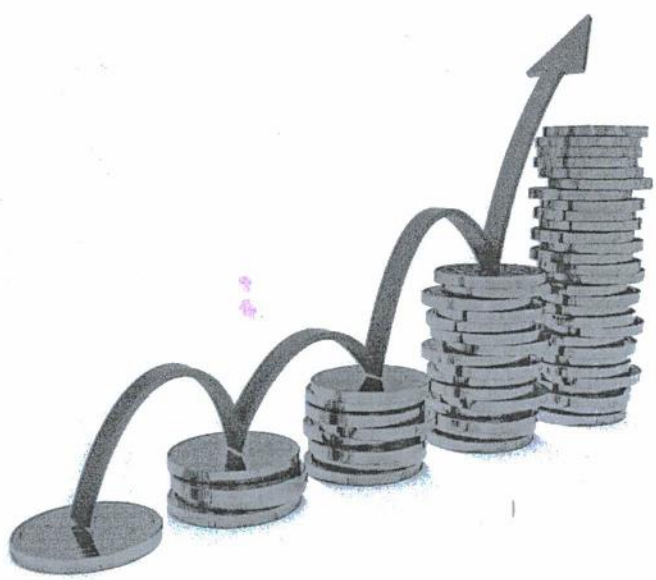
FINANCIAL STATEMENTS AND AUDITORS' REPORT

AFGHAN UNITED BANK

FOR THE YEAR ENDED DECEMBER 31, 2011

Grant Thornton
An instinct for growth

Anjum Asim Shahid Rahman
Chartered Accountants



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AFGHAN UNITED BANK

We have audited the accompanying financial statements of Afghan United Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2011, and the statements 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 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 Law of Banking in Afghanistan, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 about 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Law of Banking in Afghanistan.

Other Matter Paragraph

The financial statements of Afghan United Bank for the year ended December 31, 2010 were audited by another auditor who expressed an unmodified opinion on those statements on May 12, 2011.

Anjum Asim Shahid Rahman.

Kabul
Date: April 08.2012

Anjum Asim Shahid Rahman
Chartered Accountants

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ANJUM ASIM SHAHID RAHMAN
Chartered Accountants

AFGHAN UNITED BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011

	Note	2011 Afs '000'	2010 Afs '000'
ASSETS			
Cash and cash equivalents	5	**4,190,731**	6,740,456
Loans and advances to customers	6	**3,070,951**	4,122,509
Property and equipment	7	**555,040**	571,211
Intangible assets	8	**104,178**	160,131
Deferred tax asset	9	**3,760**	-
Other assets	10	**804,714**	1,037,958
Total assets		**8,729,374**	12,632,265
EQUITY			
Share capital	11	**875,758**	875,758
Accumulated (loss)/profit		**(124,790)**	56,073
Total equity		**750,968**	931,831
LIABILITIES			
Deposits from banks	12	**500,000**	300,000
Deposits from customers	13	**7,437,484**	11,280,099
Deferred tax liability	9	**-**	16,219
Other liabilities	14	**40,922**	104,116
Total liabilities		**7,978,406**	11,700,434
Total equity and liabilities		**8,729,374**	12,632,265

The annexed notes 1 to 26 form an integral part of these financial statements.

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CHAIRMAN

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

AFGHAN UNITED BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011 Afs '000'	2010 Afs '000'
Interest income	15	**564,617**	713,718
Interest expense	15	**(141,058)**	(190,805)
Net interest income		**423,559**	522,913
Fee and commission income	16	**47,571**	42,159
Fee and commission expense	16	**(12,894)**	(17,784)
Net fee and commission income		**34,677**	24,375
Other operating (loss) / income	17	**(3,504)**	647
Operating income		**454,732**	547,935
Net impairment loss on financial assets	6	**(63,419)**	(74,781)
Depreciation	7	**(71,791)**	(55,180)
Amortization	8	**(59,058)**	(14,159)
Employee benefit expense	18	**(202,957)**	(187,639)
Operating lease expenses		**(43,252)**	(26,069)
Other expenses	19	**(235,891)**	(177,227)
(Loss) / profit before income tax		**(221,636)**	12,880
Income tax	20	**40,773**	(3,629)
(Loss) / profit for the year		**(180,863)**	9,251
Other comprehensive income		**-**	-
Total comprehensive (loss) / income		**(180,863)**	9,251

The annexed notes 1 to 26 form an integral part of these financial statements.

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CHAIRMAN

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

AFGHAN UNITED BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011

	Share capital	Accumulated (loss) / profit	Total
	Afs '000'	Afs '000'	Afs '000'
Balance at January 01, 2010	778,938	46,822	825,760
Total comprehensive income for the year			
Profit for the year	-	9,251	9,251
Transactions with owners			
Issuance of shares	96,820	-	96,820
Balance as at December 31 2010	875,758	56,073	931,831
Balance at January 01, 2011	**875,758**	**56,073**	**931,831**
Total comprehensive income for the year			
Loss for the year	-	**(180,863)**	**(180,863)**
Balance as at December 31 2011	**875,758**	**(124,790)**	**750,968**

The annexed notes 1 to 26 form an integral part of these financial statements.

CHAIRMAN | CHIEF EXECUTIVE OFFICER | CHIEF FINANCIAL OFFICER

AFGHAN UNITED BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Note	2011 Afs '000'	2010 Afs '000'
Cash flows from operating activities			
(Loss) / profit before tax		**(221,636)**	12,880
Adjustments for non - cash items:			
Net impairment allowance on financial assets	6	**63,419**	74,781
Depreciation	7	**71,791**	55,180
Amortization	8	**59,058**	14,159
Loss on disposal of fixed assets		**4,888**	114
		(22,480)	157,114
Increase / decrease in operating assets and liabilities			
Loans and advances to customers-net	7	**988,139**	(1,365,712)
Other assets	10	**233,244**	(539,622)
Deposits from banks	12	**200,000**	(687,773)
Deposits from customers	13	**(3,842,615)**	6,735,307
Other liabilities	14	**(46,176)**	92,954
		(2,489,888)	4,392,268
Tax withheld - net		**3,776**	3,598
Net cash (used in) / generating from operating activities		**(2,486,112)**	4,395,866
Cash flows from investing activities			
Purchase of property and equipment	7	**(102,783)**	(325,550)
Purchase of intangible assets		**(3,105)**	(174,290)
Proceed from disposal of property and equipment		**42,275**	584
Net cash used in investing activities		**(63,613)**	(499,256)
Cash flows from financing activities			
Proceeds from issue of shares		**-**	96,820
Net cash from financing activities		**-**	96,820
Net (decrese) / increase in cash and cash equivalents		**(2,549,725)**	3,993,430
Cash and cash equivalents at beginning of the year		**6,740,456**	2,747,026
Cash and cash equivalent at end of the year	5	**4,190,731**	6,740,456

The annexed notes 1 to 26 form an integral part of these financial statements.

CHAIRMAN

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

1 STATUS AND NATURE OF OPERATIONS

Afghan United Bank ("the Bank") is a commercial bank registered and operating in Afghanistan. The Bank obtained business license from Afghanistan Investment Support Agency bearing license no. D-27284. The Bank commenced its operations on 04 October 2007 under the license for commercial banking issued to it by Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan. Currently, the Bank is being operated with seventeen branches including two branches of Islamic banking (2010: fifteen branches including two branches of Islamic banking) in different provinces of Afghanistan.

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

2 STATEMENT OF COMPLIANCE

2.1 The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Law of Banking in Afghanistan. In case requirements differ, the provisions of the Law of Banking in Afghanistan shall prevail.

2.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

The following amendments to standards are mandatory for the first time for the financial year beginning January 01, 2011 which may affect these financial statements:

(a) Amendment to IAS 24 'Related Party Transactions' (effective for annual periods beginning on or after January 01, 2011). This amendment clarifies the definition of related parties and to provide exemption from the disclosure of certain transactions with government entities. This amendment does not have material impact on these financial statements.

(b) IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' (effective for annual periods beginning on or after July 1, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Bank's financial statements.

(c) IAS 1, Presentation of Financial Statements (effective January 1, 2011). The amendments clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any significant impact on the Bank's financial statements, other than certain additional disclosures.

(d) IFRS 7, Financial Instrument (effective 1 January 2011). The amendment emphasizes the interaction between qualitative and quantitative disclosure about the nature and risks associated with financial instruments. The amendment does not have any significant impact on the financial statements of the Bank, other than certain additional disclosures.

During the year, other standards, amendments to standards and interpretations also became applicable. However, these are either not relevant or do not affect financial statements of the Bank.

2.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board (IASB) but are not yet effective, and have not been adopted early by the Bank. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below:

(a) Amendment to IAS 12 'Deferred Tax' recovery of underlying assets (effective date 1 January 2012). This amendment provides a practical approach for measuring deferred tax liabilities and deferred tax assets when it would be difficult and subjective to determine the expected manner of recovery. This amendment is not expected to have any material impact on the financial statements of the Bank.

(b) Amendments to IAS 1 'Presentation of Financial Statements' require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Bank's management expects this will change the current presentation of items in comprehensive income; however, it will not affect the measurement or recognition of such items.

(c) Amendment to IFRS 7 'Financial Instruments Disclosure' (effective date 1 January 2012). This amendment introduces additional disclosures when an asset is transferred but is not derecognized. It also requires disclosures of assets that are derecognized but where the entity continues to have a continuing exposure to the asset after the sale. The Bank is yet to assess the full impact of the amendments and intends to adopt IFRS 7 no later than the accounting period beginning on or after 1 January 2012.

(d) IFRS 9 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The management of the Bank is yet to assess IFRS 9 full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.

(e) IFRS 13 'Fair Value Measurement' does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Bank's management have yet to assess the impact of this new standard.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2012 but are considered not to be relevant or to have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

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3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

These financial statements have been prepared on the historical cost basis except as otherwise disclosed in accounting policies.

3.2 Functional and presentation currency

These financial statements are presented in Afghani (AFS), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in AFS has been rounded to the nearest thousand.

3.3 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience, industry trends, legal and technical pronouncements and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised. Significant areas requiring the use of management estimates in these financial statements relate to the useful life of depreciable assets, estimates of recoverable amounts of depreciable and financial assets, provisions for doubtful loans and receivables. However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless or otherwise stated.

4.1 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 income statement.

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

4.2 Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that 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. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

As per regulation issued by DAB title: "Asset Classifications, Monitoring of Problem Assets, Reserve for Losses, and Non-accrual Status", accrued interest is reversed on the loans and advances that are classified as non-accrual status. Interest from such loans and advances is recognized on receipt basis.

Profit under Bai Murabaha financing is recognized on monthly basis, while it is recoverable at maturity.

4.3 Fee and commission

Fees and commission income includes account servicing fees and sales commissions and are recognized as the related services are performed.

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

4.4 Lease payments

Payments under operating leases are recognized in statement of comprehensive income on 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.

4.5 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in statement of comprehensive income 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 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, if any, is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

4.6 Financial assets and financial liabilities

4.6.1 Recognition and initial measurement

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument. Regular way purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the assets.

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Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

4.6.2 Derecognition

The Bank derecognizes 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 recognized as a separate asset or liability in the balance sheet.

On derecognition 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 derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

4.6.3 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 amounts and intends either to settle on a net basis or to realize 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.

4.6.4 Fair value measurement

Fair value is the amount for which an assert 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 the financial instrument is not active, the Bank establishes fair value using a valuation technique.

4.6.5 Amortized cost measurement

The amortised 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

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4.6.6 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

(a) loans and receivables
(b) financial assets at fair value through profit or loss (FVTPL)
(c) held-to-maturity (HTM) investments
(d) available-for-sale (AFS) financial assets

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Currently, the Bank has financial assets only in the form of loans and receivables. Therefore, policies related to other categories of financial assets would not be relevant.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, loans and advances to customers and other assets fall into this category of financial instruments.

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 asset 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.

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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 recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized 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.

4.7 Cash and cash equivalents

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

4.8 Loans and advances

These are stated net of provisions. Provision is determined on the basis of the regulations and other directives issued by the DAB and charged to statement of comprehensive income. Loans and advances are written off when there is no realistic prospect of recovery or when the regulation requires.

4.9 Murabaha financing

In Murabaha transactions, the Bank purchases the goods and after taking the possession, sells them to the customers on cost plus profit basis either in a spot or credit transactions.

4.10 Deposits

Deposits are the bank's sources 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.

4.11 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and 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 labor, 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.

The gains 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 statement of comprehensive income.

Subsequent costs

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

Depreciation

Depreciation is recognized in statement of comprehensive income 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 period are as follows:

Office building	20 years
Furniture and fixtures	5 years
Office equipment	4 years
Vehicles	4 years
Computer equipments	3 years

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

Capital work-in-progress is stated at cost and represents expenditure incurred on property, plant and equipment in the course of construction or assets in the course of acquisition. These expenditure are transferred to relevant category of property, plant and equipment as and when the assets start operation.

4.12 Intangible assets

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

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

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

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

4.13 Leased assets

Leases in terms of which the Bank assumes substantially all the risk and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and, the leased assets are not recognized in the Bank's balance sheet.

4.14 Impairment of non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in statement of comprehensive income. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

4.15 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.

4.16 Employee compensation

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

4.17 Share capital

Share issued are classified as equity.

4.18 Borrowing cost

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalized as part of the cost of that asset.

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		Note	2011 Afs '000'	2010 Afs '000'
5	**CASH AND CASH EQUIVALENTS**			
	Cash in hand		**1,682,066**	2,471,036
	Balances with Da Afghanistan Bank (DAB)	5.1	**507,886**	734,606
	Balances with other banks	5.2	**990,942**	1,475,614
	Placements	5.3	**1,009,837**	2,059,200
			4,190,731	6,740,456

5.1 This includes current account balances maintained with DAB.

5.2 Balances with other banks

	2011	2010
Bank Alfalah Limited	**150**	140
National Bank of Pakistan	**3,456**	47,661
Commerz Bank, Germany	**699,161**	1,427,817
Habib American Bank, USA	**-**	(1,279)
Standard Chartered Bank	**1,036**	1,275
Crown Agent Bank	**284,920**	-
Western Union International Bank GmbH	**2,219**	-
	990,942	1,475,614

5.3 Placements

	Note	2011	2010
Commerz Bank	5.3.1	**167,753**	1,830,400
Da Afghanistan Bank (DAB)	5.3.2	**299,674**	-
National Bank of Pakistan (NBP)	5.3.3	**394,480**	-
Bahrain Middle East Bank	5.3.4	**147,930**	-
Ghanzanfar Bank	5.3.5	**-**	228,800
		1,009,837	2,059,200

5.3.1 This is short term placement which carry interest at the rate of 0.19 % per annum and will mature on February 06, 2012 (2010: 0.19%).

5.3.2 The placements with DAB comprise of capital notes worth AFS 199.674 million carrying interest at the rate of 2.10%, maturing on January 24, 2012. The other component of placement is overnight deposit of AFS 100 million carrying interest at the rate of 2.10% and will mature on January 03, 2012.

5.3.3 This includes two short term placements of US $ 3 million and US $ 5 million, carrying interest at the rate of 1.16 % and 1.40 % and maturity date of January 06, 2012 and February 12, 2012, respectively.

5.3.4 This includes short term placement with Bahrain Middle East Bank worth US $ 3 million (equivalent AFS 147.93 million) carrying interest at the rate of 3.750 % and will mature on March 27, 2012.

5.3.5 This represents term deposit carrying interest at the rate of 1.70% and matured on January 18, 2011.

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	2011 Afs '000'	2010 Afs '000'
6 LOANS AND ADVANCES TO CUSTOMERS		
Loans and advances to customers- at amortized cost	**3,070,951**	4,122,509

	Note	2011 Afs '000'			2010 Afs '000'		
		Gross amount	**Impairment allowance**	**Carrying amount**	Gross amount	Impairment allowance	Carrying amount
Conventional financing							
Running finance	6.1	**2,484,208**	**(94,375)**	**2,389,833**	3,386,914	(90,449)	3,296,465
Term finance	6.2	**90,710**	**(2,309)**	**88,401**	213,925	(632)	213,293
Bills discounted	6.3	**264,089**	-	**264,089**	108,736	-	108,736
Short term loans to employees	6.4	-	-	-	681	-	681
		2,839,007	**(96,684)**	**2,742,323**	3,710,256	(91,081)	3,619,175
Islamic financing							
Murabaha	6.5	**338,795**	**(10,167)**	**328,628**	506,725	(3,391)	503,334
		3,177,802	**(106,851)**	**3,070,951**	4,216,981	(94,472)	4,122,509

6.1 Running finance carry interest ranging between 14 % to 20% per annum (2010: 12 % to 25% per annum). All facilities are extended for maximum period of 12 months and are expected to be recovered within 12 months of the reporting date. These are secured against personal guarantees, mortgage of immoveable properties and hypothecation over stock in trade.

6.2 Term finance carry interest ranging between 15 % to 18 per annum (2010: 13 % to 21.5% per annum). These loans have been extended for periods ranging from one year to four years and are secured against personal guarantees, mortgage of immoveable commercial & residential properties and assignment of receivables.

6.3 This represents bridge financing extended to the approved contractors of the US Army against approved invoices. The facility carries interest @ 15% per annum (2010: 15% per annum) and represents discounting of the invoice value, for a period of one month. This facility is secured against post dated cheques.

6.4 Short term loans to employees carries interest @ 8% per annum and secured against personal guarantees of two other employees.

6.5 The Murabaha financing represent sale and purchase agreement under which the Bank had paid finance for the purchase of goods and then sold the requisite goods to the customer on profit margin which is ranging from 12% to 21% per annum (2010: 12% to 21% per annum). These facilities are extended for the period of 4 months to 2 years (2010: 4 months to 2 years) and secured against personal guarantees, mortgage of immovable properties and goods supplied under the sale and purchase agreement.

6.6 As of December 31, 2011, AFS 401,330 (2010: AFS 99,801) of loans and advances are expected to be recovered after more than twelve months of reporting date.

	2011 Afs '000'	2010 Afs '000'
Allowances for impairment		
Collective allowances for impairment:		
Balance at beginning of the year	**94,472**	19,691
Impairment loss for the year:		
Provision written off-net	**(51,040)**	-
Provision for the year	**63,419**	74,781
Balance as at the end of the year	**106,851**	94,472

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7 PROPERTY AND EQUIPMENT

	Land	Office Buildings	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Capital work in progress	Total
	Afs '000'							
Gross carrying amount								
Balance at January 01, 2010	10,196	224,686	29,092	18,459	38,261	17,825	-	338,519
Additions during the year	118,415	115,739	20,118	47,701	4,128	9,722	9,727	325,550
Disposals during the year	-	-	-	-	(1,036)	-	-	(1,036)
Balance at December 31, 2010	128,611	340,425	49,210	66,160	41,353	27,547	9,727	663,033
Balance at January 01, 2011	**128,611**	**340,425**	**49,210**	**66,160**	**41,353**	**27,547**	**9,727**	**663,033**
Adjustments (Note 7.4)	**-**	**-**	**30**	**-**	**159**	**(190)**	**-**	**-**
Additions during the year	**-**	**21,257**	**6,640**	**12,637**	**54,659**	**7,590**	**-**	**102,783**
Disposals during the year	**(35,746)**	**-**	**(148)**	**(37)**	**(3,197)**	**-**	**(9,727)**	**(48,855)**
Balance at December 31, 2011	**92,865**	**361,682**	**55,732**	**78,760**	**92,974**	**34,947**	**-**	**716,961**
Accumulated Depreciation								
Balance at January 01, 2010	-	10,512	5,316	7,936	8,123	5,093	-	36,980
Depreciation on disposal	-	-	-	-	(338)	-	-	(338)
Depreciation for the year	-	22,522	7,447	9,605	10,117	5,489	-	55,180
Balance at December 31, 2010	-	33,034	12,763	17,541	17,902	10,582	-	91,822
Balance at January 01, 2011	**-**	**33,034**	**12,763**	**17,541**	**17,902**	**10,582**	**-**	**91,822**
Adjustments (Note 7.4)	**-**	**(5,115)**	**2,192**	**1,409**	**1,435**	**79**	**-**	**-**
Depreciation on disposal	**-**	**-**	**(37)**	**(15)**	**(1,640)**	**-**	**-**	**(1,692)**
Depreciation for the year	**-**	**17,631**	**10,321**	**20,859**	**15,443**	**7,537**	**-**	**71,791**
Balance at December 31, 2011	**-**	**45,550**	**25,238**	**39,793**	**33,140**	**18,198**	**-**	**161,921**
Carrying amounts								
At December 31, 2010	128,611	307,391	36,447	48,619	23,451	16,965	9,727	571,211
At December 31, 2011	**92,865**	**316,132**	**30,494**	**38,966**	**59,834**	**16,749**	**-**	**555,040**
Depreciation rates	**Nil**	**5%**	**20%**	**33%**	**25%**	**25%**	**Nil**	

7.1 There were no capitalized borrowing costs related to the acquisition of property and equipment during the year (2010: nil).

7.2 The land and building purchased by the Bank is held for the purpose of the utilization of the same for the Bank's operations.

7.3 The title of the properties has not yet been transferred in the name of the Bank and the process for transfer has been initiated which is in progress.

7.4 These are adjustments due to assets and related accumulated depreciation which were previously classified to category of assets not consistent with the nature of those assets. These adjustments have no impact on overall carrying amount of property and equipment.

		2011	2010
8	**INTANGIBLE ASSETS**	**Afs '000'**	Afs '000'
	Purchased software - cost		
	Opening balance	**174,290**	-
	Acquisitions during the year	**3,105**	174,290
	Closing balance	**177,395**	174,290
	Amortization		
	Opening balance	**14,159**	-
	Amortization for the year	**59,058**	14,159
	Closing balance	**73,217**	14,159
	Carrying amount	**104,178**	160,131

8.1 The intangible assets are being amortized at the rate of 33.33% (2010: 33.33%).

9 **DEFERRED TAX ASSET AND LIABILITY**

9.1 **Recognized deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to following:

As at December 31, 2011

	Assets	Liabilities	Net
		.... Afs '000'	
Property and equipment	-	**(67,087)**	**(67,087)**
Intangible assets	-	**(11,811)**	**(11,811)**
Tax loss carry forward	**82,658**	-	**82,658**
Net tax assets / (liabilities)	**82,658**	**(78,898)**	**3,760**

As at December 31, 2010

	Assets	Liabilities	Net
Property and equipment	-	(41,582)	(41,582)
Intangible assets	-	(7,320)	(7,320)
Tax loss carry forward	32,683	-	32,683
Net tax assets / (liabilities)	32,683	(48,902)	(16,219)

			2011	2010
10	**OTHER ASSETS**	Note	**Afs '000'**	Afs '000'
	Advances to suppliers and employees		**91,032**	68,094
	Deposit with Ministry of Interior		**13,816**	18,219
	Prepayments		**18,646**	14,372
	Receivables from Western Union		**10,071**	9,625
	Restricted deposits with DAB	10.1	**608,613**	792,304
	Interest receivables		**49,693**	67,527
	Payment against documents (PAD)		-	63,453
	Others		**12,843**	4,364
			804,714	1,037,958

10.1 This represents statutory reserves maintained with DAB as minimum reserve in accordance with Banking Regulations issued by Da Afghanistan Bank. These minimum reserves carry interest ranging from 1.25% to 2% per annum (2010: 1.25% to 2% per annum).

		2011	2010
11	**SHARE CAPITAL**	**Afs '000'**	Afs '000'
	Authorized capital		
	40,000,000 (2010: 3,503,030) shares of Afs 250/- each	**10,000,000**	875,758
	Issued and paid up share capital		
	3,503,030 (2010: 3,503,030) shares of Afs 250/- each	**875,758**	875,758

11.1 DAB through Circular Reference No. 703/914 dated 8 August 2010 has required all the commercial banks to increase their capital to Afs 1 billion (USD 20 million) within next two years with effect from date of the circular. The Bank is in the process of devising a plan to achieve the required capital levels latest by June 2012.

			2011	2010
12	**DEPOSITS FROM BANKS**	Note	**Afs '000'**	Afs '000'
	Bank-e-Millie Afghan		-	300,000
	Da Afghanistan Bank	12.1	**500,000**	-
			500,000	300,000

12.1 This represents term deposit with DAB issued in Afghani carry interest at the rate of 3% per annum (2010: nil) and will mature on June 13, 2012.

			2011	2010
13	**DEPOSITS FROM CUSTOMERS**	Note	**Afs '000'**	Afs '000'
	Current deposits		**5,870,129**	9,226,273
	Saving deposits	13.1	**1,201,664**	833,610
	Term deposits	13.2	**194,993**	1,053,976
	Margin deposits		**170,698**	166,240
			7,437,484	11,280,099

13.1 Saving deposits carry interest at the rate of 1-2% (2010: 2%) on USD balances and at the rate of 3-4% (2010: 4%) on Afs balances per annum, while profit disbursed during the year, on the Islamic saving deposits ranging from 1.5% to 3% (2010: 3.3% to 7.7%) per annum.

13.2 Term deposits carry interest ranging from 2% to 8% per annum (2010: 8% to 12 % per annum) with maturity of one to twelve months (2010: one to twelve months). Profit disbursed during the year on the Islamic term deposits is ranged from 1.5% to 5.5% (2010: 4.62% to 13.87%) per annum.

13.3 At December 31, 2011 (December 31, 2010: nil) none of the deposits from customers are expected to be settled after twelve months from reporting date.

14 OTHER LIABILITIES

	Note	2011 Afs '000'	2010 Afs '000'
Creditors and accruals		**10,861**	16,351
Auditor's remuneration payable		**1,060**	881
Income tax payable		**449**	17,466
Murabaha risk reserve		**-**	5,000
Interest payable		**776**	3,093
Revenue received in advance	14.1	**27,709**	61,177
Others		**67**	148
		40,922	104,116

14.1 This represents commission received in advance from customers against bank guarantees. This amount will be recognized in statement of comprehensive income over the term of guarantee contract.

15 INTEREST INCOME

	Note	2011 Afs '000'	2010 Afs '000'
Interest income			
Cash and cash equivalents	15.1	**10,831**	25,981
Loans and advances to customers	15.2	**553,786**	687,737
Total interest income		**564,617**	713,718
Interest expense			
Deposits from banks		**(6,441)**	(76,124)
Deposits from customers		**(134,617)**	(114,681)
Total interest expense		**(141,058)**	(190,805)
Net interest income		**423,559**	522,913

15.1 Interest income on cash and cash equivalents

	2011	2010
Interest on balance with other banks and placements	**2,677**	20,145
Interest on statutory reserve with DAB	**8,154**	5,836
	10,831	25,981

15.2 Interest income on loans and advances to customers

	2011	2010
Interest income on loans and advances to customers	**519,247**	664,130
Loan processing fee	**34,539**	23,607
	553,786	687,737

16 NET FEE AND COMMISSION INCOME

	2011	2010
Fee and commission income		
Commission on guarantees issued	**14,861**	7,422
Fund transfer fee and cheque books issued	**32,710**	34,737
Total fee and commission income	**47,571**	42,159
Fee and commission expense		
Inter bank transaction fee	**(12,894)**	(17,784)
Total fee and commission expense	**(12,894)**	(17,784)
Net fee and commission income	**34,677**	24,375

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		Note	2011 Afs '000'	2010 Afs '000'
17	**OTHER OPERATING (LOSS) / INCOME**			
	Foreign exchange loss		(25,412)	(81)
	Other income		21,908	728
			(3,504)	647
18	**EMPLOYEE BENEFIT EXPENSE**			
	Salaries and wages		200,879	174,977
	Staff welfare		2,078	12,662
			202,957	187,639
19	**OTHER EXPENSES**			
	Communication		47,122	13,531
	Travelling and conveyance		8,404	14,310
	Insurance	19.1	15,573	21,928
	Advertisement		12,453	22,091
	Fuel expenses		13,346	10,822
	Food expenses		17,954	20,752
	Donations		919	5,258
	Board members' remuneration		8,719	1,976
	Audit fee		1,060	824
	Legal and professional charges		6,460	8,564
	Repairs and maintenance		39,452	25,142
	Loss on disposal of property and equipment		4,888	114
	Fee and taxes		1,091	2,089
	Stationery and printing		6,462	4,340
	Staff training		260	460
	Utilities		10,420	5,765
	Security services		35,112	13,065
	Other impairment allowance		-	3,890
	Miscellaneous expenses		6,196	2,306
			235,891	177,227

19.1 These represents charges paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.15% per annum of the total deposits as required by Da Afghanistan Bank.

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20	INCOME TAX	Note	2011 Afs '000'	2010 Afs '000'
	Current - for the year		-	-
	- for prior years		(20,795)	-
	Deferred	20.1	(19,978)	3,629
			(40,773)	3,629

20.1	Reconciliation of effective tax rate	Rate		
	Profit before income tax	*20%*	(221,636)	12,880
	Income tax using tax rate		(44,327)	2,576
	Non-deductible expenses		3,554	1,053
	Tax charge for the year		(40,773)	3,629

21 RELATED PARTY TRANSACTIONS

The related parties of the Bank comprise of head office, other branches of the Afghan United Bank over which the directors are able to exercise significant influence, entities with common directors, major shareholders, directors and key management personnel and close family members of such individuals. Following are the related parties of the Bank:

Key management personnel

Mr. Shahzad Haider, Chief Executive Officer (CEO)
Mr. Masrur Sidduiqi, Acting Chief Operating Officer (COO)
Mr. Hadayat Yahya, Chief Financial Officer (CFO)
Mr. Kamran Gohar, Chief Credit Officer (CCO)

Transactions and balances with related parties, including remuneration and benefits paid to key management personnel under the terms of their employment are as follows:

		Balances		Transactions	
		2011	2010	2011	2010
	Note	.... Afs '000'	....		
Shareholder					
Loans and advances		120,493	-	-	-
Deposit		-	2,970	-	-
Interest income		-	-	17,841	-
Associated companies					
Loans and advances		-	40	-	-
Deposit		-	44,476	-	-
Interest income		-	-	-	286
Transactions with key management personnel					
Short term employee benefits					
Salary	19	-	-	8,719	1,976
other benefits	18	-	-	53,342	49,316

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

21.2 During the year ended the shareholding and top management of the bank has been changed which also resulted in change in related parties. The balances disclosed in the financial statements from the associated companies relate to the previous shareholders. These companies are associated to the bank becasue of common sharholding of ex-shareholder of the bank.

22 CONTINGENCIES AND COMMITMENTS	Note	**2011** **Afs '000'**	2010 Afs '000'
Letter of credits and guarantees issued on behalf of customers		**487,352**	457,600
Commitment for rent payments	22.1		
- not later than one year		**22,022**	15,879
- later than one year and not later than five year		**263,456**	189,965
		285,478	205,844

22.1 The Bank has a number of branches and office premises under operating leases. The leases typically run for a period of less than 5 years, with an option to renew the lease after that period.

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23 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:

	Note	At fair value through profit and loss (FVTPL)		At amortized cost using effective interest rate			Available for sale financial assets	Total carrying amount
		Held for trading	Designated at FVTPL	Held to maturity	Loans and receivables	Financial liabilities		
					Afs '000'			
December 31, 2011								
Cash and cash equivalents	5	-	-	-	**4,190,731**	-	-	**4,190,731**
Loans and advances to customers	6	-	-	-	**3,070,951**	-	-	**3,070,951**
Other assets	10				**695,036**	-		**695,036**
		-	-	-	**7,956,717**	-	-	**7,956,717**
Deposits from banks	12	-	-	-	-	**500,000**	-	**500,000**
Deposits from customers	13	-	-	-	-	**7,437,484**	-	**7,437,484**
Other liabilities	14	-	-	-	-	**40,474**	-	**40,474**
		-	-	-	-	**7,977,957**	-	**7,977,957**
December 31, 2010								
Cash and cash equivalents	5	-	-	-	6,740,456	-	-	6,740,456
Loans and advances to customers	6	-	-	-	4,122,509	-	-	4,122,509
Other assets	10	-	-	-	951,128	-		951,128
		-	-	-	11,814,093	-	-	11,814,093
Deposits from banks	12	-	-	-	-	300,000	-	300,000
Deposits from customers	13	-	-	-	-	11,280,099	-	11,280,099
Other liabilities	14	-	-	-	-	86,650	-	86,650
		-	-	-	-	11,666,749	-	11,666,749

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.

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24 FINANCIAL RISK MANAGEMENT

24.1 Introduction and overview

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

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

The Bank's Audit Committee is 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. The Bank's Audit Committee is assisted in these functions by the Internal Audit and compliance department.

a) Credit risk

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

Management of credit risk

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

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

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

The amount of credit risk in this regard is represented by the carrying amounts of the assets on the balance sheet date. Exposure to credit risk is managed through regular analysis of borrower to met 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 dully verified by the Bank's Credit Officer on monthly basis.

Exposure to credit risk

The Bank's maximum exposure to credit risk is the carrying amount of financial assets at the reporting date, as summarized below:

	2011	2010
	Afs '000'	Afs '000'
Classes of financial assets		
Cash and cash equivalents	**2,508,665**	4,269,420
Loans and advances to customers	**3,070,951**	4,122,509
Other assets	**695,036**	951,128
Total carrying amounts	**6,274,651**	9,343,057

As at balance sheet date, all the loan portfolio of the Bank are recoverable and all the assets which are past due are provided for as per DAB guidelines.

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

The Bank's management considers that all the above financial assets that are not impaired or past due for the reporting dates under review are of good credit quality. The credit risk for cash and cash equivalents comprising of capital notes, balances with other banks, nostro accounts and short term placements is considered negligible, since the counterparties are either the Bank's own group with high quality external credit ratings or the central bank of Afghanistan.

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Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortized 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.

All loans and other assets are classified into one of the five classification grades mentioned below for minimum provisioning amounts. General and specific allowance for impairment is made by the Bank with the following percentages:

Loan grading	Days past due	Percentage %
Standard	None	0%
Watch	31-60 days	5%
Substandard	61-90 days	25%
Doubtful	91-180 days	50%
Loss	Over 180 days	100%

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 by the Bank as at year end amounts to Afs 11,647 million (2010: Afs 11,558 million).

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Concentration of credit risks by sector

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:

	Note	**2011 Afs '000'**	2010 Afs '000'
Carrying amount	6	**2,750,002**	4,182,810
Concentration by sector			
Construction		**61,745**	562,882
Communication		**281,206**	193,954
Services		**129,443**	279,077
Commercial		**817,785**	2,877,947
Manufacturing		**83,827**	24,024
Others		**1,375,996**	244,926
		2,750,002	4,182,810

Cash and cash equivalents

The Bank held's cash and cash equivalents of Afs 4,190,728 thousands (2010: Afs 6,740,456 thousands) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with central bank and other banks. Management believes cash and cash equivalents are not exposed to significant credit risk.

b) 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.

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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:

	2011	2010
At the end of the year	**65%**	65%
Average for the period	**62%**	62%
Maximum for the period	**68%**	68%
Minimum for the period	**55%**	55%

Maturity analysis for financial liabilities

	Note	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**More than 5 years**
		Afs '000'					
December 31, 2011							
Deposits from banks	12	**500,000**	**(500,000)**	**-**	**(500,000)**	**-**	**-**
Deposits from customers	13	**7,437,484**	**(7,437,484)**	**(7,071,792)**	**(194,993)**	**(170,698)**	**-**
Other liabilities	14	**40,474**	**(40,474)**	**(40,474)**	**-**	**-**	**-**
		7,977,957	**(7,977,957)**	**(7,112,266)**	**(694,993)**	**(170,698)**	**-**
December 31, 2010							
Deposits from banks	12	300,000	(300,000)	-	(300,000)	-	-
Deposits from customers	13	11,280,099	(11,280,099)	(10,188,130)	(16,266)	(1,029,577)	-
Other liabilities	14	86,650	(86,650)	(86,650)	-	-	-
		11,666,749	(11,666,749)	(10,274,780)	(316,266)	(1,029,577)	-

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Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and euro at December 31, 2011 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.

	December 31, 2011		December 31, 2010	
	Equity	Profit or loss	Equity	Profit or loss
	Afs '000'			
US$	(28,255)	(28,255)	11,681	11,681
Euro	(4,994)	(4,994)	(7,172)	(7,172)

A 10% weakening of the Afghani against the above currencies at December 31, 2011 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.

24.2 CAPITAL MANAGEMENT

Minimum capital requirement

Current requirement for minimum financial capital is Afs 500 million. However, DAB through Circular Reference No 703/914 dated August 08, 2010 has required all the commercial banks to increase their capital to Afs 1 billion (USD 20 million) within next two years with effect from the date of this circular. The Bank's financial capital is Afs 751 million. The management is devising a plan to meet the requirement.

Regulatory capital

The Banks' regulator Da Afghanistan Bank sets and monitors capital requirements for the Bank. During the year 2011 the Bank was required to maintain at all times the financial capital in excess of Afs 500 million (refer note 12.2) 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.

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

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

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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.

	Afs	USD	EURO
		Afs '000'	
December 31, 2010			
Cash and cash equivalents	570,893	5,856,947	312,616
Loans and advances to customers	773,360	3,409,450	-
Other assets	821,787	120,798	-
	2,166,040	9,387,195	312,616
Deposits from banks	300,000	-	-
Deposits from customers	1,520,495	9,484,151	222,964
Other liabilities	31,301	49,054	-
	1,851,796	9,533,205	222,964
Net foreign currency exposure	314,244	(146,010)	89,652

The following significant exchange rates were applied during the year.

	December 31, 2011		December 31, 2010	
	Average rate	**Reporting rate**	Average rate	Reporting rate
US$	**47.54**	**49.31**	47.16	45.76
Euro	**61.90**	**63.83**	64.83	59.96

&

	Note	Carrying amount	Less than three months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
		Afs '000'					
December 31, 2010							
Cash and cash equivalents	5	2,059,200	2,059,200	-	-	-	-
Loans and advances to customers	6	4,122,509	1,251,603	1,373,976	1,457,430	99,801	-
Restricted balance with DAB		792,304	792,304	-	-	-	-
		6,974,013	4,103,107	1,373,976	1,457,430	99,801	-
Deposits from banks	12	(300,000)	(300,000)	-	-	-	-
Deposits from customers	13	(1,887,586)	(833,610)	(1,053,976)	-	-	-
		(2,187,586)	(1,133,610)	(1,053,976)	-	-	-
		4,786,427	2,969,497	320,000	1,457,430	99,801	-

Exposure to currency risk

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

	Afs	USD	EURO
		Afs '000'	
December 31, 2011			
Cash and cash equivalents	891,315	2,131,622	236,873
Loans and advances to customers	296,305	2,451,989	-
Other assets	11,350	121,549	-
	1,198,970	4,705,160	236,873
Deposits from banks	500,000	-	-
Deposits from customers	1,054,314	4,351,938	174,453
Other liabilities	-	36	-
	1,554,314	4,351,974	174,453
Net foreign currency exposure	(355,344)	353,186	62,420

c) Market risk

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

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. 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:

	Note	Carrying amount	Less than three months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
		Afs '000'					
December 31, 2011							
Cash and cash equivalents	5	1,009,837	1,009,837	-	-	-	-
Loans and advances to customers	6	3,070,951	967,389	489,758	1,212,475	401,330	-
Restricted balance with DAB	10	608,613	608,613	-	-	-	-
		4,689,401	2,585,839	489,758	1,212,475	401,330	-
Deposits from banks	12	(500,000)	(500,000)	-	-	-	-
Deposits from customers	13	(1,396,656)	(1,201,664)	(194,993)	-	-	-
		(1,896,656)	(1,701,664)	(194,993)	-	-	-
		2,792,745	884,175	294,765	1,212,475	401,330	-

The Bank's regulatory capital position at December 31, 2011 was as follows:

	2011	2010
	Afs '000'	Afs '000'
Tier 1 capital		
Share capital	**875,758**	875,758
Less: Intangible assets	**(104,178)**	(160,131)
Less: Deferred tax assets	**(3,760)**	-
Add: Deferred tax liability	**-**	16,219
Total tier 1 (core) capital	**767,820**	731,846
Tier 2 capital	**(180,863)**	9,251
Total tier 2 (supplementary) capital	**(180,863)**	9,251
Total regulatory capital	**586,957**	741,097

25 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. These rearrangements and reclassifications were of immaterial nature.

26 AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on 10/04/2012, 2012.

AASR

CHAIRMAN

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER