KPMG Afghanistan Limited.

Afghan United Bank

Financial Statements
For the year ended
31 December 2010

KPMG Afghanistan Limited
1st Floor, Park Plaza
Torabaz Khan Road, Shahr-e-Now
Kabul
Afghanistan

Telephone +93 (75) 202 1974
Fax +92 (21) 568 5095
Internet www.kpmg.com.pk

Independent Auditors' Report

To: The shareholders
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 31 December 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 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 2010, and of its financial performance for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Law of Banking in Afghanistan.

KPMG Afghanistan Limited
12 May 2011
Kabul

Afghan United Bank
Statement of financial position
As at 31 December 2010

	Note	2010 Afs '000'	2009 Afs '000'
Assets			
Cash and cash equivalents	4	**6,740,456**	2,747,026
Loans and advances to customers	5	**4,122,509**	2,831,578
Property and equipment	6	**571,211**	301,539
Intangible assets	7	**160,131**	-
Other assets	8	**1,037,958**	498,336
Total assets		**12,632,265**	6,378,479
Liabilities			
Deposits from banks	9	**300,000**	987,773
Deposits from customers	10	**11,280,099**	4,544,792
Deferred tax liability	11	**16,219**	12,590
Other liabilities	12	**104,116**	7,564
Total liabilities		**11,700,434**	5,552,719
Equity			
Share capital	13	**875,758**	778,938
Retained earnings		**56,073**	46,822
Total equity		**931,831**	825,760
Total liabilities and equity		**12,632,265**	6,378,479

The annexed notes 1 to 24 are an integral part of these financial statements.

Chief Executive Officer

Director

Joya

Afghan United Bank
Statement of comprehensive income
For the year ended 31 December2010

	Note	2010 Afs '000'	2009 Afs '000'
Interest income	14	**713,718**	393,036
Interest expense	14	**(190,805)**	(94,468)
Net interest income		**522,913**	298,568
Fee and commission income	15	**42,252**	38,322
Fee and commission expense	15	**(17,784)**	(15,583)
Net fee and commission income		**24,468**	22,739
Business receipt tax expense		**-**	(4,753)
Other operating income	16	**554**	13,740
		554	8,987
Operating income		**547,935**	330,294
Net impairment loss on financial assets	5	**(74,781)**	(19,691)
Personnel expenses	17	**(187,639)**	(104,277)
Operating lease expenses		**(26,069)**	(11,571)
Depreciation and amortization	6,7	**(69,339)**	(28,989)
Other expenses	18	**(177,227)**	(110,209)
(Loss)/Profit before income tax		**12,880**	55,557
Income tax expense	19	**(3,629)**	(11,976)
(Loss)/Profit for the year		**9,251**	43,581
Other comprehensive income		**-**	-
Total comprehensive income for the year		**9,251**	43,581

KPMG

The annexed notes 1 to 24 are an integral part of these financial statements.

Chief Executive Officer

Director

Afghan United Bank
Statement of changes in equity
For the year ended 31 December2010

	Share capital Afs '000'	Retained earnings Afs '000'	Total Afs '000'
Balance as at 01 December 2009	678,054	3,241	681,295
Contributions by shareholders:			
Issuance of shares (note 6.2)	100,884	-	100,884
Total comprehensive income for the period:			
Profit for the year	-	43,581	43,581
Balance as at 31 December 2009	**778,938**	**46,822**	**825,760**
Contributions by shareholders:			
Issuance of shares (note 6.2)	96,820	-	96,820
Total comprehensive income for the year:			
Loss for the year	-	9,251	9,251
Balance as at 31 December 2010	**875,758**	**56,073**	**931,831**

The annexed notes 1 to 24 are an integral part of these financial statements.

Chief Executive Officer

Director

Afghan United Bank
Statement of cash flows
For the year ended 31 December2010

	Note	2010 Afs '000'	2009 Afs '000'
Cash flows from operating activities			
(Loss)/Profit for the year		**9,251**	43,581
Adjustments for:			
Depreciation	6	**69,339**	28,989
Net Impairment allowance on financial assets	5	**74,781**	19,691
Exchange loss		**(3,256)**	(4,298)
Loss on disposal of fixed assets		**114**	278
Net interest income	14	**(522,913)**	(298,568)
Income tax expense	19	**3,629**	11,976
		(369,055)	(198,351)
Change in loans and advances to customers-net	6	**(1,365,712)**	(1,827,897)
Change in other assets	8	**(472,095)**	(488,776)
Change in deposits from banks	9	**(687,773)**	978,995
Change in deposits from customers	10	**6,735,307**	1,351,920
Change in other liabilities	12	**25,416**	4,060
		3,866,088	(180,049)
Interest received		**646,191**	425,403
Interest paid		**(119,669)**	(154,550)
Income tax paid		**-**	-
Net cash from operating activities		**4,392,610**	90,804
Cash flows from investing activities			
Purchase of property and equipment	6	**(228,730)**	(62,148)
Purchase of intangible assets		**(174,290)**	-
Proceed from disposal of property and equipment		**584**	914
Net cash used in investing activities		**(402,436)**	(61,234)
Cash flows from financing activities			
Proceeds from issue of shares	13	**-**	100,884
Net cash from financing activities		**-**	100,884
Net increase in cash and cash equivalents		**3,990,174**	130,454
Cash and cash equivalent at beginning of the year		**2,747,026**	2,612,274
Effect of exchange differences on cash and cash equivalents held		**3,256**	4,298
Cash and cash equivalents at year end	4	**6,740,456**	2,747,026

The annexed notes 1 to 24 are an integral part of these financial statements.

Chief Executive Officer

Director

1. Status and nature of operations

Afghan United Bank ("the Bank") is a commercial bank registered and operating in Afghanistan. The Bank obtained business license from Afghanistan Investment Support Agency bearing No.D-27284 renewed on 03 Jan 2010 as a partnership. The Bank commenced its operations on 04 October 2007 under the license for commercial banking issued to it by Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan. Currently, the Bank is being operated with fifteen branches including two branches of Islamic banking (2009: nine branches including one branch of Islamic banking) in different parts of Afghanistan

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 financial statements were approved by the Board of Supervisors on 12 May 2011.

(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, the amounts in the financial statements have been rounded to the nearest thousand Afghanis.

(c) Going concern assumption

Subsequent to the year end, major shareholders of the Bank were added to the Specially Designated Nationals List by the Office of Foreign Assets Control (OFAC) of the United States Department of the Treasury under the Foreign Narcotics Kingpin Designation Act. As a result the Bank had witnessed abnormal withdrawals by the depositors which affected the Bank's liquidity position in February and March 2011. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Bank's ability to continue as a going concern.

The Bank's management devised a contingency plan and submitted the same to DAB for its planned remedial actions, on 28 February 2011. The plan included request for allocation of emergency funds amounting to USD 50 million from DAB to avoid possible financial constraints. Further, the Bank's shareholders in their meeting held on 06 March 2011 resolved that the existing shareholders will dispose off their entire shareholding in the Bank with prior consent of the DAB.

On 23 March 2011 shareholders' of the Bank entered into a Share Purchase Agreement ("SPA") with a local investor for sale of all existing shares for USD 30 million, subject to DAB's approval and completion of other formalities.

KPMG

At the date of approval of these financial statements DAB's approval for the contingency plan and SPA were not obtained and other formalities were not completed.

These financial statements have been prepared on a going concern basis due to management's expectation that the Bank will be able to continue its operations in the foreseeable future and will be able to meet its financial obligations by implementing its plan's as discussed above.

(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 recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in note 3 (e), 3 (f) and 3 (i) of the financial statements.

3. Significant accounting policies

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

(a) Foreign currency transactions

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 recognised 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.

kpmg

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are 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.

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

As per regulation issued by Da Afghanistan Bank titled "Asset Classifications, Monitoring of Problem Assets, Reserve for losses, and Non-accrual Status", accrued interest is reversed in the loans and advances that are classified as non-accrual status.

(c) 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.

(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 profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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.

KPMG

(f) Financial assets and liabilities

(i) 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.

(ii) Classification

See accounting policies 3 (g) and 3 (h).

(iii) 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.

(iv) Offsetting

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

kPMG

(v) 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.

(vi) 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.

(vii) Identification of measurement of impairment

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.

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.

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

KPMG

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 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 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 (see note 22).

(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.

Loans and advances including financing under murabaha is stated net of provisions against non-performing advances.

(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

kPMG

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.

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. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

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

▪ Land and buildings	20 years
▪ Furniture and fixtures	5 years
▪ Computer equipment	3 years
▪ Vehicles	4 years
▪ Office equipment	4 years

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

(j) 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.

(k) 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 recognised 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 recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to

KPMG

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.

(l) 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.

(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) Employee benefits

Short-term benefits

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

(o) Share capital

Shares issued are classified as equity.

(p) 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 recoginsed 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.

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, 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 I 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: amortized cost and fair value and the Bank is currently in the process of evaluating the potential effects of this standard. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

KPMG

		Note	2010 Afs '000'	2009 Afs '000'
4.	**Cash and cash equivalents**			
	Cash on hand		**2,471,036**	1,892,481
	Balances with DAB		**734,606**	194,505
	Balances with other banks	*4.1*	**1,475,614**	660,040
	Placements	*4.2*	**2,059,200**	-
			6,740,456	2,747,026
4.1	**Balances with other banks**			
	Bank Alfalah Limited		**140**	154
	The First Microfinance Bank		-	70
	National Bank of Pakistan		**47,661**	2,017
	Commerz Bank, Germany		**1,427,817**	354,603
	Habib American Bank, USA		**(1,279)**	253,603
	Standard Chartered Bank		**1,275**	49,593
			1,475,614	660,040
4.2	**Placements**			
	Commerz Bank	*4.2.1*	**1,830,400**	-
	Ghazanfar Bank	*4.2.2*	**228,800**	-
			2,059,200	-

4.2.1 This is short term placement which carries interest rate 0.19 % per annum and this has been matured on 04 January 2011.

4.2.2 Ghazanfar Bank term deposits for the period of six months which carries interest 11.70% per annum and this has been matured on 18 January 2011.

lepmy

	2010 Afs '000'	2009 Afs '000'
5 Loans and advances to customers		
Loans and advances to customers- at amortized cost	**4,122,509**	2,831,578

	Note	2010 Afs '000'			2009 Afs '000'		
		Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
Conventional financing							
Running finance	5.1	**3,386,914**	**(90,449)**	**3,296,465**	2,553,423	(19,691)	2,533,732
Term finance	5.2	**213,925**	**(632)**	**213,293**	251,542	-	251,542
Bills discounted	5.3	**108,736**	-	**108,736**	24,687	-	24,687
Short term loans to employees	5.4	**681**	-	**681**	79	-	79
		3,710,256	**(91,081)**	**3,619,175**	2,829,731	(19,691)	2,810,040
Islamic financing							
Murabaha	5.4	**506,725**	**(3,391)**	**503,334**	21,538	-	21,538
		4,216,981	**(94,472)**	**4,122,509**	2,851,269	(19,691)	2,831,578

5.1 Loan and advances to customers carries interest ranging between 12 % to 25% per annum (2009: 12 % to 25% 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.

5.2 Term finance carries interest ranging between 13 % to 21.5% per annum (2009: 15 % to 21.5% 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, assignment of receivables and lien over the company's shares.

5.3 This represents bridge financing extended to the approved contractors of the US Army against approved invoices. The facility carries interest @ 15% per annum (2009: 20% per annum) and represents discounting of the invoice value, for a period of one month. This facility is secured against post dated cheques.

5.4 Short term loans to employees carries interest @ 8% per annum and secured against personal guarantees of two other employees.

5.4 The Murabaha financing represent sale and purchase agreement under 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 (2009: @ 18% per annum). These facilities are extended for the period of 4 months to 2 years (2009: 6 months) and secured against personal guarantees, mortgage of immovable properties and goods supplied under the sale and purchase agreement.

5.5 As at 31 December 2010, Afs 99,801 thousands (31 December 2009: Afs 122,794 thousands) of loans and advances to customers are expected to be recovered more than twelve months of the reporting date.

	2010 Afs '000'	2009 Afs '000'
Allowances for impairment		
Collective allowances for impairment:		
Balance at beginning of year	**19,691**	-
Impairment loss for the year:		
Charge for the year	**74,781**	19,691
Balance as at 31 December	**94,472**	19,691

KPMG

6. Property and equipment

	Land	Land and buildings	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Capital work in progress under construction	Total
				Afs '000'				
Cost								
Balance at 01 January 2009	-	219,430	13,522	14,096	17,299	13,349	-	277,696
Additions	10,196	5,256	15,570	4,363	22,287	4,476	-	62,148
Disposals	-	-	-	-	(1,325)	-	-	(1,325)
Balance at 31 December 2009	10,196	224,686	29,092	18,459	38,261	17,825	-	338,519
Balance at 01 January 2010	**10,196**	**224,686**	**29,092**	**18,459**	**38,261**	**17,825**	-	**338,519**
Additions (note 6.2)	**118,415**	**115,739**	**20,118**	**47,701**	**4,128**	**9,722**	**9,727**	**325,550**
Disposals	-	-	-	-	**(1,036)**	-	-	**(1,036)**
Balance at 31 December 2010	**128,611**	**340,425**	**49,210**	**66,160**	**41,353**	**27,547**	**9,727**	**663,033**
Depreciation								
Balance at 01 January 2009	-	287	1,578	2,758	2,314	1,187	-	8,124
Depreciation on disposal	-	-	-	-	(133)	-	-	(133)
Depreciation for the year	-	10,225	3,738	5,178	5,942	3,906	-	28,989
Balance at 31 December 2009	-	10,512	5,316	7,936	8,123	5,093	-	36,980
Balance at 01 January 2010	-	**10,512**	**5,316**	**7,936**	**8,123**	**5,093**	-	**36,980**
Depreciation on disposal	-	-	-	-	**(338)**	-	-	**(338)**
Depreciation for the year	-	**22,522**	**7,447**	**9,605**	**10,117**	**5,489**	-	**55,180**
Balance at 31 December 2010	-	**33,034**	**12,763**	**17,541**	**17,902**	**10,582**	-	**91,822**
Carrying amounts								
At 01 Jan 2009	-	219,143	11,944	11,338	14,985	12,162	-	269,572
At 31 December 2009	10,196	214,174	23,776	10,523	30,138	12,732	-	301,539
At 31 December 2010	**128,611**	**307,391**	**36,447**	**48,619**	**23,451**	**16,965**	**9,727**	**571,211**

6.1 There were no capitalized borrowing costs related to the acquisition of property and equipment during the year (2009: nil)

6.2 Additions in land and building includes cost of land and building purchased by the Bank from shareholders in 2008 against share capital. During the year, the Bank has enhanced the original cost of land and building by Afs 96,820 thousand on the basis of approval obtained from the DAB wherein the DAB has revised its already approved valuation of the said property from Afs 199,020 thousand to Afs 295,840 thousand. The share capital of the Bank has been increased by the said amount as the enhancement relates to the approved value of the property which was introduced by the shareholders in lieu of share capital in 2008.

6.3 The land and building purchased by the Bank is held for the purpose of the utilization of the same for the Bank's operations.

6.4 The title of the properties have not yet been transferred in the name of the Bank and the process for transfer has been initiated which is in progress.

7. Intangible assets	Note	2010 Afs '000'	2009 Afs '000'
Purchased software-cost			
Opening balance		-	-
Acquisitions during the year		174,290	-
Closing balance		174,290	-
Amortization			
Opening balance		-	-
Amortization for the year		14,159	-
Closing balance		14,159	-
Carrying amount		160,131	-

8. Other assets

Advances to suppliers and employees		68,094	67,427
Deposits		18,219	29,281
Prepayments		14,372	21,837
Receivables from Western Union		9,625	-
Restricted deposits with DAB	8.1	792,304	379,791
Interest receivables		67,527	-
Payment against documents (PAD)	8.2	63,453	-
Others		4,364	-
		1,037,958	498,336

8.1 This represents interest bearing local currency statutory reserves maintained with DAB as minimum reserve in accordance with Banking Regulations issued by Da Afghanistan Bank. Minimum reserves carries interest ranging 1.25% to 2% per annum (2009: 3% to 5% per annum).

8.2 This represents recoverable from customer on account of payment made by Bank to the importer against import documents which were subsequently settled.

9. Deposits from banks	Note	2010 Afs '000'	2009 Afs '000'
Bank-e-Millie Afghan	9.1	300,000	987,773

9.1 This represents term deposits issued in Afghani, US dollars and Euro carrying interest rate ranging from 5% to 13.5% per annum (2009: 5% to 13.5% per annum) for the period of two year. Maturity date of these deposits is 07 March 2011.

10. Deposits from customers	Note	2010 Afs '000'	2009 Afs '000'
Current deposits		9,226,273	4,161,547
Saving deposits	10.1	833,610	276,970
Term deposits	10.2	1,053,976	106,275
Margin deposits		166,240	-
		11,280,099	4,544,792

10.1 Saving deposits carries interest ranging from 2% to 4% per annum (2009:2% to 4%), while profit disbursed during the year, on the Islamic saving deposits ranged from 3.3% per annum to 7.7% per annum (2009: 3% to 7.5%).

10.2 Term deposits carries interest ranging from 8% to 12% per annum (2009: 8 to 12 % per annum) with maturity of one to twelve months (2009: one to twelve months). Profit disbursed during the year on the Islamic term deposits is ranged from 4.62% per annum to 13.87% per annum (2009: none).

10.3 At 31 December 2010 (31 December 2009: none) none of the balance of deposits from customers are expected to be settled in more than twelve months of reporting date.

11. Deferred tax assets and liabilities

11.1 *Recognized deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to following:

	Assets	**Liabilities**	**Net**
	As at 31 December 2010		
	Afs '000'	**Afs '000'**	**Afs '000'**
Property and equipment	**-**	**48,902**	**48,902**
Tax loss carry forward	**(32,683)**	**-**	**(32,683)**
Net tax assets/(liabilities)	**(32,683)**	**48,902**	**16,219**

	Assets	Liabilities	Net
	As at 31 December 2009		
	Afs '000'	Afs '000'	Afs '000'
Property and equipment	-	22,374	22,374
Tax loss carry forward	(9,784)	-	(9,784)
Net tax assets/(liabilities)	(9,784)	22,374	12,590

11.2 *Movement in temporary differences during the year*

	Opening balance	**Recognized in profit or loss**	**Closing balance**
	Afs '000'	**Afs '000'**	**Afs '000'**
31 December 2010			
Property and equipment	**(22,374)**	**(26,528)**	**(48,902)**
Tax loss carry forward	**9,784**	**22,899**	**32,683**
	(12,590)	**(3,629)**	**(16,219)**
31 December 2009			
Property and equipment	(8,819)	(13,555)	(22,374)
Tax loss carry forward	8,206	1,578	9,784
	(613)	(11,977)	(12,590)

12. Other liabilities

	2010	2009
	Afs '000'	Afs '000'
Creditors and accruals	**16,351**	2,607
Business receipt taxes payable	**-**	245
Auditor's remuneration payable	**881**	1,335
Withholding tax payable	**3,613**	15
Murabaha risk reserve	**5,000**	-
Interest payable	**71,136**	-
Others	**7,135**	3,362
	104,116	7,564

kpmg

		2010 Note	2009 Afs '000'
13.	**Share capital**		
	Authorized capital - 360,000 shares of Afs 1000 each (31 December 2009: 360,000 shares of Afs 1000 each)	**360,000**	360,000
	Issued and paid up share capital - 3,503,030 shares of Afs 250 each (31 December 2009: 3,115,750 shares of Afs 250 each)	**875,758**	778,938

		Note	Number of shares 2010	Number of shares 2009
13.1	Following is the reconciliation of number of shares:			
	Number of shares at beginning of the year	*13.1.1*	**3,115,750**	2,712,216
	Shares issued during the period			
	- against cash		-	403,534
	- in kind (refer note 6.2)		**387,280**	-
			387,280	403,534
	Number of shares at year end	*13.1.1*	**3,503,030**	3,115,750

13.1.1 These include 2,319,670 and 1,183,360 shares issued against cash amouning to Afs 579,918 thousand and in kind consideration of Afs 295,840 thousand respectively (2009 ; 2,319,670 and 796,080 shares issued against cash amounting to Afs 579,918 thousand and in kind consideration of Afs 199,020 respectively). (*Refer note 6.2)*.

13.2 DAB through Circular Reference No. 703/914 dated 8 August 2010 has required all the commercial banks to increase their capital to Afs. 1 billion (USD 20 million) within next two years with effect from date of the circular. The Bank is in the process of devising a plan to achieve the required capital levels within the given timeframe.

KPMG

		Note	2010 Afs '000'	2009 Afs '000'
14.	**Interest income**			
	Interest income			
	Cash and cash equivalents	14.1	25,981	10,062
	Loans and advances to customers	14.2	687,737	382,974
	Total interest income		713,718	393,036
	Interest expense			
	Deposits from banks		(76,124)	(79,329)
	Deposits from customers		(114,681)	(15,139)
	Total interest expense		(190,805)	(94,468)
	Net interest income		522,913	298,568
14.1	**Interest income on cash and cash equivalents**			
	Interest on balance with other banks and placements		20,145	3,039
	Interest on statutory reserve with DAB		5,836	7,023
			25,981	10,062
14.2	**Interest income on loans and advances to customers**			
	Interest income on loans and advances to customers		664,130	382,974
	Interest income on loans processing		23,607	-
			687,737	382,974
15.	**Net fee and commission income**			
	Fee and commission income			
	Commission on guarantees issued		7,422	30,304
	Fund transfer fee and cheque books issued		34,737	8,018
	Others		93	-
	Total fee and commission income		42,252	38,322
	Fee and commission expense			
	Inter bank transaction fee		(17,784)	(15,583)
	Total fee and commission expense		(17,784)	(15,583)
	Net fee and commission income		24,468	22,739

		2010 Afs '000'	2009 Afs '000'
16.	**Other operating income**		
	Foreign exchange (loss)/gain	(81)	13,665
	Others	635	75
		554	13,740
17.	**Personnel expenses**		
	Salaries and wages	174,977	101,386
	Staff welfare	12,662	2,891
		187,639	104,277
18.	**Other expenses**		
	Communication	13,531	11,768
	Travelling and conveyance	14,310	11,723
	Insurance	21,928	-
	Advertisement	22,091	16,945
	Fuel	10,822	7,220
	Food expenses	20,752	16,444
	Donations	5,258	4,159
	Board members' remuneration	1,976	160
	Audit fee	9,388	2,878
	Repairs and maintenance	25,142	5,798
	Loss on disposal of property and equipment	114	278
	Fee and taxes	2,089	1,949
	Stationery and printing	4,340	2,434
	Membership and retainership fee	-	1,743
	Staff training	460	829
	Utilities	5,765	5,890
	Other impairment allowance	3,890	-
	Others	15,371	19,991
		177,227	110,209

18.1 These represents ADIC charges paid to Afghan Depoist Insurance Corporation (ADIC) @0.15% per annum of the total depoists as required by DA Afghanistan Bank.

WMG

				2010	2009
			Note	**Afs '000'**	Afs '000'

19. Income tax expense

	2010 Afs '000'	2009 Afs '000'
Current tax expense	-	-
Deferred tax expense	3,629	11,976
	3,629	11,976

19.1 Reconciliation of effective tax rate

	Rate Dec-10 (%)	Rate Dec-09 (%)	2010 Afs '000'	2009 Afs '000'
Profit before income tax			12,880	55,557
Income tax using tax rate	20.00	20.00	2,576	11,111
Non-deductible expenses	8.18	1.56	1,053	865
Total income tax expense in income statement	28.18	21.56	3,629	11,976

20. Related parties

20.1 Parent and ultimate controlling party

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

20.2 Transactions with key management personnel

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

	Maximum limit balance Afs '000'	Closing Balance Afs '000'
31 December 2010		
Short term loans to employees	1,650	344
31 December 2009		
Short term loans to employees	-	-

Interest charged on balances outstanding from related parties are the same as being charged by the Bank for advances to other personnel of the Bank. These balances are not secured and no guarantee have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the year end.

kpmg

Key management personnel compensation

	Note	2010 Afs '000'	2009 Afs '000'
Salary and other benefits paid to members of supervisory board	*18.*	**1,976**	160
Short term employee benefits	*17.*	**49,316**	28,477
Interest income	*14.*	**5**	-

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

20.3 Transactions with other related parties

Following are transactions with related parties, during the period, and outstanding balances at the reporting date:

	2010 Afs '000'	2009 Afs '000'
Associates		
Balances at year end		
Loans and advances to customers	**40**	-
Deposit from customers	**44,476**	-
Transactions during the period		
Interest income	**286**	-
Shareholders		
Balances at year end		
Deposit from customers	**2,970**	306

20.4 There were no related party transactions and outstanding balances other than those disclosed above and in notes to the financial statements.

21. Lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2010 Afs '000'	2009 Afs '000'
Less than one year	**15,879**	14,749
Between one to five years	**189,965**	209,246
More than five years	**-**	2,887
	205,844	226,882

The Bank leases a number of branch and office premises under operating leases. The leases typically run for a period of up to 10 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 amortized cost	Total carrying amount
2010								
Cash and cash equivalents	4	-	-	-	-	-	6,740,456	6,740,456
Loans and advances to customers	5	-	-	-	4,122,509	-	-	4,122,509
Other assets	8						951,128	951,128
		-	-	-	4,122,509	-	7,691,584	11,814,093
Deposits from banks	9	-	-	-	-	-	300,000	300,000
Deposits from customers	10	-	-	-	-	-	11,280,099	11,280,099
Other liabilities	12	-	-	-	-	-	96,981	96,981
		-	-	-	-	-	11,677,080	11,677,080
2009								
Cash and cash equivalents	4	-	-	-	-	-	2,747,026	2,747,026
Loans and advances to customers	5	-	-	-	2,831,578	-	-	2,831,578
Other assets	8						409,072	409,072
		-	-	-	2,831,578	-	3,156,098	5,987,676
Deposits from banks	9	-	-	-	-	-	987,773	987,773
Deposits from customers	10	-	-	-	-	-	4,544,792	4,544,792
Other liabilities	12	-	-	-	-	-	4,202	4,202
		-	-	-	-	-	5,536,767	5,536,767

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.

23 Financial risk management

23.1 Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments

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

Wmy

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.

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 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 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 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.

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

in Afs '000'	*Note*	Assets at amortized cost	Available-for-sale assets	Assets at fair value through profit or loss	Total carrying amount
2010					
Loans and advances to customers	5	4,122,509	-	-	**4,122,509**
Collectively impaired					
Gross amount		195,233	-	-	**195,233**
Allowance for impairment		(94,472)	-	-	**(94,472)**
Carrying amount		100,761	-	-	**100,761**
Past due but not impaired:					
Gross amount		1,528,615	-	-	**1,528,615**
		1,528,615	-	-	1,528,615
Neither past due nor impaired:					
Gross amount		2,493,133	-	-	2,493,133
Carrying amount-amortized cost:		**4,122,509**	-	-	**4,122,509**
2009					
Loans and advances to customers	5	2,831,578	-	-	2,831,578
Collectively impaired					
Gross amount		355,697	-	-	355,697
Allowance for impairment		(19,691)	-	-	(19,691)
Carrying amount		336,006	-	-	336,006
Past due but not impaired:					
Gross amount		94,209	-	-	94,209
		94,209	-	-	94,209
Neither past due nor impaired:					
Gross amount		2,401,363	-	-	2,401,363
Carrying amount-amortized cost:		2,831,578	-	-	2,831,578

lpng

As at balance sheet date, a small portion of total loan portfolio of the Bank was impaired against which a provision has been created in the financial statements.

In addition to the above, at year end there were no lending commitments which is pending for disbursement.

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due but the Bank believes impairment is not appropriate.

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.

All loans and other assets are classified into one of the five classification grades mentioned below for minimum provisioning amounts. General and specific allowance for impairment is made by the Bank with the following percentages:

Loan Grading	Days past dues	Percentage %
Standard	None	0%
Watch	31-60 days	5%
Substandard	61-90 days	25%
Doubtful	91-180 days	50%
Loss	Over 180 days	100%

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 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.

An estimate of the fair value of the collateral and other security enhancements held against loans and advances to customers is shown below:

	2010 Afs '000'	2009 Afs '000'
Against collectively impaired		
Property	**727,929**	588,605
Debt securities	-	-
Equities	-	-
Others	-	-
Against past due but not impaired		
Property	**3,952,000**	33,289
Debt securities	-	-
Equities	-	-
Others	-	-
Against neither past due nor impaired		
Property	**3,998,453**	2,544,512
Debt securities	-	-
Equities	**66,352**	239,788
Others	**2,813,273**	1,243,610
Total	**11,558,007**	4,649,804

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:

in Afs '000'	*Note*	**2010**	2009
Carrying amount	*5*	4,182,810	2,831,578
Concentration by sector			
Construction			
Communication		**562,882**	320,676
Services		**193,954**	155,913
Commercial		**279,077**	471,105
Manufacturing		**2,877,947**	1,691,687
Others		**24,024**	97,124
		244,926	95,073
		4,182,810	2,831,578

The Bank held's cash and cash equivalents of Afs 6,740,456 thousands (31 Dec 2009: Afs: 2,747,026 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 Banks 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 constructed agreed.

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.

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.

upmf

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:

	2010	2009
At 31 December	65%	47%
Average for the period	62%	66%
Maximum for the period	68%	106%
Minimum for the period	55%	35%

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**	**More than 5 years**
2010							
Deposits from banks	*9*	300,000	(300,000)	-	(300,000)	-	-
Deposits from customers	*10*	11,280,099	(11,280,099)	(10,188,130)	(16,266)	(1,029,577)	-
Other liabilities	*12*	96,981	(96,981)	(96,981)	-	-	-
		11,677,080	**(11,677,080)**	**(10,285,111)**	**(316,266)**	**(1,029,577)**	-

in Afs '000'	*Note*	Carrying amount	Gross nominal inflow/(outflow)	Less than 1 month	1-3 months	3 months to 1 year	More than 5 years
2009							
Deposits from banks	*9*	987,773	(987,773)	(8,778)	(809,070)	(169,925)	-
Deposits from customers	*10*	4,544,792	(4,544,792)	(4,527,403)	(5,333)	(12,056)	-
Other liabilities	*12*	4,202	(4,202)	(4,202)	-	-	-
		5,536,767	(5,536,767)	(4,540,383)	(814,403)	(181,981)	-

kpmg

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

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

To manage and control market risk a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. Overall authority for 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 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:

in Afs '000'	*Note*	Carrying amount	Less than three months	3-6 months	6-12 months	1-5 years	More than 5 years
2010							
Cash and cash equivalents	*4*	**6,740,456**	6,740,456	-	-	-	-
Loans and advances to customers	*5*	**4,122,509**	1,251,603	1,373,976	1,457,430	99,801	-
Restricted balance with DAB	*8*	**792,304**	792,304				
		10,862,965	**7,992,059**	**1,373,976**	**1,457,430**	**99,801**	-
Deposits from banks	*9*	**300,000**	(300,000)	-	-	-	-
Deposits from customers	*10*	**11,280,099**	(10,227,038)	(956,384)	(96,677)	-	-
		11,580,099	**(10,527,038)**	**(956,384)**	**(96,677)**	-	-
		22,443,064	**(2,534,979)**	**417,592**	**1,360,753**	**99,801**	-
2009							
Cash and cash equivalents	*4*	2,747,026	2,747,026	-	-	-	-
Loans and advances to customers	*5*	2,831,578	759,383	511,047	1,337,455	223,693	-
Restricted balance with DAB		379,791	379,791	-	-	-	-
		5,958,395	3,886,200	511,047	1,337,455	223,693	-
Deposits from banks	*9*	(987,773)	(817,848)	-	(169,925)	-	-
Deposits from customers	*10*	(4,544,792)	(4,529,808)	(3,180)	(11,804)	-	-
		(5,532,565)	(5,347,656)	(3,180)	(181,729)	-	-
		425,830	(1,461,456)	507,867	1,155,726	223,693	-

klmg

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 2010			
Cash and cash equivalents	570,893	5,856,947	312,616
Loans and advances to customers	773,360	3,409,450	-
Other assets	821,787	120,798	-
	2,166,040	**9,387,195**	**312,616**
Deposits from banks	300,000	-	-
Deposits from customers	1,520,495	9,484,151	222,964
Other liabilities	31,301	49,054	-
	1,851,796	**9,533,205**	**222,964**
Net foreign currency exposure	**314,244**	**(146,010)**	**89,652**

in Afs '000'	Afs	US$	Euro
31 December 2009			
Cash and cash equivalents	929,277	1,940,867	256,673
Loans and advances to customers	817,618	2,013,883	77
Other assets	28,794	487	-
	1,775,689	3,955,237	256,750
Deposits from banks	606,880	170,935	209,958
Deposits from customers	577,785	3,889,502	77,505
Other liabilities	4,202	-	-
	1,188,867	4,060,437	287,463
Net foreign currency exposure	586,822	(105,200)	(30,713)

kang

The following significant exchange rates were applied during the periods.

	31-Dec-10		31-Dec-09	
	Average rate	**Reporting date spot rate**	Average rate	Reporting date spot rate
US$	**47.16**	**45.76**	50.00	48.55
Euro	**64.83**	**59.96**	71.00	69.69

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and euro at 31 December 2010 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.

	31-Dec-10		31-Dec-09	
in Afs '000'	**Equity**	**Profit or loss**	Equity	Profit or loss
US$	**14,601**	**14,601**	10,520	10,520
Euro	**(8,965)**	**(8,965)**	3,071	3,071

A 10% weakening of the Afghani against the above currencies at 31 December 2010 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 Banks' regulator Da Afghanistan Bank sets and monitors capital requirements for the Bank. During the year 2010 the Bank was required to maintain at all times the financial capital in excess of Afs 250 million *(refer note 12.2)* and regulatory capital to be 12% of the risk weighted assets. 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 2010 was as follows:

	2010 Afs '000'	2009 Afs '000'
Tier 1 capital	**762,443**	782,179
Tier 2 capital	**9,251**	43,581
Total regulatory capital	**771,694**	825,760

24 Contingencies

	2010 Afs '000'	43581 Afs '000'
Letter of credits and guarantees issued on behalf of customers	**457,600**	841,680

Chief Executive Officer

Director