



KPMG Afghanistan Limited.

Da Afghanistan Bank

Audited Financial Statements
For the year ended 29 Hoot 1390



KPMG Afghanistan Limited
1st Floor, Park Plaza
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Kabul, Afghanistan

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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 29 Hoot 1390 (19 March 2012), the statements of 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of Da Afghanistan Bank Law 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 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 audit opinion.

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KPMG Afghanistan Limited

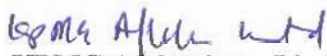
Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 29 Hoot 1390 (19 March 2012), and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Da Afghanistan Bank Law.

Emphasis of matter

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

- i) Note 8.1 to the financial statements which explains that repayments of Lender of Last Resort facility to the Bank are subject to approval by the Parliament on yearly basis.
- ii) Note 22 to the financial statements which explains that the capital of the Bank as at as at 29 Hoot 1390 (19 March 2012) is short by Afs 13,902,518 thousands (30 Hoot 1389: Afs 44,688,008 thousand) of the amount required as per Article 31 of Da Afghanistan Bank Law.

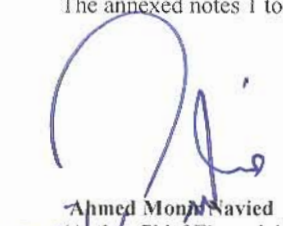

KPMG Afghanistan Limited
05 July 2012
Kabul

Da Afghanistan Bank
Statement of financial position
As at 29 Hoot 1390 (19 March 2012)

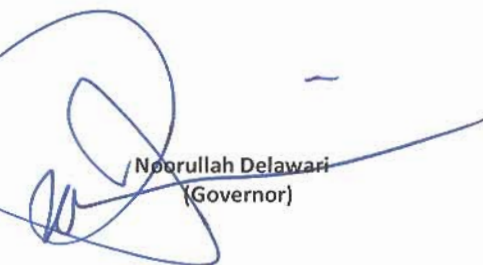
	Note	1390 (Afs '000')	1389 (Afs '000')
ASSETS			
Gold reserve	4	57,633,604	45,231,572
Foreign currency cash reserve	5	15,830,736	8,683,520
Due from banks and financial institutions	6	172,784,458	131,793,879
Investments	7	62,175,886	56,838,209
Assistance as lender of last resort	8	34,258,418	-
Advances and other receivables	9	854,924	810,421
Investment property	10	9,000	9,000
Property and equipment	11	4,634,987	4,566,999
Intangible asset	12	4,160	10,983
Other assets	13	12,582,429	12,593,188
TOTAL ASSETS		360,768,602	260,537,771
LIABILITIES AND EQUITY			
LIABILITIES			
Currency in circulation	14	148,055,800	132,442,418
Capital notes	15	30,749,899	15,972,540
Due to banks and financial institutions	16	38,323,928	26,919,336
Due to customers	17	78,734,393	61,840,063
IMF related liabilities	18	32,268	35,511
Defined benefit plan	19	1,687,316	1,391,409
Deferred grant	20	34,297	52,769
Provisions and other liabilities	21	8,042,448	8,101,767
Total liabilities		305,660,349	246,755,813
EQUITY			
Capital	22	892,297	(32,827,515)
Revaluation reserve	22	54,215,954	46,609,473
Accumulated losses	22	-	-
Total equity		55,108,252	13,781,958
TOTAL LIABILITIES AND EQUITY		360,768,602	260,537,771

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The annexed notes 1 to 35 form an integral part of these financial statements.


 Ahmed Monir Navied
 (Acting Chief Financial
 Officer)
 7.07.12


 Khan Afzal Hadawal
 (First Deputy Governor)


 Noorullah Delawari
 (Governor)

Da Afghanistan Bank

Income statement

For the year ended 29 Hoot 1390 (19 March 2012)

	Note	1390 (Afs '000')	1389 (Afs '000')
Interest income	23	2,268,287	1,285,807
Interest expense	24	(883,640)	(616,780)
Net interest income		1,384,647	669,027
Fee and commission income		160,187	127,069
Fee and commission expense		(99,744)	(114,688)
Net fee and commission income		60,443	12,381
Gain / (loss) from dealings in foreign currencies		5,410,623	(3,235,038)
Net gain on sale of available for sale financial assets		119,337	339,111
Other operating income	25	82,751	1,351,736
		5,612,712	(1,544,191)
Operating income / (loss)		7,057,802	(862,783)
Personnel expenses	26	(840,442)	(631,540)
Printing cost of bank notes	27	(129,983)	(237,436)
Other expenses	28	(224,001)	(163,704)
Voluntary retirement compensation expense		(34,283)	(54,041)
Allowance for impairment loss on LoLR assistance	8	18,108,250	(18,108,250)
Deficit on revaluation of buildings	11	-	(243,527)
Depreciation and amortisation	11&12	(59,537)	(126,141)
Net operating income / (loss)		23,877,807	(20,427,422)
Un-realised exchange gain / (loss)		9,842,006	(5,033,138)
Total income / (loss) for the year		33,719,812	(25,460,560)

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The annexed notes 1 to 35 form an integral part of these financial statements.

Ahmed Momr Naxied
(Acting Chief Financial
Officer)

07.07.12

Khan Afzal Hadawal
(First Deputy Governor)


Noorullah Delawari
(Governor)

Da Afghanistan Bank
Statement of Comprehensive Income
For the year ended 29 Hoot 1390 (19 March 2012)

	Note	1390 (Afs '000')	1389 (Afs '000')
Gain / (loss) for the year		33,719,812	(25,460,560)
Other comprehensive income			
Revaluation surplus on gold reserve			
directly recognised in equity		7,703,402	10,719,241
Un-realised gain / (loss) on available for sale			
financial assets	7.1.1	(96,921)	31,638
Surplus on revaluation of freehold land	11	-	741,802
Total other comprehensive income		7,606,481	11,492,681
Total comprehensive income / (loss) for the year		41,326,294	(13,967,879)

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The annexed notes 1 to 35 form an integral part of these financial statements.


Ahmed Monir Navied
(Acting Chief Financial
Officer)
07/03/12


Khan Afzal Hadawal
(First Deputy Governor)


Noorullah Delawari
(Governor)

Da Afghanistan Bank
Statement of cash flows
For the year ended 29 Hoot 1390 (19 March 2012)

	Note	1390 (Afs '000')	1389 (Afs '000')
Cash flows from operating activities			
Profit / (loss) for the year		33,719,812	(25,460,560)
Adjustments for non cash items			
Depreciation and amortisation		59,537	126,141
Interest income		(1,697,355)	(680,186)
Interest expense		883,640	616,780
Interest income on available for sale financial asset		(570,932)	(605,621)
Net gain on sale of available for sale financial asset		(119,337)	(339,111)
Allowance for impairment loss		(18,108,250)	18,108,250
Deficit on revaluation of buildings		-	243,527
Grant income		(18,473)	(59,503)
Gain on revaluation of investment property		-	(4,200)
Assets and liabilities adjusted		-	(76,886)
Defined benefit plan contribution		308,452	194,691
Un-realised exchange (gain) / loss		(9,842,006)	5,033,138
		<u>4,615,088</u>	<u>(2,903,540)</u>
Working capital changes			
(Increase) in due from banks and financial institutions		(15,899,289)	(33,936,201)
(Increase) in assistance as lender of last resort		(16,150,168)	(18,108,250)
(Increase) in advances and other receivables		(44,503)	(709,773)
Decrease in other assets		10,759	445,837
Increase in currency in circulation		15,613,382	33,751,993
Increase in due to banks and financial institutions		11,404,592	1,133,090
Increase in due to customers		16,894,330	14,915,898
(Decrease) in IMF related liabilities		(3,243)	-
Increase in provisions and other liabilities		(59,319)	2,972,352
		<u>11,766,541</u>	<u>464,946</u>
Cash generated from operations		16,381,629	(3,055,374)
Interest received		2,158,250	673,058
Interest paid		(799,043)	(616,780)
Defined benefits paid		(26,773)	(26,389)
Net cash (used in) / from operating activities		<u>17,714,062</u>	<u>(3,025,485)</u>
Cash flows from investing activities			
Increase in investments		(5,337,677)	-
Purchase of property and equipment		(120,564)	(163,879)
Purchase of intangible assets		-	(4,000)
Net cash used in investing activities		<u>(5,458,241)</u>	<u>(167,879)</u>
Cash flows from financing activities			
Capital notes issued		14,692,762	5,732,228
Net cash from financing activities		<u>14,692,762</u>	<u>5,732,228</u>
Net increase in cash and cash equivalents		26,948,584	3,155,644
Effects of exchange rate fluctuation on cash held		5,143,376	1,209,980
Cash and cash equivalents at beginning of the year		<u>14,422,320</u>	<u>10,056,696</u>
Cash and cash equivalents at end of the year	30	<u>46,514,280</u>	<u>14,422,320</u>

The annexed notes 1 to 35 form an integral part of these financial statements.

Ahmed Monir Navied
(Acting Chief Financial
Officer)

Khan Afzal Hadawal
(First Deputy Governor)

Nodruallah Delawari
(Governor)

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Da Afghanistan Bank
Statement of changes in equity
For the year ended 29 Hoot 1390 (19 March 2012)

Balance at 1 Hamal 1389
Total comprehensive income for the year:
 Loss for the year
 Other comprehensive income
 Un-realised gain on available for sale financial assets
 Surplus on revaluation of freehold land
 Gain on revaluation of gold
 Total other comprehensive income
 Total comprehensive expense for the year
Transactions with owner recorded directly in equity
 Transfer to capital account
Balance at 30 Hoot 1389
Balance at 1 Hamal 1390
Total comprehensive income for the year:
 Profit for the year
 Other comprehensive income
 Un-realised loss on available for sale financial assets
 Gain on revaluation of gold
 Total other comprehensive income
 Total comprehensive income for the year
Transactions with owner recorded directly in equity
 Transfer to capital account
Balance at 29 Hoot 1390
 The annexed notes 1 to 35 form an integral part of these financial statements.

Ahmed Mohtar Navied
 (Acting Chief Financial Officer)

Khan Afzal Hadawal
 (First Deputy Governor)

Capital	Revaluation reserve (Note 22.2)				Accumulated losses	Total
	Un-realised gain / (loss) on available for sale financial assets	Freehold land	Gold	Sub-total		
	(Afs '000')					
(7,366,955)	29,219	205,490	34,882,083	35,116,792	-	27,749,837
-	-	-	-	-	(25,460,560)	(25,460,560)
-	31,638	-	-	31,638	-	31,638
-	-	741,802	-	741,802	-	741,802
-	-	-	10,719,241	10,719,241	-	10,719,241
-	31,638	741,802	10,719,241	11,492,681	-	11,492,681
-	31,638	741,802	10,719,241	11,492,681	(25,460,560)	(13,967,879)
(25,460,560)	-	-	-	-	25,460,560	-
(32,827,515)	60,857	947,292	45,601,324	46,609,473	-	13,781,958
(32,827,515)	60,857	947,292	45,601,324	46,609,473	-	13,781,958
-	-	-	-	-	33,719,812	33,719,812
-	(96,921)	-	-	(96,921)	-	(96,921)
-	-	-	7,703,402	7,703,402	-	7,703,402
-	(96,921)	-	7,703,402	7,606,481	-	7,606,481
-	(96,921)	-	7,703,402	7,606,481	33,719,812	41,326,294
33,719,812	-	-	-	-	(33,719,812)	-
892,297	(36,064)	947,292	53,304,726	54,215,954	-	55,108,252

(Signature)

(Signature)
 Noorullah Delawari
 (Governor)

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1390 (19 March 2012)

1. Status and nature of operations

The Da Afghanistan Bank ("the Bank") was originally established in 1939 in accordance with Article 12 of the 1932 Constitution of Afghanistan. The Bank was operating under the supervision of the Ministry of Finance (MoF), Government of Afghanistan. Subsequently, during the transitional Government, the Da Afghanistan Bank Law ("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 19 March 2012 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) and the DAB law. Wherever the DAB Law differs with the requirements of the IFRSs, the requirements of the DAB Law take precedence.

These financial statements were approved by the Supreme Council in their meeting held on _____.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for the following:

- Gold reserves are measured at fair value
- Available for sale financial assets are measured at fair value
- Investment property is measured at fair value
- Land and buildings are carried at revalued amounts
- Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation add/less past service costs and actuarial losses

(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 29 Hoot 1390 (19 March 2012)***(d) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRSs 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 recognised 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 recognised in the financial statements are as follows:

- | | |
|---|------------|
| • gold reserve | Note 3 (b) |
| • useful lives and valuation of property and equipment; | Note 3 (d) |
| • fair value measurement of investment properties; | Note 3 (e) |
| • useful life of intangible asset | Note 3 (f) |
| • Provision for impairment | Note 3 (h) |
| • Retirement benefits to employees; | Note 3 (j) |

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 19 March 2012, the Afghani exchange rates used for the major currencies were:

	1390	1389
United States Dollar	49.402	45.374
Euro	64.883	64.095
Sterling Pounds	77.628	73.300
Pakistan Rupee	00.543	00.532

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



Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1390 (19 March 2012)

(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, unrestricted balances held with other central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

(d) Property and equipment

Recognition and measurement

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

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

Subsequent costs

The cost of replacing part of an item of property and equipment is recognised 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 recognised in income statement as incurred.

Depreciation

Depreciation is recognised 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:

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Da Afghanistan Bank**Notes to the financial statements***For the year ended 29 Hoot 1390 (19 March 2012)*

	1390	1389
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 recognised in the income statement, in which case the increase is recognised in income statement. A revaluation deficit is recognised 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-recognised 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-recognised. 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 remeasurement at the time of transfer is recognised in equity and any loss is recognised 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 recognised in income statement.

(f) Intangibles

Software acquired by the Bank is stated at cost less accumulated amortisation 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.

Amortisation is recognised 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

Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1390 (19 March 2012)

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 recognised 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 recognised if the Bank becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised 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-recognised 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 amortised 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 recognised other comprehensive income. When an investment is de-recognised, the cumulative gain or loss in equity is transferred to income statement.

Investment at fair value through profit or loss

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

Other

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



(h) Impairment

Financial assets

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

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

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

All impairment losses are recognised in income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised 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 recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised 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 recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in income statement.

Impairment losses recognised 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 recognised.



Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1390 (19 March 2012)

(i) Currency in circulation

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

(j) Employee benefits

Defined benefit plans

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

The Bank's net obligation in respect of defined benefit 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.

The latest actuarial valuation was carried out on 29 Hoot 1390 (19 March 2012).

Short-term benefits

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

Termination benefits

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

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(k) Provisions

A provision is recognised 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 recognised 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 amortised 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 recognised 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 recognised 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 recognised in income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

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

For the year ended 29 Hoot 1390 (19 March 2012)

(o) Grant

Grant is recognised 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 recognised 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 effective for annual periods beginning after 1 April 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank.



Da Afghanistan Bank**Notes to the financial statements***For the year ended 29 Hoot 1390 (19 March 2012)*

	<i>Note</i>	1390 (Afs '000')	1389 (Afs '000')
4. Gold reserve			
Balance at beginning of the year	<i>4.1</i>	45,231,572	37,611,073
Gain on revaluation		7,703,402	10,719,241
Exchange gain/ (loss)		4,698,629	(3,098,742)
Balance at end of the year		57,633,604	45,231,572

4.1 This represents 703,004.944 fine troy ounces (1389: 703,004.944 fine troy ounces) of gold in bar form held at Federal Reserve Bank of New York as the Bank's international reserve.

4.2 As per Federal Reserve Bank, New York (FRB NY), 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 1,661.50 per troy ounce (1389: USD 1,420 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 1,659.50 per troy ounce (1389: USD 1,418 per troy ounce) using discount of USD 2 per troy ounce to the LBMA rate as at the date of statement of financial position.

	1390 (Afs '000')	1389 (Afs '000')
5. Foreign currency cash reserve		
Cash at head office	11,596,710	6,345,737
Cash at branches	4,234,026	2,337,783
	15,830,736	8,683,520

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

	<i>Note</i>	1390 (Afs '000')	1389 (Afs '000')
6. Due from banks and financial institutions			
Demand deposits	<i>6.1</i>	168,868,856	125,993,237
Interest receivable		171,881	61,842
Current accounts with foreign banks		3,743,721	5,738,800
		172,784,458	131,793,879

6.1 These carry interest ranging from 0.15 % to 2.45 % (1389: 0.15% to 1.85%) per annum.

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1390 (19 March 2012)

	Note	1390 (Afs '000')	1389 (Afs '000')
7. Investments			
Available for sale financial assets	7.1	51,474,059	46,732,618
Treasury bills (held to maturity)	7.2	10,701,827	10,105,591
		<u>62,175,886</u>	<u>56,838,209</u>

7.1 Available for sale financial assets

Deposit accounts	16,650	15,553
US treasury bills	42,975,046	37,189,378
Other fixed income securities	8,482,364	9,527,687
	<u>51,474,059</u>	<u>46,732,618</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 Federal Reserve Bank New York. These portfolio investments carry interest rates ranging from 0.0738% to 2.75 % per annum (1389: 0.38% to 2.75% per annum). The carrying value of these investments as at the year end amounts to USD 1,043,270 thousand (1389: USD 1,029,943 thousand).

7.2 Treasury bills

	Note	1390 (Afs '000')	1389 (Afs '000')
UK treasury bills - face value	7.2.1	10,712,595	10,115,400
Un-earned discount on treasury bills		(10,768)	(9,809)
		<u>10,701,827</u>	<u>10,105,591</u>

7.2.1 These are debt securities issued by the United Kingdom treasuries and purchased through Duetsche Bank. The treasury bills have original maturities of 28 days to 91 days (1389: 28 days to 91). These bills are purchased at a discount from face value and do not pay interest before maturity. The interest is the difference between the purchase price of the bill and the amount paid back on maturity or when sold prior to maturity. The Bank intends to hold these bills till maturity dates. The fair of these treasury bills as at reporting date amounts to UK Sterling Pounds 138,000 thousands.

	Note	1390 (Afs '000')	1389 (Afs '000')
8. Assistance as lender of last resort			
LoLR assistance to Kabul Bank		34,258,418	18,108,250
Less: allowance for impairment loss	8.1	-	(18,108,250)
		<u>34,258,418</u>	<u>-</u>

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Da Afghanistan Bank**Notes to the financial statements***For the year ended 29 Hoot 1390 (19 March 2012)*

- 8.1 This represents the amount paid to Kabul Bank ("KB") 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"), whereunder MoF agreed to underwrite cost of LoLR facilities to Kabul Bank amounting to Afs 37,620,000 (825,000 USD) thousand which is 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 was 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. Per 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% on outstanding balance.

Payments to the Bank are 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. The Parliament has approved budget of USD 51 million (equivalent to Afs 2,458,710 thousands) for the year 1390 in respect of MOF payments to the Bank under the PNA which has been received by the Bank during the year.

	1390 (Afs '000')	1389 (Afs '000')
Opening balance	18,108,250	-
Payment during the year	19,500,500	18,108,250
Add interest amount	732,243	-
Less: amount recovered directly from Kabul Bank	(1,623,865)	-
Less: amount recovered from MoF	(2,458,710)	-
	<u>34,258,418</u>	<u>18,108,250</u>

Subsequent to year end, the Parliament has approved budget of USD 65 million (equivalent to Afs 3,211,098 thousands) for the year 1391 in respect of MOF payments to the Bank under the PNA. As per PNA , MOF repayments for 1391 are Afs 3,108,596 thousands.

Payment for the remaining amount of Afs 37,269,945, including interest (for years 1392 onwards) are subject to the Parliament's approval.

		1390 (Afs '000')	1389 (Afs '000')
9. Advances and other receivables			
Afghanistan Deposit Insurance Corporation	9.2	500,000	500,000
Advances to staff	9.3	441,461	472,233
Others	9.4	1,393,638	1,318,364
	9.1	<u>2,335,100</u>	<u>2,290,597</u>
Less: Allowance for impairment loss	9.4	(1,480,176)	(1,480,176)
		<u>(1,480,176)</u>	<u>(1,480,176)</u>
		<u>854,924</u>	<u>810,421</u>

Da Afghanistan Bank**Notes to the financial statements***For the year ended 29 Hoot 1390 (19 March 2012)*

	1390 (Afs '000')	1389 (Afs '000')
9.1 Currency profile of advances and other receivables is as follows:		
Foreign currency	1,043,585	962,214
Local currency	1,291,514	1,328,383
	<u>2,335,099</u>	<u>2,290,597</u>

9.2 This represents the share of contribution of the Bank for establishment of Afghanistan Deposit Insurance Corporation (ADIC). As per Article 7 of the draft ADIC Law, the initial capital of ADIC of Afs 1,050,000 thousand shall be contributed by the Bank, MoF and commercial banks in proportion to Afs 500,000 thousand, Afs 500,000 thousand and Afs 50,000 thousand respectively. The contribution by the Bank has been treated as advance and will be recognised as investment in ADIC upon approval of ADIC Law by the Parliament of Islamic Republic of Afghanistan.

9.3 This represents loans to staff free of interest. These loans are issued for a period from one year to nine years.

9.4 These represent advances to past regimes and receivables on account of misappropriation of the cash in hand by the Bank's staff in prior years. The Bank has recognised full impairment provision against the previous years' advances as the chances of the recovery of the same are remote. The movement in gross amount is on account of revaluation of foreign advances at closing rates. The movement in gross amount is on account of revaluation of foreign advances at closing rates

	Note	1390 (Afs '000')	1389 (Afs '000')
10. Investment property			
Balance as at beginning of the year	10.1	9,000	4,800
Gain on revaluation during the year		-	4,200
Balance as at end of the year		<u>9,000</u>	<u>9,000</u>

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

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 1390. 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

	Freehold land	Buildings	Furniture and fixtures	Motor vehicles	IT and office equipment	Total
	(Afs '000')					
Cost						
Balance at 01 Hamal 1389	3,554,364	336,622	61,520	36,137	327,276	4,315,919
Additions	-	92,959	33,096	29,311	8,513	163,879
Transfers out	-	-	-	-	(5,465)	(5,465)
Adjustment on revaluation	-	(45,271)	-	-	-	(45,271)
Addition on revaluation	741,802	(243,527)	-	-	-	498,275
Balance at 30 Hoot 1389	4,296,166	140,783	94,616	65,448	330,324	4,927,337
Balance at 01 Hamal 1390	4,296,166	140,783	94,616	65,448	330,324	4,927,337
Additions	-	27,145	3,973	66,500	22,946	120,564
Balance at 29 Hoot 1390	4,296,166	167,928	98,589	131,948	353,270	5,047,901
Depreciation						
Balance at 01 Hamal 1389	-	35,586	20,015	10,672	219,285	285,558
Charge for the year	-	9,685	5,552	11,063	93,751	120,051
Adjustment on revaluation	-	(45,271)	-	-	-	(45,271)
Balance at 30 Hoot 1389	-	-	25,567	21,735	313,036	360,338
Balance at 01 Hamal 1390	-	-	25,567	21,735	313,036	360,338
Charge for the year	-	4,198	1,074	19,656	27,648	52,576
Balance at 29 Hoot 1390	-	4,198	26,641	41,391	340,684	412,914
Carrying amounts						
At 01 Hamal 1389	3,554,364	301,036	41,505	25,465	107,991	4,030,361
At 30 Hoot 1389	4,296,166	140,783	69,049	43,713	17,288	4,566,999
At 01 Hamal 1390	4,296,166	140,783	69,049	43,713	17,288	4,566,999
At 29 Hoot 1390	4,296,166	163,729	71,949	90,558	12,586	4,634,987

11.1 Freehold land and buildings were revalued as at 30 Hoot 1389 by independent dealer, M/S Pamir Property Dealer, a well known local 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 thousand on revaluation of land which has been included in revaluation reserve and deficit of Afs 243,527 thousands which has been charged to income statement on 1389.

11.2 During the year 1388, the Bank exchanged with the Government of Afghanistan 11,980 square meter land having carrying value of Afs 599,000 with 17,200 square meter of land having fair value of Afs 2,373,600 thousand at the time of exchange. The gain on exchange had been included in capital.

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:

	1390 (Afs '000')	
	Land	Buildings
Cost	3,554,364	456,727
Accumulated depreciation	-	(49,469)
Carrying amount	3,554,364	407,258

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1390 (19 March 2012)

	Note	1390 (Afs '000')	1389 (Afs '000')
12. Intangible asset			
Cost			
Balance at beginning of the year	12.1	34,116	30,116
Additions during the year	12.2	-	4,000
		34,116	34,116
Amortisation			
Balance at beginning of the year		(23,133)	(17,043)
For the year		(6,823)	(6,090)
		(29,956)	(23,133)
Balance at end of the year		4,160	10,983

12.1 This represents 'Core Banking System', an accounting software received by the Bank from United States Agency for International Development (USAID) as grant in kind and is recognised at fair value as on that date, which is its invoice value.

12.2 This represents software for registry of government security capital notes and secondary market transactions.

		1390 (Afs '000')	1389 (Afs '000')
13. Other assets			
Non-monetary gold bullion and bars	13.1	5,861,728	5,861,728
Non-monetary silver	13.1	6,711,255	6,711,255
		12,572,983	12,572,983
Inventories		9,445	20,205
		12,582,429	12,593,188

13.1 This represents the gold bullion and bars and gold and silver coins held in the Bank's vault. 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 in 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 the Afs 6,711,255 thousand, being the value previously unaccounted for.

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1390 (19 March 2012)

	Note	1390 (Afs '000')	1389 (Afs '000')
14. Currency in circulation			
Coins		428,401	428,400
Bank notes		157,276,278	139,104,462
		157,704,679	139,532,862
Bank notes and coins held at vault of the Bank		(9,648,879)	(7,090,444)
		<u>148,055,800</u>	<u>132,442,418</u>

15. Capital notes

Face value		30,947,000	16,092,000
Un-amortised discount		(197,101)	(119,460)
	15.1	<u>30,749,899</u>	<u>15,972,540</u>

15.1 These represent debt instruments issued by the Bank solely to licensed commercial banks and licensed money changers and having maturity between 28 days to 182 days (1389: 28 days to 182 days). Capital notes are freely transferable between licensed commercial Banks, licensed money changers and the Bank.

These carry interest between 2.03% to 3.3% (1389: between 2.35% to 3.44%) per annum.

	Note	1390 (Afs '000')	1389 (Afs '000')
16. Due to banks and financial institutions			
Foreign currency			
Current accounts		11,201,164	8,354,226
Local currency			
Current accounts		8,683,636	15,735,996
Overnight deposits	16.2	18,439,128	2,829,114
		27,122,764	18,565,110
		<u>38,323,928</u>	<u>26,919,336</u>

16.1 Geographical profile of due to banks and financial institutions is as follows:

Foreign banks and financial institutions		11,201,164	8,354,226
Local banks		27,122,764	18,565,110
		<u>38,323,928</u>	<u>26,919,336</u>

16.2 These include required reserve balance amounting to Afs 13,169,628 (1389: Afs 8,748,681) maintained by the commercial banks with the Bank in accordance with the requirements of Article 64 of the Da Afghanistan Bank

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1390 (19 March 2012)

16.3 Interest profile of the interest bearing deposits is as follows:

	1390	1389
	(per annum)	
Local currency:		
Current accounts	1.05 % to 1.42%	3.47 % to 5.90 %
Overnight deposits	1.05 % to 1.42%	0.10 % to 1.70%

	Note	1390 (Afs '000')	1389 (Afs '000')
17. Due to customers			
Foreign currency			
Current accounts	17.1	51,707,375	43,579,085
Dormant accounts	17.2	182,110	170,979
		51,889,485	43,750,064
Local currency			
Current accounts	17.1	26,732,400	17,972,818
Time deposits		31,577	31,577
Dormant accounts	17.2	80,932	85,604
		26,844,909	18,089,999
	17.3	78,734,393	61,840,063
17.1 Current accounts consist of:			
Government accounts		60,650,177	55,870,214
Others		18,084,217	5,969,849
		78,734,393	61,840,063

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 do not claim back their deposit within this period, the Bank transfers it to the Ministry of Finance (MoF), Government of Afghanistan.

17.3 All these accounts are non-interest bearing.

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Da Afghanistan Bank**Notes to the financial statements***For the year ended 29 Hoot 1390 (19 March 2012)*

18. IMF related liabilities	Note	1390 (Afs '000')	1389 (Afs '000')
Account 1		32,267	34,399
Account 2		1	1,112
	18.1	<u>32,268</u>	<u>35,511</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 (MoF), central bank or any other agency as their Fiscal Agent. In addition, each member is statutorily required to designate its central bank as Depository. The Government of Afghanistan has nominated MoF as their Fiscal Agent and the Bank as the Depository.

As the Depository for the 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.

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 situated in Karachi - Pakistan, to carry out the actuarial valuation of defined benefit obligations. The following data is based on the valuation carried out at 29 Hoot 1390 (19 March 2012).

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 29 Hoot 1390.

Note	1390 (Afs '000')	1389 (Afs '000')
Balance at beginning of the year	1,391,409	1,223,107
Staff contribution	14,229	-
Charge for the year	308,452	194,691
Benefits paid during the year	(26,773)	(26,389)
Balance at end of the year	<u>1,687,316</u>	<u>1,391,409</u>

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Da Afghanistan Bank**Notes to the financial statements***For the year ended 29 Hoot 1390 (19 March 2012)***The amounts recognised in the statement of financial position are as follows:**

	1390 (Afs '000')	1389 (Afs '000')
Present value of defined benefit	2,339,279	2,097,702
Non-vested past service cost to be recognised in future years	(651,963)	(706,293)
	<u>1,687,316</u>	<u>1,391,409</u>

Movement in present value of defined obligations

Present value of defined obligations at beginning of the year	2,097,702	1,983,729
Current service cost	113,858	135,851
Interest cost	125,862	119,024
Staff contributions	14,229	-
Actuarial (gain)/loss	14,401	(114,513)
Benefits paid during the year	(26,773)	(26,389)
	<u>2,339,279</u>	<u>2,097,702</u>

Expense recognised in the statement of comprehensive income is as follows:

Current service cost	113,858	135,851
Interest cost	125,862	119,024
Amortisation of non-vested past service cost	54,330	54,329
Actuarial loss / (gain)	14,402	(114,513)
	<u>308,452</u>	<u>194,691</u>

Actuarial assumptions

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

	1390 (per annum)	1389
Discount rate	6%	6%
Annual increase in salary	6%	6%
Average life expectancy of an individual retiring at age of 65	15 Years	15 Years



Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1390 (19 March 2012)

20. Deferred grant

This represents the amount received from United States Agency for International Development (USAID) through Bearing Point (Consultants) in kind during years 1384 to 1386, mainly motor vehicles, IT and power equipment and accounting software.

	1390 (Afs '000')	1389 (Afs '000')
Balance at beginning of the year	282,670	282,670
Additions during the year	-	-
	<u>282,670</u>	<u>282,670</u>
Accumulated transferred to income	(248,374)	(229,901)
Balance at end of the year	<u>34,297</u>	<u>52,769</u>
Accumulated transferred to income		
Balance at beginning of the year	229,901	170,398
Transfer to income during the year	18,473	59,503
Balance at end of the year	<u>248,374</u>	<u>229,901</u>

21. Provisions and other liabilities

Deposit against letters of credit -net	21.2	7,306,306	5,839,725
MOU adjustments	29.	79,298	75,896
Sundry payables	21.3	623,608	497,791
Withholding taxes payable		392	441
Suspense accounts	21.4	(4,606)	1,084
Inter-branch accounts	21.5	37,449	1,677,309
RAMP management fee payable		-	9,521
		<u>8,042,448</u>	<u>8,101,767</u>

21.1 Currency profile of provisions and other liabilities is as follows:

Local currency	412,367	2,262,042
Foreign currency	<u>7,630,081</u>	<u>5,839,725</u>
	<u>8,042,448</u>	<u>8,101,767</u>

21.2 These represents the deposits received by the Bank against issuance of letters of credit amounting to Afs 8,273,113 thousand (1389: Afs 5,925,054 thousand) and disbursements there against, amounting to Afs 966,806 thousand (1389: Afs 355,231 thousand). The Bank issues letters of credit only to the government and governmental organisations against receipt of 100% deposit.

21.3 These include sundry payables amounting to Afs 398,644 thousand (1389: Afs 413,391 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 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. Impact of these balances on the over all financial statements can not be determined as at the date of statement of financial position.

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

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Da Afghanistan Bank

Notes to the financial statements

For the year ended 29 Hoot 1390 (19 March 2012)

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 transferable or subject to encumbrances. Under the Memorandum of Understanding (MoU) entered with the Ministry of Finance (MoF), the paid up capital of the Bank has been reduced to below Afs 8,000,000 thousand (Afghanis eight billion) as a consequence of the transfer of assets and liabilities to the MoF.

According to Article 29 of the DAB Law, if the Bank has a net profit for any financial year, it shall be allocated to the capital account to increase the capital of the Bank to a level equivalent to five percent (5%) of the aggregate amount of monetary liabilities, as defined in Article 29. Any residual profits, if any, are required to be dealt with as prescribed in the above mentioned Article. The Bank is required to maintain its capital at this level.

After the allocation of accumulated (losses) / profit to the capital account, the capital of the Bank falls below five percent (5%) of the total amount of liabilities, as defined in Article 29 of DAB Law, by Afs 13,902,518 thousands. The Bank is in the process of recapitalising capital shortfall from the Government, as required by the Article 31 of the DAB Law, and finalising relevant amendments in DAB Law with the Government including fixation of minimum amount of capital and transfer of revaluation reserves to capital.

Subsequent to the year on 23 May 2012 the Bank signed an MoU with MoF regarding recapitalization of DAB. The MoU includes: levels of authorised 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. Management believes that the above will result in removing capital shortfall.

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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Notes to the financial statements

For the year ended 29 Hoot 1390 (19 March 2012)

	<i>Note</i>	1390 (Afs '000')	1389 (Afs '000')
23. Interest income			
Interest on balances with banks and financial institutions		920,556	498,451
Interest on available for sale financial assets		570,932	605,621
Interest on treasury bills		44,556	45,219
Interest on advance to Kabul Bank		732,243	136,516
		<u>2,268,287</u>	<u>1,285,807</u>

24. Interest expense			
Interest on capital notes		694,375	455,941
Interest - others	24.1	189,265	160,839
		<u>883,640</u>	<u>616,780</u>

24.1 This represents the interest on overnight deposit and cash reserve accounts of the local commercial banks.

	<i>Note</i>	1390 (Afs '000')	1389 (Afs '000')
25. Other operating income			
Rental income		1,400	2,440
Grant income	20	18,473	59,503
Regulatory income		62,879	48,455
Assets and liabilities adjusted	25.1	-	76,886
Gain on revaluation of investment property	10	-	4,200
Receipts against project accounts		-	1,160,252
		<u>82,751</u>	<u>1,351,736</u>

25.1 Assets and liabilities adjusted

These represent the assets and liabilities of past years written back /off during the year as follows:

	1390 (Afs '000')	1389 (Afs '000')
Due from banks and financial institutions	-	(269,901)
Provisions and other liabilities	-	346,787
	<u>-</u>	<u>76,886</u>

26. Personnel expenses

Salaries		531,990	376,902
Defined benefit plan contribution	19	308,452	194,691
Other allowances		-	59,947
		<u>840,442</u>	<u>631,540</u>

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Da Afghanistan Bank**Notes to the financial statements***For the year ended 29 Hoot 1390 (19 March 2012)*

27. This represents cost of printing of new currency notes valuing Afs 13,500,000 thousands (1389: Afs 25,000,000 thousands) paid to De La Rue International Limited, Basingstoke - England at agreed rates under specific arrangements.

28. Other expenses	1390	1389
	(Afs '000')	(Afs '000')
Audit fee and expenses	5,216	4,631
Repair and maintenance	11,609	19,239
Rent	6,086	3,763
Printing and stationery	8,582	7,403
Transportation	19,670	10,535
Communication	21,031	39,946
Insurance	1,879	5,931
Travelling	24,607	17,727
Other expenses	125,320	54,529
	<u>224,001</u>	<u>163,704</u>

29. **Memorandum of understanding (MoU)**

In compliance to Article 130 of the DAB Law (transitional Article), the Bank entered into a MoU with the Ministry of Finance (MoF) during year 1383 (2005), based on which the balances due from / to various ministries of the government have been netted off and adjusted in equity on 12 Hoot 1385 (02 March 2007), which resulted in a capital loss of 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

30. Cash and cash equivalents	Note	1390	1389
		(Afs '000')	(Afs '000')
Foreign currency cash reserve	5	15,830,736	8,683,520
Demand deposit having maturity of less than three mont	6	26,939,823	-
Current accounts with foreign banks	6	3,743,721	5,738,800
		<u>46,514,280</u>	<u>14,422,320</u>

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31. 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).

In Afs	Note	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Fair value
1390									
Assets									
Foreign currency cash reserve	5	-	-	-	-	-	15,830,736	15,830,736	15,830,736
Due from banks and financial institutions	6	-	-	168,868,856	3,915,602	-	-	172,784,458	172,784,458
Investments	7	-	-	10,701,827	-	51,474,059	-	62,175,886	62,175,886
Assistance as lender of last resort	8	-	-	-	34,258,418	-	-	34,258,418	34,258,418
Advances and other receivables	9	-	-	-	2,335,100	-	-	2,335,100	2,335,100
		-	-	179,570,683	40,509,120	51,474,059	15,830,736	287,384,598	287,384,598
Liabilities									
Currency in circulation	14	-	-	-	-	-	148,055,800	148,055,800	148,055,800
Capital notes	15	-	-	30,749,899	-	-	-	30,749,899	30,749,899
Due to banks and financial institutions	16	-	-	18,439,128	19,884,800	-	-	38,323,928	38,323,928
Due to customers	17	-	-	31,577	-	-	78,702,816	78,734,393	78,734,393
IMF related liabilities	18	-	-	-	-	-	32,268	32,268	32,268
Provisions and other liabilities	21	-	-	-	-	-	7,930,306	7,930,306	7,930,306
		-	-	49,220,605	19,884,800	-	234,721,190	303,826,594	303,826,594
1389									
Assets									
Foreign currency cash reserve	5	-	-	-	-	-	8,683,520	8,683,520	8,683,520
Due from banks and financial institutions	6	-	-	125,993,237	5,800,642	-	-	131,793,879	131,793,879
Investments	7	-	-	10,105,591	-	46,732,618	-	56,838,209	56,838,209
Advances and other receivables	9	-	-	-	1,790,597	-	-	1,790,597	1,790,597
		-	-	136,098,828	7,591,239	46,732,618	8,683,520	199,106,205	199,106,205
Liabilities									
Currency in circulation	14	-	-	-	-	-	132,442,418	132,442,418	132,442,418
Capital notes	15	-	-	15,972,540	-	-	-	15,972,540	15,972,540
Due to banks and financial institutions	16	-	-	2,829,114	24,090,222	-	-	26,919,336	26,919,336
Due to customers	17	-	-	31,577	-	-	61,808,486	61,840,063	61,840,063
IMF related liabilities	18	-	-	-	-	-	35,511	35,511	35,511
Provisions and other liabilities	21	-	-	-	-	-	6,347,478	6,347,478	6,347,478
		-	-	18,833,231	24,090,222	-	200,633,893	243,557,346	243,557,346

The carrying amounts of assets and liabilities approximate fair values except fair value of treasury bills (note 7.2.1) mentioned above under investments, as mostly they have short maturities and are expected to be recovered/settled at their carrying amounts.

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

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32. 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 32.1 to 32.6. 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 quarterly to advise senior management and Governor on the management of these risks.

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

32.1 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, 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:

	Note	1390 (Afs '000')	1389 (Afs '000')
Due from banks and financial institutions	6	172,612,577	131,732,037
Investments	7	62,175,886	56,838,209
Assistance as lender of last resort	8	34,258,418	-
		<u>269,046,882</u>	<u>188,570,246</u>

Financial instruments with off-balance sheet risk

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.

32.2 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.

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For the year ended 29 Hoot 1390 (19 March 2012)

Maturities of assets and liabilities

	Up to one month	Over one month to three month	Over three month to one year	Over one year to five years	Over five years	Total
	(Afs '000')					
As at 29 Hoot 1390 (19 March 2012)						
Assets						
Foreign currency cash reserve	15,830,736	-	-	-	-	15,830,736
Due from banks and financial institutions	31,949,703	55,634,194	85,200,561	-	-	172,784,458
Investments	-	10,701,827	51,474,059	-	-	62,175,886
Assistance as lender of last resort	-	524,523	1,240,959	25,463,251	7,029,686	34,258,418
Advances and other receivables	2,335,100	-	-	-	-	2,335,100
	50,115,539	66,860,543	137,915,579	25,463,251	7,029,686	287,384,598
Liabilities						
Currency in circulation	-	-	-	-	148,055,800	148,055,800
Capital notes	8,119,129	22,630,770	-	-	-	30,749,899
Due to banks and financial institutions	38,323,928	-	-	-	-	38,323,928
Due to customers	78,439,775	31,577	-	263,041	-	78,734,393
IMF related liabilities	32,268	-	-	-	-	32,268
Provisions and other liabilities	624,000	7,306,306	-	-	-	7,930,306
	125,539,100	29,968,654	-	263,041	148,055,800	303,826,594
Net liquidity gap						
As at 29 Hoot 1390 (19 March 2012)	(75,423,560)	36,891,890	137,915,579	25,200,209	(141,026,114)	(16,441,996)
Cumulative gap						
	(75,423,560)	(38,531,671)	99,383,908	124,584,117	(16,441,996)	

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Notes to the financial statements
For the year ended 29 Hoot 1390 (19 March 2012)

	Up to one month	Over one month to three month	Over three month to one	Over one year to five years	Over five years	Total
	(Afs '000')					
As at 30 Hoot 1389 (20 March 2011)						
Assets						
Foreign currency cash reserve	8,683,520	-	-	-	-	8,683,520
Due from banks and financial institutions	5,800,642	57,344,095	68,649,142	-	-	131,793,879
Investments	-	10,105,591	46,732,618	-	-	56,838,209
Advances and other receivables	2,290,597	-	-	-	-	2,290,597
	16,774,759	67,449,686	115,381,760	-	-	199,606,205
Liabilities						
Currency in circulation	-	-	-	-	132,442,418	132,442,418
Capital notes	3,473,075	12,499,465	-	-	-	15,972,540
Due to banks and financial institutions	26,919,336	-	-	-	-	26,919,336
Due to customers	61,551,903	31,577	-	256,583	-	61,840,063
IMF related liabilities	35,511	-	-	-	-	35,511
Provisions and other liabilities	507,753	5,839,725	-	-	-	6,347,478
	92,487,578	18,370,767	-	256,583	132,442,418	243,557,346
Net liquidity gap						
As at 30 Hoot 1389 (20 March 2011)	(75,712,819)	49,078,919	115,381,760	(256,583)	(132,442,418)	(43,951,141)
Cumulative gap						
	(75,712,819)	(26,633,900)	88,747,860	88,491,277	(43,951,141)	

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Distribution of Assets, Liabilities, Contingent Liabilities and Commitments

The distribution of assets, liabilities and off-balance sheet items by geographic regions as at 29 Hoot 1390 (19 March 2012) are as follows:

	(Afs '000')			
	Assets	Liabilities	Net Value of Assets (Liabilities)	Contingent Liabilities and Commitments
Afghanistan	133,972,151	305,660,349	(171,688,198)	-
Asia	68,174,654	-	68,174,654	-
Europe	57,633,604	-	57,633,604	-
America	100,988,193	-	100,988,193	-
	360,768,602	305,660,349	55,108,252	-

The distribution of assets, liabilities and off-balance sheet items by geographic regions as at 29 Hoot 1389 (20 March 2011) are as follows:

	(Afs '000')			
	Assets	Liabilities	Net Value of Assets (Liabilities)	Contingent Liabilities and Commitments
Afghanistan	34,354,601	246,755,813	(212,401,212)	-
Asia	32,987,388	-	32,987,388	-
Europe	92,207,589	-	92,207,589	-
America	100,988,193	-	100,988,193	-
	260,537,771	246,755,813	13,781,958	-

32.3 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.

32.4 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 29 Hoot 1390 (19 March 2012)	Interest bearing					Non-interest bearing	Total
	Interest rates (p.a)	1-3 months	3 month to 1 year	1-5 years	Over 5 years		
Afs ('000')							
Assets							
Foreign currency cash reserve	N.A	-	-	-	-	15,830,736	15,830,736
Due from banks and financial institutions	0.15% to 2.45%	83,668,295	85,200,561	-	-	3,915,602	172,784,458
Investments	0.0738% to 2.75%	10,701,827	51,474,059	-	-	-	62,175,886
Assistance as lender of last resort	2%	524,523	1,240,959	25,463,251	7,029,686	-	34,258,418
Advances and other receivables	N.A	-	-	-	-	854,924	854,924
		94,894,645	137,915,579	25,463,251	7,029,686	20,601,262	285,904,422
Liabilities							
Currency in circulation	N.A	-	-	-	-	148,055,800	148,055,800
Capital notes	2.03% to 3.3%	8,119,129	22,630,770	-	-	-	30,749,899
Due to banks and financial institutions	1.05% to 1.60%	38,323,928	-	-	-	-	38,323,928
Due to customers	N.A	-	-	-	-	78,734,393	78,734,393
IMF related liabilities	N.A	-	-	-	-	32,268	32,268
Provisions and other liabilities	N.A	-	-	-	-	7,930,306	7,930,306
		46,443,057	22,630,770	-	-	234,752,767	303,826,594
On balance sheet interest sensitivity gap							
		48,451,588	115,284,809	25,463,251	7,029,686	(214,151,506)	(17,922,173)
Cumulative gap							
		48,451,588	163,736,397	189,199,647	196,229,333	(17,922,173)	

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	Interest rates (p.a)	Interest bearing				Non-interest bearing	Total
		1-3 months	3 month to 1	1-5 years	Over 5 years		
As at 30 Hoot 1389 (20 March 2011)							
Assets							
Foreign currency cash reserve	N.A	-	-	-	-	8,683,520	8,683,520
Due from banks and financial institutions	0.15% to 1.85%	57,344,095	68,649,142	-	-	5,800,642	131,793,879
Investments	0.28% to 2.75%	10,105,591	46,732,618	-	-	-	56,838,209
Advances and other receivables	0.10% to 1.70%	-	-	-	-	(15,817,653)	(15,817,653)
		67,449,686	115,381,760	-	-	(1,333,491)	181,497,955
Liabilities							
Currency in circulation	N.A	-	-	-	-	132,442,418	132,442,418
Capital notes	2.35% to 3.44%	3,473,075	12,499,465	-	-	-	15,972,540
Due to banks and financial institutions	0.10% to 5.90%	26,919,336	-	-	-	-	26,919,336
Due to customers	N.A	-	-	-	-	61,840,063	61,840,063
IMF related liabilities	N.A	-	-	-	-	35,511	35,511
Provisions and other liabilities	N.A	5,839,725	-	-	-	507,753	6,347,478
		36,232,136	12,499,465	-	-	194,825,745	243,557,346
On balance sheet interest sensitivity gap							
		31,217,550	102,882,295	-	-	(196,159,236)	(62,059,391)
Cumulative gap							
		31,217,550	134,099,845	134,099,845	134,099,845	(62,059,391)	

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Average interest rates applied during the year

The average interest rates for assets and liabilities of the Bank applied during the year ended 29 Hoot 1390 (20 March 2012) are as follows:

	USD %	EUR %	GBP %	AFS %
Assets				
Due from banks and financial institutions				
Investments	0.50	1.18	0.81	-
Liabilities				
Capital notes	1.17	-	0.38	-
Due to banks and financial institutions	-	-	-	2.76
	-	-	-	1.21

The average interest rates for assets and liabilities of the Bank applied during the year ended 30 Hoot 1389 (20 March 2011) are as follows:

	USD %	EUR %	GBP %	AFS %
Assets				
Due from banks and financial institutions				
Investments	0.80	1.55	1.03	-
Liabilities	1.57	-	0.49	-
Capital notes	-	-	-	4.69
Due to banks and financial institutions	-	-	-	3.00

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 29 Hoot 1390 (19 March 2012)

	Interest rate sensitivity by time band		
	Size of periodic gap	Basis point change	Impact on net interest income/equity
Gain/(loss) per basis point			
1-3 months	48,451,588	1	484,516
3 month to 1 year	163,736,397	1	1,637,363
1-5 years	-	1	-
Over 5 years	-	1	-
Total	212,187,985		2,121,879
As a percentage of net interest income			153.24%
As a percentage of equity			3.85%
			(2,121,879)
			-153.24%
			-3.85%

Interest rate sensitivity analysis

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

As at 30 Hoot 1389 (20 March 2011)

	Interest rate sensitivity by time band		
	Size of periodic gap	Basis point change	Impact on net interest income/equity
Gain/(loss) per basis point			
1-3 months	31,217,550	1	312,176
3 month to 1 year	102,882,295	1	1,028,822
1-5 years	-	1	-
Over 5 years	-	1	-
Total	134,099,845		1,340,998
As a percentage of net interest income			200.44%
As a percentage of equity			9.73%
			(1,340,998)
			-200.44%
			-9.73%

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32.5 Currency risk

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

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

Foreign currency financial assets and liabilities

As at 29 Hoot 1390 (19 March 2012)

	USD	Euro	GBP	Irian Toman	PKR	Others	Total
(Afs '000')							
Financial assets							
Cash on hand - foreign currencies	15,117,042	712,305	736	194	460	-	15,830,736
Due from banks and financial institutions	114,285,008	31,333,562	26,746,242	-	418,489	1,157	172,784,458
Investments	51,474,059	-	10,701,827	-	-	-	62,175,886
Assistance as lender of last resort	-	-	-	-	-	34,258,418	34,258,418
Advances and other receivables	-	-	-	-	-	2,335,100	2,335,100
	180,876,109	32,045,867	37,448,804	194	418,949	36,594,675	287,384,598
Financial liabilities							
Currency in circulation	-	-	-	-	-	148,055,800	148,055,800
Capital notes	-	-	-	-	-	30,749,899	30,749,899
Due to banks and financial institutions	10,443,838	739,742	553	-	17,031	27,122,769	38,323,933
Due to customers	49,749,349	1,984,654	3,019	-	62,817	29,755,867	81,555,705
IMF related liabilities	-	-	-	-	-	32,268	32,268
Provisions and other liabilities	7,474,343	155,738	-	-	-	206,871	7,836,952
	67,667,529	2,880,134	3,572	-	79,848	235,923,474	306,554,557
Net foreign currency exposure	113,208,580	29,165,732	37,445,233	194	339,101	(199,328,799)	(19,169,959)

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Notes to the financial statements
For the year ended 29 Hoot 1390 (19 March 2012)

As at 30 Hoot 1389 (20 March 2011)

	USD	Euro	GBP	Iran Toman	PKR	Others	Total
	(Afs '000')						
Financial assets							
Cash on hand - foreign currencies	7,446,096	1,236,074	-	924	426	-	8,683,520
Due from banks and financial institutions	74,896,961	30,989,491	25,326,326	-	224,105	356,996	131,793,879
Investments	46,732,618	-	10,105,591	-	-	-	56,838,209
Advances and other receivables	-	-	-	-	-	2,290,597	2,290,597
	129,075,675	32,225,565	35,431,917	924	224,531	2,647,593	199,606,205
Financial liabilities							
Currency in circulation	-	-	-	-	-	132,442,418	132,442,418
Capital notes	-	-	-	-	-	15,972,540	15,972,540
Due to banks and financial institutions	7,889,965	447,055	501	-	16,705	18,565,110	26,919,336
Due to customers	41,129,053	2,384,181	2,850	899	62,681	18,260,399	61,840,063
IMF related liabilities	-	-	-	-	-	35,511	35,511
Provisions and other liabilities	3,781,968	522,963	-	-	-	2,042,547	6,347,478
	52,800,986	3,354,199	3,351	899	79,386	187,318,525	243,557,346
Net foreign currency exposure							
	76,274,689	28,871,366	35,428,566	25	145,145	(184,670,932)	(43,951,141)

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

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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 19 March 2012 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 29 Hoot 1390 (19 March 2012)	USD	Euro	GBP	Irani Toman	PKR	Others	Total
Effect of 1% increase in exchange rate	(Afs '000')						
Financial assets							
Cash on hand - foreign currencies	(151,170)	(7,123)	(7)	(2)	(5)	-	(158,307)
Due from banks and financial institutions	(1,142,850)	(313,336)	(267,462)	-	(4,185)	-	(1,727,833)
Investments	(514,741)	-	(107,018)	-	-	-	(621,759)
Losses from financial assets	(1,808,761)	(320,459)	(374,488)	(2)	(4,189)	-	(2,507,899)
Financial liabilities							
Due to banks and financial institutions	104,438	7,397	6	-	170	-	112,013
Due to customers	497,493	19,847	30	-	628	-	517,999
Provisions and other liabilities	74,743	1,557	-	-	-	-	76,302
Gains from financial liabilities	676,676	28,802	36	-	798	-	706,314
Net-unrealised gains/(losses) on foreign currency	(1,132,085)	(291,656)	(374,452)	(2)	(3,391)	-	(1,801,585)

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As at 30 Hoot 1389 (20 March 2011)

	USD	Euro	GBP	Irian Toman	PKR	Others	Total
(Afs '000')							
Effect of 1% increase in exchange rates							
Financial assets							
Cash on hand - foreign currencies	(74,461)	(12,361)	-	(9)	(4)	-	(86,835)
Due from banks and financial institutions	(748,970)	(309,895)	(253,263)	-	(2,241)	-	(1,314,369)
Investments	(467,326)	-	(101,056)	-	-	-	(568,382)
Losses from financial assets	(1,290,757)	(322,256)	(354,319)	(9)	(2,245)	-	(1,969,586)
Financial liabilities							
Currency in circulation	-	-	-	-	-	-	-
Capital notes	-	-	-	-	-	-	-
Due to banks and financial institutions	78,900	4,471	5	-	167	-	83,543
Due to customers	411,291	23,842	29	9	627	-	435,798
Provisions and other liabilities	37,820	5,230	-	-	-	-	43,050
Gains from financial liabilities	528,011	33,543	34	9	794	-	562,391
Net un-realised (losses)/gains on foreign currency	(762,746)	(288,713)	(354,286)	(0)	(1,451)	-	(1,407,195)

32.5.2 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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32.6 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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Notes to the financial statements
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33. 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.

34. 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) Issue letters of credit on behalf of government, governmental organisation and enterprises;
- (c) The Bank does not ordinarily collect any commission, fees or other charges for the services which it renders to the government; and
- (d) As the agent of the government manages the foreign reserves.

The Bank issued no advance in year 1390 (1389: Nil) to the government and governmental organizations and is prohibited from providing such loans and advances by the DAB law.

Refer Note 9.1 for details regarding the Bank's agreement with MoF carried out during the year.

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Notes to the financial statements
For the year ended 29 Hoot 1390 (19 March 2012)

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

	1390 (Afs '000')	1389 (Afs '000')
General government accounts	60,650,177	54,968,186
Other government owned entities	17,050,480	10,910,476
	<u>77,700,657</u>	<u>65,878,662</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 M. Mehrabi, the member of the Supreme Council and the Chairman of the Audit Committee
H.E Dr. Ghani Ghousi, member of the Supreme Council
H.E Ghulam Farooq Achikzad, member of the Supreme Council
H.E Miss Narges Nehan
H.E Mr. Moh. Yasin Osmani

Remuneration to the members of the Council and Key Managerial Personnel

The members of the Supreme Council received remuneration totaling Afs 600 thousand (1389: Afs 750 thousand). Key Managerial personnel received salary and related expenses totaling Afs 7,848 thousand (1389: Afs 7,830 thousand).

In addition to the salary, the Governor of the Bank received Afs 642 thousand as other benefits (1389: Afs 844 thousand).

Other transactions with related parties are mentioned in the relevant notes to the financial statements.


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Notes to the financial statements
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35. 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.

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Ahmed Monir Navied
(Acting Chief Financial Officer)
02.08.12


Khan Afzal Hadawal
(First Deputy Governor)


Noorullah Delawari
(Governor)