

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying financial statements of Kabul Bank (the Bank), which comprise the statement of financial position as at December 31, 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Law of Banking in Afghanistan, 2003. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, financial statements give a true and fair view of the financial position of Kabul Bank as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and Law of Banking in Afghanistan, 2003.

A handwritten signature in blue ink, appearing to read 'A. Ferguson'.

**M/s A.F. Ferguson and Co.,
A Member firm of Price Waterhouse Coopers,
Chartered Accountants,
Kabul, AFGHANISTAN.**

Name of the audit engagement partner: **Kalimuddin Ghauri**

**KABUL BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009**

1. LEGAL STATUS AND BUSINESS ACTIVITY

Kabul Bank (the Bank) was registered with Afghanistan Investment Support Agency (AISA) on June 3, 2004 and on June 26, 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 registered office of the Bank is at 10-24, Turbazzkhan, Share-e-Naw, Kabul, Afghanistan. The Bank is engaged in the business of banking in accordance with the Law of Banking in Afghanistan 2003. The Bank has 68 branches (December 31, 2008: 49 branches) and 26 ATMs (December 31, 2008: 11 ATMs) in operation and employs 2,687 (December 31, 2008: 1,885) staff members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

2.1 Basis of preparation and measurement

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) and regulations issued by DAB. Whenever the requirement of the Law of Banking in Afghanistan differs with the requirements of the IFRS, the requirements of the Law of Banking in Afghanistan takes precedence.

These financial statements have been prepared under the historical cost convention except for financial assets and financial liabilities held at fair value through profit and loss.

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 notes. The financial statements for the year ended December 31, 2008 are unaudited as the audit of the Bank was conducted for nine months ended December 31, 2008. The statement of comprehensive income and statement of cash flows have therefore been presented for the following periods:

- For the year ended December 31, 2009 - audited
- For the year ended December 31, 2008 - unaudited
- For nine months ended December 31, 2008 - audited

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 3.

Amendments to published standards and new standards:

(a) Standards and amendments effective on or after January 01, 2009 adopted by the Bank

The bank has adopted the following new and amended IFRS as of January 01, 2009:

- IFRS 7: 'Financial instruments – Disclosures' (amendment) – effective January 01, 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. As the change in accounting policy only results in additional disclosures, there is no impact on operating profit.
- IAS 1 (revised): 'Presentation of financial statements' – effective January 01, 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from 'owner changes in equity' in the statement of comprehensive income. As a result, Bank presents all 'owner changes in equity' in the statement of changes in equity, whereas all 'non-owner changes in equity' are presented in the consolidated statement of comprehensive income. Comparative information has been represented so that it is also in conformity with the revised standard. As the change in accounting policy only results in additional disclosures, there is no impact on operating profit.

(b) Standards, amendments and interpretations effective on or after January 01, 2009 but not relevant

- i) Interpretations effective in 2009 but not relevant

The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2009 but are not relevant to the Bank's operations

- IFRIC 13: Customer loyalty programmes
- IFRIC 15: Agreement for the construction of real estate

(c) Standards, amendments and interpretations to existing standards that are relevant but not yet effective and have not been early adopted by the bank

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after July 01, 2009 and the Bank has not early adopted them:

Standard

- IFRS 9: Financial instruments – Classification and measurement: It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.

Revision

- IAS 1: Presentation of financial statements: Amendments resulting from April 2009 Annual improvements to IFRS which relates to classification of liabilities as current.

Amendments

“Improvements to IFRS” was issued in April 2009 and its requirements are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after July 01, 2009. This comprises a number of amendments to IFRS, which resulted from the IASB’s annual improvements project. The Bank is currently assessing the impact and expected timing of adoption of these amendments on the Bank’s results and financial position. Changes were made to the following IFRS as part of this project;

- IAS 7: Statement of Cash Flows: Expenditure that results in a recognized asset can be classified as a cash flow from investing activities instead of classification in operating activities;
- IAS 17: Leases: Expenditure that results in a recognized asset can be classified as a cash flow from investing activities instead of classification in operating activities;
- IAS 24: Related Party Disclosures: Revised definition of related party that two entities are related to each other whenever a person or a third party has joint control over one entity and that person (or a close member of that person's family) or a third party has joint control or significant influence over the other entity.
- IAS 32: Financial instruments presentation: For rights issues offered for a fixed amount of foreign currency and if such rights are issued pro rata to an entity's all existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated.
- IAS 36: Impairment of assets: Goodwill arising from a business combination should be allocated to (groups of) cash-generating units for impairment testing. The level of this allocation should be the lowest level where management monitors goodwill. However, this unit may not be

'larger than an operating segment determined in accordance with IFRS 8'. Recent revision refers to the definition of an operating segment in IFRS 8.5 for the purposes of determining the appropriate level of allocation when applying IAS 36.

- IAS 38: Intangible assets: An entity subject to rate regulation should apply IFRS to its assets and liabilities first and, as a second step, determine whether the specific effects of rate regulation give rise to assets and liabilities not otherwise recognized. If such assets and liabilities are identified, these would be recognized in accordance with this standard. Further assets arising from the effects of rate regulation should be measured, both on initial recognition and subsequently, on the basis of the probability-weighted average of all possible outcomes.

d) *Revision, amendments and interpretations to existing standards those are not yet effective and not relevant for the bank's operations*

		Effective for annual periods beginning on or after
i) IFRS 1	- First time adoption of International Financial Reporting Standards <ul style="list-style-type: none"> ▪ Amendments relating to oil and gas assets and determining whether an agreement contains a lease ▪ Cost of investment in a subsidiary, jointly controlled entity or associate 	January 1, 2010 July 1, 2009
ii) IFRS 2	- Share-based payments <ul style="list-style-type: none"> ▪ Amendments relating to group cash-settled share-based payments ▪ Amendments resulting from Aril 2009 Annual Improvements in IFRS 	January 1, 2010 July 1, 2009
iii) IFRS 3	- Business combinations <ul style="list-style-type: none"> ▪ Comprehensive revision on applying the acquisition method 	July 1, 2009
iv) IFRS 5	- Non current Assets Held for Sale and discontinued Operations <ul style="list-style-type: none"> ▪ Amendments resulting from Aril 2009 Annual Improvements in IFRS 	January 1, 2010
v) IFRS 8	- Operating segments <ul style="list-style-type: none"> ▪ Amendments resulting from Aril 2009 Annual Improvements in IFRS 	January 1, 2010
vi) IAS 27	- Consolidated and Separate Financial Statements <ul style="list-style-type: none"> ▪ Consequential amendments arising from amendments to IFRS 3 	July 1, 2009
vii) IAS 28	- Investments in Associates <ul style="list-style-type: none"> ▪ Consequential amendments arising from amendments to IFRS 3 	July 1, 2009
viii) IAS 31	- Interests in Joint Ventures <ul style="list-style-type: none"> ▪ Consequential amendments arising from amendments to IFRS 3 	July 1, 2009
ix) IAS 32	- Financial Instruments: Presentation <ul style="list-style-type: none"> ▪ Amendments relating to classification of right issue 	February 1, 2010
x) IAS 39	- Financial Instruments: Recognition and Measurement <ul style="list-style-type: none"> ▪ Amendments for eligible hedged items ▪ Amendments for embedded derivatives when reclassifying financial instruments 	July 1, 2009

- Amendments resulting from Aril 2009 Annual Improvements in IFRS
- June 30, 2009
January 1, 2010

Interpretations

- | | | | |
|---------------|---|--|--------------|
| xi) IFRIC 17 | - | Distributions of Non-cash Assets to Owners | July 1, 2009 |
| xii) IFRIC 19 | - | Transfer of assets from customers | July 1, 2010 |

2.2 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition including cash in hand and at ATM, un-restricted balances with the DAB, balances with banks and financial institution except cash margin held.

2.3 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

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

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

Financial assets and financial liabilities 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 amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

(b) Loans and receivables

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

(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. Investments 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.

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 income statement. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gain or loss arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category is recognized in profit or loss. Gain and loss arising from changes in the fair value of available-for-sale financial assets is recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized or

impaired. At this time, the cumulative gain or loss previously recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment. However, interest calculated using the effective interest rate method is recognized in profit and loss. Further, dividends on available for sale equity instruments are recognized in profit and loss when the Bank's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for financial assets, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.4 Impairment of financial assets

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

The Bank assesses at end of reporting period 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 recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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 income statement 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. Currently there is no mandatory provision required against loan classified as standard; however, a general provision is maintained in the books of account at minimum of 1.5% of value of such loans and advances.
- ii) Watch-list: 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 also classified as watch-list. 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

When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is removed from equity and recognized in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. 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 profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

2.5 Property and equipment

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in profit and loss account 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	4
Computers	2
Office equipment	2
Furniture and fixtures	2
Vehicles	2

Full month's depreciation is charged in the month the asset is put to use while no depreciation is charged in the month of disposal. Gain or loss arising from derecognition of an item of property and equipment is included in profit or loss when the item is derecognized.

The asset's residual values and useful lives are reviewed and adjusted if appropriate at each end of reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.6 Intangible assets

Intangible assets are capitalized only to the extent that the future economic benefits can be derived by the Bank having useful life of more than one year. Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the cost of the licenses over their estimated useful life of 5 years.

2.7 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to depreciation/ amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss or reversal of impairment loss is recognized in the profit or loss. 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.

2.8 Financial liabilities

Financial liabilities have been measured at amortised 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 amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of liabilities using effective interest rate method. These are derecognized when the obligations specified in the contract are discharged or cancelled or expired.

2.9 Offsetting

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

2.10 Taxation

Current

The current income tax charge is calculated in accordance with Income Tax Law, 2005. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred

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

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

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

However, there are no temporary differences and hence no deferred tax is accounted for in the financial statements.

2.11 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 income statement using the effective interest rate method.

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

- 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. Accrued interest income on non-performing loans is reversed.
- c) Fees and commission income and expense are recognized on an accrual basis when the service has been provided / received.
- d) Dividend income is recognized when the Bank's right to receive the income is established.

2.12 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 United States Dollar (USD). The Bank adopts its functional currency as a presentation currency.

(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 end of reporting period. 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 the income statement.

	1 AFN	1 EUR	1 PKR
The exchange rate for following currencies against USD were:			
As at December 31, 2009	0.0206	0.6967	0.0118
As at December 31, 2008	0.0192	0.7137	0.0127

2.13 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.

3. 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 and based on historical experiences 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 income taxes*

The Bank recognizes 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.

(b) *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 for impairment on a regular basis in accordance with IAS 36. 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/ amortisation charge.

c) Provision for possible loan losses

The Bank reviews loans to customer balances monthly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in note 7.3.

(d) Held-to-maturity investments

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

(e) Provision for prize money on Bakht deposits

The Bank recognises provision for prize money on Bakht deposit accounts in accordance with requirements of IAS 37. The Bank makes estimate of the amount of provision for prize money which has to be paid to the Bakht account holders on quarterly basis.

Kabulbank

	December 31, 2009 USD	December 31, 2008 USD
4. CASH AND BALANCES WITH DA AFGHANISTAN BANK (DAB)		
Cash in hand	71,389,573	51,618,684
Automated Teller Machine (ATM) Cash	558,506	485,554
	<u>71,948,079</u>	<u>52,104,238</u>
With Da Afghanistan Bank		
Local currency		
- Saving account	62,402,304	17,929,944
- Required reserve account - note 4.1	68,058,195	24,184,605
- Current account	30,830,784	17,164,853
	<u>161,291,283</u>	<u>59,279,402</u>
Foreign currency		
- Current account	2,891,637	909,319
	<u>164,182,920</u>	<u>60,188,721</u>
	<u>236,130,999</u>	<u>112,292,959</u>

- 4.1 These include reserves amounting to USD 68,058,195 (2008: USD 24,184,605) held in Afghani account maintained by DAB to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking regulations issued by DAB. The required reserve account maintained by DAB is interest bearing .

	December 31, 2009 USD	December 31, 2008 USD
5. BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS		
Balances with banks		
Inside Afghanistan		
- in current accounts - note 5.1	10,969,578	6,273,997
Outside Afghanistan		
- in current accounts - note 5.1	18,929,594	2,130,761
- in saving accounts - note 5.2	75,686,818	17,721,446
- as cash margins held - note 5.3	1,296,400	704,539
	<u>95,912,812</u>	<u>20,556,746</u>
	<u>106,882,390</u>	<u>26,830,743</u>
Balances with financial institution		
- in current account	699,376	25,000
- as cash margins held - note 5.4	200,000	200,000
	<u>899,376</u>	<u>225,000</u>
	<u>107,781,766</u>	<u>27,055,743</u>

- 5.1 Balances in current accounts are non-interest bearing and are available on demand.
- 5.2 These represent interest bearing accounts maintained with different banks. These carry different variable interest rates that are primarily linked with spot next overnight (s/n-o/n) London InterBank Offer Rate (LIBOR) and Euro OverNight Index Average (EONIA). The interest rates on these balances range from LIBOR less 0.75% to LIBOR less 0.5% and EONIA less 1% to EONIA less 0.50% (2008: LIBOR less 0.75% to LIBOR less 0.5% and EONIA less 1% to EONIA less 0.50%).
- 5.3 These represent interest bearing cash margin held by Commerz Bank against letters of credit and letter of guarantees issued on behalf of the Bank and deposits made with Axis Bank, Singapore, as security for visa cards. These balances carry interest @ s/n-o/n LIBOR less 0.75% and fixed rate of 5.51% per annum (2008: s/n-o/n LIBOR less 0.75% and fixed rate of 5.51% per annum), respectively.
- 5.4 This represents interest bearing collateral held by Credit Card Services Company Overseas Development Limited (CSC). The Bank has entered into an agreement with CSC for issuance of Master and Maestro debit / credit cards and to provide support necessary for these cards to function. Interest on collateral account is one year LIBOR plus 1% payable (2008: one year LIBOR plus 1% payable) on quarterly basis.

6. INVESTMENTS

These are classified as held to maturity and represents capital notes issued by DAB, upto a maximum period of six months (2008: one to six months) carrying interest at rates ranging from 4.75% per annum to 7.30% per annum (2008: 15.10% per annum to 15.30% per annum) receivable on maturity of respective notes.

	December 31, 2009 USD	December 31, 2008 USD
7. LOANS AND ADVANCES TO CUSTOMERS - NET		
Overdrafts	469,060,379	413,742,305
Term loans	234,818,408	141,121,386
	703,878,787	554,863,691
Provision against doubtful loans and advances	(16,147,924)	(11,100,000)
	687,730,863	543,763,691
Current	542,118,889	418,522,964
Non-current	145,611,974	125,240,727

7.1 This represents balances due from individuals and corporate entities at various interest rates ranging between 7% per annum to 25% per annum (2008: 10% per annum to 25% per annum) and are secured primarily against hypothecation of stocks. The Bank also finance against mortgage of property, personal guarantees and / or assignment of receivables of the borrowers. The overdrafts are repayable on demand.

7.2 Particulars of the provision

	December 31, 2009			December 31, 2008		
	Specific	General	Total	Specific	General	Total
	-----USD-----					
Opening	984,902	10,115,098	11,100,000	2,779,922	7,320,078	10,100,000
Charge for the period	5,849,510	2,642,895	8,492,405	984,902	2,795,020	3,779,922
Reversal of provision	(979,737)	-	(979,737)	(2,779,922)	-	(2,779,922)
	4,869,773	2,642,895	7,512,668	(1,795,020)	2,795,020	1,000,000
Written off against provision	(5,165)	(2,459,579)	(2,464,744)	-	-	-
Closing	5,849,510	10,298,414	16,147,924	984,902	10,115,098	11,100,000

7.3 Loans and advances have been classified as:

Classification	Provisioning rates*	Amount outstanding USD	Provision required USD	Provision held USD
Standard	1.50%	686,560,954	-	10,298,414
Sub-standard	25%	11,237,625	2,809,406	2,809,406
Doubtful	50%	6,080,208	3,040,104	3,040,104
		703,878,787	5,849,510	16,147,924

* Provisioning rates are as per DAB regulation

8. ADVANCES, REMITTANCES, PREPAYMENTS AND OTHER RECEIVABLES

	December 31, 2009 USD	December 31, 2008 USD
Advances to employees		
-Operational advances	3,828,098	1,085,368
-Personal advances - note 8.1	2,426,707	1,212,549
	6,254,805	2,297,917
Prepayments	4,739,075	3,457,176
Remittances receivable	756,984	1,075,889
Other receivables	2,929,776	341,379
	14,680,640	7,172,361

8.1 The Bank charges interest ranging from 0% to 15 % (2008: 10% to 20%) on these advances.

9. PROPERTY AND EQUIPMENT

	Land and buildings	Computer equipment	Office equipment	Furniture and fixtures	Vehicles	Capital work in progress	Total
----- USD -----							
<i>At April 1, 2008</i>							
Cost	3,938,306	4,560,755	2,392,774	1,895,231	4,023,749	-	16,810,815
Accumulated depreciation	(698,194)	(1,888,842)	(1,621,010)	(1,077,588)	(2,410,663)	-	(7,696,297)
Net book amount at April 1, 2008	<u>3,240,112</u>	<u>2,671,913</u>	<u>771,764</u>	<u>817,643</u>	<u>1,613,086</u>	<u>-</u>	<u>9,114,518</u>
<i>Nine months ended December 31, 2008</i>							
Net book amount at April 1, 2008	3,240,112	2,671,913	771,764	817,643	1,613,086	-	9,114,518
Additions	879,308	1,052,006	527,261	69,065	1,334,320	-	3,861,960
Deletions	(3,596,652)	-	-	-	-	-	(3,596,652)
Depreciation charge	(189,335)	(1,663,462)	(607,158)	(553,807)	(1,289,507)	-	(4,303,269)
Depreciation on deletions	770,823	-	-	-	-	-	770,823
Net book amount at December 31, 2008	<u>1,104,256</u>	<u>2,060,457</u>	<u>691,867</u>	<u>332,901</u>	<u>1,657,899</u>	<u>-</u>	<u>5,847,380</u>
<i>At Jan 01, 2009</i>							
Cost	1,220,962	5,612,761	2,920,035	1,964,296	5,358,069	-	17,076,123
Accumulated depreciation	(116,706)	(3,552,304)	(2,228,168)	(1,631,395)	(3,700,170)	-	(11,228,743)
Net book amount	<u>1,104,256</u>	<u>2,060,457</u>	<u>691,867</u>	<u>332,901</u>	<u>1,657,899</u>	<u>-</u>	<u>5,847,380</u>
<i>Year ended December 31, 2009</i>							
Net book amount at Jan 01, 2009	1,104,256	2,060,457	691,867	332,901	1,657,899	-	5,847,380
Additions	50,400	1,788,400	2,707,343	380,026	2,414,635	21,277,854	28,618,658
Deletions	-	-	-	-	-	-	-
Depreciation charge	(255,868)	(2,042,969)	(945,270)	(315,190)	(1,814,163)	-	(5,373,460)
Depreciation on deletions	-	-	-	-	-	-	-
Net book amount at December 31, 2009	<u>898,788</u>	<u>1,805,888</u>	<u>2,453,940</u>	<u>397,737</u>	<u>2,258,371</u>	<u>21,277,854</u>	<u>29,092,578</u>
<i>At December 31, 2009</i>							
Cost	1,271,362	7,401,161	5,627,378	2,344,322	7,772,704	21,277,854	45,694,781
Accumulated depreciation	(372,574)	(5,595,273)	(3,173,438)	(1,946,585)	(5,514,333)	-	(16,602,203)
Net book amount	<u>898,788</u>	<u>1,805,888</u>	<u>2,453,940</u>	<u>397,737</u>	<u>2,258,371</u>	<u>21,277,854</u>	<u>29,092,578</u>

10. INTANGIBLE ASSET

This represents license fee paid to Oracle Financial Services Software Limited for the procurement of flexcube software. The software started operation from the start of next financial year.

11. CUSTOMERS' DEPOSITS

	December 31, 2009 USD	December 31, 2008 USD
Remunerative		
- Saving deposits - note 11.1	242,671,719	142,039,342
- Bakht accounts - note 11.2	274,652,508	204,324,622
- Term deposits - note 11.3	37,500,746	13,406,544
	554,824,973	359,770,508
Non-remunerative		
- Current accounts	403,495,401	249,473,838
- Margin money - note 11.4	18,445,936	14,212,404
	421,941,337	263,686,242
	976,766,310	623,456,750
Current	961,802,066	621,198,203
Non-current	14,964,244	2,258,547

11.1 Saving deposits carry fixed interest @ 5% per annum (2008: 5% per annum) calculated on monthly minimum balances and credited to the customers' accounts on a quarterly basis. Further it includes VIP Saving accounts which carry fixed interest rates ranging between 5% per annum to 11% per annum (2008: 5% per annum) calculated on daily minimum balances and credited to customers' account on daily basis.

11.2 This represents non interest bearing demand deposits. The Bank distributes prizes through lucky draws to selected eligible depositors who maintain required minimum balances in their accounts. The prize money is declared on quarterly basis.

11.3 Term deposits carry fixed interest rates ranging between 6% per annum to 13% per annum (2008: 6% per annum) calculated on the outstanding balance on quarterly basis which is credited to the customers' accounts on the maturity of the respective deposits.

11.4 This represents non interest bearing amount held as collateral for irrevocable commitments under letters of guarantees.

	December 31, 2009	December 31, 2008
	USD	USD
12. OTHER LIABILITIES		
Accruals and other payables	2,080,227	341,889
Remittances payable	3,001,601	3,440,836
Payable to provident fund - note 12.1	1,960,608	606,637
Withholding tax payable	648,996	1,523,552
Others	2,679,893	178,795
Business receipt tax payable	-	1,123,120
Provision for bonus to employees	-	200,000
	<u>10,371,325</u>	<u>7,414,829</u>

12.1 This represents non interest bearing and non contributory account maintained by the Bank for its employees. The employees are contributing 10% of their salary to the fund.

	December 31, 2009	December 31, 2008
13. SHARE CAPITAL		
1,000,000 (2008: 1,000,000) authorised shares of USD 100 each	USD 100,000,000	100,000,000
Issued, subscribed and paid-up 277,278 (2008: 236,458) ordinary shares of USD 100 each fully paid in cash	USD 27,727,800	23,645,800
Number of shares at beginning of the period	236,458	225,781
Shares issued during the period	40,820	10,677
Number of shares at end of the period	<u>277,278</u>	<u>236,458</u>

Pattern of shareholding:

	December 31, 2009		December 31, 2008	
	Number of shares	%	Number of shares	%
1 Sherkhan Farnood	78,083	28.16	78,795	33.32
2 Khalilullah Fruzi	78,083	28.16	37,261	15.76
3 Farida Farnood	18,534	6.68	31,851	13.47
4 Mahmood Karzai	20,548	7.41	20,025	8.47
5 Haji Sherin Khan	16,439	5.93	17,392	7.36
6 Mohammad Taheer	18,699	6.74	15,223	6.44
7 Ghulam Farooq Naseeb	8,219	2.96	6,809	2.88
8 Ahmad Javid	6,000	2.16	5,847	2.47
9 Jamal Khil	5,343	1.93	5,207	2.20
10 Abdul Rab	4,110	1.48	4,035	1.71
11 Zahed Faheem	8,219	2.96	3,606	1.52
12 Mohammad Ihsan Rafet	2,466	0.89	2,401	1.01
13 Shokrullah Shokran	2,055	0.74	1,996	0.84
14 Rabiulla Kakar	1,644	0.59	1,601	0.68
16 Hayatullah	4,110	1.48	4,008	1.70
18 Nesar Ahmad	4,726	1.70	401	0.17
	<u>277,278</u>	<u>99.97</u>	<u>236,458</u>	<u>100</u>

14. CONTINGENCIES AND COMMITMENTS

	December 31, 2009 USD	December 31, 2008 USD
14.1 Commitments		
(a) Undrawn overdraft facilities	92,050,393	52,924,414
(b) Commitment for the acquisition of intangible asset	-	1,000,000
	<u>92,050,393</u>	<u>53,924,414</u>
14.2 Contingencies		
(a) Guarantees - note 14.2.1	<u>28,964,024</u>	<u>21,207,914</u>

14.2.1 These includes guarantees expired amounting to USD 13.7 million as on Dec 31, 2009 but not returned by the customers

	For year ended December 31, 2009 USD	For year ended December 31, 2008 Unaudited USD
15. INTEREST INCOME		
Interest income on:		
Loans and advances to customers	88,823,086	70,064,435
Balance with DAB	3,035,177	5,368,530
Investments	549,023	3,073,156
Balances with other banks	18,143	398,134
Staff loans	14,317	-
Credit cards and CSC income	34,391	-
	<u>92,474,137</u>	<u>78,904,255</u>
Business Receipt Tax - note 15.1	(887,473)	(4,187,133)
	<u>91,586,664</u>	<u>74,717,122</u>

15.1 As per Article 65 of Income Tax Law, 2009 interest income became exempt from business receipt tax effective from March 21, 2009.

	For year ended December 31, 2009 USD	For year ended December 31, 2008 Unaudited USD
16. INTEREST / PRIZE MONEY EXPENSE		
Interest on customer's deposits	11,595,032	7,704,442
Bakht prize money expense	8,497,138	8,300,882
	<u>20,092,170</u>	<u>16,005,324</u>

	For year ended December 31, 2009	For year ended December 31, 2008 Unaudited
	USD	USD
17. FEE AND COMMISSION INCOME		
Commission income on:		
- remittances	2,533,223	2,127,087
- bank guarantees	318,698	220,954
- salary disbursement	669,539	621,342
	<u>3,521,460</u>	<u>2,969,383</u>
Business Receipt Tax - note 17.1	36,978	158,561
	<u>3,484,482</u>	<u>2,810,822</u>
17.1 As per Article 65 of Income Tax Law, 2009 commission income became exempt from business receipt tax effective from March 21, 2009.		
18. OTHER INCOME		
Gain on sale of property and equipment	-	776,171
Exchange gain / (loss)	6,253,570	(1,732,605)
	<u>6,253,570</u>	<u>(956,434)</u>
Business Receipt Tax	-	26,355
	<u>6,253,570</u>	<u>(982,789)</u>
19. GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries and benefits	17,958,649	12,844,216
Directors' fee	179,685	41,416
Bonus to employees - note 19.1	1,000,000	200,000
Security costs	4,446,409	3,714,021
Depreciation	5,373,460	5,039,012
Rent	3,501,056	3,044,080
Communication expenses	3,883,779	3,118,756
Repairs and maintenance	1,860,199	1,312,746
Vehicle expenses	1,257,090	902,274
Office expenses	1,363,113	1,288,194
Subscription and marketing expenses	1,887,691	1,885,557
Promotional expenses	295,670	662,151
Donation	544,725	627,338
Computers and software maintenance charges	1,826,805	240,542
Printing and stationery	1,215,337	810,157
Audit fee	57,000	50,000
Professional fee	75,000	-
Branch decoration and reconstruction charges	1,749,401	1,734,421
Rates and taxes	1,835,196	78,751
Transportation expenses	560,722	556,006
Food items	3,225,020	2,440,022
Other charges	1,643,261	764,247
	<u>55,739,268</u>	<u>41,353,907</u>

19.1 This represents bonus of USD 500,000 each paid to the CEO and Chairman of the Bank.

20. RELATED PARTY TRANSACTIONS

The Bank has a related party relationship with its shareholders, their related entities and key management personnel including directors (whether executive or otherwise). Outstanding balances and transactions during the period with related parties are as under:

Nature of transactions	Directors and other key management personnel (and close family members)		Associated companies	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	-----USD-----		-----USD-----	
<i>(a) Loans to related parties</i>				
Loans outstanding at beginning of the year	-	-	-	-
Loans issued during the year	468,113	-	11,500,000	-
Interest capitalised	-	-	1,348,298	-
Loans repayment during the year	(465,037)	-	(222,244)	-
Loans outstanding at end of the year	<u>3,076</u>	<u>-</u>	<u>12,626,054</u>	<u>-</u>
Interest income earned	<u>904</u>	<u>-</u>	<u>1,348,298</u>	<u>-</u>

It represents loan given to Pamir Airways during the year which carry interest at the rate of 20% per annum and is repayable in 120 equal monthly installments.

Nature of transactions	Directors and other key management personnel (and close family members)		Associated companies	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	-----USD-----		-----USD-----	
<i>(b) Advances against salaries to related parties</i>				
Advance outstanding at beginning of the year	432,092	261,116	-	-
Advances issued during the year	856,232	301,054	-	-
Advances settled during the year	(925,211)	(130,078)	-	-
Advances outstanding at end of the year	<u>363,113</u>	<u>432,092</u>	<u>-</u>	<u>-</u>
Interest income earned	<u>1,354</u>	<u>632</u>	<u>-</u>	<u>-</u>

Advances against salary carries fixed mark-up fee ranging from 10% to 15% (2008: 10% to 20% per annum payable on expiry of repayment period.

Nature of transactions	Directors and other key management personnel (and close family members)		Associated companies	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	-----USD-----		-----USD-----	
<i>(c) Deposits from related parties</i>				
Deposits at beginning of the year	11,901,603	7,014,583	80,604	194
Deposits received during the year	59,435,562	38,998,117	82,148,734	6,779,700
Deposits repaid during the year	(59,630,621)	(34,111,097)	(76,546,822)	(6,699,290)
Deposits at end of the year	<u>11,706,544</u>	<u>11,901,603</u>	<u>5,682,516</u>	<u>80,604</u>
Interest expense on deposits	<u>393,416</u>	<u>315,946</u>	<u>326,453</u>	<u>-</u>

Deposits from related parties include savings deposits amounting to USD 17,237,146 (2008: USD 11,848,370) which carry interest @ 5% per annum (2008: 5% per annum).

Nature of transactions	For year ended December 31, 2009	For year ended December 31, 2008
	USD	Unaudited USD
<i>(d) Key management compensation</i>		
Salaries and other short-term benefits	<u>2,988,942</u>	<u>1,303,696</u>

Key management personnel of the Bank include members of board of directors and management board.

	December 31, 2009 USD	December 31, 2008 USD
21. CASH AND CASH EQUIVALENTS		
Cash in hand and at ATM	71,948,079	52,104,238
Balances with DAB (un-restricted)	96,124,725	36,004,116
Balances with other banks and financial institution	106,285,366	26,151,204
	<u>274,358,170</u>	<u>114,259,558</u>

22. FINANCIAL RISK MANAGEMENT

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 practices.

Risk management is carried out by a risk management department under policies approved by the Board of Supervisors. Risk management department identifies, evaluates and manages financial risks in close co-operation with the Bank's operating units. The risk management department 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, operational risk, liquidity risk, country 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.

22.1 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; risk management department therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that leads to balances with banks and financial institution, loans and advances to customers, personal advances to employees, remittances receivable and other assets except prepayments and operational advances. There is also credit risk in off-balance sheet financial instruments, such as Bank's guarantees. The credit risk management and control are centralized in risk management team of the Bank and reported to the management team and head of each business unit regularly.

22.1.1 Credit risk measurement

(a) Loans and advances

In measuring credit risk of loans and advances to customers 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 balance sheet date.

- (i) The Bank assesses the probability of default of counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine with statistical analysis with credit officer judgment and are validated, where appropriate. Clients of the Bank are segmented into three rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

Bank's internal ratings scale

Bank's rating	Description of grade
1	Low risk
2	Medium risk
3	High risk

- (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 guarantee, the Bank includes the amount of guarantee less the amount given as cash collateral by the counterparty 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 financial assets

Financial assets other than loans and advances includes balances with banks and financial institution, personal advances to employees, remittances receivable and other receivables except security stationery. Judgments and instructions from the risk management department are being used by the Bank's management in placing the funds 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 other banks and financial institutions which have good international reputation and strong financial standing and therefore, probability of default by such institutions is low.

22.1.2 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 regular basis and subject to an annual or more frequent review, when considered necessary. The exposure to any 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:

- Charges over business assets such as inventory and accounts receivable
- Mortgages over residential / commercials properties

The Bank's principal lending activities comprises corporate as well as individual financing; both are secured by the way of collateral mentioned above. 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 loans and advances.

(b) Credit-related contingencies and 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 and 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.

22.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements:

	Maximum exposure	
	December 31, 2009 USD	December 31, 2008 USD
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with Da Afghanistan Bank (DAB)	164,182,920	60,188,721
Balances with banks and financial institution	107,781,766	27,055,743
Investments	13,286,371	11,192,098
Loans and advances to customers	703,878,787	554,863,691
Advances, remittances receivable and other receivables	6,113,467	2,582,702
Credit risk exposures relating to off-balance sheet items are as follows:		
Undrawn overdraft facilities	92,050,393	52,924,414
Guarantees	28,964,024	21,207,914
	1,116,257,728	730,015,283

The above table represents a worse case scenario of credit risk exposure to the Bank at December 31, 2009 and December 31, 2008, 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 balance sheet.

As shown above, 71% of the total maximum exposure is derived from loans and advances to customers (2008: 85%).

22.1.4 Credit ratings of major counterparties

The long term credit ratings of major counterparties alongwith credit risk exposure with them are as follows:

Counterparty	Long Term Rating	Rating Agency	December 31, 2009	December 31, 2008
-----USD-----				
Commerz Bank	Aa3	Moody's	76,208,564	15,656,420
HSBC Bank	Aa3	Moody's	4,000,000	-
HDFC Bank	AAA	CARE	6,326,571	-
Axis Bank	AAA	CARE	8,248	560,104
Unicredit italiano Spa Milano	A	Standard & Poor	301,898	633,881
KBC Group	AA- / Stable / A-1 +	Standard & Poor	472,756	1,849,960
National Commercial Bank	A+	Standard & Poor	186,433	294,148
Bank of China	A1	Moody's	858,624	776,823
Standard Chartered	A2	Moody's	26,562	1,273,997
Al Rajhil Banking & Investment Corporation	A1	Moody's	361,526	208,887
Export Development Bank	B+	Fitch	3,186,832	290,799

Credit ratings of counterparties with exposure in loans and advances is not disclosed as all the counterparties are local and credit rating is not available for them.

22.1.5 Loans and advances

Loans and advances are summarised as follows:

	December 31, 2009 USD	December 31, 2008 USD
Neither past due nor impaired	641,008,421	482,012,761
Past due but not impaired	45,552,533	53,152,885
Impaired	17,317,833	19,698,045
Gross	<u>703,878,787</u>	<u>554,863,691</u>
Less: allowance for impairment	<u>(16,147,924)</u>	<u>(11,100,000)</u>
Net	<u><u>687,730,863</u></u>	<u><u>543,763,691</u></u>

The total impairment provision for loans and advances is USD 16,147,924 (2008: USD 11,100,000). Further information of the impairment allowance for loans and advances to customers is provided in note 7.2 to these financial statements.

During the year ended December 31, 2009, the Bank's total loans and advances increased by 27% 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.

December 31, 2009

	Loans and advances				Total
	Individuals		Corporate entities		
	Overdraft	Term loans	Overdraft	Term loans	
	-----USD-----				
Regular Loans	165,957,898	95,238,171	262,516,766	117,295,586	641,008,421

December 31, 2008

	Loans and advances				Total
	Individuals		Corporate entities		
	Overdraft	Term loans	Overdraft	Term loans	
	-----USD-----				
Regular Loans	131,521,727	40,435,068	215,068,724	94,987,242	482,012,761

(b) Loans and advances past due but not impaired

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.

December 31, 2009

	Loans and advances				Total
	Individuals		Corporate entities		
	Overdraft	Term loans	Overdraft	Term loans	
	-----USD-----				
Past due up to 30 days	13,820,310	509,061	26,765,406	4,457,756	45,552,533
Fair value of collateral	26,473,013	1,434,506	49,193,312	2,052,000	79,152,831
Amount of over / (under) collateralization	12,652,703	925,445	22,427,906	(2,405,756)	33,600,298

December 31, 2008

	Loans and advances				Total
	Individuals		Corporate entities		
	Overdraft	Term loans	Overdraft	Term loans	
	-----USD-----				
Past due up to 30 days	5,983,285	-	47,169,600	-	53,152,885
Fair value of collateral	7,267,566	-	67,440,361	-	74,707,927
Amount of over / (under) collateralization	1,284,281	-	20,270,761	-	21,555,042

(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 USD 17,317,833 (2008: USD 19,968,045).

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

December 31, 2009

	Loans and advances				Total
	Individuals		Corporate entities		
	Overdraft	Term loans	Overdraft	Term loans	
	-----USD-----				
Sub-standard	-	-	-	11,237,625	11,237,625
Doubtful	-	-	-	6,080,208	6,080,208
Total	-	-	-	17,317,833	17,317,833
Fair value of collateral	-	-	-	8,397,140	8,397,140
Amount of over / (under) collateralization	-	-	-	8,397,140	8,397,140

December 31, 2008

	Loans and advances				Total
	Individuals		Corporate entities		
	Overdraft	Term loans	Overdraft	Term loans	
	-----USD-----				
Watch-List	1,186,813	1,153,535	12,812,156	4,545,541	19,698,045
Total	1,186,813	1,153,535	12,812,156	4,545,541	19,698,045
Fair value of collateral	1,458,250	205,000	21,986,944	14,200,000	37,850,194

(d) Loans and advances restructured

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. 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 overdrafts.

	December 31, 2009		December 31, 2008	
	As at renegotiation date	As at period end	As at renegotiation date	As at period end
	-----USD-----			
Loans and advances				
- Term loans	-	-	-	-
- Overdraft	-	-	162,210,109	120,576,660
Total	-	-	162,210,109	120,576,660

22.1.6 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, 2009. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

	Afghanistan	Germany	Belgium	Iran	China	India	Italy	Saudi Arabia	Bahrain	Lebanon	Kenya	Others	Total
-----USD-----													
On balance sheet													
Balances with Da Afghanistan Bank (DAB)	164,182,920	-	-	-	-	-	-	-	-	-	-	-	164,182,920
Balances with banks and financial institutio	14,970,738	76,208,564	472,757	3,186,832	858,624	4,344,345	301,898	547,958	5,990,474	899,376	-	200	107,781,766
Investments	13,286,371	-	-	-	-	-	-	-	-	-	-	-	13,286,371
Loans and advances to customers	703,878,787	-	-	-	-	-	-	-	-	-	-	-	703,878,787
Advances, remittances receivable and other assets	5,253,554	-	-	-	-	-	-	85,189	-	6,280	-	768,444	6,113,467
	901,572,370	76,208,564	472,757	3,186,832	858,624	4,344,345	301,898	633,147	5,990,474	905,656	-	768,644	995,243,311
Off balance sheet													
Contingencies and commitments	119,569,417	-	-	-	-	-	-	-	-	-	180,000	1,265,000	121,014,417
As at December 31, 2009	1,021,141,787	76,208,564	472,757	3,186,832	858,624	4,344,345	301,898	633,147	5,990,474	905,656	180,000	2,033,644	1,116,257,728
As at December 31, 2008	696,736,384	15,656,420	1,849,960	290,799	776,823	560,104	633,881	530,035	285,724	225,000	-	1,338,141	718,883,271

(b) Industry sector

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

	Banks and financial institutions	Export and import	Trading	Manufacturing	Construction	Automobile	Real estate	Electronics	Agriculture	Service	Transport	Others	Total
-----USD-----													
On balance sheet													
Balances with Da Afghanistan Bank (DAB)	164,182,920	-	-	-	-	-	-	-	-	-	-	-	164,182,920
Balances with banks and financial institutio	107,781,766	-	-	-	-	-	-	-	-	-	-	-	107,781,766
Investments	13,286,371	-	-	-	-	-	-	-	-	-	-	-	13,286,371
Loans and advances to customers	9,754,599	81,031,524	301,332,392	58,886,857	110,865,385	58,814,821	-	62,124,399	-	20,974,547	-	94,263	703,878,787
Advances, remittances receivable and other assets	-	-	-	-	-	-	-	-	-	-	-	6,113,467	6,113,467
	295,005,656	81,031,524	301,332,392	58,886,857	110,865,385	58,814,821	-	62,124,399	-	20,974,547	-	6,207,730	995,243,311
Off balance sheet													
Contingencies and commitments	123,900	12,478,491	42,655,702	6,104,337	39,993,144	5,064,311	-	5,292,133	7,999	9,118,938	175,462	-	121,014,417
As at December 31, 2009	295,129,556	93,510,015	343,988,094	64,991,194	150,858,529	63,879,132	-	67,416,532	7,999	30,093,485	175,462	6,207,730	1,116,257,728
As at December 31, 2008	98,436,562	215,426,822	138,963,008	76,028,531	83,049,727	71,635,344	5,617,204	12,319,999	31,782	14,823,602	-	2,550,690	718,883,271

22.2 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 and currency 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.

22.2.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The risk management department 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, 2009 and December 31, 2008. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

At December 31, 2009, if USD had strengthened / weakened by 10% against the PKR with all other variables held constant, profit after taxation for the year would have been USD 21,040 higher / lower (2008: USD 23,799 lower / higher) mainly as a result of exchange gains / losses on translation of cash in hand and customer's deposits.

At December 31, 2009, if USD had strengthened / weakened by 10% against the EURO with all other variables held constant, profit after taxation for the period would have been USD 1,007,901 higher / lower (2008: USD 620,509 higher / lower) mainly as a result of exchange gains / losses on translation of cash in hand, balances with banks and customer's deposits.

At December 31, 2009, if USD had strengthened / weakened by 10% against the AF with all other variables held constant, profit after taxation for the year would have been USD 7,871,590 higher/ lower (2008: USD 6,139,975 higher / lower) mainly as a result of exchange gains / losses on translation of foreign exchange denominated assets and liabilities.

As at period end, excluding off balance sheet items, the Bank has a long open foreign exchange position in PKR of 0.25% (2008: long position 0.37%), short open foreign exchange position in EURO of 11.74% (2008: short position 9.57%) and a short open foreign exchange position in USD of 7.57 % (2008: short position 5.76%) of the Bank's regulatory capital. The overall net foreign exchange position of the Bank, in absolute terms, is 19.06 % (2008: 14.96%).

	AF	PKR	EURO	USD	Total USD
	-----Converted to USD -----				
As at December 31, 2009					
Assets					
Cash and balances with DAB	186,621,850	324,748	7,481,006	41,703,395	236,130,999
Balances with banks and financial institution	744,973	-	6,784,210	100,252,583	107,781,766
Investments	13,286,371	-	-	-	13,286,371
Loans and advances to customers	169,300,610	-	-	534,578,177	703,878,787
Advances, remittances receivable and other assets	3,100,349	-	-	3,013,118	6,113,467
Total financial assets	373,054,153	324,748	14,265,216	679,547,273	1,067,191,390
Liabilities					
Customers' deposits	264,888,118	61,751	26,863,981	684,952,460	976,766,310
Other liabilities	7,648,279	-	-	2,723,046	10,371,325
Total financial liabilities	272,536,397	61,751	26,863,981	687,675,506	987,137,635
Net on-balance sheet financial position	100,517,756	262,997	(12,598,765)	(8,128,233)	80,053,755
As at December 31, 2008					
Total financial assets	224,661,809	445,164	5,595,289	477,284,931	707,987,193
Total financial liabilities	149,035,236	147,677	13,351,650	468,337,016	630,871,579
Net on-balance sheet financial position	75,626,573	297,487	(7,756,361)	8,947,915	77,115,614

22.2.2 Interest rate risk

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

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, 2009	Interest bearing					Non-interest bearing	Total
	Upto 1 month	1 to 3 months	3 to 12 month	1 to 5 years	Over 5 years		
	-----USD-----						
Assets							
Cash and balances with Da Afghanistan Bank (DAB)	130,460,499	-	-	-	-	105,670,500	236,130,999
Balances with banks and financial institution	75,686,818	-	1,496,400	-	-	30,598,548	107,781,766
Investments	13,286,371	-	-	-	-	-	13,286,371
Loans and advances to customers	26,616,617	51,660,377	463,841,895	150,619,895	11,140,003	-	703,878,787
Advances, remittances receivable and other assets	-	2,426,707	-	-	-	3,686,760	6,113,467
Total financial assets	246,050,305	54,087,084	465,338,295	150,619,895	11,140,003	139,955,808	1,067,191,390
Liabilities							
Customers' deposits	248,973,475	7,106,904	9,898,877	14,193,209	-	696,593,845	976,766,310
Other liabilities	-	-	-	-	-	10,371,325	10,371,325
Total financial liabilities	248,973,475	7,106,904	9,898,877	14,193,209	-	706,965,170	987,137,635
Total interest repricing gap	(2,923,170)	46,980,180	455,439,418	136,426,686	11,140,003	(567,009,362)	80,053,755
As at December 31, 2008							
Total financial assets	103,709,666	29,494,529	357,251,401	136,174,014	166,713	81,190,870	707,987,193
Total financial liabilities	151,996,291	3,058,670	379,865	11,060	-	474,302,573	629,748,459
Total interest repricing gap	(48,286,625)	26,435,859	356,871,536	136,162,954	166,713	(393,111,703)	78,238,734

22.3 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 fulfil commitments to lend.

22.3.1 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.

22.3.2 Funding approach

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

22.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Upto 1 month	1 to 3 months	3 to 12 month	1 to 5 years	Over 5 years	Total
	-----USD-----					
As at December 31, 2009						
Liabilities						
Customers' deposits	936,674,479	12,720,826	12,406,761	14,964,244	-	976,766,310
Other liabilities	8,410,717			1,960,608		10,371,325
Total liabilities (contractual maturity dates)	945,085,196	12,720,826	12,406,761	16,924,852	-	987,137,635
Total assets (expected maturity dates)						
	386,006,113	54,087,084	465,338,295	150,619,895	11,140,003	1,067,191,390
As at December 31, 2008						
Liabilities						
Customers' deposits	608,572,806	4,183,804	8,441,593	303,100	-	621,501,303
Other liabilities	5,485,072	200,000	-	606,637	-	6,291,709
Total liabilities (contractual maturity dates)	614,057,878	4,383,804	8,441,593	909,737	-	627,793,012
Total assets (expected maturity dates)						
	184,900,536	29,494,529	357,251,401	136,174,014	166,713	707,987,193

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 financial institution, investments, loans and advances to customers and advances, remittances receivable and other receivables except prepayments and operational advances.

22.3.4 Off-balance sheet items

(a) 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.

(b) Guarantees and other financial facilities

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

	Not later than 1 year	1 to 5 years	Over 5 years	Total
	-----USD-----			
As at December 31, 2009				
Undrawn loan and overdraft facilities	91,222,186	828,207		92,050,393
Guarantees	28,073,614	890,410	-	28,964,024
Commitment for the acquisition of intangible asset	-	-	-	-
Total	119,295,800	1,718,617	-	121,014,417
As at December 31, 2008				
Undrawn loan and overdraft facilities	52,924,414	-	-	52,924,414
Guarantees	18,714,007	2,493,907	-	21,207,914
Commitment for the acquisition of intangible asset	1,000,000	-	-	1,000,000
Total	72,638,421	2,493,907	-	75,132,328

22.4 Fair value of financial assets and liabilities

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

The total amount of the change in fair value estimated using a valuation technique that was recognised in the income statement during the year ended Dec 31, 2009 is nil (December 31, 2008: nil).

(b) *Financial instruments not measured at fair value*

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

	Carrying value	Fair value	Carrying value	Fair value
	-----USD-----			
<i>Financial assets:</i>				
Cash and balances with Da Afghanistan Bank (DAB)	236,130,999	236,130,999	112,292,959	112,292,959
Balances with banks and financial institutio	107,781,766	107,781,766	27,055,743	27,055,743
Investments	13,286,371	13,286,371	11,192,098	11,192,098
Loans and advances to customers - net	687,730,863	687,730,863	543,763,691	543,763,691
Advances, remittances receivable and other assets	6,113,467	6,113,467	2,582,702	2,582,702
<i>Financial liabilities:</i>				
Customers' deposits	976,766,310	976,766,310	623,456,750	623,456,750
Other liabilities	10,371,325	10,371,325	6,291,709	6,291,709

(i) Due from banks

Due from banks includes balances with DAB and with other banks and financial institution. The fair value of floating rate balances is their carrying amount.

(ii) Investments

Investments are recognised as held to maturity which is measured at amortised cost. The fair value of investments can not be measured with sufficient reliability due to absence of current and active markets, so its carrying amount is its fair value.

(iii) Loans and advances to customers, personal advances, remittances receivable and other receivables except prepayments, operational advances and financial liabilities.

Fair value of loans and advances, security deposits and other receivables except prepayments and operational advances 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.

22.5 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:

	December 31, 2009 USD	December 31, 2008 USD
Regulatory Capital		
Tier 1 (Core) Capital:		
Total equity capital	100,113,146	74,930,970
<i>Minus:</i>		
Intangible assets	2,372,114	1,000,387
Profit for the period	13,711,575	10,240,610
	84,029,457	63,689,973
Tier 2 (Supplementary) Capital:		
General reserves on loan losses of USD 16,444,317 (December 31, 2008: 10,115,098) as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposures	9,544,732	7,139,486
Profit for the period	13,711,575	10,240,610
	23,256,307	17,380,096
Regulatory Capital = Tier 1 + Tier 2	107,285,764	81,070,069
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	71,948,079	52,104,238
Direct claims on DAB	177,469,291	71,380,819
Total	249,417,370	123,485,057
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Balances with other banks	107,781,766	27,055,743
20% risk-weight total (above total x 20%)	21,556,353	5,411,149

	December 31, 2009 USD	December 31, 2008 USD
100% risk weight		
All other assets	733,876,195	557,783,819
<i>Minus:</i>		
Intangible assets	2,372,114	1,000,387
Net deferred tax asset	-	-
All other assets - net	<u>731,504,081</u>	<u>556,783,432</u>
100% risk-weight total (above total x 100%)	<u><u>731,504,081</u></u>	<u><u>556,783,432</u></u>
Credit conversion factor		
0% Credit Conversion Factor		
Undrawn loan and overdraft facilities	92,050,393	52,924,414
0% credit conversion factor (above total x 0%)	<u>-</u>	<u>-</u>
0% risk-weight	-	-
Risk weighted total	<u>-</u>	<u>-</u>
20% Credit Conversion Factor		
Commercial letters of credit	-	-
20% credit conversion factor (above total x 20%)	<u>-</u>	<u>-</u>
20% risk-weight	-	-
Risk weighted total	<u>-</u>	<u>-</u>
100% Credit Conversion Factor		
Guarantees	<u>28,964,024</u>	21,207,914
0% risk-weight	18,445,936	14,212,404
100% risk-weight	10,518,088	6,995,510
Risk weighted total	<u><u>10,518,088</u></u>	<u><u>6,995,510</u></u>
Total risk-weighted assets	<u><u>763,578,522</u></u>	<u><u>569,190,091</u></u>
Tier 1 Capital Ratio (Tier 1 capital as % of total risk-weighted assets)	11.00%	11.19%
Regulatory Capital Ratio (Regulatory capital as % of total risk-weighted assets)	14.05%	14.24%

23. CORRESPONDING FIGURES

Corresponding figures have been rearranged, wherever necessary, for the purpose of comparison.

24. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorised for issue by the Board of Supervisors of the Bank on **FEBRUARY 10, 2010.**

Sherkhan Farnood
Chairman

Khalilullah Fruzi
Chief Executive Officer