

Our Ref :

Dated :200.....

DA AFGHANISTAN BANK
AUDIT REPORT FOR THE YEAR ENDED 29th Hoot 1384

TO

October 14, 2006

THE PRESIDENT

ISLAMIC REPUBLIC OF AFGHANISTAN

1. We the auditors of Da Afghanistan Bank do hereby report to the Council of Ministers on the Balance Sheet of the Bank as at 29th Hoot 1384 (20th March 2006) and the Income Statement for the year ended on that date.
2. We have examined the Balance Sheet of Da Afghanistan Bank as at 29th Hoot 1384 (20th March 2006) and the Income Statement of the Bank for the year ended on that date and report that, where we have called for information and explanations from the Bank, such information and explanations have been given, with the help of translators, and have been satisfactory.
3. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our Audit.
4. The Balance Sheet at 29th Hoot 1381 (20th March 2003) was on an estimated basis and consequently opening position in the Balance Sheet as at 29th Hoot 1382 was not fully authentic and reliable. The opening position as at 29 Hoot 1384 is based on the Audited Balance Sheet for 29th Hoot 1383. However, based on the fresh information adjustments for the balances on the closing position as of 29th Hoot 1383 have been made during the year and further adjustments are likely. Hence it is not possible to confirm the existence of all assets and liabilities included in the 1384 position. (Refer Notes to Balance Sheet)



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5. We conducted our audit in accordance with the International Auditing Standards. Those standards require that we plan and perform the Audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An Audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles adopted and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

6.

- a) *The bank has maintained a General Ledger for the year which is not complete in all respects. The financial Statements for the year 1384 were compiled in a database based upon the data / information collected from vouchers of various Departments / Sections of Head Office and from Trial Balances received from Branches, which were not fully backed / supported by documentary evidence in the absence of adequate control to ensure accuracy of the database.*
- b) *It is not possible to confirm that all the transactions were processed. The final figures in the Financial Statements are subject to material misstatements and rectifications, if any, based on fresh information which may be brought to light in the coming years. To that extent the reliability of the figures in the Financial Statements cannot be taken as correct.*



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- c) *The terms and conditions set out in the Memorandum of Understanding (MOU) dated 2nd March '205 between Ministries of Finance and the Bank covering the transfer of various assets liabilities and contingencies including gold, silver bars and coins other items held in the palace vault have been considered for the preparation of Financial Statements in 1383. However, the reconciliation process is in progress and the final impact will be given effect to in future years which is not quantifiable at this stage. To this extent we are unable to comment the effect in the Financial Statements.*
- d) *Cash Flow Statement as required by IAS 7 has not been prepared. (Refer Notes to the Balance Sheet)*
- e) *Valuation of Land and Building at Head Office is based on the market value and value of Furniture and Fixtures estimated on realizable value by the Bank. The value of Land and Buildings at the Provincial and Regional Branches has not been accounted for. (Refer Notes to the Balance Sheet).*
- f) *The reconciliation of balances with Correspondent Banks and Inter Branch are in progress and the final impact will be given effect to in future years and is not quantifiable at this stage. To this extent we are unable to comment on the effect in the Financial Statement.*
- g) *Confirmation of balances have not been obtained for the following:*



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- i. *Amount due to International Monetary Fund*
 - ii. *Amount due from Ministries of the Government*
 - iii. *Amounts held by DAB with Foreign Banks*
 - iv. *Receivables in Foreign Currencies*
- h) *The diminution in the value of investments in Subsidiaries are pending adjustments after sale of assets and/ is yet to be fully provided for as it has not been measured , in the absence of Audited Balance Sheet of those entities and in respect of equity held in associates , they have been transferred to Ministry of Finance through an MOU and net adjustment entries absorbing the loss has been made. We are not able to express an opinion on the extent of such impairment losses, pending further adjustments in future years. (Refer Notes to the Balance Sheet).*
- i) *Based on our audit, we are of the opinion that the internal control systems have to be strengthened further in scope and coverage considering the size and nature of the business of the Bank to ensure adequate integrity of balances in the financial statements.*
- j) *Provision towards retirement benefits based on actuarial valuation has not been made as required under IAS 19.*
- k) *No provision has been made for AF 24,998,634 and US \$ 22,154 being loss due to defalcation by the employees at Head Office and Branches. The bank has recovered AF. 200,000; US \$ 70,000 and movable assets from the employees involved in defalcation.*



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DA AFGHANISTAN BANK
AUDIT REPORT FOR THE YEAR ENDED 29th Hoot 1384

1) In our view, deficiencies in financial data have significantly limited the number of International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS) that the bank could follow.

7. Subject to our comments in paragraph 4 and paragraph 6 (a) to (l) above, in our opinion and according to the best of our information and explanations given to us and as shown by the records of the Bank, these Financial Statements read with Significant Accounting Policies and Notes to the Accounts, are reasonable and contain available particulars and drawn up in accordance with the Law of Da Afghanistan Bank so as to exhibit a true and fair view to a limited extent of the state of the Bank's affairs as at 29th Hoot 1384 (20th March 2006) and profit for the year 1384 in conformity with the Accounting Principles.

For P.B. Vijayaraghavan & Co.
Chartered Accountants



P.B. Santhanakrishnan
Partner

Place: Kabul
Date: October 14, 2006



DA AFGHANISTAN BANK
Income Statement
For the Year Ended 29 Hoot 1384 (20 March 2006)

1383		1384	
In Afghani	Revenues	Notes	In Afghani
428,802,528	Interest		1,927,469,109
7,818,294	Bank licensing fees		24,057,479
7,398,258	SWIFT revenues - net		69,980,398
34,890,828	Rent		9,600,423
2,200,312	Income from Asset - related grants		5,908,550
8,210,154	Other Income		21,003,564
127,144,839	Commissions - incoming funds		89,004,760
616,465,213	Total of Revenue		2,147,024,284
Expenses			
4,798,370	Interest expenses		18,311,682
11,422,495	Depreciation expenses		25,053,092
6,814,581	Travelling Expenses		8,413,495
587,486,212	Bank note printing		498,817,716
99,915,164	Staff expenses		186,911,288
16,306,960	Communications		17,640,464
10,586,104	General Expenses		41,953,657
1,348,117	Repair and maintenance		3,149,983
4,162,579	Stationery and publications		6,015,356
5,204,302	Transportation		10,387,315
4,102,102	Utilities		6,195,163
1,643,395	Rent Paid		4,527,057
(194,183,156)	Net realized (Gain)/Loss Foreign Currency		67,707,837
559,607,224	Total of Expense		895,084,105
56,857,989	Net Operating Result		1,251,940,179
(452,708,408)	Net Unrealized (Loss) Foreign Currency		(148,964,092)
988,414,406	Unrealized revaluation Gains Gold		4,163,816,734
-	Gain on Disposal of Subsidiary		10,775,713
592,563,987	Net financial Result		5,277,568,534

DA AFGHANISTAN BANK
Income Statement
For the Year Ended 29 Hoot 1384 (20 March 2006)

1383		1384
<u>592,563,987</u>	Net financial Result	<u>5,277,568,534</u>
Appropriated in accordance with Article 29, DAB Law		
592,563,987	To Authorised Capital	2,371,415,295
-	To General Reserve	2,906,153,239
<u>592,563,987</u>	Total Authorised Capital and Reserve	<u>5,277,568,534</u>

The notes attached here to form an integral part of Financial Statements



Masood Khan Musa Ghazi
Chief Financial Officer



Samiullah Ibrahim
First Deputy Governor



Noorullah Delawari
Acting Governor



P.B. Santhanakrishnan
P.B. Vijayaraghavan & Co.
Chartered Accountants

Kabul, Afghanistan

Date: 14 / 10 / 2006



DA AFGHANISTAN BANK

Balance Sheet

as at 29 Hoot 1384 (20 March 2006)

(Amounts in Afghanis)

1383	Notes	1384
ASSETS		
Domestic Currency Assets		
70,688,216	Advances receivable	89,945,232
(6,005,558)	Loan	(5,635,328)
64,682,658	Total Domestic Curr. Assets	84,309,904
Foreign Currency Assets		
14,951,050,438	Gold in Federal Reserve	19,511,308,071
8,061,400,414	Non-Monetary Gold in Palace	8,061,400,414
3,489,337,432	Cash in foreign currency	3,269,117,884
45,984,229,189	Foreign bank accounts	61,969,788,949
72,486,017,473	Total reserve assets	92,811,615,318
82,648,659	Receivables in foreign currency	37,629,824
5,310,640	Equity investments in forex	
72,573,976,772	Total Foreign Curr and Reserve	92,849,245,142
Banking Assets		
1,512,350,023	Land and buildings	1,517,862,776
27,581,501	Furn&Fixtures and storage	60,320,205
27,590,754	Automotive equipment	25,212,273
1,567,522,278	Total	1,603,395,254
74,206,181,708	Total Assets:	94,536,950,300
LIABILITIES		
Domestic Currency Liabilities		
38,619,539,889	Notes in Circulation	44,106,200,211
9,346,769,918	Current accts in local currency	14,462,214,652
7,400,618	Time deposits	7,400,618
214,782,126	Account Payable	110,875,258
10,973,301	Deferred Income	29,786,335
275,000,006	Capital Notes	379,999,631
5,124,695	Dormant Accts	43,122,614
25,907,435	Residual Accts	24,832,246
48,505,497,988	Total Domestic Curr Liabilities	59,164,431,565
Foreign Currency Liabilities		
19,527,202,581	Current accounts in foreign curr.	23,632,290,531
31,577,348	Time deposits in forex	31,577,348
1,047,473,763	Letters of credit in foreign curr.	2,026,826,073
3,479,992	IMF-related liabilities	3,479,992
16,376,861	Dormant Accts Foreign Currency	13,882,351
722,745,216	Residual Accts Foreign Currency	159,359,733
206,783,293	Foreign Currency Loan	82,489,524
21,555,639,054	Total Foreign Curr.Liabilities	25,949,905,552
70,061,137,042	Total Liabilities:	85,114,337,117

DA AFGHANISTAN BANK
Balance Sheet
as at 29 Hoot 1384 (20 March 2006)
(Amounts in Afghanis)

1383		1384
	CAPITAL AND RESERVES	
<u>4,145,044,666</u>	Capital and Reserves Total	<u>9,422,613,183</u>
<u>70,061,137,042</u>	Total Liabilities, Capital and Reserves	<u>94,536,950,300</u>

The notes attached here to form an integral part of Financial Statements



Masood Khan Musa Ghazi
Chief Financial Officer



Samiullah Ibrahimi
First Deputy Governor



Ngorullah Delawari
Acting Governor



P.B. Santhanakrishnan
P.B. Vijayaraghavan & Co.
Chartered Accountants



Kabul, Afghanistan

Date: 14/10/2006

DA AFGHANISTAN BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 HOOT 1384 (20 MARCH 2006)

1. Organization and Legal Framework

Da Afghanistan Bank (DAB), the central bank of Afghanistan, is an independent state institution and legal entity under Article 12 of the Constitution as well as the DAB Law enacted on 16 September 2003. It was established in 1939 and its head office is located in the city of Kabul. DAB has 81 branches (74 active, 7 inactive) throughout the Islamic Republic of Afghanistan.

During the years ended 29 Hoot 1384 and 30 Hoot 1383, the number of employees of DAB was 2,863 and 2,809, respectively.

DAB's primary objective is to achieve and maintain domestic price stability. Subordinate objectives are to:

- foster the liquidity, solvency and proper functioning of a stable market-based financial system, and to promote a safe, sound and efficient national payment system; and
- support the general economic policies of the Government of Afghanistan, and to contribute to sustainable economic growth;

DAB's basic tasks, for which it is exclusively responsible, are to:

- formulate, adopt and execute the monetary policy, the foreign exchange policy, and the exchange arrangements of Afghanistan;
- hold and manage the official foreign exchange reserves of Afghanistan;
- print and issue afghani banknotes and coins;
- act as banker and adviser to, as well as fiscal agent of, the State (DAB is the custodian, not the fiscal agent, for the International Monetary Fund);
- license or register and to regulate and supervise banks, foreign exchange dealers, money service providers, payment system operators, securities service providers, securities transfer system operators and such others as shall be submitted to its oversight by or pursuant to the law; and
- establish, maintain, and promote sound and efficient systems for payments, for transfers of securities issued by the State or DAB, and for the clearing and settlement of payment transactions and transactions in such securities.

In carrying out its tasks, DAB is guaranteed autonomous regulatory powers and complete independence from any other authority.

In addition, by law the capital of Da Afghanistan Bank shall be held solely by the State, and shall not be transferable or subject to encumbrance.

DA AFGHANISTAN BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 HOOT 1384 (20 MARCH 2006)

2. Basis of Presentation

Accounting Basis

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board (IASB), except as noted below. International Accounting Standards (IAS) issued under the previous International Accounting Standards Committee continue to be applicable unless and until they are amended or withdrawn by the IASB.

The form of presentation of the financial statements reflects the reporting format applicable under IAS 30 *"Disclosures in the Financial Statements of Banks and Similar Financial Institutions"* and recommendations of the International Monetary Fund.

According to IAS 1, *Presentation of Financial Statements*, and IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, a full set of financial statements should include the following:

- A balance sheet;
- An income statement;
- A cash flow statement;
- A statement of changes in equity; and
- Notes to the financial statements.

The cash flow statement is omitted from the financial statements due to the lack of classification data.

These consolidated financial statements are presented in (new) Afghanis (Afs), unless otherwise indicated. These financial statements have been prepared on an accrual basis and under the going concern concept. These financial statements are presented on a fair value basis for financial assets and liabilities falling within the scope of IAS 39, except those for which a reliable measure of fair value is not available. For those assets not falling within the scope of IAS 39, the principle of historical cost is adopted on initial recognition. The real property was re-measured at estimated market values, and the furniture, fixtures and equipment were re-measured at depreciated replacement cost as of 29 Hoot 1381 (20 March 2003). The acquisition values of donated assets are recognized as fixed assets and as deferred income. The deferred income portion is recognized as income when, and in the same amount as, the donated assets are depreciated.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the management's knowledge of current events and actions, the actual results could differ from those estimates.

Functional currency

The functional currency of these financial statements is the (new) Afghani (AF), which was issued by DAB, and replaced the old Afghani notes in circulation, during 1381 and 1382.

Impact of Prior Years Reporting

DAB did not prepare a balance sheet, or accumulate its accounting records in a general ledger, during the seven years beginning 29 Hoot 1374 (March 1996) due to the turbulence of the period. The opening balances for the 1382 Balance Sheet accounts were compiled from a pro forma Balance Sheet drawn up as of the last day of the financial year 29 Hoot 1381 (20 March 2003). It is possible that amendments to the Balance Sheet may be called for if and when new information emerges.

The 1382 financial transactions presented in the Balance Sheet and Income Statement were processed using double entry accounting, but without a general ledger system. The 1383 and 1384 financial transactions presented in these financial statements were processed using double entry accounting, but with a general ledger system that was not complete in all respects.

3. Significant Accounting Policies

Principles of consolidation

The consolidated financial statements of the Da Afghanistan Bank include the accounts of the DAB and its branches. DAB's investment in a wholly owned subsidiary was measured at cost and is not consolidated, because it was liquidated during 1384 and was in the winding-up process during 1383 (see Note 5). A subsidiary is a company which is majority owned by the DAB directly or indirectly or controlled in its financial and operational policies by DAB.

All significant inter-company transactions, balances on corresponding accounts and unrealized income on inter-company transactions have been eliminated.

Gold

Monetary Gold

Refined gold held, as part of DAB's foreign exchange reserves, in the vaults of the Federal Reserve Bank in New York is regarded as a monetary instrument. Refined gold is recorded at market price at the balance sheet date. Market price is determined by reference to the London Bullion Market Association ("LBMA") PM fixings. Changes in the market value of gold are recorded in the consolidated statement of income as an unrealized revaluation gain or loss in the period in which the change occurs. (Note 2)

Non-monetary Gold

Non-refined precious metals are recorded at a conservative estimated cost, and are included within other assets. (Note 8)

Recognition and measurement of financial instruments

The DAB recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, net of any transaction costs incurred, respectively.

The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Due from banks and other financial institutions

In the normal course of business, the Da Afghanistan Bank maintains deposits for various periods of time with other banks and other financial institutions. Deposits to banks and other financial institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due are carried net of any allowance for losses.

Loans and receivables

Loans and receivables with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due are carried net of any allowance for losses.

Under a memorandum of understanding (MOU) agreed between DAB and the Ministry of Finance in 1383, Loans and advances receivable and State budget overdrafts have been forgiven, and recognized as capital charges. (See Note 1)

Investment securities available-for-sale

Investment securities available-for-sale that are intended to be held for an indefinite period of time and that could be sold depending on liquidity requirements or interest rate, rate of exchange, or share prices are classified as securities available-for-sale.

Initially investment securities available-for-sale are accounted for at cost (including transaction costs), and subsequently are measured at fair value based on purchase quotes. If such quotes do not exist, management of the Da Afghanistan Bank uses estimation to determine fair value with other related information such as discounted cash flows, financial information of the investee and application of other estimation methodologies. Gains and losses arising as a result of change of the fair value of investment securities available-for-sale are recorded directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. When the financial asset is derecognized, the cumulative gain or loss previously recognized in equity shall be recognized in the consolidated profit and loss. Interest income on investment securities available-for-sale is recorded in the consolidated profit and loss account as interest income on investment securities available-for-sale. Impairment and reversal of impairment of investment securities available-for-sale are recorded in the consolidated profit and loss account.

Equity investments

During 1384, the assets of the Trading Company of Afghanistan Ltd (TCA), a wholly owned subsidiary, located in London, England, have been disposed of, and the net proceeds of the sale have been returned to DAB. (Note 5).

Currency in circulation

Bank notes and coins in circulation are recorded in the balance sheet at their nominal value. Expenses on bank notes and coins in circulation include expenses of production, security, transportation, and other expenses. Expenses on bank notes and coins in circulation are recognized when incurred and recorded as expenses.

Due to banks and other financial institutions and due to the Ministry of Finance of the Islamic Republic of Afghanistan and customer accounts

Amounts due to banks and other financial institutions and due to the Ministry of Finance of the Islamic Republic of Afghanistan and customer deposits are recognized initially at "cost," being their issue proceeds net of transaction costs incurred. Subsequently these liabilities are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated profit and loss account over the period of the amounts due using the effective yield method.

Debt securities issued

Debt securities issued by the Da Afghanistan Bank have a fixed maturity date and initially are recognized at cost.

Subsequently debt securities issued are stated at amortized cost, and any difference between net profit and the redemption value is recognized in the consolidated profit and loss account over the period of the issuance of such securities.

Provisions

Provisions are recognized when the Da Afghanistan Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis calculated using the effective yield method. Fees, which are an integral part of the effective interest rate of a financial instrument, are treated as an adjustment to the effective interest rate.

Interest income includes interest income on investment securities. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognized on an accrual basis.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Da Afghanistan Bank has a legally enforceable right to set off the recognized amounts and the Da Afghanistan Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fixed and intangible assets

Fixed assets are carried at re-valued amounts less accumulated depreciation. Intangible assets are carried at historical cost less accumulated amortization.

- i. Bank-owned land and buildings in Kabul City are measured at revalued amounts, on the basis of market price estimates made by a professional real estate specialist. The Bank has a number of provincial and regional/branch holdings, but records of their acquisition costs or market values could only be partially obtained.
- ii. Furniture, fixtures, and equipment owned by DAB's headquarters and Kabul City branches were inventoried and valued at depreciated replacement cost with reference to current acquisition prices as of 29 Hoot 1381 (20 March 2003). No records of the acquisition costs and fair values of furniture, fixtures, and equipment held by provincial and regional branch banks could be located.
- iii. Vehicles purchased after 29 Hoot 1381 (20 March 2003) are measured at cost. Donated vehicles are measured at fair value at acquisition and this same amount is recognized as deferred income. Deferred income is recognized in income at the same rate as the acquisition value of the donated asset is depreciated.

Depreciation is designed to write off the cost of assets and is based on a straight-line method for assets with the following useful lives:

Buildings	40 years
Furniture, fixtures, and equipment	10 years
Vehicles	6.67 years
Intangible assets	3 years

Depreciation of fixed assets and amortization of intangible assets are accounted as amortization and depreciation in the consolidated profit and loss accounts. Depreciation begins when a fixed asset is available for use. Depreciation continues until the fixed asset is derecognized, even if during the period the item is idle.

This policy differs from the previous Depreciation policy, which stated: "No depreciation is recognized in the year of acquisition and a full year's depreciation is recognized in the year of disposal." This change is adopted to provide more relevant financial disclosure.

Construction in progress is not depreciated. Depreciation on such assets commences from the date the fixed asset is available for use.

Individual assets costing less than Afs 20,000 have been charged to revenue in the year of acquisition, except when the asset is part of a group of items totaling Afs 20,000, or more.

Membership in international financial organizations

The Da Afghanistan Bank is the depositary agent of the Government of the Islamic Republic of Afghanistan on transactions related to the membership of Afghanistan in international financial organizations including payment of membership fees to such organizations.

Payables to IMF and other international financial organizations and membership related liabilities of the Government in international financial organizations are not included in the

accompanying consolidated balance sheet, as they do not represent assets and liabilities of the Da Afghanistan Bank.

A task force has been working to reconcile the various accounts of the IMF relationship and DAB will recognize the appropriate adjustments, once the Ministry of Finance issues the appropriate instructions.

Retirement and other benefit obligations

Post-employment benefits, under DAB's defined post-employment benefit plan, are not accounted for in accordance with IAS 19, "*Employee Benefits*," due to difficulties in calculating the actuarial assumptions that are required to measure the obligation and the expense. DAB's annual contribution to the pension fund of an amount equal to 8 percent of the current year's gross payroll cost is recognized as the post-employment benefit expense for the period. DAB plans to have an actuary determine the constructive obligation and expense of the plan as soon as possible.

Foreign currency translation and gold reserves revaluation

Monetary assets and liabilities denominated in foreign currencies are translated into Afghani at the appropriate spot rates of exchange prevailing at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in gain or losses on foreign exchange in the Income Statement. Monetary gold is revaluated at the balance sheet date using the London Bullion Market Association ("LBMA") fixings. Gains and losses arising from these revaluations are included in gain or losses on gold revaluation in the Income Statement.

Rates of exchange

The exchange rates and prices on gold at year-end used by the Da Afghanistan Bank in the preparation of the financial statements are as follows:

	29 Hoot 1384	30 Hoot 1383
Afs/US Dollars	49.935	48.650
Afs/Euro	60.433	64.700
Afs/UK Pound	86.952	92.820
Afs/Pakistani Rupee	0.8296	0.8178
Afs/Gold (1 troy ounce)	27,751.38	21,267.35

Foreign exchange

Transactions in foreign currencies are translated into local currency on a monthly basis at the mid-rates issued by DAB's monetary policy department as of the balance sheet date. Differences between the actual and mid-rates are taken to income as realized gains/losses on foreign currency transactions.

On initial recognition, financial assets and liabilities in foreign currencies are measured at the prevailing exchange rate. They are re-measured at each balance sheet date, using the prevailing spot rate(s). Decreases in balances during the period are measured at the

difference between the entry and exit spot rates and any revaluation differences are recognized in income as realized revaluation gains or losses. Balances on hand at the end of the period, together with increases in balances during the period, are re-measured at the end of period spot rate(s) and any revaluation differences are recognized in income as unrealized valuation gains or losses.

DAB acts as a depository to provide custodial capacity for Afghanistan's IMF-related liabilities on behalf of the Ministry of Finance: the fiscal agent for Fund membership. These liabilities are denominated in Special Drawing Rights (SDRs) and are revalued at the most recent IMF-quoted exchange rates.

Revenues earned and expenses incurred in foreign currencies are measured, on a monthly basis, at the average rate of exchange for that month.

**Average Monthly Rates 1384
For Most Frequently Traded Currencies**

Month	USD	Euros	Pounds Sterling	Pakistani Rupees
1	49.09	63.56	91.97	0.8232
2	49.87	63.89	93.48	0.8315
3	50.02	61.57	90.76	0.8214
4	49.95	59.49	87.54	0.8231
5	49.41	59.92	86.43	0.8173
6	49.24	60.24	88.44	0.8206
7	48.92	58.66	85.81	0.8143
8	48.87	57.66	84.84	0.8200
9	49.89	58.66	85.90	0.8299
10	50.32	59.75	86.90	0.8415
11	50.09	60.16	87.45	0.8382
12	49.87	59.53	86.49	0.8319
EOY				
Spot	49.935	60.433	86.952	0.8296

Capital and reserves

Under Article 8.5 of the 2003 DAB Law, DAB's authorized capital is established as eight billion Afghanis, or an amount recommended by an independent inquiry conducted in accordance with Article 130, or such higher amount as shall result from allocations from net profits pursuant to Article 29. Under the Memorandum of Understanding, capital has been adjusted as a consequence of the transfer of assets and liabilities to the Ministry of Finance.

Taxation

Under Article 124 of the DAB Law, DAB is exempted from taxes on income or profits, certain other taxes and fees, and customs duties.

Profit allocation

Under Article 29 of the DAB Law, the following allocations of net profits earned in any financial year are to be made and in the following order of priority:

- An allocation to capital in the amount required to increase it to a level equivalent to five percent of the aggregate amount of monetary liabilities shown on the year-end balance sheet;
- an allocation to redeem the securities issued by the State to, and held by, DAB pursuant to Article 31;
- an allocation to the General Reserve in the amount required to increase it to a level equivalent to the amount of the capital; the General Reserve may only be used to offset losses of Da Afghanistan Bank; and
- an allocation to any special-purposes reserve established by DAB, subject to the approval of the Minister of Finance.

Any remaining residual net profit is to be allocated as follows:

- the preceding allocations from net profit are to be calculated as if made entirely from net operating revenues, except that, if no operating revenues are included in net profit - or after the preceding allocations have exhausted net operating revenues included in net profit, such allocations are to be calculated as if made from net unrealized valuation gains;
- residual net operating revenues, if any, are to be distributed to the State within four months after the end of the financial year, and residual net unrealized valuation gains, if any, are to be allocated to a Valuation Reserve Account maintained on DAB's balance sheet.

Reclassifications

Certain reclassifications have been made to the financial statements as of 30 Hoot 1383 to conform to the presentation as of 29 Hoot 1384.

DA AFGHANISTAN BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 HOOT 1384 (20 MARCH 2006)

Note 1. Memorandum of Understanding

In 1383, DAB entered into a Memorandum of Understanding (MOU) with the Ministry of Finance, dated March 2, 2005, based on which the balances due from/to various Ministries of the Government have been netted off and adjusted in equity, which resulted in a capital loss of Afs. 8,067,794,482. A full reconciliation of the balances in the accounts related to the MOU is underway. Any adjustments due to recoveries and the reconciliation will be reflected in the coming years.

(in Afs)

For the year 1383

Ref	Particulars	Debit	Credit	Net
a	Loans Receivable	63,852,849		
b	Government Overdrafts	14,732,228,069		
c	Equity Investment in Domestic currency	4,872,083		
d	Foreign Currency Loans to Government	1,328,241,895		
Note 8	Gold in Palace Vault		8,061,794,482	
				8,067,794,482

a. Loans Receivable

Under the above MOU, the balances in this account were transferred to the Ministry of Finance in 1383. The remaining credit balance of 5,635,328 Afs will be addressed in the full reconciliation of the balances in the accounts related to the MOU, which is underway. Any adjustments due to recoveries and the reconciliation will be reflected in the coming years.

Note 2. Gold in Federal Reserve

		<u>29-12-1384</u>	<u>30-12-1383</u>
Gold weight in Troy ounces		703,004.94	703,004.94
Gold value per Troy ounce in USD		\$555.75	\$437.15
Gold value in USD		\$390,694,995	\$307,318,611
Exchange rate in Afghanis for 1 USD		Afs 49.94	Afs 48.65
Gold value in Afghanis period end	Afs	19,511,308,071	14,951,050,438
Gross unrealized gain in period	Afs	4,560,257,743	598,092,001
Unrealized appreciation in value of gold	Afs	4,163,816,735	1,016,045,313
Unrealized Gain/(Loss) on exchange rate	Afs	396,441,008	(417,953,312)

DAB's gold reserves are on non-interest bearing deposit with the New York Federal Reserve Bank. This is termed monetary gold. The difference between the 1384 year-end gold valuation rate of \$555.75 and the prior year (1383) valuation rate of \$437.15 per Troy ounce is recognized in income as an unrealized valuation gain and as unrealized foreign exchange differences.

The total unrealized gains related to monetary gold recognized for the year 1384 and 1383 are Afghani 4,560,257,633 and 598,092,001, respectively. This gain is comprised of:

1. an increase in the value of gold for the year 1384 and 1383 of Afghani 4,163,816,735 and 1,016,045,313, respectively, and
2. an unrealized gain in the exchange rate in 1384 of Afghani 396,441,008, versus
3. an unrealized loss in the exchange rate in 1383 of Afghani 417,953,312.

Note 3. Cash In Foreign Currency

Cash on hand in foreign currency at 29 Hoot 1384 consists mainly of US dollars: 74.37 percent, followed by Euros: 23.35 percent. Other non-USD amounts having a share in excess of .01 percent are shown in the following table. The amounts of the remaining currencies were, individually, less than 0.01 percent of the total. Comparable percentage holdings are shown for 1383. Certain holdings of currencies have been replaced by other currencies (e.g. Deutsch Marks versus Eurodollars) and are in the process of collection or write-off, if no value.

	<u>In Percent</u>	
	<u>29-12-1384</u>	<u>30-12-1383</u>
US Dollars	74.37	97.41
Euros	23.35	1.70
Pakistani Rupees	1.86	0.72
Iranian Rial	0.33	0.01
Pounds Sterling	0.00	0.07
Rubles	0.04	0.03
Saudi Riyal	0.02	0.01
Other	0.05	0.05
Total:	<u>100.00</u>	<u>100.00</u>

Note 4. Foreign Bank Accounts

The composition of the currencies held on deposit in foreign correspondent banks is as follows:

	<u>In Percent</u>	
	<u>29-12-1384</u>	<u>30-12-1383</u>
US Dollars	68.24	66.79
Pounds Sterling	17.36	18.68
Euros	13.94	14.10
Dirhams	0.17	0.22
Swiss Francs	0.02	0.02
Pakistani Rupees	0.27	0.18
Total:	<u>100.00</u>	<u>100.00</u>

Note 5. Equity Investments In Foreign Currencies

DAB held a wholly owned subsidiary, The Trading Company of Afghanistan Ltd (TCA), located in London, England. The company has been inactive for more than twenty years and the assets have now been liquidated. The investment was reported at historical cost, rather than at net asset value in accordance with IAS 27, due to non-availability of recent, audited financial statements and the fact that the company was being wound-up. The Land and Building owned by TCA were sold during the year 1384 and the liquidation of the subsidiary has been accounted for as follows:

- The property sale proceeds (net of taxes and fees) was GBP 180,779.75 (15,691,682 Afs);
- The investment in the subsidiary (5,310,640 Afs - historical cost) on DAB books was absorbed.
- The remainder of the proceeds was recorded in two parts:
 1. Foreign exchange loss of 394,671 Afs, due to rate changes during the period, and
 2. Gain on disposal of subsidiary 10,381,042 Afs.

Note 6. Banking Assets

	Land	Buildings	Furniture, Fixtures & Equipment	Automotive Equipment	Total
Gross Block					
Gross Opening assets 1384	1,415,074,210	101,706,256	32,466,063	37,554,880	1,586,801,409
Additions	-	10,198,150	41,803,631	8,924,289	60,926,069
Disposals	-	-	-	-	-
As at 29 Hoot 1384	<u>1,415,074,210</u>	<u>111,904,406</u>	<u>74,269,694</u>	<u>46,479,169</u>	<u>1,647,727,478</u>
Depreciation for current year					
Depreciation for Opening assets	-	4,430,443	4,884,563	9,964,126	19,279,133
Depreciations on additions	-	254,954	4,180,363	1,338,643	5,773,960
Total Depreciation 1384	<u>-</u>	<u>4,685,397</u>	<u>9,064,926</u>	<u>11,302,769</u>	<u>25,053,093</u>
Net Asset Block					
Opening Net assets 1384	1,415,074,210	97,275,813	27,581,500	27,590,754	1,567,522,277
Additions	-	10,198,150	41,803,631	8,924,289	60,926,069
Deletions	-	-	-	-	-
Depreciation for Current year	-	4,685,397	9,064,926	11,302,769	25,053,092
Net Assets 1384	<u>1,415,074,210</u>	<u>102,788,566</u>	<u>60,320,205</u>	<u>25,212,273</u>	<u>1,603,395,254</u>

During 1384, Donated equipment with an acquisition value of Afs 21,013,346 was received by DAB. The acquisition value is recognized as both fixed assets, and as deferred income. The deferred income is taken to income when, and to the same extent as, the donated assets are depreciated. The amount recognized as income in 1384 was Afs 5,908,550.

Depreciation rates, on a straight-line basis, are as follows:

Land	None
Buildings	2.5 percent (40 year life)
Furniture, fixtures and equipment	10 percent (10-year life)
Vehicles	15 percent (6.67 year life)
Intangibles	33.3 percent (3 year life)

Note 7. Capital and Reserves

(amounts are in thousands of Afghani)

	Share Capital	General Reserves	Special Reserve Funds	Retained Earnings	Total Equity
At 29 Hoot 1381	<u>8,000</u>	<u>7,292</u>	<u>13,418,481</u>	<u>1,771</u>	<u>13,435,546</u>
Net Income				2,122,112	2,122,112
Transfers to Authorized Capital	1,494,381			(1,494,381)	
Transfers to the General Reserve		627,731		(627,731)	
Other			(3,078,472)		(3,078,472)
At 29 Hoot 1382	<u>1,502,381</u>	<u>635,023</u>	<u>10,340,011</u>	<u>1,771</u>	<u>12,479,186</u>
Net Income				592,564	592,564
Transfers to Authorized Capital	1,041,676		(447,341)	(594,335)	
Transfers to General Reserve					
Transfers to Government (MOU)			(8,067,794)		(8,067,794)
Other			(844,271)		(844,271)
At 30 Hoot 1383	<u>2,544,057</u>	<u>635,023</u>	<u>965,965</u>	<u>0</u>	<u>4,145,045</u>
Net Income				5,277,569	5,277,569
Transfers to Authorized Capital	2,371,415			(2,371,415)	
Transfers to General Reserve		2,906,154		(2,906,154)	
Transfers to Government (MOU)					
Other					
At 29 Hoot 1384	<u>4,915,472</u>	<u>3,541,177</u>	<u>965,965</u>	<u>0</u>	<u>9,422,614</u>

Due to the lack of organized accounting records, it was not possible to calculate net income earned, or other transactions affecting capital, during the 5-year period 30-12-1376 to 30-12-1381. The special reserves include unreconciled differences between total assets and total liabilities and capital.

Note 8. Non-Monetary Assets – Gold, Bullion, and Bars:

Precious metals

Under the Memorandum of Understanding agreed between DAB and the Ministry of Finance, DAB has been granted clear title to gold bullion and bars, as well as certain gold and silver coins, asserted to be owned by DAB and physically located in the Palace vault.

During 1384, a count of these coins and precious metals was conducted in 1384 and, for the purposes of the Memorandum of Understanding mentioned above, a local expert valued the DAB portion of these assets at an estimated value of Afghani 8,061,400,414.

	<u>29 Hoot 1384</u>	<u>30 Hoot 1383</u>
Gold bullion and bars	Troy Ounces	Troy Ounces
Weight	208,079.5018	208,079.5018
Gold coins		
Weight in Grams	1,353,220.95	1,353,220.95
Silver coins		
Weight in grams	258,682,606.40	258,682,606.40
Total Value in Afghanis		8,061,400,414

Note 9. Contingent Liabilities

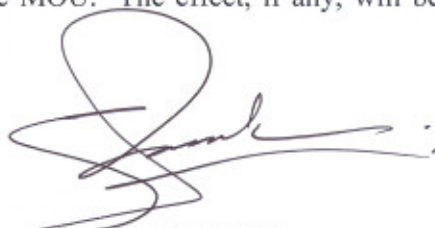
DAB was contingently liable for certain debts and claims incurred under previous legislation, most recently the Money and Banking Law No. 99 of 17-5-1373 (5 August 1994) that identified the following two DAB functions, among others:

- Guaranteeing internal and external loans on behalf of the Government (foreign claims); and
- Providing loans for import and export letters of credit (barter agreements).

These contingent and other liabilities have been transferred to the Ministry of Finance under an MOU agreed between the Da Afghanistan Bank and the Ministry in 1383. Currently, there is a work group of DAB and Ministry of Finance personnel further investigating these underlying transactions referred to in the MOU. The effect, if any, will be given in future years.



Masood Khan Musa Ghazi
Chief Financial Officer



Samiullah Ibrahim
First Deputy Governor



Noorullah Delawari
Acting Governor



P.B. Santhanakrishnan
P.B. Vijayaraghavan & Co.
Chartered Accountants



Kabul, Afghanistan

Date:

15/15,

14 / 10 / 2006