Bank Alfalah Limited
Afghanistan

Financial Statements
For the year ended
31 December 2010

KPMG

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

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

Independent Auditors' Report

Country Manager
Bank Alfalah Limited Afghanistan

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

kpmg

Opinion

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

Other Matter

We draw attention to the fact that we have not audited the accompanying statement of financial position of the Bank as at 31December 2009, the statements of comprehensive income, changes in equity and cash flows for the year then ended, or any of the related notes and accordingly, we do not express an opinion on them.

KPMG Afghanistan Limited

KPMG Afghanistan Limited
28 March 2011
Kabul

Bank Alfalah Limited Afghanistan
Statement of financial position
As at 31 December 2010

	Note	2010 Afs '000'	2009 Afs '000' (Un-audited)
Assets			
Cash and cash equivalents	4	**9,105,858**	9,019,893
Loans and advances to customers	5	**1,178,374**	523,982
Investment securities	6	**450,852**	-
Property and equipment	7	**30,007**	33,577
Other assets	8	**918,032**	662,343
Total assets		**11,683,123**	10,239,795
Liabilities			
Deposits from banks	9	**133,448**	11,236
Deposits from customers	10	**10,928,515**	9,705,456
Income tax payable		**9,200**	-
Deferred tax liability	11	**4,713**	3,267
Other liabilities	12	**32,616**	41,296
Total liabilities		**11,108,492**	9,761,255
Equity			
Share capital	13	**299,262**	299,262
Retained earnings		**275,369**	179,278
Total equity		**574,631**	478,540
Total liabilities and equity		**11,683,123**	10,239,795
Contingencies and commitments	24		

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

Country Manager

Country Operations Head

Bank Alfalah Limited Afghanistan
Statement of comprehensive income
For the year ended 31 December 2010

	Note	2010 Afs '000'	2009 Afs '000' (Un-audited)
Interest income	14	**197,221**	180,369
Interest expense	14	**(41,080)**	(35,314)
Net interest income		**156,141**	145,055
Fee and commission income	15	**148,565**	74,841
Fee and commission expense	15	**(2,957)**	(84)
Net fee and commission income		**145,608**	74,757
Business receipt tax		-	(3,045)
Other operating income	16	**667**	3,427
		667	3,427
Operating income		**302,416**	223,239
Allowance for impairment (loss) / Revesal	5	**8,158**	(4,505)
Loans directly written off		**(196)**	-
Personnel expenses	17	**(82,888)**	(93,282)
Depreciation	7	**(12,629)**	(12,927)
Other operating expenses	18	**(91,720)**	(91,857)
Income before income tax		**123,141**	17,623
Income tax	19	**(27,050)**	612
Total comprehensive income for the year		**96,091**	18,235

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

Country Manager

Country Operations Head

Bank Alfalah Limited Afghanistan
Statement of changes in equity
For the year ended 31 December 2010

	Share capital Afs '000'	Retained earnings Afs '000'	Total Afs '000'
Opening balance (Un-audited)	299,262	161,043	460,305
Total comprehensive income for the period:			
Profit for the period (Un-audited)	-	18,235	18,235
Balance as at 31 December 2009 (Un-auditred)	**299,262**	**179,278**	**478,540**
Total comprehensive income for the period:			
Profit for the period	-	**96,091**	**96,091**
Balance as at 31 December 2010	**299,262**	**275,369**	**574,631**

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

Country Manager

Country Operations Head

1. Status and nature of operations

Bank Alfalh Limited Afghanistan ("the Bank") is a branch of Bank Alflah Limited, Pakistan and is registered and operating in Afghanistan as a commercial bank. The Bank obtained a business license from Afghanistan Investment Support Agency bearing No. I-10523 renewed on October 24, 2010 and is a limited liability company. The Bank commenced its operations on September 5, 2005 under the license for commercial banking License No. 21401 issued to it by Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan. Currently, the Bank is operating with two conventional banking branches and an Islamic sub-branch in Kabul and Herat Cities of Afghanistan.

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

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were approved by the Country Management on 28 March 2011.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

3. Significant accounting policies

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

(a) Foreign currency transactions

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

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

(b) Interest

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

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

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

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

(c) Fees and commission

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

Other fees and commission income, including account servicing fees and sales commission, are recognized as the related services are performed.

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

(d) Lease payments

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

(e) Income tax expense

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

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

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

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

(f) Financial assets and financial liabilities

(i) Recognition

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

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

(ii) Classification

See accounting policies 3(h).

(iii) Derecognition

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

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

(iv) Offsetting

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

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

(v) Amortized cost measurement

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

(vi) Fair value measurement

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

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

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

(vii) Identification of measurement of impairment

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

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

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

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

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

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

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

(g) Cash and cash equivalents

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

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

(h) Loans and advances

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

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

(i) Property and equipment

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

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

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

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

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

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

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

	Prior period	Current period
• Lease hold improvements	5 years	5 years
• Furniture and fixtures	4-10 years	4-10 years
• Electrical and Office equipments	5 years	5 years
• Computers	4 years	4 years
• Vehicles	4 years	4 years

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

(j) Impairment of non-financial assets

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

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

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

(k) Deposits

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

(l) Provisions

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

(m) Financial guarantees

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

(n) Employee benefits

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

(o) Share capital

Shares issued are classified as equity.

(p) New standards and interpretations not yet adopted

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

	Note	2010 Afs '000'	2009 Afs '000' (Un-audited)
4. Cash and cash equivalents			
Cash on hand			
Local currency		**35,031**	81,509
Foreign currency		**192,667**	171,715
		227,698	253,224
Balances with Da Afghanistan Bank	*4.1*	**1,105,269**	914,775
Balances with other banks and financial instituitions	*4.2*	**5,661,660**	6,974,991
Placements	*4.3*	**2,111,231**	876,903
		9,105,858	9,019,893

4.1 Balances with Da Afghanistan Bank

		2010	2009
Foreign currency			
Current accounts		**354,872**	317,783
Deposit accounts		**-**	185,313
		354,872	503,096
Local currency			
Current accounts		**750,397**	411,679
		1,105,269	914,775

4.2 Balances with other banks and financial institutions

	Note	2010	2009
Foreign currency			
Current accounts		**1,703,550**	1,075,688
Others	*4.2.1 & 2*	**3,958,110**	5,899,303
		5,661,660	6,974,991

4.2.1 These carried interest rate of 0.25% to 3% per annum (2009: 0.35 to 2.8% per annum).

4.2.2 These balances are held with foreign banks and financial institutions and includes a balance of Afs.9,244 thousand deposited with a related party (2009: Nil).

4.3 Placements

	Note	2010	2009
Capital notes	*4.3.1*	**1,654,731**	876,903
Standard chartered GYM	*4.3.2*	**456,500**	-
		2,111,231	876,903

4.3.1 These were issued by Da Afghanistan Bank and carried interest rate of 2.37% to 5.7% per annum (2009: 5.94% to 7.58% per annum) and have maturity period of Up to 6 months.

4.3.2 This represents a placement of USD 10 million placed for a period of 3 years up to 31 January 2013 and carries variable interest rate with maximum of of 3.40% per annum during 2010

	2010	2009
	Afs '000'	Afs '000'
		(Un-audited)

5. Loans and advances to customers

Loans and advances to customers- at amortised cost	**1,178,374**	523,982

	Note	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
			Afs '000'			Afs '000'	
			2010			2009 *(Un-audited)*	
Conventional financing							
Running finance	*5.1*	**275,396**	-	**275,396**	262,176	(4,832)	257,344
Term Finance	*5.2*	**332,163**	-	**332,163**	58,816	(190)	58,626
Bills discounted and purchased	*5.3*	**381,244**	-	**381,244**	135,457	-	135,457
Funded Letter of credits (FATR)	*5.4*	**183,401**	-	**183,401**	65,472	(3,136)	62,336
Advance against credit cards		**6,170**	-	**6,170**	10,219	-	10,219
	5.5	**1,178,374**	-	**1,178,374**	532,140	(8,158)	523,982

5.1 Running finance carries interest ranging from @ 10% to 13.5% per annum. Such facilities are extended for maximum period of twelve months and are expected to be recovered within 12 months after the balance sheet date. These are secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of residential or commercial property of the borrower.

5.2 Term finance carries interest ranging from @ 10% to 13% per annum. Such facilities are extended for period ranging from one year to 4.5 years. This includes loan amounting to Afs 228,800 thousand (USD 5 million) extended to Karachi Electric Supply Company, Pakistan (KESC) as a part of syndicated loan, in which CitiBank Europe plc is the lead lender, under an agreement dated 5 May 2010. The loan is under Political and Commercial risk insurance from OeKB (Oesterreichische Kontrol bank AG) - ECA Austria, 1st parri passu hypothecation charge and 1st parri passu mortgage charge over present and future assets. It is repayable in 18 equal quarterly instalments with first instalment paid on 5 August, 2010 and final instalment due on 5 November, 2014. It carries interest at 3 month LIBOR + 1.7% per annum payable quarterly in arrears from the date of signing of agreement. Two installments were recovered with respect to this loan till the year end.

5.3 These facilities are being allowed against confirmed invoices/bills of reputed organizations. These facilities carry interest rate ranging from 10% to 13%.

5.4 FATRs are issued for maximum period of 180 days. These carry markup ranging from 10% to 13.5% per annum.

	2010	2009
5.5 Maturity profile of the loans and advances to customers is as under:	**Afs '000'**	Afs '000'
		(Un-audited)
Current portion	**975,727**	490,448
Long tem portion	**202,647**	41,692
	1,178,374	532,140

5.6 Allowances for impairment

Collective allowances for impairment:		
Balance at beginning of year	**8,158**	3,653
Impairment loss for the year:	-	4,505
Charge/(Reversal) for the year	**(8,158)**	-
Balance as at 31 December	-	8,158

6 Investment Securities

This represents held to maturity investment amounting to USD 10.3 million in Pakistan Investment Bond. This carries coupon rate of 7.125% per annum and has maturity period of 5.5 years. The effective yield on this was equal to 8.025% per annum during the year.

7. Property and equipment

	Lease hold improvements	*Furniture and fixtures*	Electrical, office & computer equipment	Vehicles	Total
			Afs'000'		
Cost					
Balance at 01 January 2009 (Un-audited)	18,699	*12,516*	27,317	6,538	65,070
Depreciation for the year (Un-audited)	1,553	*1,712*	2,733	1,398	7,396
Disposals (Un-audited)	-	-	-	(902)	(902)
Balance at 31 December 2009 (Un-audited)	20,252	*14,228*	30,050	7,034	71,564
Balance at 01 January 2010 (Un-audited)	**20,252**	***14,228***	**30,050**	**7,034**	**71,564**
Additions	**76**	***305***	**1,305**	**7,383**	**9,069**
Disposals	-	-	**(156)**	**(825)**	**(981)**
Balance at 31 December 2010	**20,328**	***14,533***	**31,199**	**13,592**	**79,652**
Depreciation					
Balance at 01 January 2009 (Un-audited)	7,517	*3,155*	11,140	4,150	25,962
Depreciation for the year (Un-audited)	3,908	*1,596*	5,981	1,442	12,927
Disposals (Un-audited)	-	-	-	(902)	(902)
Balance at 31 December 2009 (Un-audited)	11,425	*4,751*	17,121	4,690	37,987
Balance at 01 January 2010 (Un-audited)	**11,425**	***4,751***	**17,121**	**4,690**	**37,987**
Depreciation for the year	**4,062**	***1,564***	**5,761**	**1,242**	**12,629**
Disposals	-	-	**(156)**	**(815)**	**(971)**
Balance at 31 December 2010	**15,487**	***6,315***	**22,726**	**5,117**	**49,645**
Carrying amounts					
At 31 December 2009 *(Un-audited)*	8,827	*9,477*	12,929	2,344	33,577
At 31 December 2010	**4,841**	***8,218***	**8,473**	**8,475**	**30,007**

ugmy

			2010 Afs '000'	2009 Afs '000' (Un-audited)
8.	**Other assets**			
	Interest accrued		**35,798**	26,668
	Advances, deposits, advance rent and other prepayments		**6,515**	6,648
	Restricted balance held with Da Afghanistan Bank	*8.1*	**859,044**	622,544
	Suspense account credit card		**10,013**	6,483
	Comission recievable		**6,662**	-
			918,032	662,343

8.1 This represent the required reserve account maintained with Da Afghanistan Bank to meet minimum reserves requirement in accordance with Article 64 "Required reserves of banks" of the Da Afghanistan Bank Law. This carries mark-up rates ranging from 0.1% to 3.75% per annum (2009: 1.35% to 9.75% per annum).

		2010 Afs '000'	2009 Afs '000' (Un-audited)
9.	**Deposits from banks**		
	M/S The First Micro Finance Bank (FMFB)	4,809.00	11,082
	Citibank PLC	128,503.00	
	Afghan United Bank	136.00	154
		133,448	11,236

			2010 Afs '000'	2009 Afs '000' (Un-audited)
10.	**Deposits from customers**			
	Current deposits		**7,557,282**	6,842,646
	Saving deposits	*10.1*	**1,274,150**	1,259,325
	Term deposits	*10.2*	**1,491,918**	976,561
	Margin deposits		**605,165**	626,924
			10,928,515	9,705,456

10.1 Saving deposits carried interest ranging from 0.1% to 3% per annum. (2009: 0.1% to 3.00% per annum)

10.2 Term deposits carries interest ranging from 1% % to 3% (2009; 1% to 8.00% per annum) per annum

10.3 None of deposits from customers are expected to be settled in more than 12 months after the reporting date.

11. Deferred tax liability

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2010		
	Assets	**Liabilities**	**Net**
		Afs '000'	
Property and equipment	-	**4,713**	**4,713**
	-	**4,713**	**4,713**

	2009 *(Un-audited)*		
	Assets	Liabilities	Net
		Afs '000'	
Property and equipment	-	4,899	4,899
Loans and advances	(1,632)	-	(1,632)
	(1,632)	4,899	3,267

18 of 33

		2010 Afs '000'	2009 Afs '000' *(Un-audited)*
12.	**Other liabilities**		
	Bills payable	**305**	336
	Interest payable	**9,548**	27,427
	Unearned commission on letter of credit and letter of guarantee	**9,078**	3,431
	Accrued expenses	**8,385**	3,430
	Payable to head office	**3,566**	2,946
	Auditor's remuneration payable	**448**	327
	Others	**1,286**	3,399
		32,616	41,296
13.	**Share Capital**		
	Authorised capital	**-**	-
	Foreign branch does not require any authorised capital.		
	Paid-up capital		
	Paid-up capital	**299,262**	299,262

The Bank Alfalah Limited, Pakistan (Head Office) had assigned Afs 299,262 thousand (USD 6,000,000) as capital of the Bank. However Da Afghanistan Bank through its Circular Reference No. 703/914 dated 08 August 2010 has required all the commercial banks to increase their capital to Afs 1 billion (USD 20 million) in the next two years with effect from date of the circular. The Bank is in the process of devising a plan to achieve the required capital levels within the given timeframe.

		Note	2010 Afs '000'	2009 Afs '000' (Un-audited)
14.	**Interest income**			
	Interest income			
	Cash and cash equivalents		**63,790**	96,142
	Loans and advances to customers		**86,849**	61,362
	Investment		**46,582**	22,865
	Total interest income		**197,221**	180,369
	Interest expense			
	Deposits from customers	*14.1*	**(41,080)**	(35,314)
	Total interest expense		**(41,080)**	(35,314)
	Net interest income		**156,141**	145,055
14.1	**Interest expense on deposits from customers**			
	Interest on:			
	Term deposits		**(37,364)**	(28,420)
	Saving deposits		**(3,716)**	(6,894)
			(41,080)	(35,314)
15.	**Net fee and commission income**			
	Fee and commission income			
	Commission on letter of credit and guarantees issued		**27,806**	31,187
	Commission on credit cards		**25,607**	10,009
	Income from dealing in foreign currencies		**19,059**	3,586
	Fund transfer fee		**53,793**	18,778
	Accounts servicing fee		**22,300**	11,281
	Total fee and commission income		**148,565**	74,841
	Fee and commission expense			
	Inter bank transaction fee		**(2,957)**	(84)
	Total fee and commission expense		**(2,957)**	(84)
	Net fee and commission income		**145,608**	74,757
16.	**Other operating income**			
	Gain on disposal of property and equipment		**340**	389
	Others		**327**	3,038
			667	3,427
17.	**Personnel expenses**			
	Salaries and wages		**81,536**	91,584
	Other employee benefits		**1,352**	1,698
			82,888	93,282

		Note	2010 Afs '000'	2009 Afs '000' (Un-audited)
18.	**Other operating expenses**			
	Rent, taxes, insurance, electricity, etc.	18.1	**35,727**	26,734
	Legal and professional charges	18.2	**7,084**	732
	Communications		**6,496**	9,660
	Repairs and maintenance		**5,763**	9,535
	Stationery and printing		**1,169**	1,793
	Advertisement and publicity		**7,684**	9,824
	Auditors' remuneration		**1,204**	1,627
	Travelling and conveyance		**3,079**	6,109
	Security charges		**16,433**	18,036
	Entertainment		**2,055**	3,139
	Other expenses		**5,026**	4,668
			91,720	91,857

18.1 This include annual charge amounting to Afs 14,503 thousands (2009: Nil) paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.15% per annum of total deposits as required by Da Afghanistan Bank.

18.2 These include one time ADIC membership fee amouting to Afs 3,887 thousands.

		2010 Afs '000'	2009 Afs '000' (Un-audited)
19.	**Income tax**		
	Current tax expense	**25,604**	(4,494)
	Deferred tax expense	**1,446**	3,882
		27,050	(612)

19.1 Reconciliation of effective tax rate

	Rate Dec-10 (%)	Rate Dec-09 (%)		
Profit/(loss) before income tax			**123,141**	17,623
Income tax using tax rate	20.00	20.00	**24,628**	3,525
Non-deductible expenses			**2,422**	-
Effect of tax of first quarter calucated on actual basis			-	(4,137)
Total income tax expense in income statement	20.00	20.00	**27,050**	(612)

KPMG

20. Related parties

20.1 Parent and ultimate controlling party

The Bank is a fully owned branch of Bank Alflah Limited, Pakistan as at 31 December 2010.

20.2 Transactions with key management personnel

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

Key management personnel compensation

	2010	2009
	Afs in'000	Afs in '000 *(Un-audited)*
Short term employee benefits	10,246	4,469

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

20.3 Transactions with other related parties

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

	2010	**2009**
	Afs '000'	**Afs '000'** *(Un-audited)*
Transactions during the year		
Placement with related party	32,244	-
Income earned on placements with related party	**3,636**	-
Closing balances		
Placement with related party	**9,244**	-

21. Lease commitments

Non-cancellable operating lease rentals are payable as follows:

Less than one year		
Between one to five years	-	-
More than five years	-	-
	-	-

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

Wmy

22. Financial assets and liabilities

Accounting classifications and fair values

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

in Afs '000'	*Note*	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
2010									
Cash and cash equivalents	*4*	-	-	-	-	-	9,105,858	**9,105,858**	**9,105,858**
Loans and advances to customers	*5*	-	-	-	1,178,374	-	-	**1,178,374**	**1,178,374**
Others assets	*9*	-	-	-	-	-	918,032	**918,032**	**918,032**
		-	-	-	1,178,374	-	10,023,890	**11,202,264**	**11,202,264**
Deposits from banks	*10*	-	-	-	-	-	133,448	**133,448**	**133,448**
Deposits from customers	*11*	-	-	-	-	-	10,928,515	**10,928,515**	**10,928,515**
Other liabilities	*12*	-	-	-	-	-	23,538	**23,538**	**23,538**
		-	-	-	-	-	11,085,501	**11,085,501**	**11,085,501**
2009									
Cash and cash equivalents	*4*	-	-	-	-	-	9,019,893	9,019,893	9,019,893
Loans and advances to customers	*5*	-	-	-	523,982	-	-	523,982	523,982
Others assets	*9*	-	-	-	-	-	662,343	662,343	662,343
		-	-	-	523,982	-	9,682,236	10,206,218	10,206,218
Deposits from banks	*10*	-	-	-	-	-	11,236	11,236	11,236
Deposits from customers	*11*	-	-	-	-	-	9,705,456	9,705,456	9,705,456
Other liabilities	*12*	-	-	-	-	-	37,865	37,865	37,865
		-	-	-	-	-	9,754,557	9,754,557	9,754,557

The carrying values approximate fair values as mostly the assets and liabilities have short maturities and are expected to be recovered/settled at their carrying values.

23. Financial risk management

23.1 Introduction and overview

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

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

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

Risk management framework

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

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

23.2 Credit risk

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

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

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board of Directors. The credit evaluation system comprises of well designed credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio. The function is also supported by Credit Administration and Credit Monitoring Departments at difference levels to ensure segregation of duties and efficient management of credit risk.

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

Exposure to credit risk

in Afs'000'	*Note*	Assets at amortised cost	Available-for-sale assets	Assets at fair value through profit or loss	Total carrying amount
2010					
Loans and advances to customers	*5*	**1,178,374**	-	-	**1,178,374**
Collectively impaired					
Gross amount		1,178,374	-	-	**1,178,374**
Allowance for impairment		-	-	-	-
Carrying amount		1,178,374	-	-	**1,178,374**
Past due but not impaired:		-	-	-	-
Gross amount		-	-	-	-
Neither past due but nor impaired:					
Gross amount		-	-	-	-
Carrying amount-amortised cost:		**1,178,374**	-	-	**1,178,374**
2009 *(Un-audited)*					
Loans and advances to customers	*5*	523,982	-	-	523,982
Collectively impaired					
Gross amount		532,140	-	-	532,140
Allowance for impairment		(8,158)	-	-	(8,158)
Carrying amount		523,982	-	-	523,982
Past due but not impaired:		-	-	-	-
Gross amount		-	-	-	-
Neither past due but nor impaired:					
Gross amount		-	-	-	-
Carrying amount-amortised cost:		523,982	-	-	523,982

As at balance sheet date, loan portfolio of the Bank was not impaired.

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

[illegible handwritten initials]

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

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

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

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

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

	2010	2009
	Afs '000'	Afs '000'
Against neither past due nor impaired		*(Un-audited)*
Property	**1,526,406**	1,279,406
Debt securities	**214,804.88**	-
Equities	-	-
Others	**511,107**	351,631
Total	**2,252,317**	**1,631,037**

Concentration of credit risks by sector
All the loans except as mentioned in note 5.2 have been disbursed in geographical territory of Afghanistan. The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of loans and advances to customers at reporting date is as follows:

lifong

in Afs '000'	*Note*	2010	2009
Carrying amount	*5*	1,178,374	523,982
			(Un-audited)
Concentration by sector			
Chemical and Pharmaceuticals		**17,895**	10,789
Oil and Gas		-	121,524
Automobile and transportation equipment		**11,317**	7,570
Educational Institutes		-	8,268
Construction		**206,247**	92,168
Food & Allied Products		-	4,870
Iron / Steel		-	98,965
Wholesale and Retail Trade		**181,163**	46,523
Exports/Imports		**85,508**	87,338
Financial		**204,106**	41,666
Others		**472,137**	4,300
		1,178,374	523,982

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 8,878,160 thousands (2009: Afs 8,766,669 thousands) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with central bank and other banks.

Settlement risk

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

23.3 Liquidity risk

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

Management of liquidity risk

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

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

Exposure to liquidity risk

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

	2010	**2009**
At 31 December	**107.34%**	94.71%
Average for the period	**100.72%**	93.92%
Maximum for the period	**107.34%**	94.71%
Minimum for the period	**91.76%**	91.82%

Maturity analysis for financial liabilities

in Afs '000'	*Note*	**Carrying amount**	**Gross nominal inflow/ (outflow)**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
2010								
Deposits from banks	*9*	**133,448**	(133,448)	(133,448)				
Deposits from customers	*10*	**10,928,515**	(10,928,515)	(9,436,597)		(1,491,918)		
Deferred tax liability	*11*	**4,713**	(4,713)	-	-	-	(4,713)	-
Other liabilities	*12*	**32,616**	(32,616)	-	(32,616)	-	-	-
		11,099,292	**(11,099,292)**	**(9,570,045)**	**(32,616)**	**(1,491,918)**	**(4,713)**	-
2009 *(Un-audited)*								
Deposits from banks	*9*	**11,236**	(11,236)	(11,236)			-	-
Deposits from customers	*10*	**9,705,456**	(9,705,456)	(8,728,895)	(6,805)	(969,756)	-	-
Deferred tax liability	*11*	**3,267**	(3,267)	-	-	-	(3,267)	-
Other liabilities	*12*	**41,296**	(41,296)	-	(41,296)	-	-	-
		9,761,255	**(9,761,255)**	**(8,740,131)**	**(48,101)**	**(969,756)**	**(3,267)**	-

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

23.4 Market risks

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

Management of market risks

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

Exposure to interest rate risk

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

Bank Alfalah Limited Afghanistan
Statement of comprehensive income
For the year ended 31 December 2010

in AFS '000'	*Note*	Carrying amount	Less than three months	3-6 months	6-12 months	1-5 years	More than 5 years
2010							
Cash and cash equivalents	*4*	**6,237,877**	4,690,421	**1,401,113**	**146,343**	-	-
Loans and advances to customers	*5*	**1,178,374**	10,735	**381,244**	**583,747**	202,647	-
Investment securities	*6*	**450,852**	-	-	-	-	450,852
Other assets	*8*	**859,044**	859,044	-	-	-	-
		8,726,147	5,560,200	**1,782,357**	**730,090**	202,647	450,852
Deposits from banks	*9*	-	-	-	-	-	-
Deposits from customers	*10*	**2,766,068**	1,274,150	**1,400,161**	91,757		
		2,766,068	1,274,150	**1,400,161**	91,757	-	-
		5,960,080	4,286,050	**382,196**	**638,334**	202,647	450,852
2009 *(Un-audited)*							
Cash and cash equivalents	*4*	4,903,976	4,903,976	-	-	-	-
Loans and advances to customers	*5*	532,140	138,973	12,112	339,363	41,692	-
Other assets	*8.*	26,668	26,668				
		5,462,784	5,069,617	12,112	339,363	41,692	-
Deposits from banks	*9*	-				-	-
Deposits from customers	*10*	2,235,886	1,266,130	883,697	86,059	-	-
		2,235,886	-	-	-	-	-
		3,226,897	5,069,617	12,112	339,363	41,692	-

Exposure to currency risk

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

Bank Alfalah Limited Afghanistan
Statement of comprehensive income
For the year ended 31 December 2010

in Afs '000'	Afs	US$	Euro	GBP
2010				
Cash and cash equivalents	2,440,159	6,170,773	467,177	27,749
Loans and advances to customers	3,072	1,175,302	-	-
Investment securities	-	450,852	-	-
Other assets	854,683	63,176	173	-
	3,297,914	7,860,103	467,350	27,749
Deposits from banks	132,085	1,305	58	
Deposits from customers	2,984,806	7,449,378	466,698	27,632
Other liabilities	24,318	17,498	-	-
	3,141,209	7,468,181	466,756	27,632
Net foreign currency exposure	156,705	391,922	594	117
2009 *(Un-audited)*				
Cash and cash equivalents	2,284,866	6,747,134	-	73,858
Loans and advances to customers	34,920	497,220	-	-
Other assets	500,941	26,668	-	-
	2,820,727	7,271,022	-	73,858
Deposits from banks	-	11,696	-	-
Deposits from customers	1,809,847	7,895,149	-	-
Other liabilities	36,209	5,087	-	-
	1,846,056	7,911,932	-	-
Net foreign currency exposure	974,671	(640,910)	-	73,858

The following significant exchange rates applied during the period.

	31-Dec-10		31-Dec-09	
in Afs '000'	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
US$	46.16	45.65	50.13	48.61
Euro	60.98	60.27	69.75	69.660
GBP	71.2	70.53	77.83	77.490

The Average rates represent average on 12 months Mid rate at each month end.

Sensitivity analysis

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

	31-Dec-10		31-Dec-09 (Un-audited)	
in Afs '000'	Equity	Profit or loss	Equity	Profit or loss
US$	(39,192)	(39,192)	64,091	64,091
Euro	(59)	(59)	-	-
GBP	(12)	(12)	(7,386)	(7,386)

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

23.5 Capital management

Regulatory capital

The Banks' regulator Da Afghanistan Bank sets and monitors capital requirements for the Bank. The Bank is required to maintain at all times the paid up capital plus reserves in excess of Afs 250 million and regulatory capital to be 12% of the risk weighted assets. The capital adequacy of the Bank is assessed in two tiers as per regulations of the Da Afghanistan Bank. As referred in Note 13 to these financial statements the Bank is required to increase the capital to Afs 1 billion in two years. The Bank is in the process of devising a plan to achieve the required capital level within two years.

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

- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute

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

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

	2010	2009
	Afs '000'	Afs '000'
		(Un-audited)
Tier 1 capital	**478,540**	460,305
Tier 2 capital	**96,091**	18,235
Total regulatory capital	**574,631**	478,540

24 Contingencies and commitments

Contingencies

Letter of credit and letter of guarantees	**4,577,368**	2,257,911

Country Manager

Country Operations Head