



Da Afghanistan Bank
Financial Supervision Department
Summary Analysis of Condition and Performance
Of the Banking System as of Asad 1389 – August 2010

Executive summary

Overall banking system is profitable and well capitalized for the month ending August 2010. So far, however four banks were in loss for the month under review. Liquidity and FX positions are in accordance with the ratios set by the Central Bank, except for five banks that crossed the set limit on overall and individual currency basis. Total loans and total deposits of the banking system have positive growth, while total assets of the system have a negative growth for the month ending August 2010.

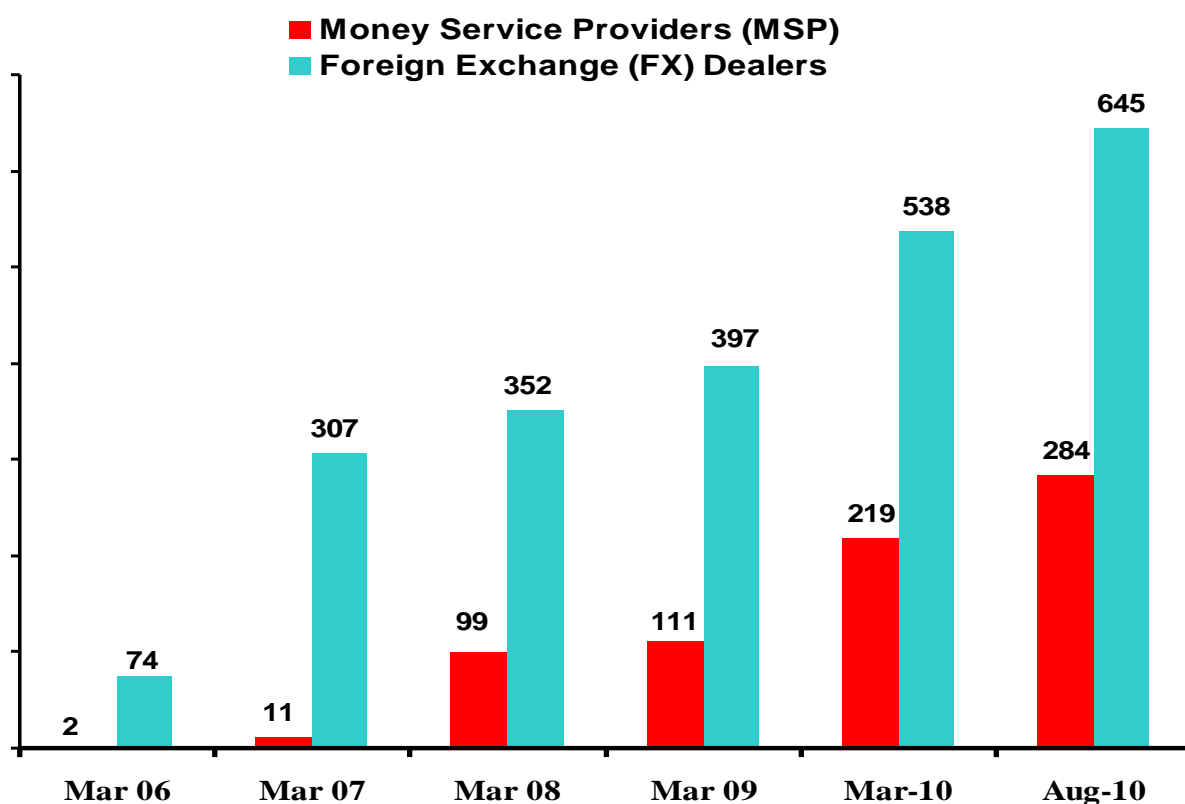
The banking system in Afghanistan consists of 17 duly-licensed and permitted banking organizations: 2 relicensed state-owned banks, 10 private full-fledged banks, and 5 branches of foreign banks. The number of banking facilities, all across the country is as follows:

Provided banking Facilities	No
Full Service Branches	166
Limited Service Branches	173
Automated Teller Machines(Type 22 Facility)	76
Others(Type 21,23,24,25 Facility)	80
Point of Sale	164
Total	659

Debit and Credit Card	No
Debit Card	24,949
Credit Card	954
Total	25,903

The above-mentioned facilities are available in 34 provinces and the capital city Kabul, while debit and credit cards are available in eight provinces of the country, including the capital city Kabul.

In addition, on a cumulative basis, **284** licenses to Money Service Providers (MSP) and **645** licenses to FX dealers have been issued so far. Out of these **284** licensed MSPs, **201** are in Kabul and **83** licensed MSPs are in provinces while **280** representatives of head offices are in provinces, Out of **645** licensed FX dealers, **265** are operating in Kabul and **380** are operating in provinc

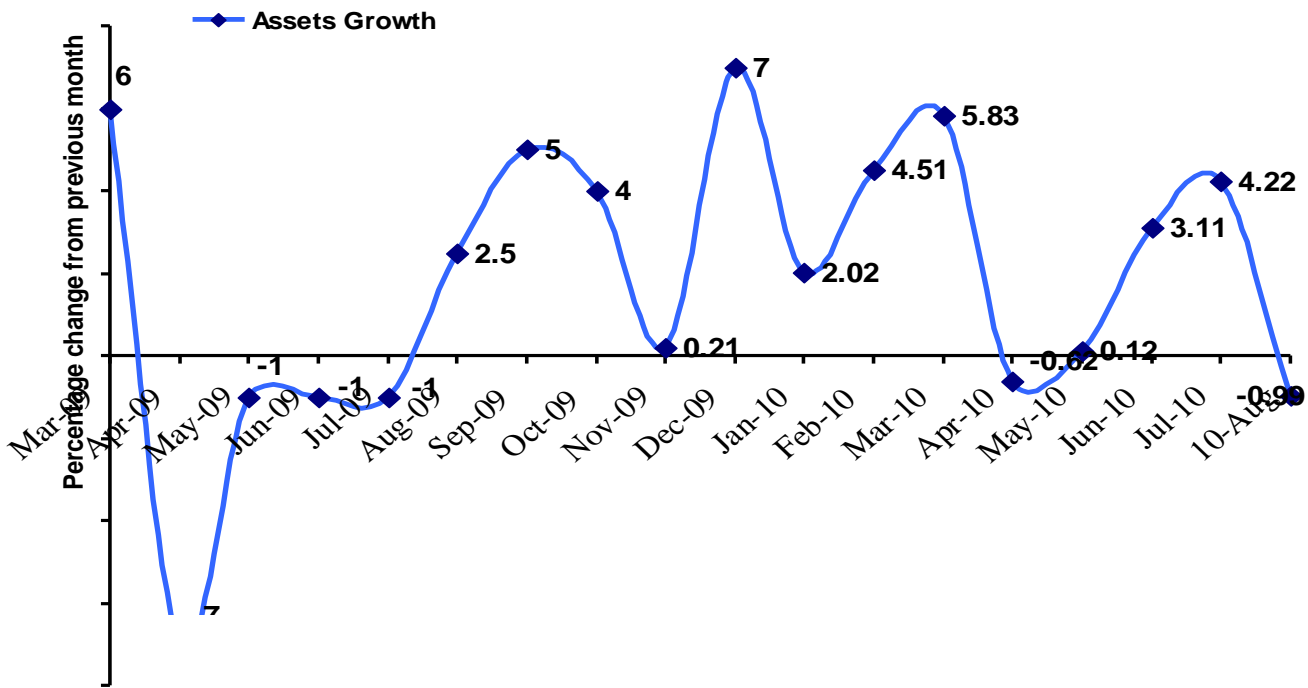


Note: The figures are on cumulative basis

Trends in Banking System growth indicators

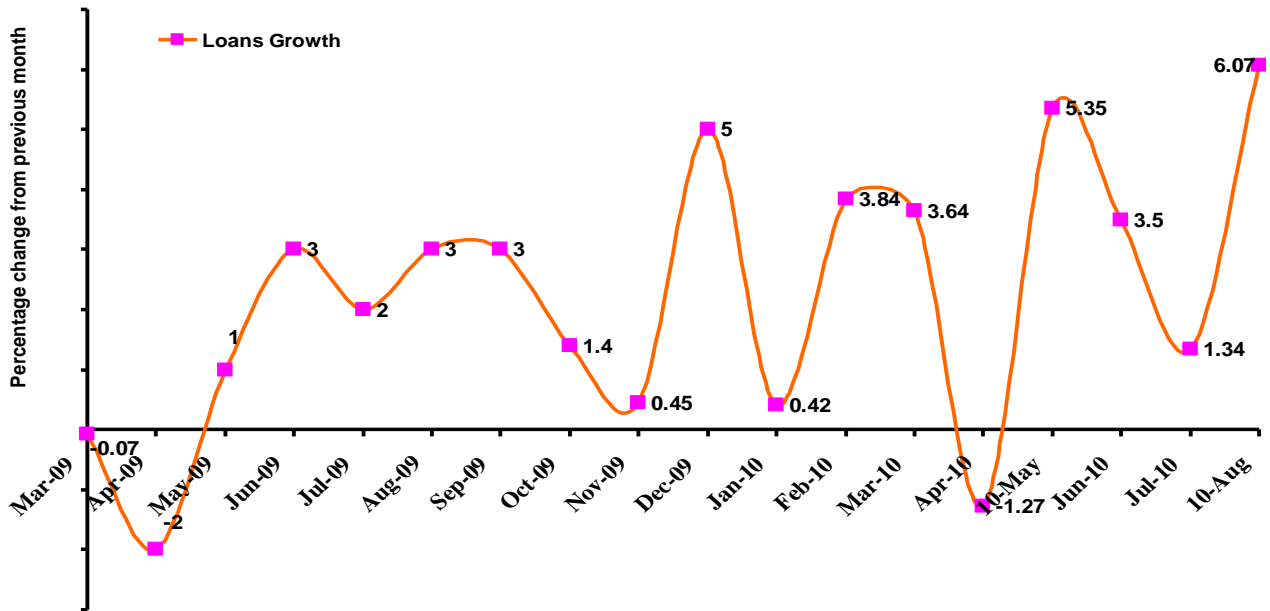
Assets growth

Assets growth rate had a deep drop in the first part of the last year before turning positive in the month of August 09. The pace of growth of total assets of the banking system has increased after the four months of 1388 and it continued increasing till April 2010. Again it had a negative growth rate at the end of April due to a big decline in total loans, because of closing of some loan accounts by one banking institution, due to credit risk. Assets of the banking system dropped to the negative area of the graph for the current month August, due to decrease in claims on FIs, other assets categories of total assets and cash in vault and claims on DAB. For further details, the trend is shown as below:



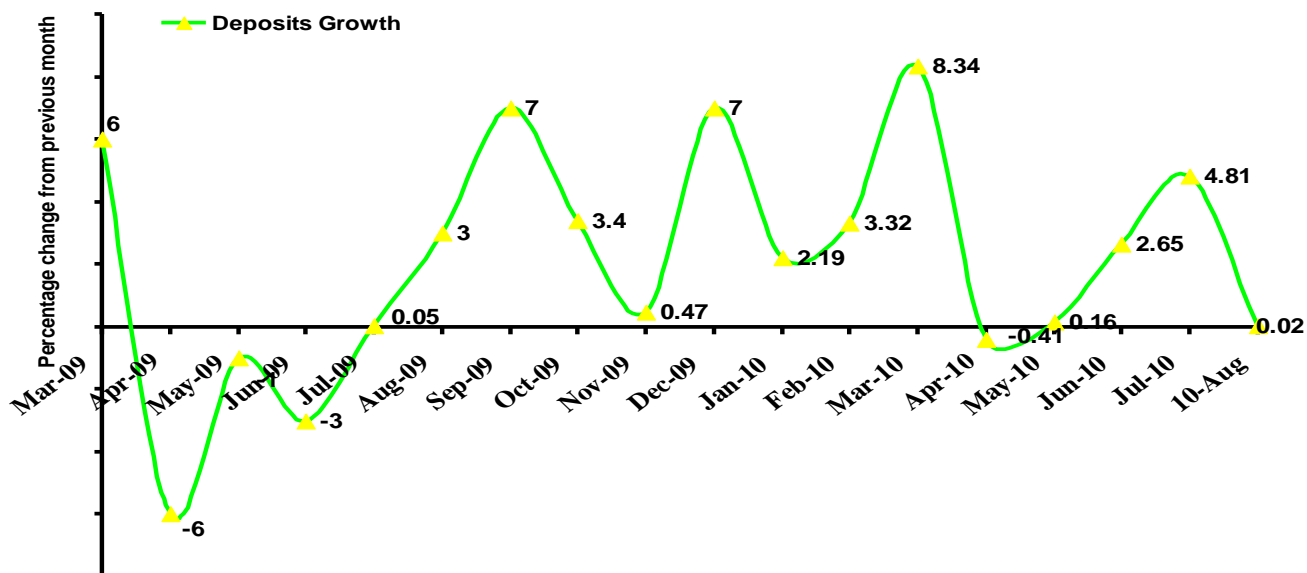
Loans growth

Loans depict an increasing trend in almost all months of last year. Total gross loans increased significantly from a negative growth rate of -2 percent in April 2009 to a positive of 3.64 percent in the month of March 2010. Loans growth rate climbed significantly for the month of May from a deep decline previous month. The main reason for this increase was 5.35 percent growth in the total loan portfolio of the banking system. For the month of August total gross loans of the system has touched its highest point, and increased by 4.73 percentage points, this increased is mostly attributed to one banking institution. For further information, the trend is shown in the following graph.



Deposits growth

Deposits of the banking system show positive growth rate after month of June 2009. In addition total deposits of the banking system continued increasing till April 2010. The main reason for 0.41 percent negative growth rate in April was, maturity of some inter bank deposit accounts in the month. Comparing to last month deposits of the system grew, but the pace of growth has dropped by 4.79 percentage points, which is due the decrease in Deposit portfolio of a number of banking institutions. The trend is shown the following graph.

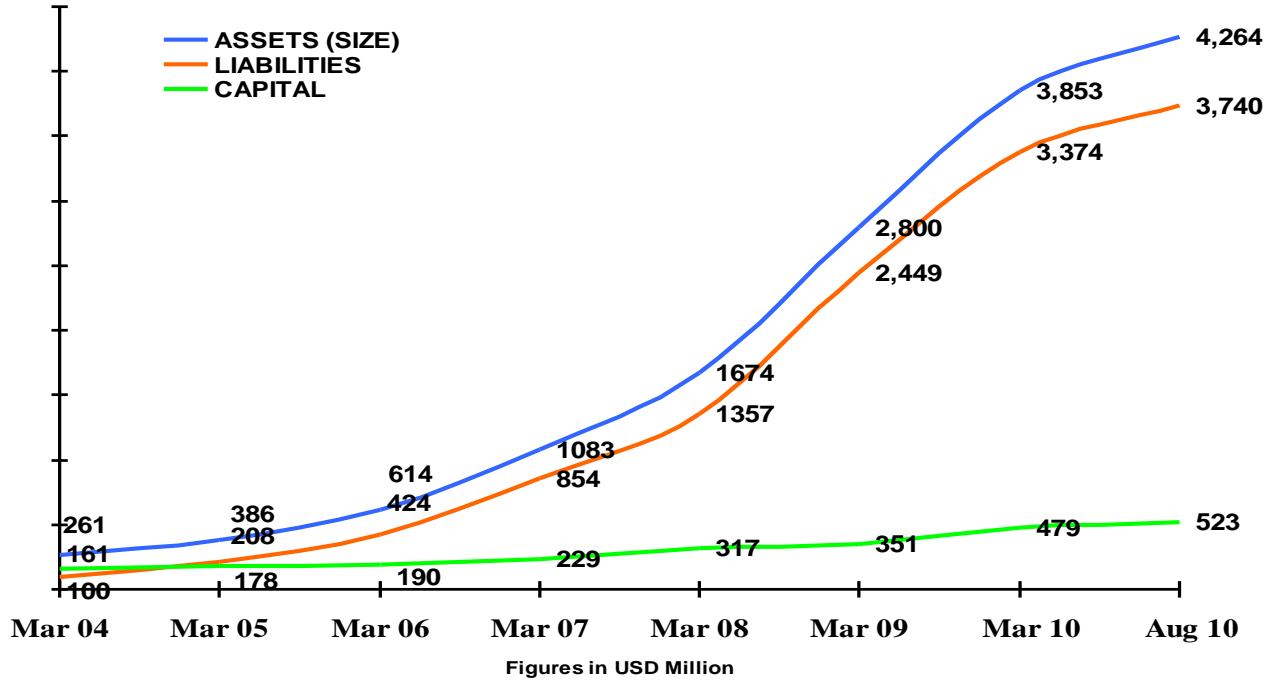


Total Assets

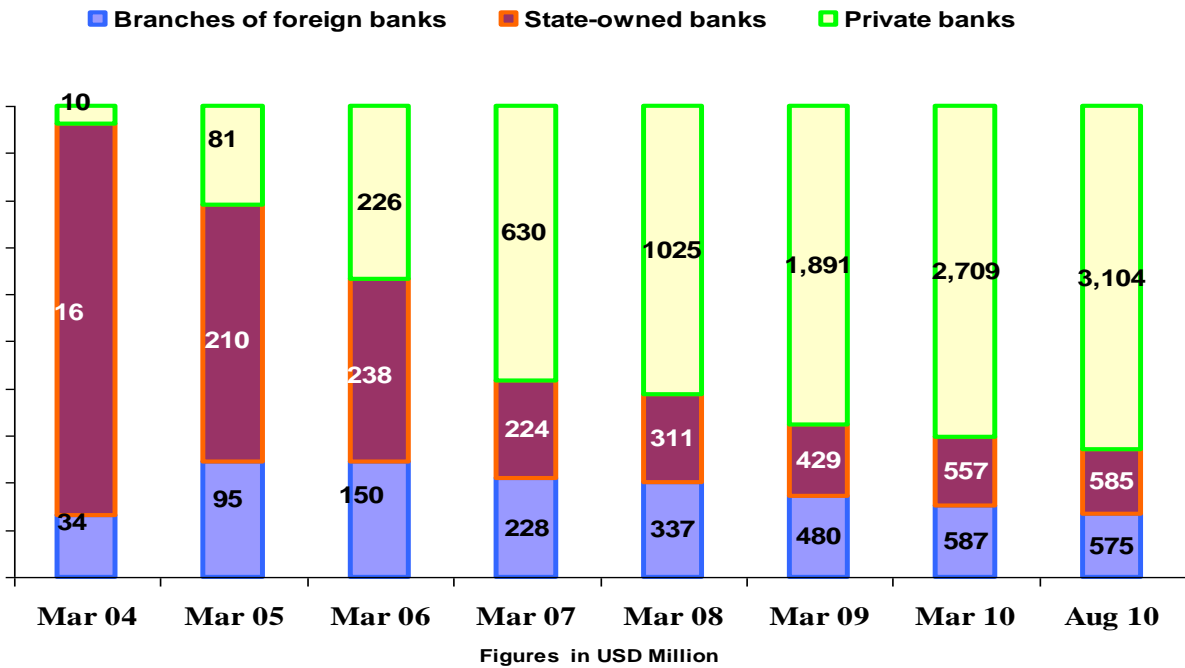
Total assets of the banking system are **AFN 191.65 billion (USD 4.26 billion)**, up by **40.09 percent** since **Asad 1388(August 2009)**, where the total assets of the system were **AFN 136.81 billion (USD 2.77 billion)**. The growth rate for the Private Banks, as a peer group, was the highest and increased by **54.34 percent** since **August 2009**. In contrast, the total assets of the State-Owned banks increased by **22.42 percent** since previous period (**August 2009**) while the growth rate for the branches of foreign banks has increased by **3.65 percent** since **August 2009**. Comparing to the last month, total assets of the banking system has decreased by **0.99 percent**. This decrease is mostly due to decrease in claims on FIs, other

Summary Analysis of Condition and Performance of the Banking System

assets categories of total assets and cash in vault and claims on DAB, while total gross loans and NDF have increased for the month ending August 2010.



Breakdown of Banking System's Assets



Assets of the Banking system in descending order for the month of August 2010			Size of Indv. Banks as % of Total Assets of the system
Serial number	Names of Banks	Assets in million AFN	
1	Kabul Bank	65,599	34.23%
2	Azizi Bank	24,422	12.74%
3	Afghanistan International Bank	18,892	9.86%
4	Bank-e- Milli Afghan	13,902	7.25%
5	Pashtany Tejaraty Bank	12,411	6.48%
6	Afghan United Bank	10,626	5.54%
7	Bank Alfalah Limitd	9,452	4.93%
8	Standard Chartered Bank	8,715	4.55%
9	First Micro Finance Bank	5,988	3.12%
10	Habib Bank Limited	4,368	2.28%
11	Maiwand Bank	4,096	2.14%
12	Arian Bank	3,430	1.79%
13	Ghazanfar Bank	2,995	1.56%
14	Bakhtar Bank	2,705	1.41%
15	National Bank of Pakistan	2,262	1.18%
16	Punjab National Bank	1,032	0.54%
17	Brac Afghanistan Bank	759	0.40%
Total		191,654	100.00%

Loan portfolio

The gross loans portfolio currently is **AFN 76.95 billion (USD 1.71billion)**, up by **36.83 percent** since **Asad 1388 (August 2009)**, and comprises **40.15 percent** of total assets. Where the Gross Loans were **AFN 56.24 billion (USD 1.14 billion)** or **41.11 percent** of total assets. Out of this loans portfolio, total Afghani denominated loans are **AFN 19.99 billion (USD 445 million)**, **25.98 percent** of total loans or **10.43 percent** of total assets, up by **22.27 percent** since the previous period (**August 2009**). US Dollar denominated loans are **AFN 56.94 billion (USD 1.27 billion)**, **73.99 percent** of total loans or **29.71 percent** of total assets up by **43.18 percent** since the previous period (**August 2009**). Lending in Afghanistan is dominated by private banks, which are **85.31 percent** of total gross loans of the banking system followed by state-owned banks whose share is **10.59 percent**. In contrast the share of Branches of foreign banks is just **4.10 percent**. Comparing to the last month there is an increase of **6.07 percent** in total gross loans of the system, which mostly has come from one banking institution.

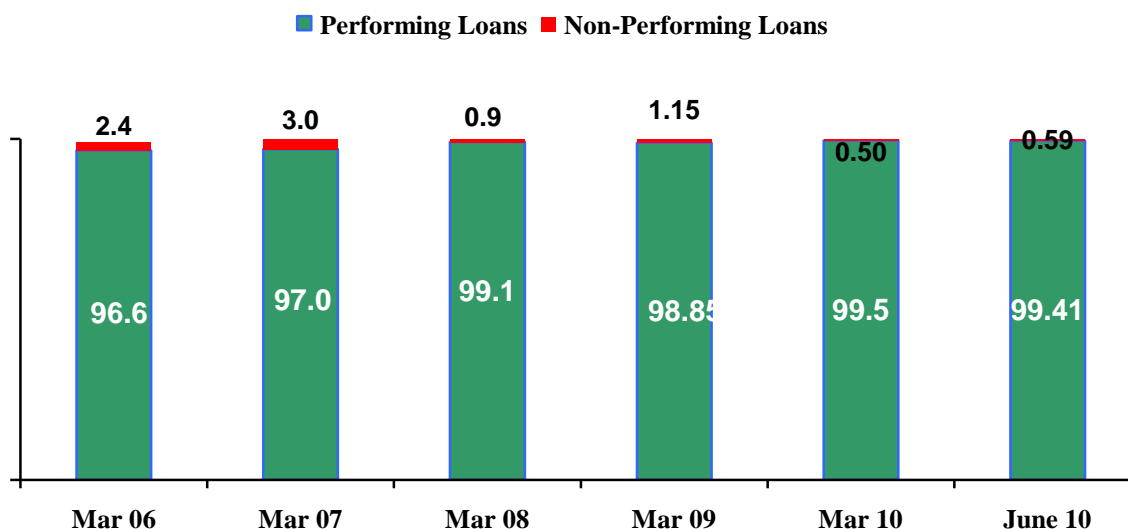
- According to the latest data available (**June 2010**) non-performing loans were **AFN 421 million (USD 9.12 million)** or **0.59 percent** of gross loans decreased by **AFN 384 million** compared to the previous period (**June 2009**) where Non-

performing loans were **AFN 804 million**. In the last quarter **June 2010** Non-performing loans were AFN 335 million, showing an AFN 86 million increase in the current quarter (June 2010).

- Adversely classified loans are **AFN 1.23 billion (USD 27.03 million)** and have decreased from **3.98 percent** of the gross loans in the previous period (**June 2009**) where the adversely classified Loans were **AFN 2.12 billion to 1.74 percent** of the gross loans during this period.
- Loans classified in the “watch” category comprise the highest percentage of classified loans which decreased from **7.95 percent** of the gross loans in the previous period (**June 2009**) **to 5.95 percent** of the total gross loans in the current period (June 2010). Although there is **2.00 percent** decrease, but still this category of loans require close monitoring, as it may lead to more adversely classified loans (Substandard, Doubtful) in the future.
- According to the latest available data (**June 2010**) loans in **SME** and **Micro-credit** sectors amounted to **AFN 9.99 billion** (AFN 8.05 billion in SME, AFN 1.94 in Micro-credit) provided by nine banking institutions. Comparing to the last quarter (March 2010) there is a decrease of AFN 0.32 billion in these two sectors

Breakdown of Gross Loans as of August 2010 (million AFN)	
State-owned Banks	8,149
Private Banks	65,647
Branches of foreign Banks	3,151
Total	76,947

Non-Performing Loans as Percentage of Gross Loans



The sector wise and Province wise distribution of the banking sector's loan portfolio as of **June 2010 and August 2010** is given in the tables below:

The designation of Loans Sectorally, geographically and institutionally is not properly diversified, but we hope that as time goes over the distribution of loans will become more diversified. It is desirable that all banks take active part in lending, so as to diversify lending services.

Sector wise Designation of Loans June 2010	As %age of Total Loans
<i>Commercial Real Estate and Construction Loans</i>	18.32%
<i>Other Commercial Loans</i>	
<i>Mining</i>	0.03%
<i>Manufacturing</i>	3.21%
<i>Trade</i>	33.06%
<i>Communication</i>	0.35%
<i>Service</i>	6.39%
<i>Utilities</i>	0.00%
<i>Others</i>	23.33%
Agricultural Loans	0.89%
Consumer Loans	1.25%
Residential Mortgage Loans to Individuals	9.89%
All Other Loans	3.29%
Total	100.00%

June 2010	As %age of Total Loans
SME Loans	11.24%
Micro Credit Loans	2.71%

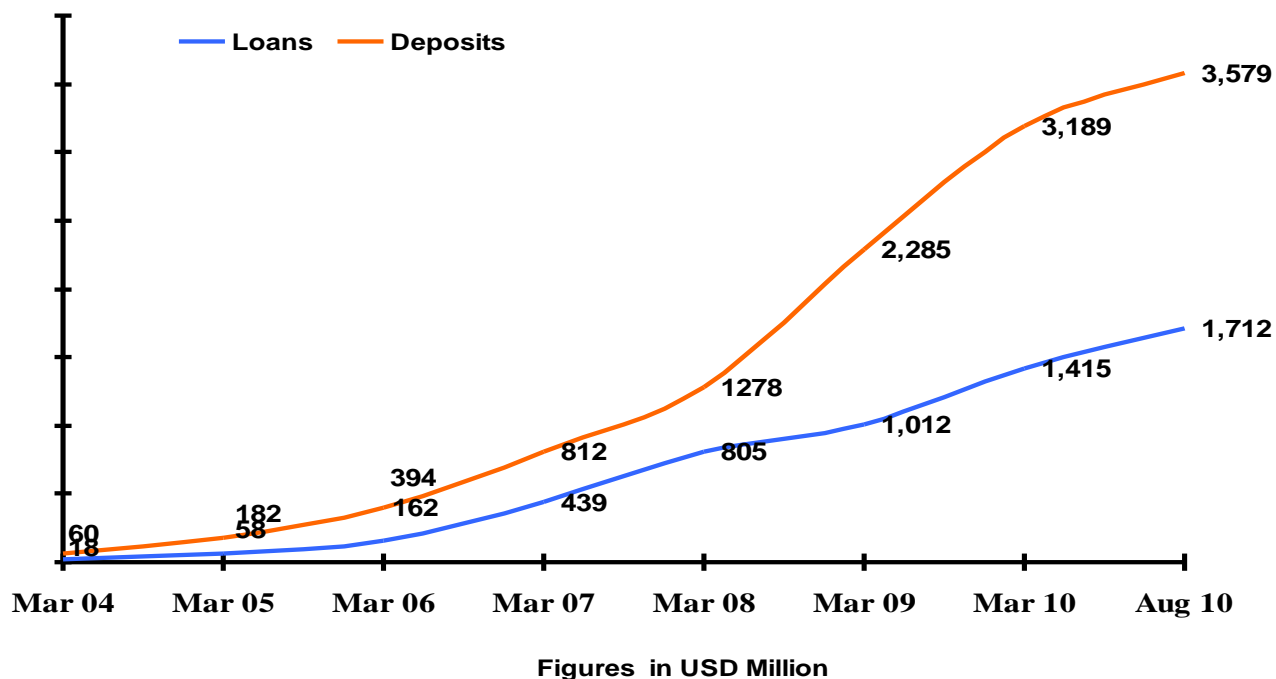
Province wise designation of loans August 2010			
No.	Provinces	Loans in million AFN	Expressed as % of Total Loans
1	Kabul	67,839	88.41%
2	Balkh	3,589	4.68%
3	Herat	2,225	2.90%
4	Nangarhar	1,095	1.43%
5	Kandahar	653	0.85%
6	Baghlan	235	0.31%
7	Kunduz	191	0.25%
8	Bamyan	183	0.24%
9	Badakhshan	171	0.22%
10	Khost	133	0.17%
11	Parwan	103	0.13%
12	Jowzjan	78	0.10%
13	Faryab	65	0.08%
14	Takhar	62	0.06%
15	Laghman	47	0.06%
16	Saripul	33	0.04%
17	Samangan	31	0.04%
18	Paktia	0	0.00%
19	Panjsher	-	0.00%
20	Badghis	-	0.00%
21	Daykundi	-	0.00%
22	Farah	-	0.00%
23	Ghazni	-	0.00%
24	Ghor	-	0.00%
25	Helmand	-	0.00%
26	Kapisa	-	0.00%
27	Kunar	-	0.00%
28	Logar	-	0.00%
29	Nimroz	-	0.00%
30	Nurestan	-	0.00%
31	Oruzgan	-	0.00%
32	Paktika	-	0.00%
33	Wardak	-	0.00%
34	Zabul	-	0.00%
	Total AFN million	76,733	100.00%

Outreach data of MISFA Partners as of July 2010	
MFI'sy	14
Provinces	26
Districts	135
Active Clients	436,130
Active borrowers	292,014
No. of loans disbursed (cumulative)	1,531,351
Amount of loans disbursed, AFS (cumulative) (USD million)	794
No. of loans outstanding	292,009
Gross Loans outstanding, AFS (USD million)	120
Client Savings outstanding, AFS(USD million)	21
Percentage of Female Clients	60%
Women Borrowers	192,510
Rural (Loans outstanding) (USD million)	30
Urban (Loans outstanding) (USD million)	90

*Source: www.misfa.org.af

Deposits

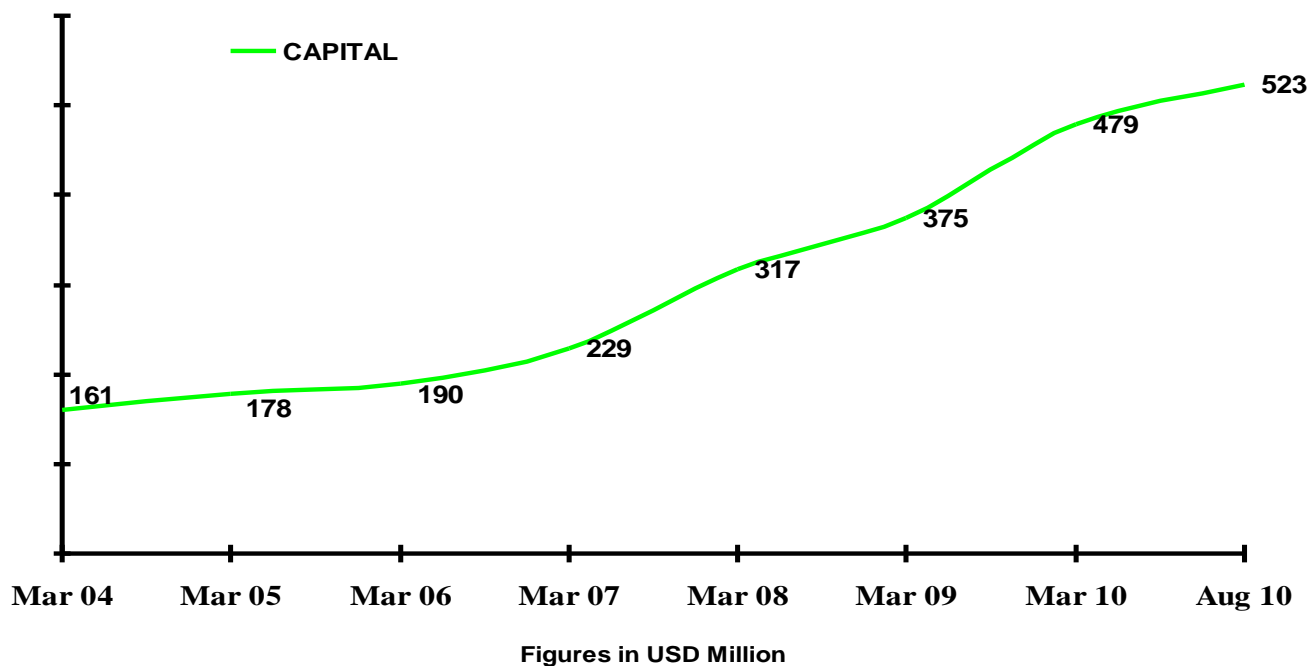
Deposits are the major component of liabilities and stands at **AFN 160.87 billion (USD 3.58 billion)**, **95.68 percent** of total liabilities, up by **45.37 percent** since **Asad 1388 (August 2009)** where the deposits were **AFN 110.66 billion (USD 2.24 billion)**. AFN-denominated deposits of the banking system are **AFN 51.88 billion (USD 1.15 billion)**, or **30.86 percent** of the total deposits up by **58.69 percent**. USD-denominated deposits of the banking system are **AFN 104.01 billion (USD 2.31 billion)**, or **61.86 percent** of total deposits up by **41.93 percent**. Private Banks have the highest percentage share in total deposits of the system, which are **74.62 percent** followed by branches of foreign banks with **15.82 percent**. The share of two state-owned banks is **9.56 percent**. Deposits of the system are up by **0.02 percent** during the month under review.



Breakdown of Deposits by Type as of August 2010 (million AFN)	
Demand	103,575
Time	13,289
Savings	44,002
Total Deposits	160,866

Capital

Overall, the banking system is well capitalized. Total capital of the banking system is **AFN 23.53 billion (USD 523 million)**, up by **21.59 percent** since previous period (**August 2009**), where the Total capital of the system was **AFN 19.35 billion (USD 392 million)**. The regulatory capital ratio of all banking institutions are above the minimum regulatory threshold (12 percent of risk-weighted assets). The minimum ongoing financial capital requirement has been raised to AFN 1.00 billion, and all banking institutions are given two years time period to meet this requirement. Two banks in the system are far below the new minimum financial capital requirement.



Profitability

Month – to – Month:

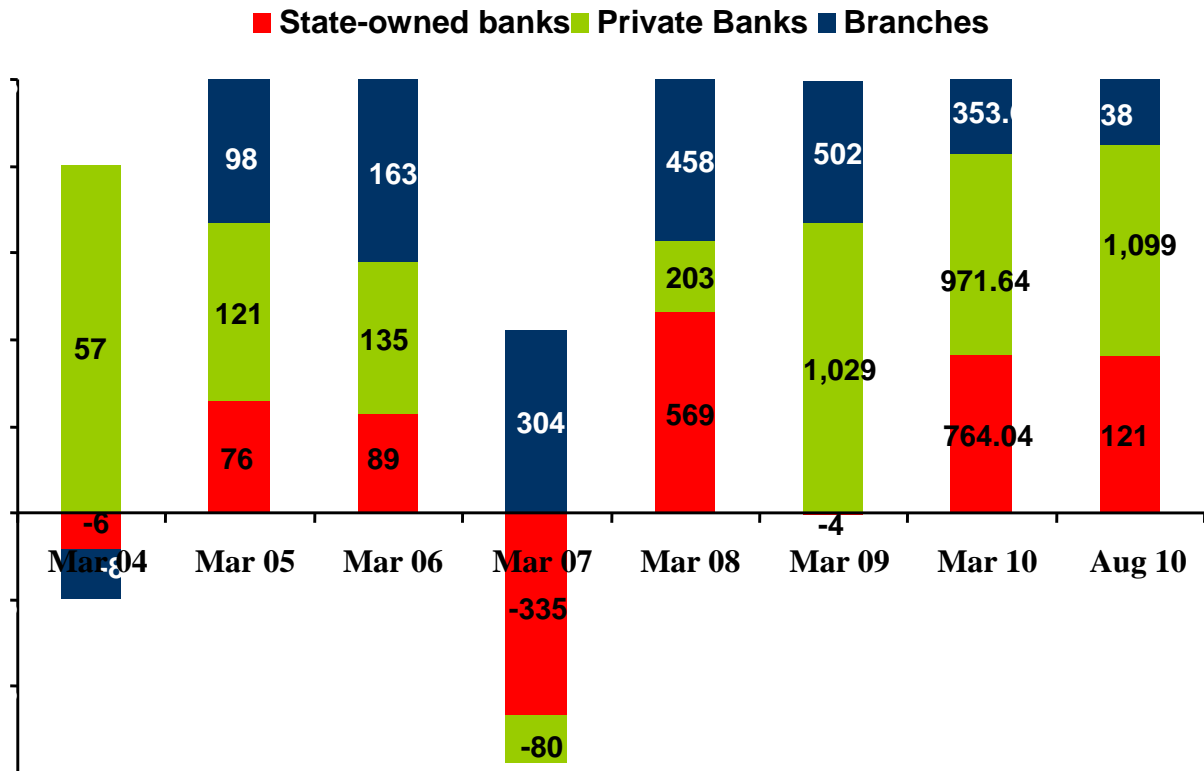
The banking sector is profitable with overall profit of **AFN 1,258** million (**USD 27.99** million), except for **four** banks that, they have incurred a loss of **AFN 42 million** for the current month August 2010. The overall profit of the banking system is up by **AFN 1,033** million in the current month as compare to the last month (**July 2010**), where it was **AFN 225** million with seven banks at loss. This increase is attributed to significant increase in extraordinary gains, FX revaluation gains and other non-interest income by **AFN 616** million, **AFN 421** million, and **AFN 112** million respectively, and decrease in operating expenses by **AFN 45** million. Beside this, credit provision went up by **AFN 115** million from **AFN 14** million last month, and interest income has decreased by **AFN 172** million, but this unfavorable change is less then to offset the above mentioned favorable changes. It is worthwhile to mention that this significant increase in profit has come from **two** big banking institution’s **non-recurring items**, which is under analysis. The median for the spread on

new business of the banking system is **8.83** percent, which was **9.99** percent during the last month **July 2010** down by **1.16** percentage points, **seven** banks fall below the median for the current month ending **August 2010**. The efficiency ratio of the system as a Median stands at **1.55** up by **0.29** percentage points, **nine** banking institutions ended up with lower efficiency ratios for the month ending **August 2010**.

Cumulative: (April to July)

Total net cumulative profit for the first four months of 1389(August 2010) is **AFN 1,888 million (USD 42.00 million)**, up by **AFN 100 million or 11.26 percent**, resulting in an **ROA of 2.44 percent** annualized which has increased by **0.88 percentage points** from **1.56 percent** in the previous period (**August 2009**). On cumulative basis **five** banks have incurred loss of **AFN 127 million** for the first five months of **1389 (August 2010)**, where it was **AFN 84 million** with **Seven** banks at loss in previous period (**August 2009**).

AFN Million



On Core income basis **three** banks were at loss for the first five months of **1389 (August 2010)**

Liquidity

Overall all banking institutions are above the set minimum for the Broad Liquidity Ratio (**15 percent**) and the Quick Liquidity Ratio (**20 percent**).

According to available data(June 2010),concerning to the concentration of the deposits the system as a whole appears to be very concentrated in large deposits (**deposits in accounts over AFN 5 million**) which makes up 48.08 percent of total customer deposits and consists of 3,128 accounts, which could be judged as quite volatile. Moreover, the average size of these large deposit accounts is still high, but decreased to AFN 39 million from AFN 85 million in the current quarter, which is encouraging.

Open FX Position

All banking institutions are within the set regulatory threshold for overall open FX position (**± 40 percent**) and on an individual currency (**± 20 percent**) basis except **five** banks, where **four** banks have crossed the set limits on over all and on individual currency basis (USD long), out of these **one** bank has exposed the bank to a significant potential losses due to volatile FX market. While **one** bank has crossed the limits on individual currency basis (USD short position).

Total number of Employees, Borrowers, Depositors and Other-Clients of the Banking system as of June 2010, all across the country is as follows:

Particulars	No
Full-time Afghan Employees	8,890
Full-time Foreign Employees	163
Present Borrowers	58,929
Present Depositors	1,640,355
Other clients other than borrowers & depositors	691
