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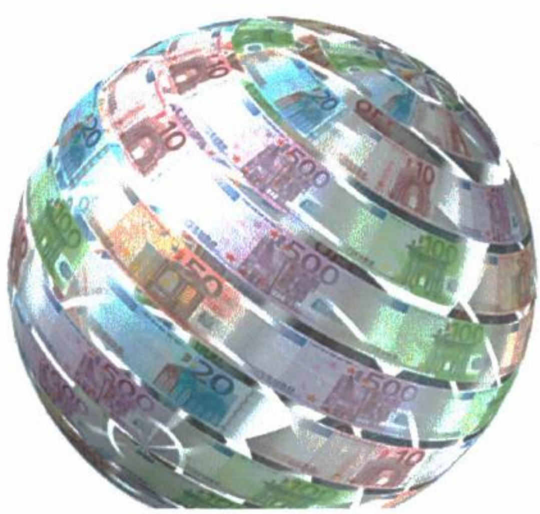
2012

Afghan United Bank financial statements and auditors' report

For the year ended December 31, 2012



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Independent auditors' report to the shareholders of Afghan United Bank

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 Afghan United 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.

Kabul
Date: March 30, 2013

Anjum Asim Shahid Rahman
Chartered Accountants

AFGHAN UNITED BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

	Note	2012	2011
		.... Afs '000'	
ASSETS			
Cash and balances with central bank	5	**4,116,652**	2,289,952
Balances with other banks	6	**1,744,186**	990,942
Investments	7	**874,944**	909,837
Loans and advances to customers	8	**4,036,346**	3,070,951
Property and equipment	9	**521,721**	555,040
Intangible assets	10	**45,332**	104,178
Current tax asset	23	**22,016**	-
Deferred tax asset	11	**-**	3,760
Other assets	12	**1,009,491**	804,714
Total assets		**12,370,688**	8,729,374
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	**1,000,000**	875,758
Revaluation reserve	14	**23,515**	-
Retained earning		**(28,686)**	(124,790)
Total equity		**994,829**	750,968
LIABILITIES			
Deposits from banks	15	**400,000**	500,000
Deposits from customers	16	**10,850,759**	7,437,484
Deferred tax liability	11	**73,755**	-
Other liabilities	17	**51,345**	40,922
Total liabilities		**11,375,859**	7,978,406
Total equity and liabilities		**12,370,688**	8,729,374

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

CHAIRMAN | CHIEF EXECUTIVE OFFICER | CHIEF FINANCIAL OFFICER

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

	Note	2012	2011
		.... Afs '000'	
Interest income		630,309	564,617
Interest expense		(92,830)	(141,058)
Net interest income	18	537,479	423,559
Fee and commission income		84,309	47,571
Fee and commission expense		(7,468)	(12,894)
Net fee and commission income	19	76,841	34,677
Other operating income / (loss)	20	154,434	(3,504)
Operating income		768,754	454,732
Net impairment loss on financial assets	8.6	(45,011)	(63,419)
Depreciation	9	(75,811)	(71,791)
Amortization	10	(59,249)	(59,058)
Employee benefit expense	21	(169,478)	(211,676)
Operating lease expenses		(38,146)	(43,252)
Other expenses	22	(235,335)	(227,172)
Profit / (loss) before tax		145,724	(221,636)
Tax (expense) / income	23	(49,620)	40,773
Profit / (loss) for the year		96,104	(180,863)
Other comprehensive income			
- Revaluation of property and equipment, net of tax	14	23,515	-
Total comprehensive income for the year		119,619	(180,863)

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

CHAIRMAN   CHIEF EXECUTIVE OFFICER   CHIEF FINANCIAL OFFICER

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

	Share capital	Revaluation reserve	Retained earning	Total
	……………… Afs '000' ………………			
Balance as at January 01, 2011	875,758	-	56,073	931,831
Total comprehensive income for the year				
Loss for the year	-	-	(180,863)	(180,863)
Other comprehensive income	-	-	-	-
	-	-	(180,863)	(180,863)
Transactions with owners				
Issuance of shares	-	-	-	-
Balance as at December 31 2011	875,758	-	(124,790)	750,968
Balance as at January 01, 2012	**875,758**	**-**	**(124,790)**	**750,968**
Total comprehensive income for the year				
Profit for the year	**-**	**-**	**96,104**	**96,104**
Other comprehensive income	**-**	**23,515**	**-**	**23,515**
	-	**23,515**	**96,104**	**119,619**
Transactions with owners				
Issuance of shares	**124,242**	**-**	**-**	**124,242**
Balance as at December 31 2012	**1,000,000**	**23,515**	**(28,686)**	**994,829**

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

CHAIRMAN | CHIEF EXECUTIVE OFFICER | CHIEF FINANCIAL OFFICER

AFGHAN UNITED BANK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011
		.... Afs '000'	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (loss) before tax		**145,724**	(221,636)
Adjustments for:			
Net impairment loss on financial assets	8.6	**45,011**	63,419
Depreciation	9	**75,811**	71,791
Amortization	10	**59,249**	59,058
Loss on disposal of fixed assets	22	**2,889**	4,888
Gain on disposal of fixed assets		**(5,347)**	-
		323,337	(22,480)
Increase / decrease in current assets and liabilities			
Investments		**34,893**	1,149,363
Loans and advances to customers - net of provision		**(1,010,406)**	988,139
Other assets		**(204,777)**	233,244
Deposits from banks		**(100,000)**	200,000
Deposits from customers		**3,413,275**	(3,842,615)
Other liabilities		**6,324**	(46,176)
		2,462,646	(1,340,525)
Income tax withheld - net		**4,099**	3,776
Net cash generated from (used in) in operating activities		**2,466,745**	(1,336,749)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		**(19,762)**	(102,783)
Purchase of intangible assets		**(403)**	(3,105)
Proceed from disposal of property and equipment		**9,122**	42,275
Net cash used in investing activities		**(11,043)**	(63,613)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**124,242**	-
Net cash generated from financing activities		**124,242**	-
Net increase / (decrease) in cash and cash equivalents		**2,579,944**	(1,400,362)
Cash and cash equivalents, beginning of year		**3,280,894**	4,681,256
Cash and cash equivalents, end of year	24	**5,860,838**	3,280,894

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

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CHAIRMAN	CHIEF EXECUTIVE OFFICER	CHIEF FINANCIAL OFFICER

1 STATUS AND NATURE OF BUSINESS

Afghan United Bank ("the Bank") is a commercial bank registered and operating in Afghanistan. The registered office of the bank is located in Kabul, Afghanistan.

The Bank obtained business license from Afghanistan Investment Support Agency (AISA) bearing license no: D-27284. The Bank commenced its operations on October 04, 2007 under the license for commercial banking issued by Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan. Currently, the Bank is being operated with twenty two branches including two branches of Islamic banking (2011: seventeen branches including two branches of Islamic banking) in different provinces of Afghanistan.

The financial statements for the year ended December 31, 2012 (including comparatives) have been approved and authorized for issue by the Board of Supervisors on 30- March 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

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applies prospectively for annual periods beginning on or after 1 January 2013. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to complete its assessment of their impact on the Bank's financial statements.

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

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

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

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

3 BASIS OF PREPARATION

3.1 Basis of measurement

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

3.2 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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 8.6 Provision against non-performing loans and advances to customers
b) Note 9 Valuation and depreciation rates for fixed assets
c) Note 11 Deferred taxation
d) Note 23 Income taxes

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3.3 Functional and presentation currency

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise of cash and balances with central bank (unrestricted) and balances with other banks.

4.2 Financial instruments

Recognition, initial measurement and de-recognition

Financial assets and financial liabilities are 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 of loans and receivables and held to maturity investments. Therefore, policies related to other categories of financial assets would not be relevant.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective

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interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, loans and advances to customers and other assets fall into this category of financial instruments.

The Bank determines allowance for impairment loans and advances in accordance with regulation issued by DAB "Asset Classifications, Monitoring of Problem Assets, Reserve for Losses, and Non-accrual Status".

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows on the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indication that a borrower or issuer will enter bankruptcy, disappearance of an active for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

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

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

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

b) 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

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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 Loans and advances

Loans and advances are stated net of provisions against non–performing loans and advances. Specific and general provision are made based on an appraisal of the loan portfolio that takes into account Regulations and other directives issued by the DA Afghanistan Bank from time to time. The general provision is for the inherent risk of losses which are known from experience to be present in any loan portfolio.

The provisions made / reversed during the year are charged to the statement of comprehensive income and accumulated provision is netted off against loans and advances. Loans and advances are written off when there is no realistic prospect of recovery or when the regulation requires.

Murabaha financings are reflected as receivables at the sale price. Actual sale and purchase is not reflected as the goods are purchased by the customer as agent of the Bank and all documents relating to purchase are in customer's name.

In Ijarah financing, the Bank provides the asset on pre-agreed rentals for specific tenors to the customers.

4.4 Property and equipment - tangible

Owned

Property and equipment, other than furniture and fixtures, computer equipments and office equipments, 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. Furniture and fixtures, computer equipments and office equipments are stated at revalued amounts less accumulated depreciation.

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.

Furniture and fixtures, computer equipments and office equipments are revalued by independent professionally qualified valuer(s). Surplus arising on revaluation is credited to the 'revaluation reserve' account (net of deferred tax) and deficit arising on revaluation of fixed assets is adjusted against the balance in the above-mentioned surplus account. The revaluation is carried out with sufficient regularity to ensure that the carrying amount does not differ materially from that which would have been determined using fair value at the balance sheet date.

Accumulated depreciation on furniture and fixtures, computer equipments and office equipments, at the date of revaluation, restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Surplus on revaluation of fixed assets (net of deferred tax) is transferred to accumulated loss to the extent of incremental depreciation charged on related assets.

Land is not depreciated. Depreciation on all other fixed assets is calculated using the straight line method to allocate their depreciable cost or revalued amount to their residual values over their estimated useful lives.

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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.

4.5 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 three years.

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

4.6 Impairment of non-financial assets

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

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

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

4.7 Deposits

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

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4.8 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.

4.9 Employee compensation

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

4.10 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.

4.11 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

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effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

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

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

Profit under Murabaha financing is recognized on monthly basis, while it is recoverable at maturity.

4.12 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.

4.13 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.

4.14 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.

4.15 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.

4.16 Appropriations subsequent to date of statement of financial position

Appropriations subsequent to year end are recognised during the year in which those appropriations are made.

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	Note	2012	2011
		.... Afs '000'	

5 CASH AND BALANCES WITH CENTRAL BANK

	Note	2012	2011
In hand			
Local currency		**418,777**	452,421
Foreign currencies		**2,933,138**	1,229,645
		3,351,915	1,682,066
With Da Afghanistan Bank in			
Local currency current accounts		**182,855**	58,656
Local currency deposit account	5.1	**100,127**	100,000
Foreign currency current accounts		**481,755**	449,230
		764,737	607,886
		4,116,652	2,289,952

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

	Note	2012	2011
		.... Afs '000'	

6 BALANCES WITH OTHER BANKS

	Note	2012	2011
In Afghanistan			
National Bank of Pakistan		**284,775**	3,456
Bank Alfalah Limited		**159**	150
		284,934	3,606
Outside Afghanistan			
Commerz Bank, Germany		**1,051,584**	699,161
Standard Chartered Bank		**-**	1,036
Crown Agent Bank		**279,305**	284,920
Bahrain Middle East Bank		**5,516**	-
CSC Bank		**3,644**	-
Aktif Bank		**108,787**	-
Western Union International Bank GmbH		**10,416**	2,219
		1,459,252	987,336
		1,744,186	990,942

7 INVESTMENTS

	Note	2012	2011
Held to maturity			
Bahrain Middle East Bank	7.1	**156,240**	147,930
Crown Agent Bank UK	7.2	**260,400**	-
Azizi Bank	7.3	**458,304**	-
Da Afghanistan Bank in capital notes		**-**	199,674
Commerz Bank		**-**	167,753
National Bank of Pakistan		**-**	394,480
		874,944	909,837

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7.1 This represents placement of US $ 3 million under Wakala agreement -Islamic (2011: US $ 3 million), carrying mark-up at approximately 4.1% (2011: 3.75%) per annum and maturing on January 09, 2013 (2011: March 27, 2012).

7.2 This represents placement of US $ 5 million, carrying mark-up at 1% per annum and maturing on May 10, 2013.

7.3 This represents reciprocal deposit agreement with Azizi Bank. In this agreement, AUB placed US $ 8.8 million with Azizi Bank while Azizi Bank placed Afs 400 million with AUB, carrying mark-up at 3.5% and 2% per annum and both is maturing on December 15, 2013.

	Note	2012	2011
		.... Afs '000'	
8 LOANS AND ADVANCES TO CUSTOMERS			
Conventional financing			
Running finance	8.2	**3,303,271**	2,484,208
Term finance	8.3	**1,035**	90,710
Bills discounted	8.4	**210,446**	264,089
		3,514,752	2,839,007
Islamic financing			
Murabaha	8.5	**566,605**	338,795
Loans and advances to customers - gross		**4,081,357**	3,177,802
Provision against non-performing loans and advances	8.6	**(45,011)**	(106,851)
Loans and advances to customers - net of provision		**4,036,346**	3,070,951

8.1 Particulars of loans and advances to customers -gross

	2012	2011
In local currency	**426,986**	319,825
In foreign currencies	**3,654,371**	2,857,977
	4,081,357	3,177,802

8.2 These carry interest ranging between 12 % to 20% per annum (2011: 14 % to 20% per annum). All facilities are extended for maximum period of 12 months and are expected to be recovered within 12 months of the reporting date. These are secured against personal guarantees, mortgage of immoveable properties and hypothecation over stock in trade.

8.3 These carry interest ranging between 15 % to 18 per annum (2011: 15 % to 18% per annum). These loans have been extended for periods ranging from one year to four years and are secured against personal guarantees, mortgage of immoveable commercial & residential properties and assignment of receivables.

8.4 These represent bridge financing extended to the approved contractors of the US Army against approved invoices. The facility carry interest @ 15% per annum (2011: 15% per annum) and represents discounting of the invoice value.

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8.5 These represent sale and purchase agreement under Islamic Banking in which the Bank had paid finance for the purchase of goods and then sold the requisite goods to the customer on profit margin which is ranging from 12% to 21% per annum (2011: 12% to 21% per annum). These facilities are extended for the period of 4 months to 2 years (2011: 4 months to 2 years) and secured against personal guarantees, mortgage of immovable properties and goods supplied under the sale and purchase agreement.

8.6 Particulars of provision against non-performing loans and advances

	2012	2011
	.... Afs '000'	
Opening balance	**106,851**	94,472
Charge for the year	**45,011**	63,419
Reversal for the year	**(106,851)**	(51,040)
	(61,840)	12,379
Closing balance	**45,011**	106,851

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9 PROPERTY AND EQUIPMENT

	Note	Land	Office Buildings	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Capital work in progress	Total
		Afs '000'							
GROSS CARRYING AMOUNT									
Balance as at January 01, 2011		128,611	340,425	49,210	66,160	41,353	27,547	9,727	663,033
Additions during the year		-	21,257	6,640	12,637	54,659	7,590	-	102,783
Disposals during the year		(35,746)	-	(148)	(37)	(3,197)	-	(9,727)	(48,855)
Adjustments		-	-	31	-	159	(190)	-	-
Balance as at December 31, 2011		92,865	361,682	55,733	78,760	92,974	34,947	-	716,961
Balance as at January 01, 2012		**92,865**	**361,682**	**55,733**	**78,760**	**92,974**	**34,947**	**-**	**716,961**
Additions during the year	9.1	**-**	**-**	**2,680**	**2,775**	**6,518**	**7,789**	**-**	**19,762**
Disposals during the year		**-**	**(3,452)**	**-**	**-**	**(11,862)**	**-**	**-**	**(15,314)**
Revaluation adjustments	9.3	**-**	**-**	**7,152**	**43,916**	**-**	**38,931**	**-**	**89,999**
Balance as at December 31, 2012		**92,865**	**358,230**	**65,565**	**125,451**	**87,630**	**81,667**	**-**	**811,408**
ACCUMULATED DEPRECIATION									
Balance as at January 01, 2011		-	33,034	12,763	17,541	17,902	10,582	-	91,822
Charge for the year		-	17,631	10,321	20,859	15,443	7,537	-	71,791
Depreciation on disposals		-	-	(37)	(15)	(1,640)	-	-	(1,692)
Adjustments		-	(5,115)	2,192	1,409	1,435	79	-	-
Balance as at December 31, 2011		-	45,550	25,239	39,794	33,140	18,198	-	161,921
Balance as at January 01, 2012		**-**	**45,550**	**25,239**	**39,794**	**33,140**	**18,198**	**-**	**161,921**
Charge for the year		**-**	**18,084**	**10,205**	**21,088**	**18,865**	**7,569**	**-**	**75,811**
Depreciation on disposals		**-**	**(302)**	**-**	**-**	**(8,348)**	**-**	**-**	**(8,650)**
Revaluation adjustments	9.3	**-**	**-**	**4,340**	**32,792**	**-**	**23,473**	**-**	**60,605**
Balance as at December 31, 2012		**-**	**63,332**	**39,784**	**93,674**	**43,657**	**49,240**	**-**	**289,687**
WRITTEN DOWN VALUE AS AT									
- December 31, 2011		92,865	316,132	30,494	38,966	59,834	16,749	-	555,040
- December 31, 2012		**92,865**	**294,898**	**25,781**	**31,777**	**43,973**	**32,427**	**-**	**521,721**
Rate of depreciation in %		**Nil**	**5**	**20**	**33**	**25**	**25**	**Nil**	

24 approved

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

9.2 There were various unrecorded assets in the previous year's relating to different classes of property and equipment. During the current year, Bank first time made valuation of those assets and recorded in the books of account.

9.3 The Bank's furniture and fixtures, computer equipment and office equipment were revalued by independent accredited professional valuers, Aftech International Company Limited and Osprey Logistics Servives Company. The valuation performed by the valuers was based on active market prices, adjusted for any difference in the nature, location or condition of the specific revalued asset. The date of revaluation was 31 December 2012. The revaluation has resulted in a net surplus of Afs 29.395 million over the book value. If furniture and fixtures, computer equipment and office equipment were measured using the cost model, the carrying amounts would have been as follows:

	2012		
	Furniture and fixtures	**Computer equipment**	**Office equipment**
		Afs '000'	
Gross carrying amount	**58,412**	**81,534**	**42,737**
Accumulated depreciation	**35,444**	**60,882**	**25,767**
Written down value	**22,968**	**20,652**	**16,970**

The movement in surplus on revaluation of fixed assets is given in note 14 to the financial statements.

9.4 The gross carrying amount of fully depreciated property and equipment still in use are as follows:

	2012	2011
	Afs '000'	
Office buildings	**-**	-
Furniture and fixtures	**6,665**	-
Computer equipment	**18,518**	14,096
Vehciles	**12,559**	4,704
Office equipment	**14,095**	180
	51,837	18,980

10 INTANGIBLE ASSETS

	2012	2011
Gross carrying amount		
Opening balance	**177,395**	174,290
Additions during the year	**403**	3,105
Closing balance	**177,798**	177,395
Accumulated amortization		
Opening balance	**73,217**	14,159
Charge for the year	**59,249**	59,058
Closing balance	**132,466**	73,217
Written down value	**45,332**	104,178

10.1 The intangible assets include computer software which is being amortized at the rate of 33.33% (2011: 33.33%). The gross carrying amount of fully amortised intangible assets still in use is nil (2011: nil).

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11 DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax liabilities (assets)	January 01, 2012	Recognised in other comprehensive income	Recognised in profit and loss	December 31, 2012
	.... Afs '000'			
Property and equipment	**67,087**	**5,879**	**(7,800)**	**65,166**
Intangible assets	**11,811**	**-**	**(3,222)**	**8,589**
Unused tax losses	**(82,658)**	**-**	**82,658**	**-**
	(3,760)	**5,879**	**71,636**	**73,755**
Recognised as:				
- Deferred tax asset	**(82,658)**			**-**
- Deferred tax liability	**78,898**			**73,755**

Deferred tax liabilities (assets)	January 01, 2011	Recognised in other comprehensive income	Recognised in profit and loss	December 31, 2011
	.... Afs '000'			
Property and equipment	48,902	-	18,185	67,087
Intangible assets	-	-	11,811	11,811
Unused tax losses	(32,683)	-	(49,975)	(82,658)
	16,219	-	(19,979)	(3,760)
Recognised as:				
- Deferred tax asset	(32,683)			(82,658)
- Deferred tax liability	48,902			78,898

11.1 The amounts recognised in other comprehensive income relate to revaluation of furniture and fixtures, computer equipment and office equipment. See note 14 for the amount of the income tax relating to component of other comprehensive income.

12 OTHER ASSETS

	Note	2012	2011
		.... Afs '000'	
Advances to suppliers and employees		**20,476**	87,087
Security deposits		**28,322**	17,761
Prepayments		**48,456**	18,646
Receivable from Western Union International Bank GmbH		**24,304**	10,071
Restricted deposits with Da Afghanistan Bank	12.1	**811,235**	608,613
Interest receivables		**67,315**	49,693
Others		**9,383**	12,843
		1,009,491	804,714

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12.1 This represents statutory reserves maintained with DAB as minimum reserve in accordance with Banking Regulations issued by Da Afghanistan Bank. These minimum reserves carry interest ranging from 0.95% to 1.13% per annum (2011: 1.25% to 2% per annum).

13 SHARE CAPITAL

13.1 Authorized capital

2012	2011		2012	2011
Number of shares			.... Afs '000'	
40,000,000	40,000,000	Ordinary shares of Afs 250 each	**10,000,000**	10,000,000

13.2 Issued and paid up capital

2012	2011		2012	2011
Number of shares				
4,000,000	3,503,030	Ordinary shares of Afs 250 each	**1,000,000**	875,758

13.3 Movement in issued and paid up number of shares

Following is the movement in issued and paid up number of shares:

			2012	2011
			Number of shares	
875,758	778,938	Number of shares at beginning of the year	**3,503,030**	3,115,750
		Shares issued during the year		
124,242	-	- against cash	**496,970**	-
-	96,820	- in kind	**-**	387,280
124,242	96,820		**496,970**	387,280
1,000,000	875,758	Number of shares at end of the year	**4,000,000**	3,503,030

14 REVALUATION RESERVE

This represents revaluation of furniture and fixtures, computer equipment and office equipment. The details of revaluation are as follows:

	Note	2012	2011
		.... Afs '000'	
Furniture and fixtures		**2,812**	-
Computer equipment		**11,124**	-
Office equipment		**15,458**	-
		29,394	-
Less: related deferred tax	11	**(5,879)**	-
		23,515	-

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15 DEPOSITS FROM BANKS

	Note	2012	2011
		.... Afs '000'	
Azizi Bank	15.1	**400,000**	-
Da Afghanistan Bank		**-**	500,000
		400,000	500,000

15.1 This represents reciprocal deposit agreement with Azizi Bank. In agreement, AUB placed US $ 8.8 million with Azizi Bank while Azizi Bank placed Afs 400 million with AUB, carrying mark-up at 3.5% and 2% per annum and both is maturing on December 15, 2013.

16 DEPOSITS FROM CUSTOMERS

	Note	2012	2011
		.... Afs '000'	
Current deposits		**8,243,709**	5,870,129
Saving deposits	16.1	**1,864,914**	1,201,664
Term deposits	16.2	**302,781**	194,993
Margin deposits		**439,355**	170,698
		10,850,759	7,437,484

16.1 Saving deposits carry interest at the rate of 1-2% (2011: 2%) on USD balances and at the rate of 3-4% (2011: 4%) on Afs balances per annum, while profit disbursed during the year, on the Islamic saving deposits ranging from 1.5% to 3% (2011: 3.3% to 7.7%) per annum.

16.2 Term deposits carry interest ranging from 2% to 8% per annum (2011: 8% to 12 % per annum) with maturity of one to twelve months (2011: one to twelve months). Profit disbursed during the year on the Islamic term deposits is ranged from 1.5% to 5.5% (2011: 4.62% to 13.87%) per annum.

17 OTHER LIABILITIES

	Note	2012	2011
		.... Afs '000'	
Creditors and accruals		**16,361**	10,861
Auditor's remuneration payable		**698**	1,060
Witholding tax payable		**4,548**	449
Murabaha risk reserve		**6,920**	-
Interest payable		**6,164**	776
Revenue received in advance	17.1	**15,615**	27,709
Others		**1,039**	67
		51,345	40,922

17.1 This represents commission received in advance from customers against bank guarantees. This amount will be recognized in statement of comprehensive income over the term of guarantee contract.

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	Note	2012	2011
		.... Afs '000'	

18 NET INTEREST INCOME

	Note	2012	2011
Interest income			
- On loans and advances to customers	18.1	607,167	553,786
- On statutory reserve with Da Afghanistan Bank		11,532	2,677
- On held to maturity investments		11,610	8,154
Total interest income		630,309	564,617
Interest expense			
- On deposits from banks		(15,175)	(6,441)
- On deposits from customers		(77,655)	(134,617)
Total interest expense		(92,830)	(141,058)
Net interest income		537,479	423,559

18.1 Interest income on loans and advances to customers

	2012	2011
Interest income on loans and advances to customers	570,088	519,247
Loan processing fee	37,079	34,539
	607,167	553,786

19 NET FEE AND COMMISSION INCOME

	2012	2011
Fee and commission income		
- Commission on guarantees issued	19,464	14,861
- Fund transfer fee and cheque books issued	64,845	32,710
Total fee and commission income	84,309	47,571
Fee and commission expense		
- Inter bank transaction fee	(7,468)	(12,894)
Net fee and commission income	76,841	34,677

20 OTHER OPERATING INCOME / (LOSS)

	2012	2011
Foreign exchange gain / (loss)	5,057	(25,412)
Loans previously written-off/provisioned recovered/reintegrated	140,169	-
Other income	9,208	21,908
	154,434	(3,504)

21 EMPLOYEE BENEFIT EXPENSE

	2012	2011
Salaries and wages	146,721	200,879
Board members' remuneration	194	8,719
Staff welfare	22,563	2,078
	169,478	211,676

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	Note	2012	2011
		.... Afs '000'	
18 NET INTEREST INCOME			
Interest income			
- On loans and advances to customers	18.1	**607,167**	553,786
- On statutory reserve with Da Afghanistan Bank		**11,532**	2,677
- On held to maturity investments		**11,610**	8,154
Total interest income		**630,309**	564,617
Interest expense			
- On deposits from banks		**(15,175)**	(6,441)
- On deposits from customers		**(77,655)**	(134,617)
Total interest expense		**(92,830)**	(141,058)
Net interest income		**537,479**	423,559
18.1 Interest income on loans and advances to customers			
Interest income on loans and advances to customers		**570,088**	519,247
Loan processing fee		**37,079**	34,539
		607,167	553,786
19 NET FEE AND COMMISSION INCOME			
Fee and commission income			
- Commission on guarantees issued		**19,464**	14,861
- Fund transfer fee and cheque books issued		**64,845**	32,710
Total fee and commission income		**84,309**	47,571
Fee and commission expense			
- Inter bank transaction fee		**(7,468)**	(12,894)
Net fee and commission income		**76,841**	34,677
20 OTHER OPERATING INCOME / (LOSS)			
Foreign exchange gain / (loss)		**5,057**	(25,412)
Loans previously written-off/provisioned recovered/reintegrated		**140,169**	-
Other income		**9,208**	21,908
		154,434	(3,504)
21 EMPLOYEE BENEFIT EXPENSE			
Salaries and wages		**146,721**	200,879
Board members' remuneration		**194**	8,719
Staff welfare		**22,563**	2,078
		169,478	211,676

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	Note	2012	2011
		.... Afs '000'	

22 OTHER EXPENSES

	Note	2012	2011
Communication		**36,613**	47,122
Travelling and conveyance		**3,926**	8,404
Insurance	22.1	**27,124**	15,573
Advertisement		**16,735**	12,453
Fuel expenses		**11,711**	13,346
Food expenses		**5,249**	17,954
Donations		**463**	919
Audit fee		**3,034**	1,060
Legal and professional charges		**-**	6,460
Repairs and maintenance		**48,844**	39,452
Loss on disposal of property and equipment		**2,889**	4,888
Fee and taxes		**804**	1,091
Stationery and printing		**3,764**	6,462
Staff training		**502**	260
Utilities		**12,875**	10,420
Security services		**56,019**	35,112
Miscellaneous expenses		**4,783**	6,196
		235,335	227,172

22.1 These represents charges paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.23% per annum of the total deposits as required by Da Afghanistan Bank.

23 INCOME TAX EXPENSE

The major components of tax expense and the reconciliation of the expected tax expense based on the effective tax rate of 20% (2011: 20%) and the reported tax expense in profit or loss are as follows:

	2012	2011
	.... Afs '000'	
Profit before tax	**145,724**	(221,636)
Tax rate for Afghan United Bank	**20%**	20%
	29,145	(44,327)
Adjustment for prior years	**18,710**	(20,795)
Adjustment for non-deductible expenses	**1,765**	24,349
Actual tax expense	**49,620**	(40,773)
Tax expense comprises		
Current tax expense	**(40,726)**	-
Prior tax expense	**18,710**	(20,795)
Deferred tax expense:		
Origination and reversal of temporary differences	**(11,022)**	(19,978)
Utilisation of unused tax losses	**82,658**	-
Tax expense	**49,620**	(40,773)
Deferred tax expense, recognised directly in other comprehensive income	**5,879**	-

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	2012	2011
	.... Afs '000'	

24 CASH AND CASH EQUIVALENTS

	2012	2011
Cash and balances with central bank	**4,116,652**	2,289,952
Balances with other banks	**1,744,186**	990,942
	5,860,838	3,280,894

25 RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

The Bank is owned by individual shareholders who owns Bank's shares in different proportions.

Key management personnel

Key management personnel includes Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Credit Officer and General Manager (Branches).

Transactions with related parties

Transactions and balances with related parties, including remuneration and benefits paid to key management personnel under the terms of their employment are as follows:

	Balances		Transactions	
	2012	2011	**2012**	2011
	.... Afs '000'			
Shareholder				
Loans and advances	**112,513**	120,493	-	-
Interest income	-	-	**16,659**	17,841
Transactions with key management personnel				
Short term employee benefits				
Salary	-	-	**194**	8,719
other benefits	-	-	**44,543**	53,342

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

	2012	2011
	.... Afs '000'	

26 CONTINGENCIES AND COMMITMENTS

	2012	2011
Letter of credits and guarantees issued on behalf of customers	**1,228,553**	487,352
Commitment for rent payments		
- not later than one year	**38,146**	43,252
- later than one year and not later than five year	**152,584**	173,008
	190,730	216,260

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27 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)		
		Afs '000'					
December 31, 2012							
Financial assets							
Cash and balances with central bank	5	-	-	-	-	4,116,652	4,116,652
Balances with other banks	6	-	-	-	-	1,744,186	1,744,186
Investments	7	-	-	-	874,944	-	874,944
Loans and advances to customers	8	-	-	-	-	4,036,346	4,036,346
Other assets	12	-	-	-	-	940,559	940,559
		-	-	-	874,944	10,837,743	11,712,687

	Note	Derivatives used for hedging	Designated at FVTPL	Other liabilties at FVTPL	Other liabilities (amortised cost)	Total
		(carried at fair value)				
		Afs '000'				
Financial liabilities						
Deposits from banks	15	-	-	-	400,000	400,000
Deposits from customers	16	-	-	-	10,850,759	10,850,759
Other liabilities	17	-	-	-	31,182	31,182
		-	-	-	11,281,941	11,281,941

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	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)		
		Afs '000'					
December 31, 2011							
Financial assets							
Cash and balances with central bank	5	-	-	-	-	2,289,952	2,289,952
Balances with other banks	6	-	-	-	-	990,942	990,942
Investments	7	-	-	-	909,837	-	909,837
Loans and advances to customers	8	-	-	-	-	3,070,951	3,070,951
Other assets	12	-	-	-	-	698,981	698,981
		-	-	-	909,837	7,050,826	7,960,663

	Note	Derivatives used for hedging	Designated at FVTPL	Other liabilties at FVTPL	Other liabilities (amortised cost)	Total
		(carried at fair value)				
		Afs '000'				
Financial liabilities						
Deposits from banks	15	-	-	-	500,000	500,000
Deposits from customers	16	-	-	-	7,437,484	7,437,484
Other liabilities	17	-	-	-	12,764	12,764
		-	-	-	7,950,248	7,950,248

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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27 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)		
		Afs '000'					
December 31, 2012							
Financial assets							
Cash and balances with central bank	5	-	-	-	-	4,116,652	4,116,652
Balances with other banks	6	-	-	-	-	1,744,186	1,744,186
Investments	7	-	-	-	874,944	-	874,944
Loans and advances to customers	8	-	-	-	-	4,036,346	4,036,346
Other assets	12	-	-	-	-	940,559	940,559
		-	-	-	874,944	10,837,743	11,712,687

	Note	Derivatives used for hedging	Designated at FVTPL	Other liabilties at FVTPL	Other liabilities (amortised cost)	Total
		(carried at fair value)				
		Afs '000'				
Financial liabilities						
Deposits from banks	15	-	-	-	400,000	400,000
Deposits from customers	16	-	-	-	10,850,759	10,850,759
Other liabilities	17	-	-	-	31,182	31,182
		-	-	-	11,281,941	11,281,941

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	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)		
		Afs '000'					
December 31, 2011							
Financial assets							
Cash and balances with central bank	5	-	-	-	-	2,289,952	2,289,952
Balances with other banks	6	-	-	-	-	990,942	990,942
Investments	7	-	-	-	909,837	-	909,837
Loans and advances to customers	8	-	-	-	-	3,070,951	3,070,951
Other assets	12	-	-	-	-	698,981	698,981
		-	-	-	909,837	7,050,826	7,960,663

	Note	Derivatives used for hedging	Designated at FVTPL	Other liabilties at FVTPL	Other liabilities (amortised cost)	Total
		(carried at fair value)				
		Afs '000'				
Financial liabilities						
Deposits from banks	15	-	-	-	500,000	500,000
Deposits from customers	16	-	-	-	7,437,484	7,437,484
Other liabilities	17	-	-	-	12,764	12,764
		-	-	-	7,950,248	7,950,248

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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28 FINANCIAL RISK MANAGEMENT

28.1 Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:
a) credit risks
b) liquidity risks
c) market risks

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

Risk management framework

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

The Bank's 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. The Bank's Audit Committee is assisted in these functions by the Internal Audit and compliance department.

a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and placements with other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board has delegated responsibility for the management of credit risk to its Bank's Credit Committee. Credit department reporting to the Bank Credit Committee is responsible for oversight of the Bank's credit risk.

A separate credit department has been established by the Bank that is responsible for oversight of the Bank's credit risk and which is reportable to the Credit Committee. The credit department is headed by Chief Credit Officer (CCO). Credit officer along with credit department staff look after credit risk matters and conduct portfolio analysis for managing credit risk.

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board. The credit evaluation system comprises of well designed credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio.

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The amount of credit risk in this regard is represented by the carrying amounts of the assets on the balance sheet date. Exposure to credit risk is managed through regular analysis of borrower to met interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed against personal guarantee of the borrower and mortgage of immoveable property dully registered with the court of law and hypothecation over stock dully verified by the Bank's Credit Officer on monthly basis.

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:

	2012	2011
	...... Afs '000'	
Classes of financial assets		
Cash and balances with central bank	**4,116,652**	2,289,952
Balances with other banks	**1,744,186**	990,942
Investments	**874,944**	909,837
Loans and advances to customers	**4,036,346**	3,070,951
Other assets	**940,559**	698,981
Total carrying amounts	**11,712,687**	7,960,663

As at balance sheet date, all the loan portfolio of the Bank are recoverable and all the assets which are past due are provided for as per DAB guidelines.

In addition to the above, the Bank has issued financial guarantees contracts for which the maximum amount payable by the Bank, assuming all guarantees less margin are called on, is Afs 789,197673 (2011: 316,653,590).

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 balances with central bank, balances with other banks, investment and other assets are 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.

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortized cost that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for the groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off policy

The Bank writes off loans or advances and any related allowances for impairment losses, when the loans are outstanding for more than 180 days, as per DAB regulation. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position or that proceeds from collateral will not be sufficient to pay back the entire exposure. Before allowing to written off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted.

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The Bank holds collateral against loans and advances in the form of property documents, pledge of stocks and scratch cards, assignment of receivables and guarantees.

Concentration of credit risks by sector

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of loans and advances to customers at reporting date is as follows:

	Note	2012	2011
		...... Afs '000'	
Carrying amount	8	**4,081,357**	3,177,802
Concentration by sector			
Construction		**91,638**	71,351
Communication		**417,346**	324,951
Services		**192,110**	149,580
Commercial		**1,213,698**	945,002
Manufacturing		**124,410**	96,867
Others		**2,042,155**	1,590,051
		4,081,357	3,177,802

Cash and cash equivalents

The Bank held's cash and cash equivalents of Afs 5,860,838 thousands (2011: Afs 3,280,893 thousands) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with central bank and other banks. Management believes cash and cash equivalents are not exposed to significant credit risk.

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.

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The following significant exchange rates were applied during the year.

	December 31, 2012		December 31, 2011	
	Average rate	**Reporting rate**	Average rate	Reporting rate
USD	**50.70**	**52.08**	47.54	49.31
EURO	**66.19**	**68.54**	61.90	63.83

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD and EURO at December 31, 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
	Afs '000'			
US$	**2,113**	**2,642**	(118,549)	(148,186)
Euro	**(726)**	**(907)**	(923)	(1,154)

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.

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b) Liquidity risk

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

Management of liquidity risk

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

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

Exposure to liquidity risk

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

	2012	2011
At the end of the year	**60%**	65%
Average for the period	**60%**	62%
Maximum for the period	**71%**	68%
Minimum for the period	**48%**	55%

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Maturity analysis for financial liabilities

	Note	Carrying amount	Gross nominal outflow	Less than 1 month	1-3 months	3 months to 1 year	More than 5 years
				Afs '000'			
December 31, 2012							
Deposits from banks	15	400,000	(400,000)	-	-	(400,000)	-
Deposits from customers	16	10,850,759	(10,850,759)	(10,108,623)	(222,581)	(519,555)	-
Other liabilities	17	31,182	(31,182)	(31,182)	-	-	-
		11,281,941	(11,281,941)	(10,139,805)	(222,581)	(919,555)	-
December 31, 2011							
Deposits from banks	15	500,000	(500,000)	-	(500,000)	-	-
Deposits from customers	16	7,437,484	(7,437,484)	(7,071,792)	(194,994)	(170,698)	-
Other liabilities	17	12,764	(12,765)	(12,765)	-	-	-
		7,950,248	(7,950,249)	(7,084,557)	(694,994)	(170,698)	-

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 out flow disclosed in the above table is the contractual, undiscounted cash flow on the financial liability.

c) Market risk

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

Overall authority for market risk is vested in ALCO. The Bank's Assets and Liability Committee (ALCO) is responsible for the development of detailed risk management policies and day to day review of their implementation.

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Exposure to currency risk

The Bank's exposure to foreign currency risk based on notional amounts are as follows:

	Note	Total	Afs	USD	EURO
		....	Afs '000'	....	
December 31, 2012					
Cash and balances with central bank	5	**4,116,652**	**701,759**	**3,348,789**	**66,104**
Balances with other banks	6	**1,744,186**	**10,000**	**1,721,410**	**12,776**
Investments	7	**874,944**	**-**	**874,944**	**-**
Loans and advances to customers	8	**4,081,357**	**426,986**	**3,654,371**	**-**
Other assets	12	**1,009,491**	**932,793**	**76,698**	**-**
		11,826,630	**2,071,538**	**9,676,212**	**78,880**
Deposits from banks	15	**(400,000)**	**(400,000)**	**-**	**-**
Deposits from customers	16	**(10,850,759)**	**(1,124,080)**	**(9,656,871)**	**(69,808)**
Other liabilities	17	**(51,345)**	**(5,587)**	**(45,758)**	**-**
		(11,302,104)	**(1,529,667)**	**(9,702,629)**	**(69,808)**
Net foreign currency exposure		**524,526**	**541,871**	**(26,417)**	**9,072**
December 31, 2011					
Cash and balances with central bank	5	2,289,952	611,077	1,541,047	137,827
Balances with other banks	6	990,942	12	950,208	40,722
Investments	7	909,837	199,674	710,163	-
Loans and advances to customers	8	3,177,802	319,825	2,857,977	-
Other assets	12	804,714	742,178	62,536	-
		8,173,247	1,872,766	6,121,931	178,549
Deposits from banks	15	(500,000)	(500,000)	-	-
Deposits from customers	16	(7,437,484)	(2,670,810)	(4,599,661)	(167,013)
Other liabilities	17	(40,922)	(516)	(40,406)	-
		(7,978,406)	(3,171,326)	(4,640,067)	(167,013)
Net foreign currency exposure		194,841	(1,298,560)	1,481,864	11,536

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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 managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. 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
		....		Afs '000'	....		
December 31, 2011							
Cash and balances with central bank	5	100,127	100,127	-	-	-	-
Investments	7	874,944	156,240	260,400	458,304	-	-
Loans and advances to customers	8	4,036,345	1,207,777	1,325,865	1,406,397	96,306	-
Other assets	12	811,235	811,235	-	-	-	-
		5,822,651	2,275,379	1,586,265	1,864,701	96,306	-
Deposits from banks	15	(400,000)	-	-	(400,000)	-	-
Deposits from customers	16	(2,167,695)	(1,864,914)	(222,581)	(80,200)	-	-
		(2,567,695)	(1,864,914)	(222,581)	(480,200)	-	-
		3,254,956	410,465	1,363,684	1,384,501	96,306	-
December 31, 2011							
Cash and balances with central bank	5	100,000	100,000	-	-	-	-
Investments	7	909,837	909,837	-	-	-	-
Loans and advances to customers	8	3,070,951	918,907	1,008,751	1,070,021	73,272	-
Other assets	12	4,182,810	1,251,603	1,373,976	1,457,430	99,801	-
		8,263,598	3,180,347	2,382,727	2,527,451	173,073	-
Deposits from banks	15	(500,000)	-	-	(500,000)	-	-
Deposits from customers	16	(1,396,657)	(1,201,664)	(194,993)	-	-	-
		(1,896,657)	(1,201,664)	(194,993)	(500,000)	-	-
		6,366,941	1,978,683	2,187,734	2,027,451	173,073	-

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29 CAPITAL MANAGEMENT

Regulatory capital

The Banks' regulator Da Afghanistan Bank sets and monitors capital requirements for the Bank. The capital adequacy of the Bank is assessed in two tiers as per regulations of the Da Afghanistan Bank.

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

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

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

The Bank's regulatory capital position at December 31, 2012 was as follows:

	2012	2011
	.... **Afs '000'**	
Tier 1 capital		
Share capital	**1,000,000**	875,758
Add:		
Accumulated (loss) / profit	**(124,790)**	56,073
Deferred tax liability	**73,755**	-
	(51,035)	56,073
Less:		
Intangible assets	**45,332**	104,178
Deferred tax asset	**-**	3,760
	45,332	107,938
Total tier 1 (core) capital	**903,633**	823,893
Tier 2 capital		
Profit for the year	**96,104**	-
Total tier 2 (supplementary) capital	**96,104**	-
Total regulatory capital	**999,737**	823,893

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30 POST-REPORTING DATE EVENTS

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

31 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison and better presentation. Significant reclassifications are summarized below:

Particular	Previous classification	Current classification	Afs '000'
Balances with other banks	Cash and cash equivalents	Balances with other banks	990,942
Investments	Cash and cash equivalents	Investments	909,837
Board members' remuneration	Other expenses	Employee benefit expense	8,719

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CHAIRMAN

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER