,171
Gain on foreign currencies transactions	**75,376,457**	382,798,571
Commission on call centre services	**29,032,108**	5,302,802
Others	**67,343,741**	578,539
	207,760,352	410,941,083

19 EMPLOYEE BENEFIT EXPENSE

	2012	2011
Salaries and wages	**605,018,468**	478,429,687
Food and other amenities to staff	**92,803,999**	72,288,879
	697,822,467	550,718,566

20 OTHER EXPENSES

	2012	2011
Rent and taxes	**81,179,913**	266,191,424
Communication expense	**204,027,625**	150,813,655
Bank security expense	**312,637,013**	219,434,268
Insurance	**96,399,786**	48,017,863
Fuel and electricity	**91,120,273**	62,562,144
Software services	**37,017,232**	49,774,007
Advertisement	**22,007,543**	26,259,324
Repair and maintenance	**22,354,364**	29,275,528
Stationery and printing	**31,950,054**	29,354,157
Audit fee	**3,315,000**	3,646,728
Legal and professional charges	**-**	2,167,550
Others	**5,360,274**	8,676,991
	907,369,077	896,173,639

21 INCOME TAX

Current and deferred tax

No provision for the current period income tax has been made in these financial statements due to net tax loss for the period and no deferred tax asset has been recognized due to non-availability of future taxable

22 RELATED PARTIES

Ultimate controlling entity
Ministry of Finance (MoF), is the ultimate controlling entity of the bank.

Other related parties
As the bank is owned by Ministry of Finance therefore the government and all entities owned by the government are related to the bank.

Key management personnel
Key management personnel includes Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, and Chief Managers.

Transactions with key management personnel
Key management personnel have done following transactation with the Bank during the year:

Short-term staff advances	Maximum balance	Closing balance
	………… AFN	…………
Chief Executive Officer	504,768	344,768
Chief Financial Officer	182,280	-
Chief Operating Officer	4,008,754	-

No impairment losses have been recorded against balances outstanding during the year with key management personnel.

Moreover during the year AFN 12,719,000 paid to key management personnel as remuneration.

Transactions with other related parties
There are no significant related party transaction except for normal banking services to government and its agencies for salary distribution and related deposit accounts.

23 FINANCIAL ASSETS AND LIABILITIES

Categories of financial assets and financial liabilities

Note 4.2 provides a description of each category of financial assets and financial liabilities and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

	Note	Available for sale financial assets	Held for trading (FVTPL)	Derivatives used for hedging	Held to maturity	Loans and receivables	Total
		(carried at fair value)			(carried at amortised cost)		
		…..AFN…..					
December 31, 2012							
Financial assets							
Cash and cash equivalents	5	-	-	-	-	15,233,804,422	15,233,804,422
Investment in capital notes	6	-	-	-	4,493,144,627	-	4,493,144,627
Receivable from Kabul Bank in Receivership	9	-	-	-	-	5,384,373,389	5,384,373,389
Other assets	10	-	-	-	-	2,527,458,543	2,527,458,543
		-	-	-	4,493,144,627	23,145,636,354	27,638,780,981

	Note	Derivatives used for hedging	Designated at FVTPL	Other liabilties at FVTPL	Other liabilities (amortised cost)	Total
		(carried at fair value)				
		…..AFN…..				
Financial liabilities						
Deposits from customers	12	-	-	-	26,424,054,411	26,424,054,411
Other liabilities	13	-	-	-	1,020,608,583	1,020,608,583
		-	-	-	27,444,662,994	27,444,662,994

	Note	Available for sale financial assets	Held for trading (FVTPL)	Derivatives used for hedging	Held to maturity	Loans and receivables	Total
		(carried at fair value)			(carried at amortised cost)		
		…..…….………………………….. AFN ……..………………………….....					
December 31, 2011							
Financial assets							
Cash and cash equivalents	5	-	-	-	-	16,656,573,479	16,656,573,479
Investment in capital notes	6	-	-	-	5,968,480,929	-	5,968,480,929
Receivable from Kabul Bank in Receivership	9	-	-	-	-	2,885,962,355	2,885,962,355
Other assets	10	-	-	-	-	3,123,350,905	3,123,350,905
		-	-	-	5,968,480,929	22,665,886,739	28,634,367,667

	Note	Derivatives used for hedging	Designated at FVTPL	Other liabilties at FVTPL	Other liabilities (amortised cost)	Total
		(carried at fair value)				
		…...……………………….. AFN …………………………..…..				
Financial liabilities						
Deposits from customers	12	-	-	-	27,728,986,945	27,728,986,945
Other liabilities	13	-	-	-	1,199,099,410	1,199,099,410
		-	-	-	28,928,086,355	28,928,086,355

The carrying values approximate fair values as mostly the assets and liabilities have short maturities and are expected to be recovered/settled at their carrying values.

24 FINANCIAL RISK MANAGEMENT

24.1 Introduction and overview

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

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

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

Risk management framework

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

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

24.2 Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Bank. The Bank is exposed to this risk mainly due to Placements, current account and nostro account balances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The CEO has delegated responsibility for the management of credit risk related to bank guarantees to risk management and credit department who are responsible for oversight of the bank's credit risk.

Exposure to credit risk

The Bank's maximum exposure to credit risk is the carrying amount of financial assets at the reporting date, as summarized below:

	Note	2012	2011
		………… AFN	…………
Classes of financial assets			
Cash and cash equivalents	5	**15,233,804,422**	16,656,573,479
Investment in capital notes	6	**4,493,144,627**	5,968,480,929
Receivable from Kabul Bank in Receivership	9	**5,384,373,389**	2,885,962,355
Other assets	10	**2,527,458,543**	3,123,350,905
Total carrying amounts		**27,638,780,981**	28,634,367,668

In addition to the above, the Bank has issued financial guarantees contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is AFN 250,553,965 (2011: AFN 164,466,145).

The Bank's management considers that all the above financial assets that are not impaired or past due for the reporting dates under review are of good credit quality. The credit risk for cash and cash equivalents comprising of capital notes, balances with other banks, nostro accounts and short term placements is considered negligible, since the counterparties are either the branches of Bank's own group with high quality external credit ratings or the central bank of Afghanistan.

Cash and cash equivalents

The Bank holds AFN 12,820 million at period end with central bank and other banks which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the central bank and banks and financial institution counterparties having good credit ratings.

Settlement risk

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

24.3 Liquidity risk

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

Management of liquidity risk

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

The Bank relies on deposits from customers as its primary source of funding. Deposits from customers generally has shorter maturities and large proportion of them are repayable on demand. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

Exposure to liquidity risk

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

	% age
As at period end	80%
Average for the period	82%
Maximum for the period	86%
Minimum for the period	79%

Maturity analysis for financial liabilities

	Note	Carrying amount	Gross nominal out flow	Less than 1 month	1-3 months	3 months to 1 year	More than 1 year
		.... AFN					
December 31, 2012							
Deposits from customers	12	**26,424,054,411**	**26,424,054,411**	**26,424,054,411**	**-**	**-**	**-**
Other liabilities	13	**1,020,608,583**	**1,020,608,583**	**697,531,410**	**323,077,173**	**-**	**-**
		27,444,662,994	**27,444,662,994**	**27,121,585,821**	**323,077,173**	**-**	**-**
December 31, 2011							
Deposits from customers	12	27,728,986,945	27,728,986,945	27,343,848,390	7,396,500	120,889,078	256,852,977
Other liabilities	13	1,199,099,410	1,199,099,410	722,287,433	476,811,977	-	-
		28,928,086,355	28,928,086,355	28,066,135,823	484,208,477	120,889,078	256,852,977

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

24.4 Market risks

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

Management of market risks

To manage and control market risk a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. Overall authority for managing market risk is vested with Chief Risk Manager.

Exposure to interest rate risk

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

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
		………… AFN …………					
December 31, 2012							
Cash and cash equivalents	5	**1,004,214,354**	**1,004,214,354**	**-**	**-**	**-**	-
Investment in capital notes	6	**4,493,144,627**	**4,493,144,627**	**-**	**-**	**-**	-
Other assets	10	**2,212,566,000**	**2,212,566,000**	**-**	**-**	**-**	**-**
		7,709,924,981	**7,709,924,981**	**-**	**-**	**-**	**-**
Deposits from customers	12	**13,649,003,488**	**13,649,003,488**	**-**	**-**	**-**	**-**
		(5,939,078,507)	**(5,939,078,507)**	**-**	**-**	**-**	**-**
December 31, 2011							
Cash and cash equivalents	7	250,448,609	250,448,609	-	-	-	-
Investment in capital notes	8	5,968,480,929	4,492,679,427	1,475,801,502	-	-	-
Other assets	12	2,105,705,498	2,105,705,498	-	-	-	-
		8,324,635,036	6,848,833,534	1,475,801,502	-	-	-
Deposits from customers	14	14,412,761,982	14,027,623,428	71,530,409	49,358,669	264,249,476	-
		(6,088,126,946)	(7,178,789,893)	1,404,271,093	(49,358,669)	(264,249,476)	-

Exposure to currency risk

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

	Total	AFN	USD	EUR	Others
			AFN		
December 31, 2012					
Cash and cash equivalents	**15,233,804,422**	**7,206,386,326**	**6,822,384,670**	**1,192,000,961**	**13,032,465**
Investment in capital notes	**4,493,144,627**	**4,493,144,627**	**-**	**-**	**-**
Receivable from Kabul Bank in Receivership	**5,384,373,389**	**5,384,373,389**	**-**	**-**	**-**
Other assets	**3,395,872,533**	**2,522,808,068**	**857,294,748**	**15,769,717**	**-**
	28,507,194,971	**19,606,712,410**	**7,679,679,418**	**1,207,770,678**	**13,032,465**
Deposits from customers	**26,424,054,411**	**11,919,310,748**	**14,217,320,618**	**286,830,664**	**592,381**
Other liabilities	**1,335,428,568**	**250,061,835**	**1,084,184,619**	**1,182,029**	**86**
	27,759,482,979	**12,169,372,583**	**15,301,505,236**	**288,012,693**	**592,467**
Net foreign currency exposure	**747,711,992**	**7,437,339,827**	**(7,621,825,818)**	**919,757,985**	**12,439,998**
December 31, 2011					
Cash and cash equivalents	16,656,573,479	8,679,044,642	6,813,045,833	968,037,526	196,445,478
Investment in capital notes	5,968,480,929	5,968,480,929	-	-	-
Receivable from Kabul Bank in Receivership	1,460,556,299	1,460,556,299	-	-	-
Other assets	3,177,007,600	2,650,228,999	516,561,141	10,217,460	-
	27,262,618,307	18,758,310,869	7,329,606,974	978,254,986	196,445,478
Deposits from customers	27,728,986,945	12,506,856,227	14,883,601,080	338,529,638	-
Other liabilities	1,199,099,410	287,148,934	896,586,088	15,364,388	-
	28,928,086,355	12,794,005,161	15,780,187,168	353,894,026	-
Net foreign currency exposure	(1,665,468,048)	5,964,305,708	(8,450,580,194)	624,360,960	196,445,478

The following significant exchange rates applied during the year

	December 31, 2012		December 31, 2011	
	Average rate	**Reporting rate**	Average rate	Reporting rate
USD	**51.00**	**52.08**	47.36	49.31
EUR	**65.37**	**68.54**	66.22	63.83

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD and Euro at 31 December 2012 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	December 31, 2012		December 31, 2011	
	Equity	**Profit or loss**	Equity	Profit or loss
	.... **AFN**			
USD	**609,746,065**	**762,182,582**	(676,046,416)	(845,058,019)
EUR	**(73,580,639)**	**(91,975,799)**	49,948,877	62,436,096

A 10% weakening of the Afghani against the above currencies at December 31, 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

25 POST-REPORTING DATE EVENTS

No adjusting or significant non-adjusting events have occurred between "December 31, 2012" reporting date and the date of authorisation.

26 CORRESPONDING FIGURES

The Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. These rearrangements and reclassifications were of immaterial nature.

S. Muzammil Noor
(Chief Financial Officer)

Masood Khan Musa Ghazi
(Chief Executive Officer)

Mohammad Aqa Kohistani
(Chairman)

AASR