



KPMG Afghanistan Limited

## **Da Afghanistan Bank**

### **Financial Statements**

**For the year ended 30 Qawes  
1392 (21 December 2013)**

## 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 statement of financial position as at 30 Qawes 1392 (21 December 2013), the statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting framework as stated in note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider 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 qualified audit opinion.

19/11/13

### **Basis for Qualified Opinion**

“Provisions and other liabilities” (Note 21) includes a net credit amount of Afs 714,380 thousand representing net un-reconciled difference of inter-branch transactions at the reporting date. . In the absence of inter- branch reconciliations to reconcile the difference, we remained unable to quantify the impact of required adjustments on these financial statements.

### **Opinion**

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Bank as at 30 Qawes 1392 (21 December 2013), and of its financial performance and its cash flows for the year then ended in accordance with the accounting framework as stated in note 2 to the financial statements.

### **Emphasis of matter**

Without further qualifying our opinion, we draw attention to the following:

- i) Note 8.1 to the financial statements which explains that the repayments of Lender of Last Resort facility to the Bank are subject to approval by the Parliament on yearly basis.
- ii) Note 17.3 to the financial statements which states that the Bank is not in compliance with Article 74 of DAB law requiring the Bank to limit its foreign currency liabilities up to 50% of its unimpaired capital and reserves, which works out to be Afs 36,606,467 thousand as at 30 Qawes 1392 (21 December 2013). Foreign currency liabilities of the Bank as at the said date stand at Afs 107,211,147 thousand, including liabilities towards Government of Afghanistan amounting to Afs 71,817,653 thousand, resulting in foreign currency liabilities exceeding over prescribed limit by Afs 70,604,679.

 KPMG

**KPMG Afghanistan Limited**

*07 August 2014*

**Kabul**

**Da Afghanistan Bank**  
**Statement of financial position**  
*As at 30 Qawes 1392 (21 December 2013)*

		1392 (2013)	1391 (2012)
	Note	(Afs '000')	(Afs '000')
<b>ASSETS</b>			
Gold reserve	4	47,508,874	60,424,079
Foreign currency cash reserve	5	28,756,401	21,308,656
Due from banks and financial institutions	6	261,203,583	221,972,294
Investments	7	62,684,564	57,442,323
Assistance as lender of last resort	8	29,139,914	30,414,916
Advances and other receivables	9	878,797	636,473
Investment property	10	9,000	9,000
Property and equipment	11	4,736,185	4,648,251
Intangible assets	12	273	1,020
Other assets	13	12,581,824	12,578,431
<b>Total assets</b>		<b>447,499,416</b>	<b>409,435,443</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Currency in circulation	14	168,796,698	150,008,479
Capital notes	15	30,122,669	35,089,809
Due to banks and financial institutions	16	53,196,284	40,097,300
Due to customers	17	110,552,509	104,212,267
IMF related liabilities	18	32,268	32,268
Defined benefit plan	19	1,408,269	1,367,438
Deferred grants	20	6,682	-
Provisions and other liabilities	21	10,171,102	9,435,355
<b>Total liabilities</b>		<b>374,286,481</b>	<b>340,242,915</b>
<b>EQUITY</b>			
Capital	22	18,135,021	15,305,759
Revaluation reserve	22	37,167,831	53,886,768
General reserve	22	17,910,083	-
<b>Total equity</b>		<b>73,212,935</b>	<b>69,192,527</b>
<b>Total liabilities and equity</b>		<b>447,499,416</b>	<b>409,435,443</b>

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

**Syed Younas**  
*Chief Financial Officer*

**Khan Afzal Hadawal**  
*First Deputy Governor*

**Noorullah Delawari**  
*Governor*

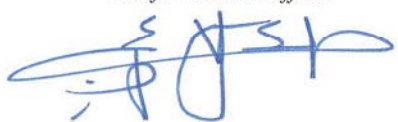
**Da Afghanistan Bank****Income statement***For the year ended 30 Qawes 1392 (21 December 2013)*

		For the year ended 30 Qawes 1392 (21 December 2013)	For the period from 01 Hamal to 30 Qawes 1391 (20 March 2012 to 20 December 2012)
	Note	(Afs '000')	(Afs '000')
Interest income	23	1,739,096	2,075,127
Interest expense	24	(1,494,809)	(965,606)
<b>Net interest income</b>		<b>244,287</b>	<b>1,109,521</b>
Fee and commission income		308,084	199,079
Fee and commission expense		(126,707)	(61,881)
<b>Net fee and commission income</b>		<b>181,376</b>	<b>137,198</b>
Gain from dealings in foreign currencies		10,244,441	5,564,245
Net loss on sale of available for sale financial assets		(18,000)	(13,079)
Other operating income	25	98,026	141,013
		<b>10,324,467</b>	<b>5,692,179</b>
<b>Operating income</b>		<b>10,750,130</b>	<b>6,938,898</b>
Personnel expenses	26	(1,050,657)	(112,065)
Printing cost of bank notes		(995,394)	-
Other expenses	27	(358,771)	(229,823)
Depreciation and amortisation	11 & 12	(61,212)	(54,001)
<b>Net operating income</b>		<b>8,284,097</b>	<b>6,543,009</b>
Un-realised exchange gain		12,455,248	7,870,453
<b>Net profit for the period</b>		<b>20,739,345</b>	<b>14,413,462</b>

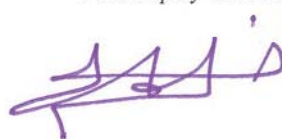
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Syed Younas  
Chief Financial Officer



Khan Afzal Hadawal  
First Deputy Governor



Noorullah Delawar  
Governor





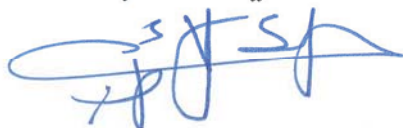
**Da Afghanistan Bank**  
**Statement of Comprehensive Income**  
*For the year ended 30 Qawes 1392 (21 December 2013)*

		<b>For the year ended 30 Qawes 1392 (21 December 2013)</b>	<b>For the period from 01 Hamal to 30 Qawes 1391 (20 March 2012 to 20 December 2012)</b>
	<i>Note</i>	<u>(Afs '000')</u>	<u>(Afs '000')</u>
Gain for the period		20,739,345	14,413,462
Other comprehensive income:			
Revaluation deficit on gold reserve	4	(16,686,722)	(382,024)
Un-realised (loss)/gain on available for sale financial assets	7.1.1	(32,215)	52,838
Total other comprehensive income		(16,718,937)	(329,186)
Total comprehensive income for the period		<u>4,020,408</u>	<u>14,084,276</u>

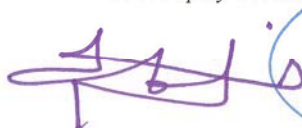
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The annexed notes 1 to 33 form an integral part of these financial statements.

**Syed Younas**  
*Chief Financial Officer*



**Khan Afzal Hadawal**  
*First Deputy Governor*



**Noorullah Delawari**  
*Governor*



**Da Afghanistan Bank**  
**Statement of changes in equity**  
*For the year ended 30 Qawes 1392 (21 December 2013)*

	Revaluation reserve (Note 22.2)				General reserve	Accumulated profits	Total
	Un-realised gain / (loss) on available for sale financial assets	Freehold land	Gold	Sub-total			
<i>Note</i>	<i>(AfG '000')</i>						
Balance at 1 Hamal 1391 (20 March 2012)	892,297	(36,064)	947,292	53,304,726	54,215,954	-	55,108,251
<b>Total comprehensive income for the period:</b>							
Net profit for the period	-	-	-	-	-	14,413,462	14,413,462
Other comprehensive income:							
Un-realised gain on available for sale financial assets	-	52,838	-	-	52,838	-	52,838
Loss on revaluation of gold	-	-	-	(382,024)	(382,024)	-	(382,024)
Total other comprehensive income	-	52,838	-	(382,024)	(329,186)	-	(329,186)
Total comprehensive income for the period	-	52,838	-	(382,024)	(329,186)	14,413,462	14,084,276
<b>Transactions recorded directly in equity:</b>							
Transfer to capital account	22.1	14,413,462	-	-	-	(14,413,462)	-
Balance at 30 Qawes 1391 (20 December 2012)	15,305,759	16,774	947,292	52,922,702	53,886,768	-	69,192,527
Balance at 01 Jadi 1391 (21 December 2012)	15,305,759	16,774	947,292	52,922,702	53,886,768	-	69,192,527
<b>Total comprehensive income for the year:</b>							
Net profit for the year	-	-	-	-	-	20,739,345	20,739,345
Other comprehensive income:							
Un-realised loss on available for sale financial assets	-	(32,215)	-	-	(32,215)	-	(32,215)
Loss on revaluation of gold	-	-	-	(16,686,722)	(16,686,722)	-	(16,686,722)
Total other comprehensive income	-	(32,215)	-	(16,686,722)	(16,718,937)	-	(16,718,937)
Total comprehensive income for the year	-	(32,215)	-	(16,686,722)	(16,718,937)	20,739,345	4,020,408
<b>Transactions recorded directly in equity:</b>							
Transfer to capital account and general reserve	22.1	2,829,262	-	-	-	17,910,083	(20,739,345)
Balance at 30 Qawes 1392 (21 December 2013)	18,135,021	(15,441)	947,292	36,235,980	37,167,831	17,910,083	73,212,535

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Syed Younas  
*Chief Financial Officer*

Khan Afzal Hadawal  
*First Deputy Governor*

Noorullah Delawari  
*Governor*

**Da Afghanistan Bank**  
**Statement of cash flows**

For the year ended 30 Qawes 1392 (21 December 2013)

		For the year ended 30 Qawes 1392 (21 December 2013)	For the period from 01 Hamal to 30 Qawes 1391 (20 March 2012 to 20 December 2012)
	Note	(Afs '000')	(Afs '000')
<b>Cash flows from operating activities</b>			
Net profit for the period		20,739,345	14,413,462
<i>Adjustments for non cash items:</i>			
Depreciation and amortisation	11 & 12	61,212	54,001
Interest income	23	(1,426,599)	(1,702,342)
Interest expense	24	1,494,809	965,606
Interest income on available for sale financial asset	23	(312,498)	(372,785)
Grant income	20	(216)	(34,296)
Defined benefit plan - Pension	19	247,697	(309,961)
Un-realised exchange gain		(12,455,248)	(7,870,453)
		8,348,502	5,143,232
<i>Working capital changes:</i>			
Change in due from banks and financial institutions	6	16,995,570	20,734,351
Change in assistance as lender of last resort	8	1,275,002	4,428,307
Change in advances and other receivables	9	(242,324)	(281,550)
Change in other assets	13	(3,393)	3,997
Change in currency in circulation	14	18,788,219	1,952,679
Change in due to banks and financial institutions	16	13,098,984	1,188,567
Change in due to customers	17	6,340,242	25,477,874
Change in deferred grant	20	6,899	-
Change in provisions and other liabilities	21	735,747	1,392,905
		56,994,944	54,897,130
Cash generated from operations		65,343,446	60,040,361
Interest received		1,897,795	1,920,066
Interest paid		(1,494,809)	(965,606)
Defined benefits paid-net	19	(206,866)	(9,917)
<b>Net cash generated from operating activities</b>		65,539,567	60,984,904
<b>Cash flows from investing activities</b>			
(Increase)/decrease in investments	7	(5,274,456)	4,786,401
Purchase of property and equipment	11	(148,259)	(63,761)
Purchase of intangible assets	12	(140)	(364)
<b>Net cash (used in) / from investing activities</b>		(5,422,855)	4,722,276
Capital notes issued/redeemed	15	(4,967,140)	4,339,909
<b>Net cash from financing activities</b>		(4,967,140)	4,339,909
Net increase in cash and cash equivalents		55,149,572	70,047,089
Effects of exchange rate fluctuation on cash held		8,683,731	4,697,954
<b>Cash and cash equivalents at beginning of the period</b>		121,259,325	46,514,280
<b>Cash and cash equivalents at end of the period</b>	28	185,092,628	121,259,325

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

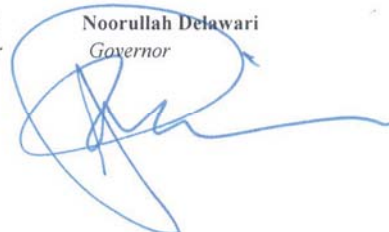
Syed Younas  
Chief Financial Officer



Khan Afzal Hadawal  
First Deputy Governor



Noorullah Delawari  
Governor





## **Da Afghanistan Bank**

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

*For the year ended 30 Qawes 1392 (21 December 2013)*

#### **1. Status and nature of operations**

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 ("the 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 of the Islamic Republic of Afghanistan in January 2004.

Da Afghanistan Bank is the Central Bank of Afghanistan. As per the DAB Law, the Bank's main objective is to achieve and maintain domestic price stability with other objectives to foster the liquidity, solvency and proper functioning of a stable market based financial system. The Bank 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 21 December 2013 the Bank operated 44 branches.

#### **2. Basis of preparation**

##### **(a) Statement of compliance**

These financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRSs), the requirements of Da Afghanistan Bank Law and accounting policies for gold and metals, bank notes and coins as stated in notes 3(b) and 3(i) respectively, to the financial statements of the Bank. Where the requirements of the Da Afghanistan Bank Law and accounting policies adopted by the Bank differ with requirements of IFRSs, the requirements of Da Afghanistan Bank Law and accounting policies adopted by the Bank take precedence.

These financial statements were approved by the Supreme Council in their meeting held on 05 July 2014.

##### **(b) Basis of measurement**

These financial statements have been prepared on the historical cost convention, except that gold reserves, certain foreign currency reserves, certain investments and certain items of property as referred to in their respective notes have been included at revalued amounts and certain staff retirement benefits have been carried at present value of defined benefit obligations.

##### **(c) Functional and presentation currency**

These 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.

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## **Da Afghanistan Bank**

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

*For the year ended 30 Qawes 1392 (21 December 2013)*

#### **(d) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRSs, the requirements of Da Afghanistan Bank Law and accounting policies for gold and metals, bank notes and coins as stated in notes 3(b) and 3(i) respectively, to the financial statements of the Bank, 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.

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) |
| • Provision for impairment                              | Note 3 (h) |
| • Retirement benefits to employees;                     | Note 3 (j) |

#### **(e) Change of financial year end**

The financial year end of the Bank was changed from 19 March to 20 December to coincide with the financial year followed by Government of Afghanistan which changed its financial year end from 19 March to 20 December. Accordingly, the amounts presented in the income statements, statements of changes in equity, statement of cash flows and the related notes are not entirely comparable

### **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 into 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 into the functional currency at the exchange rate at that date.

Non-monetary items 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 is determined.

For the purpose of retranslation as at 21 December 2013, the Afghani exchange rates used for the major currencies were:

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

*For the year ended 30 Qawes 1392 (21 December 2013)*

	30 Qawes 1392	30 Qawes 1391
United States Dollar	56.64	52.14
Euro	77.18	68.65
Sterling Pounds	91.53	83.55
Pakistani Rupee	00.53	00.53

Foreign currency differences arising on retranslation and dealings in foreign currencies are recognized in the income statement.

**(b) Gold**

**Gold held as reserve**

Refined gold held as foreign reserve are recorded at fair value at the statement of financial position date. Fair price is determined by reference to the London Bullion Market Association ("LBMA") PM fixings at a discount of USD 2 per troy ounces. Fair value changes in gold are taken to reserve account whereas foreign exchange changes are included in profit and loss account.

**Gold at Bank vault**

Non-refined gold and precious metals held at the 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 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 asset.

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.

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## Da Afghanistan Bank

### Notes to the financial statements

For the year ended 30 Qawes 1392 (21 December 2013)

#### *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:

	30 Qawes 1392	30 Qawes 1391
Buildings	40 years	40 years
Furniture and other equipment	5 years	5 years
Vehicles	5 years	5 years

Depreciation methods, useful lives and residual values are re-assessed at the reporting date.

Surplus arising from the revaluation is credited to the revaluation reserve included in equity section of the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the income statement, in which case the increase is recognized in income statement. A revaluation deficit is recognized in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to equity. 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 is transferred from operating assets for the Bank's own use (owner-occupied) to investment property, it will be carried at fair value and is reclassified as investment property. Any gain arising on re-measurement at the time of transfer is recognized in equity and any loss is recognized immediately in income statement.

#### (e) **Investment property**

Investment property 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.

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## **Da Afghanistan Bank**

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

*For the year ended 30 Qawes 1392 (21 December 2013)*

#### **(f) Intangibles**

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

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

Amortization is recognized in income statement on a straight-line basis over the estimated useful life of the software, from the date 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 banks and financial institutions, treasury bills, currency in circulation, due to 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 de-recognized 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 de-recognized 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 in other comprehensive income. When an investment is de-recognized, the cumulative gain or loss in equity is transferred to income statement.

##### *Investment at fair value through profit or loss*

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## **Da Afghanistan Bank**

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

*For the year ended 30 Qawes 1392 (21 December 2013)*

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 amortized 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 amortized 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.

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 amortized 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.

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## **Da Afghanistan Bank**

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

*For the year ended 30 Qawes 1392 (21 December 2013)*

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) Bank notes and coins**

Bank notes and coins in circulation represent a demand liability of the Bank when issued from the vaults and are recorded in the statement of financial position at their face 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 at presidential palace are not reflected in these financial statements.

#### **(j) Employee benefits**

##### *Defined benefit plans*

The Bank operates an unfunded pension scheme for its permanent employees. Contributions to the scheme are made by employees and the Bank. Employees contribute 8% of net monthly salary and education allowance while the Bank contributes 8% of the budgeted salary on yearly basis. A lump sum amount of pension is payable after the retirement in accordance with pension rules of the Bank.

The Bank's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefits 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 unrecognised 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 qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Bank, the recognised asset is limited to the net total of any unrecognised 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 recognised 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 recognised immediately in income statement. Actuarial gains and losses arising during the year are charged to income statement immediately.

##### *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

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## **Da Afghanistan Bank**

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

*For the year ended 30 Qawes 1392 (21 December 2013)*

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.

#### **(m) Fee and commission**

Fee 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 fee and commission income, including account servicing fee, 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 fee are recognized on straight-line basis over the commitment period.

Other fee and commission expense relates mainly to transaction service fee and asset management services, 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**



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

*For the year ended 30 Qawes 1392 (21 December 2013)*

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, the Bank is exempt 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 bank notes, 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 these financial statements.

#### **(q) Offsetting**

A financial asset and a financial liability is offset and the net amount is reported in the statement of financial position 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 annual periods beginning after 21 December 2012, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

##### **(i) IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together IFRS 9)**

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. A financial asset would be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the assets contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standards eliminate the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in equity instruments which is not held for trading, the standard permits an irrevocable election, on initial recognition, on individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income.

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## **Da Afghanistan Bank**

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

*For the year ended 30 Qawes 1392 (21 December 2013)*

No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognized in profit or loss.

The standards requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. A part from this change IFRS 9(2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The group has commenced the process of evaluating the potential effect of this standard but is awaiting finalization of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operations this standard is expected to have a pervasive impact on the Bank's financial statements.

**(ii) Amendments to the IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)**

*Disclosures-offsetting financial assets and financial liabilities (amendments to IFRS 7)* introduce disclosures about the impact of netting arrangement in an entity financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on new disclosure requirements the Bank will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 01 January 2014 and interim periods within those annual periods. Earlier application is permitted.

Based on our initial assessment, the Bank is not expecting a significant impact from the adoption of the amendments to IAS 32. However, the adoption of the amendments to IFRS 7 requires more extensive disclosures about rights of set-off.

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## **Da Afghanistan Bank**

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

*For the year ended 30 Qawes 1392 (21 December 2013)*

**(iii) IFRS 13 Fair value measurement (2011)**

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurement or disclosures are required or permitted by other IFRSs. The Bank is currently reviewing its methodologies for determining fair values. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Bank to provide additional disclosures. These include fair value hierarchy disclosures for non financial assets/liabilities and disclosures on fair value measurements that are categorized in level 3. IFRS 13 is effective for annual periods beginnings on or after 01 January 2013 with early adoption permitted.

**(iv) IAS 19 employee benefits (2011)**

IAS 19 (2011) changes the definition of short term and other long term employee benefits to clarify the distinction between the two. The Bank may need to assess the impact of the changes in measurement principles of the expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

**(v) IAS 27 Separate financial statement (2011)**

IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective January 01, 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments are not expected to impact the current transactions of the Bank. These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

**(vi) IAS 28 Investments in Associates and Joint Ventures (2011)**

IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments are not expected to impact the current transactions of the Bank. This standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

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**Da Afghanistan Bank**

**Notes to the financial statements**

*For the year ended 30 Qawes 1392 (21 December 2013)*

		1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
<b>4. Gold reserve</b>	<i>Note</i>		
Balance at beginning of the period	4.1	60,424,079	57,633,604
Loss on revaluation		(16,686,722)	(382,024)
Exchange gain		3,771,517	3,172,499
Balance at end of the period		<u>47,508,874</u>	<u>60,424,079</u>

4.1 This represents 703,004.944 fine troy ounces (30 Qawes 1391: 703,004.944 fine troy ounces) of gold in bar form held at Federal Reserve Bank, New York (FRB) as the Bank's international reserve.

4.2 As per FRB, these gold reserves 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 of USD 1,195.25 per troy ounce (30 Qawes 1391: USD 1,650.50 per troy ounce) from Bank for International Settlement (BIS), Switzerland, which suggested discount from USD 1 to 2 per troy ounce to the LBMA rate. Accordingly, the Bank has valued the gold reserves at USD 1,193.25 per troy ounce (1391: USD 1,648.50 per troy ounce) using discount of USD 2 per troy ounce to the LBMA rate as at the date of statement of financial position.

		1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
<b>5. Foreign currency cash reserve</b>	<i>Note</i>		
Cash at head office		23,979,610	16,573,978
Cash at branches		4,776,791	4,734,678
		<u>28,756,401</u>	<u>21,308,656</u>

**6. Due from banks and financial institutions**

Time deposits	6.1	234,650,535	178,540,451
Interest receivable		168,243	326,942
Current accounts with foreign banks		26,384,805	43,104,901
		<u>261,203,583</u>	<u>221,972,294</u>

6.1 These carry interest ranging from 0.06% to 8.55% (1391: 0.002 % to 8.8%) per annum averaging 0.003% per annum for the year (1391: 0.003% per annum).

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**Da Afghanistan Bank**

**Notes to the financial statements**

*For the year ended 30 Qawes 1392 (21 December 2013)*

		1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
<b>7. Investments</b>	<i>Note</i>		
Available for sale financial assets	7.1	59,664,036	54,686,113
Treasury bills (held to maturity)	7.2	3,020,529	2,756,210
		<u>62,684,564</u>	<u>57,442,323</u>

**7.1 Available for sale financial assets**

Deposit accounts	171,692	28,150
US treasury bills	52,433,087	49,135,726
Other fixed income securities	7,059,257	5,522,237
	<u>59,664,036</u>	<u>54,686,113</u>

**7.1.1** The Bank has entered into an investment management and consultation agreement with the International Bank for Reconstruction and Development ("IBRD") for Reserves Advisory Management Program (RAMP). The IBRD has placed the funds in US treasury bills, federal agency securities and deposit accounts maintained with the FRB. These portfolio investments carry interest rates ranging from 0.13% to 4.10% per annum (1391: 0.13% to 4.50% per annum) averaging 0.003% per annum for the year (1391: 0.005% per annum).

		1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
<b>7.2 Treasury bills</b>	<i>Note</i>		
UK treasury bills - face value	7.2.1	3,020,573	2,757,233
Un-earned discount on treasury bills		(44)	(1,023)
		<u>3,020,529</u>	<u>2,756,210</u>

**7.2.1** These are debt securities issued by the United Kingdom treasuries and purchased through Duetsche Bank. The treasury bills have original maturity of 91 days (1391: 91 days). These bills are purchased at a discount from face value and interest is paid on maturity. The interest is the difference between the purchase price of the bill and the amount paid back on maturity or when sold prior to maturity. The Bank intends to hold these bills till maturity. The fair value of these treasury bills as at reporting date is Afs 3,018,578 thousands (1391: Afs 2,755,896 thousand). These securities carry interest of 0.27% per annum (1391: 0.20% per annum).

		1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
<b>8. Assistance as lender of last resort</b>	<i>Note</i>		
LoLR assistance to Kabul Bank	8.1	<u>29,139,914</u>	<u>30,414,916</u>

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# Da Afghanistan Bank

## Notes to the financial statements

For the year ended 30 Qawes 1392 (21 December 2013)

- 8.1 This represents the amount paid to Kabul Bank as a lender of last resort ("LoLR") under Article 86 of the DAB Law.

On 21 Hamal 1390 (10 April 2011), the Bank signed a Promissory Note and Agreement ("PNA") with the Ministry of Finance ("MoF"), Government of Afghanistan whereunder the MoF agreed to underwrite cost of LoLR facilities to Kabul Bank amounting to Afs 37,620,000 thousands (USD 825,000 thousands) which was subject to adjustments due to payments of claims against Kabul Bank in receivership. The PNA included procedures for payment for guarantee of deposits of Kabul Bank. The repayment is subject to approval by the Parliament and other conditions, as contained in the PNA including assignment of claims of the Bank against KB to the MoF. As per the terms of repayment the entire amount shall be paid to the Bank over 8 years in 32 quarterly increasing installments beginning from the end of first quarter of 1390 and carrying interest rates of 2% per annum on outstanding balance. As at 21 December 2013 installments amounting to Afs 7,317,306 thousand have been received other than direct receipts from Kabul bank.

As mentioned above, repayments to the Bank by the MOF are subject to approval by the Parliament on yearly basis and other conditions as contained in the PNA. In this context the Parliament had approved budget of Afs 3,949,918 thousands for the year 1392 out of which which 1,750,000 thousands has been received by the Bank during the year.

	1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
Opening balance	30,414,916	34,843,223
Add: Interest charged for the period	474,998	680,289
Less: Recoveries during the period:		
- directly from Kabul Bank	-	(2,000,000)
- received from MoF	(1,750,000)	(3,108,596)
	(1,750,000)	(5,108,596)
	<u>29,139,914</u>	<u>30,414,916</u>

Subsequent to year end, the Parliament has approved budget of Afs 3,800,000 thousands for the year 1393 in respect of MOF payments to the Bank under the PNA.

Payment for the the remaining amount including interest for coming periods are subject to the Parliament's approval in subsequent years.

	Note	1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
9. Advances and other receivables			
Advances to staff		593,376	437,623
Others	9.1	1,765,597	1,679,026
		<u>2,358,973</u>	<u>2,116,649</u>
Less: Allowance for impairment loss	9.1	(1,480,176)	(1,480,176)
		<u>878,797</u>	<u>636,473</u>

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**Da Afghanistan Bank****Notes to the financial statements***For the year ended 30 Qawes 1392 (21 December 2013)*

- 9.1 These include advances to past regimes and receivables on account of misappropriation of cash by the Bank's employees in prior years. The Bank has recognised impairment allowance amounting to Afs 1,480,176 (1391: Afs 1,480,176) against these advances as chances of recovery of the same are remote.

		<b>1392</b> <b>(2013)</b>	<b>1391</b> <b>(2012)</b>
	<i>Note</i>	<b>(Afs '000')</b>	<b>(Afs '000')</b>
<b>10. Investment property</b>			
Investment property	<i>10.1</i>	<b>9,000</b>	<b>9,000</b>

- 10.1 Investment property comprises an agricultural land situated near Kabul which is leased out to a farmer. The Bank has also 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.

The recent valuation was carried out during year 1389 by M/S Pamir Property Dealer Kabul, a reputed property dealer having professional competency and experience in the location and category of the property being valued. Fair value was determined with regard to recent market transactions for similar properties in the same location as the Bank's investment property. The gains on the re-measurement of fair value of investment property amounting to Afs 4,200 thousand was recognised in the other operating income in the income statement in 1389 .

Management is of the view that there is no significant change in the fair value of the said investment property for the year 1392. Accordingly no gain/loss has been recognised in these financial statements.

Rental income earned from investment property is disclosed under Note 25.

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11. Property and equipment

	Land	Buildings	Furniture and fixtures	Motor vehicles	IT and office equipment	Total
	(Afs '000')					
<b>Cost</b>						
Balance at 01 Hamal 1391 (20 March 2012)	4,296,166	167,929	98,589	131,948	353,270	5,047,901
Additions during the period	-	16,064	15,393	21,179	11,125	63,761
Balance at 30 Qawes 1391 (20 December 2012)	4,296,166	183,993	113,983	153,127	364,395	5,111,662
<b>Balance at 01 Jadi 1391 (21 December 2012)</b>	<b>4,296,166</b>	<b>183,993</b>	<b>113,983</b>	<b>153,127</b>	<b>364,395</b>	<b>5,111,662</b>
Additions	-	111,104	1,426	4,227	31,502	148,259
Balance at 30 Qawes 1392 (21 December 2013)	4,296,166	295,097	115,409	157,354	395,897	5,259,921
<b>Depreciation</b>						
Balance at 01 Hamal 1391 (20 March 2012)	-	4,198	26,641	41,391	340,684	412,914
Charge for the period	-	4,596	2,128	22,832	20,941	50,497
Balance at 30 Qawes 1391 (20 December 2012)	-	8,794	28,769	64,223	361,625	463,411
<b>Balance at 01 Jadi 1391 (21 December 2012)</b>	<b>-</b>	<b>8,794</b>	<b>28,769</b>	<b>64,223</b>	<b>361,625</b>	<b>463,411</b>
Charge for the year	-	7,372	3,301	24,219	25,433	60,325
Balance at 30 Qawes 1392 (21 December 2013)	-	16,166	32,070	88,442	387,058	523,736
<b>Carrying amounts</b>						
At 01 Hamal 1391 (20 March 2012)	4,296,166	163,730	71,948	90,559	12,585	4,634,987
At 30 Qawes 1391 (20 December 2012)	4,296,166	175,199	85,214	88,904	2,770	4,648,251
<b>At 01 Jadi 1391 (21 December 2012)</b>	<b>4,296,166</b>	<b>175,199</b>	<b>85,214</b>	<b>88,904</b>	<b>2,770</b>	<b>4,648,251</b>
At 30 Qawes 1392 (21 December 2013)	4,296,166	278,931	83,339	68,912	8,839	4,736,185

- 11.1 Land and buildings were revalued as at 30 Hoot 1389 by independent dealer, M/S Pamir Property Dealer, a valuation expert having knowledge and experience in the location and category of property, on the basis of market values. The revaluation resulted in a surplus of Afs 741,802 thousands on revaluation of land which has been included in revaluation reserve and deficit of Afs 243,527 thousands on revaluation of building which has been charged to income statement in 1389.
- 11.2 Land and buildings include properties having cost of Afs 93,947 thousands (1391: 93,947 thousands) which have been transferred to the Bank by different ministries, however, the titles of these properties have not yet been transferred in the name of the Bank. Further, properties having cost of Afs 51,864 thousands (1391: Afs 51,864 thousands) are disputed due mainly to title/possession issues and are being under review by the court of law. Due to complexity of these cases, management is unable to predict outcome of these cases at this stage.
- 11.3 Had no revaluation been carried out, the carrying amount of the land and buildings that would have been recognised in these financial statements is as under:

	As at 30 Qawes 1392 (Afs '000')	
	Land	Buildings
Cost	3,348,874	538,624
Accumulated depreciation	-	(81,760)
Carrying amount	3,348,874	456,864

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**Da Afghanistan Bank**  
**Notes to the financial statements**  
For the year ended 30 Qawes 1392 (21 December 2013)

	Note	1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
<b>12. Intangible assets</b>			
<b>Cost</b>			
Balance at beginning of the period		34,480	34,116
Additions during the period		140	364
		34,620	34,480
<b>Amortisation</b>			
Balance at beginning of the period		(33,460)	(29,956)
For the period		(887)	(3,504)
		(34,347)	(33,460)
Carrying amount at end of the period		273	1,020
<b>13. Other assets</b>			
Non-monetary gold bullion and bars		5,861,728	5,861,728
Non-monetary silver		6,711,255	6,711,255
	13.1	12,572,983	12,572,983
Inventories		8,841	5,448
		12,581,824	12,578,431

13.1 These represent the gold bullion and bars and gold and silver coins held in the Bank's vault at the Presidential Palace. Under a Memorandum of Understanding ("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 at the Presidential Palace vault. A count of these gold bullion, bars and coins was conducted in the year 1384 for the purpose of MoU and the value of these were estimated to Afs 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 Afs 2,199,672 thousands that represented a shortfall of gold bars and coins handed over to the Bank by the Ministry of Finance under MoU. Subsequently, in the year 1387, the Bank completed the physical recounting, re-weighing and reconciliation process of silver coins and included in the books of accounts Afs 6,711,255 thousand, being the value previously unaccounted for. The Bank has not conducted physical counting during current and previous years as no change has occurred in these assets since 1387.

	Note	1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
<b>14. Currency in circulation</b>			
Coins		428,401	428,401
Bank notes		178,887,598	160,606,458
		179,315,999	161,034,859
Bank notes and coins held by the Bank		(10,519,301)	(11,026,380)
		168,796,698	150,008,479

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**Da Afghanistan Bank**  
**Notes to the financial statements**  
For the year ended 30 Qawes 1392 (21 December 2013)

		1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
<b>15. Capital notes</b>			
Face value		30,663,900	35,359,086
Un-amortised discount		(541,231)	(269,277)
	15.1	<u>30,122,669</u>	<u>35,089,809</u>

- 15.1 These represent debt instruments issued by the Bank to the licensed commercial banks and licensed money changers. These instruments have maturity between 28 days to 364 days (1391: 28 days to 182 days) and are freely transferable between licensed commercial Banks, licensed money changers and the Bank.

These notes carry interest ranging from 3.34% to 7.05% (1391: 1.97% to 3.38%) per annum.

		1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
<b>16. Due to banks and financial institutions</b>			
<b>Foreign currency:</b>			
Current accounts		23,215,242	13,335,839
<b>Local currency:</b>			
Current accounts		10,318,664	8,967,226
Overnight deposits	16.1	19,662,378	17,794,235
		<u>29,981,042</u>	<u>26,761,461</u>
		<u>53,196,284</u>	<u>40,097,300</u>

- 16.1 These include required reserve balance amounting to Afs 15,900,773 (1391: Afs 14,662,543) maintained by the commercial banks with the Bank in accordance with the requirements of Article 64 of the DAB Law.

These deposits carry interest ranging from 0.97% to 2.39% (1391: 0.97% to 1.13%) per annum.

		1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
<b>17. Due to customers</b>			
<b>Foreign currency:</b>			
Current accounts	17.1	75,117,553	67,240,151
Dormant accounts	17.2	189,188	189,103
		<u>75,306,741</u>	<u>67,429,254</u>
<b>Local currency:</b>			
Current accounts	17.1	35,129,293	36,666,539
Dormant accounts	17.2	116,474	116,474
		<u>35,245,766</u>	<u>36,783,013</u>
	17.4	<u>110,552,509</u>	<u>104,212,267</u>

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**Da Afghanistan Bank**  
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For the year ended 30 Qawes 1392 (21 December 2013)

		1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
	<i>Note</i>		
17.1	Current accounts consist of:		
	Government accounts	90,011,098	92,926,510
	Others	20,541,411	11,285,757
		<u>110,552,509</u>	<u>104,212,267</u>

17.2 These are past years' non-operative accounts of the customers of the Bank and non-operative accounts transferred by 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 customer does not claim back their deposit within this period, the Bank transfers it to the Ministry of Finance (MoF), Government of Afghanistan.

17.3 The Bank is not in compliance with Article 74 of DAB law which requires the Bank to limit its foreign currency liabilities up to 50% of its unimpaired capital and reserves, which works out to be Afs 36,606,467 thousand as at 30 Qawes 1392 (21 December 2013). Foreign currency liabilities of the Bank as at the said date stand at Afs 107,211,147 thousand, including liabilities towards Government of Afghanistan amounting to Afs 71,817,653 thousand, resulting in foreign currency liabilities exceeding over prescribed limit by Afs 70,604,679 at the year end.

17.4 All these deposits are interest-free.

		1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
	<i>Note</i>		
18.	IMF related liabilities		
	Account 1	32,267	32,267
	Account 2	1	1
	18.1	<u>32,268</u>	<u>32,268</u>

18.1 The Islamic Republic of Afghanistan is a member of International Monetary Fund (IMF) since 1955. The member country can designate Ministry of Finance, 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 Depository.

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

Account 1 (Afghani)  
Account 2 (Afghani)

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

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**19. Defined benefit plan**

The Bank operates an unfunded defined pension scheme which covers all eligible employees as per the policy of the Bank specified under note 3(j). The Bank obtained services of an independent actuary based in Pakistan, to carry out the actuarial valuation of defined benefit obligations. The following data is based on the valuation carried out at 30 Qawes 1392 (21 December 2013).

Pursuant to Supreme Council's resolution No. 32 dated 25 July 2012, the Bank revised its pension scheme (Regulation on Employees Pension Rights of DAB) in 1391.

The liability recognised in the statement of financial position in respect of defined pension scheme is the present value of the defined benefit obligation at the 30 Qawes 1392 (21 December 2013).

	1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
<i>Note</i>		
Balance at beginning of the period	1,367,438	1,687,316
Staff contribution	65,796	17,334
Charge for the period	247,697	(309,961)
Benefits paid during the period	(272,662)	(27,251)
Balance at the end of the period	<u>1,408,269</u>	<u>1,367,438</u>

The amounts recognised in the statement of financial position are as follows:

Present value of defined benefit obligation	1,483,776	1,458,044
Non-vested past service cost to be recognised in future years	(75,506)	(90,606)
	<u>1,408,269</u>	<u>1,367,438</u>

Movement in present value of defined obligations is as follows:

Present value of defined obligations at beginning of period	1,458,044	2,339,279
Current service cost	21,892	92,111
Interest cost	87,483	105,268
Staff contributions	65,796	17,334
Actuarial loss	177,201	73,322
Actuarial gain on settlements during the year	(53,980)	-
Past service credit due to change in benefits	-	(1,232,625)
Non-vested past service cost	-	90,606
Benefits paid during the period	(272,662)	(27,251)
	<u>1,483,776</u>	<u>1,458,044</u>

Charge/(credit) to the statement of comprehensive income is as follows:

Current service cost	21,892	92,111
Interest cost	87,483	105,268
Past service credit due to change in benefits	-	(1,232,625)
Amortisation of non-vested past service cost	15,101	651,963
Actuarial loss	177,201	73,322
Actuarial gain on settlements during the year	(53,980)	-
	<u>247,697</u>	<u>(309,961)</u>

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**Da Afghanistan Bank**  
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**Actuarial assumptions:**

Principle actuarial assumptions at the reporting date, expressed as weighted averages, were:

	1392 (2013)	1391 (2012)
	(per annum)	
Discount rate	6%	6%
Annual increase in salary	6%	6%

**20. Deferred grants**

This represents in kind grants received from various donors in the forms of motor vehicles, information technology and power equipments and accounting software.

	1392 (2013)	1391 (2012)
Note	(Afs '000')	(Afs '000')
Balance at the beginning of the period	282,670	282,670
Additions	6,899	-
	289,569	282,670
Accumulated amount transferred to income	(282,886)	(282,670)
Balance at the end of the period	6,682	-

**Accumulated amount transferred to income:**

Balance at the beginning of the period	282,670	248,374
Recognised as income during the period	216	34,296
Balance at the end of the period	282,886	282,670

**21. Provisions and other liabilities**

Deposit against letters of credit -net	21.1	8,835,348	8,677,090
MOU adjustments	21.2	85,408	81,611
Sundry payables	21.3	510,102	607,138
Inter-branch accounts	21.4	714,380	59,385
Others	21.5	25,863	10,131
		10,171,102	9,435,355

21.1 These represents the deposits received by the Bank against issuance of letters of credit (LCs) amounting to Afs 9,287,804 thousand (1391: Afs 10,564,321 thousand) and disbursements thereagainst, amounting to Afs 452,456 thousand (1391: Afs 1,887,231 thousand). The Bank issues LCs only to the government and governmental organisations against receipt of 100% deposit.

21.2 The Bank entered into an MoU with the 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 Afs 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. Management believes that the conclusion of reconciliation process will not significantly impact the financial statements of the Bank.

21.3 These include sundry payables amounting to Afs 398,644 thousand (1391: Afs 398,644 thousand) representing the payables relating to the previous regimes in respect of which the details of the payees are yet to be established by the Bank.

21.4 It represents the net credit balance of un-reconciled differences in inter-branch accounts. Management is in process of reconciling these balances.

21.5 This includes credit balance of Afs 62 thousand (1391: Afs 62 thousand) relating to suspense account. The Bank is in the process of reconciling these balances and would eventually be transferred to either appropriate account head or to the retained earnings in future.

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**Da Afghanistan Bank**

**Notes to the financial statements**

*For the year ended 30 Qawes 1392 (21 December 2013)*

**22. Capital and reserves**

**22.1 Capital and capital management**

According to Article 27 of the DAB Law, the authorized capital of the Bank is Afs 8,000,000 thousand or such higher amount as shall result from allocations from net profit pursuant to Article 29 of the DAB Law. The capital of the Bank is solely held by the Government of Islamic Republic of Afghanistan, and shall not be subject to lien or to encumbrances.

According to Article 29 of the DAB Law, if the Bank has a net profit for any financial year, it shall be allocated in the following order of priority:

- 1) to increase the capital to a level equivalent to 5% of the aggregate amount of monetary liabilities at the end of financial year.
- 2) to redeem the securities issued by the State to the Bank pursuant to Article 31.
- 3) to the General Reserve maintained by the Bank to a level equivalent to the amount of capital of the Bank.
- 4) to any other reserve for specific purposes established by the Bank subject to the approval of the Minister of Finance.

The Bank has signed an MoU with the MoF regarding recapitalization of DAB dated 23 May 2012. The MoU includes: levels of authorized capital and general reserves, calculation and allocation of net profit, gold reserves and foreign exchange movements, MoF's responsibility to restore capital per DAB law. For the purpose of implementation of its provisions, the MoU mentions supporting measures including amendments to DAB law relating to accounting rules and issuance of Government securities. Provisions relating to profit, unrealised gains and losses on gold and foreign exchange movements are subject to amendments to DAB law.

**22.2 Revaluation reserve**

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

The Bank's revaluation reserve represents the cumulative unrealised gains on the revaluation of gold reserves at market prices, freehold land and building at fair values and un-realised valuation gains from available for sale financial assets at each statement of financial position date.

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**Da Afghanistan Bank**

**Notes to the financial statements**

*For the year ended 30 Qawes 1392 (21 December 2013)*

		<b>For the year ended 30 Qawes 1392 (21 December 2013)</b>	<b>For the period from 01 Hamal to 30 Qawes 1391 (20 March 2012 to 20 December 2012)</b>
	<i>Note</i>	(Afs '000')	(Afs '000')
<b>23. Interest income</b>			
Interest on balances with banks and financial institutions	6.1	942,937	1,008,989
Interest on available for sale financial assets	7.1.1	312,498	372,785
Interest on treasury bills	7.2.1	8,663	13,064
Interest on LOLR facility to Kabul Bank	8.1	474,998	680,289
		<u>1,739,096</u>	<u>2,075,127</u>
<b>24. Interest expense</b>			
Interest on capital notes	15.1	1,178,422	810,958
Interest - others	24.1	316,387	154,648
		<u>1,494,809</u>	<u>965,606</u>

24.1 This represents the interest on overnight deposit and cash reserve accounts of the local commercial banks (Refer note 16.1).

		<b>For the year ended 30 Qawes 1392 (21 December 2013)</b>	<b>For the period from 01 Hamal to 30 Qawes 1391 (20 March 2012 to 20 December 2012)</b>
	<i>Note</i>	(Afs '000')	(Afs '000')
<b>25. Other operating income</b>			
Rental income	10.1	2,845	999
Grant income	20	216	34,296
Regulatory income		93,299	79,684
Others		1,666	26,034
		<u>98,026</u>	<u>141,013</u>
<b>26. Personnel expenses</b>			
Salaries		797,136	421,765
Voluntary retirement compensation expense		5,824	261
Defined benefit plan - Pension	19	247,697	(309,961)
		<u>1,050,657</u>	<u>112,065</u>

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**Da Afghanistan Bank**

**Notes to the financial statements**

*For the year ended 30 Qawes 1392 (21 December 2013)*

		<b>For the year ended 30 Qawes 1392 (21 December 2013)</b>	<b>For the period from 01 Hamal to 30 Qawes 1391 (20 March 2012 to 20 December 2012)</b>
	<i>Note</i>	(Afs '000')	(Afs '000')
<b>27. Other expenses</b>			
Audit fee and expenses		5,788	5,549
Repair and maintenance		29,190	16,515
Rent		6,667	5,051
Printing and stationery		12,110	5,258
Transportation		24,969	17,822
Communication		29,671	20,499
Insurance		3,219	1,184
Travelling		30,352	18,578
Utilities		18,712	10,690
Other expenses		198,092	128,678
		<u>358,771</u>	<u>229,823</u>
<b>28. Cash and cash equivalents</b>			
Foreign currency cash reserve		28,756,401	21,308,656
Deposits having maturity of less than three months		129,951,423	56,845,768
Current accounts with foreign banks		26,384,805	43,104,901
		<u>185,092,628</u>	<u>121,259,325</u>

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29. Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest).

1392 (2013)

Note	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Others at amortized cost	Total carrying amount	Fair value
(Amounts in Af\$ '000')								
<b>Assets</b>								
5	-	-	-	-	-	28,756,401	28,756,401	28,756,401
6	-	-	234,650,535	26,553,048	-	-	261,203,583	261,203,583
7	-	-	3,020,529	-	59,664,036	-	62,684,564	62,684,564
8	-	-	-	29,139,914	-	-	29,139,914	29,139,914
9	-	-	-	2,358,973	-	-	2,358,973	2,358,973
	-	-	237,671,065	58,051,934	59,664,036	28,756,401	384,143,435	384,143,435
<b>Liabilities</b>								
14	-	-	-	-	-	168,796,698	168,796,698	168,796,698
15	-	-	30,122,669	-	-	-	30,122,669	30,122,669
16	-	-	19,662,378	33,533,906	-	-	53,196,284	53,196,284
17	-	-	-	-	-	110,552,509	110,552,509	110,552,509
18	-	-	-	-	-	32,268	32,268	32,268
21	-	-	-	-	-	10,171,102	10,171,102	10,171,102
	-	-	49,785,047	33,533,906	-	289,552,576	372,871,530	372,871,530

1391 (2012)

<b>Assets</b>								
5	-	-	-	-	-	21,308,656	21,308,656	21,308,656
6	-	-	178,540,451	43,431,843	-	-	221,972,294	221,972,294
7	-	-	2,756,210	-	54,686,113	-	57,442,323	57,442,323
8	-	-	-	30,414,916	-	-	30,414,916	30,414,916
9	-	-	-	2,116,649	-	-	2,116,649	2,116,649
	-	-	181,296,660	75,963,408	54,686,113	21,308,656	333,254,838	333,254,838
<b>Liabilities</b>								
14	-	-	-	-	-	150,008,479	150,008,479	150,008,479
15	-	-	35,089,809	-	-	-	35,089,809	35,089,809
16	-	-	17,794,235	22,303,065	-	-	40,097,300	40,097,300
17	-	-	31,577	-	-	104,180,690	104,212,267	104,212,267
18	-	-	-	-	-	32,268	32,268	32,268
21	-	-	-	-	-	9,435,355	9,435,355	9,435,355
	-	-	52,915,621	22,303,065	-	263,656,793	338,875,478	338,875,478

The carrying amounts of assets and liabilities approximate fair values except fair value of treasury bills (note 7.2.1) mentioned above under investments.

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**Da Afghanistan Bank**

**Notes to the financial statements**

*For the year ended 30 Qawes 1392 (21 December 2013)*

**30. 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 and currency) risks and operational risk. The policies and procedures for managing these risks are outlined in notes 30.1 to 30.6. 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 periodically 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.

**30.1 Credit risk**

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, deposits with banks and financial institutions and investments in available for sale financial assets. Treasury bills have insignificant credit risk as these bills are "guaranteed" by the issuing governments. Credit risk arising from deposit with banks and financial institutions is managed by monitoring, reviewing and analyzing these deposits frequently. Investments in available for sale financial assets are made in securities of central banks, government entities and other highly reputable organizations. Periodic monitoring and review is carried out and the portfolio is managed through the World Bank. The Bank manages credit risk arising from issuance of letters of credit by obtaining 100% margin against letters of credit.

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

		1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
	Note		
Due from banks and financial institutions	6	261,203,583	221,972,294
Investments	7	62,684,564	57,442,323
Assistance as lender of last resort	8	29,139,914	30,414,916
		<u>353,028,062</u>	<u>309,829,533</u>

The Bank neither 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 position such as interest rate swaps, forward foreign exchange contracts, financial guarantees, and commitments to extend credit.

**30.2 Liquidity risk**

Liquidity risk reflects the Bank's inability in raising funds to meet commitments associated with the financial instruments. For 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 operating under the Bank. The risk arising out of the Bank's obligations for foreign currencies balances or deposits is managed through available reserves, open market operations and issue of capital notes.

The table below shows the Banks' assets and liabilities at the statement of financial position date in relevant maturity grouping based on the remaining period to the contractual maturity date.

*100%*

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Maturity analysis for financial assets and liabilities

	Less than one month	Over one month to three month	Three months to one year	Over one year to five years	Over five years	Total
(Afs '000')						
As at 30 Qawes 1392 (21 December 2013)						
<b>Assets</b>						
Foreign currency cash reserve	28,756,401	-	-	-	-	28,756,401
Due from banks and financial institutions	71,216,581	85,119,647	104,867,354	-	-	261,203,583
Investments	59,664,036	-	3,020,529	-	-	62,684,564
Assistance as lender of last resort	-	837,453	2,976,319	23,555,551	1,770,591	29,139,914
Advances and other receivables	878,797	-	-	-	-	878,797
	160,515,814	85,957,100	110,864,202	23,555,551	1,770,591	382,663,259
<b>Liabilities</b>						
Currency in circulation	-	-	-	-	168,796,698	168,796,698
Capital notes	6,908,020	4,458,723	18,755,926	-	-	30,122,669
Due to banks and financial institutions	53,196,284	-	-	-	-	53,196,284
Due to customers	110,552,509	-	-	-	-	110,552,509
IMF related liabilities	32,268	-	-	-	-	32,268
Provisions and other liabilities	1,335,753	8,835,348	-	-	-	10,171,102
	172,024,834	13,294,071	18,755,926	-	168,796,698	372,871,529
As at 30 Qawes 1391 (20 December 2012)						
<b>Assets</b>						
Foreign currency cash reserve	21,308,656	-	-	-	-	21,308,656
Due from banks and financial institutions	63,799,335	36,478,275	121,694,684	-	-	221,972,294
Investments	54,686,113	-	2,756,210	-	-	57,442,323
Assistance as lender of last resort	-	810,015	2,499,878	22,138,358	4,366,860	29,815,111
Advances and other receivables	636,473	-	-	-	-	636,473
	140,430,577	37,288,290	126,950,771	22,138,358	4,366,860	331,174,856
<b>Liabilities</b>						
Currency in circulation	-	-	-	-	150,008,479	150,008,479
Capital notes	6,316,166	28,773,643	-	-	-	35,089,809
Due to banks and financial institutions	40,097,300	-	-	-	-	40,097,300
Due to customers	103,906,695	31,577	-	274,000	-	104,212,272
IMF related liabilities	32,268	-	-	-	-	32,268
Provisions and other liabilities	758,265	8,677,090	-	-	-	9,435,355
	151,110,694	37,482,310	-	274,000	150,008,479	338,875,483

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### 30.3 Market risk

Market risk is defined as 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 statement of financial position, 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 risk is 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, available for sale financial assets 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.

### 30.4 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. The Bank's investments in treasury bills, available for sale financial assets 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 the 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 Qawes 1392	Interest bearing				Non-interest bearing	Total
	Interest rates (p.a)	1-3 months	3 months to 1 year	1-5 years		
Afs ('000')						
Assets						
Foreign currency cash reserve	-	-	-	-	-	28,756,401
Due from banks and financial institutions	0.06 % to 8.55%	129,951,423	104,699,112	-	-	26,553,048
Investments	0.13% to 4.10%	59,664,036	3,020,529	-	-	-
Assistance as lender of last resort	2%	837,453	2,976,319	23,555,551	1,770,591	-
Advances and other receivables	-	-	-	-	-	878,797
		190,452,911	110,695,961	23,555,551	1,770,591	56,188,245
Liabilities						
Currency in circulation	-	-	-	-	-	168,796,698
Capital notes	3.34% to 7.05%	11,366,743	18,755,926	-	-	-
Due to banks and financial institutions	0.97% to 2.39%	53,196,284	-	-	-	-
Due to customers	-	-	-	-	-	110,552,509
IMF related liabilities	-	-	-	-	-	32,268
Provisions and other liabilities	-	-	-	-	-	10,171,102
		64,563,028	18,755,926	-	-	289,552,576
On balance sheet interest sensitivity gap						
		125,889,883	91,940,035	23,555,551	1,770,591	(233,364,331)
						9,791,729

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 30 Qawes 1392 (21 December 2013)

	Interest bearing					Non-interest bearing	Total
	Interest rates (pea)	1-3 months	3 month to 1 year	1-5 years	Over 5 years		
As ('000')							
<b>Assets</b>							
Foreign currency cash reserve	-	-	-	-	-	21,308,656	21,308,656
Due from banks and financial institutions	0.002 % to 8.8%	56,845,768	121,694,683	-	-	43,431,843	221,972,294
Investments	0.13% to 4.5%	54,686,113	2,756,210	-	-	-	57,442,323
Assistance as lender of last resort	2%	810,015	2,499,878	22,138,358	4,366,860	-	29,815,111
Advances and other receivables	-	-	-	-	-	636,473	636,473
		112,341,896	126,950,771	22,138,358	4,366,860	65,376,973	331,174,857
<b>Liabilities</b>							
Currency in circulation	-	-	-	-	-	150,008,479	150,008,479
Capital notes	1.97% to 3.38%	6,316,166	28,773,643	-	-	-	35,089,809
Due to banks and financial institutions	0.97% to 1.13%	40,097,300	-	-	-	-	40,097,300
Due to customers	-	-	-	-	-	104,212,272	104,212,272
IMF related liabilities	-	-	-	-	-	32,268	32,268
Provisions and other liabilities	-	-	-	-	-	9,435,355	9,435,355
		46,413,466	28,773,643	-	-	263,688,375	338,875,483
<b>On balance sheet interest sensitivity gap</b>							
		65,928,429	98,177,129	22,138,358	4,366,860	(198,311,402)	(7,700,626)

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The average interest rates for assets and liabilities of the Bank applied during the period ended 30 Qawes 1392 (21 December 2013) are as follows:

	USD %	EUR %	GBP %	Af\$ %
<b>Assets</b>				
Due from banks and financial institutions	0.65	0.51	0.80	-
Investments	-	-	0.20	-
<b>Liabilities</b>				
Capital notes	-	-	-	5.20
Due to banks and financial institutions	-	-	-	1.68

The average interest rates for assets and liabilities of the Bank applied during the period ended 30 Qawes 1391 (21 December 2012) are as follows:

	USD %	EUR %	GBP %	Af\$ %
<b>Assets</b>				
Due from banks and financial institutions	0.83	0.48	0.13	-
Investments	2.38	-	0.20	-
<b>Liabilities</b>				
Capital notes	-	-	-	2.67
Due to banks and financial institutions	-	-	-	1.04

**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.

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As at 30 Qawes 1392 (21 December 2013)

Gain/(loss) per basis point

	Interest rate sensitivity by time band			
	Size of periodic gap	Basis point change	Impact on net interest income/equity	Impact on net interest income/equity
1-3 months	125,889,883	1	1,258,899	(1,258,899)
3 month to 1 year	217,829,918	1	2,178,299	(2,178,299)
1-5 years	241,385,469	1	2,413,855	(2,413,855)
Over 5 years	243,156,060	1	2,431,561	(2,431,561)
Total	828,261,329		8,282,613	(8,282,613)
As a percentage of net interest income			746.50%	-746.50%
As a percentage of equity			11.97%	-11.97%

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 Qawes 1391 (20 December 2012)

Gain/(loss) per basis point

	Interest rate sensitivity by time band			
	Size of periodic gap	Basis point change	Impact on net interest income/equity	Impact on net interest income/equity
1-3 months	65,928,429	1	659,284	(659,284)
3 month to 1 year	164,105,558	1	1,641,055	(1,641,055)
1-5 years	186,243,916	1	1,862,439	(1,862,439)
Over 5 years	190,610,776	1	1,906,108	(1,906,108)
Total	606,888,680		6,068,886	(6,068,886)
As a percentage of net interest income			438.30%	-438.30%
As a percentage of equity			11.01%	-11.01%

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**30.5 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 required to be monitored by the management.

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

**Foreign currency financial assets and liabilities**

As at 30 Qawes 1392 (21 Dec 2013)

	USD	Euro	GBP	Iranian Toman	PKR	Others	Total
(Af's '000')							
<b>Financial assets</b>							
Cash on hand - foreign currencies	27,872,936	882,619	144	-	701	-	28,756,401
Due from banks and financial institutions	190,559,444	26,832,201	41,583,977	-	726,537	1,501,424	261,203,583
Investments	59,664,036	-	3,020,529	-	-	-	62,684,564
Assistance as lender of last resort	-	-	-	-	-	29,139,914	29,139,914
Advances and other receivables	1,083,608	1,618	8	111	16,185	1,257,443	2,358,974
	279,180,024	27,716,438	44,604,659	111	743,422	31,898,781	384,143,436
<b>Financial liabilities</b>							
Currency in circulation	-	-	-	-	-	168,796,698	168,796,698
Capital notes	-	-	-	-	-	30,122,669	30,122,669
Due to banks and financial institutions	16,758,304	5,725,892	12,334	-	718,712	32,255,079	55,470,321
Due to customers	72,721,869	2,460,266	779	-	123,829	35,245,766	110,552,509
IMF related liabilities	-	-	-	-	-	32,268	32,268
Provisions and other liabilities	8,600,111	86,079	-	-	2,973	1,481,939	10,171,102
	98,080,284	8,272,237	13,112	-	845,513	267,934,419	375,145,567
<b>Net foreign currency exposure</b>	181,099,740	19,444,201	44,591,547	111	(102,091)	(236,035,638)	8,997,869

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Notes to the financial statements

For the year ended 30 Qawes 1392 (21 December 2013)

As at 30 Qawes 1391 (20 Dec 2012)

	USD	Euro	GBP	Irania Toman	PKR	Others	Total
	(Afs '000')						
<b>Financial assets</b>							
Cash on hand - foreign currencies	14,803,993	6,503,582	466	127	489	-	21,308,656
Due from banks and financial institutions	166,024,620	17,572,778	37,831,136	-	543,097	663	221,972,294
Investments	54,686,113	-	2,756,210	-	-	-	57,442,323
Assistance as lender of last resort	-	-	-	-	-	30,414,916	30,414,916
Advances and other receivables	498,585	6	1,478	107	16,203	1,600,271	2,116,650
	236,013,311	24,076,366	40,589,289	234	559,790	32,015,850	333,254,839
<b>Financial liabilities</b>							
Currency in circulation	-	-	-	-	-	150,008,479	150,008,479
Capital notes	-	-	-	-	-	35,089,809	35,089,809
Due to banks and financial institutions	10,205,184	2,537,002	595	-	16,758	26,761,461	39,521,001
Due to customers	65,861,580	1,320,984	711	-	51,488	36,977,503	104,212,267
IMF related liabilities	-	-	-	-	-	32,268	32,268
Provisions and other liabilities	9,365,386	172,036	-	-	-	(102,067)	9,435,355
	85,432,150	4,030,022	1,306	-	68,247	248,767,453	338,299,178
Net foreign currency exposure	150,581,161	20,046,344	40,587,983	234	491,543	(216,751,603)	(5,044,339)

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30.5.1 Sensitivity analysis on foreign currency financial assets and liabilities

A 1% strengthening of the Afghani, as indicated below, against the USD, GBP, PKR, Euro and Irani Toman at 21 December 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

As at 30 Qawes 1392 (21 Dec 2013)	USD	Euro	GBP	Irani Toman	PKR	Others	Total
	(Afs '000')						
<b>Effect of 1% increase in exchange rate</b>							
<b>Financial assets</b>							
Cash on hand - foreign currencies	(278,729)	(8,826)	(1)	-	(7)	-	(287,564)
Due from banks and financial institutions	(1,905,594)	(268,322)	(415,840)	-	(7,265)	-	(2,597,022)
Investments	(596,640)	-	(30,205)	-	-	-	(626,846)
Advances and other receivables	(10,836)	(16)	(0)	(1)	(162)	(12,574)	(23,590)
<b>Losses from financial assets</b>	<b>(2,791,800)</b>	<b>(277,164)</b>	<b>(446,047)</b>	<b>(1)</b>	<b>(7,434)</b>	<b>(12,574)</b>	<b>(3,535,021)</b>
<b>Financial liabilities</b>							
Due to banks and financial institutions	167,583	57,259	123	-	7,187	-	232,153
Due to customers	727,219	24,603	8	-	1,238	-	753,067
Provisions and other liabilities	86,001	861	-	-	30	-	86,892
<b>Gains from financial liabilities</b>	<b>980,803</b>	<b>82,722</b>	<b>131</b>	<b>-</b>	<b>8,456</b>	<b>-</b>	<b>1,072,112</b>
<b>Net-unrealised gains/(losses) on foreign currency</b>	<b>(1,810,997)</b>	<b>(194,442)</b>	<b>(445,915)</b>	<b>(1)</b>	<b>1,022</b>	<b>(12,574)</b>	<b>(2,462,909)</b>

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As at 30 Qawes 1391 (20 Dec 2012)	USD	Euro	GBP	Irani Toman	PKR	Others	Total
	(Afs '000')						
<b>Effect of 1% increase in exchange rates</b>							
<b>Financial assets</b>							
Cash on hand - foreign currencies	(148,040)	(65,036)	(5)	(1)	(5)	-	(213,087)
Due from banks and financial institutions	(1,660,246)	(175,728)	(378,311)	-	(5,431)	-	(2,219,716)
Investments	(546,861)	-	(27,562)	-	-	-	(574,423)
Losses from financial assets	(2,355,147)	(240,764)	(405,878)	(1)	(5,436)	-	(3,007,226)
<b>Financial liabilities</b>							
Due to banks and financial institutions	102,052	25,370	6	-	168	-	127,595
Due to customers	658,616	13,210	7	-	515	-	672,348
Provisions and other liabilities	93,654	1,720	-	-	-	-	95,374
Gains from financial liabilities	854,321	40,300	13	-	682	-	895,317
Net un-realised losses on foreign currency	(1,500,826)	(200,463)	(405,865)	(1)	(4,752)	-	(2,111,908)

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

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### 30.6 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 creativity.

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. The results of Internal Audit reviews are discussed with the management of the unit to which they relate, with summaries submitted to the Executive Board of the Bank.

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**Da Afghanistan Bank****Notes to the financial statements***For the year ended 30 Qawes 1392 (21 December 2013)***31. 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 transaction.

The fair values of financial instruments reflected in the financial statements approximate to their carrying values except UK treasury bills as disclosed in note 7.2.1.

**32. 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. The Bank enters into transactions with related parties in its normal course of business and it is impracticable to disclose all transactions with related parties. 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 providing banking services to government, governmental organizations and enterprises;
- (b) Issues 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 an agent of the government, the bank manages foreign reserves.

The related party balances outstanding as of reporting date are as follows:

	1392 (2013) (Afs '000')	1391 (2012) (Afs '000')
General government accounts	90,011,098	92,926,510
Other government owned entities	10,838,291	8,512,720
	<u>100,849,389</u>	<u>101,439,230</u>

**Members of the Supreme Council and Key Managerial Personnel**

H.E Noorullah Delawari, Governor of the Bank and the Acting Chairman of Supreme Council  
H.E Dr. Khan Afzal Hadawal First Deputy Governor & member of the Supreme Council  
H.E Dr. Shah Mohammad Mehrabi, the member of the Supreme Council and the Chairman of the Audit Committee  
H.E Dr. Abdul Ghani Ghousi, member of the Supreme Council  
H.E Miss Narges Nehan  
H.E Mr. Mohammad Yasin Osmani  
H.E Dr. Mohammad Qasim

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**Da Afghanistan Bank**

**Notes to the financial statements**

*For the year ended 30 Qawes 1392 (21 December 2013)*

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

The members of the Supreme Council received remuneration totaling Afs 782 thousand (1391: Afs 363 thousand). Key Managerial personnel received salary and related expenses amounting Afs 12,119 thousand (1390: Afs 7,982 thousand).

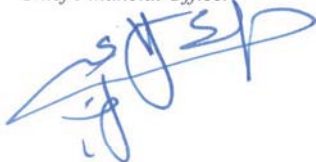
In addition to the salary, the Governor of the Bank received Afs 798 thousand as other benefits (1391: Afs 598

Other transactions with related parties are mentioned in the relevant notes to the 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 supported by cash deposits in the related customers accounts.

**Syed Younas**  
Chief Financial Officer



**Khan Afzal Hadawal**  
First Deputy Governor



**Noorullah Delawari**  
Governor

