



# Annual Report 2018











# Annual Report 2018


 [info@dab.gov.af](mailto:info@dab.gov.af)

 0093 0202104761

 Da Afghanistan Bank-Youtube

 Da Afghanistan Bank-Google+

 [www.facebook.com/AFGCentralbank](https://www.facebook.com/AFGCentralbank)

 [twitter.com/AFGCentralbank](https://twitter.com/AFGCentralbank)

Web: [www.dab.gov.af](http://www.dab.gov.af)

## Contents

<b>Message from the Acting and First Deputy Governor</b>	<b>A</b>
<b>1- World Economic Situation</b>	<b>1</b>
• Developed Economies	1
• Emerging Economies	1
<b>2- Overview of Afghanistan's Economic Environment and Monetary Policy Performance</b>	<b>5</b>
• Economic Developments in Afghanistan	5
• Real Sector	5
• Economic Boom	5
• Monetary Inflation	5
• Current Account	6
• Commodity Value	6
• Initial Income Account	6
• Secondary Income Account	7
• Net Remittances Account	7
• BOP Capital Account	7
• BOP Financial Account	7
• Direct Investment	8
• Indirect Investment	8
• Monetary Sector Developments	8
• Liquidity (Reserve Money and Currency in Circulation)	8
• Da Afghanistan Bank's Net International Reserves	8
• Exchange Rate of Afghani vs. USD	9
• Da Afghanistan Bank	9
• Monetary Policy Implementation	9
• Currency Auction	9
• Capital Notes Auction (Interest Offer)	10
• Financial Sector Developments	10
<b>3- Analysis of Banking Sector Situation and Performance</b>	<b>15</b>
• Overview	15
• 1. Total Assets	16
• Total Assets Trend	17
• Total Loans	17
• Monthly Development	18
• 2. Total Deposits	20
• 2.1 Total Deposits: Monthly Development	21
• 3. Total Capital	21
• Profitability	21
• 4.1 Monthly Profit	21
• 4.2 Aggregate Profitability of Banking Sector (FY 1397)	22
• 5. Liquidity	22
• 6. Open Currency Position	22

<b>4- Payments Department</b>	25
• 1. Operations Unit	25
• SWIFT (International Payments)	25
• Interbank Payments (ACSS)	25
• Inter-Branches Payments	25
• Checks Settlement and Clearance	26
• 2. Plan and Policy Development	26
• ATS Project	27
• Key ATS Project Performances	27
<b>5- Market Operation</b>	31
• Currency Reserves	31
• Letters of Credit	31
• Capital Note Auction	31
• Currency Auction	33
<b>6- Public Credit Registry Department</b>	37
• Public Credit Registry	37
• Business Development Section	39
• Functional Expansion to Cover Relevant Departments	39
• IT Section	39
• Legal Counsel	39
<b>7- Afghan Deposits Insurance Company (ADIC)</b>	43
• ADIC Financial Resources	43
• Commercial Banks that Joined ADIC Membership in FY 1397	43
• Premium Amount Collected in FY 1397	43
• ADIC Investment, FY 1397	44
<b>8- Financial Transactions and Reports Analysis Center of Afghanistan</b>	47
<b>9- Budget and Financial Statement</b>	51
• Revenue	51
• Expenditures	52
• Prudential-Operating Costs and Unexpected/Contingent Incidents Costs	52
• Fixtures and Equipment Costs and Development-Construction Costs	52
• Financial Statements	53
<b>10- Banking Operation Department</b>	61
• A. Cash and Non-Cash Transaction Management	61
• B. Administration and Development	61
<b>11- Administration and Development</b>	67
• Comptroller General Office	67
• Governor's Office Department	68
• Legal Counsel	70
• Human Resources Department	70
• Information Technology Department	73
• Financial Inclusion Department	75
• Financial Sector Strengthening Project (FSSP)	75

## List of Figure

Figure 1: Gross Domestic Products trend .....	5
Figure 2: Annual Consumer Price Index, (Qaws 1396 – Qaws 1397) .....	6
Figure 3: Trade balance comparison of FY 1397 to FY 1396 .....	7
Figure 4: RM and CiC real and target figures for FY 1397.....	8
Figure 5: Afghani/USD exchange rate .....	9
Figure 6: MSP and FX dealers’ development trend .....	16
Figure 7 & 8 Total asset trend and the banking group’s share in total assets of banking sector, 1388 – Qaws 1397....	17
Table 9: All commercial banks and foreign branch banks’ assets by percentage .....	17
Figure 10: Development of total loans in the banking sector .....	18
Figure 11: Ratio of nonperforming loans to total gross loans .....	19
Figure 12: Total deposits and loans .....	20
Figure 13: Trend of total deposits over the past 36 months .....	21
Figure 14: Total banking sector capital, Hoot 1388 – Qaws 1397.....	21
Figure 15: Profit/loss of banking sector by state-owned, private and foreign branch banks .....	22
Figure 16: Outward and inward international payments, FY 1397.....	25
Figure 17: Amount transacted through interbank payments, FY 1397.....	25
Figure 18: Inter-branches processed amounts, ASYCUDA and Telegram, FY 1397 (figure in AF).....	26
Figure 19: Amounts of clearing house in FY 1397 (figure in Afghani) .....	26
Figure 20: Total demanded and auctioned amount, FY 1397.....	32
Figure 21: Capital Note interest rate and overnight deposits, FY 1397.....	32
Figure 22: Outstanding Capital Notes, FY 1397 .....	32
Figure 23: Cost of interest of capital notes and overnight deposits, FY 1397.....	32
Figure 24: Premium collected on quarterly basis in FY 1397.....	44
Figure 25: Compares premium collection between 1396 and 1397.....	44
Figure 26: Increase/decrease in real and approved budget .....	51
Figure 27: Approved and real revenue components during FY 1397 (in percentage) .....	52
Figure 28: Approved and real expenditures in FY 1397.....	52
Figure 29: Costs of fixtures and equipments and development-construction costs .....	53
Figure 30: Audited and unaudited sites.....	67
Figure 31: Sites under follow-up .....	68



## List of Tables

Table 1: Gross Domestic Product .....	5
Table 2: Annual headline inflation rate .....	6
Table 3: Current Account balance (in million USD) .....	7
Table 4: Financial and capital accounts balance (in million USD) .....	8
Table 5: Developments in monetary indicators and international reserves .....	9
Table 6: Proposed, realized and approved budget for FY 1397 .....	10
Tables 7 & 8: Number of branches and other banking facilities in the country .....	16
Table 9: Explain all commercial banks and foreign branch banks' assets by percentage .....	17
Table 10: Total banking sector loan classification (figures in million Afghani) .....	18
Table 11: Small and medium loans (figures in million Afghani) .....	19
Table 12: Total gross loan by banks, Qaws 1397 .....	19
Table 13: Loan distribution by provinces (geographically) .....	19
Table 14: Sector-wise loan distribution, Qaws 1397 .....	19
Table 15: Details on MISFA partners in the country by number of institutions in capital Kabul, provinces and zones .....	20
Table 16: Deposit composition in Qaws 1397 .....	21
Table 17: Quantity of employees, borrowers, depositors and other bank clients .....	22
Table 18: Total mandatory reserves of commercial banks at the end of FY 1397 .....	33
Table 19: Total revenues collected by Public Credit Registry .....	40
Table 20: Financial resources of ADIC .....	43
Table 21: List of banks paying premium to ADIC .....	43
Table 22: Total premium received from commercial bank accounts in FY 1397 .....	43
Table 23: Quantity and amount of Afghani and FX transactions by government, banks and other organizations .....	62
Table 24: Average percentage of ministerial/organizational work progress according to budget, FY 1397 .....	76

## Message from the Acting and First Deputy Governor

On behalf of the executive board of Da Afghanistan Bank, I'm pleased to present this annual report. Besides covering economic environment and monetary conditions, this report reflects the performances and trend of monetary policy, market operations, payments, banking system performances and other relevant areas.

Da Afghanistan Bank has been successful in providing detailed and accurate figures and data on the bank's policies and activities in the banking context for interested institutions and individuals and has delivered highlights on the bank and banking sector's operations to people, students, academic society and other stakeholders in a variety of publications.

Fortunately, FY 1397 was marked successful for Da Afghanistan Bank in terms of monetary inflation control and accumulation of foreign currency reserves.

Afghanistan's monetary inflation rate fluctuated between 4.30 percent and -1.63 percent in FY 1397, ending up at 0.75 percent in Qaws 1397, however, it was recorded 3.08 percent in preceding year.

Afghanistan's net FX reserve stood at USD 7,350.34 million at the end of FY 1396 which rose to USD 7,708.58 million at 30 Qaws 1397, indicating a significant increase of USD 358.25 million from the outset of year through end period.

In FY 1397, Afghanistan's economy grew to 2.7 percent which is lower than a year ago. Low rain-falls is seen as a major factor for the lackluster economic growth this year as important compo-

nents of agriculture reveal remarkable decline in production as compared to other sectors.

As main funding source of banks, deposits are comprised of client and interbank deposits. Total deposits amount to AF 273.33 billion in Qaws 1397, representing 1.12 percent increase compared to a year earlier. Deposits have increased due mainly to the appreciation of USD against Afghani.

On cumulative basis, the banking sector has enjoyed profit in FY 1397. It has earned a net amount of AF 2.46 billion (USD 32.69 million), while this figure was AF 1.77 billion in FY 1396.

It is to mention that Da Afghanistan Bank has achieved optimum operational results in other areas such as FinTRACA, deposit insurance, public credit registry and administrative affairs for which I would like to thank all the bank employees for their indefatigable efforts towards achieving all these and wish them further success in all spheres of their life.

**Wahidullah Noshier**

**The Acting and First Deputy Governor, Da Afghanistan Bank**





## **World Economic Situation**





## World Economic Situation

### Summary

Global economic growth slightly declined in FY 1397. The World Bank report reveals that despite improved manufacturing sector performance, world economy has slumped due to underperformance of trade sector. Although talks are still underway among major economies on international trade, tensions remain unresolved. The tensions are compounded by concerns over potential world economic downturn causing decline in international commodity price. Loan interest has jumped up in emerging and developing economies thanks to continued imbalanced policies across different advanced economies. Moreover, energy price suffered severe fluctuation owing to production cut in late FY 1397.

Economic performance greatly varies across advanced economies as USA has experienced positive changes while EU has undergone somewhat collapse. In all, advanced countries have seen 2.2 percent economic slowdown in period under discussion.

The economic growth of emerging economies also slightly decreased standing at 4.2 percent that is 0.3 percent lower than anticipated figure which is mainly caused by economic downturn in some emerging economies.

### Developed Economies

As told above, the economic growth in developed economies is reported differently. The USA economy grew by 2.9 percent in FY 1397 which was recorded 2.2 percent in preceding year. It increased due to positive contribution of private consumption, nonresident fixed investment, exports, investment on private sector consumer goods and federal state expenditures. Anyway, cut in local government expenditures and resident fixed investments have impacted the economy

negatively. In addition, inflation rate has increased from 1.9 percent to 2.1 percent.

British economy grew by 1.4 percent which is a record low figure since financial crisis in 2008. Services sector has put favorable effects on economic growth in Britain, while the poor performances of manufacturing and construction sectors have undercut this positive development. Based on consumption method, the GDP indicates the performance of private and state expenditures as better whereas investment and foreign trade has had weak performance.

Germany's economic growth rate was 1.5 percent which is the lowest in five years. As per German Statistical Bureau's data, imports have increased in FY 1397 while exports declined. The data further reveals that household costs have diminished, even as investment on machineries, equipments and construction has taken surge. The trade decrease is mainly attributed to reduced car production.

### Emerging Economies

Emerging economies have experienced somewhat decline in economic growth.

Chinese economy grew by 6.6 percent in FY 1397, the lowest development since 1990. In Q4 1397, economy grew by 6.4 percent, falling below 6.5 percent in Q3 when measured on annual basis. Chinese foreign trade has had lackluster performance due to trade tensions with USA and other factors that have struck Chinese products and caused a slowdown in its economy.

India's economic growth increased by 7.2 percent in FY 1397, estimated at 6.7 percent last year. Agriculture, forestation and fishing have increased from 3.4 percent to 3.8 percent. Additionally, the manufacturing sector growth is expected to reach 8.3 percent which was estimated at 5.7 percent

last year. On the other hand, mine sector dropped from 2.9 percent to 0.8 percent and services sector fell from 8 percent to 6.9 percent.

Turkey's economy slowed down in FY 1397 and according to data from Turkish Institute for Statistics, its GDP declined significantly to 2.6, from 7.4 percent last year. In a row, agriculture sector, industry sector and construction sector each grew by 1.3 percent, 1.1 percent and 1.9 percent respectively. Lira's exchange rate has depreciated and monetary inflation has reached to climax in 15 years.

**References:**

World Bank Publication "Global Economic Prospects", June 2019

**Other References**

[www.bea.gov](http://www.bea.gov)

[www.ons.gov.au](http://www.ons.gov.au)

[www.destatis.de](http://www.destatis.de)

[www.stats.gov.cn](http://www.stats.gov.cn)

[www.turkstat.gov.tr](http://www.turkstat.gov.tr)

[www.tradingeconomics.com](http://www.tradingeconomics.com)

A large, teal-colored decorative shape on the left side of the page, resembling a stylized arrow or a wedge pointing towards the right. It has a white outline and a slight shadow effect.

# **Overview of Afghanistan's Economic Environment and Monetary Policy Performance**



## Overview of Afghanistan's Economic Environment and Monetary Policy Performance

### Economic Developments in Afghanistan

#### Real Sector

##### Economic Boom:

Afghanistan's GDP is comprised of agriculture, industry and services sectors. The economic growth in FY 1397 is recorded at 2.7 percent, representing decrease over the past year. Little rainfalls in this period is the main reason for weaker economic development as many agriculture sector components have recorded significant decline in production which has negatively impacted GDP growth more than other sectors.

Industrial sector performance in the year 1397 was significant as the sector grew from 0.9 percent in FY 1396 to 7.6 percent in the period under review. However, certain components of this sector has experienced downward trend.

Services sector has decreased to 1.2 percent in this period. Although it is a modest decline, considering its large share in overall index it may put considerable impact on economic development rate.

Agriculture sector excluding narcotics has gone through decreasing trend in FY 1397, while profitability in this sector is waning, suggesting that the sector is vulnerable to weakened agricultural performance.

Even though drought has caused economic stagnation and dysfunction, the industrial sector grew to 7.6 percent in FY 1397. This increase is mainly driven by improvement in manufacturing industries from 0.7 percent to 1.5 percent, non-metal minerals from -8.9 percent to -1.8 percent and construction from 0.4 percent to 12.6 percent.

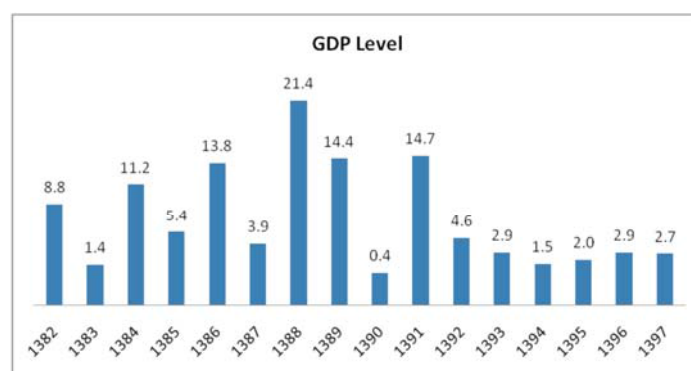
As mentioned earlier, unfavorable weather has weakened agricultural activities which casted shadow over services sector and caused partial

decline in the sector. According to National Statistics and Information Authority's data, services sector's growth level has dropped to 1.2 percent in FY 1397 which stood at 3.3 percent in the preceding year. The services sector suffered weak performance due to dysfunctional whole and retail trading and hotels and restaurants that dropped to 1.7 percent from 12.9 percent, transport and reserves to -1.3 percent from 1.3 percent, telecommunication to 1.3 percent from 5.2 percent, property dealing and trading services to 0.3 percent from 2.2 percent, private and social public services to -0.4 percent from 0.01 percent and other services to -19.0 percent from 9.4 percent.

Table ( 1 ) explain Gross Domestic Product

Gross Domestic Products		
Years	1397	1396
GDP	2.7	2.9
Agriculture	-0.9	3.8
Industry	7.6	0.9
Services	1.8	2.6

Figure (1) depicts Gross Domestic Products trend.



#### Monetary Inflation:

Afghanistan's monetary inflation rate remained at a desirable level in FY 1397. Despite undergoing



fluctuations, DAB has managed to curb inflation rate successfully in the year under review. This year inflation rate has hovered between 4.30 percent and -1.63 percent that hit 0.75 percent in Qaws 1397 as compared to 3.08 percent in preceding year.

Headline inflation rate fell in FY 1397 compared with FY 1396 due to decrease in food price index. Food index reaches to -0.30 percent in Qaws 1397, while it recorded 4.55 percent in Qaws 1396. On the other hand, non-food inflation standing at 1.72 percent in Qaws 1396 has increased to 1.76 percent at the end of 1397. For careful study of

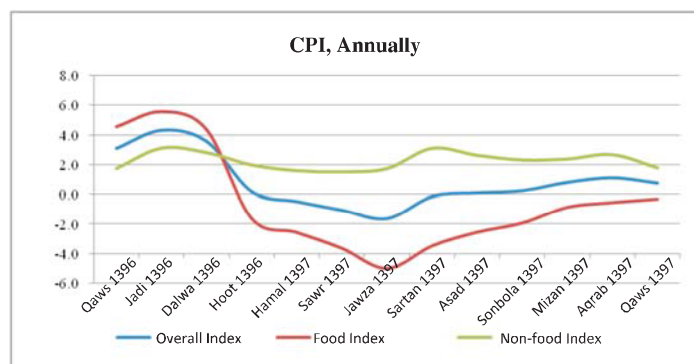
inflationary developments in the country, DAB considers core inflation benchmark. Based on this measure, rare factors that may have arisen out of seasonal changes or particular circumstances are driven out of index to avoid its effect on overall index.

One of the key core inflation tools is Trimmed Mean. It constitutes a specific component of index (70%) showing normal developments. According to this measure, inflation rate has reached to 1.93 percent in reporting period from 2.01 percent in previous year's end period.

Table 2: Annual Headline inflation rate

Items	Qaws 1396	Jadi 1396	Dalwa 1396	Hoot 1397	Hamal 1397	Sawr 1397	Jawza 1397	Sartan 1397	Asad 1397	Sonbola 1397	Mizan 1397	Aqrab 1397	Qaws 1397
Overall Index	3.08	4.30	3.56	0.18	-0.47	-1.05	-1.63	-0.14	0.09	0.27	0.80	1.11	0.75
Food Index	4.55	5.57	4.36	-1.62	-2.56	-3.63	-5.00	-3.47	-2.55	-1.93	-0.85	-0.53	-0.30
Non-food Index	1.72	3.72	2.81	1.96	1.57	1.49	1.71	3.11	2.63	2.30	2.37	2.67	1.76
Trimmed Mean (30%)	2.01	2.69	2.36	0.89	0.92	0.91	0.16	1.23	1.40	1.40	1.72	1.48	1.93

Figure ( 2 ) Consumer Price Index, Annually (Qaws 1396 – Qaws 1397)



### Current Account

On aggregate basis, Afghanistan's current account deficit recorded USD 4055.78 million in FY 1397 as compared to USD 4145.23 million in FY 1396, representing 2 percent decrease over the preceding period. Balance-of-payment current account's deficit decreased, on the one hand, due to rise in

exports and drop in imports and, on the other hand, augment of service revenues such as income from construction, telecommunication and transport as well as increased initial revenues (investment revenues).

### Commodity Value

The aggregate value of exports reaches to USD 875.24 million in FY 1397 as compared to USD 783.96 million in previous year, showing an increase of 12 percent in the period. Meanwhile, total worth of imports amounts to USD 6899.80 million in FY 1397 as compared to USD 7023.80 million in FY 1396, indicating 2 percent decrease in the period under view.

### Service Account

Service account deficit represent 30 percent decrease compared to preceding period. Service account deficit was recorded USD 48.515 million in

period under review, while this figure was USD 737.28 million in previous year.

Service account deficit is influenced as result of three receipts, which are:

- Construction service receipts that rose to USD 91.54 million in FY 1397 from USD 39.22 million in previous year.
- Transport service receipts that increased to USD 56 million in FY 1397, from USD 38 million in previous year.
- Telecommunication service receipts that climbed to USD 70 million in FY 1397, from USD 57 million in preceding period.

In total, trade balance deficit (export and import of goods and services) dropped slightly to USD 6540.05 million in FY 1397 from USD 6977.11 million in previous period, representing 6 percent decrease in the period under review.

#### Initial Income Account

Net initial revenues increased from USD 153.45

million in previous year to USD 221.69 million in FY 1397 that reveal a significant rise of 44 percent in the reporting period.

#### Secondary Income Account

Totally, secondary income (grants and foreign worker remittances) recorded USD 2262 million in FY 1397 as compared to USD 2678 million in preceding period, showing 16 percent decrease in the period.

#### Current Transfers Account (Grants)

Net current transfers to Afghan government has dropped by 17 percent, standing at USD 1768 million in FY 1397 compared to USD 2105 million in previous year.

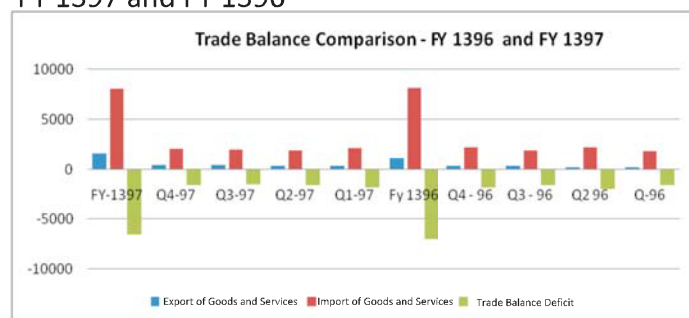
#### Net Remittances Account

Inflow of foreign worker remittances has increased by 42 percent, standing at USD 381 million in FY 1397 compared to USD 268 million in previous period.

Table ( 3 ) explain current account balance (in million USD)

Items/Period	Q1 1396	Q2 1396	Q3 1396	Q4 1396	FY 1396	Q1 1397	Q2 1397	Q3 1397	Q4 1397	FY 1397
Export of Goods and Services	213.7	230.54	334.67	368.78	1147.7	320.49	364.21	438.04	437.41	1,560.16
Import of Goods and Services	1,821.27	2,212.36	1,908.09	2,183.09	8,124.81	2,155.06	1,925.07	1,981.21	2,038.87	8,100.2
Trade Balance Deficit	-1,607.57	-1,981.82	-1,573.42	-1,814.31	-6,977.11	-1,834.57	-1 560.86	-1 543.17	-1 601.46	-6 540.04
Net Initial Income	19.02	36.24	21.39	76.8	153.45	24.83	54	98.54	44.32	221.69
Net Secondary Income	533.11	515.3	807.83	822.18	2678.43	542.67	664.46	554.74	500.71	2262.57
Current Account Deficit	-1,055.4	-1,430.3	-744.2	-915.33	-4,145.2	-1,267.1	-842.4	-889.89	-1,056.4	-4,055.8

Figure ( 3 ) depicts trade balance comparison in FY 1397 and FY 1396



Source: Monetary Policy Department, Da Afghanistan Bank

#### BOP Capital Account

BOP capital account that include capital transfers, stands at USD 1404 million in FY 1397 as compared to USD 1790 million in preceding period, representing 22 percent decline in the period under review.

#### BOP Financial Account

BOP net financial account that include direct and indirect investments, other investments and reserve assets, stands at USD 413 million in FY 1397 as compared to USD 453 million in previous year,

revealing 9 percent decrease in the reporting period.

### Direct Investment

Foreign direct investments in country have diminished from USD -10 million in FY 1396 to USD -23 million in FY 1397. Afghan direct investments in foreign countries has increased jumping from USD 51 million in FY 1396 to USD 115 million in FY

1397.

### Indirect Investment

Indirect investment (investment in bonds) has climbed from USD 29 million in preceding period to USD 23 million in reporting period.

Table ( 4 ) explains financial and capital accounts balance (in million USD)

Items/Period	Q1 1396	Q2 1396	Q3 1396	Q4 1396	FY 1396	Q1 1397	Q2 1397	Q3 1397	Q4 1397	FY 1397
Financial and Capital Accounts	186.20	454.67	327.92	368.62	1337.4	16.8	226.09	276.57	471.3	990.75
Capital Account	237.56	428.2	555.72	569.29	1790.8	62.89	221.38	478.72	641.53	1404.5
Capital Transfers	237.56	428.2	555.72	569.29	1790.8	62.89	221.38	478.72	641.53	1404.5
Financial Account	51.36	-26.46	227.8	200.68	453.38	46.09	-4.7	202.16	170.23	413.78
Direct Investment	-11.16	-20.44	-16.98	-13.73	-62.33	-31.58	-40.85	-36.74	-29.85	-139.02
Indirect Investment	36.62	-30.15	-11.57	-24.01	-29.11	-54.02	18.22	24.37	34.94	23.51

Source: Monetary Policy Department, Da Afghanistan Bank

### Monetary Sector Developments

#### Liquidity (Reserve Money and Currency in Circulation)

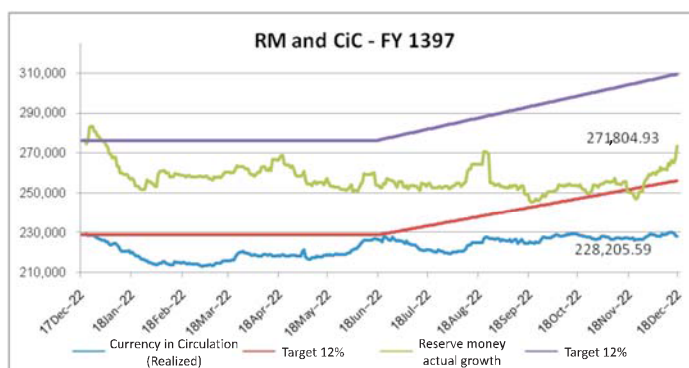
Considering national economic conditions and within basic and effective channels of demand for money, monetary policy department devises state fiscal agenda (budgetary revenues and expenditures), economic development outlook, domestic price level and central bank's monetary policy plan.

Monetary policy department has, therefore, adopted RM and CiC as indicators and quantitative targets and has projected its growth at 12 percent in its monetary policy plan for FY 1397 and official agreement with IMF.

In the beginning of FY 1397, RM was recorded AF 276,318.05 million whereas its growth was below the target along the year in review. The target for RM was AF 309,476.22 million as at 30 Qaws 1397, while the real RM was recorded 271,804.93 million, which is below the target at a margin of AF 37,671.29 million, representing a decline of -1.63 over the beginning of 1397.

Meanwhile, currency in circulation (CiC) which was AF 228,685.19 million in the beginning of FY 1397, fell to AF 228,205.95 million at 30 Qaws 1397, while the target figure was AF 256,127.41 million, which reveal a margin of AF 27,921.83 million below from the ceiling, representing a decline of -0.21 over the beginning of FY 1397.

Figure ( 4 ) depicts RM and CiC real and target figures for FY 1397



### Da Afghanistan Bank's Net International Reserves

In recent years, accumulation of DAB's currency reserves which is among fundamental indicators of national economy is seen as a major achievement for country's financial system. There is no

doubt that the level of these reserves and how they increase directly influence the better implementation of monetary policies as well as control of indicators such as Afghani exchange rate, money inflation, continued stability and stable balance of payments. Afghanistan's net international reserves which was recorded at approximately USD 7,350.34 million at the end of FY 1396, has soared to USD 7,708.58 million in 30 Qaws 1397, showing USD 358.25 million increase throughout FY 1397.

Table ( 5 ) developments in monetary indicators and international reserves

Monetary Indicators and International Reserves			
	30 Qaws 1396	30 Qaws 1397	Changed to Percentage
Afghani vs. USD	69.49	74.96	-7.30
Reserve Money in million Afghani	276,318.05	271,804.93	-1.63
Currency in Circulation in million Afghani	228,685.19	228,205.58	-0.21
Total International Reserves in million USD	7,350.33	7,708.58	4.87

Source: Monetary Policy Department, Da Afghanistan Bank

### Exchange Rate of Afghani vs. USD

Even as Da Afghanistan Bank doesn't target the exchange rate, it carefully monitors its fluctuations given the degree of impacts it leaves on economic indicators. In free market system, fluctuation is seen as an ordinary occurrence and demand and supply are the main drivers of developments and determinants of exchange rate in market. According to data available, exchange rate of Afghani against USD and other major international currencies has gone through a series of oscillations from the outset of FY 1397 to end period.

In FY 1397, the average exchange rate of one USD against Afghani was 72.20, which reached to Afghani 74.96 at 30 Qaws 1397, revealing a depreciation of 7.30 percent. Meanwhile, Afghani exchange rate against British Pound and Euro depreciated respectively by 2.3 percent and 3.8 percent. Figure ( 5 ) depicts Afghani/USD exchange rate



Source: Monetary Policy Department, Da Afghanistan Bank

## Da Afghanistan Bank

### Monetary Policy Implementation

Da Afghanistan Bank's primary objective is to maintain the stability of domestic prices, which it achieves by a set of monetary efforts and control money supply in market by currency and capital notes auctions. These tools are also employed to ensure the stability of Afghani exchange rate against foreign currencies as DAB pursue the Managed Floating Exchange Rate regime. Under such regime, aside from contribution to supply and demand in market, DAB's interference help maintain Afghani value against other currencies.

### Currency Auction

From the beginning of FY 1397 through Qaws 30, DAB has sold USD 2,415.52 million through currency auction and, in return, collected approximately AF 174.838 billion from market. Moreover, with the supply of currency to market, a market demand of 71.86 percent for currency has been fulfilled. From the outset through 30 Qaws 1397, DAB has sold USD 10 million to Breshna Sherkat. It is important to mention that for main-

taining of Afghani value against USD, DAB has also sold Euro 128.45 million besides USD and has gathered AF 10.8 billion in return.

### Capital Notes Auction (Interest Offer)

Capital note is another monetary policy instrument used by DAB to control liquidity level and implement monetary policy. This tool is employed to absorb excess liquidity in the banking sector, promote capital notes secondary market, prevent fluctuation of monetary inflation, diversify monetary policy tools and encourage commercial banks into receiving further Afghani deposits from clients.

Taking the preceding conditions into account and to encourage investments in country and greater public access to loans, Da Afghanistan Bank through direction of Governorship has gradually reduced capital note auction of 364 days and 182 days. On the top of this, interest rate is brought down so that commercial banks may offer loans with lower interest and convenient conditions. Throughout FY 1397 ending in Qaws 30, the outstanding amount of auctioned capital notes is AF 33.72 billion. Meanwhile, roughly AF 108.3 million interests from capital notes have been paid.

### Financial Sector Developments

According to DAB's annual action plan, monetary policy department's financial sector contributes to implementation process of Public Private Partner-

ship (PPP) as member of Public Partnership Advisory Board. This office is also a member to State Building Contract (SBC) launched in 1396 under ministry of Finance in line with European Union's laws and regulations. According to this contract, a number of reforms in public policy, macroeconomic framework and public financial management areas have been agreed upon and European Union has committed a voluntary grant of Euro 200 million to Afghanistan in return for these reforms. As a special party to abovementioned programs providing separate reports on economic indicators, Da Afghanistan Bank plays a key part.

Financial sector office has been able to collect data and figures on financial sector variables on monthly, quarterly and annual basis and publish them in quarterly and annual bulletins and reports in accordance with Annual Action Plan 1397. Following this, key developments come under detailed assessment.

In spite of present challenges, revenues (domestic revenues) collected in FY 1397 amounts to a total of AF 189.84 billion as compared to AF 169.38 billion collected in previous year, which decreased approximately by 12.08 percent in the reporting year.

Table (6) explains proposed, realized and approved budget for FY 1397

	Approved Budget for 1397*		Realized Budget, end of 1397		Proposed Budget for 1397	
	Billion Afghani	Billion Dollar	Billion Afghani	Billion Dollar	Billion Afghani	Billion Dollar
<b>Total Principal Budget</b>	377.19	5.52	384.52	5.62	360.90	5.28
Operating Budget	266.13	3.89	258.02	3.78	267.15	3.91
Development Budget	111.06	1.63	126.49	1.85	93.74	1.37
Total Resources	352.90	5.16	398.12	5.83	349.41	5.11
Domestic Resources	161.62	2.36	189.84	2.78	161.62	2.36
External Resources (Foreign Grants and Loans)	191.28	2.80	208.28	3.05	187.79	2.75



For FY 1397, total revenues and total expenditures are each projected respectively at AF 387.02 billion and AF 399.42 billion. The deficit balance of these revenues and expenditures stand at AF 12.40 billion. Meanwhile, a sum of AF 10 billion has been withdrawn from cash reserves for the

purpose of reducing budget deficit and making up for DAB's capital loss (amounting to AF 7.1 billion). The deficit balance of national budget is placed at AF 9.49 billion after paying for DAB's capital loss and withdrawal from cash reserves (treasure).



A large, teal-colored decorative shape on the left side of the page, resembling a stylized arrow or a curved triangle pointing towards the right. It has a white outline and a slight shadow effect.

## **Analysis of Banking Sector Situation and Performance**



## Analysis of Banking Sector Situation and Performance

Afghanistan's banking sector is consisted of state, private and foreign branch banks. In FY 1397, the banking sector has received deposits, processed loan and performed other relevant activities which will be explained below.

### Overview

According to reports, key financial indicators of the sector in Qaws 1397 (December 2018) has been assessed and compared with that of FY 1396, which is further discussed in the following section: The banking sector's total deposits and profit has increased which, aside from USD's appreciation, is mainly derived from higher profitability. Liquidity stands at a desirable level, though total assets, loans and financial capital have undergone a downward trend.

In Qaws 1397, total assets amount to AF 315.78 billion, decreased by 0.11 percent compared to previous year. In contrast, total asset has increased by 2.68 percent over the preceding month. The rise is principally seen in cash in vault, claims on Da Afghanistan Bank, interbank claims and investments, driven mainly by increased deposits.

In Qaws 1397, total gross loans amounts to AF 41.43 billion, showing a decrease of 0.87 percent compared to previous year (FY 1396). This negative development came mainly as result of loan write-offs, loan settlement, acquisition of properties secured by bank loans and one bank going under liquidation. Total gross loan declined by 5.11 percent in Qaws 1397 as compared to previous month (Aqrab 1397) which was mainly resulted from loan settlement, loan write-offs and less utilization of overdraft loans.

As main funding source of banks, total deposit is consisted of client deposits and interbank deposits. In Qaws 1397, total deposits amounts to AF

273.33 billion which shows an increase of 1.12 percent over previous year. Rise in total deposits is largely attributed to appreciation of USD against Afghani. This is while total deposits have increased by 4.07 percent over preceding month, greatly noticed in demand and saving deposits.

In the meantime, the banking sector enjoys sufficient capital as total financial capital of banks in Qaws 1397 reaches to AF 34.43 billion, constituting 10.90 percent of total bank assets. Financial capital has declined by 4.21 percent compared to preceding period, because of payment of dividends and liquidation of one private bank.

On aggregate basis, the banking sector has ended up with net profit of AF 2.46 billion in FY 1397, increased by 38.44 percent compared to previous period.

All banks' liquidity stands in compliance with central bank's minimum limit and in open FX position term, all banks (except for four banks that have violated central bank's  $\pm 40$  currencies and  $\pm 20$  individual currency "long-term dollar and euro position") live up to Da Afghanistan Bank limits.

According to financial reports of Qaws 1397, all banks' regulatory capital ratio remains above central bank's declared limit (12 percent risk-weighted assets) except for one bank. The regulatory capital ratio of banking sector is 25.91 percent, decreased by 3.90 percent compared to Qaws 1396.

### Introduction

The banking sector is consisted of 14 banks: 3 state-owned banks, 7 private conventional banks, 1 Islamic Bank and the rest of 3 are foreign branch banks.

Tables ( 7 & 8 ) explain number of branches and other banking facilities in the country

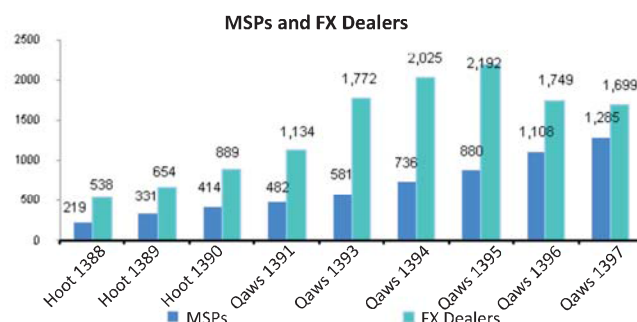
Facilities	
Branches with full services	203
Branches with limited services	212
ATM (Type 22)	341
* Other facilities (Type 21, 24, 25)	170
Sale points (Type 23) **	87
<b>Total</b>	<b>1,013</b>

Cards	
Debit Card	506,557
Credit Card	2,008
ATM Card	226,066
Web Surfer Card	12,887
Pre-paid Card	5,088
Master Card	1,566
<b>Total</b>	<b>754,172</b>

Branch facilities are accessible in 33 provinces including capital Kabul, while ATM services are available in 28 provinces, debit card in 31 provinces and credit card in 6 provinces.

Meanwhile, a total of 1,285 Money Service Providers (MSPs) and a number of 1,699 FX dealers are operating in the country. From 1,285 MSPs, some 261 are based in Kabul and the rest of 735 are engaged in provinces. Moreover, as many as 271 MSP agencies are operating in Kabul and provinces. Similarly, out of 1,699 FX dealers, some 384 FX dealers are working in Kabul and 1,310 in provinces and as many as 5 FX dealing agencies are functioning in other provinces across the country.

Figure ( 6 ) depicts MSP and FX dealers' growth trend



### 1. Total Assets

The total assets of the banking sector saw 0.11 percent decrease in reporting year, standing at AF 315.78 billion (USD 4.19 billion) at the end of Qaws, while it grew by 5.73 percent in preceding period (Qaws 1396), amounting o AF 316.13 billion (USD 4.54 billion). The decrease came owing to payment of dividends, liquidation of a private bank and deposit withdrawals.

Considering the augmentation of total assets of banking groups, the largest asset growth was seen by private banks that increased by 6.71 percent compared to preceding period, whereas state banks and foreign branch banks have experienced decline at 7.61 percent and 26.26 percent respectively. Based on the percentage of total banking assets, private banks stand first with 67.40 percent share while state-owned banks and foreign branch banks rank second and third with 26.50 percent and 6.09 percent share respectively.

\* **Facility Type 21:** An official unit with no authority to issue loans, but it can process the loan applications\*

**Facility Type 24:** An official unit with the authority of cash payments and payments for customers of the bank. for example, salaries of the government and non-government employees

**Facility Type 25:** The official unit which only has the authority to receive cash from public as deposits in different accounts of legal and natural persons (usually embassies, hotels etc.) and to collect receipts to receive cash.

\*\* **Facility Type 23:** Service networks in shopping malls (which can only deduct expenses but no authority for savings).

Figure ( 7 ) and ( 8 ) depicts total asset trend and banking group share in total assets of banking sector, 1388 – Qaws 1397



Table ( 9 ) explain all commercial banks and foreign branch banks' assets by percentage

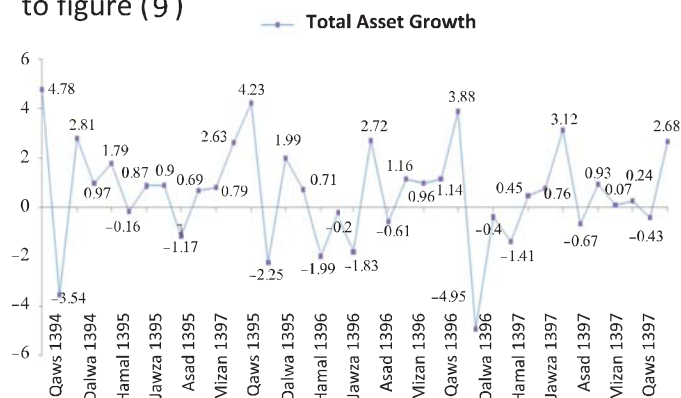
Banking Sector Assets on Descending Order, as at Qaws 1397 (December 2018)			
No	Banks	Assets (in million AF)	Total banking sector assets (percentage)
1	Afghanistan International Bank	71,723.32	22.71
2	Afghan Millie Bank	41,879.35	13.26
3	Azizi Bank	40,454.79	12.81
4	Maiwand Bank	25,083.19	7.94
5	New Kabul Bank	21,266.52	6.74
6	Pashtany Bank	20,546.23	6.51
7	Afghan United Bank	20,346.15	6.44
8	Afghanistan Islamic Bank	17,279.89	5.47
9	Aryan Bank	13,608.14	4.31
10	Alfalah Bank Ltd.	12,764.68	4.04
11	First Microfinance Bank	12,498.62	3.96
12	Ghazanfar Bank	11,851.23	3.75
13	National Bank of Pakistan	3,858.56	1.22
14	Habib Bank Ltd.	2,619.83	0.83
Total		315,780.50	100.00

## Total Assets Trend

Total assets of banking sector has had upward trend in FY 1397 and, specifically, experienced the largest growth in months of Jawza and Qaws 1397, which greatly influenced interbank claims and, in particular, USD accounts, while the assets level fell to its lowest in Jaddi 1396 which was noticeable in cash in vault, claims on DAB on one-night deposits and DAB capital notes.

Total banking assets grew by 2.68 percent compared to preceding month (Aqrab 1397) which mainly came from increased deposits. A review of details of total assets reveal that cash in vault, claims on DAB, interbank claims and investments have increased significantly.

For further details on banking sector assets, refer to figure ( 9 )



## 1.1 Total Loans

Total gross loans amounts to AF 41.43 billion (USD 551 million) in Qaws 1397, constituting 13.12 percent of total banking sector, which shows a decrease of 0.87 percent compared to previous period that made up 13.22 percent of total assets. This downward change resulted from loan write-offs, loan settlement, purchase of properties secured by bank loans and dissolution of one private bank.

Among total gross loans, Afghani loan amounts to AF 17.07 billion (USD 227 million), which make up 41.91 percent of total gross loans and 5.41 percent of total banking sector assets,

which increased by 29.98 percent compared to preceding period that resulted mainly from grants of new loans. USD loans amounts to AF 24.43 billion (USD 322 million), accounting for 58.97 percent of total loans and 7.68 percent of total assets that resulted from loan write-offs, loan settlement, purchase of properties secured by bank loans and liquidation of one private bank which decreased by 14.51 percent compared to Qaws 1396.

Private Banks run the largest share in lending of 88.88 percent, whereas state-owned banks and foreign branch banks stand second and third with respectively 10.02 percent and 1.08 percent.

## Total Loans

### Monthly Development

Total gross loans of banking sector mostly witnessed downward trend in FY 1397, which recorded a sharp decline in months of Jaddi 1396 and Qaws 1397 that resulted mainly from loan write-offs and settlement.

Total gross loans have decreased by 5.11 percent since Aqrab 1397 which is caused by loan settlement, loan write-offs and lessened use of overdraft loans.

Figure ( 10 ) illustrates loan trend in last 36 months

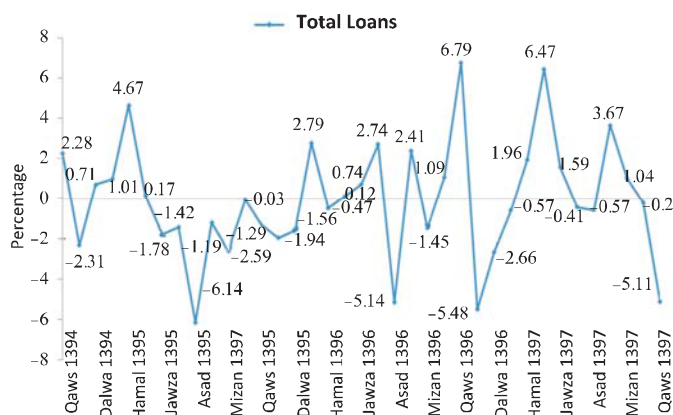


Table ( 10 ) explains total banking sector loan classification (figures in million Afghani)

Items	Qaws 1397 (December 2018)	Aqrab 1397 (November 2018)	Qaws 1396 (December 2017)	Percentage of Total Gross Loans	Annual Growth Rate
Non-Performing Loan	3,725	5,264	5,192	8.99	-28.25
Adversely-Classified Loan	6,153	7,969	8,579	14.85	-29.27
Loans-Classified Watch	4,585	5,831	4,815	11.06	-4.77
Loan Loss Reserve	711	0.42	959	1.72	-25.86

In general, loan quality is assessed as poor at the end of Qaws 1397, even though the nonperforming loan making up 12.21 percent of financial capital and 8.99 percent of total loans, has reduced by AF 1.46 billion in Qaws 1396. The decline is brought about by loan write-offs, loan reclassification and liquidation of a private bank. Of total nonperforming loans making up 8.99 percent of total gross loans, some 6.76 percent is attributed to only two banks. Meanwhile, these banks account for 37.34 percent of total gross loans and 11.13 percent of regulatory capital of the banking sector. The net nonperforming loan ratio stands at 2.69 percent.

Out of AF 3.72 billion nonperforming loan, an amount of AF 3.53 billion belongs to private banks, constituting 8.52 percent of total gross loan (94.75 percent of total nonperforming loan). From among this figure, AF 196 million belongs to a state-owned bank, accounting for 0.47 percent of total gross loans (5.25 percent of total nonperforming loan).

<sup>2</sup> Nonperforming loans: Nonperforming loans and advances whose principal amount/interest remains outstanding for 121-480 days (Doubtful)

<sup>3</sup> Adversely-Classified Loans: Assets whose principal amount/interest remains outstanding for 61-120 days (Substandard)

<sup>4</sup> Loans-Classified Watch: Assets whose principal amount/interest remains outstanding for 31 to 60 days (Substandard)

<sup>5</sup> Loan Loss Reserve: Nonperforming loans and advances whose principal amount/interest remains outstanding for 481 days or more.



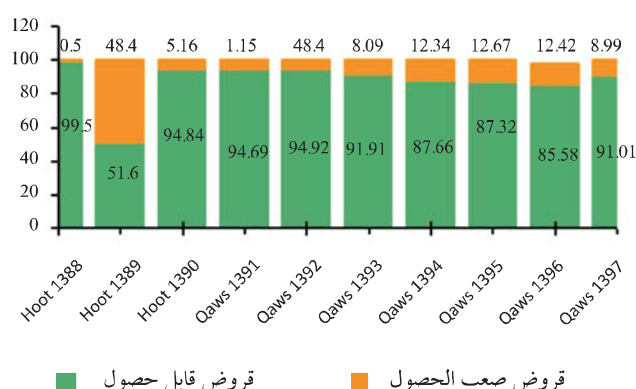
Table (11) explain small and medium loans (figures in million Afghani)

Items	Qaws 1397 (December 2018)	Qaws 1396 (December 2017)	Percentage of Total Gross Loan	Percent- age of Annual Growth
Medium Loan	2,380	2,436	5.74	-2.29
Small Loan	4,983	4,540	12.03	9.75

Table (12) explain total gross loan by banks as at Qaws 1397

Banks	Gross Loans (Figure in Million Afghani)
State-owned Banks	4,155.65
Private Banks	36,828.69
Foreign Branch Banks	450.61
<b>Total</b>	<b>41,434.95</b>

Figure (11) illustrates ratio of nonperforming loans to total gross loans



According to FY 1397 financial reports, loans have been distributed provincially and sector wise, though it hasn't been diversified geographically.

Table (13) explain loan distribution by provinces (geographically)

No	Provinces	Loan Amount (in Million Afghani)	Percentage of Total Loan
1	Kabul	28,889.44	69.72
2	Herat	3,771.20	9.10
3	Balkh	3,487.12	8.42
4	Kandahar	1,220.45	2.95
5	Badghis	1,182.88	2.85
6	Baghlan	537.73	1.30
7	Badakhshan	535.37	1.30
8	Sarepul	283.34	0.68
9	Bamyan	270.37	0.65
10	Faryab	248.11	0.60
11	Jawzjan	248.05	0.60
12	Takhar	219.00	0.53
13	Parwan	187.70	0.45
14	Nangarhar	160.41	0.38
15	Samangan	142.29	0.34
16	Kunduz	48.05	0.12
17	Others	3.45	0.01
<b>Total</b>		<b>41,434.96</b>	<b>100.00</b>

Table (14) explain sectoral loan distribution, as at Qaws 1397

	Sector	Percentage of Total Loan
1	<b>Mortgage and Construction</b>	<b>9.03%</b>
	Construction and Building	9.03%
2	<b>Infrastructural Projects</b>	<b>6.83%</b>
	Energy	0.48%
	Road and Railways	2.18%
	Dams	0.36%
	Mines	0.52%
	Other Infrastructural Projects	3.28%
3	<b>Products and Industry</b>	<b>12.19%</b>
	Metallic, Leather, Plastic, Elastic, Wooden and Paper Products	4.10%
	Mechanical Products and Handicrafts	3.67%
	Cement, Construction Materials	4.42%
4	<b>Trade</b>	<b>45.35%</b>
	Textile	2.21%
	Wholesale Trading	3.62%
	Machineries	0.41%
	Petroleum and Lubricants	11.48%
	Spare Parts	1.78%
	Electronics	3.21%
	Cement and Construction Materials	5.14%
	Food	6.44%
	Other Items	7.92%
	Retail Trading	3.13%

5	<b>Services</b>	<b>20.54%</b>
	Education	0.03%
	Hotel and Restaurant	2.16%
	Telecommunication	5.98%
	Ground Transportation	3.08%
	Air Transportation	1.21%
	Health and Hygiene	1.74%
	Publications, Media and Printing	1.28%
	Other Services	5.07%
6	<b>Agriculture, Livestock and Farming</b>	<b>4.16%</b>
	Agriculture	0.30%
	Livestock and Farming	3.86%
7	<b>Consumer Loan</b>	<b>1.90%</b>
8	<b>Residential Mortgage Loans to Individuals</b>	<b>0.00%</b>
9	<b>Other Loan</b>	<b>0.00%</b>
<b>Total</b>		<b>100.00%</b>

Details on MISFA partners in the country by number of institutions in capital Kabul, provinces and zones as well as by quantity of clients, borrowers, loan amounts, percentage and number of female clients and so others as at Aqrab 1397 are explained in table (15)

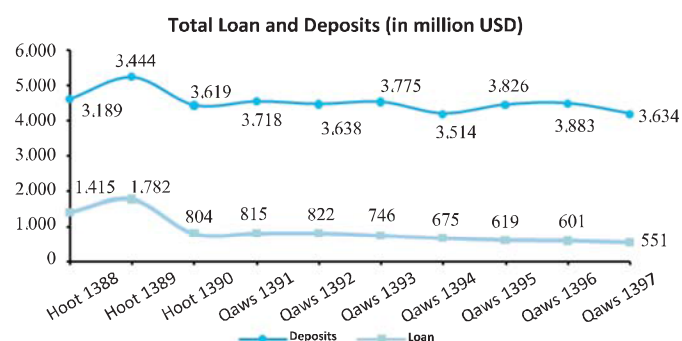
Number of MISFA partners	4
Provinces	14
Districts	81
Clients	252,297
Borrowers	135,436
Number of Loans Granted	1,289,999
Amount of Loan Granted (in Billion Afghani)	88.02
Number of Outstanding Loan	135,436
Amount of Total Outstanding Gross Loans (in Billion Afghani)	9.21
Amount of Outstanding Voluntary Client Saving (in Billion Afghani)	2.55
Percentage of Female Clients	29.2
Female Borrowers	46,691
Amount of Rural Loans (in Billion Afghani)	1.85
Amount of Urban Loans (in Billion Afghani)	7.36
<b>References</b>	<a href="http://www.misfa.org.af">www.misfa.org.af</a>

## 2. Total Deposits

Deposits are fundamental funding source and largest portion of liabilities in the banking system which consists of client deposits and interbank deposits. In FY 1397, total deposits amount to AF 273.33 billion (USD 3.63 billion), accounting for 97.15 percent of total liabilities which grew by 1.12 percent in reporting period (Qaws 1397) as compared to AF 270.30 billion (USD 3.88 billion) or 7.38 percent in preceding period. Among total deposits, client deposits reaches to AF 268.22 billion (USD 3.56 million), making up 95.34 percent of total deposits, which grew by 2.35 percent in period under review. The rise in total value came from appreciation of USD against Afghani.

Afghani deposits amount to AF 79.62 billion (USD 1.05 billion), accounting for 29.68 percent of total banking sector deposits, which declined by 7.19 percent compared to previous period. However, USD client deposits reaches to AF 170.77 billion (USD 2.27 billion), making up 63.66 percent of total banking sector deposits, which increased by 8.65 percent compared to preceding year. Private Banks hold the largest share of deposits accounting for 68.80 percent of total deposits, while state-owned banks and foreign branch banks come second and third with respectively 25.84 percent and 5.34 percent.

Figure (12) indicates trend of total deposits and loans



## 2.1 Total Deposits: Monthly Development

In FY 1397, total deposits have had rising trend as it was more conspicuous in months of Jawza and Qaws 1397.

Total deposits grew by 4.07 percent in current month as compared to preceding month that is mainly because of surge in current and saving deposits.

Figure ( 13 ) depicts course of total deposits over the past 36 months

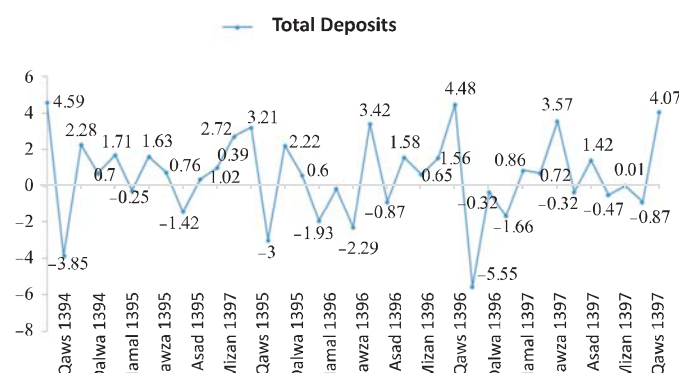


Table ( 16 ) explains deposit composition in Qaws 1397

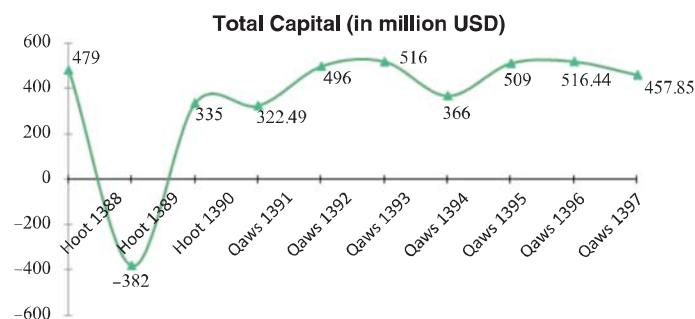
Deposit Composition at the end of Qaws 1397 (Figures in million Afghani)			
Indicator	Client Deposits	Interbank Deposits	Total Deposits
Current	201,804.38	1,557.75	203,362.13
Time	16,501.85	3,043.87	19,545.72
Saving	49,921.87	505.17	50,427.04
<b>Total</b>	<b>268,228.10</b>	<b>5,106.79</b>	<b>273,334.89</b>

## 3. Total Capital

The banking sector possesses adequate capital that form 10.90 percent of total assets. The financial capital as at Qaws 1397 amounts to AF 34.43 billion (USD 457.85 million), down by 4.21 percent as compared to AF 35.94 billion (USD 516.44 million) in the preceding period that is principally resulted from payment of dividends and liquidation of a private bank. Likewise, the regulatory capital

ratio by risk-weighted assets stands at 25.91 percent which declined by 3.90 percent compared to Qaws 1396.

It is noteworthy that in accordance with Qaws 1397 Financial Reports, regulatory capital ratio of all but one bank is above DAB minimum threshold. Figure ( 14 ) illustrates total banking sector capital, Hoot 1388 – Qaws 1397



## 4. Profitability

### 4.1 Monthly Profit

The banking sector has earned a net profit of AF 913 million in Qaws 1397, representing significant increase of AF 144 million net profit in Aqrab 1397. However, of 14 banks, five have suffered a total loss of AF 205 million in Qaws 1397. This increase in month of Qaws is due mainly to receipt of write-off loans and returns from loan loss reserves. Moreover, increased net interest income and income from currency revaluation has largely contributed to profits of the banking sector, though, in contrast, operating costs and bank taxes have increased too.

Median/spread or the margin of loan interest to new deposit interest that measures operational efficiency of a bank, was recorded at 11.67 percent in Qaws, up by 1.54 percent compared to preceding month. However, the spread of three banks stands below median and the spread of other seven banks is immeasurable. <sup>6</sup>

<sup>6</sup> Since spread (margin of new loan interest to new deposit interest) is measured on monthly basis, so if a bank(s) has no lending or new deposits or a combination of both in a single month, this bank(s) has no spread to measure.

## 4.2 Aggregate Profitability of Banking Sector (FY 1397)

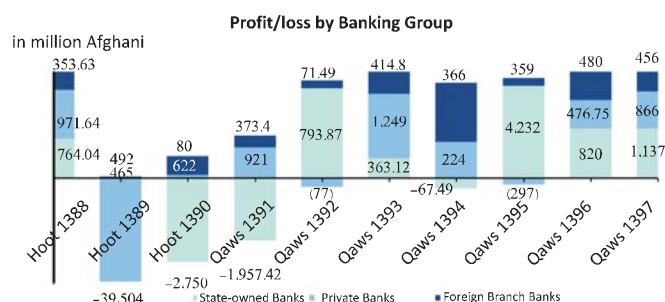
On cumulative basis, the banking sector remains in profit in FY 1397 (2018), as the profit amounts to AF 2.46 billion (USD 32.69 million) in reporting period as compared to AF 1.77 billion in preceding year. As result of increased profit, the ratio of return on assets grew by 0.81 percent compared to figure of Qaws 1396.

The primary cause of rise in profit is significant increment of non-interest profit and cuts in loss provisions and tax-related costs. Other factors contributing to increased profit in the banking sector include profit from currency revaluation and cuts in operating costs.

As seen in figure (10), all state-owned banks, private banks and foreign branch banks remain in profit in reporting year, yet the most profit is earned by state-owned banks that amounts to AF 1.13 billion, constituting 46.24 percent of total net profit of the sector. On annual basis, its ratio of return on asset stands at 1.29 percent. The second in line are private banks with net profit of AF 866 million, accounting for 35.21 percent of total net profit with ratio of return on asset recorded at 0.44 percent on annual calculation. Similarly, foreign branch banks have earned AF 456 million profit making up 18.55 percent of total banking sector's profit with ratio of return on asset standing at 2.12 percent.

Overall, two banks have incurred a total loss of AF 65 million in year under review, while this figure for the same number of banks was AF 790 million in previous period (Qaws 1396). It is worthy to mention that on Core Income basis, nine banks are in loss in reporting period, against 4 banks in previous period.

Figure ( 15 ) illustrates profit/loss of banking sector by state-owned, private and foreign branch banks



## 5. Liquidity

The liquidity ratio of all banks, in general, is above DAB's minimum threshold (ratio of broad liquidity is 15 percent and rapid liquidity is 20 percent). In terms of median, the ratio of broad liquidity is 76.62 percent as at Qaws 1397, which grew by 10.7 percent compared to preceding period.

According to Qaws 1397 financial reports, there are concerns over concentration of client deposits on large sums (deposits that is more than AF 5 million). These huge deposits constitute around 60.25 percent of total client deposits and comprised of 6,044 accounts which is deemed significant in liquidity terms and counted towards elusive liabilities. Furthermore, average large deposits amount to AF 26.71 million, down from AF 29.46 million in preceding quarter.

## 6. Open Currency Position

Except for four banks that has breached the limit for general and individual open currency position (long-term USD and Euro position), all other banks are in compliance with DAB's defined limit for general (40±) and individual (20±) open currency position.

Table ( 17 ) explain quantity of employees, borrowers, depositors and other bank clients

Particulars	Quantity
Domestic Staff	9,345
Foreign Staff	77
Borrowers	72,454
Depositors	3,687,206
<sup>7</sup> Other Clients	7,389

<sup>7</sup> Number of other clients holding bank guarantees, letters of credit and other guarantees and pledges



## **Payments Department**



## Payments Department

In contemporary economy, payment is known among essential economic and financial needs. As central bank is mandated to establish, maintain and develop a sound and effective payment system, Da Afghanistan Bank has continuously strived towards this goal.

Responsible for managing these tasks, Payments department leads its efforts in two streams: Plan and Policy Development and Operations.

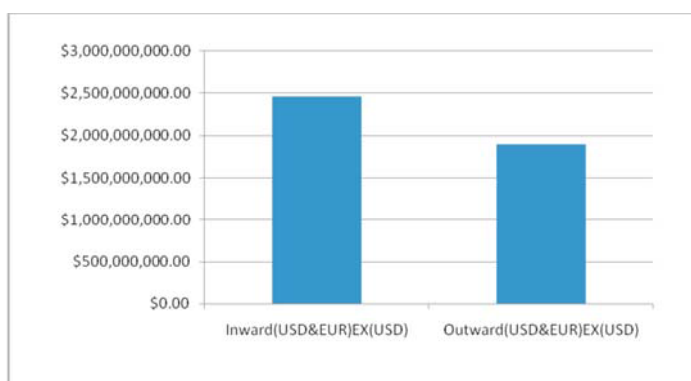
### 1. Operations Unit

This unit is tasked to conduct routine domestic, interbank and international transactions and settle and clear e-system checks. Its operations in FY 1397 will be discussed in short below:

#### SWIFT (International Payments)

The international payments has recorded 1,584 inward transfers at USD 2,311,002,817.68 and 2,364 outward transfers at USD 4,101,567,925.30, some 263 inward transfers at Euro 128,686,707.28 and 440 outward transfers at a cost of Euro 49,885,137,48 making up a total of 4,764 transactions. Moreover, there are 615 FX deal and World Bank transactions at a cost of USD 1,331,661,136.1 From among outward transfers, an amount of USD 2,289,517,044 and Euro 123,575,000 are transacted by Da Afghanistan Bank (Own Account).

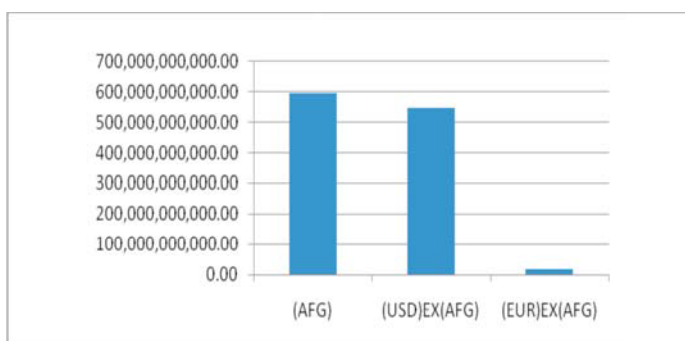
Figure ( 16 ) illustrates outward and inward international payments, FY 1397



#### Interbank Payments (ACSS)

This category has recorded 107,921 transactions at a cost of AF 593,462,700,269.13 and 53876 transactions worth of USD 7,566,880,665.89 and finally 1,856 transactions worth Euro 218,025,323.90 making up a total of 163653 transactions.

Figure ( 17 ) reveal amount transacted through interbank payments, FY 1397



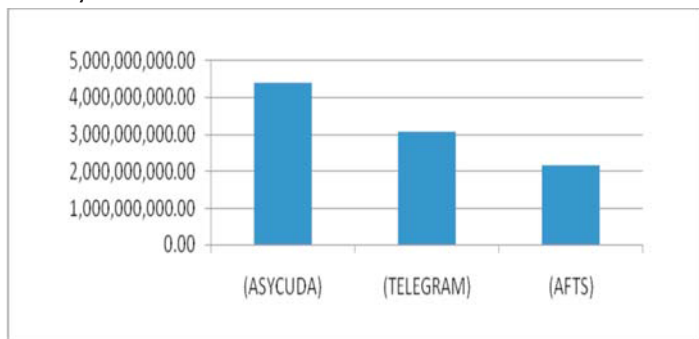
#### Inter-Branches Payments

The inter-branches payment include 58 inward transactions worth at AF 731,656,884.00 and 71 outward transactions at Afghani 1,389,747,824.00 and as many as 2 inward transactions at a cost of USD 500,000.00.

Additionally, some 3,789 transactions at a total cost of AF 4,398,331,174.00 have been carried out through ASYCUDA (customs) payment system and as many as 99 inward transactions worth AF 1,128,552,273.83 and 143 outward transactions at AF 1,964,010,261.20 have been processed through Telegram that total up to 4,162 transactions in FY 1397.



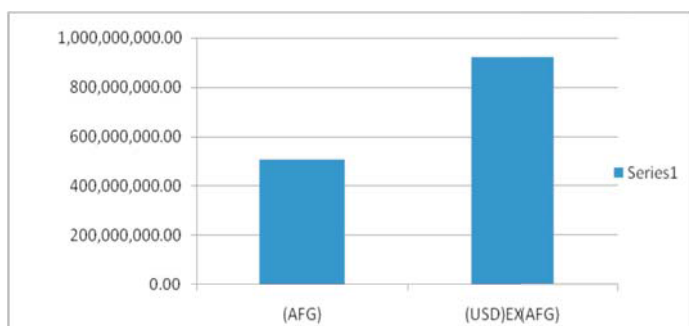
Figure ( 18 ) depicts inter-branches processed amounts, ASYCUDA and Telegram, FY 1397 (figure in AF)



### Checks Settlement and Clearance

The clearing house (check settlement and clearance) that settle member banks' checks, has cleared and processed 1982 checks at a cost of AF 508,588,342.55, as many as 1284 checks at a cost of USD 12,797,138.18 and 2 checks worth at Euro 20000 that make up a grand total of 3268 checks in FY 1397.

Figure ( 19 ) illustrates amounts of clearing house in FY 1397 (figure in Afghani)



## 2. Plan and Policy Development

The primary tasks of plan and policy development unit are to develop annual action plan, review procedures and policies and modernize payment systems for development of work environment in line with international standards and technological evolution.

It has carried out following activities in FY 1397:

- Reviewed payments procedures and its approval by executive board and Supreme Council of Da Afghanistan Bank

- Provided government payments (salaries) report to deputy office of finance ministry for policy development in electronic form
- Provided feedback and report on CM approval about employee and teacher wage payment through bank branches in electronic form
- Reviewed first year progress of Da Afghanistan Bank's 5-Year Strategic Plan
- According to finance ministry's custom department plan and policy, the development process of custom revenue collection in Gardiz and Spin Boldak ended successfully in FY 1397 and these revenue points have now been connected to interbank payments (ACSS/ICPSS), joining a group of 14 custom offices already connected.
- In FY 1397, as many as 9 Kabul Bank branches have been included in ACSS/ICPSS and 40 users and passwords created and presented to the bank officers so that the bank payers from provincial and border branches may send money in quick and electronic manner.
- Organized awareness program for payers of custom products across all countrywide zones
- Processed the creation of user and password for bank officers and obtained commission/fee
- Operationalized ATS (RTGS-ACH) project
- Collected data and figures from payment facilities together with financial supervision dept.
- Tested new ACSS screen
- Connected International Airport Custom's Red Cross account and deleted 3,001 account
- Prepared and lectured the presentation for APS on new RTGS-ACH platforms
- Completed the Dari translation of EFT Regulation and published on DAB's official web-



site

In addition, plan and policy development has a number of development projects underway, explained below:

**ATS Project:**

Automated Transfer System (ATS) project is launched for modernization of payment systems (Real Time Gross Settlement, Automated Clearing House) and Central Securities Depository with financial support of World Bank. It is also aimed to carry out small and large scale transactions through members (commercial banks) using electronic means with further conveniences in place, prevent risks and meet the banking needs. Fortunately, the project has passed by training and testing phases and has its equipments delivered to Da Afghanistan Bank premise by Qaws FY 1397 and installed by two CMA engineers. It will soon go into Onsite Test stage and later training and pilot programs will be held for Da Afghanistan Bank, commercial banks and ministry of finance employees and expected to become officially operational and replace the current ACSS and CCH systems by end of Q3 FY 1398.

**Key ATS Project Performances**

- Organized and completed training and testing programs for newly launched systems in Baku, Azerbaijan.
- ATS's Policy Framework was composed in 92 pages and that of CSD in 35 pages with approval of Supreme Council received and ATS Procedures translated in three languages and published on DAB's website.
- Hardware tools and servers of new systems were transported to DAB by 7 Qaws 1397 and entirely completed by 21 Qaws 1397.
- Disseminated official letters to all banks asking for introduction of their respective officers for training programs and finalized the list of introduced officers for User Management, ACH, ATS trainings in compliance with

monthly project report submitted by CMA. By August 2018, the ATS/CSD preparation progress was 93 percent and set to go operational by June 2019.





## **Market Operation**



## Market Operation

It is among Da Afghanistan Bank's fundamental duties to formulate, adopt and implement Afghani currency's policy and arrangements and to maintain and manage Afghanistan's official foreign currency reserves.

As a sole institution to devise, adopt and implement monetary policy in Afghanistan, it may operate in the open market by purchasing and selling, outright (spot and forward) or under repurchase agreements, convertible foreign currencies, and debt securities issued by the state, which are carried out by market operations department.

The market operation dept. acts as a key pillar of monetary policy and has operated successfully in currency reserves (reserve asset), letter of credits, capital notes auction and currency auction, which will be discussed in summary below.

### Currency Reserves

Currency reserve or reserve asset of Da Afghanistan Bank amounted to USD 8.118 billion in early Jady 1396, which has slightly increased to USD 8.280 billion. The figures indicate that currency reserve and assets in DAB portfolio has increased by USD 162 million.

DAB's investments managed by market operation's reserve office include investment of time deposits in top international banks as well as investments in state-issued securities of leading economies. Compared to British Pound and Euro that still don't enjoy a robust status in international investment market, USD has had upward trend in FY 1397. For now, USD investment interest rate is at the highest of all and record high in years. Da Afghanistan Bank has therefore been able to reap USD 99 million from its investments. In the meantime, investment on Pound Sterling is increasing while Euro's investment interest rate is

still low but projected to improve in fourth quarter of 1398.

### Letters of Credit

The letter of credits office has opened a total of 32 letters of credit in FY 1397. From among this, 29 issues are worth USD 149,144,474.53 two issues are put at Euro 17,929,155.00 and one issue is placed at AF 20,327,322.00.

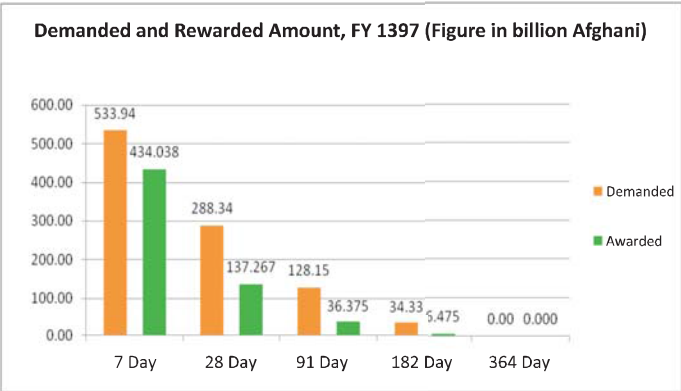
It has to be said that import letters of credit are opened to import goods (machineries and equipments) and other needs of ministries and government agencies ordered from credible domestic and foreign companies by relevant offices following approval of finance ministry. These goods are procured on operating and development budgets as well as grants from World Bank and Asian Development Bank that are directly channeled to dealing companies through foreign and domestic correspondent banks in USD, Euro and Afghani currencies.

Important to note is that out of 29 letters of credit in USD, seven of them amounting to USD 120,327,661.94 are funded by Asian Development Bank's fund.

### Capital Note Auction

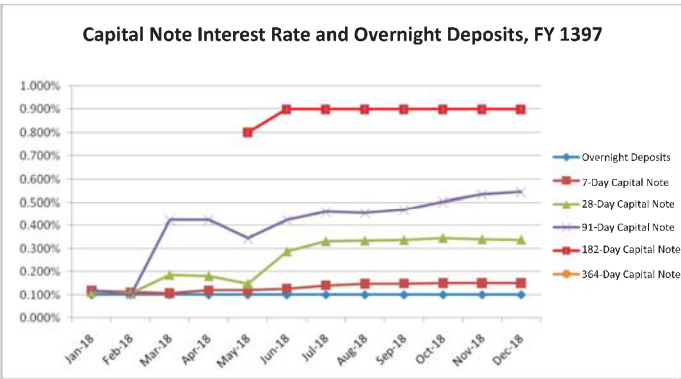
As of beginning to end of FY 1397, market operation dept. has launched capital note auction once in a week. In this course of time, 51 auctions have been conducted in which 7 day, 28 day, 91 day and 182 day long capital notes have been sold. On cumulative basis, the amount sold through this process reaches to AF 614,155,000,000 ventured by commercial, state-owned and private banks.

Figure ( 20 ) illustrates total demanded and auctioned amount, FY 1397



The preceding figure depicts demanded and auctioned capital notes by maturities in FY 1397 that, in total, amounts to AF 984.74 billion demanded and AF 614.15 billion auctioned to investors. Last year, the total demand for capital note stood at AF 360 billion and an amount of AF 219.5 billion worth of capital note was sold.

Figure ( 21 ) indicates trend of capital note interest rate and overnight deposits, FY 1397



As known, capital note’s interest rate is determined on the basis of supply and demand level. FY 1397 saw more demand from banks to invest in capital note as compared to previous years, while Da Afghanistan Bank ramped down its capital note issuance compared to earlier years that has brought interest rate of all capital note types below one percent.

Figure ( 22 ) illustrates outstanding capital notes, FY 1397

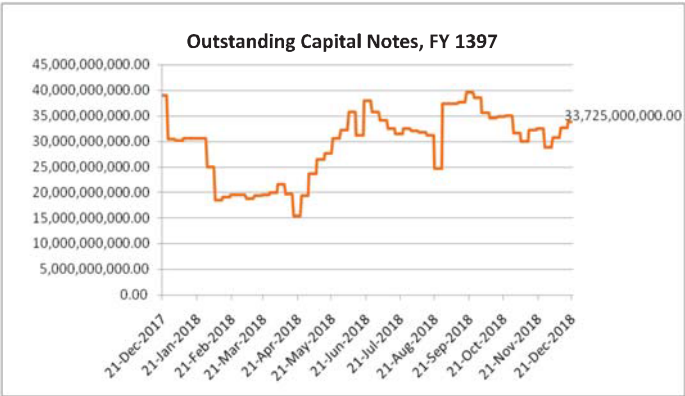
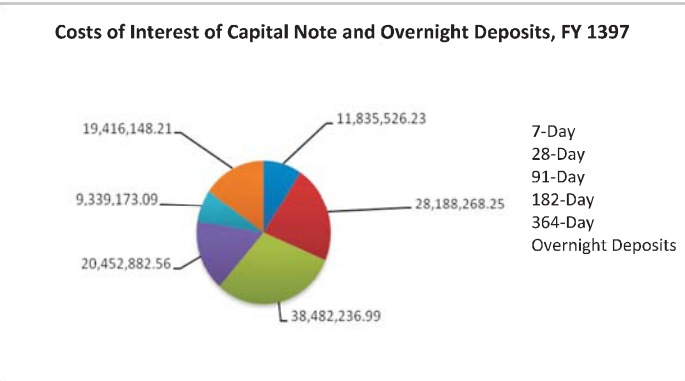


Figure ( 23 ) illustrates cost of interest of capital notes and overnight deposits, FY 1397



In FY 1397, a total amount of AF 127,7 million has been paid as interest for capital notes and overnight deposits and the appropriated budget amounts to AF 2,000,000,000.

It is noteworthy that last year an amount of AF 1.956 billion has been paid for capital notes and overnight deposits and the budget appropriated for both reaches to AF 2.2 billion.

Furthermore, according to monetary policy dept.’s proposal and Supreme Council’s approval no. 9 dated 13/04/1396, the requirement for mandatory reserves introduced to commercial banks has changed. As of 2004 to September 2017, commercial banks were obliged to deposit their required reserves only in Afghani that altered with the recent approval and now banks need to keep with Da Afghanistan Bank their mandatory reserves

separately in USD, Euro and Afghani. It is worthy to note that required percentage of mandatory reserves for USD and Euro deposits is 10 percent and Afghani is 8 percent.

Table (18) explain total mandatory reserves of commercial banks at the end of FY 1397

10 Percent Reserves in USD	10 Percent Reserves in Euro	10 Percent Reserves in Afghani
219,696,026.00	21,631,098.00	5,696,112,263.00

### Currency Auction

Besides capital note, Da Afghanistan Bank also conduct currency auction as a monetary policy

tool. In FY 1397, a total of 122 auctions have been conducted that amounts to USD 2,415,515.000 equivalents to AF 174,838,483,701 and Euro 119,450,000 equivalents to AF 10,838,012,025 from 2/10/1396 through 28/09/1397.







# **Public Credit Registry Department**



## Public Credit Registry Department

Public credit registry department is established to build a safe credit information system used by financial institutions and commercial banks. The department operates with registration of mortgage rights on movable properties and public credit registry systems, funded by World Bank, IFC and Harakat Organization.

Credit registry system collects credit information from individuals and businesses and analyzes and provides them in the form of report to other institutions. Public credit registry's required information is gathered from various sources like commercial banks, small financial institutions, telecommunication companies, commercial tribunals, insurance firms, electricity firms and financial leasing companies and provided in organized reports entailing client rating.

Public credit registry department consists of following sections: credit registry, registration of mortgage rights on movable properties, IT, business development, legal counsel and executive and finance office, each of which are explained concisely in the coming part.

**Public Credit Registry:** PCR operates in light of DAB's law and Credit Reporting Regulation and currently all commercial banks, microfinance institutions (FINCA, OXUS, United Finance, Afghan Rural Finance) and financial supervision department are actually utilizing the system. As of beginning through end of FY 1397, the system has collected and registered 6,537 credit information from companies and 241,850 from individuals.

The varieties of products included in credit registry system are letter of credits, bank guarantees, time loans, overdraft loans, credit card and Islamic

loans.

Public credit registry department has also registered contracts into the system throughout this period.

### **All registered contracts are as follow:**

Total open contracts	97,478
Total closed contracts	259,561
Total contracts registered in system	357,039
Businesses registered in system	6,537
Individuals registered in system	241,850

This system is not open to everyone; it is only used by individuals who are officially referred by an authorized body and possesses user account as per procedures. Key part of the system is credit report that assists users to decide wisely and identify extraordinary clients. The information available in system is not used for free as DAB executive board's approval no. 415 dated 18/10/1392 requires charging users for the service.

Utilization of credit registry system in the country is a novel move that needs to be developed and expanded. To this end, the department strives to inform other organizations of benefits of credit registry system and provides necessary conveniences that allow for its increased utilization. To ease the process, it has signed separate agreements with Breshna, Islamic Finance and Investment firm and Exchanger Zone.

Given the dire needs, following functions have been included in the system.

**Benchmarking:** It is an analytic tool that provides quick access to market reports on the basis of information from credit registry. We may get standard analytic reports from the database, as needed, about clients on cumulative or individual

basis and stay abreast of client performances from time to time using this module. Yet, credit registry was not in possession of this facility before and would fail to respond to the needs of financial sector. This module has added to the credibility of reports gathered from the system.

The module runs particular qualities, explained on point basis below:

**1- Understanding the status of credit reporting:**

- Quantity of loan in the system
- Effectiveness of rating in lending

**2- Understanding the lending market environment:**

- Is the market competitive or monopolized
- Level of public access to finance

**3- Understanding the situation of lending sources**

- Lender's share in the market (in percentage)
- Importance of credit registry office in accelerating the process and reducing loan costs
- Provide analytic data on financial sector and market's overall existing condition to make decision for following bodies:
  1. Public credit registry department
  2. Executive board members and other DAB offices
  3. Commercial banks and microfinance institutions

**Billing:** To this moment, public credit registry gets the statement from database and moves it manually to excel worksheet that often causes errors in calculations. It was this hitch that required adding the module into the system. In the future, these reports will be generated accurately and offered to clients for onward executions.

**Scoring:** This module is important part of credit information that analyzes and evaluates entire gathered information accurately and presents rating result to PCR clients. Erstwhile, the rating was

carried out on the basis of system criteria that would cause some problems, but now it is conducted as per economic and financial demand and needs. The trial processing of the report is finished and is ready to be placed in the live site of system. It has to be noted here that clients hold the right of access to credit reports according to Credit Reporting Regulation. Once in a year, public credit registry office issues the report to clients for free, though fee is charged for a second time request.

**3. Office of Registration of Mortgage Rights on Movable Properties**

This section is responsible for regulating affairs related to the system of registration of mortgage rights on movable properties. It has been developed under the provisions of Law on Mortgage of Movable Properties in Banking Transactions and Registry of Securing Charges on Movable Properties in line with international standards.

This report has been prepared in a span of 2013 to Q2 2018 on the basis of registration of mortgage rights on movable properties, elucidated as follow:

- A number of 7,547 mortgage notices have been recorded in the system covering initial notification, corrective, extension, objection and termination notifications, increased by 270 instances compared to a year ago.
- Total loan granted for movable properties reaches to 4,367 instances including 3,630 to firms running with less than 15 staff members, 467 to firms with staff members between 15 and 30; 134 to firms with 30 to 50 employees; 65 to firms with 30 to 100 employees and 71 are issued to businesses with more than 100 staffers.

Of total 4,367 mortgage transactions for movable properties, 4,290 are issued to firms with male-owners; 62 are issued to enterprises with both

male and female owners and only 15 are granted to female-owned businesses.

Furthermore, public online search was at 19,480 in the year 1396 that climbed to 20,751 in a year later (1397), revealing a surge of 1,271 instances.

### **Business Development Section**

Business Development section of PCR is charged to promote public credit registry systems to enable applicants and people-in-need to get access to finance. Among its duties is to arrange awareness trainings and workshops. As per action plans, two workshops have been held on Oct. 8 and 14, 2018 for 58 participants from private entrepreneurs, national merchants, industrialists, female inventors and entrepreneurs, owners of handicrafts, lecturers and students of universities, commercial banks, microfinance institutions and bank unions.

### **Functional Expansion to Cover Relevant Departments**

In the course of FY 1397, apart from holding awareness workshops for induction of public credit registry system and registration of mortgage rights on movable properties system and introduction of new products, PCR has convened several meetings with different organs to discuss development of credit registry and registration of mortgage rights on movable property systems, a pithy review of which is provided below:

- Meeting ADF to discuss launch of public credit registry system
- Meeting deputy officials of finance ministry for revenues to discuss registration of tax information
- Signing agreement with electricity-provider Breshna Sherkat for registration of its clients' information
- Meeting World Bank's international consultants to talk on new PCR system products

- Meeting commercial banks' senior officials and getting their feedback/recommendations on PCR and registration of mortgage rights on movable property systems.

### **IT Section**

IT is a supporting wing of PCR and serves undeniable role in the operation of both systems.

Following are achievements it made in FY 1397:

1. Technical implant of new products, benchmarking, billing and scoring into PCR system to facilitate obtaining of statistical reports, invoices and client scoring based on DAB Law
2. Safeguarding website against any cyber attack disrupting its functions or possibly ceasing it to exist.
3. Setting up a Call Center to enhance the quality of services for clients and firms connected with PCR systems.

### **Legal Counsel**

Aside from providing quarterly reports to World Bank, PCR's legal counsel has carried out the following:

1. Compiled legal content for awareness-raising events held in the capital and provinces
2. Actively contributed in and presented legal context in awareness-raising events
3. Actively participated in meetings with banks and microfinance institutions and relevant financial authorities for utilization of PCR system and observation of regulatory standards in credit information quality
4. Participated in meetings with Breshna and ATRA of ministry of telecommunication in light of legal framework to lead the process

of better and effective utilization of PCR

5. Participated in meetings with World Bank and IFC to discuss the development of PCR system and attraction of pertinent institutions into the stream under relevant regulation
6. Formulated and signed agreements with

Breshna, Islamic financial and investment institutions and Exchanger Zone.

The collective amount of revenues PCR department earned by providing services to banks, micro - and medium-sized financing institutions reaches to AF 2,928,950 elucidated in the table below:

Table 19:

Month	Banks	Microfinance Institutions	Total
December	140,200	15,000	155,200
January	174,400	70,000	244,400
February	210,150	0	210,150
March	231,700	30,000	261,700
April	270,850	15,000	285,850
May	242,450	0	242,450
June	203,300	15,000	218,300
July	265,400	40,000	305,400
August	220,800	5,000	225,800
September	234,600	50,000	284,600
October	248,100	15000	263,100
November	232,000	0	232,000
Total	2,673,950	255000	2,928,950

A large, teal-colored decorative shape on the left side of the page, resembling a stylized arrow or a curved triangle pointing towards the right. It has a white outline and a slight shadow effect.

# **Afghan Deposits Insurance Company (ADIC)**





## Afghan Deposits Insurance Company (ADIC)

ADIC is working to support public deposits in commercial banks, maintain banking stability, encourage depositors, expand savings and attract public confidence on banking sector. The primary goal of ADIC is to secure public trust and accountability towards public deposits in the event of bankruptcy of a financial institution to repay fund. ADIC actively contribute to this effort with the cooperation of other relevant institutions whose establishment has no doubt further enhanced confidence level and public trust on banking and financial sector.

### ADIC Financial Resources

ADIC needs capital and income resources to realize its key goals and objectives. Its capital/income resources are made up of four basic sources: initial and circulatory capital received from Da Afghanistan Bank and Ministry of Finance, commercial bank membership fee, annual premium collected on quarterly basis from commercial banks and proceedings from ADIC's fund investment.

Table ( 20 ) explain financial resources of ADIC

No	Financial Resources/Funds
1	Initial and Circulatory Capital
2	One-time Membership Fee from Commercial Banks
3	Annual Commercial Bank Premium Collected on Quarterly Basis
4	ADIC Fund Investment

### Commercial Banks that Joined ADIC Membership in FY 1397

In FY 1397, DAB-licensed 14 commercial banks have continued to remain as ADIC members that apart from providing banking services, have paid certain annual amount of premium to ADIC on

quarterly installments.

**Table ( 21 ) explain the list of banks paying premium to ADIC:**

NO	Bank Name
1	Azizi Bank
2	Arian Bank
3	Afghanistan International Bank
4	The First Micro Finance Bank
5	National Bank of Pakistan
6	Limited Bank Alfalah
7	Limited Habib Bank
8	Afghan United Bank
9	Bank -e - Millie Afghan
10	Pashtany Bank
11	New Kabul Bank
12	Maiwand Bank
13	Ghazanfar Bank
14	Islamic Bank of Afghanistan

### Premium Amount Collected in FY 1397

ADIC obtains its annual premium from commercial bank account on quarterly basis using a designated formula. ADIC has a total amount of AF 519,008,429 poured into its account as premium from commercial bank accounts.

Table (22) explain total premium received from commercial bank accounts in FY 1397

Total Premium Transferred from Commercial Bank Account into ADIC Account, FY 1397		
Quarters	Amount in Afghani	Year
Fourth Quarter	129,245,805	Jan, Feb, March 2018
First Quarter	125,130,694	April, May, June 2018
Second Quarter	134,370,142	July, Aug, Sep 2018
Third Quarter	130,261,788	Oct, Nov, Dec 2018
Total	519,008,429	

Figure ( 24 ) illustrates premium collected on quarterly basis in FY 1397

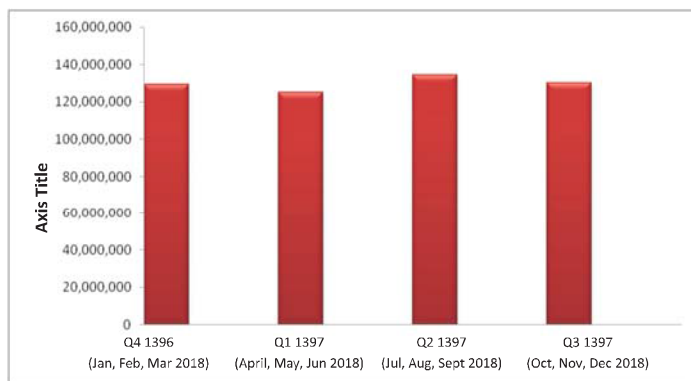
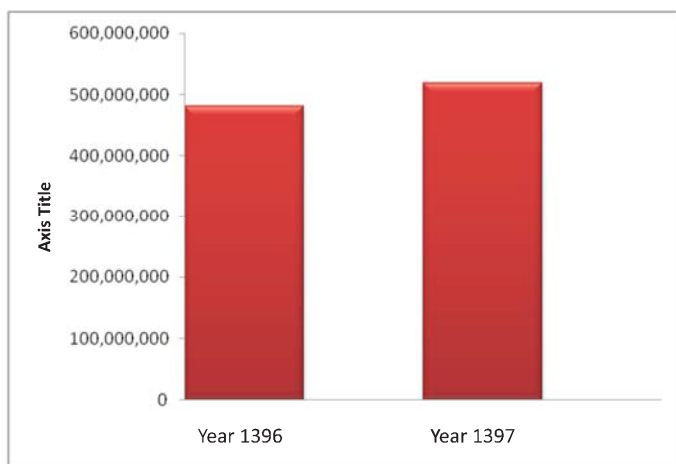



Figure ( 25 ) compares premium collection between 1396 and 1397



As seen above, an amount of AF 481,150,385 has been collected in FY 1396 and AF 519,008,429 in FY 1397, increased by AF 37,858,044 compared to a year earlier.

#### **ADIC Investment, FY 1397**

To secure money, realize strategic goals, prevent its funds from staying idle and bolster money reserves, ADIC has invested through participation in Secondary Market with commercial banks. In FY 1397, ADIC has twice invested in Secondary Market's securities together with commercial banks, earning it a total profit of AF 1,216,713.68 million from the outset to end of FY 1397.

A large, stylized teal shape on the left side of the page, resembling a thick arrow pointing right. It has a white outline and a slight shadow effect.

# **Financial Transactions and Reports Analysis Center of Afghanistan**



## Financial Transactions and Reports Analysis Center of Afghanistan

Fighting money laundering and terrorist financing forms an integral part of our commitment to national and international organizations. Da Afghanistan Bank (Central Bank) is highly devoted and remains strongly committed to fight money laundering, terrorist financing, and corruption.

The fiscal year 1397 (2018) highlighted a series of constraints and challenges that FinTRACA endured and successfully overcame. The center continued making great efforts to bring improvements in the collection, analysis, and dissemination of reports which form the core functions of FinTRACA.

In pursuit of building capacity and enhancing the ability of reporting entities to detect ML and TF red flags, form the suspicion, and improve the quality of STRs and LCTRs; the center proceeded to work with reporting entities and provide them with technical assistance and training programs. As a result, this year the center had a 21% increase in receipt of LCTRs and 59% increase in receipt of STRs. Marking improvement in the quality of STRs, it is worth mentioning that this year's STRs received by FinTRACA were of higher quality and well diversified.

In terms of analysis of reports and financial information, FinTRACA has made tremendous efforts to provide value-added products to LEAs including the Attorney General's Office. Work has been done on the analytical capabilities of FinTRACA staff. The staff has been provided with specialized training programs aimed at capacity building. Analysts have also had increased engagement with relevant stakeholders which enables them to grasp an overall picture of the cases they analyze not only triggered by STRs but also proactive cases.

In the year 2018, the center undertook a new approach to dissemination of financial information to multiple relevant LEAs. As per this new approach, the center disseminated financial information to multi LEAs. Multi disseminations have resulted in the maximization of the efforts of FIU. As relevant information is disseminated to concerned LEAs, the subjects of reports find it more challenging to escape justice.

Statistics compiled at the end of year show 44.4 % increase in cases analyzed by FinTRACA concerning predicate offenses. Filtered and endorsed through 19 FIU executive committee meetings during the year, a total number of 47 spontaneous cases were disseminated to relevant agencies. In addition to the spontaneous disseminations, FinTRACA received a total number of 251 domestic requests for analysis from LEAs and responded 241 requests which stands at 96% response rate. The number of requests show 39% increase compared to the year 2017 which reflects the improving strength and sustainability of inter-agency cooperation.

To improve the effectiveness of the utilization of financial information disseminated to LEAs, FinTRACA continued provision of pieces of training and coaching support to LEAs. These trainings and coaching support programs were focused precisely on ways and methods to utilize information disseminated to LEAs.

FinTRACA's international cooperation endeavors are also glittered by response made to international requests. Signing new MOUs in the year 2018 increased FinTRACA's scope of international cooperation resulting in increased information exchange with foreign FIUs.

In the year 2018, FinTRACA was mindful of the ultimate outcome of its efforts to observe further extent of AML/CFT measures. Therefore, efforts were made to improve the feedback process from LEAs. These efforts included senior-level discussions on FIU cases which took place many times over the course of the year. The key discussions were made in High Council of Rule of Law and Anti-Corruption meetings which included presence of high-level government officials. The council issued resolutions to relevant bodies aimed at better coordination with FIU resulting in improvement in FinTRACA's feedback peak. Meanwhile, a feedback database was established within FIU to track the cases disseminated to LEAs.

Apart from FinTRACA's core mandate, the center's progress in the year is highlighted by certain additional achievements and contributions. The year marked the first steps taken by the Afghan Government to establish the Office of Asset Recovery to recover assets attained through corruption and other predicate offenses. In this regard, FinTRACA worked with the Asset Recovery Office within the AGO to coordinate meetings and facilitate this national project. FinTRACA reviewed the regulation governing asset recovery and recommended the necessary changes to the regulation for better implementation and enhancement of the effectiveness of asset recovery.

FinTRACA took part and contributed in national-level projects such as coordinating the National ML/TF Risk Assessment (NRA), financial verification of declared assets of high ranking government officials, and signed MOU with National Procurement Authority to further improve transparency and limit access of financial criminals to public projects.

In terms of enforcing compliance, FinTRACA en-

forced and recovered AFN5.62 M financial fines on banking institutions and money service providers; measured the freezing order of 29 bank accounts; engaged in closure of non-compliant bank accounts; suspension of 17 business licenses of MSPs; revocation of business licenses of 8 MSPs; as well as dissemination of proactive analysis of unlicensed MSPs in 7 zones of the country.

FinTRACA signed two international MOUs with the Financial Intelligence Units of Australia and Kazakhstan which marked the overall number of international MOUs to 18. These MOUs expanded the center's scope of international cooperation and information exchange.

The center also signed two domestic MOUs with National Procurement Authority (NPA) and the Ministry of Interior Affairs (Mol). The MOU signed with NPA is a landmark achievement which signifies a new measure that FIU shall cooperate with the NPA in financial verification of contractors. The MOU signed with Mol expands the scope of domestic cooperation and exchange of information.



## **Budget and Financial Statement**

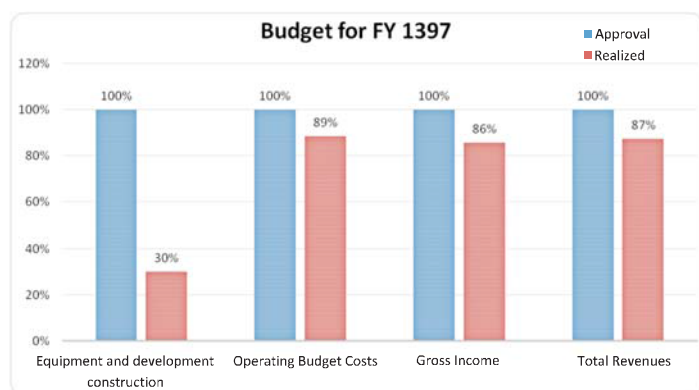




## Budget and Financial Statement

The Finance and Accounting Department is responsible for preparation of Da Afghanistan Bank's budget, revenues and expenditures. After going through careful analysis and evaluation, DAB's operating and development budget is finally approved by Supreme Council, the highest decision-making body of the bank.

Figure (26) illustrates increase/decrease in real and approved budget



### 1. Revenue

The revenue components include commission revenues, interest revenue from investment of foreign exchange, other revenues, Kabul Bank loan interest revenue, revenue realized from the sale of foreign exchange and income from contributions.

**Commission revenues:** This component of revenues includes commissions/charges from financial controls, current account opening, check books, SWIFT, capital transfers, penalty for sale of foreign exchanges and exchange of USD and other miscellaneous commissions and the real figures reveal a 23 percent decline in FY 1397 as compared to projected budget rate. The decrease comes due to amendments in fee statements, electricity bill as well as 0.65 percent charge for holding of Euro cash which was previously held by DAB and now transferred to private banks.

**Interest Revenues from Investment of Foreign Exchanges:** This revenue segment comprises realized income from dealing FX, RAMP project, interest from deposits in foreign banks and correspondent banks) and discount on purchase of securities. The real figures of FY 1397 represent 33 percent increase in investment of foreign exchanges; the main factors were interest rate of investment of FX, inflow/outflow of currency reserves at various levels and capitalization of these reserves to avoid stagnation of DAB assets.

**Other revenues:** It includes currency account opening fee, penalties for delay in agreements with financial institutions, revenues from grants, rents, banking supervision fees, bank financial position control, income from properties, physical money transfer fees, annual income of e-money institutions and other related revenues. The real figures of FY 1397 depict 447 percent increase mainly due to rise in financial supervision department's penalties for violation of banking financial rules, discount on interest rate of Kabul Bank which is 2 percent according to agreement, while market rate in FY 1397 was roughly 7 percent.

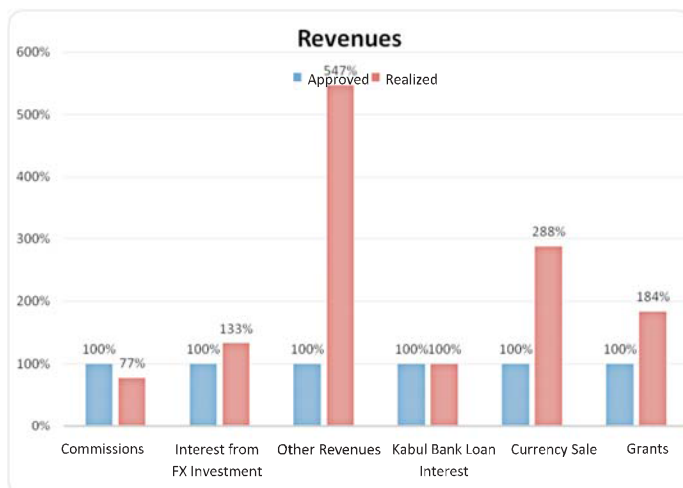
**Kabul Bank Loan Interest Revenues:** The real figures in FY 1397 reveal no difference (increase or decrease) to projected budget.

**Revenues from FX Sale:** It includes realized income from sale of FX. The real figures in FY 1397 indicate 188 percent increase over projected budget and the main driver of the significant rise is exchange rate in market in year 1397.

**Revenue from Contributions:** It includes granted equipments and the real figures in FY 1397 represent 84 percent increase over projected budget.

The main driver is the unexpected rise in grants against forecasts of relevant agencies.

Figure ( 27) reveals approved and real revenue components during FY 1397 (in percentage)



### Expenditures:

Expenditures entail prudential-operating costs, contingent costs, furniture, equipment and development-construction costs.

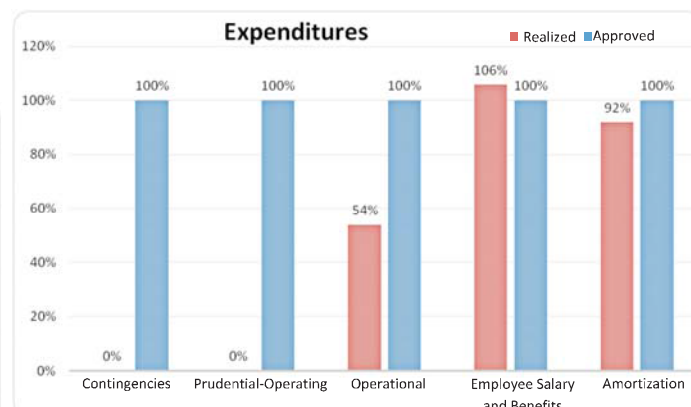
### Prudential-Operating Costs and Unexpected/Contingent Incidents Costs:

**Operating Costs:** The real figures of operating costs in FY 1397 greatly reflects fluctuation (rise and fall) that generally indicate 46 percent decline over projected budget. The main driver of this development is the auction of capital notes with lower interest rate given the country's economic environment.

**Employee Salaries and Benefits:** It includes remuneration, overworks, incentive payments, financial aids and employee pension and the real figures of FY 1397 represent 6 percent rise in personnel which is not remarkable over the projected budget.

**Amortization:** Amortization constitutes part of expenditures and its real figures of FY 1397 indicate 8 percent decline over the projected budget.

Figure (28) depicts approved and real expenditures in FY 1397



### Fixtures and Equipment Costs and Development-Construction Costs:

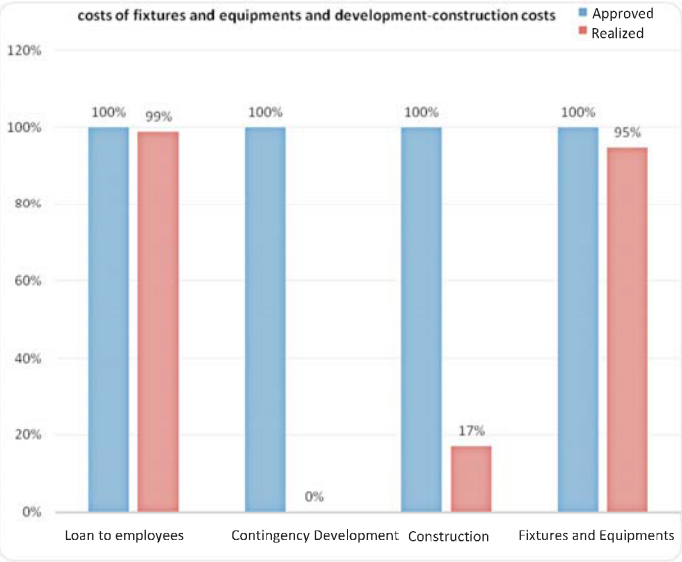
It includes costs in the form of loan for DAB employees, prudential-development, and construction as well as equipment and fixtures costs.

**Loans to Employees:** It includes a variety of loans DAB is giving to its employees. The real figures of FY 1397 represent one percent decrease over projected budget which is negligible by comparison.

**Construction:** It includes the construction costs of structures and perimeter walls of new DAB facilities in the capital city and provinces and its real figures in the year under review indicate 83 percent decline over approved budget. The main reason behind the downward slope is non-implementation of development and construction projects along the year in review.

**Fixtures and Equipments:** It includes costs of furniture, fixtures, electronics, vehicles, computers and printers, IT equipments, banknote printing, miscellaneous equipments and software. The real figures of this component reveal 5 percent decrease over projected budget which is not significant as compared to the approved budget.

Figure (29) depicts costs of fixtures and equipments and development-construction costs



**DA AFGHANISTAN BANK**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 QAWS 1397 (21 DECEMBER 2018)**

		30 Qaws 1397 (21 December 2018)	30 Qaws 1396 (21 December 2017)
			Restated
	Note	----- (Afs in '000) -----	-----
<b>ASSETS</b>			
Gold reserves	7	66,178,591	61,668,571
Foreign currency cash reserves	8	23,048,236	84,615,473
Due from banks and financial institutions	9	325,675,327	226,663,854
Investments	10	207,146,604	191,419,709
Assistance as lender of last resort	11	6,961,885	14,588,096
Advances and other receivables	12	2,046,004	1,630,676
Operating fixed assets	13	5,395,913	5,288,432
Intangible asset	14	62,026	86,381
Other assets	15	13,451,596	13,189,117
<b>Total assets</b>		<b>649,966,182</b>	<b>599,150,309</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Currency in circulation	16	228,055,578	228,633,956
Capital notes	17	33,698,650	38,963,862
Due to banks and financial institutions	18	90,651,239	106,919,372
Due to customers	19	136,516,279	100,125,251
IMF related liabilities	20	2,418,784	1,402,666
Defined contribution obligation	21	1,646,033	1,467,534
Deferred grants	22	155,933	111,429
Provisions and other liabilities	23	10,051,640	1,262,031
<b>Total liabilities</b>		<b>503,194,136</b>	<b>478,886,101</b>
<b>EQUITY</b>			
Capital	24	24,221,649	23,520,250
Revaluation reserve	24	64,987,518	59,332,478
Other components of equity	24	33,341,230	22,739,085
General reserve	24	24,221,649	23,520,250
Accumulated profits	24		(8,847,855)
<b>Total equity</b>		<b>146,772,046</b>	<b>120,264,208</b>
<b>Total liabilities and equity</b>		<b>649,966,182</b>	<b>599,150,309</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	25		

The annexed notes 1 to 39 form an integral part of these financial statements.

**Syed Younas Sadat**  
Chief Financial Officer

**Muhammad Qaseem Rahimi**  
Second Deputy Governor

**Wahedullah Noshier**  
The Acting and First Deputy Governor  
Da Afghanistan Bank

**DA AFGHANISTAN BANK**  
**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)**

		30 Qaws 1397 (21 December 2018)	30 Qaws 1396 (21 December 2017)
			Restated
	Note	----- (Afs in '000) -----	-----
Profit for the year		29,844,024	19,277,227
<b>Other comprehensive income</b>			
<b>To be reclassified to statement of profit or loss account In subsequent periods</b>			
Revaluation gain on gold reserve	7	4,510,020	8,867,675
Net unrealised gain on available for sale financial assets		1,145,020	152,644
<b>Other comprehensive income for the year</b>		<u>5,655,040</u>	<u>9,020,319</u>
<b>Total comprehensive income for the year</b>		<u><u>35,499,064</u></u>	<u><u>28,297,546</u></u>

The annexed notes 1 to 39 form an integral part of these financial statements.

**Syed Younas Sadat**  
Chief Financial Officer



**Muhammad Qaseem Rahimi**  
Second Deputy Governor



**Wahedullah Noshier**  
The Acting and First Deputy Governor  
Da Afghanistan Bank



**DA AFGHANISTAN BANK**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)**

	Note	30 Qaws 1397 (21 December 2018) ----- (Afs in '000) -----	30 Qaws 1396 (21 December 2017) -----
<b>Cash flows from operating activities</b>			
Profit for the year		29,844,024	19,277,227
Adjustments:			
Depreciation and amortisation	13.2 & 14	82,271	67,419
Interest income	26	(7,386,329)	(3,762,404)
Interest expense	27	127,714	2,629,693
Grant income	22	(39,935)	(36,116)
Grant expense		39,935	36,116
Loss on disposal of investment property		-	9,000
Reversal of provision on advances and other receivables	12.5	(353,814)	-
		<u>22,313,866</u>	<u>18,220,935</u>
Working capital adjustments:			
Increase in due from banks and financial institutions	9	(111,829,160)	(20,677,179)
Decrease in assistance as lender of last resort	11	7,472,959	7,343,039
Increase in advances and other receivables	12	(61,514)	(233,873)
Decrease in other assets	15	16,324	520,710
(Decrease) / Increase in currency in circulation	16	(578,378)	5,022,507
(Decrease) / Increase in due to banks and financial institutions	18	(16,268,133)	25,128,855
Increase in due to customers	19	27,399,802	11,716,810
Increase in IMF related liabilities	20	1,016,118	979,451
Increase in defined contribution obligation	21	178,499	1,375,982
Increase in provisions and other liabilities	23	8,789,609	(892,130)
		<u>(83,863,874)</u>	<u>30,284,172</u>
		<u>(61,550,008)</u>	<u>48,505,107</u>
Interest received		6,935,659	3,660,748
Interest paid		(127,714)	(2,629,693)
Grant received		84,439	9,846
<b>Net cash flows (used in) / from operating activities</b>		<u>(54,657,624)</u>	<u>49,546,008</u>
<b>Cash flows from investing activities</b>			
Investments made during the year	10	(14,581,877)	(42,317,928)
Purchase of property and equipment	13.2	(190,344)	(88,918)
Capital work-in progress additions	13.1	(9,925)	(8,611)
Purchase of intangible assets	14	(4,570)	(8,995)
Proceeds from sale of property and equipment		(493)	12,800
<b>Net cash flows used in investing activities</b>		<u>(14,787,209)</u>	<u>(42,411,652)</u>
<b>Cash flows from financing activities</b>			
Repayments against capital notes	17	(5,265,212)	(3,622,019)
<b>Net cash flows used in financing activities</b>		<u>(5,265,212)</u>	<u>(3,622,019)</u>
Net increase in cash and cash equivalents		<u>(74,710,045)</u>	<u>3,512,337</u>
Cash and cash equivalents at beginning of the year		<u>203,096,937</u>	<u>199,584,600</u>
<b>Cash and cash equivalents at end of the year</b>	32	<u><u>128,386,892</u></u>	<u><u>203,096,937</u></u>

The annexed notes 1 to 39 form an integral part of these financial statements.

**Syed Younas Sadat**  
Chief Financial Officer

**Muhammad Qaseem Rahimi**  
Second Deputy Governor

**Wahedullah Noshier**  
The Acting and First Deputy Governor  
Da Afghanistan Bank

**DA AFGHANISTAN BANK**  
**STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)**

		30 Qaws 1397 (21 December 2018)	30 Qaws 1396 (21 December 2017) Restated
	Note	----- (Afs in '000) -----	
Interest income	26	7,386,329	3,762,404
Interest expense	27	(127,714)	(2,629,693)
<b>Net interest income</b>		<b>7,258,615</b>	<b>1,132,711</b>
Fee and commission income		269,771	310,156
Fee and commission expense		(179,079)	(102,904)
<b>Net fee and commission income</b>		<b>90,692</b>	<b>207,252</b>
Net gain from dealings in foreign currencies		14,435,988	311,685
Net loss on sale of available for sale financial assets		(1,282,652)	(463,318)
Other income	28	1,049,304	1,053,182
		<b>14,202,640</b>	<b>901,549</b>
<b>Operating income</b>		<b>21,551,947</b>	<b>2,241,512</b>
Personnel expenses	29	(1,485,394)	(1,368,384)
Printing cost of bank notes	12.3	(81,238)	(53,726)
Other operating expenses	30	(661,165)	(281,000)
Depreciation and amortization	13.2 & 14	(82,271)	(67,419)
<b>Net operating income</b>		<b>19,241,879</b>	<b>470,983</b>
<b>Non-operating revenue and expenses:</b>			
Grants income recognized against deferred grant	22	39,935	36,116
Expenditure against grants	31	(39,935)	(36,116)
		-	-
Net unrealised exchange gain		10,602,145	18,806,244
<b>Profit for the year</b>		<b>29,844,024</b>	<b>19,277,227</b>

The annexed notes 1 to 39 form an integral part of these financial statements.

**Syed Younas Sadat**  
Chief Financial Officer

**Muhammad Qaseem Rahimi**  
Second Deputy Governor

**Wahedullah Noshier**  
The Acting and First Deputy Governor  
Da Afghanistan Bank



**DA AFGHANISTAN BANK**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 QAWS 1397 (21 DECEMBER 2018)**

	Revaluation reserve				Other components of equity						
	Net unrealised (loss) / gain on available for sale financial assets	Freehold land	Gold	Total revaluation reserve	Exchange translation reserve	Residual undistributed net unrealized valuation gains	Total other components of equity	General reserve	Accumulated profits	Grand total	
Note	Capital				(Afs in '000)						
Balance at 01 Jaddi 1395 (21 December 2016)	19,267,500	(193,507)	947,292	33,725,937	34,479,722	137	18,951,803	18,951,940	19,267,500	-	91,966,662
Effect of restatement due to change in accounting policy (refer to note 36)	-	-	-	15,843,252	15,843,252	-	(6,984,582)	(6,984,582)	-	(8,858,670)	-
Balance at 01 Jaddi 1395 (21 December 2016) - Restated	19,267,500	(193,507)	947,292	49,569,189	50,322,974	137	11,967,221	11,967,358	19,267,500	(8,858,670)	91,966,662
Total comprehensive income for the year:											
Profit for the year	-	-	-	-	-	-	-	-	-	19,277,227	19,277,227
Other comprehensive income:											
Net unrealised gain on available for sale financial assets	-	152,644	-	8,867,675	152,644	-	-	-	-	-	152,644
Revaluation gain on gold reserve - Restated	-	-	-	8,867,675	8,867,675	-	-	-	-	-	8,867,675
Total other comprehensive income	-	152,644	-	8,867,675	9,020,319	-	-	-	-	-	9,020,319
Total comprehensive income for the year	-	152,644	-	8,867,675	9,020,319	-	-	-	-	-	28,297,546
Surplus transferred to retained earnings on disposal of properties	-	-	(10,815)	-	(10,815)	-	-	-	-	10,815	-
Transactions recorded directly in equity:											
Transfer to capital - Restated	4,252,750	-	-	-	-	-	-	-	-	(4,252,750)	-
Transfer to general reserve - Restated	-	-	-	-	-	-	-	-	4,252,750	(4,252,750)	-
Transfer to MoF	-	-	-	-	-	-	-	-	-	-	-
Transfer to residual net unrealized valuation gains - Restated	-	-	-	-	-	-	10,771,727	10,771,727	-	(10,771,727)	-
Balance at 30 Jaws 1396 (21 December 2017)	23,520,250	(40,863)	936,477	58,436,864	59,332,478	137	22,738,948	22,739,085	23,520,250	(8,847,855)	120,264,208
Balance at 01 Jaddi 1396 (22 December 2017)	23,520,250	(40,863)	936,477	58,436,864	59,332,478	137	22,738,948	22,739,085	23,520,250	(8,847,855)	120,264,208
Total comprehensive income for the year:											
Profit for the year	-	-	-	-	-	-	-	-	-	29,844,024	29,844,024
Other comprehensive income:											
Net unrealised gain on available for sale financial assets	-	1,145,020	-	-	1,145,020	-	-	-	-	-	1,145,020
Exchange gain on translation of available for sale financial assets	-	-	-	4,510,020	4,510,020	-	-	-	-	-	4,510,020
Revaluation loss on gold reserve	-	-	-	-	-	-	-	-	-	-	-
Remeasurement gain on defined benefit plan	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive (loss) / income	-	1,145,020	-	4,510,020	5,655,040	-	-	-	-	-	5,655,040
Total comprehensive (loss) / income for the year	-	1,145,020	-	4,510,020	5,655,040	-	-	-	-	-	29,844,024
Surplus transferred to retained earnings on disposal of properties	-	-	-	-	-	-	-	-	-	-	-
Transactions recorded directly in equity:											
Transfer to capital	701,399	-	-	-	-	-	-	-	-	(701,399)	-
Transfer to general reserve	-	-	-	-	-	-	-	-	701,399	(701,399)	-
Transfer to MoF	-	-	-	-	-	-	-	-	-	(8,991,226)	(8,991,226)
Transfer to residual net unrealized valuation gains	-	-	-	-	-	-	10,602,145	10,602,145	-	(10,602,145)	-
Balance at 30 Jaws 1397 (21 December 2018)	24,221,649	1,104,157	936,477	62,946,884	64,987,518	137	33,341,093	33,341,230	24,221,648	-	146,772,046

The annexed notes 1 to 39 form an integral part of these financial statements.

**Syed Younas Sadat**  
Chief Financial Officer

**Muhammad Qaseem Rahimi**  
Second Deputy Governor

**Wahedullah Noshier**  
The Acting and First Deputy Governor  
Da Afghanistan Bank





## **Banking Operation Department**



## Banking Operations Department

As per DAB Law, the central bank acts as state banker and chief of banks. Banking operation department, therefore, provides banking services within DAB structure to state agencies, commercial banks and DAB staff.

It managed to follow its action plans 1397 successfully and fulfill all the predetermined objectives and activities, which will be discussed below.

### **A. Cash and Non-Cash Transaction Management**

#### **1. Afghani Liquidity**

To keep bank branches liquid, provide money for state spending, ensure commercial bank liquidity and disbursement to Afghanistan's Citizen Charter projects, an amount of AF 10.5 billion has been transferred to provinces through ground and air with the support of security authorities. Furthermore, to ensure liquidity in capital city and maintain cash at an appropriate level in branches, a surplus amount of AF 29.7 billion, Euro 1.5 million and USD 140.5 million have successfully been moved to capital and placed in the central treasury. Amid worse security conditions, zero civil and military flights to certain provinces coupled with other challenges facing the transfer of cash, attempts have been made to address the problem by keeping the respective branches adequately cashed to avoid running illiquid and these efforts have paid off and necessary liquidity has been provided as soon as need arose.

#### **2. Foreign Currency Liquidity**

Given the lack of stability in trade balance, Afghanistan suffers from foreign trade balance deficit that challenges the sound management of FX liquidity. In spite of all FX liquidity management difficulties, DAB has become able to well manage currency deficit especially the USD in domestic market.

#### **3. Old Banknote Collection and Incineration**

To have a well-organized and accountable monetary system in place and prevent worn and battered banknotes from overfilling the market, DAB has collected and replaced the old banknote with new one with the help of its 49 branches as well as commercial banks across the country in accordance with official notice and has later burned the piled old banknotes to ashes in capital and relevant zones under the watch of teams composed of representatives from state institutions including members of parliament. In FY 1397, a cumulative amount of AF 11.3 billion has been destroyed to mop up excessively worn banknotes from circulation.

#### **4. Banking Services**

Banking Operations dept. has struggled to its best to ensure quick, safe and transparent banking services. Government revenues in FY 1397 have been funneled to pertaining accounts, meeting government costs and other needs on timely basis. The department's operations will be explained below on point basis.

- In FY 1397, 390 accounts have been opened for commercial banks, National Citizen Charter program, DAB staff and state agencies and as many as 9600 check books have been issued to ministry of finance and other clients.
- Approximately 170000 government, banks and other organizations' Afghani and FX transactions have been processed in the central bank.

Table (23) explain quantity and amount of Afghani and FX transactions by government, banks and

Transaction Type	Currency Type	Quantity	Value (in Billion)
Transfer Transactions	Afghani	66,586	520
	USD	36,980	651.8
	Euro	576	10.9
Cash Transactions	Afghani	64,501	192.1
	USD	2,007	3.1
	Euro	327	0.395

other organizations

### B. Administration and Development

Banking Operation has worked towards administration and development efforts in year under review, summed up in the below.

1. Banking Operations Dept. has processed 8,700 inward and outward letters with internal offices, ministries and all other government institutions doing business with DAB. In the meantime, activities report has been developed and submitted to relevant sections.

2. E-Payment Development Scheme: Taking into account the vital role of payment in financial context, DAB has made gigantic strides towards further development of payments in Afghanistan to align it with international standards and eventually generate convenience, speed and transparency in the banking sector's asset transfer. Following lengthy negotiations in FY 1397, the plan and practical mechanism for e-payment development was laid out in collaboration between DAB and relevant parties and after submission to Supreme Council, it was approved to take effect.

This mechanism is formulated to realize the following objectives:

- To provide effective, cheap, safe and transparent banking services to clients, in particular traders
- To build convenience and speed in tax

- collection and other commercial deals
- To diminish risks associated with transportation of physical money
- To collect government revenues with any geographical restriction
- To further promote the banking culture among folks and familiarize them with banking products and benefits
- To advance the idea of doing non-cash transactions and avoid unnecessary decaying of banknotes.

The mechanism for implementation of abovementioned plan will take place in three stages (first phase – 1<sup>st</sup> of Dalwa 1397, Kabul; second phase – 1<sup>st</sup> of Hoot 1397 in six zones and third phase – 1<sup>st</sup> of Hamal 1398 in all other provinces) and as per this plan any government revenue above AF 50,000 will be collected by commercial banks and then moved to government accounts in Da Afghanistan Bank. With conducting this scheme, positive developments have already appeared in cash management and longer-than-usual decaying of banknotes, facilities for government and payers in revenue collection and payment, transparency has been ensured and risks mitigated in transportation of physical money.

### 3. Printing of Afghani Banknote

Given the banknote corrosion, removal and market demand, it is necessary to print new Afghani banknotes and pump them into economic stream. In FY 1397, followings were done to print new notes.

- Listing of new banknote features
- Administrative processing and getting approval of DAB executive board and Supreme Council for new banknote
- Submission of features to Procurement Dept and National Procurement Commission
- Renewing of commission notice

For the needs of time, DAB's commission notice

has been revised with the cooperation of relevant departments to build convenient and friendly environment for commercial banks, strengthen the banking sector and reduce the asset transfer costs. Following executive board's approval, the notice has been submitted to relevant offices for further executions.

#### **5. Revision of Operational Mandate**

As a state banker and correspondent bank to commercial banks, DAB operate to maintain government accounts, receive and confirm state and government agencies' deposits at the behest of ministry of finance, provide payment and other relevant financial services to government agencies and Afghanistan-based commercial banks. For proper performance, it is essential to have an operational mandate in place. This mandate serves both as operational guide in administration and training

and instruction for employees. The mandate was first drafted and published in 1395 (2016) and underwent certain modifications and review following changes in the operations and organizational structure. With content enrichment, it converted from procedure to mandate which is ready for the approval of executive board.

#### **6. Revision of Negotiable Instruments Law**

Negotiable Instruments Law is one of weighty laws in the banking sector, in the light of which commercial instruments like check, bill and certificates are regulated and dealt with. The law was first published in 1387 (2008) that came under review with the passage of time and financial developments. Banking Operation Dept. considers making certain amendments to the law that is about to finish before being submitted to next sources for considerations.





## **Administration and Development**





## Administration and Development

### Comptroller General Office

Internal audit forms an indispensable segment of an institution that works towards strengthening of organizational operations, enhancement and empowerment of systematic internal control, assistance to strategic risk management and ensuring of transparency in internal and external reporting. Its functionality is contingent upon the level of its autonomy and impartiality.

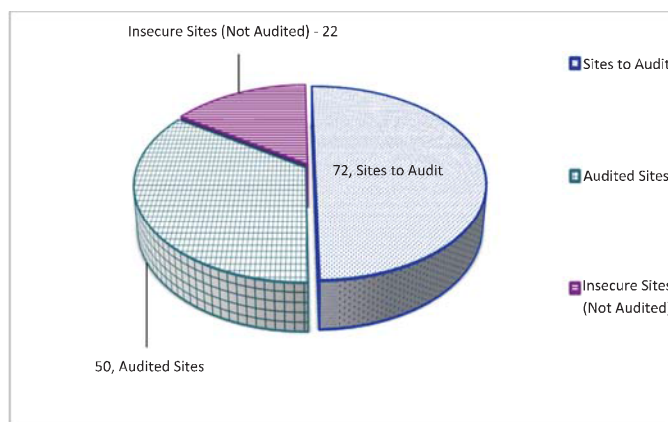
As DAB's internal inspection unit, comptroller office constitutes part of internal control effort that is charged to express opinion and exercise independent and neutral assessment of proper implementation and compliance of statements, policies, laws and regulations enforced within Da Afghanistan Bank. It is also in charge of supervision of sound implementation of Supreme Council and executive board decisions. The objectives and scope of work of comptroller office is regulated by Internal Audit Charter and 21<sup>st</sup> article of Da Afghanistan Bank Law.

With its departmental structure of 45 employees, it has carried out the audit plan 1397 and other non-planned inspections in year under review that will be discussed in the coming part.

#### Implementation of Audit Plan FY 1397

According to audit plan FY 1397, audit of 50 out of 72 planned sites including headquarter offices, city branches, seven regional offices plus provincial branches have been completed and the findings have been presented to Governor's office and internal audit committee and the rest of 22 sites couldn't be reached due to distance and insecurity.

Figure ( 30 ) depicts audited and unaudited sites



The impediments to the conduct of audit in certain sites included mainly lack of facilities such as commercial flights to respective provinces, prolongation of audit in capital offices for various reasons and huge obstacle was insecurity and perilous routes. In FY 1397, most troubled sites have been assessed on the basis of approved control procedure "Self-Assessment Control" without inspection team attendance, the results of which have been reported to executive board of Da Afghanistan Bank.

#### Audit of Special Cases

The cumulative number of special cases assigned to comptroller unit for audit reaches to 18. Preliminary findings and audit outcomes have been presented in separate reports to executive board (under its administrative responsibility) and internal audit committee (under functional responsibility).

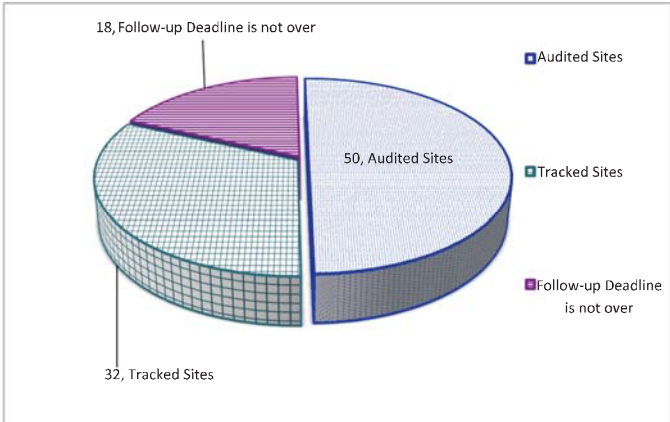
#### Quality Assurance Office

As audit teams' findings entitled under "observations" is addressed to Da Afghanistan Bank Governor's office with risk ratings (high, medium, low) plus corrective recommendations included in this separate report, the Governor's office reviews and gives directions in official letter

for implementation of the recommendations, a copy of which is submitted to Quality Assurance team for follow-up works. As the specified time matures, Quality Assurance office conducts the follow-up audit in order to ensure implementation or non-implementation of the recommendations. As for recommendations not exercised thanks to some excuses and/or reasons, a second timeframe is being set by relevant team. If the targeted case of observation is still not realized, it moves to the priorities of following audit team.

From among 50 sites audited in FY 1397, thirty two (32) sites with expired maturities had been tracked by Quality Assurance office and 18 were tracked after maturity date was over.

Figure ( 31 ) depicts sites under follow-up



Moreover, 51 approvals of Supreme Council and 400 approvals of executive board have been tracked and reported on quarterly basis by Quality Assurance office to internal audit committee and Supreme Council of Da Afghanistan Bank.

### Staff Capacity Building

Fortunately, as an IMF recommendation for controller staff members to complete a Certified Internal Audit training program, 16 members of the office successfully ended the first part of “Coaching Classes” and will appear to an online test by the end of FY 1397.

### Governor’s Office Department

Governor’s Office Department operating under two main sections (communications and docu-

mentations) is the only responsible department for DAB’s communications. Since access to information on activities of Government of Islamic Republic of Afghanistan is the right of every citizen, this department strives to publish and spread information precisely.

Governor’s Office Department has reflected DAB’s activities and achievements through prints, DAB websites, social media network and attending public awareness events in schools and universities. Following is the brief on activities of this department it has achieved during FY 1397.

### Publications Office

Publications office has continuously strived to reflect every DAB event, achievements and message through bank’s monthly magazine, quarterly bulletins, annual reports and other publications to raise the knowledge of people, academic folks, students and media.

Aside from reflecting DAB’s accomplishments, it put awareness-rising notices on bank magazine, pictorial booklets and brochures centered on promotion and well maintenance of Afghani currency. In FY 1397, Publications Office has succeeded in publishing all 12 issues of monthly magazine bilingually (Dari and Pashto) that contains articles on economic issues and bank events and functions and make them available to DAB stakeholders.

The same year, annual report 1396 involving the performances of monetary policy, market operations, payments, Afghanistan’s banking system, ADIC, FinTRACA, public credit registry, overview of world economy and development and administration, was compiled and published in three languages (official languages and English) and became available to bank stakeholder groups.

As a means of promotion of Afghani and publicity, Publications office designed and published Solar Year 1397 calendar in wall and table forms that features mottos on promotion of Afghani currency and its better handling.

It also has composed and published Statistical and Economic Bulletin FY 1396 in Dari and Pashto that discuss domestic monetary and financial issues as well as world economic topics.

Other functions include writing reports on press conferences, workshops and other official bank events for social media audience, website and bank magazine; filming as many as 100 functions including conferences, old banknote incineration event, operational and official meetings and other bank occasions in capital Kabul and provinces; archiving film records of bank's official events, keeping record of magazines, bulletins and annual reports in its archive section; making video and pictorial records of interviews with people for the purpose of promotion and maintenance of Afghani currency to be posted on social media platforms; distribution of published materials to offices of Government of Islamic Republic of Afghanistan, media services, seven DAB zones and others.

### **Communications Office**

Given the principal of access to information, Communications Office of Governor's Office Department has worked hard to spread overall objectives, duties, policies and activities of Da Afghanistan Bank through bank website, social media networks such as facebook, twitter and youtube as well as by way of conferences, seminars and workshops.

In the coming section, we will take a glimpse of communication office's actions taken in FY 1397.

The office has arranged and conducted seven press conferences on various DAB executive board decisions on banking and monetary situations of Afghanistan, at least seven workshops and training seminars for public awareness on DAB goals, responsibilities and policies. It has additionally prepared and published reports on roughly 70 leadership meetings and four Supreme Council meetings through website and social media platforms for

public awareness. It hasn't solely relied on internal channels to spread newsletters; rather it has emailed them directly to media outlets. Other FY 1397 activities include publishing of 10 occasional messages by bank leadership, dissemination of publications (magazine, annual report and bulletin) through bank's contact channels and providing feedback to emails received in bank's official "info" address.

### **Public Awareness Office**

Public awareness office has been established within Governor's Office Department in late FY 1397. The mission of this section is to ensure public access to information regarding DAB's key duties, accompanied by strengthening of bank policies and gaining of public consent and trust towards overall bank policies.

Public awareness has made every effort in FY 1397 to raise the awareness of and enable DAB stakeholders and people to gain access to information, which will be briefly discussed in the coming section.

It has conducted one-day awareness workshop to 40 journalists from the economic units of media and four-day workshop for a whole number of 800 university students about the bank's objectives, responsibilities and policies. Dialogue with university lecturers on the bank's monetary policies is another effort conducted by public awareness.

Among this were enlightening efforts and attendance in Kabul schools to raise student awareness and distribute encouraging promotional materials on Afghani currency; putting up of 160 ads-bearing billboards in Kabul and provinces; designing and distribution of forty thousand occasional pamphlets about 28 Assad the 100<sup>th</sup> anniversary of National Independence Day; distribution of printed advertisements across hospitals, mosques, markets, drugstores and other points highly frequented by people. To persuade people into using Afghani in daily dealings, publishing of notices

about achievements and promotion of Afghani currency on social media platforms is among other efforts made in FY 1397.

Aside from abovementioned, public awareness has prepared a short animation film featuring a key DAB goal (price stability) which has been published on social media pages and displayed in a number of schools.

### **Translation Board**

Translation board is tasked to translate publishing materials, laws, regulations and other legal bank documents from one language into another. To deliver DAB's objectives, duties, performances and achievements to people and stakeholders in a proper and easy manner, Governor's Office Dept. has strived to convert publications and communication stuff between national languages (Dari and Pashto) as well as into English language and publish them for public awareness. Translation board is an active teammate towards effective publication of bank stuff through sources like magazine, annual report, economic bulletin, social media and internal and external bank websites.

Besides the preceding, it has translated contents such as policies, laws, regulations, procedures, contracts and other legal bank documents.

### **Legal Counsel**

Legal Counsel Office of DAB is engaged to formulate, draft, amend and process legislative documents, regulations, policies and internal procedures. It undertook positive steps towards drafting and finalizing of legislative documents and other legal affairs as necessary in FY 1397. Legal Counsel's FY 1397 activities will be summed up as follows:

1. DAB law amendment drafted and processed through final step by DAB and other relevant offices and submitted to National Assembly for ratification.
2. Law on Mortgage of Immovable Properties in Banking Transactions' amendment was drafted

and approved by executive board of DAB in letter no. (417) dated 21/11/1397 for submission to Supreme Council.

3. Asset Classification and Loss Provisioning Regulation's amendment was drafted and ratified in Supreme Council's letter no. 18 dated 16/10/1396.

4. FX Dealers and MSPs Regulation's amendment was drafted and ratified in Supreme Council's approval no. 19 dated 16/10/1396.

5. FX Dealers and MSPs Regulation's amendment was drafted and ratified in Supreme Council's approval no. 56 dated 28/12/1396.

6. Lending Regulation's proposed amendment was drafted and ratified in approval no. 24 dated 16/10/1396.

7. Market Risk Management procedures' amendment was drafted and ratified in Supreme Council's approval no. 54 dated 16/10/1396.

8. Information Protection Policy's amendment was drafted and ratified in Supreme Council's approval no. 15 dated 13/4/1397.

9. Payments Procedure's amendment was drafted and ratified in Supreme Council's approval no. 14 dated 13/4/1397.

10. ATS and CSD Procedure's amendment was drafted and ratified in Supreme Council's approval no. 26 dated 1/7/1397.

11. DAB Communications Policy's amendment was drafted and ratified in SC's approval no. 37 dated 28/9/1397.

12. FX Auction Regulation's amendment was drafted and ratified in SC's approval no. 32 dated 27/9/1397.

13. DAB Import Letters of Credit issuance procedure's amendment was drafted and ratified in SC's approval no. 36 dated 27/9/1397.

### **Human Resources Department**

Considering the seventh pillar of Da Afghanistan Bank's Strategic Plan, HRD is committed to improve human resources management in order to



foster employee efficiency, satisfaction and skills. In FY 1397, HRD focused its entire efforts on effective, efficient, accountable, transparent and institutional management in a bid to attract, retain and improve skilled employees. HRD's achievements include: necessary reforms in Da Afghanistan Bank's organizational structure; modification of bank employee information system; operationalization of electronic attendance module; training and development of HR staffers; launch and development of health insurance scheme; launch of pension project and pension transfer to employees' respective account; launch of World Bank-funded educational and professional projects; drafting of legislative and administrative documents; devising of benefits policy for internationally-recognized professional certificates and inking of agreements with 59 national universities and institutes on various contexts. Committed to implementing Action Plan 1398, HRD strives to attain further goals and achievements to advance Da Afghanistan Bank's human resources to the point of statewide renowned model.

Following are achievements of Human Resources Department in FY 1397:

**HR Structuring and Planning:** The department has carried out a load of efforts to chalk out and conduct structural reforms and work processes that has further facilitated procedures and raised its effectiveness. Da Afghanistan Bank's all-inclusive employee number is placed at 2339, out of which 1001 work in provincial zones and the rest are engaged in the capital city.

The organizational structure efforts include review and amendment of departmental structures and formulation of employee job description.

To bring organizational structure in line with accepted standards and define hierarchy in Action Plan 1397, twelve administrative structures of Da Afghanistan Bank were reviewed, modified and reformed which apart from it, contributed in re-

shuffling of regional departments and 64 regional branches and booths to meet the routine functional requirements.

HRD's current year agenda involves reforming of the organizational structure of human resources, banking operations, market operations, IT, general services, risk management, governor's office, financial inclusion, FSSP, Islamic banking and services, financial supervision, comptroller general, monetary policy, procurements, finance and accounting departments as well as seven zones. Job descriptions of regional employees have been formulated and submitted to relevant sections.

**Employee Pension:** HRD has carried out the following for DAB employee pension.

1. To calculate the incumbent employee pension, HRD has successfully implemented employee pension scheme. With this scheme, documents of 2003 present DAB employees have been assessed by term of service taking into account the steps, date of recruitment, date of retirement by age or period of service, degree and other factors after preparing the average salary list in the last three years and the calculated sum of each employee is transferred to their relevant account and a record is maintained in HRD's pensioner database.

*Provision of Legislations and Administrative Documents*

**Human Resources Regulation:** According to Annual Action Plan 1397, HRD has successfully drafted the final version of human resources regulation in 26 chapters in order to achieve legislation for the department to have in place an organized legal framework for executions and resolving any legal vacuums in making decisions regarding human resources management.

**HRD's Strategic Plan:** To define a mandate and appropriate strategies for the achievement of major DAB objectives on human resources, HRD under-

took the preliminary drafting of the strategic plan in accordance with Action Plan FY 1396-1397 that was composed in eight titles.

**HRD Committees' Procedures:** For better and professional management of human resources affairs and adoption of transparent, impartial and fair decisions on human resources matters, HRD began devising committee procedures and drafted the early versions for following committees: disciplinary committee, work-related conflict and dissatisfaction resolution committee, employee performance appraisal committee, legislation draft review committee, employee benefits and rewards committee, administrative and structural reform committee, overwork committee, pension committee, educational and capacity-building needs-recognizing committee and employee substitution and promotion committee.

**Salary-Scaling Mechanism:** To determine appropriate and fair compensation and benefits taking into account the existing drastic demand in market for recruitment of skilled individuals and maintaining and encouraging them, HRD has developed the first draft of new salary-scaling scheme.

### **Employee Training and Development**

**In-Country Training Programs:** To expand the professional capacity of employees, HRD has conducted 21 training programs in the bank's training and development center in FY 1397, participated by total 419 employees. The only externally-trained program was Women Empowerment and Leadership organized by AIBF and the rest were trained by the bank's internal seniors.

**Foreign Training Programs:** FY 1397 hosted 163 foreign training programs for 374 employees in total, under agreements made with external relevant institutions.

### **Educational Programs**

**In-Country Higher Education Programs:** This year, Da Afghanistan Bank has identified 130 of its qualified employees through World Bank Project

for undergraduate studies and proposed them to executive board for approval. Among them, 41 white-collar officers and 31 servants have managed to pass the test in open competition and proceed to their higher education studies. Committed under HR's employee training and development policies, the rest of 88 employees have began studying at their personal expense in other universities. Out of 309 candidates from the headquarter office to pursue masters, 17 individuals have made it to Kabul University's masters studies and others were directed to Kardan, Kateb and Bakhtar private universities' spring semester.

To raise the employee capacity, HRD has proposed 25 officers to the American University of Afghanistan's master's studies that will be enrolled following entry test.

Furthermore, out of 129 candidates from DAB's regional offices wishing to pursue undergraduate studies, 45 of them have passed the entry test and are introduced to regional universities to which Da Afghanistan Bank has come to agreement.

**Higher Education in Foreign Countries:** In FY 1397, as many as 21 bank employees have started studying in foreign universities at master's level. The list includes a Cheveaning-Scholarship student that resumed duty in Da Afghanistan Bank after completing studies in Britain.

**Internationally-Certified Professional Programs:** To boost area-specific professionalism of employees, HRD has provided the ground for international certificate training programs such as CIA certification that commenced in Q1 1397 for 25 officers from comptroller office, financial supervision department, finance and accounting department and FinTRACA with the cooperation of AIBF that is still underway.

It has also launched the ACCA professional certificate program for 29 officers from finance and accounting and financial supervision with the assistance of AIBF. Moreover, ACAMS was conducted

for 10 financial supervision officers.

### **Human Development**

**Knowledge Management:** In year at stake, HRD has added up 19 human development items to its action plan and fortunately 18 of knowledge management agendas have been conducted by internal trainers for the bank employees.

**Knowledge Sharing:** As many as 59 bank officers (40 females) who participated in foreign training events shared their inputs and knowledge through 44 events to 357 employees.

### **Other Efforts**

**Internship:** In year 1397, a whole number of 45 interns from Kabul University, Female Accounting Institute, Nima Institute and Gharjistan institute of higher education, Chandigarh University of India, Islamic Society of India, Kyrgyzstan's American University of Central Asia and Islamabad University were officially introduced to Da Afghanistan Bank for acquiring internship experience.

**Literacy Program:** As many as 164 servants, drivers, housekeepers and night-time personnel from all seven DAB regional directorates have expressed interest to participate in deputy education ministry's literacy courses whose names have been submitted to the ministry for future educational events.

**Library:** According to 1396 year records, the quantity of books, magazines, reports and laws available in the training center's library has reached to 12,833 items, while the number is registered at 13,076 at the end of the fiscal year under review.

**Recruitment:** To implement anti-official corruption strategies and renew commitment to organized and standard structure as part of organizational structure reform, HRD took a stock of organizational structures across all seven regional directorates and removed 87 slots accordingly. To carry out the structural amendments, employees with higher education are placed in priority for a post. Followings are done towards this goal:

1. Nine hundred and five (905) officers have been appointed to their posts after meeting the requirements.
2. Thirty eight officers went under suspension plus their salaries for continuing higher education.
3. Forty officers were pushed into retirement for not holding higher education.
4. Eighteen officers were made to participate in open competition due to post renewal, being on suspension with salary or going on retirement.

### **Information Technology Department**

DAB's IT is among key departments that provide IT-related facilities in harmony with modern-day developments and strives to standardize banking operations such as Core Banking Solutions, SWIFT, ACSS, Auction, AFTS and others. The department is well-equipped and works to render further conveniences using tools at disposal in order to mechanize central bank processes.

IT department is operated by various units, each of which possesses specific functions. The activity report of the department will be explained separately under each section's title.

### **Network Infrastructure**

As a vital part of IT, network infrastructure unit provides internet, networking and network infrastructure services in headquarter and provincial offices of Da Afghanistan Bank across the country. It has achieved the following in year under review:

- Installed advanced network systems in DAB's capital and branch offices
- Upgraded network infrastructure systems in capital and branch offices
- Upgraded internal communication telephones (IP Phones) in capital and branch offices
- Connected DAB's central systems with that of branches via Site to Site VPN for higher security

## Information Security

This section is responsible for security of network, servers, website and other DAB platforms in head-quarter and provincial offices. It also protects trio payment systems' users and Swift and safeguard disaster recovery's data center deployed in Afghan telecommunications ministry and the one in Dubai. It takes charge of monitoring entire banking systems and networks and rapidly responds to any emerged fault or deficiency. Its functions carried out to improve and standardize banking systems in 1397 are as follow:

- Incident Response Plan: It is an incident-response mechanism and consists of a set of procedures to assist IT staff. It identifies security threats and informs team leader to provide protection against cyber attack and loss of any data.
- Security Assessment: The purpose of security assessment is to ensure necessary security control in developing and implementing security measures of all systems and examine security flaws and reduce security threats to minimum.
- Disposal Policy: It is formulated to protect system data. Under this policy, a team is tasked to back up any data from employee computers, servers and other bank systems in case of failure. After backing up the files, they are removed permanently without being recovered by any software.
- Monitoring System: It monitors the entire bank IT systems. When a threat arises, it assists IT officers to evaluate the risk and bar it from entering the bank computers.
- Anti-viruses upgraded to protect DAB computer files against malicious viruses like: Ransomwar, Phishing, Warm Malware and others
- Various IT sections audited with ISO 27,001 standard

- Devised procedures to guide users, arrange new users and suspend users in payment systems and Swift
- Self-attestation conducted in Swift
- CSP implemented on Swift systems by Swift International Corporation
- Developed user system for different DAB departments and ensured security order in AFTS, Swift and CH systems
- Created new users and reactivated idle users of all private banks in ACSS and ICPSS

## Software Development

It is responsible for developing fundamental IT structures and applications. It has carried out the following in FY 1397:

- Built online testing system
- Built online transport system
- Connected the currency auction process with central system
- Developed in-city transactions at ACSS
- Upgraded and developed auction process

## Database

Database section undertakes fundamental structuring of DAB databases and organizes all data inside the database. It has accomplished the following tasks in FY 1397:

- Internal developed Real Time Replication databases such as ACSS, AFTS, Cheque system, Document Management System and Exchange Rate have been activated in two Disaster Recovery sites (Ministry of Telecommunications and UAE-based).
- UAT procedure applied in both technical and operational terms on ATS and CSD systems and the technologies of these systems in Azerbaijan have been examined which is a milestone for ACSS and securities in the country.
- Assisted CBS team in organizing of Badghis and Uruzgan branches and combined their databases into CBS.



## **SWIFT**

SWIFT constitute a key segment of the central bank used for inward and outward transactions of state agencies, international financial organizations and other transfers. As an essential duty, maintenance of SWIFT's technical apparatus is managed by IT department's Swift office. Actions carried out by SWIFT in reporting year are as follow:

- New version of Windows Server 2016 Standard Edition is successfully installed and regulated in SWIFT server
- SWIFT version upgraded from 7.1 to 7.2 as requested by SWIFT bureau and aligned with standard practices for better external transactions
- Alliance Web Platform re-installed and regulated in SWIFT to enable users to use it through browser
- CSP conducted by SWIFT International on its system operation with the cooperation of data protection section.

## **Service/Help Desk**

IT department's Help Desk is a technical unit that resolves any IT-related defects and problems of central and provincial office computers. In the first place, issues arisen at headquarter office, capital branches and provincial branches are addressed via telephone contact and in the event of need, a Help Desk technician is dispatched to the area to fix the problem.

The modern Service Desk Ticketing system is installed to allow bank employees to lodge their complaint online using this standard platform that help connect employees to relevant staffers rapidly.

## **Financial Inclusion Department**

Financial inclusion department (FID) has had various remarkable achievements in FY 1397. To draft the national strategy for financial inclusion development, it has conducted diagnostic studies with

the technical cooperation of World Bank that includes agriculture financing, Micro, Small and Medium Enterprises financing, Financial Consumer Protection and support of infrastructural payment systems.

In assessment of national money laundering and terrorism financing risks, FID has conducted relevant studies in line with the department's working trajectory including assessment of non-bank financial institution and insurance sector's money laundering risks assessment and the third part of the assessment falling under "risks of financial and banking products" is about to be assessed following completion and has its report prepared.

In FY 1397, FID drafted and finalized Financial Consumer Protection regulation in harmony with Financial Supervision Department. This mandate has been distributed to banks and financial institutions through circulars following approval by executive board. Moreover, to regulate affairs related to financial consumer protection, FID, FSD, Payments Dept. and Afghanistan Payments System have come together as a group and acquired preliminary trainings on the topic.

On the top of that, the draft of agent-banking regulation has been devised with the full coordination of FSD and is expected to complete by mid-1398 and presented to central bank's Supreme Council for ratification.

Besides aforesaid, to raise the financial knowledge of people, the department has drafted and published a booklet entitled "Financial and Banking Phrases and Concepts in Simple Language" to launch the experimental financial literacy program in Kabul, as part of financial knowledge scheme approved by executive board of central bank.

## **Financial Sector Strengthening Project (FSSP)**

In modern world, every country's economic development is driven by banks. In Afghanistan too, the commercial bank operations largely

contribute in the national economic development. As a regulator and banking and financial law enforcement authority, Da Afghanistan Bank is responsible for supervision of activities of banks and private and state financial institutions. Since it is unlikely to embark these rules in the financial and banking arena in a standard way without electronic and modern means in place, there is drastic need for revision and amendment of laws, deployment of electronic and advanced systems that will clear the way for convenient banking services to clients. Aside from the preceding point, fundamental reforms may bring further safety to inter-bank and bank to client transactions, playing a vital role in financial stability that ultimately leads to further economic growth. To this end, ministry of finance, the World Bank and Da Afghanistan Bank inked trilateral agreements in 2009 and 2011 to raise working capacity in financial supervision, establish payment systems and financial infrastructures in order to realize financial strengthening projects' key objectives like ensuring DAB capacity, development of financial sector infrastructure and improvement of DAB's technical capability. The central focus of financial sector strengthening projects is to develop operational plan for raising the functional capacity in financial supervision, improve efficiency and transparency in financial transactions through building financial facilities and infrastructures.

Da Afghanistan Bank's FSSP had chalked out 18 important agendas and has succeeded to accomplish seven of them. Nine tasks are in process; one task has not yet began and one more is on suspension as negotiations for its contract are still underway.

The average percentage of progress made by ministry/agency as per FY 1397 budget has reached to 93 percent.

Table 24:

Task not launched	Task on suspension	Task(s) in progress	Task(s) completed	All tasks in plan
1	1	9	7	18

The completed seven tasks include: deployment of system for interbank connection and networking of Afghanistan Payment System office; operationalization of World Check Application for FinTRACA; completion of procurement consultancy contract for FSRRP and DAB; providing service for the maintenance of public credit registry system; financial support of Afghanistan Payment System office; providing warranty services for card and mobile payment and termination of international procurement consultancy contract for DAB risks.