



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

Telephone + 93 (75) 202 1974  
Fax + 92 (21) 568 5095  
Internet [www.kpmg.com.pk](http://www.kpmg.com.pk)

## Independent Auditor's report

To: The Supreme Council,  
Da Afghanistan Bank

We have audited the accompanying financial statements of Da Afghanistan Bank ("the Bank"), which comprise the balance sheet as at 30 Hoot 1387 (20 March 2009), and the income statement and statement of recognized income and expense and cash flow statement 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) and Da Afghanistan Bank Law of 2003. 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. 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.

*[Signature]*

***Basis for 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 (CBS). The financial information entered in the CBS was based on the closing trial balance used for preparation of financial statements for the year ended 29 Hoot 1385 (20 March 2007) as stated above. We also noted the following:

- The financial statements for the year ended 30 Hoot 1387 (20 March 2009) have been prepared and presented on the basis of trial balance of the Head Office and 21 branches generated from Core Banking System at year end and based on underlying manual records and ledgers of remaining 46 branches. Whereas the financial information in respect of 21 branches entered into CBS during the year were based on information and manual records available without checking the completeness and accuracy of such data. Further, a comprehensive exercise has been initiated by the management to reconcile the manual records and data fed into CBS in respect of Head Office which is still in progress.
- 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.
- 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 implemented last year was not followed throughout the year.
- "Other Assets" (Note 12) include AFN 1,227,063 thousand (1386: AFN 619,409 thousand) being the net un-reconciled difference of inter-branch account (68 branches) which represent credit balance of AFN 2,302,286 thousand (1386: AFN 2,906,243 thousand) in the books of branches and AFN 1,075,223 thousand (1386: AFN 2,286,836 thousand) debit balance in the books of the Head Office.
- "Due to Customers" (Note 16) includes the dormant/residual customers' accounts amounting to AFN 174,700 thousand (1386: AFN 347,087 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.
- "Property and equipment" (Note 10) includes furniture, fixtures and equipment having carrying values of AFN 229,577 thousand (1386: AFN 230,953 thousand). The Bank has not maintained item wise record of these furniture, fixtures and equipment. Further, physical verification and reconciliation with accounting records of these items of assets has also not been carried out since year 1383 (2001).

W/M



- “Provisions and Other Liabilities” (Note 20) includes ‘Suspense Accounts’ amounting to AFN 1,025,791 thousand (1386: AFN 1,176,753 thousand) which represents unreconciled AFN 70,053 thousands (1386: AFN 45,806 thousand) debit balance and AFN 1,095,845 thousand (1386: AFN 1,222,559 thousand) credit balance of which no information is available to account for these balances in appropriate heads of accounts.
  - “Provisions and Other Liabilities” (Note 20) also includes ‘Current accounts with DAB departments’ amounting to AFN 108,745 thousand (1386: AFN 64,473 thousand) representing balances of different departments of DAB. An exercise to reconcile /eliminate these balances is in progress.
  - “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 years. 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. 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 2,092,091 thousand (1386: AFN 480,566 thousand) on which the Bank has not withheld taxes amounting to AFN 418,418 thousand (1385 AFN 96,113 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 Taxations Laws of Afghanistan.
  3. The Bank operates unfunded defined contributory pension scheme which cover all eligible employees as per the policy of the Bank. The liability for such expense recognised in these financial statements aggregate to AFN 295,036. According to the Bank's policy the liability in this respect has to be determined by the independent actuary at year end. However, no actuarial valuation was carried out to determine the liability under the scheme since 20 March 2007. At year end the liability of unfunded defined contributory pension scheme was determined based on actuarial valuation for 20 March 2007, adjusted proportionately with the impact of liability of the employees who opted for voluntary retirement in 2008. Further, the additional provision amounting to AFN 29,215 thousand has been made during the year which is included in ‘Current accounts with DAB departments’ (Note 20).
  4. 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.
  5. The Bank has not presented following information/disclosures in accordance with the requirements of the International Financial Reporting Standards:

*LOAN*

- 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 19 "Employee Benefits" (IAS-19).

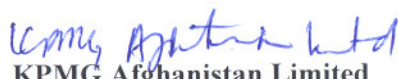
### ***Qualified Opinion***

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters described in Basis for Qualified Opinion, the financial statements give a true and fair view of the financial position of the Bank as of 30 Hoot 1387 (20 March 2009), and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the DAB Law.

### ***Emphasis of matter***

We draw your attention to the following matters:

- Article 76 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 which is not consistent with the requirement of said Article of DAB Law. As at balance sheet date AFN 50,920 (1386: 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 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 30 Hoot 1387 fall short of prescribed limit by AFN 9,146,649 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

Kabul

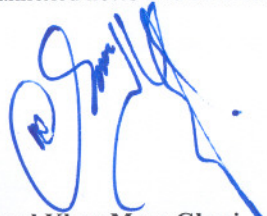
24 November 2009



**Da Afghanistan Bank****Balance Sheet***As at 30 Hoot 1387 (20 March 2009)*

	Note	1387 (AFN '000')	1386 (AFN '000') Restated
<b>ASSETS</b>			
Gold reserve	4	34,640,934	33,298,447
Foreign currency cash reserve	5	7,044,765	4,158,422
Due from banks and financial institutions	6	119,336,317	85,106,051
Treasury bills	7	22,877,093	25,736,598
Advances and other receivables	8	565,337	16,995
Investment properties	9	4,800	4,800
Property and equipment	10	2,232,316	2,210,493
Intangible assets	11	19,096	26,785
Other assets	12	14,317,743	13,688,215
<b>TOTAL ASSETS</b>		<b>201,038,401</b>	<b>164,246,806</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Currency in circulation	13	76,807,259	58,965,490
Capital notes	14	18,925,886	4,519,061
Due to other banks and financial institutions	15	31,418,196	7,470,689
Due to customers	16	36,238,931	42,039,372
IMF related liabilities	17	35,511	32,049
Defined benefit plan	18	295,036	295,036
Deferred grant	19	160,782	168,118
Provisions and other liabilities	20	8,048,836	11,366,617
<b>Total liabilities</b>		<b>171,930,437</b>	<b>124,856,432</b>
<b>EQUITY</b>			
Capital	21	(975,360)	3,091,979
Revaluation reserve	21	30,083,324	36,298,395
Accumulated losses	21	-	-
<b>Total equity</b>		<b>29,107,964</b>	<b>39,390,374</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>201,038,401</b>	<b>164,246,806</b>

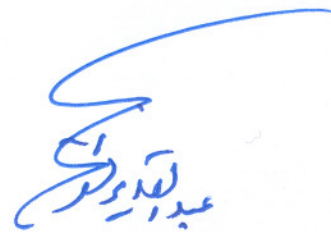
The annexed notes 1 to 33 form an integral part of these financial statements.



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 30 Hoot 1387 (20 March 2009)

	Note	1387 (AFN '000')	1386 (AFN '000')
Interest income	22	3,074,616	4,228,112
Interest expense	23	(2,092,091)	(480,566)
<b>Net interest income</b>		<b>982,525</b>	<b>3,747,546</b>
Fees and commission income		140,886	172,631
Fees and commission expense		(18,494)	(8,246)
<b>Net fees and commission income</b>		<b>122,392</b>	<b>164,385</b>
Profit/(loss) from dealings in foreign currencies		(307,048)	334,567
Other operating income	24	64,891	56,209
		(242,157)	390,776
<b>Operating income</b>		<b>862,760</b>	<b>4,302,707</b>
Allowance for losses		-	(779,900)
Net impairment loss on financial assets	8.2	-	(323,488)
Personnel expenses	25	(523,363)	(221,410)
Printing cost of bank notes		-	(204,689)
Other expenses	26	(155,477)	(102,165)
Voluntary retirement compensation expense		(73,265)	(502,626)
Depreciation and amortisation	10&11	(58,943)	(54,722)
Net operating revenue		51,712	2,113,707
Un realised exchange (loss)/gain	21.4.2	(10,170,378)	3,240,310
<b>Profit/(loss) for the year</b>		<b>(10,118,666)</b>	<b>5,354,017</b>

10/04/09

The annexed notes 1 to 33 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**

**Statement of Recognised Income and Expense**

*For the year ended 30 Hoot 1387 (20 March 2009)*

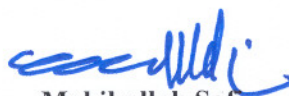
	<i>Note</i>	<b>1387</b> <b>(AFN '000')</b>	<b>1386</b> <b>(AFN '000')</b> (Restated)
Revaluation surplus/(deficit) on gold reserve directly recognised in equity		<b>(163,744)</b>	10,356,809
Profit/(loss) for the year		<b>(10,118,666)</b>	5,354,017
Total recognized income/(expense) for the year	<i>21.1</i>	<b><u>(10,282,410)</u></b>	<b><u>15,710,826</u></b>

*WPM*

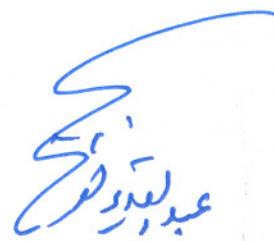
The annexed notes 1 to 33 form an integral part of these financial statements.



**Masood Khan Musa Ghazi**  
(Chief Financial Officer)



**Mohibullah Safi**  
(First Deputy Governor)



**Abdul Qadeer Fitrati**  
(Governor)


**Da Afghanistan Bank**

**Cash Flow Statement**

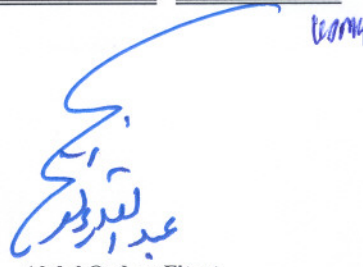
For the year ended 30 Hoot 1387 (20 March 2009)

	Note	1387 (AFN '000')	1386 (AFN '000')
<b>Cash flows from operating activities</b>			
Net profit/(Loss) for the year		(10,118,666)	5,354,017
<b>Adjustments for:</b>			
Interest income		-	(4,228,112)
Interest expense		-	480,566
Impairment provision on advances		-	323,488
Depreciation and amortisation		58,943	54,722
Voluntary retirement compensation expense		-	502,626
Income from grant	24	(35,258)	-
Unrealized exchange (gain)/Loss		10,170,378	-
		75,397	2,487,307
<b>Working capital changes</b>			
Advances and other receivables		(548,342)	(309,634)
Foreign currency cash reserve		-	(326,164)
Due from banks and financial institutions		-	(31,393,001)
Due to other banks and financial institutions		-	2,373,118
Deferred grant		-	(6,560)
Other assets		(629,528)	225,794
Currency in circulation		17,841,769	8,636,596
Due to customers		(5,800,441)	4,234,057
Other liabilities and provisions		(3,314,319)	5,420,323
Treasury bills		2,859,505	-
		10,408,643	(11,145,471)
Interest received		-	4,375,366
Interest paid		-	(480,566)
<b>Net cash flow from operating activities</b>		10,484,040	(4,763,363)
<b>Cash flows from investing activities</b>			
Increase in due from other banks and financial institutions		(40,820,564)	-
Purchase of property and equipment	10	(45,155)	(101,286)
Increase/(Decrease) of due to other banks and financial institutions		23,947,507	-
<b>Net cash used in investing activities</b>		(16,918,212)	(101,286)
<b>Cash flows from financing activities</b>			
Capital notes issued		14,406,825	3,339,655
<b>Net cash from financing activities</b>		14,406,825	3,339,655
Net increase/(decrease) in cash and cash equivalents		7,972,653	(1,524,994)
Effects of exchange rate fluctuation on cash held		(11,676,609)	-
Cash and cash equivalents at beginning of the year		10,953,223	12,478,217
Cash and cash equivalents at end of the year	28	7,249,266	10,953,223

The annexed notes 1 to 33 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**

## **Notes to the financial statements**

*For the year ended 30 Hoot 1387 (20 March 2009)*

### **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.

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.

Registered office (Head Office) of the Bank is situated in Kabul. As at 20 March 2009 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 24 Nov 2009.

#### **(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 Afghanis ("Afs"), which is the Bank's functional currency. All financial information presented in Afs has been rounded to the nearest thousands of Afghanis.

#### **(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.

*WPM/4*

# Da Afghanistan Bank

## Notes to the financial statements

For the year ended 30 Hoot 1387 (20 March 2009)

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 20 March 2009, the Afghani exchange rates used for the major currencies were:

	1387	1386
United State Dollars	51.760	49.520
Euro	67.545	77.500
Sterling Pounds	73.185	98.810
Pakistani Rupees	00.645	00.784

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 and it is then discounted at USD 2 per troy ounce.

6/2/14



## **Da Afghanistan Bank**

### **Notes to the financial statements**

*For the year ended 30 Hoot 1387 (20 March 2009)*

#### **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

10004

## **Da Afghanistan Bank**

### **Notes to the financial statements**

*For the year ended 30 Hoot 1387 (20 March 2009)*

relating to the particular asset being sold is transferred to retained earnings. An item of 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

10/04



## **Da Afghanistan Bank**

### **Notes to the financial statements**

*For the year ended 30 Hoot 1387 (20 March 2009)*

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(h)), 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.

60M4

## **Da Afghanistan Bank**

### **Notes to the financial statements**

*For the year ended 30 Hoot 1387 (20 March 2009)*

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

*WPM*



# **Da Afghanistan Bank**

## **Notes to the financial statements**

*For the year ended 30 Hoot 1387 (20 March 2009)*

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.

LC/MG

# **Da Afghanistan Bank**

## **Notes to the financial statements**

*For the year ended 30 Hoot 1387 (20 March 2009)*

### **(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.

- IFRIC 13 *Customer Loyalty Programmes*

10/11/4



**Da Afghanistan Bank**  
**Notes to the financial statements**

*For the year ended 30 Hoot 1387 (20 March 2009)*

- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
- Revised IFRS 3 *Business Combinations* (2008)
- IFRS *Operating Segments*
- Revised IAS 1 *Presentation of Financial Statements* (2007)
- Revised IAS 23 *Borrowing Costs*
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008)
- Amendment to IAS 32 and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2010 financial statements. The Bank does not expect these amendments to have any significant impact on the financial statements.

*WMC*

# Da Afghanistan Bank

## Notes to the financial statements

For the year ended 30 Hoot 1387 (20 March 2009)

	Note	1387 (AFN '000')	1386 (AFN '000') (Restated)
<b>4. Gold reserve</b>			
Balance as at 01 Hamal	4.1	33,298,447	23,217,290
Gain/(loss) on revaluation	21.4	(163,744)	10,356,809
Exchange gain/(loss)		1,506,231	(275,652)
Balance as at 30 Hoot		<u>34,640,934</u>	<u>33,298,447</u>

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 (1386: 703,004.944 fine troy ounces).

4.2 As per confirmation received from Federal Reserve Bank, New York (FRB NY), Gold reserve do not meet the standards for valuation set by the London Bullion Market Association ("LBMA"). The Bank has obtained an advice for the estimate of discount to the LBMA rate from Bank for International Settlement (BIS), Switzerland which suggested discount from US\$ 1 to 2 per troy ounce to the LBMA rate. Accordingly, the Bank has valued the gold bars at a discount of US\$ 2 per troy ounce to the LBMA rate at 30 Hoot 1387 (20 March 2009 ) and 29 Hoot 1386.

		1387 (AFN '000')	1386 (AFN '000')
<b>5. Foreign currency cash reserve</b>			
Cash at head office		6,692,580	3,560,375
Cash at branches		352,185	598,047
		<u>7,044,765</u>	<u>4,158,422</u>

5.1 This represents freely convertible foreign currency held by the Bank.

	Note	1387 (AFN '000')	1386 (AFN '000') (Restated)
<b>6. Due from banks and financial institutions</b>			
Demand deposits	6.1	118,977,848	76,860,615
Less: Unidentified amount written off		-	(779,900)
		<u>118,977,848</u>	<u>76,080,715</u>
Deposit for Letter of Credit		-	2,051,606
Interest receivable		153,967	178,929
Current accounts with foreign banks		204,502	6,794,801
		<u>119,336,317</u>	<u>85,106,051</u>

6.1 These represents demand deposit and carry interest ranging from 0.1 % to 2.5 % (1386: 5.35% to 6.02%).

	Note	1387 (AFN '000')	1386 (AFN '000')
<b>7. Treasury bills</b>			
<b>Face values</b>			
US treasury bills	7.1	7,448,264	14,207,288
UK treasury bills	7.1	10,161,005	6,659,794
US treasury notes	7.2	5,292,096	4,952,000
		<u>22,901,365</u>	<u>25,819,082</u>
Un-earned discount on treasury bills		(24,272)	(82,484)
		<u>22,877,093</u>	<u>25,736,598</u>

7.1 These bills are debt securities issued by the US/UK Treasuries and purchased through the Duetsche 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.

6/6/6



**Da Afghanistan Bank****Notes to the financial statements***For the year ended 30 Hoot 1387 (20 March 2009)*

7.2 US treasury notes have its original maturity of 2 years carries effective interest rate of 1.15% per annum (1386: 1.15%).

	Note	1387 (AFN '000')	1386 (AFN '000')
<b>8. Advances and other receivables</b>			
Advances to government	8.3	50,920	16,995
Others		1,994,593	1,480,176
	8.1	2,045,513	1,497,171
Less : Allowance for impairment on advances	8.2	(1,480,176)	(1,480,176)
		565,337	16,995
8.1 Foreign currencies		1,084,232	1,068,848
Local currency		961,281	428,323
		2,045,513	1,497,171

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 years. The Bank has recognised full impairment provision against these advances as the chances of the recovery of the same are remote.

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

Balance as at 01 Hamal	1,480,176	1,156,688
Impairment provided during the year	-	323,488
Balance as at 30 Hoot	1,480,176	1,480,176

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

	Note	1387 (AFN '000')	1386 (AFN '000')
<b>9. Investment properties</b>			
Balance as at 30 Hoot	9.1	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 and 1387. The most 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 and 1387 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.

WPM4

**Da Afghanistan Bank**

**Notes to the financial statements**

*For the year ended 30 Hoot 1387 (20 March 2009)*

**10. Property and equipment**

	Freehold land	Buildings	Furniture, fixture and equipment	Total
	(AFN '000')			
<b>Cost</b>				
Balance at 01 Hamal 1386	1,779,764	175,904	308,491	2,264,159
Additions	-	44,789	56,497	101,286
Balance at 29 Hoot 1386	1,779,764	220,693	364,988	2,365,445
<b>Balance at 01 Hamal 1387</b>	<b>1,779,764</b>	<b>220,693</b>	<b>364,988</b>	<b>2,365,445</b>
Additions	-	29,453	15,702	45,155
Balance at 30 Hoot 1387	1,779,764	250,146	380,690	2,410,600
<b>Depreciation</b>				
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
<b>Balance at 01 Hamal 1387</b>	<b>-</b>	<b>20,917</b>	<b>134,035</b>	<b>154,952</b>
Adjustment for acc. Depreciation			(27,922)	(27,922)
Depreciation for the year	-	6,254	45,000	51,254
Balance at 30 Hoot 1387	-	27,171	151,113	178,284
<b>Carrying amounts</b>				
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
<b>At 01 Hamal 1387</b>	<b>1,779,764</b>	<b>199,776</b>	<b>230,953</b>	<b>2,210,493</b>
At 30 Hoot 1387	1,779,764	222,975	229,577	2,232,316

- 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. No revaluation was conducted thereafter.

*Wamy*



# Da Afghanistan Bank

## Notes to the financial statements

For the year ended 30 Hoot 1387 (20 March 2009)

	Note	1387 (AFN '000')	1386 (AFN '000')
<b>11. Intangible assets</b>			
<b>Cost</b>			
Balance as at 01 Hamal		30,116	-
Addition during the year		-	30,116
		<u>30,116</u>	<u>30,116</u>
<b>Amortisation</b>			
Balance as at 01 Hamal		(3,331)	-
For the year		(7,689)	(3,331)
		<u>(11,020)</u>	<u>(3,331)</u>
Balance as at 30 Hoot	11.1	<u>19,096</u>	<u>26,785</u>

- 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.

		1387 (AFN '000')	1386 (AFN '000') (Restated)
<b>12. Other assets</b>			
Non-monetary gold bullion and bars		5,861,728	5,861,728
Adjustment of non-monetary Silver		6,711,255	6,711,255
	12.1	<u>12,572,983</u>	<u>12,572,983</u>
Inventories		97	995
MOU adjustments items	27	51,201	48,613
Inter-branch accounts	12.2	1,227,063	619,409
Receivable against project accounts from ministries	12.3	466,399	446,215
		<u>14,317,743</u>	<u>13,688,215</u>

- 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.

In 1386, the Bank conducted a reconciliation process of gold bars and coins and decided to write down the value of these minerals by AFN 2,384,167 thousands that represented a shortfall of gold bars and coins handed over to the Bank by the Ministry of Finance under the Memorandum of Understanding (MOU). Subsequently, in 1387, due to silver counting the figures of previously reported gold is restated by adding AFN 184,495 thousand in gold value. The Bank completed the physical recounting, re-weighing and reconciliation process of silver coins and included in the books of accounts the AFN 6,711,255 thousand, being the value previously unaccounted for.

- 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.
- 12.3 This represents AFN 466,399 thousand (USD 9,010,807) receivable from different project accounts against which the Bank has made payment to relevant ministries and Government institutions but the same amount has yet not been transferred from project accounts to DAB's correspondent bank accounts.

WPM

# Da Afghanistan Bank

## Notes to the financial statements

For the year ended 30 Hoot 1387 (20 March 2009)

	1387 (AFN '000')	1386 (AFN '000')
<b>13. Currency in circulation</b>		
Coins	428,400	428,400
Bank notes	81,697,815	66,260,351
	82,126,215	66,688,751
Less: Bank notes and coins held by the Bank as at 30 Hoot	(5,318,956)	(7,723,261)
	76,807,259	58,965,490

	Note	1387 (AFN '000')	1386 (AFN '000')
<b>14. Capital notes</b>			
Face values		19,263,000	4,664,000
Amortised discount		(337,114)	(144,939)
	14.1	18,925,886	4,519,061

- 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 (1386: 28 days to 56 days). Capital notes are freely transferable between licensed commercial Banks, licensed money changers and Da Afghanistan Bank.

These notes carry interest between 8.60% per annum to 16.80% per annum (1386: between 7.12% to 18%).

	Note	1387 (AFN '000')	1386 (AFN '000')
<b>15 Due to other banks and financial institutions</b>			
<b>Foreign currency</b>			
Current accounts		1,965,550	1,876,148
<b>Local currency</b>			
Current accounts		7,283,964	4,662,746
Overnight deposits		22,168,682	931,795
	15.2	29,452,646	5,594,541
	15.1	31,418,196	7,470,689
<b>15.1 Due to foreign banks and financial institutions</b>		3,546,380	1,999,325
Due to local banks		27,871,816	5,471,364
		31,418,196	7,470,689

- 15.2 Overnight deposits carry interest ranging from 6.00% to 13.68% p.a (1386: 6% to 14%). Local currency current accounts include cash reserve balance maintained by the commercial banks with the Bank as per the requirement of Article 64 of the DAB Law, on which the Bank pays interest between 6.00 % to 13.68 % p.a (1386: 6% to 14%).

WPM



# Da Afghanistan Bank

## Notes to the financial statements

For the year ended 30 Hoot 1387 (20 March 2009)

	Note	1387 (AFN '000')	1386 (AFN '000')
<b>16 Due to customers</b>			
<b>Foreign currency</b>			
Current accounts	16.1	20,969,958	22,670,649
Dormant accounts	16.2	170,269	11,465
Residual accounts	16.2	-	171,657
		<u>21,140,227</u>	<u>22,853,771</u>
<b>Local currency</b>			
Current accounts	16.1	15,062,696	18,983,166
Time deposits		31,577	38,470
Dormant accounts	16.2	4,431	143,501
Residual accounts	16.2	-	20,464
		<u>15,098,704</u>	<u>19,185,601</u>
	16.3	<u>36,238,931</u>	<u>42,039,372</u>
<b>16.1 Current accounts</b>			
Current accounts of Government		34,590,841	30,423,575
Others		1,648,090	11,230,240
		<u>36,238,931</u>	<u>41,653,815</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 are classified as dormant for 10 years, thereafter as residual for another 10 years. If the customers didn't claim back these deposits within this period, then the Bank transfers it to the Ministry of Finance (MoF) Government of Afghanistan. During the year 1387 no such accounts has been transferred to the Ministry of Finance.

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

	Note	1387 (AFN '000')	1386 (AFN '000')
<b>17. IMF related liabilities</b>			
Account 1		34,399	30,937
Account 2		1,112	1,112
	17.1	<u>35,511</u>	<u>32,049</u>

**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)

WMA

## Da Afghanistan Bank

### Notes to the financial statements

For the year ended 30 Hoot 1387 (20 March 2009)

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.

	Note	1387 (AFN '000')	1386 (AFN '000')
<b>18. Defined benefit plan</b>			
Balance as at 01 Halam		295,036	341,674
(Written back) / provided during the year		-	(46,638)
Balance as at 30 Hoot		<u>295,036</u>	<u>295,036</u>

### 19. Deferred grant

Deferred grant 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, 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 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).

	1387 (AFN '000')	1386 (AFN '000')
Balance as on 01 Hamal	251,331	220,982
Grant assets received during the year	-	30,349
	<u>251,331</u>	<u>251,331</u>
Adjustment of over-depreciated equipment in previous years	27,922	-
Accumulated transferred to income	<u>(118,471)</u>	<u>(83,213)</u>
Balance as on 30 Hoot	<u>160,782</u>	<u>168,118</u>

### Accumulated transferred to income

Balance as on 01 Hamal	83,213	46,304
Transfer to income during the year	35,258	36,909
Balance as on 30 Hoot	<u>118,471</u>	<u>83,213</u>

160,782



**Da Afghanistan Bank****Notes to the financial statements***For the year ended 30 Hoot 1387 (20 March 2009)*

		1387	1386
		(AFN '000')	(AFN '000')
<b>20. Provisions and other liabilities</b>			
Voluntary retirement compensation payable		146	502,627
Deposit against letters of credit	20.2	6,846,953	9,601,073
Current accounts of departments of DAB	20.3	108,745	64,473
Sundry payable		20,252	19,868
Withholding taxes payable		2,988	1,823
Suspense accounts	20.4	1,025,791	1,176,753
Interest payable		43,961	-
	20.1	<u>8,048,836</u>	<u>11,366,617</u>
<b>20.1 In local currency</b>		<b>1,201,883</b>	<b>1,381,717</b>
In foreign currency		6,846,953	9,984,900
		<u>8,048,836</u>	<u>11,366,617</u>

**20.2** These represent 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. Deposit against LC with correspondent banks having debit effect of AFN 1,111,448 thousand in 1387 have been adjusted.

**20.3** 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.

**20.4** This consists of un-reconciled accounts of past years comprising of AFN 70,053 thousands debit and AFN 1,095,845 thousands as credit (1386: AFN 45,806 thousand 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.

*Wamy*

**Da Afghanistan Bank**

**Notes to the financial statements**

For the year ended 30 Hoot 1387 (20 March 2009)

**21. Capital and reserves**

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

		Capital Note 21.2	Revaluation reserve Note 21.4 (Restated)	Accumulated (losses) / profit Note 21.5	Total
		(AFN '000')			
Balance as at 1 Hamal 1386		(5,917,478)	22,701,276	-	16,783,798
Adjustment of silver and gold previously not recorded	Note 12.1	6,895,750	-	-	6,895,750
Balance as at 1 Hamal 1386-restated		978,272	22,701,276	-	23,679,548
Total recognised income and expense		-	-	15,710,826	15,710,826
Foreign exchange revaluation reserve	Note 21.5	-	13,597,119	(13,597,119)	-
		978,272	36,298,395	2,113,707	39,390,374
Transfer to capital account		2,113,707	-	(2,113,707)	-
Balance as at 29 Hoot 1386		<u>3,091,979</u>	<u>36,298,395</u>	<u>-</u>	<u>39,390,374</u>
Balance as at 1 Hamal 1386		3,091,979	36,298,395	-	39,390,374
Total recognised income and expense		-	-	(10,282,410)	(10,282,410)
Foreign exchange revaluation reserve	Note 21.5	-	(6,215,071)	6,215,071	-
		<u>3,091,979</u>	<u>30,083,324</u>	<u>(4,067,339)</u>	<u>29,107,964</u>
Transfer to capital account	Note 21.5	(4,067,339)	-	4,067,339	-
Balance as at 30 Hoot 1387		<u>(975,360)</u>	<u>30,083,324</u>	<u>-</u>	<u>29,107,964</u>

**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 loss 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	Foreign exchange revaluation reserve	Total
	Restated			
Note	(AFN '000')			
Balance as at 01 Hamal 1386	369,490	19,520,769	2,811,017	22,701,276
Gains recognised during the year (Restated)	-	10,356,809	3,240,310	13,597,119
Balance as at 29 Hoot 1386	<u>369,490</u>	<u>29,877,578</u>	<u>6,051,327</u>	<u>36,298,395</u>
Balance as at 01 Hamal 1387	369,490	29,877,578	6,051,327	36,298,395
Loss recognised during the year	-	(163,744)	(6,051,327)	(6,215,071)
Balance as at 30 Hoot 1387	<u>369,490</u>	<u>29,713,834</u>	<u>-</u>	<u>30,083,324</u>

60/11/14



## **Da Afghanistan Bank**

### **Notes to the financial statements**

*For the year ended 30 Hoot 1387 (20 March 2009)*

#### **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 reserve amounting to AFN 30,083,324 thousand as on 30 Hoot 1387 which represents the cumulative unrealised gains on revaluation of gold reserves at market prices, freehold land at fair values and unrealised 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 gain/losses can be available only to off-set unrealised gains/losses in future. To comply with the requirements of Article 29 of the DAB Law, the Bank has adjusted unrealised exchange losses for the year against accumulated balance of revaluation reserves as at balance sheet date and the balance of unrealised exchange loss has been transferred to Capital.

#### **21.5 Accumulated losses/profit**

According to Article 29 of the DAB Law, if the Bank has a net profit for any financial year, it shall be allocated to the capital account to increase the capital of Bank to a level equivalent to five percent of the aggregate amount of monetary liabilities shown on the balance sheet of the Bank for the end of that financial year.

#### **22 Interest income**

	<b>1387</b> <b>(AFN '000')</b>	<b>1386</b> <b>(AFN '000')</b>
Interest on balances with banks and financial institutions	<b>2,350,710</b>	3,829,388
Interest on US treasury bills	<b>723,906</b>	398,724
	<b>3,074,616</b>	4,228,112

60mg

**Da Afghanistan Bank****Notes to the financial statements***For the year ended 30 Hoot 1387 (20 March 2009)*

		1387 (AFN '000')	1386 (AFN '000')
<b>23. Interest expense</b>	<i>Note</i>		
Interest on capital notes		1,184,276	207,584
Interest-others	23.1	907,815	272,982
		<u>2,092,091</u>	<u>480,566</u>

23.1 It includes interest on overnight deposits and cash reserve accounts of the local commercial banks.

**24. Other operating income**

Rental income	1,590	1,334
Grant income	35,258	36,909
Regulatory income	28,043	17,966
	<u>64,891</u>	<u>56,209</u>

**25. Personnel expenses**

Salaries	368,143	212,630
Defined benefit plan contribution	29,215	(46,638)
Other allowances	126,005	55,418
	<u>523,363</u>	<u>221,410</u>

**26. Other expenses**

Audit fee and expenses	5,532	8,262
Repair and maintenance	10,354	11,447
Rent	4,297	4,919
Printing and stationery	8,796	6,130
Transportation	14,785	7,890
Communication	32,264	23,124
Insurance	23,097	18,392
Travelling	19,168	8,086
Other expenses	37,184	13,915
	<u>155,477</u>	<u>102,165</u>

**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 1385 (02 March 2007), 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.

		1387 (AFN '000')	1386 (AFN '000')
<b>28. Cash and cash equivalents</b>			
Foreign currency cash	5	7,044,765	4,158,422
Current accounts with other banks	6	204,502	6,794,801
		<u>7,249,267</u>	<u>10,953,223</u>

20/04/09



## 29. 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 the following notes 29.1 - 29.4. 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.

The Market Operations Department within the Bank is responsible for monitoring the foreign currencies reserves as per the Bank's Reserves Management Policy and Guidelines.

### 29.1 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:**

	Note	1387 (AFN '000')	1386 (AFN '000')
Due from banks and financial institutions	6	119,182,350	82,875,516
Treasury bills	7	22,877,093	25,736,598
		<u>142,059,443</u>	<u>108,612,114</u>

### Financial Instruments with Off-Balance-Sheet Risk

The Bank does not enter into nor is a party to financial instruments and contractual obligations that, under certain conditions, could give rise to or involve elements of, market or credit risk in excess of that shown in the statement of financial condition such as interest rate swaps, forward foreign exchange contracts, financial guarantees, and commitments to extend credit.

### 29.2 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

	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
<b>As at 30 Hoot 1387 (20 March 2009)</b>						
	(AFN '000')					
<b>Assets</b>						
Foreign currency cash reserve	7,044,765	-	-	-	-	7,044,765
Due from banks and financial institutions	35,591,758	49,701,498	34,043,060	-	-	119,336,317
Treasury bills	2,458,033	10,263,263	10,155,798	-	-	22,877,093
Advances and other receivables	401,033	-	164,304	-	-	565,337
Other assets	1,693,462	-	-	-	-	1,693,462
<b>Total 30 Hoot 1387 (20 March 2009)</b>	<b>47,189,052</b>	<b>59,964,761</b>	<b>44,363,162</b>	<b>-</b>	<b>-</b>	<b>151,516,974</b>
<b>Liabilities</b>						
Currency in circulation	-	-	-	-	76,807,259	76,807,259
Capital notes	11,898,486	1,309,670	5,717,729	-	-	18,925,886
Due to other banks and financial institutions	31,418,196	-	-	-	-	31,418,196
Due to customers	36,032,654	206,277	-	-	-	36,238,931
IMF related liabilities	35,511	-	-	-	-	35,511
Provisions and other liabilities	176,092	6,846,953	-	-	-	7,023,045
<b>Total 30 Hoot 1387 (20 March 2009)</b>	<b>79,560,939</b>	<b>8,362,900</b>	<b>5,717,729</b>	<b>-</b>	<b>76,807,259</b>	<b>170,448,827</b>
<b>Net liquidity gap</b>						
<b>As at 30 Hoot 1387 (20 March 2009)</b>	<b>(32,371,887)</b>	<b>51,601,861</b>	<b>38,645,432</b>	<b>-</b>	<b>(76,807,259)</b>	<b>(18,931,853)</b>
<b>Cumulative gap</b>						
<b>As at 30 Hoot 1387 (20 March 2009)</b>	<b>(32,371,887)</b>	<b>19,229,974</b>	<b>57,875,406</b>	<b>57,875,406</b>	<b>(18,931,853)</b>	

*copy*

**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')						
<b>Assets</b>						
Foreign currency cash reserve	4,158,422	-	-	-	-	4,158,422
Due from banks and financial institutions	6,794,801	178,929	76,080,715	2,051,606	-	85,106,051
Treasury bills	12,837,507	7,947,091	4,952,000	-	-	25,736,598
Advances and other receivables	16,995	-	-	-	-	16,995
Other assets	446,215	-	619,409	-	-	1,065,624
	24,253,940	8,126,021	81,652,124	2,051,606	-	116,083,690
<b>Liabilities</b>						
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
IMF related liabilities	32,049	-	-	-	-	32,049
Provisions and other liabilities	588,791	9,601,073	-	-	-	10,189,864
	51,826,547	9,995,142	2,043,789	58,922,647	428,400	123,216,525
Net liquidity gap						
As at 29 Hoot 1386 (19 March 2008)	(27,572,607)	(1,869,122)	79,608,335	(56,871,041)	(428,400)	(7,132,835)
<b>Cumulative gap</b>	<b>(27,572,607)</b>	<b>(29,441,729)</b>	<b>50,166,606</b>	<b>(6,704,435)</b>	<b>(7,132,835)</b>	

**Distribution of Assets, Liabilities, Contingent Liabilities and Commitments**

The distribution of assets, liabilities and off-balance sheet items by geographic regions as at 30 Hoot 1387 (20 March 2009) are as follows:

	(AFN '000')			
	Assets	Liabilities	Net Value of Assets (Liabilities)	Contingent Liabilities and Commitments
Afghanistan	57,222,832	171,930,437	(114,707,605)	-
Asia	21,599,620	-	21,599,620	-
Europe	93,425,462	-	93,425,462	-
America	28,790,487	-	28,790,487	-
	201,038,401	171,930,437	29,107,964	-

The distribution of assets, liabilities and off-balance sheet items by geographic regions as at 29 Hoot 1386 (19 March 2008) are as follows:

	(AFN '000')			
	Assets	Liabilities	Net Value of Assets (Liabilities)	Contingent Liabilities and Commitments
Afghanistan	54,560,996	124,856,432	(70,295,437)	-
Asia	17,154,625	-	17,154,625	-
Europe	76,980,535	-	76,980,535	-
America	15,550,650	-	15,550,650	-
	164,246,806	124,856,432	39,390,374	-

**29.3 Market risk**

Market risk is the risk of loss as a result of changes in market risk factors, these include prices, interest rates, foreign exchange rates, commodity prices and credit spreads. The Bank is exposed to market risk, as a consequence of its operations to deliver its policy objectives as well as in the course of managing the Bank's balance sheet, principally through changes in the relative interest rates received on its assets and paid on its liabilities. Exposure may also be incurred to changes in exchange rates and to shifts in general market conditions, such as the liquidity of asset markets.

All market risks are managed within the Bank's Market Operations Department through Reserves Management Policy and Guidelines.

The Bank is exposed to interest rate risk principally via its investments in treasury bills and short term deposits with other banks and financial institutions bought and held to maturity in normal circumstances with the intention of maintaining the value of the Bank's capital and generating income to pay for the Bank's policy functions.

LCM



# Da Afghanistan Bank

## Notes to the financial statements

For the year ended 30 Hoot 1387 (20 March 2009)

### 29.4 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.

The Bank does not have any material positions in off-balance-sheet instruments whose value can be affected by interest rate contracts, such as swaps, futures, and forwards; option contracts, such as caps, floors, and options on futures; and firm forward commitments to buy or sell loans, securities, or other financial instruments.

As at 30 Hoot 1387 (20 March 2009)	Interest bearing				Non-interest bearing	Total	
	Interest rates (p.a)	1-3 months	3 months to 1 year	1-5 years			Over 5 years
AFN ('000')							
Assets							
Foreign currency cash reserve	N.A					7,044,765	7,044,765
Due from banks and financial institutions	0.1 % to 2.5 %	84,934,788	34,043,060	-	-	358,469	119,336,317
Treasury bills	0.279% to 0.869%	12,721,296	10,155,798	-	-	-	22,877,093
Advances and other receivables	N.A	-	-	-	-	565,337	565,337
Other assets	N.A	-	-	-	-	1,693,462	1,693,462
		97,656,083	44,198,858	-	-	9,662,033	151,516,974
Liabilities							
Currency in circulation	N.A	-	-	-	-	76,807,259	76,807,259
Capital notes	8.6% to 16.8%	13,208,156	5,717,729	-	-	-	18,925,886
Due to other banks and financial institutions	6% to 13.68%	29,452,646	-	-	-	1,965,550	31,418,196
Due to customers	N.A	-	-	-	-	36,238,931	36,238,931
IMF related liabilities	N.A	-	-	-	-	35,511	35,511
Provisions and other liabilities	N.A	-	-	-	-	7,023,045	7,023,045
		42,660,802	5,717,729	-	-	122,070,296	170,448,827
On balance sheet interest sensitivity gap		54,995,281	38,481,128	-	-	(112,408,263)	(18,931,853)
Cumulative gap		54,995,281	93,476,409	93,476,409	93,476,409	(18,931,853)	

lcm

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	76,080,715	-	-	8,846,407	85,106,051
1.15%	20,784,598	4,952,000	-	-	-	25,736,598
N.A	-	-	-	-	16,995	16,995
N.A	-	-	-	-	1,065,624	1,065,624
	20,963,527	81,032,715	-	-	14,087,448	116,083,690
N.A	-	-	-	-	58,965,490	58,965,490
7.12% 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	-	-	-	-	32,049	32,049
N.A	-	-	-	-	10,189,864	10,189,864
	8,069,813	2,043,789	-	-	113,102,923	123,216,525
	12,893,714	78,988,926	-	-	(99,015,475)	(7,132,835)
	12,893,714	91,882,640	91,882,640	91,882,640	(7,132,835)	

#### Average Interest Rates applied during the year

The average interest rates for assets and liabilities of the Bank applied during the year ended 30 Hoot 1387 (20 March 2009) are as follows:

	USD	EUR	GBP	AFN
<b>Assets</b>	%	%	%	%
Due from banks and financial institutions	1.14	1.63	1.55	-
Treasury bills	0.52	-	0.68	-
<b>Liabilities</b>				
Capital notes	-	-	-	14.19
Due to other banks and financial institutions	-	-	-	14.00

The average interest rates for assets and liabilities of the Bank applied during the year ended 29 Hoot 1386 (19 March 2008) are as follows:

	USD	EUR	GBP	AFN
<b>Assets</b>	%	%	%	%
Due from banks and financial institutions	2.99	4.20	5.52	-
Treasury bills	3.35	-	5.12	-
<b>Liabilities</b>				
Capital notes	-	-	-	9.83
Due to other banks and financial institutions	-	-	-	9.78

#### Interest rate sensitivity analysis

The objective of interest rate risk management is to control the effects that interest rate fluctuations have on net interest revenue and on the net present value of the Bank's assets, liabilities and off-balance-sheet instruments.

As at 30 Hoot 1387 (20 March 2009)

Gain/(loss) per basis point

Interest rate sensitivity by time band				
Size of periodic gap	Basis point change	Impact on Net Interest Income/Equity	Basis point change	Impact on Net Interest Income/Equity
1-3 months	1	549,953	-1	(549,953)
3 month to 1 year	1	384,811	-1	(384,811)
1-5 years	-	-	-	-
Over 5 years	-	-	-	-
<b>Total</b>		<b>934,764</b>		<b>(934,764)</b>
As a percentage of Net Interest Income		95.14%		-95.14%
As a percentage of Equity		3.21%		-3.21%

WPM



As at 29 Hoot 1386 (19 March 2008)

Gain/(loss) per basis point

1-3 months

3 month to 1 year

1-5 years

Over 5 years

Total

As a percentage of Net Interest Income

As a percentage of Equity

Interest rate sensitivity by time band				
Size of periodic gap	Basis point change	Impact on Net Interest Income/Equity	Basis point change	Impact on Net Interest Income/Equity
12,893,714	1	128,937	-1	(128,937)
78,988,926	1	789,889	-1	(789,889)
-	-	-	-	-
-	-	-	-	-
91,882,640		918,826		(918,826)
		24.52%		-24.52%
		2.33%		-2.33%

## 29.5 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.

The Bank has not entered in to any foreign currency hedging transaction.

### Foreign currency financial assets and liabilities

As at 30 Hoot 1387 (20 March 2009)

USD	Euro	GBP	Irian Toman	PKR	Others (Note 29.5.1)	Total
(AFN '000')						
6,905,590	114,982	5,950	12,910	3,002	2,332	7,044,765
67,315,468	31,834,232	20,146,655	-	35,331	4,630	119,336,317
12,733,803	-	10,143,290	-	-	-	22,877,093
39,356	-	-	-	-	525,981	565,337
3,913,643	(41,316)	2,217	(775)	1,217	(2,181,523)	1,693,462
90,907,860	31,907,898	30,298,112	12,135	39,550	(1,648,580)	151,516,974
-	-	-	-	-	76,807,259	76,807,259
-	-	-	-	-	18,925,886	18,925,886
1,505,677	373,902	3,734	-	82,072	29,452,810	31,418,196
18,432,715	2,329,943	177,208	12,954	16,630	15,269,481	36,238,931
-	-	-	-	-	35,511	35,511
5,781,973	298,446	-	-	-	942,626	7,023,045
25,720,365	3,002,291	180,942	12,954	98,702	141,433,573	170,448,827
65,187,495	28,905,607	30,117,170	(819)	(59,152)	(143,082,153)	(18,931,853)

As at 29 Hoot 1386 (19 March 2008)

USD	Euro	GBP	Irian Toman	PKR	Others (29.5.1)	Total
(AFN '000')						
3,434,871	697,867	8,033	13,224	3,135	1,292	4,158,422
32,970,228	25,846,176	25,625,816	-	105,309	558,522	85,106,051
19,108,303	-	6,628,295	-	-	-	25,736,598
-	-	-	-	-	16,995	16,995
1,152,398	29,343	-	1	965	(117,083)	1,065,624
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
-	-	-	-	-	32,049	32,049
8,757,966	222,627	-	-	-	1,209,271	10,189,864
30,801,110	2,027,981	649,413	918	120,837	89,616,266	123,216,526
25,864,690	24,545,405	31,612,731	12,307	(11,428)	(89,156,541)	(7,132,835)

29.5.1 Other currencies comprise significantly of Afghanis as well to match the total of each financial instrument's balance with the balance sheet.

6/1/14

Sensitivity analysis on foreign currency financial assets and liabilities

As at 30 Hoot 1387 (20 March 2009)	USD	Euro	GBP	Irian Toman	PKR	Others (Note 29.5.2)	Total
Effect of 1% increase in exchange rates	(AFN '000')						
<b>Financial assets</b>							
Cash on hand - foreign currencies	(69,056)	(1,150)	(59)	(129)	(30)	-	(70,424)
Due from banks and financial institutions	(673,155)	(318,342)	(201,467)	-	(353)	-	(1,193,317)
Treasury bills	(127,338)	-	(101,433)	-	-	-	(228,771)
Advances and other receivables	(394)	-	-	-	-	-	(394)
Other assets (inter-branches)	(39,136)	413	(22)	8	(12)	-	(38,750)
<b>Losses from Financial Assets</b>	<b>(909,079)</b>	<b>(319,079)</b>	<b>(302,981)</b>	<b>(121)</b>	<b>(396)</b>	<b>-</b>	<b>(1,531,656)</b>
<b>Financial liabilities</b>							
Currency in circulation	-	-	-	-	-	-	-
Capital notes	-	-	-	-	-	-	-
Due to other banks and financial institutions	15,057	3,739	37	-	821	-	19,654
Due to customers	184,327	23,299	1,772	130	166	-	209,695
Provisions and other liabilities	57,820	2,984	-	-	-	-	60,804
<b>Gains from Financial Liabilities</b>	<b>257,204</b>	<b>30,023</b>	<b>1,809</b>	<b>130</b>	<b>987</b>	<b>-</b>	<b>290,153</b>
<b>Net unrealized gains/(losses) on foreign currency</b>	<b>(651,875)</b>	<b>(289,056)</b>	<b>(301,172)</b>	<b>8</b>	<b>592</b>	<b>-</b>	<b>(1,241,503)</b>

As at 29 Hoot 1386 (19 March 2008)	USD	Euro	GBP	Irian Toman	PKR	Others (Note 29.5.2)	Total
Effect of 1% increase in exchange rates	(AFN '000')						
<b>Financial assets</b>							
Cash on hand - foreign currencies	(34,349)	(6,979)	(80)	(132)	(31)	-	(41,571)
Due from banks and financial institutions	(329,702)	(258,462)	(256,258)	-	(1,053)	-	(845,475)
Treasury bills	(191,083)	-	(66,283)	-	-	-	(257,366)
Advances and other receivables	-	-	-	-	-	-	-
Other assets (inter-branches)	(11,524)	(293)	-	(0)	(10)	-	(11,827)
<b>Losses from Financial Assets</b>	<b>(566,658)</b>	<b>(265,734)</b>	<b>(322,621)</b>	<b>(132)</b>	<b>(1,094)</b>	<b>-</b>	<b>(1,156,240)</b>
<b>Financial liabilities</b>							
Deposits of local banks	11,803	1,463	50	-	1,000	-	14,317
Due to customers	208,628	16,591	6,444	9	209	-	231,880
Provisions and other liabilities	87,580	2,226	-	-	-	-	89,806
<b>Gains from Financial Liabilities</b>	<b>308,011</b>	<b>20,280</b>	<b>6,494</b>	<b>9</b>	<b>1,208</b>	<b>-</b>	<b>336,003</b>
<b>Net unrealized gains/(losses) on foreign currency</b>	<b>(258,647)</b>	<b>(245,454)</b>	<b>(316,127)</b>	<b>(123)</b>	<b>114</b>	<b>-</b>	<b>(820,237)</b>

29.5.2 Reference to note 29.5.1, while calculating effect of change in exchange rates on foreign currencies we have ignored this column as it comprise significantly of local currency i.e (AFN).

29.5.3 Effect of 1% decrease in exchange rates will have same effect on net unrealized gains/(losses) for both years but in opposite direction.

29.5.4 Prior year figures have been restated and reclassified due to current restatement to financial statements.

## 29.6 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 periodic reviews undertaken by Internal Auditor department. The results of Internal Audit department reviews are discussed with management of the unit to which they relate, with summaries submitted to the Executive Board of the Bank.

WAG



### 30. 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 fair values of financial instruments reflected in the financial statements approximate to their carrying values.

### 31. 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.

The Bank has issued advance AFN 2,000 thousand in 1387 (1386: AFN 30,423,575 thousand) to the government and governmental organizations.

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

The Related Party balances outstanding as of Balance Sheet dates are as follows:

	1387 (AFN '000')	1386 (AFN '000')
General Government accounts	36,517,525	39,382,258
Other Government owned entities	6,857,903	8,943,858
	<u>43,375,428</u>	<u>48,326,116</u>

#### 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 Mohammad 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

#### Remuneration to the members of the Council and Key Managerial Personnel

The members of the Supreme Council received remuneration totaling AFN 770 thousand (1386: AFN 7,380 thousand). Key Managerial personnel received salary and related expenses totaling AFN 8,417 thousand (1386: AFN 13,040 thousand). In addition to the salary, the Governor of the Bank received AFN 798 thousand as other benefits (1386: AFN 830 thousand).

### 32 Project accounts

The Bank acts as a custodian of project accounts 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.

### 33 Financial Guarantees

There are no financial guarantees or conditional commitments to guarantee performance to third parties including the Government apart from the letters of credits that are fully secured by cash deposits in the related customers accounts.

Masood Khan Musa Ghazi  
(Chief Financial Officer)

Mohibullah Safi  
(First Deputy Governor)

Abdul Qadeer Fitrat  
(Governor)