Afghanistan International Bank

Financial Statements

for the year ended December 31, 2011

AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011

	Note	2011 AF	2010 AF
ASSETS			
Cash and balances with Da Afghanistan Bank (DAB)	5	7,553,861,085	4,000,923,316
Balances with other banks	6	4,761,471,787	2,991,254,924
Short term placements - net	7	7,140,667,131	6,601,949,387
Investments - net	8	7,163,410,255	2,057,592,224
Loans and advances to customers - net	9	4,964,367,628	3,550,033,282
Receivable from financial institutions	10	122,575,662	182,994,561
Operating fixed assets	11	278,254,146	114,982,535
Intangible assets	12	52,621,669	53,536,208
Deferred Income tax assets	13	-	4,401,306
Other assets	14	180,325,011	104,015,951
Total assets		32,217,554,374	19,661,683,694
LIABILITIES			
Customers' deposits	15	29,940,226,820	17,727,504,184
Deferred income on commercial letter of credit and guarantees		6,944,904	6,667,524
Deferred income tax liabilities	13	15,427,217	-
Other liabilities	16	157,528,072	198,064,359
Total liabilities		30,120,127,013	17,932,236,067
EQUITY			
Share capital	17	1,465,070,574	991,570,574
Retained earnings		643,295,616	737,877,053
Deficit on revaluation on available for sale investments		(10,938,829)	-
Total equity		2,097,427,361	1,729,447,627
Total equity and liabilities		32,217,554,374	19,661,683,694
CONTINGENCIES AND COMMITMENTS	18		

The annexed notes 1 to 32 form an integral part of these financial statements.

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Chief Executive Officer

Director

AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011 AF	2010 AF
Interest income	19	795,031,511	600,613,422
Interest expense	20	(2,160,267)	(3,822,672)
Net interest income		792,871,244	596,790,750
Fee and commission income	21	345,000,463	261,702,619
Fee and commission expense	22	(12,213,440)	(8,649,236)
Net fee and commission income		332,787,023	253,053,383
Income from dealing in foreign currencies	23	187,089,872	127,586,540
		1,312,748,139	977,430,673
Other income	24	3,784,921	9,595,717
Provision against loan losses	9.3	(23,651,963)	(36,177,221)
Provision on Investments	8.4	(18,138,061)	-
Provision on short term placements	7.2	(35,882,749)	-
General and administrative expenses	25	(778,605,820)	(628,673,937)
PROFIT BEFORE INCOME TAX		460,254,467	322,175,232
Income Tax (Charge)/Credit	26	(81,335,904)	4,101,760
PROFIT FOR THE YEAR		378,918,563	326,276,992
OTHER COMPREHENSIVE INCOME			
Net change in fair value on available-for-sale financial assets - net of tax		(10,938,829)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		367,979,734	326,276,992
Earnings per share - Basic and diluted - restated	29	12.63	10.88

The annexed notes 1 to 32 form an integral part of these financial statements.

Chief Executive Officer

Director

AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011

	Share capital	Reserve-deficit on revaluation of available - for - sale investments	Retained Earnings	Total
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Balance 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)
Balance as at December 31, 2010	991,570,574	-	737,877,053	1,729,447,627
Comprehensive income				
Profit for the year	-	-	378,918,563	378,918,563
Other comprehensive income	-	(13,673,536)	-	(13,673,536)
Deferred tax asset	-	2,734,707	-	2,734,707
Total comprehensive income	-	(10,938,829)	378,918,563	367,979,734
Transactions with owners				
Bonus shares issued - note 17.1	473,500,000	-	(473,500,000)	-
Balance as at December 31, 2011	1,465,070,574	(10,938,829)	643,295,616	2,097,427,361

The annexed notes 1 to 32 form an integral part of these financial statements.

Chief Executive Officer

Director

AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF CASH FLOWS
FOR YEAR ENDED DECEMBER 31, 2011

	Note	2011 AF	2010 AF
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		696,195,482	629,687,282
Interest payments		(2,140,179)	(4,056,164)
Fee and commission receipts		344,035,076	261,725,396
Fee and commission payments		(12,170,091)	(8,649,236)
Income from dealing in foreign currencies		187,089,872	122,114,628
Other income		17,762,576	17,249,664
General administrative expenses paid		(689,117,315)	(517,137,201)
Cash flows from operating activities before changes in operating assets and liabilities		541,655,421	500,934,369
Changes in operating assets and liabilities:			
Receivable from financial institutions		60,418,899	(229,946,562)
Required reserve maintained with DAB		(331,901,000)	(230,416,000)
Cash margin held with other banks		(418,439,069)	-
Loans and advances to customers - net		(1,437,986,309)	(759,428,899)
Other assets		(8,462,378)	(49,943,700)
Customers' deposits		12,212,722,636	2,783,432,508
Other liabilities		49,076,830	(18,805,389)
Net cash generated from operating assets and liabilities		10,125,429,609	1,494,891,958
Income tax paid		(21,909,903)	(235,248,965)
Net cash flow from operations		10,645,175,127	1,760,577,362
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase/ (Decrease) in short term placements (with maturity more than three months)		2,593,660,987	(2,157,605,494)
Increase/ (Decrease) in Investments		(5,136,498,574)	-
Purchase of property and equipment		(216,249,164)	(55,607,665)
Proceeds from sale of property and equipment		-	638,590
Purchase of intangible assets		(16,634,678)	(23,760,956)
Net cash flow used in investing activities		(2,775,721,429)	(2,236,335,525)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(114,400,000)	(344,425,000)
Net cash flow used in financing activities		(114,400,000)	(344,425,000)
Net increase/(decrease) in cash and cash equivalents		7,755,053,698	(820,183,163)
Effect of foreign currency exchange loss on cash and cash equivalents		(13,977,655)	(6,165,485)
Cash and cash equivalents at beginning of the year		7,712,508,767	8,538,857,415
Cash and cash equivalents at end of the year	28	15,453,584,810	7,712,508,767

The annexed notes 1 to 32 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 thirty branches and two cash outlets (2010: sixteen branches and three cash outlets) in operation and 524 employees (2010: 397 employees)

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 except for the following material items in the statement of financial position:

- Financial instruments designated as available for sales are measured at fair value [Note:3.3(c)]

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.

2.1 Adoption of New Standards, and Amendments and Interpretations to the published approved accounting standards:

a) During the year, the following standards, amendments to standards and interpretations including amendments to interpretations became effective, however, the application of these amendments and interpretations did not have material impact on the financial statements of the Bank:

Standards/Interpretations	Effective date (accounting period beginning on or after)
Amendment to IAS 1 - Presentation of Financial Statements	January 01, 2011
IAS 24 (as revised in 2009) - Related Party Disclosures	January 01, 2011
Amendment to IAS 27 (2008) - Consolidated and Separate Financial Statements	July 01, 2010
Amendments to IAS 32 - Financial Instruments – Presentation	February 01, 2010
Amendment to IAS 34 - Interim Financial Reporting	January 01, 2011
Amendments to IFRS 7: Financial Instruments – Disclosures	July 01, 2010
Amendments to IFRS 3 (2008) - Business Combinations	July 01, 2010
Amendments to IFRS 7 - Financial Instruments – Disclosures	January 01, 2011
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	July 01, 2010
Amendment to IFRIC 13 - Customer Loyalty Programmes	January 01, 2011

2.2 Standards, interpretations and amendments to the published approved accounting standards not yet effective:

a) The following Standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements other than certain additional disclosures.

Standards/Interpretations	Effective date (accounting period beginning on or after)
Amendments to IAS 1 - Presentation of Financial Statements	January 01, 2012
Amendments to IAS 12 - Income Taxes	January 01, 2012
Amendments to IAS 19 - Employee Benefits	January 01, 2015
Amendment to IFRS 7 - Enhanced Derecognition Disclosure Requirements	July 01, 2011
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	January 01, 2013
IFRS 1 – First Time Adoption of International Financial Reporting Standards	July 01, 2011
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint Arrangements	January 01, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013
IAS 27 (Revised 2011) – Separate Financial Statements due to not adoption of IFRS 10 and IFRS 11 (January 1, 2013)	January 01, 2013
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to not adoption of IFRS 10 and IFRS 11 (January 1, 2013)	January 01, 2013

The management is considering the impact of the application of 'IFRS 9 – Financial Instruments , which is applicable from effective date (annual period beginning on or after) January 01, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held-for-trading or it is designated as at fair value through profit or loss.

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;
- 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; and
- Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or 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.

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.

Available-for-sale financial assets (AFS) are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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.

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.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

3.4 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 @ 2% 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.

3.5 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.

3.6 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 cost 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.

3.7 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 amortization. Amortization 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 amortized over their estimated useful life of 3 to 10 years.

ii) **License fee**

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

3.8 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Non-financial assets that are subject to depreciation/ amortization 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.

3.9 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 recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.10 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 amortized 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.

e) Fee and commission income that are integral part to the effective interest rate on financial assets and liability are included in the measurement of effective interest rate. Other fee and commission expenses related mainly to the transactions are services fee , which are expensed as the services are received .

3.11 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, 2011	49.31	63.83	13.41
As at December 31, 2010	45.76	59.96	12.43

3.12 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.

3.13 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 recognized amounts and the Bank intends to settle either on a net basis or realize the assets and settle the liabilities simultaneously.

3.14 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 quarterly 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 9.3. Based on previous experience of classified portfolio and sufficiency of general provision, the management has revised its estimates of general provision against loans and advances to customers. Previously, general provision was maintained at 3% of standard loans and advances which has been reduced to 2% of same balance. The general provision at previous and current rates amounts to AF 150.308 million and AF 100.205 million respectively.

b) **Provision for income taxes**

The Bank recognises tax liability in accordance with the provisions of Income Tax Law 2009. The final tax liability is dependent on assessment by Ministry of finance Afghanistan.

c) **General provision on Investments and short term placements**

In view of significant increase in investments and placements, the management has decided to maintain a provision of 0.5% on collective balance of investments and short term deposits (excluding those with DAB) to cover the counter party risk. The amount of provision for such risk as at December 31, 2011 amounts to AF 54.020 million (AF 35.88 million against short term placement and AF 18.14 million against investments). No such provision was being maintained until last year.

d) 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.

e) 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.

5. CASH AND BALANCES WITH DA AFGHANISTAN BANK (DAB)

	2011 AF	2010 AF
Cash in hand	1,169,827,390	1,196,102,287
Cash at Automated Teller Machines (ATMs)	264,425,416	232,117,972
	1,434,252,806	1,428,220,259
With Da Afghanistan Bank		
Local currency		
- Deposit facility accounts	482,755,131	353,379,685
- Required reserve accounts	1,765,747,000	1,433,846,000
- Current accounts	1,817,282,163	669,474,534
	4,065,784,294	2,456,700,219
Foreign currency		
- Current account	2,053,823,985	116,002,838
	6,119,608,279	2,572,703,057
	7,553,861,085	4,000,923,316

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.

6. BALANCES WITH OTHER BANKS

	2011 AF	2010 AF
In Afghanistan		
With Standard Chartered Bank - note 6.1	62,881,435	77,564,323
Outside Afghanistan		
With Commerzbank, Germany		
- in nostro accounts - note 6.2	3,670,870,224	2,386,112,319
- as cash margins held - note 6.3	941,694,542	523,255,473
With other banks - note 6.4	86,025,586	4,322,809
	4,761,471,787	2,991,254,924

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. It carries interest @ Libor-0.25%.

6.3 It carries interest @ Libor-0.25%, held by Commerz Bank, Germany against letters of credit issued on behalf of the Bank.

6.4 It includes balances maintained with Clariden Leu, Emirates NBD and other banks and are non-interest bearing and available on demand.

		2011 AF	2010 AF
7.	**SHORT TERM PLACEMENTS**		
	Held-to-maturity		
	- with other banks in foreign currency - note 7.1	7,176,549,880	6,601,949,387
	General provision held - note 7.2	(35,882,749)	-
		7,140,667,131	6,601,949,387

7.1 These represent overnight and fixed term placements with financial institutions outside Afghanistan up to a maximum period of one year (2010: one year) in USD carrying interest at rates ranging from 0.11 % p.a. to 3.25 % p.a. (2010: 0.15% p.a. to 1.20% p.a.), in EURO carrying interest at rates ranging from 0.20 % p.a. to 0.82 % p.a. (2010: 0.02% p.a. to 1.13% p.a.) and in AED carrying interest at rates 1.18 % (2010: Nil) receivable on maturity of respective placements.

7.2 General provision of 0.5% on short term placements was provided during the year to cover the counter party and market risk. No such provision was being maintained until last year.

		2011 AF	2010 AF
8.	**INVESTMENTS - NET**		
	Available for sale investment		
	- Investment bonds - note 8.1	2,224,092,777	-
	Held-to-maturity Investments		
	- Capital notes with DAB - note 8.2	3,553,936,267	2,057,592,224
	- Investment bonds - note 8.3	1,403,519,272	-
		4,957,455,539	2,057,592,224
	General provision held - note 8.4	(18,138,061)	-
		7,163,410,255	2,057,592,224

8.1 This represents investment made in investment bonds. Investment in bonds have maturity from March 2012 to September 2014 and carry coupon interest rates ranging from 0.25 % to 10.25 % (2010: Nil). These also includes investments managed by Clariden Leu, Switzerland and Emirates NBD on behalf of the Bank.

8.2 This represents capital notes issued by DAB, up to a maximum period of six months (2010: six months) carrying coupon interest at rates ranging from 2.0% p.a. to 3.36% p.a. (2010: 2.40% p.a. to 3.58% p.a.) receivable on maturity of respective notes.

8.3 These represent investments in bonds from various financial institutions carrying coupon interest rates ranging from 3.38% to 6.47% (2010: Nil) . These investments have maturity from October 2012 to October 2014.These investments are classified as "Held-to-maturity" because of the Bank's ability and intention to hold these investments up to maturity.

8.4 General provision of 0.5% on collective investments (excluding those with DAB) was provided to cover the market and counter party risk. No such provision was being maintained until last year.

		2011 AF	2010 AF
9.	**LOANS AND ADVANCES TO CUSTOMERS - NET**		
	Overdrafts - note 9.1	4,896,837,722	3,481,722,308
	Term loans - note 9.2	214,675,993	184,150,399
		5,111,513,715	3,665,872,707
	Provision against loans and advances - note 9.3	(147,146,087)	(115,839,425)
		4,964,367,628	3,550,033,282
	Particulars of advances		
	Short term (for up to one year)	5,062,203,715	3,649,302,898
	Non-current (for over one year)	49,310,000	16,569,809
		5,111,513,715	3,665,872,707

9.1 These represent balances due from customers at various interest rates ranging from 12.5% to 15% p.a and are secured against mortgage of property, personal guarantees, lien on equipments, pledge of stocks and/ or assignment of receivables of the borrowers. The overdrafts are repayable on demand. These included loans and advances to customers amounting to AF 288,674,224 (2010: AF 86,684,990) which are partially backed by Deutsche Investitions-und Entwicklungsgesellschaft mbh (DEG) guarantees to the extent defined in agreement with DEG.

9.2 Term loans carry interest at various rates and are secured against mortgage of properties, personal guarantees, lien on equipments, pledge of stocks and/or assignment of receivables of the borrowers. These include loans and advances to customers amounting to AF 29,780,117 (2010: AF 108,991,972) which are partially backed by (DEG) guarantee to the extent defined in the agreement with DEG.

9.3 Particulars of the provision against loan and advances

	2011			2010		
	Specific	General	Total	Specific	General	Total
	AF					
Opening	8,354,563	107,484,862	115,839,425	3,235,680	86,929,097	90,164,777
Charge for the year	83,706,223	56,840,176	140,546,399	10,203,496	25,973,725	36,177,221
Reversal of Provision	(46,056,423)	(70,838,013)	(116,894,436)	-	-	-
	37,649,800	(13,997,837)	23,651,963	10,203,496	25,973,725	36,177,221
Written off against provision - note 9.3.1	(1,582,890)	-	(1,582,890)	(5,030,661)	-	(5,030,661)
Exchange rate difference	2,519,131	6,718,458	9,237,589	(53,952)	(5,417,960)	(5,471,912)
Closing	46,940,604	100,205,483	147,146,087	8,354,563	107,484,862	115,839,425

9.3.1 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.

9.4 Loans and advances have been classified as:

Classification	*Provisioning rates	Amount Outstanding AF	Provision required AF	Provision held AF
Standard	2%	5,010,274,155	100,205,483	100,205,483
Watch-List	5%	8,178,139	408,907	408,907
Substandard	25%	-	-	-
Doubtful	50%	93,059,449	46,529,725	46,529,725
Loss note 9.5	100%	1,972	1,972	1,972
Loans and advances and provision held -2011		5,111,513,715	147,146,087	147,146,087
Loans and advances and provision held -2010		3,665,872,707	115,389,425	115,389,425

* Provisioning rates are per DAB Regulation

9.5 As per the DAB Regulation, Article three (part-B) (3.2.1), loan loss provision has been immediately charged off against the reserve for losses. The amount of these loans are AF 95,832,091 (2010: AF 87,379,688).

9.6 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 30.2.6 .No collaterals were reprocessed during the year.

10. 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 amount withdrawn including bank charges will be paid by CSC to the Bank.

	2011 AF	2010 AF
11. OPERATING FIXED ASSETS		
Capital work in progress - note 11.1	15,609,152	7,324,190
Property and equipment - note 11.2	262,644,994	107,658,345
	278,254,146	114,982,535

11.1 Capital Work in Progress

Advances to suppliers and contractors	15,609,152	7,324,190
	15,609,152	7,324,190

11.2 PROPERTY AND EQUIPMENT

	Lease hold Land	Leasehold improvements	Computers	Office equipments	Furniture and fixtures	ATMs	Vehicles	Total
		AF						
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 January 1, 2011								
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 at January 1, 2011	-	21,383,569	18,220,819	25,736,029	4,189,226	10,764,371	27,364,331	107,658,345
Year ended December 31, 2011								
Net book amount at January 1, 2011	-	21,383,569	18,220,819	25,736,029	4,189,226	10,764,371	27,364,331	107,658,345
Additions	-	-	939,545	16,030,099	685,000	3,242,816	-	20,897,460
Transfers from Capital Work in Progress	177,568,084	8,323,828	-	1,174,830	-	-	-	187,066,742
Deletions	-	-	-	-	-	-	-	-
Depreciation charge	-	(11,840,242)	(206,228)	(23,810,584)	(1,610,868)	(5,877,340)	(9,632,291)	(52,977,553)
Depreciation on deletions	-	-	-	-	-	-	-	-
Net book amount at December 31, 2011	177,568,084	17,867,155	18,954,136	19,130,374	3,263,358	8,129,847	17,732,040	262,644,994
At December 31, 2011								
Cost	177,568,084	63,418,207	43,994,208	81,633,125	13,648,590	36,862,625	61,304,355	478,429,194
Accumulated depreciation	-	(45,551,052)	(25,040,072)	(62,502,751)	(10,385,232)	(28,732,778)	(43,572,315)	(215,784,200)
Net book amount	177,568,084	17,867,155	18,954,136	19,130,374	3,263,358	8,129,847	17,732,040	262,644,994
Useful life		3 to 10 years	3 to 5 years	3 to 5 years	3 to 10 years	5 years	5 years	

12. INTANGIBLE ASSETS

	Computer softwares	License fee	Total
	-AF-		
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 January 1, 2011			
Cost	103,307,571	504,700	103,812,271
Accumulated amortisation	(49,771,363)	(504,700)	(50,276,063)
Net book amount at January 1, 2011	53,536,208	-	53,536,208
Year ended December 31, 2011			
Net book amount at January 1, 2011	53,536,208	-	53,536,208
Additions	1,990,377	14,644,301	16,634,678
Transfers	(8,819,755)	8,819,755	-
Amortisation charge	(15,815,811)	(1,733,406)	(17,549,217)
Amortization on Transfer	6,316,174	(6,316,174)	-
Net book amount at December 31, 2011	37,207,193	15,414,476	52,621,669
At December 31, 2011			
Cost	96,478,193	23,968,756	120,446,949
Accumulated amortisation	(59,271,000)	(8,554,280)	(67,825,280)
Net book amount	37,207,193	15,414,476	52,621,669
Useful life	**3 to 10 years**	**3 to 10 years**	

13. DEFERRED INCOME TAX

	2011 **AF**	**2010** **AF**
Deferred tax assets arising in respect of:		
Dividend to shareholders	-	22,855,000
Deficit on revaluation of securities	2,734,707	-
	2,734,707	22,855,000
Less:		
Deferred tax liabilities arising in respect of:		
Accelerated tax depreciation and amortization	(18,161,924)	(18,453,694)
	(15,427,217)	4,401,306

13.1 Movement in temporary differences during the year
Deferred tax assets arising in respect of:

	Balance as at January 01,2010	Recognised in profit or loss	Recognised in equity	Balance as at December 31, 2010	Recognised in profit or loss during the period	Recognised in equity	December 31, 2011
	AF						
Deferred tax asset arising in respect of:							
Dividend to shareholders	-	22,855,000	-	22,855,000	(22,855,000)	-	-
Deficit on revaluation of securities	-	-	-	-	-	2,734,707	2,734,707
	-	22,855,000	-	22,855,000	(22,855,000)	2,734,707	2,734,707
Deferred tax liabilities arising in respect of:							
Accelerated tax depreciation and amortization	(16,130,897)	(2,322,797)	-	(18,453,694)	291,770	-	(18,161,924)
	(16,130,897)	20,532,203	-	4,401,306	(22,563,230)	2,734,707	(15,427,217)

14. OTHER ASSETS

	2011 AF	2010 AF
Advance to employees	5,538,342	4,218,823
Security Deposits	1,378,410	1,339,360
Prepayments	47,218,523	44,937,838
Advance Tax	-	31,101,060
Interest receivable	104,104,836	295,000
Other Receivable	27,330,803	30,004,678
Money Gram International - note 14.1	2,622,163	(12,742)
Less:		
Provision against other receivable -note 14.2	(7,868,066)	(7,868,066)
	180,325,011	104,015,951

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

14.2 The provision is held against outstanding receivable from money service provider. The bank has made recovery during the year against such balance.

15. CUSTOMERS' DEPOSITS

	2011 AF	2010 AF
Current deposits	28,371,064,196	17,263,035,113
Saving deposits - note 15.1	1,515,709,400	340,667,709
	29,886,773,596	17,603,702,822
Term deposits - note 15.2	53,453,224	123,801,362
	29,940,226,820	17,727,504,184

15.1 Saving deposit carry interest rate at 3% p.a (2010 : 5% p.a)

15.2 Term deposits carry interest rate of 1.75% p.a (2010: 1% p.a) on local currency deposits.

	2011 AF	2010 AF
16. OTHER LIABILITIES		
Accruals and other payables	48,198,036	29,145,118
Income tax liability	5,761,711	-
Withholding tax payable	-	64,988
Amounts pending transfer to customers' accounts note-16.1	37,719,542	8,140,779
Customers payment orders awaiting collection	-	5,141,496
Dividend payable	-	114,400,000
Provision for bonus to employees	45,883,449	28,800,000
Others	19,965,334	12,371,978
	157,528,072	198,064,359

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

		2011	2010
17. SHARE CAPITAL			
30,000,000 (2010: 30,000,000) authorised ordinary shares of USD 1 each	USD	30,000,000	30,000,000
	AFN	1,384,200,000	1,384,200,000
Issued, subscribed and paid-up 30,000,000 (2010: 20,000,000) ordinary shares of USD 1 each fully paid in cash	AF	1,465,070,574	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:

	2011	2010
Number of shares at beginning of the year	20,000,000	20,000,000
Bonus shares issued during the year - note 17.1	10,000,000	-
Number of shares at end of the year	30,000,000	20,000,000

17.1 During the period, the Bank issued 10 million bonus shares amounting to AF 473,500,000 (US$ 10 million) on the basis of one share for every two shares held as per the approval of the shareholders in the Annual General Meeting held on February 21, 2011.

	2011 AF	2010 AF
18. CONTINGENCIES AND COMMITMENTS		
18.1 Contingencies		
(a) Guarantees	212,973,909	26,268,475

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

(b) Taxation

During the year, the Bank has received a notice from Ministry of Finance - Large Tax Pay Organization (MoF- LTO) to submit the details of admissible deductions claimed in income tax return for the tax year 2010. The details pertain to interest expense, insurance premium, legal & professional fee, fee & commission expense and dividend paid during the tax year 2010 with tax deduction forms of amounting to AF 3,822,672, AF 46,914,749, AF.82,021,57, AF 8, 649,236 and AF 341,425,000 respectively. Further the detail of advance tax with tax certificates and by who have been deducted on behalf of the Bank of amounting to AF 46,586,584 to be submitted with tax authorities.

Tax return submitted by the Bank from the tax years 2006 to 2010 shall be treated as an assessment of tax payable and tax return shall be treated as a notice of assessment. However, the Ministry of Finance may issue an assessment notice or amend an assessment notice only within five years from date of filing of return. In this respect, as per the tax advisor confirmation, tax audit by the LTO audit team for all previous years is in progress and final outcome is not known and no provision is required to be provided in these financial statements.

c) Others

The Bank has filed suits for the recovery of loans and advances principle and interest due against the defaulted borrowers amounting to AF 107,552,816 as at the year end. These suits are pending decisions at various courts. The Bank's management is of the view that the aforementioned suits will be decided in its favor due to sound legal footings.

	2011 AF	2010 AF
18.2 Commitments		
(a) Undrawn loan and overdraft facilities	813,106,595	897,048,492
(b) Commercial letters of credit	464,955,007	1,055,051,078
	1,278,061,602	1,952,099,570

19. INTEREST INCOME

	2011 AF	2010 AF
Interest income on:		
Balances with DAB	33,677,847	28,845,233
Investments and short term deposits	183,254,891	190,778,221
Loans and advances to customers	578,098,773	380,989,968
	795,031,511	600,613,422

20. INTEREST EXPENSE

	2011 AF	2010 AF
Interest expense on:		
Customers' deposits	2,160,267	3,159,756
Borrowings from financial institutions	-	662,916
	2,160,267	3,822,672

21. FEE AND COMMISSION INCOME

	2011 AF	2010 AF
Fee and commission income on:		
Loans and advances to customers	57,590,747	41,255,450
Trade finance products	39,696,681	34,230,032
Cash withdrawals	155,985,055	131,198,072
Customers' account service charges	6,163,323	1,600,424
Cash transfers	38,490,933	23,819,022
Income from ATMs	30,691,297	23,942,975
Others	16,382,427	5,656,644
	345,000,463	261,702,619

	2011	2010
	AF	AF

22. FEE AND COMMISSION EXPENSE

Guarantee commission	4,291,283	2,511,359
Bank charges	7,922,157	6,137,877
	12,213,440	8,649,236

23. INCOME FROM DEALING IN FOREIGN CURRENCIES

Forex income	187,089,872	127,586,540
	187,089,872	127,586,540

24. OTHER INCOME

Recovery of loans written off in prior years	17,223,440	13,728,000
Gain/(Loss) on sale of property and equipment	-	236,539
Exchange (loss)/gain	(13,977,655)	(7,890,485)
Others	539,136	3,521,663
	3,784,921	9,595,717

25. GENERAL AND ADMINISTRATIVE EXPENSES

Salaries and benefits - note 25.1	295,921,177	228,561,402
Rental, rates and taxes	47,560,902	39,727,039
Electricity, generator and fuel	26,647,986	12,518,912
Repairs and maintenance	23,517,030	13,968,339
Security cost	73,357,262	47,336,473
Depreciation	52,977,553	49,238,906
Amortization	17,549,217	13,966,346
Directors fee and their meeting expenses	8,588,685	7,412,656
Travelling and accommodation	10,085,092	3,535,058
Communication, Swift and internet	36,546,376	25,305,116
Consumables	25,490,838	24,552,337
Legal and professional charges	70,598,916	64,637,252
Investment management fee	1,622,447	-
Audit fee	3,022,470	2,654,080
Marketing and promotion	14,052,987	25,157,571
Money service providers charges	15,100,707	8,376,869
Self insurance	52,702,430	46,914,749
Subscriptions and memberships	791,838	6,353,377
Other charges	1,901,939	6,765,496
Provision for receivable	-	1,379,157
Taxes and penalties	569,968	312,802
	778,605,820	628,673,937

25.1 Salaries and benefits included AF 45,883,449 (2010: AF 31,598,121) in respect of bonus to employees.

26. TAXATION

Current		
For the year	75,203,116	16,430,442
Prior year	(16,430,442)	-
	58,772,674	16,430,442
Deferred		
For the year	22,563,230	(20,532,202)
	81,335,904	(4,101,760)

	2011 AF	2010 AF
26.1 Relationship between tax expense and accounting profit		
Accounting profit for the year	460,254,467	322,175,232
Applicable tax @ 20%	92,050,893	64,435,046
Less: Effect of reversal of prior year charge	(16,430,442)	-
Effect of tax on carried forward tax losses	(5,680,569)	-
Effect of tax in dividend to shareholders	-	(68,565,000)
Add: Effect of expenses not deductible for tax purpose	-	28,194
Effect of tax on BRT	9,799	-
Effect of foreign currency gain on dividend paid	155,000	-
Effect of tax on general provision	10,804,162	
Effect of others	427,061	-
Tax charge - net	81,335,904	(4,101,760)

27. 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 at mutually agreed terms during the year:

Nature of transactions	Directors and other key management personnel (and close family members) 2011 AF	2010	Share Holders and Its associated companies 2011 AF	2010
(a) ***Loans and advances to related parties***				
Loans outstanding at beginning of the year	-	-	226,229,878	206,624,080
Loans issued during the year	-	-	3,591,385,425	2,118,058,561
Loan repayments during the year	-	-	(3,467,725,579)	(2,085,619,129)
Exchange gain	-	-	(3,524,232)	(12,833,634)
Loans outstanding at end of the year	-	-	346,365,492	226,229,878
Interest income earned	-	-	28,275,469	18,034,086

General provision on outstanding balances of loans and advances to related parties amounts to AF 5,716,292 (2010: AF 6,786,896).

The facility provided to related parties carries mark-up at variable interest rates ranging from US Prime + 4.5% p.a to 8% p.a payable on monthly basis with minimum rate of 12.5% p.a and is secured against mortgage of residential property and personal guarantees of directors of the Bank.

Nature of transactions	Directors and other key management personnel (and close family members) 2011 AF	2010	Share Holders and Its associated companies 2011 AF	2010
(b) *Deposits from related parties*				
Deposits at beginning of the year	3,808,549	15,308,197	166,374,067	195,192,655
Deposits received during the year	107,782,398	739,884,554	3,991,797,887	2,702,633,998
Deposits repaid during the year	(110,035,896)	(751,268,876)	(3,933,792,848)	(2,720,763,514)
Exchange Rate Difference	137,176	(115,326)	12,962,158	(10,689,072)
Deposits at end of the year	1,692,227	3,808,549	237,341,264	166,374,067
Interest expense on deposits	-	-	-	-

These represents current account of related parties, which carry Nil interest rate.

	Directors and other key management personnel (and close family members) 2011 AF	2010	Share Holders and Its Associated companies 2011 AF	2010
(c) *Other transactions with related parties*				
Fee and commission income	-	-	8,575,996	9,859,935
Directors fee	1,627,113	1,372,800		
Rental expenses	4,275,000	2,457,525	-	-
Guarantees issued by the Bank	-	-	10,286,805	13,479,045
Commercial letter of credits including accepted bills and export bills purchased	1,574,863	-	65,287,709	243,240,883
	7,476,976	3,830,325	84,150,510	266,579,863

	2011 AF	2010 AF
(d) *Key management compensation*		
Salaries and other short-term benefits	63,245,899	39,542,359

Key management personnel of the Bank include the Chief Executive Officer, Chief Financial Officer, Chief Information Officer, Chief Operating Officer, Head of Commercial Banking, Chief Risk Officer ,Head of Internal Audit and Head of Retail Banking.

	2011 AF	2010 AF

28. CASH AND CASH EQUIVALENTS

	2011 AF	2010 AF
Cash in hand and at ATM	1,434,252,806	1,428,220,259
Cash and balances with DAB (other than minimum reserve requirement)	4,353,861,279	1,138,857,057
Balances with other banks	3,819,777,245	2,467,999,451
Short term placements (with maturity less than three months from the date of acquisition)	5,845,693,480	2,677,432,000
	15,453,584,810	7,712,508,767

29. EARNINGS PER SHARE - BASIC AND DILUTED-restated

	2011 AF	2010 AF
Profit after taxation (AF)	378,918,563	326,276,992
Weighted average number of ordinary shares - numbers	30,000,000	30,000,000
Basic earnings per share - Basic & diluted (AF per share) note -29.1	12.63	10.88

29.1 Earnings per share for the corresponding periods has been re-stated in view of issue of bonus shares during the year ended December 31, 2011 (please also refer note 17.1 to this financial information). The earning per share as previously reported for the year ended December 31, 2010 was AF 16.31.

29.2 There was no dilutive effect on basic earnings per share of the Bank.

30. RECLASSIFICATION

30.1 Corresponding figures of following line items in the statement of financial position have been reclassified to reflect more appropriate presentation of events and transactions for the purpose of comparison.

Head of account	Originally reported as at December 31, 2010	Reclassified (to) / from	Amount reported as at December 31, 2010
Short term placements - note 7	8,655,404,220	(2,053,454,833)	6,601,949,387
Investments-net - note 8	-	2,057,592,224	2,057,592,224
Other assets	108,153,342	(4,137,391)	104,015,951

30.2 Related party figures for 2010 have been reclassified where necessary. Note-27

31. FINANCIAL RISK MANAGEMENT

31.1 Financial Assets and Liabilities

December 31, 2011	Loans and Receivables	Held to maturity	Fair value	Total
	---AF---			
Financial Assets				
Cash and balances with Da Afghanistan Bank	7,553,861,085	-	-	7,553,861,085
Balances with other Banks	4,761,471,787	-	-	4,761,471,787
Short term placements	-	7,140,667,131	-	7,140,667,131
Investments - net	-	4,950,437,943	2,212,972,312	7,163,410,255
Loans and advances to customers - net	4,964,367,628	-	-	4,964,367,628
Receivables from financial institution	122,575,662	-	-	122,575,662
Security deposits and other receivables - net	133,106,488	-	-	133,106,488
	17,535,382,650	**12,091,105,074**	**2,212,972,312**	**31,839,460,036**
Financial Liabilities				
Customers' Deposits				
Term deposits	-	-	53,453,224	53,453,224
Current / Saving deposits	29,886,773,596	-	-	29,886,773,596
Other liabilities	105,882,912	-	-	105,882,912
	29,992,656,508	**-**	**53,453,224**	**30,046,109,732**
Off balance sheet items				
Guarantees	212,973,909	-	-	212,973,909
Undrawn loan and overdraft facilities	813,106,595	-	-	813,106,595
Commercial letter of credits	464,955,007	-	-	464,955,007
	1,491,035,511	**-**	**-**	**1,491,035,511**

December 31, 2010	Loans and Receivables	Held to maturity	Fair value	Total
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	-	6,601,949,387	-	6,601,949,387
Investments	-	2,057,592,224	-	2,057,592,224
Loans and advances to customer - net	3,550,033,282	-	-	3,550,033,282
Receivables from financial institutions	182,994,561	-	-	182,994,561
Security deposits and other receivables - Net	27,977,053	-	-	27,977,053
	10,753,183,136	**8,659,541,611**	**-**	**19,412,724,747**
Financial Liabilities				
Customer Deposits				
Term deposits	-	-	123,801,362	123,801,362
Current / Saving deposits	17,603,702,822	-	-	17,603,702,822
Other liabilities	169,264,359	-	-	169,264,359
	17,772,967,181	**-**	**123,801,362**	**17,896,768,543**
Off balance sheet items				
Guarantees	26,268,475	-	-	26,268,475
Undrawn loan and overdraft facilities	897,048,492	-	-	897,048,492
Commercial letter of credit	1,055,051,078	-	-	1,055,051,078
	1,978,368,045	**-**	**-**	**1,978,368,045**

31.2 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 up to 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) besides Risk Management Department 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.

31.2.1 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 contingencies and 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.

31.2.2 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 3.4 (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.

31.2.3 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.

31.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2011	2010
	AF	AF
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with other banks	4,761,471,787	2,991,254,924
Short term placements	7,140,667,131	6,608,811,808
Investments - net	7,163,410,255	
Loans and advances to customers - net	4,964,367,628	3,550,033,282
Receivables from other financial institutions	122,575,662	182,994,561
Security deposits and other receivables - net	133,106,488	27,895,621
	24,285,598,951	13,360,990,196
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	212,973,909	26,268,475
Undrawn loan and overdraft facilities	813,106,595	897,048,492
Commercial letters of credit	464,955,007	1,055,051,078
	1,491,035,511	1,978,368,045

The above table represents credit risk exposure to the Bank at December 31, 2011 and December 31, 2010, 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, loans and advances and short term placements with other bank represent 28% and 21% (2010: 49% and 26%) respectively of the total on balance sheet credit risk exposure.

31.2.5 Credit quality of financial Assets

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

Balance with other banks/ FIs	Credit rating	Credit rating agency	2011 AF	2010 AF
Counter parties with external credit ratings				
Standard Chartered Bank	A+	Standard and Poor's	62,881,435	77,564,323
Commerz bank Germany	A	Standard and Poor's	4,612,564,766	2,909,367,792
Habib American bank America		-	-	4,044,909
Ak bank, Turkey	C-	Moody's	37,461,910	-
Clariden Leu	Aa2	Moody's	1,098,349	-
Emirates NBD	A3	Moody's	47,066,648	-
Yes Bank Ltd.	Baa3	Moody's	4,199	-

Balance with other banks/ FIs	Credit rating	Credit rating agency	2011 AF
Short term Placements			
Counter parties with external credit ratings			
Commerz bank Germany	A	Moody's	-
Ak bank, Turkey	Baa1	Moody's	493,100,000
Punjab National Bank Hong Kong	Baa3	Moody's	493,100,000
Clariden leu, Switzerland	Aa2	Moody's	255,383,830
ANZ Bank	Baa2	Moody's	246,550,000
AXIS Bank	Baa2	Moody's	493,100,000
Bank of Montreal	Aa2	Moody's	369,825,000
Credit Suisse	Aa2	Moody's	501,870,000
DBS London	Aa1	Moody's	246,550,000
Emirates NBD	A3	Moody's	492,586,400
HALK Bank	Baa3	Fitch Ratings	493,100,000
HDFC Bank	Baa3	Fitch Ratings	493,100,000
HSBC	Aa3	Moody's	370,564,650
IDBI	Baa3	Moody's	493,100,000
Lloyds TSB	A1	Moody's	369,825,000
Rabo Bank	Aaa	Moody's	501,870,000
Standard Chartered Bank	A1	Standard and Poor's	369,825,000
YES Bank	Baa3	Moody's	493,100,000
Receivables from financial institution			
Counter parties		122,575,662	182,994,561
Loans and Advances - Net			
Counter parties		4,964,367,628	3,550,033,282
Security deposits and other receivables			
Counter parties		133,106,488	27,895,621

	2011 AF	2010 AF
31.2.6 Loans and advances - net		
Loans and advances are summarised as follows:		
Neither past due nor impaired	5,010,274,155	3,574,488,320
Past due but not impaired	-	10,014,915
Impaired	101,239,560	80,637,069
Gross	5,111,513,715	3,665,140,304
Interest receivable	-	732,403
Less: allowance for impairment		
General	(100,205,483)	(107,484,862)
Specific	(46,940,604)	(8,354,563)
	4,964,367,628	3,550,033,282

The total impairment provision for loans and advances (including general provision) is AF 147,146,087 (2010: AF 115,839,425). Further information of the impairment allowance for loans and advances to customers is provided in note 9 to these financial statements.

During the year 2011, the Bank's total loans and advances increased by 40% 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, 2011							
Regular Loans	4,555,028,511	76,733,812	69,284,110	287,160,884	22,066,838	-	5,010,274,155
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

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

December 31, 2011							
Past due up to 30 days	-	-	-	-	-	-	-
Fair value of collateral	-	-	-	-	-	-	-
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

* *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 197,071,651 (December 31, 2010: AF 85,667,730) including balances written off of AF 95,832,090 (December 31, 2010; AF 87,379,688).

	Loans and advances						Amounts in AF
	Large corporate customers			SMEs			Total
December 31, 2011	**Overdraft**	**Term loans**	**PIFs**	**Overdraft**	**Term loans**	**PIFs**	
Watch	-	8,178,139	-	-	-	-	8,178,139
Substandard	-	-	-	-		-	-
Doubtful	67,879,043	21,203,300	-	1,195,338	2,781,768	-	93,059,449
Loss	1,479	-	-	-	493	-	1,972
Total	67,880,522	29,381,439	-	1,195,338	2,782,261	-	101,239,560
Fair value of collateral	370,992,266	133,783,947	-	15,441,427	67,549,424	-	587,767,064
December 31, 2010							
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

(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, 2011 were AF Nil (December 31, 2010: Nil).

	2011		2010	
	At renegotiation time	**As at year end**	**At renegotiatio n time**	**As at period end**
Loans and advances	**AF**	**AF**	**AF**	**AF**
- Term loans	114,892,300	106,877,206	-	-
- Overdraft	-	-	-	-
- PIF	-	-	-	-
Total	114,892,300	106,877,206	-	-

31.2.7 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 categorised by geographical region as of December 31, 2008. 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	Canada	Turkey	Switzerland	UAE	India	Hong Kong	Australia	England	Holland	USA	*Others	Total
On balance sheet															
Balances with other banks	62,881,435	-	4,612,564,766	-	37,461,910	1,098,349	47,461,128	4,199	-	-	-	-	-	-	4,761,471,787
Short term placements - net	-	-	-	367,975,875	981,269,000	753,467,561	490,123,468	1,962,538,000	490,634,500	245,317,250	1,349,980,827	499,360,650	-	-	7,140,667,131
Investments-net	3,553,936,267	-	27,976,763	22,520,124	-	-	1,064,553,382	240,440,879	23,691,808	81,574,315	44,598,732	162,353,562	628,995,073	1,312,767,350	7,163,408,255
Loans and advances to customers - net	4,964,367,628	-	-	-	-	-	-	-	-	-	-	-	-	-	4,964,367,628
Receivables from other financial institutions	-	122,575,662	-	-	-	-	-	-	-	-	-	-	-	-	122,575,662
Security deposits and other receivables - net	133,106,488	-	-	-	-		-	-	-	-	-	-	-	-	133,106,488
	8,714,291,818	122,575,662	4,640,541,529	390,495,999	1,018,730,910	754,565,910	1,602,137,978	2,202,983,078	514,326,308	326,891,565	1,394,579,559	661,714,212	628,995,073	1,312,767,350	24,285,596,951
Off balance sheet															
Contingencies and commitments	1,491,035,511	-	-	-	-	-	-	-	-	-	-	-			1,491,035,511
As at December 31, 2011	10,205,327,329	122,575,662	4,640,541,529	390,495,999	1,018,730,910	754,565,910	1,602,137,978	2,202,983,078	514,326,308	326,891,565	1,394,579,559	661,714,212			25,776,632,462
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

* It includes exposure with Singapore, Austria, Rusia, Korea, Malaysia, Qatar, Bahrain, Sweden and some other countries

(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 institutions	Traders	Fuel suppliers	Others	Total
On balance sheet									
Balances with other banks	-	-	-	-	4,761,471,787	-	-	-	4,761,471,787
Short term placements - net	-	-	-	-	7,140,667,131	-	-	-	7,140,667,131
Investments - net					7,163,410,255				7,163,410,255
Loans and advances to customers - net	557,874,274	-	543,571,272	-	-	3,857,040,390		5,881,692	- 4,964,367,628
Receivable from financial institution					122,575,662				122,575,662
Security deposits and other receivables - net	-	-	-	-	-	-	-	133,106,488	133,106,488
	557,874,274	-	543,571,272	-	19,188,124,835	3,857,040,390	-	138,988,180	24,285,598,951
Off balance sheet									
Contingencies and commitments	-	-	464,955,007	-	-	-	-	1,026,080,504	1,491,035,511
As at December 31, 2011	557,874,274	-	1,008,526,279	-	19,188,124,835	3,857,040,390	-	1,165,068,684	25,776,634,462
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

31.2.8 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.

31.2.9 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 summarises the Bank's exposure to foreign currency exchange rate risk at December 31, 2011 and December 31, 2010. Included in the table are the Bank's financial instruments at carrying amounts, categorised 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 period would have been AF 28,707,827 higher/ lower (2010: AF 2,443,750 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 period end date, strengthens/ weakens by 10% against the EURO with all other variables held constant, the impact on profit after taxation for the period would have been AF 191,427 lower/ higher (2010: AF 978,098 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 period end date, strengthens/ weakens by 10% against the AED with all other variables held constant, the impact on profit after taxation for the period would have been AF 30,058,659 higher/ lower (2010: AF 342,241 higher/ lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

As of the period end, excluding off balance sheet items, the Bank has a long open foreign exchange position in AED of 0.23%(2010: 0.25%), Short open foreign exchange position in USD of 10.6% (2010: short position 2.04%) and a short open foreign exchange position in EURO of 0.14% (2010: long position 0.7%) of the Bank's regulatory capital. The overall net foreign exchange position of the Bank, in absolute terms, is 2.51% (2010: 2.51%).

	AED	USD	EURO	INR	AF	Total
	-------------Converted to AF----------					AF
As at December 31, 2011						
Assets						
Cash and balances with Da Afghanistan Bank	-	2,870,269,739	275,717,299	-	4,407,874,047	7,553,861,085
Balances with other banks	4,739,215	4,497,972,928	232,213,664	4,199	26,541,781	4,761,471,787
Short term placements - net	367,464,843	6,011,008,577	762,193,711	-	-	7,140,667,131
Investments - net	-	3,609,473,988	-	-	3,553,936,267	7,163,410,255
Loans and advances to customers - net	-	4,417,074,936	-	-	547,292,692	4,964,367,628
Receivables from financial institutions		118,962,851	3,457,863	-	154,948	122,575,662
Security deposits and other receivables - net	1,682,624	77,413,333	552,437	-	53,458,094	133,106,488
Total financial assets	373,886,682	21,602,176,352	1,274,134,974	4,199	8,589,257,829	31,839,460,036
Liabilities						
Customers' deposits	-	21,955,347,513	1,280,357,936	-	6,704,521,371	29,940,226,820
Other liabilities	-	-	-		105,882,912	105,882,912
Total financial liabilities	-	21,955,347,513	1,280,357,936	-	6,810,404,283	30,046,109,732
On-balance sheet financial position - net	373,886,682	(353,171,161)	(6,222,962)	4,199	1,778,853,546	1,793,350,304
As at December 31, 2010						
Total financial assets	4,278,014	12,965,817,757	937,439,851	-	5,500,970,302	19,408,505,924
Total financial liabilities	-	12,996,364,637	949,665,999	-	3,979,537,907	17,925,568,543
Net on-balance sheet financial position	4,278,014	(30,546,880)	(12,226,148)	-	1,521,432,395	1,482,937,381

31.2.10 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, 2011	Interest bearing					Non-interest bearing	Total
	Upton 1 month	1 to 3 months	3 to 12 month	1 to 5 years	Over 5 years		
	AF						
Assets							
Cash and balances with Da Afghanistan Bank (DAB)	3,488,076,791	-	-	-	-	4,065,784,294	7,553,861,085
Balances with other Banks	-	-	-	-	-	4,761,471,787	4,761,471,787
Short term placements net	4,099,244,263	1,100,546,018	1,940,876,850	-	-	-	7,140,667,131
Investments - net	1,588,491,921	828,921,015	2,514,815,617	2,231,181,702			7,163,410,255
Loans and advances to customers - net	28,043,506	868,420,567	3,241,903,077	826,000,478	-	-	4,964,367,628
Receivables from other		-	-	-	-		
financial institution		-	-	-	-	122,575,662	122,575,662
Security deposits and other receivables - net	-	-	-	-	-	133,106,488	133,106,488
Total financial assets	9,203,856,481	2,797,887,600	7,697,595,544	3,057,182,180	-	9,082,938,231	31,839,460,036
Liabilities							
Customers' deposits	92,534,396	4,467,159.0	48,986,064	-	-	29,794,239,201	29,940,226,820
Other liabilities	-	-	-	-	-	105,882,912	105,882,912
Total financial liabilities	92,534,396	4,467,159	48,986,064	-	-	29,900,122,113	30,046,109,732
Total interest repricing gap	9,111,322,085	2,793,420,441	7,648,609,480	3,057,182,180	-	(20,817,183,882)	1,793,350,304
As at December 31, 2010							
Total financial assets	8,142,210,787	2,001,962,843	6,741,784,634	16,072,715	-	2,506,474,945	19,408,505,924
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	6,737,196,262	16,072,715	-	(14,954,624,527)	1,482,937,381

If the interest increase/(decrease) by 100 bps, the impact on profit after taxation for the year would have been AF 182,493,609 (2010: AF 131,500,495) lower/higher respectively.

31.3 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 fulfill commitments to lend.

31.3.1 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.

31.3.2 Funding approach

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

31.3.3 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.

	Up to 1 month	1 to 3 months	3 to 12 month	1 to 5 years	Over 5	Total
	AF					
As at December 31, 2011						
Liabilities						
Customers' deposits	29,886,773,597	4,467,159	48,986,064	-	-	29,940,226,821
Other liabilities	105,882,912	-	-	-	-	105,882,912
Total financial liabilities (contractual maturity dates)	29,992,656,509	4,467,159	48,986,064	-	-	30,046,109,733
Total financial assets (contractual maturity dates)	18,286,794,712	2,797,887,600	7,697,595,544	3,057,182,180	-	31,839,460,036
As at December 31, 2010						
Liabilities						
Customers' deposits	17,638,270,957	53,172,591	36,060,636	-	-	17,727,504,184
Other liabilities	169,264,359	-	-	-	-	169,264,359
Total financial liabilities (contractual maturity dates)	17,807,535,316	53,172,591	36,060,636	-	-	17,896,768,543
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

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.

31.3.4 Off-balance sheet items

(a) Guarantees and other financial assets

Guarantees are also included below based on 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, 2011	AF			
Guarantees	197,101,946	15,871,963	-	212,973,909
Undrawn loan and overdraft facilities	813,106,595	-	-	813,106,595
Commercial letters of credit	464,955,007	-	-	464,955,007
Total	1,475,163,548	15,871,963	-	1,491,035,511
As at December 31, 2010				
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

31.4 Fair value of financial assets and liabilities

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

The table below analyses financial instruments carried at fair value, by valuation method. The various fair value levels have been defined as follows:

Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3
	AF		
Investment in Bonds - available for sales investments	2,212,972,312	-	-
As at December 31, 2011	2,212,972,312	-	-
As at December 31, 2010	-	-	-

There were no transfers made among various levels of fair value hierarchy during the year.

(b) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities which are presented on the Bank's statement of financial position at value other than fair value.

	Carrying Value		Fair Value	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	---AF---			
Financial assets:				
Short term placements	7,140,667,131	6,601,949,387	7,140,667,131	6,601,949,387
Investments - net	7,163,410,255	2,057,592,224	7,163,410,255	2,057,592,224
Loans and advances to customers - net	4,964,367,628	3,550,033,282	3,550,033,282	3,550,033,282
Security deposits and other receivables - net	133,106,488	27,895,621	133,106,488	27,895,621
Financial liabilities:				
Customers' deposits	29,940,226,820	17,727,504,184	29,940,226,820	17,727,504,184
Other liabilities	157,528,072	198,064,359	157,528,072	198,064,359
Off balance sheet financial instruments:				
Bank's commitments	590,811,274	1,978,368,045	590,811,274	1,978,368,045

The carrying values of these financial assets and liabilities approximates their fair values as at the date of statement of financial position

(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. 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 the off-balance sheet financial instruments is equal to the carrying amounts.

31.5 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:

	2011 **AF**	**2010** **AF**
Regulatory Capital		
Tier 1 (Core) Capital:		
Total equity capital	2,097,427,361	1,729,447,627
Less:		
Intangible assets	52,621,669	53,536,208
Net deferred tax assets	-	-
Profit for the period	378,918,563	326,276,992
	1,665,887,129	1,349,634,427
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposures	100,205,483	74,363,111
Profit for the year	378,918,563	326,276,992
	479,124,046	400,640,103

	2011 AF	2010 AF
Tier 2 (supplementary) Capital (restricted to 100% of Tier 1 (Core) Capital)	479,124,046	400,640,103
Regulatory Capital = Tier 1 + Tier 2	2,145,011,175	1,750,274,530
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	1,434,252,806	1,428,220,259
Direct claims on DAB	9,673,544,546	4,619,295,469
Direct Claims on Central Banks and Central Governments of Category A Countries	421,335,487	-
Total	11,529,132,839	6,047,515,728
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Balances with other banks	14,160,003,432	9,600,066,732
20% risk-weight total (above total x 20%)	2,832,000,686	1,920,013,346
100% risk weight		
All other assets	6,628,623,586	4,014,101,234
Less:		
Net Deferred tax asset	-	
Intangible assets	52,621,669	53,536,208
All other assets - net	6,576,001,917	3,960,565,026
100% risk-weight total (above total x 100%)	6,576,001,917	3,960,565,026
Credit conversion factor		
0% risk weight:		
Undrawn loan and overdraft facilities	813,106,595	897,048,492
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	464,955,007	1,055,051,078
20% credit conversion factor total (risk-weighted total x 20%)	92,991,001	211,010,216
20% risk-weight total (above total x 20%)	18,598,200	42,202,043
100% risk weight		
Guarantees	212,973,909	26,268,475
100% credit conversion factor total (risk-weighted total x 100%)	212,973,909	26,268,475
100% risk-weight total (above total x 100%)	212,973,909	26,268,475
Total risk-weighted assets	9,639,574,712	5,949,048,890
Tier 1 Capital Ratio (Tier 1 capital as % of total risk-weighted assets)	17%	23%
Regulatory Capital Ratio (Regulatory capital as % of total risk-weighted assets)	22%	29%

32. **DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorised for issue by the Board of Supervisors of the Bank on 19 Feb 2012.

MYAL

Chief Executive Officer

Director