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PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying financial statements of Afghanistan International Bank (the Bank), which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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. 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 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Afghanistan International Bank as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants
Islamabad
Date: February 20, 2011

Engagement partner: M. Imtiaz Aslam

AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010

	Note	2010	2009
ASSETS		AF	AF
Cash and balances with Da Afghanistan Bank (DAB)	5	4,000,923,316	4,461,739,499
Balances with other Banks	6	2,991,254,924	3,412,301,128
Short term placements	7	8,655,404,220	6,073,499,631
Loans and advances to customers - net	8	3,550,033,282	2,822,605,648
Receivable from financial institution	9	182,994,561	119,620,636
Operating fixed assets	10	114,982,535	109,015,827
Intangible assets	11	53,536,208	43,741,598
Deferred income tax assets	15	4,401,306	-
Other assets	12	108,153,342	34,053,765
Total assets		19,661,683,694	17,076,577,732
LIABILITIES			
Customers' deposits	13	17,727,504,184	14,944,305,167
Deferred income on commercial letter of credit and guarantees		6,667,524	6,147,240
Other liabilities	14	198,064,359	62,006,330
Income tax liability		-	187,717,463
Deferred income tax liabilities	15	-	16,130,897
Total liabilities		17,932,236,067	15,216,307,097
EQUITY			
Share capital	16	991,570,574	991,570,574
Retained earnings		737,877,053	868,700,061
Total equity		1,729,447,627	1,860,270,635
Total equity and liabilities		19,661,683,694	17,076,577,732
CONTINGENCIES AND COMMITMENTS	17		

The annexed notes 1 to 30 form an integral part of these financial statements.

Chief Executive Officer

Ronald [illegible]

Director

AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010 AF	2009 AF
Interest income	18	600,613,422	1,140,022,901
Interest expense	19	(3,822,672)	(19,508,356)
Net interest income		596,790,750	1,120,514,545
Fee and commission income	20	261,702,619	319,650,194
Fee and commission expense	21	(8,649,236)	(9,200,641)
Net fee and commission income		253,053,383	310,449,553
Income from dealing in foreign currencies	22	127,586,540	73,254,428
		977,430,673	1,504,218,526
Other income	23	9,595,717	1,956,891
Provision against loans and advances	8	(36,177,221)	(102,341,822)
General and administrative expenses	24	(628,673,937)	(440,645,922)
PROFIT BEFORE INCOME TAX		322,175,232	963,187,673
Income tax credit/(charge)	25	4,101,760	(207,591,806)
PROFIT FOR THE YEAR		326,276,992	755,595,867
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		326,276,992	755,595,867
Earnings per share - Basic and diluted	28	16.31	37.78

The annexed notes 1 to 30 form an integral part of these financial statements.

Chief Executive Officer

Director

.FGHANISTAN INTERNATIONAL BANK
TATEMENT OF CHANGES IN EQUITY
OR THE YEAR ENDED DECEMBER 31, 2010

	Share capital	Retained earnings	Total
	---------- AF ----------		
3alance as at December 31, 2008	496,870,574	607,804,194	1,104,674,768
Comprehensive income			
Profit for the year	-	755,595,867	755,595,867
Other comprehensive income	-	-	-
Total comprehensive income	-	755,595,867	755,595,867
Transactions with owners			
Bonus shares issued	494,700,000	(494,700,000)	-
3alance as at December 31, 2009	991,570,574	868,700,061	1,860,270,635
Comprehensive income			
Profit for the year	-	326,276,992	326,276,992
Other comprehensive income	-	-	-
Total comprehensive income	-	326,276,992	326,276,992
Transactions with owners			
Interim dividend @ AF 22.855 per share paid during the year	-	(457,100,000)	(457,100,000)
3alance as at December 31, 2010	991,570,574	737,877,053	1,729,447,627

The annexed notes 1 to 30 form an integral part of these financial statements.

Chief Executive Officer

Director

AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF CASH FLOWS
FOR YEAR ENDED DECEMBER 31, 2010

	Note	2010 AF	2009 AF
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		629,687,282	1,200,765,613
Interest payments		(4,056,164)	(22,376,276)
Fee and commission receipts		261,725,396	317,814,199
Fee and commission payments		(8,649,236)	(9,200,641)
Income from dealing in foreign currencies		122,114,628	67,285,908
Other income		17,249,664	1,133,114
General administrative expenses paid		(517,137,201)	(390,574,838)
Cash flows from operating activities before changes in operating assets and liabilities		500,934,369	1,164,847,079
Changes in operating assets and liabilities:			
Receivable from financial institution		(229,946,562)	91,067,548
Required reserve maintained with DAB		(230,416,000)	(765,053,720)
Loans and advances to customers - net		(759,428,899)	(313,170,623)
Other assets		(49,943,700)	7,835,830
Customers' deposits		2,783,432,508	2,068,890,966
Other liabilities		(18,805,389)	26,588,305
Net cash generated from operating assets and liabilities		1,494,891,958	1,116,158,306
Income tax paid		(235,248,965)	(130,844,323)
Business receipt tax paid		-	(17,377,392)
Net cash flow from operations		1,760,577,362	2,132,783,670
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase/ (decrease) in short term placements (with maturity more than three months)		(2,157,605,494)	1,081,043,891
Borrowings from financial institution - net		-	(200,000,000)
Purchase of property and equipment		(55,607,665)	(65,106,371)
Proceeds from sale of property and equipment		638,590	5,859,768
Purchase of intangible assets		(23,760,956)	(7,442,183)
Net cash flow from investing activities		(2,236,335,525)	814,355,105
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(344,425,000)	-
Net cash flow from financing activities		(344,425,000)	-
Net increase/(decrease) in cash and cash equivalents		(820,183,163)	2,947,138,775
Effect of foreign currency exchange gain on cash and cash equivalents		(6,165,485)	823,773
Cash and cash equivalents at beginning of the year		8,538,857,415	5,590,894,867
Cash and cash equivalents at end of the year	27	7,712,508,767	8,538,857,415

The annexed notes 1 to 30 form an integral part of these financial statements.

Chief Executive Officer

Director

1. STATUS AND NATURE OF BUSINESS

Afghanistan International Bank was registered with Afghan Investment Support Agency (AISA) on December 27, 2003 and on March 22, 2004 received formal commercial banking license from Da Afghanistan Bank (DAB), the Central Bank in Afghanistan, to operate nationwide.

The Bank is a limited liability company and is incorporated and domiciled in Afghanistan. The principal business place of the Bank is at AIB head office, Shahr-e-naw, Haji Yaqoob Square, Shahabuddin Watt, Kabul, Afghanistan.

The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The Bank has 16 branches (2009: 16 branches) and 3 cash outlets (2009: 2 cash outlets) in operation and employs 397 (2009: 308) staff members.

2 BASIS OF PREPARATION AND MEASUREMENT

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Law of Banking in Afghanistan. Whenever the requirement of the Law of Banking in Afghanistan differs with the requirements of the IFRS, the requirement of the Law of Banking in Afghanistan takes precedence.

These financial statements have been prepared using accrual basis of accounting under the historical cost convention.

The financial statements comprise statement of financial position, statement of comprehensive income as a single statement, statement of changes in equity, statement of cash flows and the accompanying notes.

The Bank classifies its expenses by the 'function of expense' method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

The following standards, amendments and interpretations to existing standards, have been published and are effective for the Bank's accounting periods beginning on or after January 1, 2011 or later periods, but the Bank has not early adopted them:

			Effective for periods beginning on or after
IAS 1	-	Presentation of Financial Statements (Amendments)	January 1, 2011
IAS 12	-	Income Taxes (Amendments)	January 1, 2012
IAS 24	-	Related Party Disclosures (Revised)	January 1, 2011

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		Effective for periods beginning on or after
IAS 34	- Interim Financial Reporting (Amendments)	February 1, 2011
IFRS 1	- First time Adoption of International Financial Reporting Standards (Amendments)	January 1, 2011
IFRS 1	- First-time Adoption of International Financial Reporting Standards (Amendments)	July 1 , 2011
IFRS 7	- Financial Instruments - Disclosures (Amendments)	January 1, 2011 & July 1 , 2011
IFRS 9	- Financial Instruments - Classification and Measurement (Amendments)	January 1, 2013
IFRIC 13	- Customer Loyalty Programmes (Amendments)	January 1, 2011
IFRIC 14	- The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendments)	January 1, 2011

The above standards, amendments and interpretations to existing standards are either not relevant to the Bank's current operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition including cash in hand and at ATM, unrestricted balances with the DAB, balances with banks and short term placements with other bank.

3.2 Financial instruments

Financial assets and liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument, and derecognized when the Bank loses control of the contractual rights that comprise the financial assets, and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or loss on derecognition of financial assets and financial liabilities is included in income for the year.

3.3 Financial assets

The Bank classifies its financial assets in four categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held-for-trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held-for-trading if it is acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives (if any) are also categorized as held for trading unless they are designated as hedges.

Financial assets are designated at fair value through profit or loss at inception when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for such as loans and advances to customers or banks and debt securities in issue;

- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and

- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Cash and balances with Da Afghanistan Bank (DAB), balances with banks and receivable from financial institution, loans and advances to customers and security deposits and other receivables are classified under this category.

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity financial assets before its maturity, the entire category would be reclassified as available for sale. Short term placements are classified under this category.

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(d) Available-for-sale financial assets

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income as a part of other income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired.

At this time, the cumulative gain or loss previously recognized in equity is recognized in the statement of comprehensive income. However, interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the statement of comprehensive income.

3.3 **Impairment of financial assets**

(a) Assets carried at amortised cost except for loans and advances to customers

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;

- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in impairment charge for credit losses.

(b) Loans and advances to customers

These are stated net of general provision on loans and advances considered 'Standard' and specific provision for non-performing loans and advances, if any. The outstanding principal of the advances are classified in accordance with the Classification and Loss Reserve Requirement (CLRR) issued by DAB.

i) **Standard**: These are loans and advances, which are paying in a current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any supporting it. A general provision is maintained in the books of account @ 3% of value of such loans and advances.

ii) **Watch**: These are loans and advances which are adequately protected by the collateral, if any supporting it, but are potentially weak. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification to Substandard. Further, all loans and advances which are past due by 31 to 60 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account @ 5% of value of such loans and advances.

iii) **Substandard**: These are loans and advances which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral, if any, supporting it. Further, all loans and advances which are past due by 61 to 90 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account @ 25% of value of such loans and advances.

iv) **Doubtful**: These are loans and advances which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. Further, all loans and advances which are past due by 91 to 180 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account @ 50% of value of such loans and advances.

v) **Loss**: These are loans and advances which are not collectible and or such little value that its continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 180 days for principal or interest payments are also classified as Loss. A provision is maintained in the books of account @ 100% of value of such loans and advances and then these loans are charged off and the reserve for losses is reduced immediately upon determination of Loss status.

(c) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets previously recognized in the statement of comprehensive income is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income, related to an event occurring after the impairment loss was recognized.

3.4 **Financial liabilities**

The Bank classifies its financial liabilities in following categories:

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified in this category if incurred principally for the purpose of trading or payment in the short term. Derivatives (if any) are also categorized as held for trading unless they are designated as hedges.

(b) Other financial liabilities measured at amortized cost

These are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement.

3.5 **Operating fixed assets**

These are stated at historical cost less accumulated depreciation and impairment, if any, except for capital work in progress which is stated at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

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

Depreciation is calculated using the straight-line method to allocate the depreciable amount of the assets over their estimated useful life as follows:

	Useful life (years)
Leasehold improvements	3 to 10
Computers	3 to 5
Office equipment	3 to 5
Furniture and fixtures	3 to 10
ATMs	5
Vehicles	5

Depreciation is charged on additions during the year from the month they become available for their intended use while no depreciation is charged in the month of disposal of assets.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount. These are included in other income in the statement of comprehensive income.

3.6 **Intangible assets**

Intangible assets are capitalized only to the extent that the future economic benefits can be derived by the Bank having useful life of more than one year. Intangible assets are stated at cost less accumulated amortisation. Amortisation is charged to income applying the straight line method.

i) **Computer software**

Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of 3 to 10 years.

ii) **License fee**

Acquired trademarks and licenses are initially recognised at historical cost and subsequently recognized at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the licenses over their estimated useful life.

3.7 **Impairment of non-financial assets**

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to depreciation/ amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss or reversal of impairment loss is recognized in the statement of comprehensive income. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Reversal of the impairment losses is restricted to the original cost of the assets.

3.8 **Taxation**

Current

The current income tax charge is calculated in accordance with Income Tax Law, 2009. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

3.9 **Revenue recognition**

a) Interest income and expenses for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

b) Due but unpaid interest income is accrued on overdue advances for periods up to 90 days in compliance with the Banking regulations issued by DAB. After 90 days, overdue advances are classified as non-performing and further accrual of unpaid interest income ceases.

c) Gains and losses on disposal of property and equipment are recognized in the period in which disposal is made.

d) Fees and commission income and expense are recognized on an accrual basis when the service has been provided / received.

3.10 **Foreign currency transactions and translation**

a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is Afghani (AF).

b) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency assets and liabilities are translated using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of assets and liabilities denominated in foreign currencies are recognized in income currently.

	1 USD	1 EURO	1 AED
The exchange rate for following currencies against AF were:			
As at December 31, 2010	45.76	59.96	12.43
As at December 31, 2009	48.55	69.69	13.18

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3.11 Provisions

Provisions are recognized when there are present, legal or constructive obligations as a result of past events; it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amounts can be made. Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations.

3.12 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements when there is a legally enforceable right to offset the recognised amounts and the Bank intends to settle either on a net basis or realize the assets and settle the liabilities simultaneously.

3.13 Dividend Distribution

Final dividend distributions to the Bank's shareholders are recognized as a liability in the financial statements in the period in which the dividends are approved by the Bank's shareholders at the Annual General Meeting, while interim dividend are recognized in the period in which the dividends are declared by the Board of Supervisors.

4. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgments will, by definition, rarely equal the related actual results. The material estimates, assumptions and judgments used to measure and classify the carrying amounts of assets and liabilities are outlined below:

a) Provision for loan losses

The Bank reviews loans to customer balances monthly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in note 8.3.

b) Provision for income taxes

The Bank recognizes tax liability in accordance with the provisions of Income Tax Law 2005. The final tax liability is dependent on assessment by Ministry of Finance, Afghanistan.

c) Useful life of property and equipment and intangible assets

The Bank reviews the useful life and residual value of property and equipment and intangible assets on a regular basis. Any change in estimates may affect the carrying amounts of the respective items of property and equipment and intangible assets with a corresponding effect on the depreciation/ amortization charge.

d) Held-to-maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

	2010 AF	2009 AF
5. CASH AND BALANCES WITH DA AFGHANISTAN BANK (DAB)		
Cash in hand	1,196,102,287	496,399,246
Cash at Automated Teller Machines (ATMs)	232,117,972	168,594,386
	1,428,220,259	664,993,632
With Da Afghanistan Bank		
Local currency		
- Deposit facility account	353,379,685	1,299,999,999
- Required reserve account	1,433,846,000	1,203,430,000
- Current account	669,474,534	1,112,154,751
	2,456,700,219	3,615,584,750
Foreign currency		
- Current account	116,002,838	181,161,117
	2,572,703,057	3,796,745,867
	4,000,923,316	4,461,739,499

Required reserve account is being maintained with DAB which is denominated in AF to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. The required reserve and the deposit facility accounts kept with DAB are interest bearing.

	2010 AF	2009 AF
6. BALANCES WITH OTHER BANKS		
In Afghanistan		
With Standard Chartered Bank - note 6.1	77,564,323	22,050,133
Outside Afghanistan		
With Commerzbank, Germany		
- in saving accounts - note 6.2	2,386,112,319	2,996,497,039
- as cash margins held - note 6.3	523,255,473	356,813,212
With Habib American Bank, America - note 6.4	4,044,909	36,940,744
With AK Bank, Turkey - note 6.5	277,900	-
	2,991,254,924	3,412,301,128

6.1 Balances maintained with Standard Chartered Bank are non-interest bearing and are available on demand.

6.2 This represents interest bearing nostro accounts. Interest thereon is receivable on quarterly basis.

6.3 This represents interest bearing cash margin held by Commerz Bank, Germany against letters of credit issued on behalf of the Bank.

6.4 Balances maintained with Habib American Bank are non-interest bearing and are available on demand.

6.5 Balances maintained with AK Bank, Turkey are non-interest bearing and are available on demand.

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	2010 AF	2009 AF
7. SHORT TERM PLACEMENTS		
Held to maturity		
With Da Afghanistan Bank - note 7.1	2,046,592,412	3,847,965,271
With other banks - note 7.2		
With Commerzbank, Germany	4,522,355,339	2,225,534,360
With AK Bank, Turkey	847,963,340	-
With Punjab National Bank, Hong Kong	780,839,742	-
	6,151,158,421	2,225,534,360
With Clariden Leu, Switzerland - note 7.3	457,653,387	-
	8,655,404,220	6,073,499,631

7.1 This represents capital notes issued by DAB, upto a maximum period of six months (2009: six months) carrying interest at rates ranging from 2.40% to 3.58% p.a. (2009: 4.94% to 7.8% p.a.) receivable on maturity of respective notes.

7.2 These represent overnight and fixed term placements with various banks upto a maximum period of 1 year (2009: 3 months placements) in USD carrying interest at rates ranging from 0.15% to 1.20% p.a. (2009: 0.13% to 0.6% p.a.) and in EURO carrying interest at rates ranging from 0.02% to 1.13% p.a. (2009: 0.25% to 0.31% p.a.) receivable on maturity of respective placements.

7.3 This represents call deposit placements upto a maximum period of 1 year (2009: Nil) in USD carrying interest rate at 0.15% p.a (2009: Nil).

	2010 AF	2009 AF
8. LOANS AND ADVANCES TO CUSTOMERS - NET		
Overdrafts - note 8.1	3,481,722,308	2,647,005,163
Term loans - note 8.2	184,150,399	265,765,262
	3,665,872,707	2,912,770,425
Provision against loans and advances - note 8.3	(115,839,425)	(90,164,777)
	3,550,033,282	2,822,605,648
Particulars of advances		
Short term (for upto one year)	3,649,302,898	2,901,301,141
Non-current (for over one year)	16,569,809	11,469,284
	3,665,872,707	2,912,770,425

8.1 These represent balances due from corporate entities at various interest rates and are secured against mortgage of property, personal guarantees, lien on equipment, pledge of stocks and/ or assignment of receivables of the borrowers. The overdrafts are repayable on demand.

8.2 Term loans carry interest at various rates and are secured against mortgage of property, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. These include loans and advances to customers amounting to AF 108,991,972 (2009: AF 132,476,486) which are partially backed by DEG-Deutsche Investitions-und Entwicklungsgesellschaft mbh (DEG) guarantee to the extent defined in the agreement with DEG.

Particulars of the provision against loans and advances

	2010			2009		
	Specific	General	Total	Specific	General	Total
	----	----	----	AF	----	----
Opening	3,235,680	86,929,097	90,164,777	8,003,636	78,927,160	86,930,796
Charge for the year	10,203,496	25,973,725	36,177,221	89,024,462	13,317,360	102,341,822
Written off against provision - note 8.3.1	(5,030,661)	-	(5,030,661)	(93,139,321)	-	(93,139,321)
Exchange rate difference	(53,952)	(5,417,960)	(5,471,912)	(653,097)	(5,315,423)	(5,968,520)
Closing	8,354,563	107,484,862	115,839,425	3,235,680	86,929,097	90,164,777

1 These represent 'loss' category loans which have been written off in accordance with the requirements of the Banking Regulations issued by DAB (the DAB Regulations). However, in terms of paragraph 3.3.1(g) of part C of the DAB Regulations, the write-off does not affect the Bank's rights to recover the debt due from customers and does not eliminate the borrowers' responsibility to repay the loan.

Loans and advances have been classified as:

Classification	**Provisioning rates**	**Amount Outstanding** AF	**Provision required** AF	**Provision held** AF
Standard	3%	3,584,503,235	107,484,862	107,484,862
Watch	5%*	62,325,721	3,116,286	3,116,286
Substandard	25%*	15,669,589	3,917,397	3,917,397
Doubtful	50%*	2,641,759	1,320,880	1,320,880
Loss	100%*	-	-	-
		3,665,140,304	115,839,425	115,839,425
Interest receivable		732,403	-	-
		3,665,872,707	115,839,425	115,839,425

* Provisioning rates are per DAB Regulation

Classification of regular, overdue but not impaired and impaired loans and advances to customers in terms of product and overdue time period along with details of loans and advances to customers which are renegotiated during the year, has been disclosed in note 29.2.6. No collaterals were repossessed during the year.

RECEIVABLE FROM FINANCIAL INSTITUTION

This represents non-interest bearing receivable balance due from CSC Overseas Development Limited (CSC). The Bank has entered into an agreement with CSC whereby credit card/debit card holders of various financial institutions can use ATM machines of the Bank and the amounts withdrawn including bank charges will be paid by CSC to the Bank.

OPERATING FIXED ASSETS

	2010 AF	2009 AF
Capital work in progress - note 10.1	7,324,190	9,761,123
Property and equipment - note 10.2	107,658,345	99,254,704
	114,982,535	109,015,827

.1 **Capital work in progress**

Advances to suppliers and contractors	7,324,190	9,761,123
	7,324,190	9,761,123

10.2 **Property and equipment**

	Leasehold improvements	Computers	Office equipment	Furniture and fixtures	ATMs	Vehicles	Total
	-AF-						
At January 1, 2009							
Cost	49,210,263	20,860,398	35,127,648	11,699,322	22,708,536	43,047,582	182,653,749
Accumulated depreciation	(34,527,368)	(12,258,618)	(24,239,103)	(5,933,123)	(11,181,069)	(15,814,614)	(103,953,895)
Net book amount at January 1, 2009	14,682,895	8,601,780	10,888,545	5,766,199	11,527,467	27,232,968	78,699,854
Year ended December 31, 2009							
Net book amount at January 1, 2009	14,682,895	8,601,780	10,888,545	5,766,199	11,527,467	27,232,968	78,699,854
Additions	14,223,718	6,562,848	10,137,994	178,739	492,770	4,418,669	36,014,738
Transfers from capital work in progress	6,098,329	715,995	8,253,525	246,900	4,217,139	4,012,000	23,543,888
Deletions	(24,606,697)	-	(3,343,313)	-	-	(637,500)	(28,587,510)
Depreciation charge	(6,552,284)	(4,582,333)	(5,876,503)	(1,333,149)	(5,012,465)	(8,437,837)	(31,794,571)
Depreciation on deletions	19,025,956	-	1,991,099	-	-	361,250	21,378,305
Net book amount at December 31, 2009	22,871,917	11,298,290	22,051,347	4,858,689	11,224,911	26,949,550	99,254,704
At January 1, 2010							
Cost	44,925,613	28,139,241	50,175,854	12,124,961	27,418,445	50,840,751	213,624,865
Accumulated depreciation	(22,053,696)	(16,840,951)	(28,124,507)	(7,266,272)	(16,193,534)	(23,891,201)	(114,370,161)
Net book amount at January 1, 2010	22,871,917	11,298,290	22,051,347	4,858,689	11,224,911	26,949,550	99,254,704
Year ended December 31, 2010							
Net book amount at January 1, 2010	22,871,917	11,298,290	22,051,347	4,858,689	11,224,911	26,949,550	99,254,704
Additions	4,993,139	4,630,320	11,463,736	1,142,481	3,097,188	3,599,604	28,926,468
Transfers from capital work in progress	5,175,627	10,285,102	3,689,225	-	3,104,176	6,864,000	29,118,130
Deletions	-	-	(900,619)	(303,852)	-	-	(1,204,471)
Depreciation charge	(11,657,114)	(7,992,893)	(11,068,478)	(1,809,694)	(6,661,904)	(10,048,823)	(49,238,906)
Depreciation on deletions	-	-	500,818	301,602	-	-	802,420
Net book amount at December 31, 2010	21,383,569	18,220,819	25,736,029	4,189,226	10,764,371	27,364,331	107,658,345
At December 31, 2010							
Cost	55,094,379	43,054,663	64,428,196	12,963,590	33,619,809	61,304,355	270,464,992
Accumulated depreciation	(33,710,810)	(24,833,844)	(38,692,167)	(8,774,364)	(22,855,438)	(33,940,024)	(162,806,647)
Net book amount	21,383,569	18,220,819	25,736,029	4,189,226	10,764,371	27,364,331	107,658,345
Useful life	3 to 10 years	3 to 5 years	3 to 5 years	3 to 10 years	5 years	5 years	

INTANGIBLE ASSETS

	Computer softwares	Licence fee	Software under implementation	Total
	------AF------			
At January 1, 2009				
Cost	71,279,386	504,700	825,046	72,609,132
Accumulated amortization	(25,366,853)	(504,700)	-	(25,871,553)
Net book amount at January 1, 2009	45,912,533	-	825,046	46,737,579
Year ended December 31, 2009				
Net book amount at January 1, 2009	45,912,533	-	825,046	46,737,579
Additions	7,442,183	-	-	7,442,183
Transfers	825,046	-	(825,046)	-
Amortisation charge	(10,438,164)	-	-	(10,438,164)
Net book amount at December 31, 2009	43,741,598	-	-	43,741,598
At January 1, 2010				
Cost	79,546,615	504,700	-	80,051,315
Accumulated amortisation	(35,805,017)	(504,700)	-	(36,309,717)
Net book amount at January 1, 2010	43,741,598	-	-	43,741,598
Year ended December 31, 2010				
Net book amount at January 1, 2010	43,741,598	-	-	43,741,598
Additions	23,760,956	-	-	23,760,956
Amortisation charge	(13,966,346)	-	-	(13,966,346)
Net book amount at December 31, 2010	53,536,208	-	-	53,536,208
At December 31, 2010				
Cost	103,307,571	504,700	-	103,812,271
Accumulated amortisation	(49,771,363)	(504,700)	-	(50,276,063)
Net book amount	53,536,208	-	-	53,536,208

12.	OTHER ASSETS	2010 AF	2009 AF
	Considered good		
	Advances to employees	4,218,823	2,787,734
	Security deposits	1,339,360	1,370,050
	Prepayments	44,937,838	16,911,009
	Advance tax	31,101,060	-
	Other receivables	34,437,069	19,616,999
	Money Gram International - note 12.1	(12,742)	(143,118)
	Less:		
	Provision against other receivable	(7,868,066)	(6,488,909)
			-
		108,153,342	34,053,765

12.1 This includes non-interest bearing balance (due to) / from Money Gram International.The Bank is providing money transfer services to customers under an arrangement with Money Gram International.

13.	CUSTOMERS' DEPOSITS	2010 AF	2009 AF
	Current deposits - note 13.1	17,263,035,113	14,634,210,863
	Saving deposits - note 13.2	340,667,709	39,926,373
		17,603,702,822	14,674,137,236
	Term deposits - note 13.3	123,801,362	270,167,931
		17,727,504,184	14,944,305,167

13.1 These include AF 392,278,756 (2009: AF 419,331,954) held as collateral for irrevocable commitments under import letters of credits and letters of guarantees.

13.2 Saving deposits carry interest rate at 5% p.a (2009: 5% p.a).

13.3 Term deposits carry floating interest rates ranging between 0.09% to 0.2% p.a (2009: 0.8% to 0.12% p.a) on foreign currency deposits and 1% p.a (2009: 1% to 3% p.a) on local currency deposits.

14.	OTHER LIABILITIES	2010 AF	2009 AF
	Accruals and other payables	29,145,118	3,673,325
	Withholding tax payable	64,988	14,224
	Amounts pending transfer to customers' accounts - note 14.1	8,140,779	42,523,970
	Customers payment orders awaiting collection	5,141,496	295,343
	Dividend payable	114,400,000	-
	Provision for bonus to employees	28,800,000	13,808,375
	Others	12,371,978	1,691,093
		198,064,359	62,006,330

14.1 This represents amounts received on behalf of the customers, however not credited in the respective customers accounts due to incomplete identification data.

		2010	2009
15.	**DEFERRED INCOME TAX**	AF	AF
	The net balance of deferred tax (asset)/liability is in respect of the following temporary differences:		
	- Depreciation and amortisation	18,453,694	16,130,897
	- Tax impact of dividend to shareholder	(22,855,000)	-
		(4,401,306)	16,130,897

16. SHARE CAPITAL

		2010	2009
30,000,000 (2009: 30,000,000) authorised ordinary shares of USD 1 each	USD	30,000,000	30,000,000
Issued, subscribed and paid-up			
20,000,000 (2009: 20,000,000) ordinary shares of USD 1 each fully paid in cash	AF	991,570,574	991,570,574

Issued, subscribed and paid up capital comprises 25% holding each by Afghanistan Investment Partners Corporation, Asian Development Bank, Horizon Associates LLC and Wilton Holdings Limited.

Movement in number of shares during the year is given below:

	2010	2009
Number of shares at beginning of the year	20,000,000	10,000,000
Bonus shares issued during the year	-	10,000,000
Number of shares at end of the year	20,000,000	20,000,000

17. CONTINGENCIES AND COMMITMENTS

	2010	2009
	AF	AF
17.1 Contingencies		
a) **Guarantees**	26,268,475	276,875,138

These represent bid bonds and performance based guarantees issued by the Bank.

b) **Taxation**

The Bank recognized grant received from United States Agency for International Development (USAID) under Rebuilding Agricultural Markets in Afghanistan Program (RAMP) as income during the year ended March 31, 2006. The management believes that the grant from USAID is exempt from income tax under the Strategic Objective Grant Agreement pursuant to point 4 of the agreement for Technical Cooperation, 1951 between Government of Afghanistan and United States of America read with provision contained in Article 53 of Income Tax Law, 2005/ Article 53 of Income Tax Law, 1965 as amended in March 2005. Tax exempt status of this grant had been disputed by the tax authorities in prior years. If the contention of the Bank is not accepted, the Bank will be liable to corporate tax and Business Receipt Tax of approximately AF 1.995 million and AF 19.547 million respectively for the year ended March 31, 2006.

	2010	2009
17.2 Commitments	AF	AF
a) Undrawn loan and overdraft facilities	897,048,492	305,576,572
b) Commercial letters of credit	1,055,051,078	218,149,969
	1,952,099,570	523,726,541

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	2010 AF	2009 AF
8. INTEREST INCOME		
Interest income on:		
Balances with DAB	28,811,062	208,706,560
Balances with other banks	-	427,557
Short term placements	190,812,392	591,521,990
Loans and advances to customers	380,989,968	369,596,099
	600,613,422	1,170,252,206
Business Receipt Tax (BRT)	-	(30,229,305)
	600,613,422	1,140,022,901

9. INTEREST EXPENSE

	2010 AF	2009 AF
Interest expense on:		
Customers' deposits	3,159,756	3,839,120
Borrowing from financial institutions	662,916	15,669,236
	3,822,672	19,508,356

20. FEE AND COMMISSION INCOME

	2010 AF	2009 AF
Fee and commission income on:		
Loans and advances to customers	41,255,450	45,339,670
Trade finance products	34,230,032	34,808,013
Cash withdrawals	131,198,072	23,325,348
Customers' account service charges	1,600,424	733,481
Cash transfers	23,819,022	196,943,498
Income from ATMs	23,942,975	17,894,062
Others	5,656,644	4,916,547
	261,702,619	323,960,619
Business Receipt Tax (BRT)	-	(4,310,425)
	261,702,619	319,650,194

21. FEE AND COMMISSION EXPENSE

	2010 AF	2009 AF
Guarantee commission	2,511,359	3,655,147
Bank charges	6,137,877	5,545,494
	8,649,236	9,200,641

22. INCOME FROM DEALING IN FOREIGN CURRENCIES

	2010 AF	2009 AF
Forex income	127,586,540	73,341,520
	127,586,540	73,341,520
Business Receipt Tax (BRT)	-	(87,092)
	127,586,540	73,254,428

	2010 AF	2009 AF
23. OTHER INCOME		
Recovery of loans written off in prior years	13,728,000	-
Gain/(Loss) on sale of property and equipment	236,539	(1,349,438)
Exchange (loss)/gain	(7,890,485)	823,773
Others	3,521,663	2,497,881
	9,595,717	1,972,216
Business Receipt Tax (BRT)	-	(15,325)
	9,595,717	1,956,891
24. GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits - note 24.1	228,561,402	177,963,792
Rental expenses	39,727,039	25,215,980
Repairs and maintenance	-	5,139,421
Security costs	47,336,473	35,574,474
Depreciation	49,238,906	31,794,571
Amortization	13,966,346	10,438,164
Computers and software maintenance charges	2,361,549	9,823,846
Shareholders' / Board of supervisors' meeting expenses	7,412,656	3,515,407
Travelling and conveyance	3,535,058	1,013,151
Communication expenses	23,467,775	12,523,524
Utilities	12,518,912	8,288,808
Consumables	24,552,337	20,018,684
SWIFT charges	1,837,341	1,723,699
Legal and professional charges	64,637,252	43,805,973
Audit fee	2,654,080	2,815,900
Marketing and promotion expenses	25,157,571	20,046,546
Money service charges	8,376,869	6,318,015
Self insurance	46,914,749	6,649,251
Subscriptions and memberships	6,353,377	5,258,313
Other charges	6,765,496	1,903,464
ATM expenses	11,606,790	4,326,030
Provision for doubtful receivable-net	1,379,157	6,488,909
Taxes and penalties	312,802	-
	628,673,937	440,645,922

24.1 Salaries and benefits include AF 31,598,121 (2009: AF 16,200,000) in respect of bonus to employees.

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	2010	2009
	AF	AF

25. TAXATION

	2010 AF	2009 AF
Current		
For the year	16,430,442	188,708,924
Deferred		
For the year	(20,532,202)	4,228,912
Prior year	-	14,653,970
	(20,532,202)	18,882,882
	(4,101,760)	207,591,806

25.1 Relationship between tax expense and accounting profit

	2010 AF	2009 AF
Accounting profit for the year	322,175,232	963,187,673
Applicable tax @ 20%	64,435,046	192,637,535
Add: Effect of expenses not deductible for tax purpose	28,194	300,302
Effect of prior years deferred tax	-	14,653,970
Less: Effect of tax on dividend to shareholders	(68,565,000)	-
Tax charge	(4,101,760)	207,591,807

26. RELATED PARTY TRANSACTIONS

The Bank has a related party relationship with its shareholders, their related entities, directors and key management personnel. The Bank had transactions with following related parties during the year:

Other related parties - associated companies of shareholders

Mohib Co. Limited
Deyanat Limited
Elite Construction
United Energy Co. Limited
National Motors
Ishan National
Afghanistan Finance Company
ARC Construction Company
Afghanistan Beverages Company
Marco Polo Gulf Trading FZE
M Ibrahim Mohib
Bilal Rahmat

Outstanding balances and transactions during the year with related parties are as under:

Nature of transactions	Directors and other key management personnel (and close family members) 2010	2009	Other related parties - associated companies of shareholders 2010	2009
	AF		AF	
(a) Loans and advances to related parties				
Loans outstanding at beginning of the year	-	-	224,768,672	228,917,927
Loans issued during the year	-	-	454,572,987	2,748,487,554
Loan repayments during the year	-	-	(440,757,530)	(2,979,425,756)
Exchange gain	-	-	(12,354,285)	226,788,947
Loans outstanding at end of the year	-	-	226,229,844	224,768,672
Interest income earned	-	-	17,900,245	18,871,817

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General provision on outstanding balances of loans and advances to related parties amounts to AF 6,786,896 (2009: AF 6,743,060).

The facility provided to related parties carries mark-up at variable interest rates with floors ranging from US Prime + 4% to 8% payable on monthly basis and is secured against mortgage of residential property and personal guarantees of directors of the Bank.

		Directors and other key management personnel (and close family members)		Other related parties - associated companies of shareholders	
Nature of transactions		2010	2009	2010	2009
		AF		AF	
(b)	**Deposits from related parties**				
	Deposits at beginning of the year	11,566,549	2,527,715	99,886,749	116,368,496
	Deposits received during the year	21,983,463	481,122,470	5,479,726,347	8,541,989,407
	Deposits repaid during the year	(11,566,549)	(472,083,636)	(5,260,878,171)	(8,558,471,154)
	Deposits at end of the year	21,983,463	11,566,549	318,734,925	99,886,749
	Interest expense on deposits	-	-	-	11,719

The above deposits are unsecured. Deposits from related parties include savings/term deposits amounting to AF Nil (2009: AF 36,185,487) which carry interest rate of 5% (2009: 5% p.a).

		Directors and other key management personnel (and close family members)		Other related parties - associated companies of shareholders	
		2010	2009	2010	2009
		AF		AF	
(c)	**Other transactions with related parties**				
	Fee and commission income	-	-	9,859,935	3,281,355
	Fee and commission expense	-	-	-	-
	Rental expenses	2,457,525	6,190,125	-	-
	Guarantees issued by the Bank	-	-	13,479,045	56,408,545
	Commercial letter of credits	-	-	243,240,883	111,923,643
		2,457,525	6,190,125	266,579,863	171,613,543

		2010	2009
		AF	AF
(d)	**Key management compensation**		
	Salaries and other short-term benefits	28,368,544	21,472,451

Key management personnel of the Bank include the Chief Executive Officer, Chief Financial Officer, Chief Information Officer and Chief Operating Officer.

	2010 AF	2009 AF
7. CASH AND CASH EQUIVALENTS		
Cash in hand and at ATM	1,428,220,259	664,993,632
Cash and balances with DAB (other than minimum reserve requirement)	1,138,857,057	2,593,315,867
Balances with other banks	2,467,999,451	3,055,487,916
Short term placements (with maturity less than three months from the date of acquisition)	2,677,432,000	2,225,060,000
	7,712,508,767	8,538,857,415

8. EARNINGS PER SHARE - BASIC & DILUTED

	2010	2009
Profit after tax (AF)	326,276,992	755,595,867
Weighted average number of Ordinary shares - numbers	20,000,000	20,000,000
Earnings per share - Basic & diluted (AF per share)	16.31	37.78

9. FINANCIAL RISK MANAGEMENT

9.1 Financial assets and liabilities

December 31, 2010	**Loans and receivables**	**Held to maturity**	**Total**
		AF	
Financial Assets			
Cash and balances with Da Afghanistan Bank	4,000,923,316	-	4,000,923,316
Balances with other Banks	2,991,254,924	-	2,991,254,924
Short term placements	-	8,655,404,220	8,655,404,220
Loans and advances to customers - gross	3,665,872,707	-	3,665,872,707
Receivable from financial institution	182,994,561	-	182,994,561
Security deposits and other receivables - net	27,895,621	-	27,895,621
	10,868,941,129	**8,655,404,220**	**19,524,345,349**
Financial liabilities			
Customers' deposits			
Term deposits	-	123,801,362	123,801,362
Other deposits	-	-	17,603,702,822
Other liabilities	-	-	198,064,359
	-	**123,801,362**	**17,925,568,543**
Off balance sheet items			
Guarantees	-	-	26,268,475
Undrawn loan and overdraft facilities	-	-	897,048,492
Commercial letters of credit	-	-	1,055,051,078
	-	**-**	**1,978,368,045**

December 31, 2009	Loans and receivables	Held to maturity	Total
		AF	
Financial Assets			
Cash and balances with Da Afghanistan Bank	4,461,739,499	-	4,461,739,499
Balances with other Banks	3,412,301,128	-	3,412,301,128
Short term placements	-	6,073,499,631	6,073,499,631
Loans and advances to customers - gross	2,912,770,425	-	2,912,770,425
Receivable from financial institution	119,620,636	-	119,620,636
Security deposits and other receivables - net	14,355,022	-	14,355,022
	10,920,786,710	**6,073,499,631**	**16,994,286,341**
Financial liabilities			
Customers' deposits			
Term deposits	-	270,167,931	270,167,931
Other deposits	-	-	14,674,137,236
Other liabilities	-	-	62,006,330
	-	**270,167,931**	**15,006,311,497**
Off balance sheet items			
Guarantees	-	-	276,875,138
Undrawn loan and overdraft facilities	-	-	305,576,572
Commercial letters of credit	-	-	218,149,969
	-	**-**	**800,601,679**

29.2 **Financial risk factors**

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and upto date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a central treasury department (Bank Treasury) under policies approved by the Management Board. Bank Treasury identifies, evaluates and manages financial risks in close co-operation with the Bank's operating units. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non-derivative financial instruments. The internal audit is responsible for the independent review of risk management and control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

29.2.1 **Credit Risk**

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, balances with banks and receivable from financial institution and short term placements with other bank. Credit risk also arises in off-balance sheet financial instruments, such as Bank's commitments. The credit risk management and control are centralized in credit risk management team of Bank and reported to the management team and head of each business unit regularly.

29.2.2 **Credit risk measurement**

(a) **Loans and advances**

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the date of statement of financial position.

(i) Over due balances on loans to customers are segmented into four categories as described in note 3.3 (b). The percentage of provision created on such over due balances are as per guidelines issued by DAB and reflects the range of default probabilities defined for each category. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

(ii) Exposure at default is based on the amounts, the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

(b) **Other than loans and advances**

Other than loans and advances includes balances with other banks and financial institutions and short term placements with other banks and other assets. Judgments and instructions from the Bank's treasury are being used by the Bank's management in placing funds with other banks and are viewed as a way to gain better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time when required.

Further, the Bank has banking relationships with financial institutions which have good international reputation and strong financial standing and therefore, probability of default by such financial institutions is low.

29.2.3 **Risk limit control and mitigation policies**

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved quarterly by the Management Board.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations at the time of loan appraisal for initial and subsequent loans.

Some other specific control and mitigation measures are outlined below.

(a) **Collateral**

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties
- Charges over business assets such as premises, inventory and accounts receivable

In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) **Credit-related commitments**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

29.2.4 **Maximum exposure to credit risk before collateral held or other credit enhancements**

	Maximum exposure	
	2010	2009
	AF	AF
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with other Banks	2,991,254,924	3,412,301,128
Short term placements	6,608,811,808	2,225,534,360
Loans and advances to customers - net	3,550,033,282	2,912,770,425
Receivable from financial institution	182,994,561	119,620,636
Security deposits and other receivables	27,895,621	14,355,022
	13,360,990,196	8,684,581,571
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	26,268,475	276,875,138
Undrawn loan and overdraft facilities	897,048,492	305,576,572
Commercial letters of credit	1,055,051,078	218,149,969
	1,978,368,045	800,601,679

The above table represents credit risk exposure to the Bank at December 31, 2010 and December 31, 2009, without taking account of any collateral held or other enhancements attached. For on-balance-sheet assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

As shown above, short term placements and loans and advances represent 49% and 26% (2009: 26% and 33%) respectively of the total on balance sheet credit risk exposure.

29.2.5 **Credit quality of financial assets**

The credit quality of the Bank's financial assets have been assessed below by reference to external credit ratings of counter parties determined by various international credit rating agencies. The counterparties for which external credit ratings were not available have been assessed by reference to internal credit rating determined based on their historical information for any defaults in meeting obligations.

	Credit rating	Credit rating agency	2010 AF	2009 AF
Balances with other banks				
Counter parties with external credit ratings				
Standard Chartered Bank	A+	Standard & Poor's	77,564,323	22,050,133
Commerzbank, Germany	A	Standard & Poor's	2,909,367,792	3,353,310,251
Habib American Bank, America	Unrated	-	4,044,909	36,940,744
AK Bank, Turkey	C-	Moody's	277,900	-
Short term placements				
Counter parties with external credit ratings				
Commerzbank, Germany	A	Standard & Poor's	4,522,355,339	2,225,534,360
AK Bank, Turkey	C-	Moody's	847,963,340	-
Punjab National Bank, Hong Kong	BBB	Capital Intelligence	780,839,742	-
Clariden Leu, Switzerland	B-	Moody's	457,653,387	-
Receivable from financial institution				
Counter parties without external credit ratings		-	182,994,561	119,620,636
Loans and advances - net				
Counter parties without external credit ratings			3,550,033,282	2,912,770,425
Security deposits and other receivables				
Counter parties without external credit ratings		-	27,895,621	14,355,022

29.2.6 **Loans and advances**

Loans and advances are summarised as follows:	2010 AF	2009 AF
Neither past due nor impaired	3,574,488,320	2,887,926,573
Past due but not impaired	10,014,915	9,710,000
Impaired	80,637,069	12,942,722
Gross	3,665,140,304	2,910,579,295
Interest receivable	732,403	2,191,130
Less: allowance for impairment	(115,839,425)	(90,164,777)
Net	3,550,033,282	2,822,605,648

The total impairment provision for loans and advances is AF 115,839,425 (2009: AF 90,164,777). Further information of the impairment allowance for loans and advances to customers is provided in note 8 to these financial statements.

During the year 2010, the Bank's total loans and advances increased by 26% as a result of the expansion of the lending business.

(a) **Loans and advances neither past due nor impaired**

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank and DAB regulations

	Loans and advances						Amounts in AF
	Large corporate customers			SMEs			Total
	Overdraft	Term loans	PIFs*	Overdraft	Term loans	PIFs	
December 31, 2010							
Regular Loans	3,363,114,277	26,623,992	88,239,852	41,864,339	54,645,860	-	3,574,488,320
December 31, 2009							
Regular Loans	2,572,573,654	30,284,811	91,102,836	68,421,626	125,543,646	-	2,887,926,573

(b) **Loans and advances past due but not impaired**

December 31, 2010							
Past due up to 30 days	-	10,014,915	-	-	-	-	10,014,915
Fair value of collateral	-	304,212,480	-	-	-	-	304,212,480
December 31, 2009							
Past due up to 30 days	-	9,710,000	-	-	-	-	9,710,000
Fair value of collateral	-	48,550,000	-	-	-	-	48,550,000

* Post Import Finance -

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

(c) **Loans and advances individually impaired**

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AF 85,667,730 (December 31, 2009: AF 98,215,930) including balances written off of AF 5,030,661 (December 31, 2009; AF 85,309,208).

Affm.

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as security, are as follows:

	Loans and advances						Amounts in AF
December 31, 2010	Large corporate customers			SMEs			Total
	Overdraft	Term loans	PIFs	Overdraft	Term loans	PIFs	
Watch	61,265,924	-	-	-	1,059,797	-	62,325,721
Substandard	15,669,589	-	-	-		-	15,669,589
Doubtful	-	-	-	-	2,641,759	-	2,641,759
Loss	-	-	-	-	-	-	-
Total	76,935,513	-	-	-	3,701,556	-	80,637,069
Fair value of collateral	148,434,000	-	-	-	35,686,302	-	184,120,302
December 31, 2009							
Watch	-	-	-	-	-	-	-
Substandard	6,009,882	-	-	-	6,932,840	-	12,942,722
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	6,009,882	-	-	-	6,932,840	-	12,942,722
Fair value of collateral	19,808,400	-	-	-	21,847,500	-	41,655,900

(d) **Loans and advances renegotiated**

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to overdraft. Renegotiated loans that would otherwise be past due or impaired at December 31, 2010 were AF Nil (December 31, 2009: 6,932,843).

	2010		2009	
Loans and advances	At renegotiation time	As at year end	At renegotiation time	As at year end
	AF	AF	AF	AF
- Term loans	-	-	7,659,824	6,932,843
- Overdraft	-	-	-	-
- PIF	-	-	-	-
Total	-	-	7,659,824	6,932,843

.2.7 Concentration of risk of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of December 31, 2010. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

Amounts in AF

	Afghanistan	Lebanon	Germany	USA	Turkey	Switzerland	Hong Kong	Total
On balance sheet								
Balances with other Banks	77,564,323	-	2,909,367,792	4,044,909	277,900	-	-	2,991,254,924
Short term placements	-	-	4,522,833,506	-	847,485,173	457,653,387	780,839,742	6,608,811,808
Loans and advances to customers - net	3,550,033,282	-	-	-	-	-	-	3,550,033,282
Receivable from financial institution	-	182,994,561	-	-	-	-	-	182,994,561
Security deposits and other receivables - net	27,895,621	-	-	-	-	-	-	27,895,621
	3,655,493,226	182,994,561	7,432,201,298	4,044,909	847,763,073	457,653,387	780,839,742	13,360,990,196
Off balance sheet								
Contingencies and commitments	1,978,368,045	-	-	-	-	-	-	1,978,368,045
As at December 31, 2010	5,633,861,271	182,994,561	7,432,201,298	4,044,909	847,763,073	457,653,387	780,839,742	15,339,358,241
As at December 31, 2009	3,659,583,608	119,620,636	5,578,844,611	36,940,744	-	-	-	9,394,989,599

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of counterparties

Amounts in AF

	Manufacturing	Agriculture	Construction	Tele-communication	Banks and financial institution	Traders	Fuel suppliers	Others	Total
On balance sheet									
Balances with other banks	-	-	-	-	2,991,254,924	-	-	-	2,991,254,924
Short term placements	-	-	-	-	6,608,811,808	-	-	-	6,608,811,808
Loans and advances to customers - net	1,171,924,062	65,289,474	403,813,158	-	-	493,594,407	1,197,561,175	217,851,006	3,550,033,282
Receivable from financial institution	-	-	-	-	182,994,561	-	-	-	182,994,561
Security deposits and other receivables - net	-	-	-	-	-	-	-	27,895,621	27,895,621
	1,171,924,062	65,289,474	403,813,158	-	9,783,061,293	493,594,407	1,197,561,175	245,746,627	13,360,990,196
Off balance sheet									
Contingencies and commitments	427,715,931	21,579,247	264,768,718	272,113,642	-	561,120,686	406,136,278	24,933,543	1,978,368,045
As at December 31, 2010	1,599,639,993	86,868,721	668,581,876	272,113,642	9,783,061,293	1,054,715,093	1,603,697,453	270,680,170	15,339,358,241
As at December 31, 2009	695,684,671	4,709,350	946,308,162	37,880,512	5,757,456,124	1,076,914,893	543,648,600	332,387,287	9,394,989,599

Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange.

29.3.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at December 31, 2010 and December 31, 2009. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

If the functional currency, at the year end date, strengthens/ weakens by 10% against the USD with all other variables held constant, the impact on profit after taxation for the year would have been AF 2,443,750 higher/ lower (2009: AF 15,143,721 higher/ lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the year end date, strengthens/ weakens by 10% against the EURO with all other variables held constant, the impact on profit after taxation for the year would have been AF 978,092 lower/ higher (2009: AF 686,037 lower/ higher) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the year end date, strengthens/ weakens by 10% against the AED with all other variables held constant, the impact on profit after taxation for the year would have been AF 342,241 higher/ lower (2009: AF Nil higher/ lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

As of the year end, excluding off balance sheet items, the Bank has a long open foreign exchange position in AED of 0.25%(2009: Nil), short open foreign exchange position in USD of 2.04% (2009: short position 10.11%) and a short open foreign exchange position in EURO of 0.71% (2009: long position 0.46%) of the Bank's regulatory capital. The overall net foreign exchange position of the Bank, in absolute terms, is 2.51%(2009: 9.66%).

	AED	USD	EURO	AF	Total
	------------Converted to AF---------				AF
As at December 31, 2010					
Assets					
Cash and balances with Da Afghanistan Bank	-	946,386,769	154,484,585	2,900,051,962	4,000,923,316
Balances with other Banks	4,278,014	2,606,383,009	354,140,244	26,453,657	2,991,254,924
Short term placements	-	6,188,878,550	419,933,258	2,046,592,412	8,655,404,220
Loans and advances to customers - gross	-	3,144,575,326	6,516	521,290,865	3,665,872,707
Receivable from financial institution	-	155,056,811	7,051,476	20,886,274	182,994,561
Security deposits and other receivables	-	32,607,366	1,823,772	1,332,549	35,763,687
Total financial assets	4,278,014	13,073,887,831	937,439,851	5,516,607,719	19,532,213,415
Less: provision against loans and advances/other receivables	-	(108,070,074)	-	(15,637,417)	(123,707,491)
Total financial assets	4,278,014	12,965,817,757	937,439,851	5,500,970,302	19,408,505,924
Liabilities					
Customers' deposits	-	12,846,224,233	938,931,853	3,942,348,098	17,727,504,184
Other liabilities	-	150,140,404	10,734,146	37,189,809	198,064,359
Total financial liabilities	-	12,996,364,637	949,665,999	3,979,537,907	17,925,568,543
On-balance sheet financial position - gross	4,278,014	77,523,194	(12,226,148)	1,537,069,812	1,606,644,872
On-balance sheet financial position - net of provision against loans and advances	4,278,014	(30,546,880)	(12,226,148)	1,521,432,395	1,482,937,381
As at December 31, 2009					
Total financial assets	-	7,357,112,301	1,414,202,053	8,132,807,210	16,904,121,564
Total financial liabilities	-	7,546,408,815	1,405,626,586	6,054,276,096	15,006,311,497
Net on-balance sheet financial position	-	(189,296,514)	8,575,467	2,078,531,114	1,897,810,067

29.3.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. Bank's investments, loans and advances are primarily linked to EONIA, LIBOR and US Prime

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amount categorised by the earlier of contractual repricing or maturity dates.

As at December 31, 2010	Interest bearing					Non-interest bearing	Total
	Upto 1 month	1 to 3 months	3 to 12 month	1 to 5 years	Over 5 years		
Assets							
Cash and balances with Da Afghanistan Bank (DAB)	1,787,225,685	-	-	-	-	2,213,697,631	4,000,923,316
Balances with other Banks	2,909,367,792	-	-	-	-	81,887,132	2,991,254,924
Short term placements	2,930,678,776	1,427,922,195	4,296,803,249	-	-	-	8,655,404,220
Loans and advances to customers - net	514,938,534	574,040,648	2,444,981,386	16,072,714	-	-	3,550,033,282
Receivable from financial institution	-	-	-	-	-	182,994,561	182,994,561
Security deposits and other receivables - net	-	-	-	-	-	27,895,621	27,895,621
Total financial assets	8,142,210,787	2,001,962,843	6,741,784,635	16,072,714	-	2,506,474,945	19,408,505,924
Liabilities							
Customers' deposits	406,708,108	53,172,591	4,588,372	-	-	17,263,035,113	17,727,504,184
Other liabilities	-	-	-	-	-	198,064,359	198,064,359
Total financial liabilities	406,708,108	53,172,591	4,588,372	-	-	17,461,099,472	17,925,568,543
Total interest repricing gap	7,735,502,679	1,948,790,252	6,737,196,263	16,072,714	-	(14,954,624,527)	1,482,937,381
As at December 31, 2009							
Total financial assets	11,223,708,937	2,122,218,778	1,395,477,404	11,469,284	-	2,151,247,161	16,904,121,564
Total financial liabilities	306,637,804	1,456,500	2,000,000	-	-	14,696,217,193	15,006,311,497
Total interest repricing gap	10,917,071,133	2,120,762,278	1,393,477,404	11,469,284	-	(12,544,970,032)	1,897,810,067

29.4 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

29.4.1 Liquidity risk management process

The Bank's liquidity management process, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

29.4.2 Funding approach

Sources of liquidity are regularly reviewed by the treasury department to maintain a wide diversification by currency, geography, provider, product and term.

29.4.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held to manage liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Upto 1 month	1 to 3 months	3 to 12 month	1 to 5 years	Over 5 years	Total
	AF					
As at December 31, 2010						
Liabilities						
Customers' deposits	17,638,270,957	53,172,591	36,060,636	-	-	17,727,504,184
Other liabilities	198,064,359	-	-	-	-	198,064,359
Total financial liabilities (contractual maturity dates)	17,836,335,316	53,172,591	36,060,636	-	-	17,925,568,543
Total financial assets (contractual maturity dates)	10,648,685,732	2,001,962,843	6,741,784,635	16,072,714	-	19,408,505,924
As at December 31, 2009						
Liabilities						
Customers' deposits	14,940,848,667	1,456,500	2,000,000	-	-	14,944,305,167
Other liabilities	62,006,330	-	-	-	-	62,006,330
Total financial liabilities (contractual maturity dates)	15,002,854,997	1,456,500	2,000,000	-	-	15,006,311,497
Total financial assets (contractual maturity dates)	13,374,956,098	2,122,218,778	1,395,477,404	11,469,284	-	16,904,121,564

Assets available to meet all of the liabilities and to cover outstanding loans commitment include cash and balances with Da Afghanistan Bank, balances with banks and receivable from financial institution, short term placements, loans and advances to customers and security deposits and other receivables.

29.4.4 Off-balance sheet items

a) Guarantees and other financial facilities

Guarantees are also included below based on the earliest contractual maturity date.

b) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below.

	Not later than 1 year	1 to 5 years	Over 5 years	Total
As at December 31, 2010	AF			
Guarantees	26,268,475	-	-	26,268,475
Undrawn loan and overdraft facilities	897,048,492	-	-	897,048,492
Commercial letters of credit	1,055,051,078	-	-	1,055,051,078
Total	1,978,368,045	-	-	1,978,368,045
As at December 31, 2009				
Guarantees	276,875,138	-	-	276,875,138
Undrawn loan and overdraft facilities	305,576,572	-	-	305,576,572
Commercial letters of credit	218,149,969	-	-	218,149,969
Total	800,601,679	-	-	800,601,679

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.5 Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value using a valuation technique

There was no financial instrument which was measured at fair value using a valuation technique.

(b) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	Carrying Value		Fair Value	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Financial assets:				
Short term placements	8,655,404,220	6,073,499,631	8,655,404,220	6,073,499,631
Loans and advances to customers - net				
Overdrafts	3,372,325,088	2,566,272,834	3,372,325,088	2,566,272,834
Term loans	177,708,194	256,332,814	177,708,194	256,332,814
Security deposits and other receivables	27,895,621	14,355,022	27,895,621	14,355,022
Financial liabilities:				
Customers' deposits	17,727,504,184	14,944,305,167	17,727,504,184	14,944,305,167
Other liabilities	198,064,359	62,006,330	198,064,359	62,006,330
Off balance sheet financial instruments:				
Bank's commitments	1,978,368,045	800,601,679	1,978,368,045	800,601,679

(i) Investments

Investments include short term placements and are recognised as held to maturity which is measured at amortised cost. The fair value of investments is equal to the carrying amount.

(ii) Loans and advances, security deposits and other receivables, and financial liabilities

Fair value of loans and advances, security deposits and other receivables and all the financial liabilities cannot be calculated with sufficient reliability due to absence of current and active market for such assets and reliable data regarding market rates for similar instruments, so its carrying amount is its fair value. Further these are short term in nature therefore, their carrying value will be equal to fair value. The provision for loans and advances has been calculated in accordance with the Bank's policy and regulations issued by DAB.

(iii) Off-balance sheet financial instruments

The fair value of off balance sheet financial instruments is equal to its carrying amount.

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9.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

i) To comply with the capital requirements set by the DAB;

ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to be self-sustainable; and

iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. DAB requires each bank to maintain its Tier 1 Capital ratio and Regulatory Capital ratio to be at least 6 % and 12 % respectively. The Bank is maintaining this ratio well above the required level.

The table below summarises the composition of the regulatory capital and ratio of the Bank:

	2010 AF	2009 AF
Regulatory Capital		
Tier 1 (Core) Capital:		
Total equity capital	1,729,447,627	1,860,270,635
Less:		
Intangible assets	53,536,208	43,741,598
Profit for the year	326,276,992	755,595,867
	1,349,634,427	1,060,933,170
Tier 2 (Supplementary) Capital:		
General reserves on loan losses of AF 107,484,862 as per DAB's regulation, but restricted to 1.25% of total risk-weigthed exposures	74,363,111	55,034,595
Profit for the year	326,276,992	755,595,867
	400,640,103	810,630,462
Tier 2 (supplementary) Capital (restricted to 100% of Tier 1 (Core) Capital)	400,640,103	810,630,462
Regulatory Capital = Tier 1 + Tier 2	1,750,274,530	1,871,563,632
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	1,428,220,259	664,993,632
Direct claims on DAB	4,619,295,469	7,644,711,138
Total	6,047,515,728	8,309,704,770
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Balances with other banks	9,600,066,732	5,637,835,488
20% risk-weight total (above total x 20%)	1,920,013,346	1,127,567,098

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	2010 AF	2009 AF
100% risk weight		
All other assets	4,014,101,234	3,129,037,474
Less:		
Intangible assets	53,536,208	43,741,598
All other assets - net	3,960,565,026	3,085,295,876
100% risk-weight total (above total x 100%)	3,960,565,026	3,085,295,876
Credit conversion factor		
0% risk weight:		
Undrawn loan and overdraft facilities	897,048,492	305,576,572
0% credit conversion factor total (risk-weighted total x 0%)	-	-
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Commercial letters of credit	1,055,051,078	218,149,969
20% credit conversion factor total (risk-weighted total x 20%)	211,010,216	43,629,994
20% risk-weight total	42,202,043	8,725,999
100% risk weight		
Guarantees	26,268,475	276,875,138
100% credit conversion factor total (risk-weighted total x 100%)	26,268,475	276,875,138
100% risk-weight total (above total x 100%)	26,268,475	276,875,138
Total risk-weighted assets	5,949,048,890	4,402,767,602
Tier 1 Capital Ratio (Tier 1 capital as % of total risk-weighted assets)	23%	24%
Regulatory Capital Ratio (Regulatory capital as % of total risk-weighted assets)	29%	42%

0. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Supervisors of the Bank on February ,2011.

Chief Executive Officer

Director