KPMG Afghanistan Limited

Bakhtar Bank

Financial Statements

For the period ended 31 December 2009

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Independent Auditors' Report

To: The shareholders
Bakhtar Bank

We have audited the accompanying financial statements of Bakhtar Bank ("the Bank"), which comprise statement of the financial position as at 31 December 2009, and the statements of comprehensive income, changes in equity and cash flows for the period from 18 March 2009 to 31 December 2009, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider 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 the Bank as at 31 December 2009, and of its financial performance and its cash flows for the period from 18 March 2009 to 31 December 2009 then ended in accordance with International Financial Reporting Standards and the requirements of the Law of Banking in Afghanistan.

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KPMG Afghanistan Limited
20 March 2010
Kabul

Bakhtar Bank
Statement of financial position
As at 31 December 2009

2009 USD'000'		Note	2009 Afs '000'
	Assets		
11,217	Cash and cash equivalents	5	**545,603**
2,465	Loans and advances to customers	6	**119,883**
1,361	Property and equipment	7	**66,205**
2,948	Intangible assets	8	**143,402**
175	Deferred tax asset	9	**8,492**
449	Other assets	10	**21,819**
18,614	**Total assets**		**905,404**
	Liabilities		
6,240	Deposits from customers	11	**303,513**
2,764	Other liabilities	12	**134,461**
9,004	**Total liabilities**		**437,974**
	Equity		
10,308	Share capital	13	**501,400**
(698)	Retained earnings		**(33,970)**
9,610	**Total equity**		**467,430**
-			
18,614	**Total liabilities and equity**		**905,404**

The annexed notes 1 to 23 form an integral part of these financial statements.

Chief Executive Officer **Chief Finance Officer**

Bakhtar Bank
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Head Office Kabul

Bakhtar Bank
Statement of comprehensive income
For the period from 18 March 2009 to 31 December 2009

2009 USD'000'		Note	2009 Afs '000'
205	Interest income	14	9,978
(19)	Interest expense	14	(905)
187	**Net interest income**		9,073
180	Fee and commission income	15	8,769
(24)	Fee and commission expense	15	(1,177)
156	**Net fee and commission income**		7,592
210	Other operating income	16	10,225
553	**Operating income**		26,890
(367)	Personnel expenses	17	(17,872)
(266)	Operating lease expenses		(12,937)
(123)	Depreciation and amortisation	7, 8	(5,961)
(670)	Other expenses	18	(32,582)
(873)	**Loss before income tax**		(42,462)
175	Income tax income	19	8,492
(698)	**Loss for the period**		(33,970)
-	Other comprehensive income		-
(698)	**Total comprehensive income for the period**		(33,970)

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The annexed notes 1 to 23 form an integral part of these financial statements.

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Head Office Kabul

Chief Executive Officer

Chief Finance Officer

Bakhtar Bank
Statement of changes in equity
For the period from 18 March 2009 to 31 December 2009

USD'000'		Share capital Afs '000'	Retained earnings Afs '000'	Total Afs '000'
	Total comprehensive income for the period:			
(698)	Loss for the period	-	(33,970)	(33,970)
	Contributions by owners:			
10,308	Issuance of share capital	501,400	-	501,400
9,610	**Balance at 31 December 2009**	**501,400**	**(33,970)**	**467,430**

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

Chief Executive Officer

BAKHTAR BANK
Bakhtar Bank
Head Office Kabul

Chief Financial Officer

Bakhtar Bank

Statement of cash flows

For the period from 18 March 2009 to 31 December 2009

2009 USD'000'		Note	2009 Afs '000'
	Cash flows from operating activities		
(873)	Loss for the period before taxation		(42,462)
	Adjustments for:		
123	Depreciation and amortisation	7,8	5,961
(187)	Net interest income	14	(9,073)
(937)			(45,574)
(2,465)	Change in loans and advances to customers	6	(119,883)
(134)	Change in other assets	10	(6,506)
(952)	Change in deposits from customers	11	(46,294)
2,764	Change in other liabilities	12	134,461
(1,723)			(83,796)
205	Interest received		9,978
(19)	Interest paid		(905)
(1,536)	Net cash generated from operating activities		(74,723)
	Cash flows from investing activities		
3,673	Cash received in acquisition	8	178,637
(1,045)	Acquisition of property and equipment	7	(50,811)
(183)	Acquisition of intangible assets	8	(8,900)
2,445	Net cash used in investing activities		118,926
	Cash flows from financing activities		
10,308	Proceeds from issuance of shares	13	501,400
10,308	Net cash from financing activities		501,400
11,217	**Net increase in cash and cash equivalents**		545,603
11,217	**Cash and cash equivalents at 31 December**	5	545,603

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The annexed notes 1 to 23 form an integral part of these financial statements.

Chief Executive Officer

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Chief Finance Officer

1. Status and nature of operations

Bakhtar Bank ("the Bank") is a commercial bank registered in Afghanistan. The Bank is primarily involved in corporate and retail banking in Afghanistan. The Bank obtained its banking license from Da Afghanistan Bank under the Law of Banking in Afghanistan on 18 March 2009.

The registered office of the Bank is located in Kabul, Afghanistan.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with the requirements of the Law of Banking in Afghanistan and International Financial Reporting Standards (IFRSs). In case requirements differ, the provisions of the Law of Banking in Afghanistan shall prevail.

The Board of Supervisors authorized the financial statements for issue on 20 March 2010.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

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

The US Dollar amounts shown in the financial statements are stated solely for information convenience. For the purpose of translation to US Dollars, the rate of Afs 48.55 per US Dollar has been used.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

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 notes 7 and 8.

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3. Significant accounting policies

The accounting policies set out below have been applied in preparation of these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss arising on retranslation is recognised in profit or loss. 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.

(b) Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

(c) Fee and commission

Fees and commission income includes account servicing fees and commissions on issuance of guarantees 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.

(d) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(e) Income tax expense

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

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

Deferred tax is provided 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 measured at the 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 for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they 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 realised.

(f) Financial assets and financial liabilities

Recognition

The Bank initially recognises loans, advances and deposits on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership are of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the balance sheet. On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in the other comprehensive income is recognized in profit or loss.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance

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sheet when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique.

Identification of measurement of impairment

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.

The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. All significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

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 recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of

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impairment loss to decrease, the impairment loss is reversed through profit or loss. The Bank writes off certain loans and advances when they are determined to be uncollectable.

(g) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central bank 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 balance sheet.

(h) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction cost and subsequently measured at their amortized cost using the effective interest method.

(i) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gains or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized net within other income in profit or loss.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred. KPMG

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative period are as follows:

■ Leasehold improvements	20 years
■ Furniture and fixtures	4-20 years
■ Electrical equipment	4 years
■ IT equipment	3 years
■ Vehicles	6.67 years

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

(j) Intangible assets

Software acquired by the Bank is stated at cost less accumulated amortization and accumulated impairment losses.

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.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, 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.

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

(k) Leased assets – lessee

Leases in terms of which the Bank assumes substantially all the risk and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, the leased assets are not recognized in the Bank's balance sheet.

(l) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax 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.

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(m) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

4. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year period 31 December 2009, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Bank, with the exception of:

IFRS 9 *Financial Instruments*, published on 12 November 2009 as part of phase 1 of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets: amortised cost and fair value.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

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	Note	2009 Afs '000'
5. Cash and cash equivalents		
Cash on hand		**82,390**
Balances with banks:		
Da Afghanistan Bank		**11,796**
Commerz Bank		**7,186**
Azizi Bank	*5.1*	**437,258**
Capital notes	*5.2*	**6,973**
		463,213
		545,603

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5.1 Balances kept with Azizi Bank (parent entity) carries interest ranging from 6.5% to 7 % per annum. These are unsecured. The Bank has earned interest income amounting to Afs 4,189 thousand on these deposits during the period.

5.2 Capital notes are issued by Da Afghanistan Bank which carries interest ranging from 4.9% per annum and have a maturity period of 28 days.

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	2009
	Afs '000'

6. Loans and advances to customers

Loans and advances to customers- at amortised cost	119,883

All loans and advances are expected to be recovered within twelve months of the balance sheet date.

	Note	Gross amount	Impairment allowance	Carrying amount
		31 December 2009		
Retail customers- Running finances	6.1	115,129	-	115,129
Short term loans to employees	6.2	1,663	-	1,663
Other consumer loans	6.3	3,091	-	3,091
		119,883	-	119,883

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6.1 Running finance facilities are extended to retail customers for a maximum period of one year subject to renewal at the end of loan term for another one year. These facilities carry interest ranging from 15% to 20% per annum. The facilities are secured against immovable properties, stock and receivables of the borrowers and personal guarantees in certain cases.

6.2 Short term loans to employees are unsecured.

6.3 Other consumer loans are extended to individuals for a maximum period of one year. These loans carry interest ranging from 12% to 15% per annum and are secured against immovable properties and personal guarantees.

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7. Property and equipment

	Leasehold improvements	Office Equipment	Furniture & Fittings	IT equipment	Motor Vehicles	Total
			(Afs '000')			
Cost/assessed values	-	-	-	-	-	-
Acquisitions during the year	12,134	18,498	3,000	9,865	7,314	50,811
Acquired from DBA (Note 8.1)	-	4,926	2,072	11,742	1,132	19,872
Balance at 31 December 2009	12,134	23,424	5,072	21,607	8,446	70,683
Depreciation						
Depreciation for the period	967	1,549	106	1,671	185	4,478
Balance at 31 December 2009	967	1,549	106	1,671	185	4,478
Carrying amounts						
Balance at 31 December 2009	**11,167**	**21,875**	**4,966**	**19,936**	**8,261**	**66,205**

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7.1 There were no capitalised borrowing costs related to the acquisition of property and equipment during the year.

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8. Intangible assets

	Purchased software	Acquired customer deposits (8.1)	Total
		(Afs '000')	
Cost			
Acquisitions during the period	8,900	135,985	144,885
Balance at 31 December 2009	8,900	135,985	144,885
Amortisation			
Depreciation for the period	1,483	-	1,483
Balance at 31 December 2009	1,483	-	1,483
Carrying amounts			
Balance at 31 December 2009	**7,417**	**135,985**	**143,402**

8.1 Acquired customer deposits represent the difference between the assets acquired and liabilities assumed by the Bank on the acquisition of the business of the Development Bank of Afghanistan ("DBA") which was acquired under an agreement, dated 18 March 2009, between Da Afghanistan Bank and Azizi Bank (parent entity of the Bank). DA Afghanistan Bank issued fresh license the Bank on conclusion of the above mentioned agreement. The following assets and liabilities were taken over by the Bank:

	Amount (Afs '000')
Assets	
Cash and cash equivalents	178,637
Property and equipment	19,872
Other assets	15,313
	213,822
Liabilities	
Customer deposits	349,807
Net liabilities-representing cost of acquisition	**(135,985)**
Satisfied by:	
Net liabilities assumed	**(135,985)**

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9. Deferred tax asset

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2009		
	Assets	Liabilities	Net
		Afs '000'	
Property and equipment	-	(2,766)	**(2,766)**
Intangible asset	-	(13,747)	**(13,747)**
Tax loss carry-forward	25,005	-	**25,005**
	25,005	(16,513)	**8,492**

	Note	2009 Afs '000'
10. Other assets		
Prepayments		5,240
Receivable from Da Afghanistan Bank	10.1	15,313
Others		1,266
		21,819

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10.1 This represents assets receivable form DAB under an agreement during the period. Refer note 8.1 for details.

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	2009
	Afs '000'

11. Deposits from customers

Term deposits	8,816
Current deposits	256,213
Saving deposits	38,484
	303,513

None of deposits from customers are expected to be settled more than 12 months after the reporting date.

	Note	2009
		Afs '000'

12. Other liabilities

Margin money		128,428
Creditors and accruals		6,033
		134,461

13. Share capital

Authorised		
1,000,000 ordinary shares of Afs 10,000 each		1,000,000
Issued and paid up		
50,140 ordinary shares of Afs 10,000 each	*13.1*	501,400

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13.1 This represents shares issued to Azizi Bank (parent entity) for cash, during the period.

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	Note	2009 Afs '000'
14. Net interest income		
Interest income		
Cash and cash equivalents	*14.1*	4,321
Loans and advances to customers		5,657
Total interest income		9,978
Interest expense		
Deposits from customers	*14.2*	905
Total interest expense		905
Net interest income		9,073

14.1 This includes interest income amounting to Afs 4,189 thousand earned during the period from deposits with parent entity- refer Note 5.1

14.2 It includes Afs. 181 thousands being withholding income tax on interest payments which has been borne by the Bank.

	2009 Afs '000'
15. Net fee and commission income	
Fee and commission income	
Commission on guarantees issued	8,454
Account servicing fee	315
Total fee and commission income	8,769
Fee and commission expense	
Inter-bank transaction fees	1,177
Total fee and commission expense	1,177
	7,592

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	Note	2009 Afs '000'

16. Other operating income

Foreign exchange loss		7,576
Others		2,649
		10,225

17. Personnel expenses

Salaries and wages		16,585
Staff welfare		1,287
		17,872

18. Other expenses

Repair and maintenance		729
Travel		871
Software maintenance fee		1,335
Printing and stationery		1,619
Communication		272
Internet and connectivity		2,518
Electricity and power		1,407
Security expenses		6,355
Audit fee		533
Legal and professional charges		56
Business development expenses		15,529
Others		1,358
		32,582

19. Income tax income

Current tax expense		-
Deferred tax	9	8,492
		8,492

Reconciliation of effective tax rate

Loss before income tax		42,462
Income tax using corporate tax rate	20%	(8,492)
Total income tax income	20%	(8,492)

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A deferred tax asset has been recognized on estimated losses carried forward, in view of management's projections of sufficient taxable profits in the foreseeable future against which such deferred could be realized. Refer note 9.1

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20. Related parties

Parent and ultimate control party

The Bank is a 100% owned subsidiary of Azizi Bank, therefore all subsidiaries and associated entities are related parties of the bank. The related entities also comprise entities in which directors are able to exercise significant influence and key management personnel. The transactions and balances with related parties with exception of those mentioned elsewhere in the financial statements are as follows:

Transactions with key management personnel

Key management personnel and their immediate relatives have transacted with the Bank during the period as follows:

	2009 Maximum balance	2009 Closing balance
	Afs '000'	Afs '000'
Loans and advances	1,200	982
	1,200	982

Interest charged on balances outstanding from related parties fall within the same rates that would be charged in arms length transactions. Loans to related parties are unsecured. During the year interest income on these loans amounted to Afs 36 thousand .

No impairment losses have been recorded against balances outstanding during the period with key management personnel and other related parties, and no specific allowance has been made for impairment losses on these balances at the period end.

Key management personnel compensation for the period comprised:

	2009
	Afs '000'
Short-term employee benefits	2,235

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

Deputy Chief Executive Officer
Chief Credit Officer
Chief Finance Officer

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21. Lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2009
	Afs '000'
Less than one year	17,591
Between one to five years	49,637
More than five years	-
	67,228

The Bank leases a number of branch and office premises under operating leases. The leases typically run for a period of up to five years, with an option to renew the lease after that period. KPMG

22. Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of the Bank's financial assets and financial liabilities:

in Afs '000'	*Note*	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
31 December 2009									
Cash and cash equivalents	5	-	-	-	-	-	545,603	**545,603**	545,603
Loans and advances to customers	6	-	-	-	119,883	-	-	**119,883**	119,883
Other assets	10	-	-	15,313	-	-	-	**15,313**	15,313
		-	-	15,313	119,883	-	545,603	**680,799**	680,799
Deposits from customers	11	-	-	-	-	-	303,513	**303,513**	303,513
Other liabilities	12	-	-	134,461	-	-	134,461	**134,461**	134,461
		-	-	134,461	-	-	437,974	**437,974**	437,974

23. Financial risk management

23.1 Introduction and overview

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

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

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

Risk management framework

The Board of Supervisor 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 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 Audit Committee is assisted in these functions by the Internal Audit.

23.2 Credit risk

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

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Write-off policy

The Bank writes off loans or advances and any related allowances for impairment losses, when the Bank's Credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Before allowing to written off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted or legal action is not advisable.

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.
Value of collateral held by the Bank as at year end amounts to Afs 281,384 thousand

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 545,602 thousands at 31 December 2009 which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with central bank and other banks.

23.3 Liquidity risk

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

Management of liquidity risk

The Board ensures that the Bank has necessary tools and framework to cater the requirements of liquidity risk management and the Bank is capable to confronting uneven liquidity scenarios. The Bank's management is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board. Asset & Liability Committee (ALCO) is entrusted with the responsibility of managing the mismatch in maturities to ensure sufficient available cash 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.

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 net off 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:

	2009
At 31 December 2009	180%
Average for the period	62%
Maximum for the period	80%
Minimum for the period	43%

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Maturity analysis for financial liabilities

in Afs '000'	*Note*	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2009								
Deposits from customers	*11*	**303,513**	303,513	263,930	1,402	38,181	-	-
Other liabilities		**134,461**	134,461	95,251	2,325	36,584		
Unrecognised loan commitments		**15,670**	15,670	-	15,670	-	-	-
		453,644	453,644	359,181	19,397	74,765	-	-

23.4 Market risks

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

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 a change in market interest rates. Interest rate risk managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day to day monitoring activities. A summary of the Bank's interest rate gap position is as follows:

in Afs '000'	*Note*	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2009							
Cash and cash equivalents	*5*	**444,231**	444,231	-	-	-	-
Loans and advances to customers	*6*	**119,883**	1,358	743	117,674	90	-
Other assets	*10*	**15,313**	15,313	-	-	-	-
		579,427	**460,902**	**743**	**117,674**	**90**	-
Deposits from customers	*11*	**47,300**	9,118	1,714	36,468	-	-
Other liabilities		**134,461**	97,576	1,525	35,058	-	-
		181,761	**106,694**	**3,239**	**71,526**	-	-

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Exposure to currency risk

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

in Afs '000'	Afs	US$	Euro
31 December 2009			
Cash and cash equivalents	262,715	269,557	13,331
Loans and advances to customers	13,319	106,564	-
Other assets	21,052	767	-
	297,086	**376,888**	**13,331**
Deposits from customers	70,767	220,026	12,720
Other liabilities	16,821	117,142	498
	87,588	**337,168**	**13,218**
Net foreign currency exposure	**209,498**	**39,720**	**113**

The following significant exchange rates applied during the period.

in Afs '000'	Average rate	Reporting date spot rate
US$	50	48.64
Euro	71	71.08

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and euro at 31 December 2009 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.

in Afs '000'	Equity	Profit or loss
31 December 2009		
US$	3,972	3,972
Euro	11	11

Management of credit risk

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

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

Exposure to credit risk

in Afs '000'	*Note*	Assets at amortised cost	Available-for-sale assets	Assets at fair value through profit or loss	Total carrying amount
31 December 2009					
Loans and advances to customers	*6*	119,883	-	-	119,883

As at balance sheet date, all the loan portfolio of the Bank was neither past due nor impaired.

In addition to the above, the Bank had entered into lending commitments of Afs 15,670 thousands. The Bank has issued financial guarantees contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is Afs 366,292 thousands.

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised 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.

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A 10% weakening of the Afghani against the above currencies at 31 December 2009 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.

23.5 Capital management

Regulatory capital
The Bank's 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 and Tier 2 capital cannot exceed amount of Tier 1 capital. The Bank complies with these regulations.

The Bank's regulatory capital position at 31 December 2009 was as follows:

	2009 Afs '000'
Tier 1 capital	
Total equity capital	467,430
Less: Intangible assets	(143,402)
Less: Deferred tax assets	(8,492)
Total tier 1 (core) capital	**315,536**
Tier 2 capital	-
Total tier 2 (supplementary) capital	-
Total regulatory capital	**315,536**

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Chief Executive Officer **Chief Finance Officer**