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Independent Auditor's report

To: The Supreme Council,
Da Afghanistan Bank

We were engaged to audit the accompanying financial statements of Da Afghanistan Bank ("the Bank"), which comprise the balance sheet as at 29 Hoot 1386 (19 March 2008), and the income statement and statement of recognized income and expense for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Basis of Qualified Opinion

1. Up to 29 Hoot 1385 (20 March 2007), the financial statements of the Bank were prepared and presented on the basis of trial balance extracted from accounting information collected from various departments and branches in the absence of a comprehensive accounting system and general ledger. The accounting information so collected was not fully substantiated with appropriate supports and documentary evidences. During the month of Asad 1386 (August 2007) the Bank significantly implemented a Core Banking System. The financial information entered in the Core Banking System was based on the closing trail balance used for preparation of financial statements for the year ended 29 Hoot 1385 as stated above. The financial statements for the year ended 29 Hoot 1386 have been prepared and presented on the basis of trail balance of the Head Office generated from Core Banking System at year end and trial balances of branches those were based on underlying manual records and ledgers. However, comprehensive exercise was initiated to reconcile the manual records and data fed into core banking, system which is still in progress, to ensure the completeness and accuracy of financial information fed into Core Banking System. We also noted the following:

- System of internal controls including IT controls over authorization, recording and processing of transactions whether in core banking system or in memorandum records were either not fully implemented or were not fully effective for whole of the year. Further, there is no role / profile matrix developed and approved by the management on the basis of which roles and groups can be defined and assigned in the Core Banking System application. In the absence of such matrix, users are assigned rights on adhoc or need basis after approval from relevant departmental heads.
- The Bank implemented a system of periodic internal reviews, verification and reconciliation of data of accounts department with the respective operating departments to ensure accuracy and completeness of the financial information. However, such system was not followed throughout the year.
- "Other Assets" (Note 12) include AFN 619,408 thousand (1385: AFN 1,039,034 thousand) being the net un-reconciled difference of inter-branch account (68 branches) which represent credit balance of AFN 2,906,243 thousand (1385: AFN 36,241 thousand) in the books of branches and AFN 2,286,836 thousand (1385: AFN 1,075,275 thousand) debit balance in the books of the Head Office.
- "Due to Customers" (Note 16) includes the dormant customers' accounts amounting to AFN 154,966 thousand and residual customers' accounts amounting to AFN 192,121 thousand. These are non-operative accounts of the customers of the Bank as well as the accounts transferred from local commercial banks. The Bank does not have adequate customer wise records of these accounts to substantially support the balance appearing in the financial statements.
- "Provisions and Other Liabilities" (Note 20) includes:
 - 'Suspense Accounts' amounting to AFN 1,176,753 thousand which represents un-reconciled AFN 45,806 thousand debit balance and AFN 1,222,559 thousand credit



balance of which no information is available to account for these balances in appropriate heads of accounts.

- 'Deposit Against Letter of Credit' of AFN 9,601,073 thousand which was not in agreement with the subsidiary records maintained by the Bank. As per subsidiary records liability in respect of deposit against letter of credit was AFN 8,883,211 thousand. Further, during the year, the Bank made disbursements amounting to AFN 2,051,606 thousand which is included in "Due from Banks and Financial Institutions" (Note 6), instead of off-setting against corresponding liability in this account due to non availability of relevant information.
 - "Advances and Other Receivables" (Note 8) include an amount of AFN 1,480,176 thousand representing advances to past regimes and receivables on account of misappropriation of cash in hand by the Bank's staff in prior and current year. The Bank has recognized full impairment provision against these advances as the probability of recovery of the same are remote. However, the Bank has not maintained subsidiary records of these advances and receivables to establish the accuracy of the balances with the general ledger.
2. In respect of "Due from Banks and Financial Institutions" (Note 6) (in the following instances balances as per confirmation were not in agreement with the balances appearing in the records of the Bank and reconciliation of which was under progress as at 19 March 2008. The differences were as follows:

Name of Institution	Balances as per Books Debit/(Credit)	Balances as per confirmation received Debit/(Credit)	Difference
		-----AF ('000')-----	
Bank of America – New York	1,802,821	3,746,653	1,943,832
Citibank - New York	6,043,368	7,186,211	1,142,843
Crown Agent	(715,965)	210,265	926,230
Total			<u>4,012,905</u>

"Due from Banks and Financial Institutions" (Note 6), also included an un-reconciled balance of AFN 5,615,612 thousand which was previously appearing as "Correspondent Bank Clearing Accounts" in the general ledger. We were informed that such amount mainly represents numerous inter-bank adjusting entries resulting from reconciliation of other bank accounts made before 20 March 2005. Subsequent to the year end, the Bank carried out a detailed exercise to reconcile the said un-reconciled balances and the abovementioned bank accounts. As a result of such reconciliation the bank adjusted an amount of AFN 3,850,015 thousand out of the said un-reconciled balance to reconcile the difference of abovementioned bank accounts. An amount of AFN 980,000 thousand was also identified as 'Deposit for Letter of Credit' as discussed in paragraph 1 above.

Consequent to the above mentioned and other adjustments, balance amount of AFN 779,900 thousand pertaining to "Correspondent Bank Clearing Account" still remained un-reconciled



for which Allowance for Losses' of AFN 779,900 thousand has been made against such unreconciled balance and charged to income statement for the year ended 19 March 2008.

3. We have been given an understanding that the Ministry of Finance has transferred certain gold bars and silver coins lying in the Palace Vault. However, no valuation has been recognised in these financial statements for silver coins due to pending physical verification by the management.
4. As per Article 46 of the Income Tax Law of 2005, the Bank is under obligation to withhold 20% tax on payments of interest on deposits and capital notes. During the year, the Bank had paid interest on capital notes and deposits of local commercial banks aggregating to AFN 480,566 thousand (1385 AFN 81,396 thousand) on which the Bank has not withheld taxes amounting to AFN 96,113 thousand (1385 AFN 4,070 thousand). The Taxation Laws of Afghanistan prescribe certain penalties and fine in case of failure to withhold tax from the payment of interest in addition to the principal amount of tax not withheld. The amount of penalties has not been quantified. The Bank has not made any provision in the financial statements against the principal amount as well as any penalties thereof as prescribed by the Taxation Laws of Afghanistan.
5. As explained in note 27 to the financial statements, the Bank is in the process of reconciling the assets and liabilities transferred under the MoU with its books and records, which process has not been completed by the year end and adjustment may be required to be made to the carrying value of such assets and liabilities.
6. "Deferred Grant" (Note 19) represents the amount of grants received from United States Agency for International Development (USAID) through Bearing Point (Consultants) in kind between years 1384 to 1386. The Bank recognised these grant assets retrospectively by restating comparative of the year 1384 by AFN 25,624 thousand, 1385 by AFN 153,247 thousand and 1386 by AFN 30,349 thousand respectively. However, we have not been provided with the agreement of the Bank with USAID and Consultants. Accordingly, we were unable to satisfy ourselves as to the completeness and accuracy of the grant amount.
7. The Bank has not presented following information / disclosures in accordance with the requirements of the International Financial Reporting Standards:
 - comparative cash flow statement, an integral part of complete set of financial statements, as required by International Accounting Standard "Presentation of Financial Statements" (IAS-1) is not disclosed.
 - the transactions and balances with certain related parties have not been disclosed.
 - certain disclosures in respect of maturity profile of financial instruments and risks associated with the entity's operational and financial transactions and their mitigations followed by management of entity in accordance with International Accounting Standard "Financial Instruments: Disclosure and Presentation" (IAS-32).
 - certain disclosures in respect of present value of obligation, movement of net assets/ liabilities recognised in the balance sheet, charge for the year, etc in accordance with International Accounting Standard "Employee Benefits" (IAS-19).






Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary to financial statements described in the Basis for Qualified Opinion paragraphs, the financial statements give a true and fair view of the financial position of the Bank as at 29 Hoot 1386 (19 March 2008) and of its financial performance for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter paragraphs

We draw your attention to the following matters:

- Article 83 of the Da Afghanistan Bank Law (DAB Law) of 2003 prohibits the Bank from providing any loans, advances or financial assistance to the State or any of its agencies. However, during the year, the Bank had provided interest free advances to different ministries and the office of the President of Islamic Republic of Afghanistan amounting to AFN 137,000 thousand which is not consistent with the requirement of said Article of DAB Law. As at balance sheet date AFN 16,995 thousand remained receivable from these entities which is disclosed in "Advances and Other Receivables" (Note 8) in the financial statements.
- According to the provision of Article 31 of DAB law where net profit for any financial year is insufficient to increase its authorised capital up to the level of 5 percent of total amount of monetary liability as prescribed in Article 29, the Ministry of Finance evaluates the circumstances as given in sub-article 2 of Article 31 of DAB law and provides remedy to the Bank to meet the deficit. As fully explained in note 21.1 after adjustments as required by Article 29 and 30, the capital balance as at 29 Hoot 1386 (29 Hoot 1385) fall short of prescribed limit by AFN 9,455,104 thousand. The Bank intends to pursue this matter with Ministry of Finance to meet the deficit.
- According to Transitional Article 129 of DAB Law the Bank shall be authorized to provide commercial banking services only for holders of commercial accounts who maintain an active business place located in any region of Afghanistan where commercial banking services are not provided. The Bank shall not provide these services for a period not more than two years from the effective date of the DAB Law that is 27-06-1382 (18 September 2003). However, the Bank is still providing commercial banking services in all places where more than one local commercial bank are operating.


KPMG Afghanistan Limited
02 March 2008

Da Afghanistan Bank**Balance Sheet***As at 29 Hoot 1386 (19 March 2008)*

	<i>Note</i>	1386 (AFN '000')	1385 (AFN '000') Restated
ASSETS			
Gold reserve	4	33,368,073	23,217,290
Foreign currency cash reserve	5	4,158,422	3,832,258
Due from banks and financial institutions	6	85,552,266	56,010,423
Treasury bills	7	25,736,598	25,715,417
Advances and other receivables	8	16,995	30,849
Investment properties	9	4,800	4,800
Property and equipment	10	2,210,493	2,160,598
Intangible assets	11	26,785	-
Other assets	12	6,346,250	6,718,044
TOTAL ASSETS		157,420,682	117,689,679
LIABILITIES AND EQUITY			
LIABILITIES			
Currency in circulation	13	58,965,490	50,328,894
Capital notes	14	4,519,061	1,179,406
Due to other banks and financial institutions	15	7,470,689	5,097,571
Due to customers	16	42,039,372	37,805,315
IMF related liabilities	17	32,049	32,049
Defined benefit plan	18	295,036	341,674
Deferred grant	19	168,118	174,678
Provisions and other liabilities	20	11,366,617	5,946,294
Total liabilities		124,856,432	100,905,881
EQUITY			
Capital	21	(3,803,771)	(5,917,478)
Revaluation reserve	21	36,368,021	22,701,276
Accumulated losses	21	-	-
Total equity		32,564,250	16,783,798
TOTAL LIABILITIES AND EQUITY		157,420,682	117,689,679


The annexed notes 1 to 34 form an integral part of these financial statements.



Masood Khan Musa Ghazi
(Chief Financial Officer)



Mohibullah Safi
(First Deputy Governor)



Abdul Qadeer Fitrat
(Governor)

Da Afghanistan Bank
Income Statement

For the year ended 29 Hoot 1386 (19 March 2008)

	Note	1386 (AFN '000')	1385 (AFN '000')
Interest income	22	4,228,112	3,414,906
Interest expense	23	(480,566)	(81,396)
Net interest income		3,747,546	3,333,510
Fees and commission income		172,631	146,992
Fees and commission expense		(8,246)	(4,311)
Net fees and commission income		164,385	142,681
Income from dealings in foreign currencies		334,567	668,532
Other operating income	24	56,209	74,273
		390,776	742,805
Operating income		4,302,707	4,218,996
Allowance for losses	6.2	(779,900)	-
Net impairment loss on financial assets	8.2	(323,488)	(1,156,688)
Personnel expenses	25	(221,410)	(216,041)
Printing cost of bank notes		(204,689)	(1,074,238)
Other expenses	26	(102,165)	(105,323)
Voluntary retirement compensation expense	20.2	(502,626)	-
Depreciation and amortisation	10&11	(54,722)	(50,353)
Un realised exchange gain	21.4.2	3,240,310	2,811,017
Profit for the year		5,354,017	4,427,370

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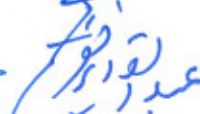
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Masood Khan Musa Ghazi
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Abdul Qadeer Fitrat
(Governor)

Da Afghanistan Bank

Statement of Recognised Income and Expense

For the year ended 29 Hoot 1386 (19 March 2008)

	Note	1386 (AFN '000')	1385 (AFN '000') Restated
Revaluation surplus on gold reserve		10,426,435	3,637,610
Revaluation surplus on land		-	369,490
Difference in assets and liabilities adjusted		-	672,420
Net income recognised directly in equity		10,426,435	4,679,520
Profit for the year		5,354,017	4,427,370
Total recognized income for the year	21.1	15,780,452	9,106,890

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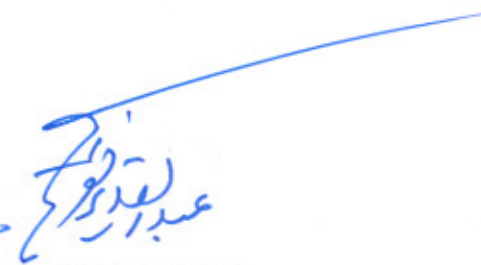
The annexed notes 1 to 34 form an integral part of these financial statements.



Masood Khan Musa Ghazi
(Chief Financial Officer)



Mohibullah Safi
(First Deputy Governor)



Abdul Qadeer Fitrat
(Governor)

Da Afghanistan Bank**Cash Flow Statement***For the year ended 29 Hoot 1386 (19 March 2008)*

	1386
Note	(AFN '000')
Cash flows from operating activities	
Net profit for the year	5,354,017
Adjustments for:	
Interest income	(4,228,112)
Interest expense	480,566
Depreciation and amortisation	54,722
Net impairment loss on financial assets	323,488
Voluntary retirement compensation expense	502,626
	<u>2,487,307</u>
Working capital changes:	
- Foreign currency cash reserve	(326,164)
- Due from banks and financial institutions	(31,393,001)
- Advances and other receivables	(309,634)
- Other assets	225,794
- Currency in circulation	8,636,596
- Due to other banks and financial institutions	2,373,118
- Due to customers	4,234,057
- Other liabilities and provisions	5,420,323
- Deferred grant	(6,560)
	<u>(11,145,471)</u>
Interest received	4,375,366
Interest paid	(480,566)
Net cash inflow/outflow from operating activities	<u>(4,763,363)</u>
Cash flows from investing activities	
Net cash used in investing activities - Purchase of	
property and equipment	(101,286)
Cash flows from financing activities	
Net cash from financing activities - Capital notes issued	<u>3,339,655</u>
Net decrease in cash and cash equivalents	(1,524,994)
Cash and cash equivalents at beginning of the year	<u>12,478,217</u>
Cash and cash equivalents at end of the year	<u><u>10,953,223</u></u>

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The annexed notes 1 to 34 form an integral part of these financial statements.



Masood Khan Musa hazi
(Chief Financial Officer)



Mohibullah Safi
(First Deputy Governor)



Abdul Qadeer Fitrat
(Governor)

Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

1. Status and nature of operations

The Da Afghanistan Bank ("the Bank") was originally established in 1939 in accordance with Article 12 of the 1932 Constitution of Afghanistan. The Bank was operating under the supervision of the Ministry of Finance (MOF), Government of Afghanistan. Subsequently, during the transitional Government, the Da Afghanistan Bank Law ("DAB Law") of the Islamic Republic of Afghanistan was enacted on 18 September 2003, and the Bank was re-established as an independent legal entity. This law and the change in the Bank's status were ratified by an amendment to the Article 12 of the Constitution the Islamic Republic of Afghanistan in January 2004. Registered office (Head Office) of the Bank is situated in Kabul.

Da Afghanistan Bank is the Central Bank of Afghanistan, as per DAB Law, the Bank's main objective is to achieve and to maintain domestic price stability with other objective to foster the liquidity, solvency and proper functioning of a stable market based financial system. It also conducts monetary policy on the monetary base and through reserves management, and act as a bank, financial consultant, and agent of the Government of Islamic Republic of Afghanistan and other state governed bodies.

Upto 20 March 2007, the Bank operated 74 branches throughout the country. However, during the year, the Bank has closed 6 Branches due to security concerns. As at 19 March 2008 the Bank operated 68 branches.

2. Basis of preparation

(a) Statement of compliance

The Bank's financial statements have been prepared in accordance with the requirements of DAB law and the International Financial Reporting Standards (IFRSs) / International Accounting Standards. Wherever the DAB Law differs with the requirements of the IFRSs, the requirements of DAB Law take precedence.

The financial statements were approved by the Supreme Council in their meeting held on 01 December 2008.

(b) Basis of measurement

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

(c) Functional and presentation currency

The financial statements are presented in Afghani ("AFN"), which is the Bank's functional currency. All financial information presented in AFN has been rounded to the nearest thousands of Afghani.

(d) Use of estimates and judgments

The preparation of financial statements 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.

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

- gold reserve Note 3 (b)
- useful lives and valuation of property and equipment; Note 3 (d)
- fair value measurement of investment properties; Note 3 (d)
- useful lives of intangible assets Note 3 (e)
- Provision for impairment against advances and other receivables Note 3 (g)
- Retirement benefits to employees; Note 3 (i)

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 in to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated in to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated in to the functional currency at the exchange rate at the date that the fair value was determined.

For the purpose of retranslation as at 19 March 2008, the Afghani exchange rates used for the major currencies were:

	1386	1385
United State Dollars	49.520	50.115
Euro	77.500	66.415
Sterling Pounds	98.810	96.890
Pakistani Rupees	00.784	00.825

Foreign currency differences arising on retranslation are recognized in profit or loss.

(b) Gold

Gold held as reserve

Refined gold held as foreign reserve are recorded at fair value at the balance sheet date. Changes in the fair value of gold are directly taken to the equity. Fair price is determined by reference to the London Bullion Market Association ("LBMA") PM fixings.

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

Gold at Bank vault

Non-refined gold and precious metal held at Bank's vault are stated at cost, and are included within other assets.

(c) Cash and cash equivalents

Cash and cash equivalents include foreign currency cash on hand, unrestricted balances held with other central banks 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.

(d) Property and equipment

Recognition and measurement

Items of property and equipment, other than free hold land, which is stated at revalued amount, are measured at cost less accumulated depreciation and impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the items of the income statement.

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

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 costs of day-to-day servicing of property and equipment are recognized in income statement as incurred.

Depreciation

Depreciation is recognized in income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

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

Buildings	40 years
Furniture and other equipment	10 years
Vehicles	6.67 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Surplus arising from the revaluation is credited to the Revaluation Reserve included in equity section of the Balance Sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the income statement, in which case the increase is recognized in income statement. A revaluation deficit is recognized in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the Revaluation Reserve. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings. An item of

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Da Afghanistan Bank
Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

property and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is de-recognized. The asset's residual values, useful lives and method are regularly reviewed and adjusted, if appropriate.

Reclassification to investment property

When a property transfers from operating assets for the Bank's own use (owner-occupied) to investment property, that will be carried at fair value and is reclassified as investment property. Any gain arising on remeasurement at the time of transfer is recognized in equity and any loss is recognized immediately in income statement.

(e) Investment properties

Investment properties is property held to earn rental income and for capital appreciation. The Bank holds some investment properties as a consequence of its lease agreements. Investment properties are measured at fair value with any change therein recognized in income statement.

(f) Intangibles

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

Subsequent expenditure on software assets 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 income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use.

(g) Non-derivative financial instruments

Non-derivative financial instruments of the Bank comprise gold reserve, cash, advances and other receivables, due from other banks and financial institutions, treasury bills, currency in circulation, due to other banks and financial institutions, capital notes, due to customers, due to International Monetary Fund and other liabilities.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognized if the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Bank's contractual rights to the cash flows from the financial assets expire or if the Bank transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Bank commits itself to purchase or sell the asset. Financial liabilities are

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

derecognized if the Bank's obligations specified in the contract expire or are discharged or cancelled.

Held-to-maturity investments

When the Bank has the positive intent and ability to hold debt securities to maturity, these investments are classified as held-to-maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Subsequent to initial recognition, the Bank's investments in securities are classified as available-for-sale financial assets are measured at fair value and changes therein, other than impairment loss (see note 3(e)), and foreign exchange gains and loss on available-for-sale monetary items (see note 3(a)), are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to income statement.

Investment at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Bank manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are charged in income statement when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in income statement.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

(h) Impairment

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in income statement. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to income statement.

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognized in income statement. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

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.

The recoverable amount of an asset 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.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in income statement.

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 the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(i) Currency in circulation

Bank notes and coins in circulation represent a demand liability of the Bank when issued from the vaults and are recorded in the balance sheet at their denominated value. Expenses on bank notes and coins in circulations include expenses on production, security, transportation, insurance and other expenses. Expenses on bank notes and coins in circulation are recognized as and when they are incurred. Any un-issued currency notes and coins lying with the Bank's vault are not reflected in these financial statements.

(j) Employee benefits

Defined benefit plans

The Bank operates a pension scheme for its permanent employees. Contributions to the scheme are made by employees and the Bank. Employees contribute 3% of net monthly salary and education allowance while the Bank contributes 5% of the budgeted salary on yearly basis. Pension is payable after the retirement on monthly basis in accordance with pension rules of the Bank depending upon completed years of service.

The Bank's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on Government securities that have maturity dates approximating to the terms of the Bank's obligations. The calculation is performed by a

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Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Bank, the recognized asset is limited to the net total of any unrecognized past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefits relating to past service by employees is recognized in income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in income statement.

Short-term benefits

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

Termination benefits

Termination benefits are recognised as a liability and an expense when, and only when, the bank is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date or termination benefits as a result of an offer made in order to encourage voluntary redundancy, opted by the employees.

(k) 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 the risks specific to the liability.

(l) Interest

Interest income and expense are recognized in the income statement 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. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortized cost on an effective interest rate basis.
- Interest on available-for-sale investment securities on an effective interest basis.

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Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

(m) Fees and commission

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

Other fees and commission income, including account servicing fees, transfer commission, branch coordination commission are recognized as the related services are performed. When a loan commitment is not expected to result in draw-down of a loan, loan commitment fees are recognized on straight-line basis over the commitment period.

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

(n) Rental income

Rental income from investment properties is recognized in income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

(o) Grant

Grant is recognized in the income statement over the periods necessary to match them with the related asset when they are intended to compensate on a systematic basis. Grant relating to asset including non-monetary grant at fair value is credited to a deferred grant account and is released to the income statement over the expected useful life of the relevant asset.

(p) Taxation

Under Article 124 of the DAB Law, DAB is exempted from taxes on income or profits; personal property taxes on assets; taxes on transfer of funds and other financial transactions; stamp duties on issuance of securities and banknotes; customs duties, import duties, sales tax, value added taxes on imports of gold, bank notes and coins; sales tax on domestic supply of gold, bank notes, and coins etc.

Accordingly, no provision for income tax has been made in the financial statements.

(q) Offsetting

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to set-off the recognized amounts and it intends either to settle on a net basis or to realized the asset and settle the liability simultaneously.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the years ended 19 March 2008, and have not been applied in preparing these financial statements.

- IFRS 7 *Financial Instruments: Disclosure* and the *Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures*
- IFRS 8 *Operating Segments*

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Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

- Revised IAS 23 *Borrowing Costs*
- IFRIC 8 *Scope of IFRS 2 Share-based Payment*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*
- IFRIC 11 *IFRS-2 Group and Treasury Share Transactions*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 13 *Customer Loyalty Programmes*
- IFRIC 14 IAS 19- *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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Da Afghanistan Bank
Notes to the financial statements
For the year ended 29 Hoot 1386 (19 March 2008)

	Note	1386 (AFN '000')	1385 (AFN '000')
4. Gold reserve			
Balance as at 01 Hamal	4.1	23,217,290	19,579,680
Appreciation in the value of gold during the year adjusted with exchange loss of AFN 275,651 thousand		10,150,783	3,637,610
Balance as at 29 Hoot		33,368,073	23,217,290

4.1 This represents gold in bar form held at Federal Reserve Bank of New York as the Bank's international reserve. The quantities of these gold bars at balance sheet date were 703,004.944 fine troy ounces (1385: 703,004.944 fine troy ounces).

5. Foreign currency cash reserve

Cash at head office	3,560,375	2,537,402
Cash at branches	598,047	1,294,856
	4,158,422	3,832,258

This represents notes and coins freely convertible foreign currency held by the Bank.

	Note	1386 (AFN '000')	1385 (AFN '000') Restated
6. Due from banks and financial institutions			
Demand deposits	6.1	77,306,830	46,895,483
Less: unidentified amount written off	6.2	(779,900)	-
		76,526,930	46,895,483
Deposit for Letter of Credit		2,051,606	144,052
Interest receivables		178,929	324,929
Current accounts with foreign banks		6,794,801	8,645,959
		85,552,266	56,010,423

6.1 These represents demand deposit and carry interest ranging from 5.35 to 6.02% (1385: 4.49% to 5.3%).

6.2 Subsequent to the year end, as a result of furtherance of the reconciliation process of the differences in balances as per the ledger of the Bank with the balance as per the subsidiary records, this amount was identified, for which the Bank had no subsidiary record. Accordingly, the management has decided to write off the same during the year.

7. Treasury bills

Face values

US treasury bills	7.1	14,207,288	14,377,994
UK treasury bills	7.1	6,659,794	6,530,386
US treasury notes	7.2	4,952,000	5,011,500
		25,819,082	25,919,880
Un-earned discount on treasury bills		(82,484)	(204,463)
		25,736,598	25,715,417

7.1 These bills are debt securities issued by the US/UK Treasuries and purchased through Deutsche Bank. The Treasury Bills have original maturities of 28 days to 182 days. The Treasury Bills are purchased at a discount from face value and do not pay interest before maturity. The interest is the difference between the purchase price of the bill and the amount paid back at maturity or when sold prior to maturity. The Bank intends to hold these bills until maturity dates.

7.2 US treasury notes have its original maturity of 2 years carries effective interest rate of 1.15% (1385:1.15%).

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Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

	Note	1386 (AFN '000')	1385 (AFN '000') Restated
8. Advances and other receivables			
Advances to government		16,995	30,849
Others		1,480,176	1,156,688
	8.1	1,497,171	1,187,537
Less : Allowance for impairment on advances	8.2	1,480,176	1,156,688
	8.3	16,995	30,849
8.1 Foreign currencies		1,068,848	1,067,054
Local currency		428,323	120,483
		1,497,171	1,187,537

8.2 These advances represent advances to past regimes and receivables on account of misappropriation of the cash in hand by the Bank's staff in prior and current year. The Bank has recognised full impairment provision against these advances as the chances of the recovery of the same are remote.

8.3 These represent interest free advances to the Government of Afghanistan and its agencies during the year.

8.4 Movement in the allowance for impairment provision on advances is as follows:

Balance as at 01 Hamal	1,156,688	-
Impairment provided during the year	323,488	1,156,688
Balance as at 29 Hoot	1,480,176	1,156,688

9. Investment properties

Balance as at 01 Hamal	4,800	-
Transfer from property and equipment	-	4,800
Balance as at 29 Hoot	4,800	4,800

9.1 Investment property comprises an agricultural land situated near Kabul which is leased out to a farmer. The lease contract is for a period of 3 years, upon completion of 3 year subsequent renewal is subject to negotiation with the lessee. Property interests held under operating leases are classified as investment properties. No contingent rents are recognized. The Bank has given certain shops attached with the premises of the branches, however, the portion given on leases is not significant and hence are not classified as investment properties.

There is no significant changes in fair values of investment property during the year 1386. The recent valuation was carried out during year 1385 by M/S Pamir Property Dealer Kabul, a reputed property dealer having professional competency and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Bank's investment properties. The gains on the re-measurement of fair value of investment property amounting to AFN 1,330 thousand was recognised in the revaluation reserve on the date of re-classification of this property from property and equipment to investment property. At the year end, at the request of the Bank M/S Pamir Property Dealer, Kabul - property valuer confirmed that there is no significant change in the value during the year 1386 because the investment property is situated near the agricultural land. Accordingly, no gain / loss has been recognised in these financial statements.

Rental income earned from investment property is disclosed under Note 24.

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

10. Property and equipment

	Freehold land	Buildings	Furniture, fixture and equipment	Total
	(AFN '000')			
Cost				
			Restated	
Balance at 01 Hamal 1385	1,415,074	111,904	144,596	1,671,574
Revaluation surplus	369,490			369,490
Transfer to investment property	(4,800)	-	-	(4,800)
Additions	-	64,000	163,895	227,895
Balance at 29 Hoot 1385	1,779,764	175,904	308,491	2,264,159
Balance at 01 Hamal 1386	1,779,764	175,904	308,491	2,264,159
Revaluations				
Additions	-	44,789	56,497	101,286
Balance at 29 Hoot 1386	1,779,764	220,693	364,988	2,365,445
Depreciation				
Balance at 01 Hamal 1385	-	9,115	44,093	53,208
Depreciation for the year	-	6,285	44,068	50,353
Balance at 29 Hoot 1385	-	15,400	88,161	103,561
Balance at 01 Hamal 1386	-	15,400	88,161	103,561
Depreciation for the year	-	5,517	45,874	51,391
Balance at 29 Hoot 1386	-	20,917	134,035	154,952
Carrying amounts				
At 01 Hamal 1385	1,415,074	102,789	100,503	1,618,366
At 29 Hoot 1385	1,779,764	160,504	220,330	2,160,598
At 01 Hamal 1386	1,779,764	160,504	220,330	2,160,598
At 29 Hoot 1386	1,779,764	199,776	230,953	2,210,493

- 10.1** During the year ended 1385 freehold land and buildings were revalued by Pamir Property Dealer, a well known local valuation expert having knowledge and experience in the same location, on the basis of market values. The revaluation resulted in a surplus of AFN 369,490 thousand which is included in revaluation reserve.

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Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

	Note	1386 (AFN '000')	1385 (AFN '000')
11. Intangible assets			
Balance as at 01 Hamal		-	-
Addition during the year		30,116	-
Amortisation during the year		(3,331)	-
Balance as at 29 Hoot	11.1	26,785	-

11.1 This represents 'Central Banking System' an accounting software received by the Bank from USAID as grant in kind and is recognised at fair value as on that date which is its invoice value. The software will be amortized over the useful life of five years.

12. Other assets

Non-monetary gold bullion and bars		8,061,400	8,061,400
Non monetary gold bullion and bars written down		(2,384,167)	(2,384,167)
	12.1	5,677,233	5,677,233
Inventories		995	1,777
MOU adjustments items	27	48,613	-
Inter-branch accounts	12.2	619,409	1,039,034
		6,346,250	6,718,044

12.1 This represents the gold bullion and bars and gold and silver coins held in the Bank's vault. Under a Memorandum of Understanding ("the MOU") agreed between the Bank and the Ministry of Finance (MoF) in the year 1383, the Bank has been granted clear title to all the gold bullion and bars, as well as certain gold and silver coins, asserted to be owned by the Bank and physically located in the Presidential Palace vault. A count of these gold bullion, bars and coins was conducted in the year 1384 for the purpose of the MOU and the value of these were estimated to AFN 8,061,400 thousands as determined by local expert. However, subsequent to the year end, the Bank completed the reconciliation process of gold bars and coins physically held by the Bank in Palace Vault with the books and records and it is concluded that gold bars and coins valuing of AFN 2,384,167 thousand which represents actual quantity handed over to the Bank by the Ministry of Finance under the Memorandum of Understanding (MoU) are not available physically. Consequently the management decided and written off the shortfall in the gold in these financial statements for the year ended 29 Hoot 1386 (19 March 2008) to reflect the physical gold bars and coins balances held by the Bank at the year end.

12.2 It represents the net debit balance of un-reconciled differences in inter-branch accounts. Management is in process of reconciling these balances and the impact of these differences on the financial statements can not be determined at this time.

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

13. Currency in circulation

Coins	428,400	428,400
Bank notes	66,260,351	57,154,962
	66,688,751	57,583,362
Banknotes and coins at the vault of bank as at 29 Hoot	(7,723,261)	(7,254,468)
	58,965,490	50,328,894

	1386	1385
Note	(AFN '000')	(AFN '000')

14. Capital notes

Face values	4,664,000	1,179,406
Amortised discount	(144,939)	-
14.1	4,519,061	1,179,406

- 14.1 These represents debt instruments issued by the Bank solely to licensed commercial banks and licensed money changers and having maturity between 28 days to 182 days (1385: 28 days to 56 days). Capital notes are freely transferable between licensed commercial Banks, licensed money changers and Da Afghanistan Bank.

These notes carries interest between 7.12% to 18% (1385: between 4.9% to 8%).

	1386	1385
Note	(AFN '000')	(AFN '000')
		Restated

15 Due to other banks and financial institutions

Foreign currency

Current accounts	1,876,148	2,352,444
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Local currency

Current accounts	4,662,746	1,145,654
Overnight deposits	931,795	1,599,473
15.2	5,594,541	2,745,127
15.1	7,470,689	5,097,571

- 15.1 Due to foreign banks and financial institutions
Due to local banks

1,999,325	1,513,564
5,471,364	3,584,007
7,470,689	5,097,571

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

- 15.2** Overnight deposits carries interest ranging from 6% to 14% pa (1385: 2.5%). Local currency current accounts include cash reserve balance maintained by the commercial banks with the Bank as per the requirement of Article 66 of the DAB Law, on which the Bank pays interest between 6% to 14% pa (1385: 2.5%).

	Note	1386 (AFN '000')	1385 (AFN '000') Restated
16 Due to customers			
Foreign currency			
Current accounts	16.1	22,670,649	19,107,133
Dormant accounts	16.2	11,465	11,533
Residual accounts	16.2	171,657	159,110
		<u>22,853,771</u>	<u>19,277,776</u>
Local currency			
Current accounts	16.1	18,983,166	18,419,632
Time deposits		38,470	38,977
Dormant accounts	16.2	143,501	39,323
Residual accounts	16.2	20,464	29,607
		<u>19,185,601</u>	<u>18,527,539</u>
	16.3	<u>42,039,372</u>	<u>37,805,315</u>
16.1 Current accounts			
Current accounts of Government		30,423,575	19,731,860
Others		11,230,240	17,794,905
		<u>41,653,815</u>	<u>37,526,765</u>

- 16.2** Dormant accounts are non-operative accounts of the customers which are belonging to past years and non-operative accounts transferred by the other government owned commercial banks. Initially, non-operative accounts has been classified as dormant for 10 years, thereafter as residual for another 10 years. During this period if the customers didn't claim back these deposits, the Bank transfer it to the Ministry of Finance (MoF) Government of Afghanistan. During the year 1386 no such accounts has been transferred to the Ministry of Finance.

- 16.3** All these accounts are non-interest bearing.

17. IMF related liabilities

Account 1		30,937	30,937
Account 2		1,112	1,112
	17.1	<u>32,049</u>	<u>32,049</u>

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

- 17.1** The Islamic Republic of Afghanistan is a member of International Monetary Fund (IMF) since 1955. The member country can designate Ministry of Finance (MoF), central bank or any other agency as their Fiscal Agent. In addition, each member is statutorily required to designate its central bank as Depository. The Government of Afghanistan has nominated MoF as their Fiscal Agent and the Bank as the Depository.

As the Depository for the Afghanistan, the Bank is required to maintain in additions to other accounts, the following accounts

Account 1 (Afghani)

Account 2 (Afghani)

IMF's holding of the member's currency are placed in IMF Accounts No 1 and No 2 in the central bank. The central bank is required to record balances in the IMF No.1 and No. 2 accounts as its liabilities. These balances, although maintained within the central bank, are owned by the IMF. The IMF Account No. 1 is used for the IMF's operational transactions whereas the IMF Account No. 2 is used for operational expenses incurred by the IMF in the member's currency.

18. Defined benefit plan

The Bank operates unfunded defined contributory pension scheme which cover all eligible employees as per the policy of the Bank specified under note 3(j). The Bank obtained services of an Independent Actuary situated in Karachi - Pakistan, to carry out the actuarial valuation of defined benefit obligations. The following data is based on the valuation carried out at 29 Hoot 1385 (20 March 2007).

The liability recognised in the balance sheet in respect of defined benefit pension scheme is the present value of the defined benefit obligation at the 29 Hoot 1385.

Significant assumptions made by the Actuary to calculate present value of pension liability under Projected Unit Credit Actuarial Cost Method are:

Discount rate (compounded) p.a	8%
Annual average increase in salary	8%
Average increase in pension	Nil
Retirement age (years)	65

However, due to the offer of voluntary retirement scheme during the year ended 29 Hoot 1386 (19 March 2008) by the Bank, 563 employees were opted for this and took voluntary retirement. The Bank has adjusted the present value of pension liability calculated by the Actuary in previous year proportionately with remaining number of employees to arrive at the approximate amount of pension obligation. Due to this adjustment the present value of pension liability of the Bank is reduced from AFN 378,758 thousand to AFN 295,036 thousand as at 29 Hoot 1386 (19 March 2008). Following is the summary of changes to the present value of pension obligation at each year end.

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

Movement in pension liability

	1386	1385
<i>Note</i>	<u>(AFN '000')</u>	<u>(AFN '000')</u>
Balance as at 01 Hamal	341,674	315,210
(Written back) / provided during the year	(46,638)	26,464
Balance as at 29 Hoot	295,036	341,674

Benefits paid to the pensioners during the year is included in salaries and benefits expense reported in note 25.

19. Deferred grant

Deferred grant represent the amount of grants received from United States Agency for International Development (USAID) through Bearing Point (Consultants) in kind between years 1384 to 1386, mainly motor vehicles, IT and power equipment and accounting software. The Bank recognised these granted assets retrospectively by re-stating previous years financial statements as at 1384 AFN 25,624 thousand, 1385 AFN 153,247 thousand and in 1386 AFN 30,349 thousand respectively aggregating to AFN 209,220 thousand. However, these excludes the fair values of professional assistance provided by USAID through Bearing Point (Consultants). The Bank recognised grants in kind at fair values at the time of receiving. Following summary shows yearly deferred grant recognised and grant income release to the income statement as per the policy of the Bank mentioned in note 3(o).

	1386	1385
	<u>(AFN '000')</u>	<u>(AFN '000')</u>
		Restated
Balance as on 01 Hamal	220,982	55,411
Grant assets received during the year	30,349	165,571
	251,331	220,982
Accumulated transferred to income	(83,213)	(46,304)
Balance as on 29 Hoot	168,118	174,678

Accumulated transferred to income

Balance as on 01 Hamal	46,304	14,742
Transfer to income during the year	36,909	31,562
Balance as on 29 Hoot	83,213	46,304

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Da Afghanistan Bank**Notes to the financial statements***For the year ended 29 Hoot 1386 (19 March 2008)*

		1386	1385
		(AFN '000')	(AFN '000')
20. Provisions and other liabilities			
Voluntary retirement compensation payable	20.2	502,627	-
Deposit against letters of credit	20.3	9,601,073	4,805,583
Current accounts of departments of DAB	20.4	64,473	-
MOU adjustments items	27	-	8,596
Sundry payable		19,868	4,300
Withholding taxes payable		1,823	112
Suspense accounts	20.5	1,176,753	1,127,703
	20.1	<u>11,366,617</u>	<u>5,946,294</u>
20.1 In local currency		1,381,717	843,162
In foreign currency		<u>9,984,900</u>	<u>5,103,132</u>
		<u>11,366,617</u>	<u>5,946,294</u>

20.2 As part of its re-structuring process the Supreme Council of the Bank approved a voluntary retirement scheme during March 2008 and offered to the employees . A total number of 563 employees accepted the offer and approved by the management. Under this scheme the Bank compensate the outgoing employees with three years worth's of ten months salary based on last drawn basic salary. The Bank recognised liability of compensation payable to the voluntary retiring staff as at 29 Hoot 1386 (19 March 2008) which comes to AFN 502,626 thousand.

20.3 These represents the deposits received by the Bank against issuance of letters of credit. The Bank issue letters of credit only to the government and governmental organisations against receipt of 100% deposit.

20.4 These represent the current accounts of various departments of the Bank that were opened in past as per earlier practice. The Bank is in process of closing these departmental current accounts and will be closed in next year.

20.5 This consists of un-reconciled accounts of past years comprising of AFN 45,806 thousand as debit and AFN 1,222,559 thousand as credit. The Bank is in the process of reconciling these balances and would eventually be transfer to either appropriate account head or to the retained earnings in future. Impact of these balances on the over all financial statements can not determined at this moment.



21. Capital and reserves**21.1 Reconciliation of movement in capital and reserves (equity)**

		Capital Note 21.2	Revaluation reserve Note 21.4	Accumulated (losses) / profit Note 21.5	Total
		(AFN '000')			
Balance as at 1 Hamal 1385 before restatement		1,496,853	15,883,159	(7,418,790)	9,961,222
Effect of prior years adjustments	Note 29.4	-	-	(2,284,314)	(2,284,314)
Balance as at 1 Hamal 1385 (restated)		1,496,853	15,883,159	(9,703,104)	7,676,908
Total recognized income for the year		-	-	9,106,890	9,106,890
Revaluation reserve	Note 21.5	-	6,818,117	(6,818,117)	-
		1,496,853	22,701,276	(7,414,331)	16,783,798
Transfer to capital account		(7,414,331)	-	7,414,331	-
Balance as at 1 Hamal 1386		(5,917,478)	22,701,276	-	16,783,798
Total recognised income and expense		-	-	15,780,452	15,780,452
Foreign exchange revaluation reserve	Note 21.5	-	13,666,745	(13,666,745)	-
		(5,917,478)	36,368,021	2,113,707	32,564,250
Transfer to capital account		2,113,707	-	(2,113,707)	-
Balance as at 29 Hoot 1386		(3,803,771)	36,368,021	-	32,564,250

21.2 Capital

According to Article 27 of DAB Law, the authorized capital of the Bank is AFN 8,000,000 thousand or such higher amount as shall result from allocations from net profit pursuant to Article 29 of DAB Law. The capital of the Bank is solely held by the Government of Islamic Republic of Afghanistan, and shall not be transferable or subject to encumbrances. Under the Memorandum of Understanding (MOU) entered with the Ministry of Finance (MoF), the paid up capital of the Bank has been reduced to below AFN 2,000,000 thousand (Afghanis two billion) as a consequence of the transfer of assets and liabilities to the MoF.

21.3 Capital management

After the allocation of accumulated profit to the capital account, the capital of the Bank falls below the 5% of the total amount of liability as at the year end. The Bank is considering recapitalisation of short fall in capital from the Government as per the Article 31 of the DAB Law.

21.4 Reconciliation of movement in revaluation reserves

		Freehold land	Gold (Note 21.4.1)	Foreign exchange revaluation reserve (Note 21.4.2) Restated	Total
	Note	(AFN '000')			
Balance as at 01 Hamal 1385		-	15,883,159	-	15,883,159
Gains recognised during the year		369,490	3,637,610	2,811,017	6,818,117
Balance as at 01 Hamal 1386		369,490	19,520,769	2,811,017	22,701,276
Gains recognised during the year		-	10,426,435	3,240,310	13,666,745
Balance as at 29 Hoot 1386	21.1	369,490	29,947,204	6,051,327	36,368,021

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Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

21.4.1 Revaluation reserve

According to the Article 29 of the DAB Law, the Bank shall hold a general reserve and a revaluation reserve. The Bank may, if required, shall create a special reserves with the approval of MoF.

The Bank has a revaluation reserves amounting to AFN 36,368,021 thousand as on 29 Hoot 1386 (19 March 2008), which represents the cumulative unrealized gains on the revaluation of gold reserves at market prices, freehold land at fair values and un-realised valuation gains from revaluation of other monetary assets and liabilities denominated in foreign currencies at each balance sheet date.

21.4.2 According to Article 29 of the DAB Law, exchange gains/losses can be available only to off-set un-realised gains / losses in future. To comply with the requirements of Article 29 of the DAB Law the Bank transferred exchange gains pertaining to year 1385 from accumulated losses to revaluation reserve.

21.5 Accumulated losses

According to Article 30 of the DAB Law, if the Bank incurs a net loss for any financial year, the loss shall be first charged to the general reserve (excluding any unrealized valuation loss which should be first charged to revaluation reserve account, if any) and to the capital in order. Balance of unrealized valuation loss, if any, after adjusting with revaluation reserve shall be adjusted with general reserve and to capital in order.

22. Interest income

Interest on balances with banks and financial institutions
Interest on US treasury bills

1386 (AFN '000')	1385 (AFN '000') Restated
3,829,388	3,266,797
398,724	148,109
<u>4,228,112</u>	<u>3,414,906</u>

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Da Afghanistan Bank**Notes to the financial statements***For the year ended 29 Hoot 1386 (19 March 2008)*

	Note	1386 (AFN '000')	1385 (AFN '000')
23. Interest expense			
Interest on capital notes		207,584	81,396
Interest-others	23.1	272,982	-
		<u>480,566</u>	<u>81,396</u>
23.1	Other interest is the interest on overnight deposit and cash reserve accounts of the local commercial banks		
24. Other income			
Rental income		1,334	2,007
Grant income		36,909	31,561
Regulatory income		17,966	40,705
		<u>56,209</u>	<u>74,273</u>
25. Personnel expenses			
Salaries		212,630	189,577
Defined benefit plan contribution		(46,638)	26,464
Other allowances		55,418	-
		<u>221,410</u>	<u>216,041</u>
26. Other expenses			
Audit fee and expenses		8,262	6,035
Repair and maintenance		11,447	8,449
Rent		4,919	8,130
Printing and stationery		6,130	5,938
Transportation		7,890	13,496
Communication		23,124	28,228
Insurance		18,392	1,644
Travelling		8,086	13,684
Other expenses		13,915	19,719
		<u>102,165</u>	<u>105,323</u>

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27. Memorandum of understanding (MOU)

In compliance to the Article 130 of the DAB Law (transitional Article), the Bank entered into a MOU with the Ministry of Finance (MoF) during year 1383 (2005), based on which the balances due from / to various ministries of the Government have been netted off and adjusted in equity on 12 Hoot 1383 (02 March 2005), which resulted in a capital loss of AFN 8,067,794 thousand. A full reconciliation of the balances in the accounts related to the MOU has not yet been finalised and is in process. Reconciliation related adjustments due to recoveries have not been determined and recognised. Any adjustment in this respect will be made when determined.

		1386 (AFN '000')	1385 (AFN '000')
28. Cash and cash equivalents			
Foreign currency cash		4,158,422	3,832,258
Current accounts with other banks	6	6,794,801	8,645,959
		<u>10,953,223</u>	<u>12,478,217</u>

29. Corrections of error.

During the year the following errors relating to prior period were identified and corrected accordingly in accordance with IAS-8 "Accounting Policies, Changes in Accounting Estimates and Errors" by restating the comparative amounts for the prior period(s) presented in which the error occurred; and if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. The details of such errors are as follows:

		(AFN '000')
29.1 Restatement to the audited balance sheet of 1385		
29.1.1 Due from banks and financial institutions		
Balance as per financial statements of 1385		65,905,716
Cumulative effect of prior year adjustment	29.4	99,853
Interest income relating to 1385 was not recorded, now recognised	29.2.1	2,303
Bank charges deducted by Central Bank of UAE in 1385, now recorded	29.2.5	(1,767)
Balance as restated	30.1	<u>66,006,105</u>

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Da Afghanistan Bank**Notes to the financial statements***For the year ended 29 Hoot 1386 (19 March 2008)*

	Note	(AFN '000')
29.1.2 Treasury bills		
Balance as per financial statements of 1385		15,697,557
Interest income relating to 1385 was not recorded, now recognised in this year	29.2.1	2,789
Increase in security bill amount which was inadvertently not taken into account for the calculation of amortised cost.	29.3	115,890
Interest income relating to 1385 was overstated due to incorrect calculation.	29.2.1	(96,501)
Balance as restated	30.2	<u>15,719,735</u>
29.1.3 Advances and other receivables		
Balance as per financial statements of 1385		1,003,386
Additional provision recognised after assessing recoverability position of advances	29.2.4	(972,537)
Balance as per restated financial statements of 1385	8	<u>30,849</u>
29.1.4 Property and equipment		
Balance as per financial statements of 1385		2,021,458
Donated assets from Bearing Point/USAID was not recorded earlier, relating to 1384	29.1.5	25,624
Donated assets from Bearing Point/USAID was not recorded earlier, relating to 1385	29.1.5	153,247
Depreciation on above donated assets recognised in 1384	29.1.5	(8,833)
Depreciation on above donated assets recognised in 1385	29.1.5	(24,321)
Balance as restated	30.3	<u>2,167,175</u>
29.1.5 Deferred grant		
Balance as per financial statements of 1385		28,961
Donated assets from Bearing Point/USAID was not recorded earlier, relating to 1384	29.1.4	25,624
Donated assets from Bearing Point/USAID was not recorded earlier, relating to 1385	29.1.4	153,247
Grant income recognised for the year 1384 equal to depreciation	29.1.4	(8,833)
Grant income recognised for the year 1385 equal to depreciation	29.1.4	(24,321)
Balance as per restated financial statements of 1385	19	<u>174,678</u>
Deferred grant was included in other liabilities and provisions before its reclassification to Note 19 in these financial statements.		
29.1.6 Other assets		
Balance as per financial statements of 1385		9,100,434
Non monetary gold bullion and bars written down	12.1	(2,384,167)
Balance as restated	30.5	<u>6,716,267</u>
29.2 Restatement to the audited income statement of 1385		
29.2.1 Interest income		
Balance as per financial statements of 1385		3,506,315
Interest income from due from banks and financial institutions relating to 1385 now recognised	29.1.1	2,303
Interest income relating to 1385 was overstated due to incorrect calculation.	29.1.2	(96,501)
Interest income relating to 1385 was not recorded, now recognised in this year	29.1.2	2,789
Balance as per restated financial statements of 1385	22	<u>3,414,906</u>

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29.2.2 Other operating income

Balance as per financial statements of 1385		49,952
Grant income recognised in restated on donated assets 1385	29.1.5	24,321
Balance as per restated financial statements of 1385	24	<u>74,273</u>

29.2.3 Depreciation and amortisation

Balance as per financial statements of 1385		26,032
Depreciation recognised on donated assets	29.1.5	24,321
Balance as per restated financial statements of 1385	10&11	<u>50,353</u>

29.2.4 General and administrative expenses

Balance as per financial statements of 1385		(289,474)
Additional impairment provision on advances and receivables recognised in 1385	29.1.3	(972,537)
Balance as restated	30.8	<u>(1,262,011)</u>

29.2.5 Fees and commission expense

Balance as per financial statements of 1385		(2,544)
Fee commission expense relating to year 1385 now recognised	29.1.1	(1,767)
Balance as per restated financial statements of 1385		<u>(4,311)</u>

29.3 Restatement to the revaluation reserve of 1385

Balance as per financial statements of 1385		19,890,259
Increase in security bill amount which was inadvertently not taken into account for the calculation of amortised cost.	29.1.2	115,890
Un-realised currency exchange gains from the revaluation of the monetary assets and liabilities denominated in foreign currencies separately classified in profit and loss account and revaluation reserve to comply Article 29 of the DAB Law transfer from accumulated losses.	21.4.2	2,695,127
Balance as per restated financial statements of 1385	21	<u>22,701,276</u>

29.4 Prior years adjustments

During the year the Bank discovered following income/expense relating to prior period i.e. prior to comparative presented year 1385, during the reconciliation and adjust directly opening balances of assets and liabilities and equity by AFN 2,284,314 thousand through statement of recognised income and expense. The nature of these adjustments and net effect credited to the opening equity of year 1385 is shown below.

		(AFN '000')
Deposit with Deutsche Bank London recovered (previously written off)		19,817
Final liquidation dividend from subsidiary situated in London (legally closed)		9,832
Branches net income for the year 1384 , earlier was not transferred		19,008
Expense relating to prior years 1384		(130)
Interest income from deposit with foreign banks relating to year 1384		21,049
Interest income from treasury bills relating to year 1384		30,277
	29.4.1	<u>99,853</u>
Non monetary gold bullion and bars written down	12.1	<u>(2,384,167)</u>
		<u>(2,284,314)</u>

29.4.1 The corresponding effect of above transactions amounting AFN 99,853 thousand is recorded in due from banks and financial institutions.

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Da Afghanistan Bank
Notes to the financial statements

For the year ended 29 Hoot 1386 (19 March 2008)

30. Reclassification of the comparatives

Following reclassifications have been made in the financial statements in order to give more appropriate presentation and correction of classification errors made during the last year.

	Notes	(AFN '000')
30.1 Due from banks and financial institutions		
Balance as restated	29.1.1	66,006,105
Treasury bills purchased were wrongly included here, now reclassified	30.2	(9,995,682)
Reclassified balance, 1385	6	<u>56,010,423</u>
30.2 Treasury bills		
Balance as restated	29.1.2	15,719,735
Treasury bills purchased was wrongly included under due from banks and financial institution	30.1	9,995,682
Reclassified balance, 1385	7	<u>25,715,417</u>
30.3 Property and equipment		
Balance as restated	29.1.4	2,167,175
Investment property was wrongly included under freehold land, now separately disclosed	30.4	(4,800)
Stores and scraps earlier was included under furniture and fixture now transferred to other assets	30.5	(1,777)
Reclassified balance, 1385	10	<u>2,160,598</u>
30.4 Investment property		
Balance as per financial statements of 1385		-
Investment property was wrongly included under freehold land, now separately disclosed	30.3	4,800
Reclassified balance, 1385	9	<u>4,800</u>
30.5 Other assets		
Balance as restated	29.1.6	6,716,267
Stores and scrapes included in property and equipment, transferred here	30.3	1,777
Reclassified balance, 1385	12	<u>6,718,044</u>
30.6 Due to other banks and financial institutions		
Balance as per financial statements of 1385		1,539,571
Due to other banks and financial institutions was wrongly included in due to customers in 1384	30.7	3,558,001
Reclassified balance, 1385	15	<u>5,097,572</u>
30.7 Due to customers		
Balance as per financial statements of 1385		41,363,317
Due to other banks and financial institutions was wrongly included in due to customers in 1384	30.6	(3,558,001)
Reclassified balance, 1385	16	<u>37,805,316</u>
30.8 General and administrative expenses		
Balance as restated	29.2.4	(1,262,011)
Net impairment loss on financial losses has been reclassified to the face of the income statement		1,156,688
Reclassified balance, 1385	26	<u>(105,323)</u>

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31. Risk management policies

The Supreme Council of the Bank, chaired by the Governor, has the overall responsibility and oversight of the Bank's risk management framework. The Bank is primarily subject to credit, liquidity, market (interest risk and currency risk) risks and operational risk. The policies and procedures for managing these risks are outlined in notes 31.1 to 31.5. The Bank has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and managing of these risks. In addition International Monetary Fund (IMF) representatives visit the Bank quarterly to advise senior management and Governor on the management of these risks.

31.1 Credit risk

The Bank takes on exposure to credit risk which is the risk that a counter party will be unable to pay the amounts in full when due. The Bank's primary exposure to credit risk arises through investment in treasury bills and short term deposits with other banks and financial institutions. Treasury bills have insignificant credit risk as these bills are (Guaranteed) by the issuing governments and credit risk arising from deposit with other banks and financial institutions managed by the Bank by monitoring, reviewing and analyzing these deposits frequently. The Bank manages credit risk arising from issuance of letters of credit by obtaining 100% margin against letters of credit.

Bank's concentration of credit risk exposure is as follows:

	1386 (AFN '000')	1385 (AFN '000')
Due from banks and financial institutions	83,321,731	46,895,483
Treasury bills	25,736,598	25,715,417
	<u>109,058,329</u>	<u>72,610,900</u>

31.2 Liquidity risk

Liquidity risk reflects Bank's inability in raising funds to meet commitments associated with the financial instruments. Liquidity risk arising from local currency activities, the Bank manages the daily liquidity position of the local banking system by monitoring daily inter-bank clearing system operates under the Bank. The risk arising out of the Bank's obligations for foreign currencies balances or deposits is managed through available reserve, open market operations and issue of capital notes.

The table below shows the Banks' assets and liabilities at the balance sheet date in to relevant maturity grouping based on the remaining period to the contractual maturity date.

Maturities of assets and liabilities

As at 29 Hoot 1386 (19 March 2008)	Up to one month	Over one month to three month	Over three month to one year	Over one year to five years	Over five years	Total
	(AFN '000')					
Assets						
Foreign currency cash reserve	4,158,422	-	-	-	-	4,158,422
Due from banks and financial institutions	6,794,801	178,929	76,526,930	2,051,606	-	85,552,266
Treasury bills	12,837,507	7,947,091	4,952,000	-	-	25,736,598
Advances and other receivables	16,995	-	-	-	-	16,995
Other assets	-	-	619,409	-	-	619,409
	<u>23,807,725</u>	<u>8,126,021</u>	<u>82,098,339</u>	<u>2,051,606</u>	<u>-</u>	<u>116,083,690</u>
Liabilities						
Currency in circulation	-	-	-	58,537,090	428,400	58,965,490
Capital notes	2,081,203	394,069	2,043,789	-	-	4,519,061
Due to other banks and financial institutions	7,470,689	-	-	-	-	7,470,689
Due to customers	41,653,815	-	-	385,557	-	42,039,372
Provisions and other liabilities	522,495	9,665,546	-	-	-	10,188,041
	<u>51,728,202</u>	<u>10,059,615</u>	<u>2,043,789</u>	<u>58,922,647</u>	<u>428,400</u>	<u>123,182,653</u>
Net liquidity gap	<u>(27,920,477)</u>	<u>(1,933,595)</u>	<u>80,054,550</u>	<u>(56,871,041)</u>	<u>(428,400)</u>	<u>(7,098,963)</u>
Cumulative gap	<u>(27,920,477)</u>	<u>(29,854,072)</u>	<u>50,200,478</u>	<u>(6,670,563)</u>	<u>(7,098,963)</u>	

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For the year ended 29 Hoot 1386 (19 March 2008)

Maturities of assets and liabilities

As at 29 Hoot 1385 (20 March 2007)

	Up to one month	Over one month to three month	Over three month to one year	Over one year to five years	Over five years	Total
(AFN '000')						
Assets						
Foreign currency cash reserve	3,832,258	-	-	-	-	3,832,258
Due from banks and financial institutions	8,645,959	324,929	46,895,483	144,052	-	56,010,423
Treasury bills	3,279,671	10,354,050	7,052,833	5,028,863	-	25,715,417
Advances and other receivables	30,849	-	-	-	-	30,849
Other assets	-	-	1,039,034	-	-	1,039,034
	15,788,737	10,678,979	54,987,350	5,172,915	-	86,627,981
Liabilities						
Currency in circulation	-	-	-	49,900,494	428,400	50,328,894
Capital notes	-	1,179,406	-	-	-	1,179,406
Due to other banks and financial institutions	5,097,571	-	-	-	-	5,097,571
Due to customers	37,526,765	-	-	278,550	-	37,805,315
Provisions and other liabilities	4,300	4,805,583	-	-	-	4,809,883
	42,628,636	5,984,989	-	50,179,044	428,400	99,221,069
Net liquidity gap	(26,839,899)	4,693,990	54,987,350	(45,006,129)	(428,400)	(12,593,088)
Cumulative gap	(26,839,899)	(22,145,909)	32,841,441	(12,164,688)	(12,593,088)	

31.3 Interest rate risk exposure

Interest rate risk is the exposure of the Bank to the effects of the fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. Bank's investments in treasury bills and short term deposits with other banks and financial institutions are primarily linked to prevailing market conditions. All other liabilities of the Bank are non interest bearing except the capital notes and minimum cash reserve accounts of local commercial banks included in due to other banks and financial institutions. The table below summarizes the Bank's exposure to interest rate risks. Included in the table are Bank's financial assets and liabilities at carrying or revalued amounts, categorized by earlier of contractual reprising of maturity dates non interest bearing financial instruments are shown for reconciliation purposes.

As at 29 Hoot 1386 (19 March 2008)

Effective interest rates (p.a)	Interest bearing				Non-interest bearing	Total
	1-3 months	3 month to 1 year	1-5 years	Over 5 years		
AFN ('000')						
N.A					4,158,422	4,158,422
5.35% to 6.02%	178,929	76,526,930	-	-	8,846,407	85,552,266
1.15%	20,784,598	4,952,000	-	-	-	25,736,598
N.A	-	-	-	-	16,995	16,995
N.A	-	-	-	-	619,409	619,409
	20,963,527	81,478,930	-	-	13,641,233	116,083,690
N.A	-	-	-	-	58,965,490	58,965,490
9.18% to 18%	2,475,272	2,043,789	-	-	-	4,519,061
6% to 14%	5,594,541	-	-	-	1,876,148	7,470,689
N.A	-	-	-	-	42,039,372	42,039,372
N.A					10,188,041	10,188,041
	8,069,813	2,043,789	-	-	113,069,051	123,182,653
	12,893,714	79,435,141	-	-	(99,427,818)	(7,098,963)
	12,893,714	92,328,855	92,328,855	92,328,855	(7,098,963)	

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Notes to the financial statements
For the year ended 29 Hoot 1386 (19 March 2008)

As at 29 Hoot 1385 (20 March 2007)

Effective interest rates (p.a)	Interest bearing				Non-interest bearing	Total
	1-3 months	3 month to 1 year	1-5 years	Over 5 years		
(AFN '000')						
N.A	-	-	-	-	3,832,258	3,832,258
4.49% to 5.3%	324,929	46,895,483	-	-	8,790,011	56,010,423
1.15%	13,633,721	7,052,833	5,028,863	-	-	25,715,417
N.A	-	-	-	-	30,849	30,849
N.A	-	-	-	-	1,039,034	1,039,034
	13,958,650	53,948,316	5,028,863	-	13,692,152	86,627,981
N.A	-	-	-	-	50,328,894	50,328,894
5 to 8%	1,179,406	-	-	-	-	1,179,406
2.5%	1,599,473	-	-	-	3,498,098	5,097,571
N.A	-	-	-	-	37,805,315	37,805,315
N.A	-	-	-	-	4,809,883	4,809,883
	2,778,879	-	-	-	96,442,190	99,221,069
	11,179,771	53,948,316	5,028,863	-	(82,750,038)	(12,593,088)
	11,179,771	65,128,087	70,156,950	70,156,950	(12,593,088)	

31.4 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency activities result mainly from the Bank's holding of foreign currency assets under its foreign reserve management function. The overall level of these assets is determined based on the prevailing extent of credit and liquidity risks. In order to avoid losses arising from adverse changes in the rates of exchange, the Bank's compliance with the limits established for foreign currency positions is being regularly monitored by the management.

As of today the Bank has not entered in to any foreign currency hedging transaction.

Foreign currency financial assets and liabilities

As at 29 Hoot 1386 (19 March 2008)

USD	Euro	GBP	Irian Toman	PKR	Others	Total
(AFN '000')						
3,434,871	697,867	8,033	13,224	3,135	1,292	4,158,422
33,416,443	25,846,176	25,625,816	-	105,309	558,522	85,552,266
19,108,303	-	6,628,295	-	-	-	25,736,598
-	-	-	-	-	16,995	16,995
706,183	29,343	-	1	965	(117,083)	619,409
56,665,800	26,573,386	32,262,144	13,225	109,409	459,726	116,083,690
					58,965,490	58,965,490
-	-	-	-	-	4,519,061	4,519,061
1,180,334	146,292	5,042	-	99,986	6,039,035	7,470,689
20,862,810	1,659,062	644,371	918	20,851	18,851,360	42,039,372
8,757,966	222,627	-	-	-	1,207,448	10,188,041
30,801,110	2,027,981	649,413	918	120,837	26,097,843	123,182,653
25,864,690	24,545,405	31,612,731	12,307	(11,428)	(25,638,117)	(7,098,963)

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As at 29 Hoot 1385 (20 March 2007)

	USD	Euro	GBP	Irian Toman	PKR	Others	Total
(AFN '000')							
Financial assets							
Foreign currency cash reserve	3,180,625	578,753	11,664	28,637	31,651	928	3,832,258
Due from banks and financial institutions	22,531,410	12,650,668	20,092,189	-	404,111	332,045	56,010,423
Treasury bills	19,223,489	-	6,491,928	-	-	-	25,715,417
Advances and other receivables	-	-	-	-	-	30,849	30,849
Other assets (inter-branches)	2,454,971	12,054	-	-	15,527	(1,443,518)	1,039,034
	47,390,495	13,241,475	26,595,781	28,637	451,289	(1,079,696)	86,627,981
Financial liabilities							
Currency in circulation	-	-	-	-	-	50,328,894	50,328,894
Capital notes	-	-	-	-	-	1,179,406	1,179,406
Due to other banks and financial institutions	1,228,309	183,972	97,947	-	103,719	3,483,624	5,097,571
Due to customers	17,358,828	580,978	973,665	-	4,820	18,887,024	37,805,315
Provisions and other liabilities	4,781,058	24,525	-	-	-	4,300	4,809,883
	23,368,195	789,475	1,071,612	-	108,539	22,374,948	99,221,069
Net foreign currency exposure	24,022,300	12,452,000	25,524,169	28,637	342,750	(23,454,644)	(12,593,088)

Note: Other currencies include Afghanis as well to match the total of each financial instrument's balance with the balance sheet.

31.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, liquidity and market (Interest and currency) risks such as those arising from legal and regulatory requirements and generally accepted corporate governance.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativities.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department of the Bank. This responsibility is supported by the development of overall Bank's policies for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards

Compliance with the Bank's standards is supported by a periodic reviews undertaken by Internal Auditor. The result of Internal Audit reviews are discussed with the management of the unit to which they relate, with summaries submitted to the Executive Board of the Bank.

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32. Fair values of financial assets and liabilities

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transactions.

The carrying values of financial instruments reflected in the financial statements approximates their fair value.

33. Related parties

Transactions with related parties

The Bank is a Governmental entity as the Islamic Republic of Afghanistan is the ultimate owner of the Bank. Related parties to the Bank include the Government of Afghanistan, various department of the government, government controlled entities and enterprises. Generally the Bank entered in to the following transactions with the government and its related organizations.

- (a) The Bank acts as a depository of the government and or its agent or institutions provide banking services to government, governmental organizations and enterprises;
- (b) Issue letters of credit on behalf of government, governmental organisation and enterprises;
- (c) The Bank does not ordinarily collect any commission, fees or other charges for the services which it renders to the government; and
- (d) As the agent of the government manages the foreign reserves.

AFN 30,423,575 thousand (1385: AFN 19,731,860 thousand) were outstanding to the credit of government and governmental organizations as at balance sheet dates.

The Bank enters in to transactions with Government and its related organizations in the ordinary course of the business.

Members of the Supreme Council and Key Managerial Personnel

H.E. Abdul Qadeer Fitrat, Governor and Chairman of the Supreme Council
H.E. Mohibullah Safi, First Deputy Governor and the Vice-Chairman of the Supreme Council
H.E. Dr. Shah M.Mehrabi, member of the Supreme Council and Chairman of the Audit Committee
H.E. Dr. Ghani Ghousi, member of the Supreme Council
H.E. Noorullah Delawari, member of the Supreme Council and Audit Committee
H.E. Ghulam Mohammad Eyellaqi, member of the Supreme Council
H.E. Dr. Umar Zakhilwal, member of the Supreme Council and Audit Committee

Remuneration to the members of the Council and Key Managerial Personnel

The members of the Supreme Council received remuneration totalling AFN 7,380 thousand (1385: AFN 6,449 thousand). Key


Managerial personnel received salary and related expenses totalling AFN 13,040 thousand (1385: AFN 10,619 thousand).

In addition to the salary, the Governor of the Bank received AFN 830 thousand as other benefits (1385: AFN 831 thousand).

34. Project accounts

The Bank acts as a custodian of project accounts amounting to AFN 754,811,670 thousand on behalf of Ministry of Finance. The assets held in trust or in a fiduciary capacity by the Bank are not treated as assets of the Bank and accordingly are not included in these financial statements.


Masood Khan Musa Ghazi
(Chief Financial Officer)


Mohibullah Safi
(First Deputy Governor)


Abdul Qadeer Fitrat
(Governor)