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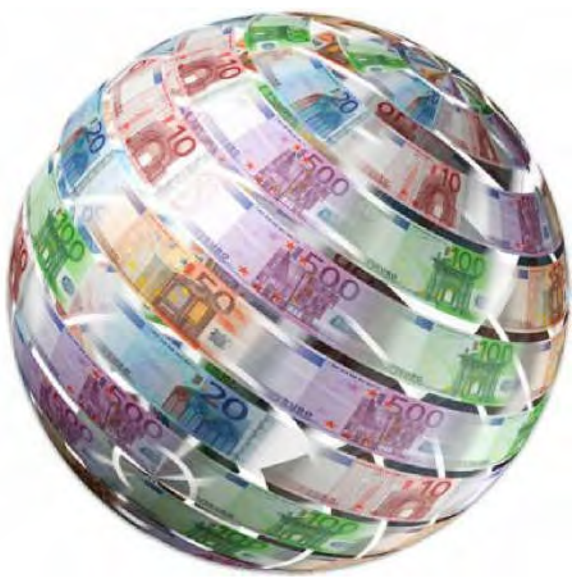
2013

New Kabul Bank financial statements and auditors' report

For the year ended December 31, 2013



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

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We have audited the accompanying financial statements of New Kabul Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2013, 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 audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Law of Banking in Afghanistan.

Anjum Asim Shahid Rahman

Kabul **Anjum Asim Shahid Rahman**

Date: Chartered Accountants

NEW KABUL BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013

2013	2012		Note	2013	2012
.... USD				.... AFN	
		ASSETS			
183,641,096	292,507,765	Cash and cash equivalents	5	**10,285,737,778**	15,233,804,422
88,105,639	86,273,898	Investment in capital notes	6	**4,934,796,826**	4,493,144,627
2,026,671	5,715,587	Property and equipment	7	**113,513,856**	297,667,760
1,391,281	3,041,942	Intangible assets	8	**77,925,667**	158,424,350
54,662,154	103,386,586	Claim receivable from MOF	9	**3,061,627,270**	5,384,373,389
49,819,410	50,313,461	Other assets	10	**2,790,385,170**	2,620,325,036
379,646,251	541,239,240	**Total assets**		**21,263,986,567**	28,187,739,584
		EQUITY AND LIABILITIES			
		EQUITY			
-	-	Share capital	11	**-**	-
(46,786,636)	(42,391,201)	Accumulated losses		**(2,620,519,475)**	(2,207,733,742)
(46,786,636)	(42,391,201)	**Total equity**		**(2,620,519,475)**	(2,207,733,742)
		LIABILITIES			
416,091,876	507,374,317	Deposits from customers	12	**23,305,306,043**	26,424,054,411
10,341,011	19,596,939	Other liabilities	13	**579,199,999**	1,020,608,583
-	56,659,185	Suspense liability	14	**-**	2,950,810,332
426,432,887	583,630,441	**Total liabilities**		**23,884,506,042**	30,395,473,326
379,646,251	541,239,240	**Total equity and liabilities**		**21,263,986,567**	28,187,739,584

The annexed notes 1 to 25 form an integral part of these financial statements.

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

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

2013	2012		Note	2013	2012
.... USD	....			.... AFN	....
3,540,347	4,364,670	Interest income		**196,503,378**	227,312,037
(545,805)	(1,411,301)	Interest expense		**(30,294,373)**	(73,500,565)
2,994,542	2,953,369	**Net interest income**	16	**166,209,005**	153,811,472
20,438,629	11,141,851	Fee and commission income		**1,134,425,341**	580,267,605
(453,800)	(532,953)	Fee and commission expense		**(25,187,706)**	(27,756,184)
19,984,829	10,608,898	**Net fee and commission income**	17	**1,109,237,635**	552,511,421
2,222,675	3,989,254	Other operating income	18	**123,367,317**	207,760,352
25,202,046	17,551,521	**Net operating income**		**1,398,813,957**	914,083,245
(11,939,143)	(13,399,049)	Employee benefit expense	19	**(662,669,988)**	(697,822,467)
(3,500,330)	(3,780,963)	Depreciation	7	**(194,282,284)**	(196,912,534)
(1,450,323)	(1,545,674)	Amortization	8	**(80,498,683)**	(80,498,683)
-	(276,437)	Provision against cash shortages		**-**	(14,396,831)
(527,814)	(1,353,448)	Provision against other assets	10.4	**(29,295,790)**	(70,487,583)
-	(1,995,706)	Loss on foreign currency translation		**-**	(103,936,361)
(15,221,483)	(17,422,601)	Other expenses	20	**(844,852,945)**	(907,369,077)
(32,639,093)	(39,773,878)	**Operating expenses**		**(1,811,599,690)**	(2,071,423,536)
(7,437,047)	(22,222,357)	**Loss before tax**		**(412,785,733)**	(1,157,340,291)
-	-	Taxation	21	**-**	-
(7,437,047)	(22,222,357)	**Loss for the year / period**		**(412,785,733)**	(1,157,340,291)
-	-	Other comprehensive income		**-**	-
(7,437,047)	(22,222,357)	**Total comprehensive loss**		**(412,785,733)**	(1,157,340,291)

The annexed notes 1 to 25 form an integral part of these financial statements.

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 CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013

Share capital	Accumulated loss	Total		Share capital	Accumulated loss	Total
.... USD				.... AFN		
-	(16,898,002)	(16,898,002)	Balance as at January 01, 2012	-	(946,457,090)	(946,457,090)
-	(22,222,356)	(22,222,356)	Total comprehensive loss for the year 2012	-	(1,157,340,291)	(1,157,340,291)
			Exchange difference		(103,936,361)	(103,936,361)
-	(39,120,358)	(39,120,358)	Balance as at December 31, 2012	-	(2,207,733,742)	(2,207,733,742)
-	**(39,120,358)**	**(39,120,358)**	**Balance as at January 01, 2013**	**-**	**(2,207,733,742)**	**(2,207,733,742)**
	(296,420)	**(296,420)**	**Exchange difference**	-	-	-
-	**(7,369,858)**	**(7,369,858)**	**Total comprehensive loss for the year 2013**	**-**	**(412,785,733)**	**(412,785,733)**
-	**(46,786,636)**	**(46,786,636)**	**Balance as at December 31, 2013**	**-**	**(2,620,519,475)**	**(2,620,519,475)**

The annexed notes 1 to 25 form an integral part of these financial statements.

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, 2013

2013	2012		Note	2013	2012
.... USD				.... AFN	
		CASH FLOWS FROM OPERATING ACTIVITIES			
(7,369,858)	(22,222,356)	Loss before tax		**(412,785,733)**	(1,157,340,291)
		Adjustments for:			
3,468,707	3,780,963	Depreciation	7	**194,282,284**	196,912,534
1,437,220	1,545,674	Amortization	8	**80,498,683**	80,498,683
353,425	-	Transfer of assets	7	**19,795,334**	-
(2,110,506)	(16,895,720)			**(118,209,432)**	(879,929,074)
		Increase/decrease in current assets and liabilities			
41,470,204	(47,972,562)	Claim receivable from MOF	9	**2,322,746,119**	(2,498,411,034)
(1,772,474)	10,688,989	Other assets	10	**(99,276,285)**	556,682,563
(55,681,992)	(25,056,308)	Deposits from customers	12	**(3,118,748,367)**	(1,304,932,534)
(7,880,889)	(3,427,243)	Other liabilities	13	**(441,408,584)**	(178,490,827)
(52,683,634)	29,289,637	Suspense liability	14	**(2,950,810,332)**	1,525,404,276
(78,659,291)	(53,373,207)			**(4,405,706,881)**	(2,779,676,630)
(1,263,772)	-	Advance tax paid		**(70,783,850)**	-
(79,923,063)	(53,373,207)	**Net cash (used in)/generated from operating activities**		**(4,476,490,731)**	(2,779,676,630)
		CASH FLOWS FROM INVESTING ACTIVITIES			
(534,257)	(278,271)	Investment in operating fixed assets	7	**(29,923,714)**	(14,492,368)
(7,885,238)	28,328,270	Investment in capital notes - net	6	**(441,652,199)**	1,475,336,302
(8,419,495)	28,049,999	**Net cash (used in)/ generated from investing activities**		**(471,575,913)**	1,460,843,934
-	-	**CASH FLOWS FROM FINANCING ACTIVITIES**		**-**	-
(88,342,557)	(25,323,208)	**Net decrease in cash and cash equivalents**		**(4,948,066,644)**	(1,318,832,696)
271,983,653	319,826,680	Cash and cash equivalents at beginning of the year		**15,233,804,422**	16,656,573,479
-	(1,995,706)	Effect of exchange differences		**-**	(103,936,361)
183,641,096	292,507,765	**Cash and cash equivalents at end of the year**	5	**10,285,737,778**	15,233,804,422

The annexed notes 1 to 25 form an integral part of these financial statements.

Muzammil Noor
(Chief Financial Officer)

Masood Khan Musa Ghazi
(Chief Executive Officer)

Mohammad Aqa Kohistani
(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 registered office of the Bank is located in Kabul, Afghanistan and has seventy nine branches and thirty eight extension counters. 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, liabilities and operations to the New Kabul Bank.

The control of the bank is with Government of Islamic Republic of Afghanistan and is exercised by the Ministry of Finance who currently intends to hold its control over the Bank. The Bank was established as a bridge bank with the objective of its privatization to private sector or liquidation/ rehabilitation in case of unsuccessful privatization. The Bank is primarily engaged in restrictive commercial banking services in Afghanistan including deposits, collection, disbursement and issuance of bank guarantees.

The financial statements for the year ended December 31, 2013 (including comparatives) have been approved and authorized for issue by the Board of Directors on 29 March, 2014.

2 STATEMENT OF COMPLIANCE

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

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

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) IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by Governments' (effective for annual periods beginning on or after January 01, 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The amendments are not expected to impact the current transactions of the Bank.

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b) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 01, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not expected to impact the current transactions of the Bank.

c) Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 01, 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are not expected to impact the current transactions of the Bank.

d) Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after July 01, 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. The amendments are not expected to impact the current transactions of the Bank.

e) IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition. The amendments are not expected to impact the current transactions of the Bank.

f) IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves. The amendments are not expected to impact the current transactions of the Bank.

g) IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities. The amendments are not expected to impact the financial statements of the Bank.

h) Amendments to IAS 16 'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset. The amendments are not expected to impact the financial statements of the Bank.

i) IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either

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directly or through a group entity. The amendments will affect the disclosure of related party transactions of the Bank.

2.3 Standards, amendments and interpretations to approved accounting standards that are effective

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

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

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

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

3 BASIS OF PREPARATION

3.1 Basis of measurement

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

3.2 Use of critical accounting estimates and judgments

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

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

a)	Note 10.4	Provision against other assets
b)	Note 7	Depreciation rates for property and equipment

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c) Note 8 Amortization rate for intangible assets

3.3 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 56.01 to USD 1 (2012: AFN 52.08 to USD 1).

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

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

Classification and subsequent measurement of financial assets

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

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

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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 "Investment in capital notes with Da Afghanistan Bank" designated into this category.

HTM investments are measured subsequently at amortized 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 recognized in statement of comprehensive income.

Classification and subsequent measurement of financial liabilities

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

4.3 Property and equipment

Owned

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

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

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.

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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

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

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

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4.7 Taxation

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

Current tax

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

Deferred tax

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

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

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

4.8 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 recognized in statement of comprehensive income.

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

4.10 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

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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 recognized when:

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

Provision for guarantee claims and other off balance sheet obligations is recognized 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 realize the asset and settle the liability simultaneously.

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	Note	2013	2012
		.... AFN	
5 CASH AND CASH EQUIVALENTS			
Cash in hand:			
Local currency		**932,974,506**	1,582,228,971
Foreign currency		**763,466,762**	1,185,100,580
		1,696,441,268	2,767,329,551
Balances with banks:			
Balances with Da Afghanistan Bank	5.1	**7,199,810,585**	7,704,306,358
Balances with other banks	5.2	**1,389,485,925**	4,762,168,513
		8,589,296,510	12,466,474,871
		10,285,737,778	15,233,804,422

5.1 Balances with Da Afghanistan Bank

	Note	2013	2012
Overnight deposits			
Local currency	5.1.1	**763,563,522**	1,004,214,354
Current account			
Local currency		**2,284,788,778**	4,604,265,775
Foreign currency		**4,151,458,285**	2,095,826,229
		6,436,247,063	6,700,092,004
		7,199,810,585	7,704,306,358

5.1.1 This represents overnight deposits with Da Afghanistan Bank, carrying interest rates ranging from 0.89% to 2.39% (2012: 0.95% to 1.10%) per annum.

	Note	2013	2012
		.... AFN	
5.2 Balances with other banks			
Current accounts			
Local currency		**17,076**	15,677,226
Foreign currency		**1,249,443,849**	4,728,974,627
		1,249,460,925	4,744,651,853
Deposit accounts			
Foreign currency	5.2.1	**140,025,000**	17,516,660
		1,389,485,925	4,762,168,513

5.2.1 This represents collateral deposits with foreign bank.

	Note	2013	2012
		.... AFN	
6 INVESTMENT IN CAPITAL NOTES			
Held to maturity			
28 days capital notes		**2,044,652,762**	4,493,144,627
182 days capital notes		**1,953,146,724**	-
1 year capital notes		**936,997,340**	
	6.1	**4,934,796,826**	4,493,144,627

6.1 These are classified as held to maturity having maximum period of 1 year carrying interest rate ranging from 1.89 to 3.39% (2012: 1.95% to 2.12%) per annum.

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7 PROPERTY AND EQUIPMENT

	Note	Furniture and fixtures	Electric equipments	Computer and IT equipments	Motor vehicles	Containers	Total
		AFN					
GROSS CARRYING AMOUNT							
Balance as at January 01, 2012		42,858,872	93,583,328	312,106,501	144,061,630	21,671,746	614,282,077
Acquisition/additions during the period		288,661	2,437,607	11,766,100	-	-	14,492,368
Balance as at December 31, 2012		43,147,533	96,020,935	323,872,601	144,061,630	21,671,746	628,774,445
Balance as at January 01, 2013		**43,147,533**	**96,020,935**	**323,872,601**	**144,061,630**	**21,671,746**	**628,774,445**
Additions during the year		**3,187,265**	**7,463,389**	**16,436,220**	**2,836,840**	**-**	**29,923,714**
Transfer of acquired assets	7.2	**-**	**(1,120,200)**	**-**	**(10,413,659)**	**(8,261,475)**	**(19,795,334)**
Balance as at December 31, 2013		**46,334,798**	**102,364,124**	**340,308,821**	**136,484,811**	**13,410,271**	**638,902,825**
ACCUMULATED DEPRECIATION							
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 period		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
Balance as at January 01, 2013		**24,353,595**	**53,797,029**	**167,705,690**	**81,569,143**	**3,681,228**	**331,106,685**
Charge for the year		**15,439,194**	**34,119,171**	**105,821,797**	**45,494,937**	**1,341,027**	**202,216,126**
Depreciation on transferred assets	7.2	**-**	**(634,205)**	**-**	**(5,896,318)**	**(1,403,319)**	**(7,933,842)**
Balance as at December 31, 2013		**39,792,789**	**87,281,995**	**273,527,487**	**121,167,762**	**3,618,936**	**525,388,969**
WRITTEN DOWN VALUE AS AT							
- December 31, 2012		18,793,938	42,223,906	156,166,911	62,492,487	17,990,518	297,667,760
- December 31, 2013		**6,542,009**	**15,082,129**	**66,781,334**	**15,317,049**	**9,791,335**	**113,513,856**
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 (2012: nil).

7.2 These assets transferred at cost to Kabul Bank Receivership through settlement process. Accumulated depreciation also revered hence no gain or loss arises.

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	Note	2013	2012
		.... AFN	
8 INTANGIBLE ASSETS			
Gross carrying amount			
Opening balance		**295,161,839**	295,161,839
Additions during the period		-	-
Closing balance		**295,161,839**	295,161,839
Accumulated amortization			
Opening balance		**136,737,489**	56,238,806
Charge for the year / period		**80,498,683**	80,498,683
Closing balance		**217,236,172**	136,737,489
Written down value	8.1	**77,925,667**	158,424,350

8.1 Intangible assets includes software licensing, customization and implementation costs for oracle database, mobile and Point of Sale (POS) banking applications which are amortized at the rate of 33%.

	2013	2012
	.... AFN	
9 CLAIM RECEIVABLE FROM MOF		
Gross amount of claim from MOF	7,518,736,219	5,384,373,389
Unrealized foreign currency revaluation gain	(4,457,108,949)	-
	3,061,627,270	5,384,373,389

9.1 Claim represents receivable from Ministry of Finance (MOF), Government of Islamic Republic of Afghanistan against the acquired liabilities over assets from Kabul Bank Receivership (KBR). It comprises of currency wise amounts using the prevailing exchange rate as at December 31, 2013. The claim has been lodged with KBR for their consideration, however, as confirmed through letter number 237321 dated August 27, 2012 and letter number 144893 dated March 26, 2014, MOF will bear the difference of asset and liabilities (As on December 31, 2013 amounting to AFN 3,061,627,270) and operational losses uptill the date of settlement (As on December 31, 2013 amounting to AFN 2,620,519,475).

After actual valuation during the current year, unrealized gain on foreign currencies has been reclassified from suspense liability (refer note 14) and off set with the gross amount of claim due to the MOF commitment of bearing the difference between assets and liabilities acquired from Kabul Bank Receivership. Unrealized gain has been accumulated on the claim amounts designated in foreign currencies outstanding since 2011 and therefore off set with claim amount before final settlement of the claim.

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	Note	**2013**	2012
		.... **AFN**	
10 OTHER ASSETS			
Required reserve with Da Afghanistan Bank	10.1	**1,979,639,000**	2,212,566,000
Advances and prepayments	10.2	**81,633,560**	92,866,493
Receivable from remittances		**120,439,847**	75,361,968
Accrued interest and commission	10.3	**517,323,622**	56,166,816
Advance tax		**70,783,849**	45,390,417
Cash in transit		**11,980,800**	106,278,702
Staff loan		**6,781,642**	17,952,463
Others	10.4	**1,802,850**	13,742,177
		2,790,385,170	2,620,325,036

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 1.25% to 1.5% (2012: 0.975% to 1.10%) per annum. Required reserve is restricted balance with DAB and is not available for use in the Bank's day-to-day operations.

	2013	2012
	.... **AFN**	
10.2 Advances and prepayments		
Advance payment to contractors	**40,788,926**	44,245,009
Prepaid rent	**40,844,634**	48,712,023
Others	**-**	(90,539)
	81,633,560	92,866,493

10.3 This represents accrued interest on capital notes and accrued commission on distribution of government employees salaries receivable from Ministry of Finance.

	Note	**2013**	2012
		.... **AFN**	
10.4 Others			
Gross amount		**115,220,127**	97,863,664
Allowance for doubtful receivables			
Opening balance		**(84,121,487)**	-
Charge for the year		**(29,295,790)**	(84,121,487)
Closing balance		**(113,417,277)**	(84,121,487)
Net amount	10.4.1	**1,802,850**	13,742,177

10.4.1 This include receivable from staff and others on account of cash shortages. Allowance has been recognized on the basis of recoverability of these shortages on cases to case basis.

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	Note	2013	2012
		.... AFN	
11 SHARE CAPITAL			
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 or continue the operations as deemed appropriate by MOF. Therefore Supreme Council (SC) of Da Afghanistan Bank (DAB) in its meeting held on March 15, 2011 has granted forbearance to the bank for regulatory requirement related to the size and structure of its capital.

	Note	2013	2012
		.... AFN	
12 DEPOSITS FROM CUSTOMERS			
Local currency			
Current deposits		**5,389,201,172**	5,288,508,395
Saving deposits	12.1	**5,839,106,747**	6,630,230,694
Term deposits	12.2	**4,775**	571,659
		11,228,312,694	11,919,310,748
Foreign currency			
Current deposits		**6,128,609,321**	7,449,474,334
Saving deposits	12.1	**5,948,382,140**	7,018,772,794
Term deposits	12.2	**1,888**	36,496,535
		12,076,993,349	14,504,743,663
		23,305,306,043	26,424,054,411

12.1 Saving deposits carry interest at the rate of 0% to 1.25% (2012: 1.25% to 1.876%) per annum.

12.2 Term deposits carry no interest and include deposits of credit card customers and Mudaraba investment accounts.

	2013	2012
	.... AFN	
13 OTHER LIABILITIES		
Margin money on bank guarantees	**436,919,719**	484,615,759
Remittances payable	**13,930,731**	65,604,825
CSC Bank payables	**-**	301,688,222
Withholding taxes payable	**4,477,844**	6,665,961
Accrued expenses and other liabilities	**123,871,705**	162,033,816
	579,199,999	1,020,608,583

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	Note	2013	2012
		.... AFN	
14 SUSPENSE LIABILITY			
Suspense liability	14.1	-	2,950,810,332

14.1 Prior period amount represented outstanding balance in the position accounts due to the cross currency transactions. The resolution of the outstanding balance was pending on the system correction, therefore the balance was classified in the suspense liability account as per the guidelines of Da Afghanistan Bank (DAB). After valuation during the current year, the amount has been reclassified from suspense liability and off set with the gross amount of claim (refer note 9) due to the MOF commitment of bearing the difference between assets and liabilities acquired from Kabul Bank Receivership.

	Note	2013	2012
		.... AFN	
15 CONTINGENCIES AND COMMITMENTS			
Contingencies			
Guarantees issued on behalf of customers	15.1	**199,102,236**	250,553,965

15.1 All guarantees are secured against 100% cash margin.

Lease Commitments

Cancellable operating lease rentals are payable as follows:

		2013	2012
Less than one year		**149,608,355**	123,119,416
Between one and five years		**598,433,419**	492,477,665
More than five years		-	-
		748,041,774	615,597,081

16 NET INTEREST INCOME / (EXPENSE)

	Note	2013	2012
Interest income on:			
Investment in capital notes		**144,156,073**	180,312,631
Interest bearing bank accounts		**52,347,305**	46,999,406
		196,503,378	227,312,037
Interest expense on:			
Deposits from customers	16.1	**(30,294,373)**	(73,500,565)
Net interest income		**166,209,005**	153,811,472

16.1 Interest expense on:

		2013	2012
Term deposits		-	2,384,038
Saving deposits		**30,294,373**	71,116,527
		30,294,373	73,500,565

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	2013	2012
	.... AFN	

17 NET FEE AND COMMISSION INCOME

	2013	2012
Fee and commission income		
Commission on remittances	**103,453,783**	89,583,394
Commission on Western Union operations	**82,248,481**	73,072,640
Commission on collections	**15,098,444**	13,068,201
Commission on salary distribution	**594,319,036**	345,284,967
Commission on bank guarantees	**2,942,092**	3,044,458
Account maintenance fee	**336,363,505**	56,213,945
	1,134,425,341	580,267,605
Fee and commission expense		
Inter-bank transaction fee	**(25,187,706)**	(27,756,184)
Net fee and commission income	**1,109,237,635**	552,511,421

18 OTHER OPERATING INCOME

	2013	2012
Income from cash operations	**41,926,695**	36,008,046
Foreign exchange gain	**11,536,824**	75,376,457
Income from call centre services	**38,939,474**	29,032,108
Others	**30,964,324**	67,343,741
	123,367,317	207,760,352

19 EMPLOYEE BENEFIT EXPENSE

	2013	2012
Salaries and wages	**583,768,293**	605,018,468
Food and other amenities	**78,901,695**	92,803,999
	662,669,988	697,822,467

20 OTHER EXPENSES

	2013	2012
Rent and taxes	**165,432,905**	81,179,913
Communication expense	**129,356,582**	204,027,625
Security expense	**283,771,960**	312,637,013
Insurance	**46,069,474**	96,399,786
Fuel and electricity	**78,079,561**	91,120,273
Software services	**63,607,780**	37,017,232
Advertisement	**11,994,040**	22,007,543
Repair and maintenance	**18,010,591**	22,354,364
Stationery and printing	**28,859,362**	31,950,054
Audit fee	**2,881,266**	3,315,000
Others	**16,789,424**	5,360,274
	844,852,945	907,369,077

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21 TAXATION

Current and deferred tax

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

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, Deputy Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.

Transactions with key management personnel
Key management personnel have executed following transaction with the Bank during the year:

Short-term staff advances	Maximum balance	Closing balance
	.... AFN	....
Chief Executive Officer	384,768	-
Chief Financial Officer	392,070	56,626
Chief Operating Officer	-	-

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

Moreover during the year AFN 14,106,000 paid to key management personnel as remuneration.

Other transactions with related parties
There are no significant related party transaction except for normal banking services to government and its institutions for salary distribution and related deposit accounts.

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23 FINANCIAL ASSETS AND LIABILITIES

Categories of financial assets and financial liabilities

Note 4.2 of the financial statements 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 follow:

December 31, 2013	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					
Financial assets							
Cash and cash equivalents	5	-	-	-	-	10,285,737,778	10,285,737,778
Investment in capital notes	6	-	-	-	4,934,796,826	-	4,934,796,826
Receivable from Kabul Bank in Receivership	9	-	-	-	-	3,061,627,270	3,061,627,270
Other assets	10	-	-	-	-	2,637,967,761	2,637,967,761
		-	-	-	4,934,796,826	15,985,332,809	20,920,129,635

	Note	Derivatives used for hedging	Designated at FVTPL	Other liabilities at FVTPL	Other liabilities (amortised cost)	Total
		(carried at fair value)				
		AFN				
Financial liabilities						
Deposits from customers	12	-	-	-	23,305,306,043	23,305,306,043
Other liabilities	13	-	-	-	579,199,999	579,199,999
		-	-	-	23,884,506,042	23,884,506,042

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December 31, 2012	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					
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	-	-	-	-	2,482,068,126	2,482,068,126
		-	-	-	4,493,144,627	23,100,245,937	27,593,390,564

	Note	Derivatives used for hedging	Designated at FVTPL	Other liabilities 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

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.

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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:

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	Note	**2013**	2012
		.... AFN	....
Classes of financial assets			
Cash and cash equivalents	5	**8,589,296,510**	12,466,474,871
Investment in capital notes	6	**4,934,796,826**	4,493,144,627
Receivable from Kabul Bank in Receivership	9	**3,061,627,270**	5,384,373,389
Other assets	10	**2,637,967,761**	2,527,458,543
Total carrying amounts		**19,223,688,367**	24,871,451,430

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 199,102,236 (2012: AFN 250,553,965).

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 8,589 million (2012: AFN 12,466 million) at the year 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 other local and foreign banks 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 and 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.

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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:

	2013	2012
	.... % age	....
As at period end	**75%**	80%
Average for the period	**78%**	82%
Maximum for the period	**80%**	86%
Minimum for the period	**74%**	79%

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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, 2013							
Deposits from customers	12	**23,305,306,043**	**23,305,306,043**	**23,305,299,380**	**6,663**	-	-
Other liabilities	13	**579,199,999**	**579,199,999**	**142,280,280**	**109,229,930**	**327,689,789**	-
		23,884,506,042	**23,884,506,042**	**23,447,579,660**	**109,236,593**	**327,689,789**	-
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	-	-

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.

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Exposure to interest rate risk

The Bank risk to which not-trading portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of change in market interest rates. Interest rate risk 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, 2013							
Cash and cash equivalents	5	**763,563,522**	**763,563,522**	-	-	-	-
Investment in capital notes	6	**4,934,796,826**	**3,997,799,486**	-	**936,997,340**	-	-
Other assets	10	**1,979,639,000**	**1,979,639,000**	-	-	-	-
		7,677,999,348	**6,741,002,008**	-	**936,997,340**	-	-
Deposits from customers	12	-	-	-	-	-	-
		7,677,999,348	**6,741,002,008**	-	**936,997,340**	-	-
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)	-	-	-	-

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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, 2013					
Cash and cash equivalents	10,285,737,778	3,498,054,058	6,311,957,056	462,870,099	12,856,565
Investment in capital notes	4,934,796,826	4,934,796,826	-	-	-
Receivable from Kabul Bank in Receivership	3,061,627,270	3,061,627,270	-	-	-
Other assets	2,790,385,170	2,623,344,396	165,134,319	1,906,455	-
	21,072,547,044	14,117,822,550	6,477,091,375	464,776,554	12,856,565
Deposits from customers	23,305,306,043	11,578,378,461	11,462,356,213	264,066,850	504,519
Other liabilities	579,199,999	519,844,811	59,355,188	-	-
	23,884,506,042	12,098,223,272	11,521,711,401	264,066,850	504,519
Net foreign currency exposure	(2,811,958,998)	2,019,599,278	(5,044,620,026)	200,709,704	12,352,046
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

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The following significant exchange rates applied during the year

	December 31, 2013		December 31, 2012	
	Average rate	**Reporting rate**	Average rate	Reporting rate
USD	**55.50**	**56.01**	51.00	52.08
EUR	**73.37**	**76.73**	65.37	68.54

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD and Euro at 31 December 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	December 31, 2013		December 31, 2012	
	Equity	**Profit or loss**	Equity	Profit or loss
		AFN		
USD	**403,569,602**	**504,462,003**	609,746,065	762,182,582
EUR	**(16,056,776)**	**(20,070,970)**	(73,580,639)	(91,975,799)

A 10% weakening of the Afghani against the above currencies at December 31, 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

25 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.

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

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