KPMG

KPMG Afghanistan Limited

Ghazanfar Bank

Financial Statements

For the year ended 31 December 2010

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Independent Auditors' Report

The shareholders
Ghazanfar Bank

We have audited the accompanying financial statements of Ghazanfar Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG Afghanistan Limited

KPMG Afghanistan Limited
28 March 2011
Kabul

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Ghazanfar Bank

Statement of cash flows

For the year ended 31 December 2010

	Note	2010 (1 year) Afs '000'	01 March 2009 to 31 December 2009 (10 months) Afs '000'
Cash flows from operating activities			
Loss before income tax		(53,462)	(91,533)
Adjustments for:			
Depreciation	*6*	22,834	56,987
Amortization	*7*	2,254	1,879
Gain on disposal of property and equipment	*16*	(26,911)	-
Exchange gain on cash and cash equivalents		(3,608)	(645)
Net Impairment allowance on financial assets	*5*	-	-
Net interest income	*14*	(168,312)	(35,064)
		(227,205)	(68,376)
Change in loans and advances to customers-net	*5*	(1,128,660)	(823,605)
Change in other assets	*9*	(137,707)	(95,511)
Change in deposits from banks	*10*	636,297	48,803
Change in deposits from customers	*11*	1,727,111	1,385,785
Change in other liabilities	*12*	34,844	2,224
		904,680	449,220
Interest received		326,054	52,544
Interest paid		(165,154)	(17,177)
Net cash from operating activities		**1,065,580**	**484,687**
Cash flows from investing activities			
Purchase of property and equipment	*6*	(23,499)	(350,000)
Purchase of intangible asset	*7*	-	(6,764)
Proceeds from disposal of property and equipment	*6*	172,964	-
Net cash used in investing activities		**149,465**	**(356,764)**
Cash flows from financing activities			
Proceeds from issue of shares	*13*	100,000	567,620
Net cash from financing activities		**100,000**	**567,620**
Net increase in cash and cash equivalents		**1,315,045**	**695,543**
Cash and cash equivalent at beginning of the period		**696,188**	-
Effect of exchange difference on cash and cash equivalents held		3,608	645
Cash and cash equivalents at year end	*4*	**2,014,841**	**696,188**

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

Chief Executive Officer

Director

Ghazanfar Bank
Statement of financial position
As at 31 December 2010

	Note	2010 Afs '000'	2009 Afs '000'
Assets			
Cash and cash equivalents	4	**2,014,841**	696,188
Loans and advances to customers	5	**1,968,341**	823,605
Property and equipment	6	**147,626**	293,013
Intangible assets	7	**2,631**	4,885
Deferred tax assets	8	**28,887**	18,307
Other assets	9	**233,218**	95,511
Total assets		**4,395,544**	1,931,509
Liabilities			
Deposits from banks	10	**685,100**	48,803
Deposits from customers	11	**3,112,896**	1,385,785
Other liabilities	12	**46,036**	2,527
Total liabilities		**3,844,032**	1,437,115
Equity			
Share capital	13	**667,620**	567,620
Retained earnings		**(116,108)**	(73,226)
Total equity		**551,512**	494,394
Total liabilities and equity		**4,395,544**	1,931,509

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

Chief Executive Officer **Director**

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Ghazanfar Bank

Statement of comprehensive income

For the year ended 31 December 2010

	Note	2010 (1 year) Afs '000'	01 March 2009 to 31 December 2009 (10 months) Afs '000'
Interest income	14	342,131	52,847
Interest expense	14	(173,819)	(17,783)
Net interest income		168,312	35,064
Fee and commission income	15	4,201	1,048
Fee and commission expense	15	(4,355)	(2,158)
Net fee and commission income		(154)	(1,110)
Other operating income	16	25,546	1,956
		25,546	1,956
Operating income		193,704	35,910
Personnel expenses	17	(70,513)	(35,908)
Operating lease expenses		(12,737)	(1,236)
Depreciation and amortization	6, 7	(25,088)	(58,866)
Other expenses	18	(138,828)	(31,433)
Loss before income tax		(53,462)	(91,533)
Income tax income	19	10,580	18,307
Loss for the period		(42,882)	(73,226)
Other comprehensive income		-	-
Loss for the period		(42,882)	(73,226)

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

Chief Executive Officer **Director**

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Ghazanfar Bank

Statement of changes in equity

For the year ended 31 December 2010

	Share capital Afs '000'	Retained earnings Afs '000'	Total Afs '000'
Opening balance	-	-	-
Contributions by shareholders: Issuance of shares	567,620	-	567,620
Total comprehensive income for the period: Loss for the period	-	(73,226)	(73,226)
Balance as at 31 December 2009	567,620	(73,226)	494,394
Contributions by shareholders: Issuance of shares	**100,000**	-	**100,000**
Total comprehensive income for the period: Loss for the year	-	**(42,882)**	**(42,882)**
Balance as at 31 December 2010	**667,620**	**(116,108)**	**551,512**

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

Chief Executive Officer

Director

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1. Status and nature of operations

Ghazanfar Bank ("the Bank") is a commercial bank registered and operating in Afghanistan. The Bank obtained a business license from Afghanistan Investment Support Agency ("AISA") bearing No. D-29098 renewed on 20 October, 2010 and is a limited liability company. The Bank commenced its operations on 01 March 2009 under the license for commercial banking issued to it by Da Afghanistan Bank ("DAB") under the Law of Banking in Afghanistan. Currently, the Bank is being operated with 10 conventional and Islamic branches (6 in 2009) in different parts of Afghanistan.

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

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were approved by the Board of Supervisors on 23 March 2011.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

3. Significant accounting policies

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

(a) Foreign currency transactions

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

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

(b) Interest

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

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

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

Profit under musharaka financing is recognized on quarterly basis based on projected rate of return as mentioned in the agreement. At maturity the profit recognized is adjusted with the actual rate of return. According to sharia and Islamic banking policy of Ghazanfar Bank the profit taken from musharaka financing will be distributed at the ratio of 60% and 40% for the Depositor (Rasul-maal) and the Bank (Mudharib) respectively.

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

(c) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees and sales

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commission, are recognized as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Lease payments

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

(e) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(f) Financial assets and financial liabilities

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

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

(ii) Classification
See accounting policies 3(h).

(iii) Derecognition
The Bank derecognises a financial asset when the contractual rights to the cash

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

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

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

(v) Amortized cost measurement

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

(vi) Fair value measurement

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

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

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

(vii) Identification of measurement of impairment

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

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

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

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

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

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

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

(g) **Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(h) **Loans and advances**

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

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

(i) Property and equipment

(a) Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

(c) Depreciation
Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

	Prior period	**Current period**
• Building	30 years	30 years
• Furniture and fixtures	4-10 years	4-10 years
• Computer equipment	3 years	4 years
• Vehicles	4 years	6 years
• Office equipment	5 years	5 years

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

(j) Intangible assets

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

Subsequent expenditure on software asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the software, from the date it is available for use since this most closely reflects the pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years.

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

(k) Impairment of non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(l) Deposits

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

(m) Provisions

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

(n) Financial guarantees

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

(o) Employee benefits

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

(p) Share capital

Shares issued are classified as equity.

(q) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Bank, with the exception of IFRS 9 *Financial Instruments*, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets: amortized cost and fair value and the Bank is currently in the process of evaluating the potential effects of this standard. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

	Note	2010 Afs '000'	2009 Afs '000'
4. Cash and cash equivalents			
Cash on hand		**431,261**	163,769
Balances with DAB - non interest bearing		**1,184,500**	307,695
Balances with other banks	*4.1*	**378,872**	224,724
Placements	*4.2*	**20,208**	-
		2,014,841	696,188

4.1 Balances with other banks

		2010 Afs '000'	2009 Afs '000'
Commerz Bank, Germany		**378,768**	220,513
Kabul Bank		**104**	-
Bank-e-Millie Afghan		-	4,211
		378,872	224,724

4.2 This represents overnight placements with DAB, which carries interest ranging from 0.3% to 3.750% per annum.

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	2010	2009
	Afs '000'	Afs '000'

5 Loans and advances to customers

	2010	2009
Loans and advances to customers- at amortised cost	1,968,341	823,605

	Note	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
			Afs '000'			Afs '000'	
			2010			2009	
Conventional financing							
Running finance	*5.1*	1,003,350	-	1,003,350	650,356	-	650,356
SME loans	*5.2*	52,675	-	52,675	-	-	-
		1,056,025	-	1,056,025	650,356	-	650,356
Islamic financing							
Musharakah financing	*5.3*	912,316	-	912,316	173,249	-	173,249
		1,968,341	-	1,968,341	823,605	-	823,605

5.1 Running finance facilities extended to customers carries interest ranging from @ 15% to 18% per annum. These facilities are extended for maximum period of twelve months. These are secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of residential/commercial property of the borrower.

The Bank had extended running finance facilities amounting to Afs 606,973 thousand to certain borrowers against securities provided by the shareholders of the Bank. The Bank has recovered the loans amounting to Afs 491,220 thousand from these borrowers by the year end and the remaining loans amounting to Afs 115,753 thousand were recovered subsequent to the year end. Accordingly, no allowance for impairment loss has been accounted for the year in respect of these loans.

5.2 These are extended to the Small and Medium Enterprises (SME) with maximum limit up to US$ 500,000 (equivalent to Afs 23,005 thousand). These loans carry interest @ 16% per annum and have maturity period of twelve months. These are secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of residential/commercial property of the borrower.

5.3 These represent financing under musharakah agreement under which the Bank has paid finance to meet working capital and other requirements of the borrower on a profit and loss sharing basis which approximately is ranging from 15 to19 % per annum of the musharakah amount. These facilities are extended for the maximum period of twelve months and secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of residential/commercial property of the borrower.

5.4 As at 31 December 2010 none of loans and advances to customers are expected to be recovered more than twelve months after the reporting date (2009: nil).

5.5 Loans and advances include renewed loans amounting to Afs. 261,585 thousand during the year (2009: nil).

5.6 At the reporting date, loans and advances amounting to Afs 37,585 thousand were impaired, however, no allowance for impairment loss in respect of these loans has been accounted for as the loans were recovered/renewed after clean up period subsequent to year end.

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6. Property and equipment

	Land	Building	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
				Afs '000'			
Cost							
Balance at 01 March 2009	-	-	-	-	-	-	-
Additions	35,362	40,168	82,691	128,838	59,076	3,865	350,000
Balance at 31 December 2009	35,362	40,168	82,691	128,838	59,076	3,865	350,000
Balance at 01 January 2010	35,362	40,168	82,691	128,838	59,076	3,865	350,000
Additions	-	-	5,347	7,121	4,944	6,087	23,499
Disposals	-	-	(77,304)	(60,276)	(44,168)	-	(181,748)
Balance at 31 December 2010	35,362	40,168	10,734	75,683	19,852	9,952	191,751
Depreciation							
Balance at 01 March 2009	-	-	-	-	-	-	-
Depreciation for the period	-	1,116	7,134	35,785	12,308	644	56,987
Balance at 31 December 2009	-	1,116	7,134	35,785	12,308	644	56,987
Balance at 01 January 2010	-	1,116	7,134	35,785	12,308	644	56,987
Depreciation on disposals	-	-	(5,023)	(21,471)	(9,202)	-	(35,696)
Depreciation for the year	-	1,339	3,005	14,152	2,802	1,536	22,834
Balance at 31 December 2010	-	2,455	5,116	28,466	5,908	2,180	44,125
Carrying amounts							
At 01 March 2009	-	-	-	-	-	-	-
At 31 December 2009	35,362	39,052	75,557	93,053	46,768	3,221	293,013
At 31 December 2010	35,362	37,713	5,618	47,217	13,944	7,772	147,626

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

6.2 Land was purchased from shareholders of the Bank in 2009, however, the ownership title has not yet been transferred in the name of the Bank. The process for transfer of title in the name of the Bank is in progress.

6.3 During the year, the Bank has sold equipments amounting to Afs 146,052 thousands (net book value) to Ghazanfar Neft Gas Company Limited ("GNGCL") which is a related party of the Bank. These equipments were sold at profit of Afs 26,911 thousands.

	2010 Afs '000'	2009 Afs '000'
7. Intangible assets		
Purchased software		
Cost		
Opening balance	6,764	-
Acquisitions during the period	-	6,764
Closing balance	6,764	6,764
Amortization		
Opening balance	1,879	-
Amortization for the period	2,254	1,879
Closing balance	4,133	1,879
Carrying amounts	2,631	4,885

8. Deferred tax assets and liabilities

8.1 ***Recognized deferred tax assets and liabilities***

Deferred tax assets and liabilities are attributable to following

	Assets	Liabilities	Net
		As at 31 Dec 2010	
	Afs '000'	Afs '000'	Afs '000'
Property and equipment	-	(14,676)	(14,676)
Tax loss carry forward	43,563	-	43,563
Net tax assets/(liabilities)	43,563	(14,676)	28,887

	Assets	Liabilities	Net
		As at 31 Dec 2009	
	Afs '000'	Afs '000'	Afs '000'
Property and equipment	-	(16,935)	(16,935)
Tax loss carry forward	35,242	-	35,242
Net tax assets/(liabilities)	35,242	(16,935)	18,307

Deferred tax asset has been recognized on estimated carried forward tax losses, based on projections of future profitable operations and taxable profits against which the deferred tax asset could be realized

8.2 ***Movement in temporary differences during the period***

Movement in temporary differences during the year

	Opening balance Afs '000'	Recognized in profit or loss Afs '000'	Closing balance Afs '000'
31 December 2010			
Property and equipment	(16,935)	2,259	(14,676)
Tax loss carry forward	35,242	8,321	43,563
	18,307	10,580	28,887
31 December 2009			
Property and equipment	-	(16,935)	(16,935)
Tax loss carry forward	-	35,242	35,242
	-	18,307	18,307

	Note	2010 Afs '000'	2009 Afs '000'
9. Other assets			
Advances to employees and suppliers		12,250	31,829
Prepayments		4,887	28,118
Receivable from Western Union		-	331
Restricted deposits with DAB	9.1	216,032	35,080
Others		49	156
		233,218	95,511

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

		Note	2010 Afs '000'	2009 Afs '000'
10.	**Deposits from banks**			
	Afghan United Bank		**230,050**	-
	Bank-e-Millie Afghan		**230,050**	-
	Da Afghanistan Bank		**225,000**	-
	BRAC Bank (Incorporated in Afghanistan)		-	48,803
			685,100	48,803

10.1 Term deposits obtained from banks for the period from 6 to 12 months and carries interest ranging from 6% per annum to 13% per annum

		Note	2010 Afs '000'	2009 Afs '000'
11.	**Deposits from customers**			
	Current deposits		**1,358,444**	986,102
	Saving deposits	*11.1*	**345,899**	85,589
	Term deposits	*11.2*	**1,379,614**	314,094
	Margin deposits		**28,939**	
			3,112,896	1,385,785

11.1 Saving deposits carries interest ranging from 6.5 % to 7 % per annum, while profit disbursed during the year. on the Islamic saving deposits ranged from 9% to 12.05% per annum.

11.2 Term deposits carries interest ranging from 6.5 % to 10.00 % per annum with maturity of 3 months to 5 years on the conventional side. The Islamic Term Deposits carried profit expense during the year 2010 ranging from 9.05% to 12.05% with maturity of 6 months to 1 year.

11.3 At 31 December 2010, Afs 102,533 thousands (31 December 2009: Afs 1,054 thousand) of deposits from customers are expected to be settled in more than twelve months of reporting date.

		2009 Afs '000'	2009 Afs '000'
12	**Other liabilities**		
	Accrued interest	**8,968**	303
	Auditor's remuneration payable	**621**	439
	Withholding taxes payable	**36,167**	1,480
	Payable to Western Union	**18**	-
	Others	**262**	305
		46,036	2,527

13. **Share capital**

	2010	2009
Authorised capital - 55,000 shares of Afs 10,000 each (2009: 55,000 shares of Afs 10,000 each)	**550,000**	550,000
Issued and paid up share capital - 66,762 shares of Afs 10,000 each (2009: 56,762 shares of Afs 10,000 each)	**667,620**	567,620

13.1 Following is the reconciliation of number of shares:

	Number of shares	
	2010	2009
Number of shares at beginning of the period	56,762	-
Shares issued during the period	10,000	56,762
Number of shares at end of the period	66,762	56,762

13.2 Subsequent to the year end, the Bank has initiated the process of enhancing authorized share capital to Afs. 5,000,000 thousand with AISA and DAB.

		Note	2010 (1 year) 2631	01 March 2009 to 31 December 2009 (10 months) 4885
14.	**Net interest income**			
	Interest income			
	Cash and cash equivalents		1,548	2,222
	Loans and advances to customers		340,583	50,625
	Total interest income		342,131	52,847
	Interest expense			
	Deposits from banks		(76,574)	(7,697)
	Deposits from customers	14.1	(97,245)	(10,086)
	Total interest expense		(173,819)	(17,783)
	Net interest income		168,312	35,064
14.1	**Interest expense on deposits from customers**			
	Interest on:			
	Term deposits		79,670	2,461
	Saving deposits		17,575	7,625
			97,245	10,086
15.	**Net fee and commission income**			
	Fee and commission income			
	Commission on letter of credit and guarantees issued		68	184
	Fund transfer fee		3,931	778
	Accounts servicing fee		202	86
	Total fee and commission income		4,201	1,048
	Fee and commission expense			
	Inter bank transaction fee		(4,355)	(2,158)
	Total fee and commission expense		(4,355)	(2,158)
	Net fee and commission income		(154)	(1,110)

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		Note	2010 (1 year) Afs '000'	01 March 2009 to 31 December 2009 (10 months) Afs '000'
16.	**Other operating income**			
	Foreign exchange gain/ (loss)		(1,598)	1,890
	Gain on disposal of property and equipment	6	26,911	-
	Others		233	66
			25,546	1,956
17.	**Personnel expenses**			
	Salaries and wages		67,087	34,539
	Staff welfare		3,426	1,369
			70,513	35,908
18.	**Other expenses**			
	Communication		20,798	6,704
	Travelling and conveyance		6,804	3,672
	Business development		2,247	1,222
	Advertisement		44,605	9,485
	Fuel		3,775	1,368
	Food expenses		3,441	1,932
	Insurance	18.1	6,327	-
	Audit fee		1,032	732
	Repair and maintenance		3,880	685
	Vehicle repair		877	645
	Computer and other supplies		582	188
	Stationery and printing		5,668	1,676
	Courier and postage		2	54
	Staff training		245	344
	Utilities		3,306	1,448
	Security guards expenses		32,274	-
	Others		2,965	1,278
			138,828	31,433

18.1 These include insurance charges amounting to Afs 2,474 thousands (2009: nil) paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.15% per annum of total deposits as per instructions of DAB.

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		Note	2010 (1 year) Afs '000'	01 March 2009 to 31 December 2009 (10 months) Afs '000'

19. Income tax

	2010	2009
Current tax expense	-	-
Deferred tax expense	10,580	18.307
	10,580	18.307

19.1 Reconciliation of effective tax rate

	Rate 2010 (%)	Rate 2009 (%)	2010	2009
Profit/(loss) before income tax			(53,462)	(91.533)
Income tax using tax rate	20.00	20.00	(10,692)	(18.307)
Non-deductible expenses	(0.21)	0.00	112	-
Total income tax expense in income statement	19.79	20.00	(10,580)	(18.307)

20. Related parties

20.1 Parent and ultimate controlling party

The Bank is owned by individual persons, who are partners of Ghazanfar Group of Companies (GGC), and own the Bank's shares in different proportions. Therefore, related parties include all related entities of the GGC.

20.2 Transactions with key management personnel

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

Key management personnel compensation

	2010 (1 year) Afs '000'	01 March 2009 to 31 December 2009 (10 months) Afs '000'
Salary paid to the members of the Board of Supervisors	1,351	125
Short term employee benefits (Management Board)	11,347	14.477

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

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20.3 Transactions with other related parties

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

	Note	2010 Afs '000'	2009 Afs '000'
Associates			
Balances at year end			
Loans and advances to customers		**441,653**	74,141
Deposit from customers		**485,904**	376,984
Transactions during the period			
Interest income		**34,720**	8,427
Sale of property and equipment		**146,052**	-
Proceeds from sale of property and equipment	6.3	**172,964**	-
Loans disbursed		**441,653**	
Loans recovered		**74,141**	
Shareholders			
Balances at year end			
Deposit from customers		**1,056**	**195**
Transactions during the period			
Purchase of land and building		-	**75,345**

20.4 There were no related party transactions and outstanding balances other than those disclosed above and in notes -20.1, 20.2 and 20.3 to the financial statements.

21. Lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2010 Afs '000'	2009 Afs '000'
Less than one year	5,571	6,852
Between one to five years	23,017	9,839
More than five years	-	703
	28,588	17,394

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

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22. Financial assets and liabilities

Accounting classifications and fair values

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

in Afs '000'	*Note*	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount
2010								
Cash and cash equivalents	*4*	-	-	-	-	-	2,014,841	2,014,841
Loans and advances to customers	*5*	-	-	-	1,968,341	-	-	1,968,341
Others assets	*9*	-	-	-	-	-	216,081	216,081
		-	-	-	1,968,341	-	2,230,922	4,199,263
Deposits from banks	*10*	-	-	-	-	-	685,100	685,100
Deposits from customers	*11*	-	-	-	-	-	3,112,896	3,112,896
Other liabilities	*12*	-	-	-	-	-	46,036	46,036
		-	-	-	-	-	3,844,032	3,844,032
2009								
Cash and cash equivalents	*4*	-	-	-	-	-	696,188	696,188
Loans and advances to customers	*5*	-	-	-	823,605	-	-	823,605
Others assets	*9*	-	-	-	-	-	35,564	35,564
		-	-	-	823,605	-	731,752	1,555,357
Deposits from banks	*10*	-	-	-	-	-	48,803	48,803
Deposits from customers	*11*	-	-	-	-	-	1,385,785	1,385,785
Other liabilities	*12*	-	-	-	-	-	2,527	2,527
		-	-	-	-	-	1,437,115	1,437,115

22.1 The fair values of financial assets and financial liabilities approximates their carrying amounts at the reporting date.

23 Financial risk management

23.1 Introduction and overview

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

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

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

Risk management framework

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

The Bank's Internal Audit and Compliance Departments are responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

23.2 Credit risk

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

Management of credit risk

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

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

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

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

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Exposure to credit risk

in Afs'000'	*Note*	Assets at amortised cost	Available-for-sale assets	Assets at fair value through profit or loss	Total carrying amount
2010					
Loans and advances to customers	5	1,968,341	-	-	**1,968,341**
Collectively impaired					
Gross amount		-	-	-	-
Allowance for impairment		-	-	-	-
Carrying amount		-	-	-	-
Past due but not impaired:		-	-	-	-
Gross amount		-	-	-	-
Neither past due but nor impaired:					
Gross amount		1,968,341	-	-	1,968,341
Carrying amount-amortised cost:		**1,968,341**	-	-	**1,968,341**
2009					
Loans and advances to customers	5	823,605	-	-	**823,605**
Collectively impaired					
Gross amount		-	-	-	-
Allowance for impairment		-	-	-	-
Carrying amount		-	-	-	-
Past due but not impaired:		-	-	-	-
Gross amount		-	-	-	-
Neither past due but nor impaired:					
Gross amount		823,605	-	-	823,605
Carrying amount-amortised cost:		**823,605**	-	-	**823,605**

At reporting date, loan portfolio of the Bank was not impaired.

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

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Past due but not impaired loans

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

Allowances for impairment

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

Write-off policy

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

The Bank holds collateral against loans and advances in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

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

	2010 Afs '000'	2009 Afs '000'
Against neither past due nor impaired		
Property	1,308,899	51,784
Others	2,681,235	1,458,234
Total	**3,990,134**	1,510,018

Concentration of credit risks by sector

All the loans has been disbursed in geographical territory of Afghanistan. The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of loans and advances to customers at reporting date is as follows:

in Afs '000'	*Note*	2010	2009
Carrying amount	5	**1,968,341**	823,605
Concentration by sector			
Lubricant, Oil & gas		**1,276,373**	492,966
Construction		**218,077**	-
Electronic		**70,070**	-
Steel		**288,864**	-
Tyre		**27,483**	-
Wheat		**70,070**	-
General trading		**17,404**	330,640
		1,968,341	823,606

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 2,230,873 thousands (2009: Afs 731,268 thousands) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with central bank and other banks.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of an entity to honor its obligation to deliverable cash, other assets as contractually agreed.

23.3 Liquidity risk

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

Management of liquidity risk

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

The Bank relies on deposits from customers as its primary source of funding. Deposits form customers generally has shorter maturities and large proportion of them are repayable on demand. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

Exposure to liquidity risk

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

	2010	2009
At 31 December	50%	39%
Average for the period	14%	87%
Maximum for the period	50%	248%
Minimum for the period	-7%	(24)%

Maturity analysis for financial liabilities

in Afs '000'	*Note*	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
2010								
Deposits from banks	*6*	685,100	(685,100)	(460,100)	-	(225,000)	-	
Deposits from customers	*7*	3,112,896	(3,112,896)	(1,834,919)	(356,970)	(818,474)	(67,745)	(34,788)
Other liabilities	*9*	46,036	(46,036)	(46,036)	-	-	-	-
		3,844,032	(3,844,032)	(2,341,055)	(356,970)	(1,043,474)	(67,745)	(34,788)
2009								
Deposits from banks	*10*	48,803	(48,803)	(48,803)	-	-	-	
Deposits from customers	*11*	1,385,785	(1,385,785)	(1,071,691)	(9,081)	(303,959)	(1,054)	
Other liabilities	*12*	2,527	(2,527)	(2,527)	-	-	-	
		1,437,115	(1,437,115)	(1,123,021)	(9,081)	(303,959)	(1,054)	

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

23.4 **Market risks**

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

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Management of market risks

To manage and control market risk a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. Overall authority for market risk is vested in ALCO. The Bank's Assets and Liability Committee (ALCO) is responsible for the development of detailed risk management policies and day to day review of their implementation.

Exposure to interest rate risk

The Bank risk to which not-trading portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of change in market interest rates. Interest rate risk managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day to day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolio is as follows:

in AFS '000'	*Note*	Carrying amount	Less than three months	3-6 months	6-12 months	1-5 years	More than 5 years
2010							
Cash and cash equivalents	*4*	2,014,841	2,014,841	-	-	-	-
Loans and advances to customers	*5*	1,968,341	497,360	836,728	634,253	-	-
Restricted balance with DAB	*9.1*	216,032	54,587	91,834	69,611		
		4,199,214	2,566,788	928,562	703,864	-	-
Deposits from banks	*10*	685,100	(460,100)	-	(225,000)	-	-
Deposits from customers	*11*	3,112,896	(2,191,889)	(516,719)	(301,755)	(67,746)	(34,787)
		3,797,996	(2,651,989)	(516,719)	(526,755)	(67,746)	(34,787)
		7,997,210	(85,201)	411,843	177,109	(67,746)	(34,787)
2009							
Cash and cash equivalents	*4*	696,188	696,188	-	-	-	-
Loans and advances to customers	*5*	823,605	-	225,437	598,168	-	-
Restricted balance with DAB	*9.1*	35,080	-	9,602	25,478		
		1,554,873	696,188	235,039	623,646	-	-
Deposits from banks	*10*	(48,803)	(48,803)	-	-	-	-
Deposits from customers	*11*	(1,385,785)	(1,071,691)	(298,374)	(14,666)	(1,054)	-
		(1,434,588)	(1,120,494)	(298,374)	(14,666)	(1,054)	-
		120,285	(424,306)	(63,335)	608,980	(1,054)	-

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Exposure to currency risk

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

in Afs '000'	Afs	US$	Euro	GBP
31 December 2010				
Cash and cash equivalents	218,912	1,739,873	54,036	2,020
Loans and advances to customers	427,701	1,540,640	-	-
Other assets	216,459	(396)	-	-
	863,072	**3,280,117**	**54,036**	**2,020**
Deposits from banks	225,000	460,100	-	-
Deposits from customers	352514	2,726,818	31,703	1,861
Other liabilities	36,551	9,306	121	35
	614,065	**3,196,224**	**31,824**	**1,896**
Net foreign currency exposure	**249,007**	**83,893**	**22,212**	**124**
31 December 2009				
Cash and cash equivalents	74,029	615,002	7,124	33
Loans and advances to customers	452,654	370,951	-	-
Other assets	89,684	5,827	-	-
	616,367	**991,780**	**7,124**	**33**
Deposits from banks	-	48,803	-	-
Deposits from customers	477,721	900,916	7,134	14
Other liabilities	918	1,594	10	-
	478,639	**951,313**	**7,144**	**14**
Net foreign currency exposure	**137,728**	**40,467**	**(20)**	**19**

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The following significant exchange rates applied during the period.

in Afs '000'	31-Dec-10 Average rate	31-Dec-10 Reporting date spot rate	31-Dec-09 Average rate	31-Dec-09 Reporting date spot rate
US$	47.41	**46.01**	50	48.80
Euro	65.25	**60.39**	71	70.115
GBP	74.41	**70.81**	78	78.015

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, euro and GBP at 31 December 2010 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

in Afs '000'	31-Dec-10 Equity	31-Dec-10 Profit or loss	31-Dec-09 Equity	31-Dec-09 Profit or loss
US$	(8,389)	(8,389)	(4,047)	(4,047)
Euro	(2,221)	(2,221)	2	2
GBP	(12)	(12)	(2)	(2)

A 10% weakening of the Afghani against the above currencies at 31 December 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

23.5 Capital management

Regulatory capital

The Banks' regulator DAB sets and monitors capital requirements for the Bank. The Bank is required to maintain at all times the paid up capital plus reserves in excess of Afs 500 million and regulatory capital to be 12% of the risk weighted assets. The capital adequacy of the Bank is assessed in two tiers as per regulations of the DAB.

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

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

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

The Bank's regulatory capital position at 31 December 2010 was as follows:

	2010	2009
	Afs '000'	Afs '000'
Tier 1 capital	562,876	544,428
Tier 2 capital	(42,882)	(73,226)
Total regulatory capital	519,994	471,202

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

24 Contingencies and commitments

Contingencies

Guarantees issued on behalf of customers	48,613	3,599

Chief Executive Officer

Director

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