



The Islamic Republic of Afghanistan Da Afghanistan Bank

Pursuant to the Law on Da Afghanistan Bank of the Islamic Republic of Afghanistan approved by Presidential Decree #63 dated 27.6.1382 and his regulation approved by the supreme council of DAB on 18th February 2007.

Capital Note Issuance and Auction Regulations

1. Authority for Sale and Issue

The Supreme Council of Da Afghanistan Bank is authorized under Article 8, section (g) of The Law of Da Afghanistan Bank to decide on the issue of Debt Securities by Da Afghanistan Bank and the terms and conditions of such securities. Further, Article 98, section (1), instructs that Da Afghanistan Bank shall establish, maintain, and promote sound and efficient securities transfer systems.

2. Applicability

Unless otherwise specified in an offering announcement, the provisions which follow govern the sale and issuance of Capital Notes issued by Da Afghanistan Bank to Licensed Commercial Banks and Licensed Money Changers and any other obligations issued by Da Afghanistan Bank, that, by terms of the offering announcement are made subject to these regulations.

3. Definitions

In these regulations, unless the context indicates otherwise:

Afghani means the legal currency of the Islamic Government of Afghanistan and is sometimes referred to as Af. (Singular) or Afs. (plural).

Announcement means notice of an auction as prescribed by Da Afghanistan Bank.

Auction means a bidding process by which Da Afghanistan Bank sells Capital Notes to Commercial Banks and Money Changers licensed to conduct financial activities in Afghanistan

Bid or Tender means a communicated offer to purchase a stated par amount of Capital Notes in an auction. A bid must be presented as prescribed herein.

Bid amount means the total amount of Capital Notes desired by a bidder.

Bid rate means the rate of interest offered to purchase the Capital Notes.

Bidder means a bank or dealer as defined herein holding a valid license from Da Afghanistan Bank.

Book entry means the recording, transferring and processing of Capital Notes by electronic means. The ownership of Capital Notes is recorded in a computer file and the purchaser of Capital Notes does not receive certificates evidencing ownership.

Business day means any day other than Friday or such other day on which Da Afghanistan Bank is not open for business.

Capital Notes mean liabilities, denominated in Afghanis, of Da Afghanistan Bank and issued solely to Licensed Commercial Banks and licensed Money Changers. Capital notes are issued in maturities evenly devisable by seven calendar days day maturities. Capital notes are freely transferable only between licensed commercial Banks, Licensed Money Changers and Da Afghanistan Bank.

Commercial Bank means a person engaging in the business of receiving money deposits or other repayable funds from the public for the purpose of making credits or investments for its own account within the Islamic Republic of Afghanistan.

Competitive Bid means a bid to purchase a stated par amount of Capital Notes at a specified rate.

Discount means the method of market quotation for the capital notes, expressing the return on the Capital Notes as a proportion of the face value of the Capital Notes received at maturity.

Interest Rate, or Rate, means the annual percentage rate of interest paid on the par amount of principal. .

License means an official document or permit issued pursuant to the laws of the Islamic State of Afghanistan Da Afghanistan Bank authorizing a person to conduct business.

Maturity Date means the date specified in the offering announcement on which the Capital Notes become due and payable and ceases to earn interest.

Maximum bid means the highest bid rate allowed in a bid

Minimum bid means the lowest bid rate allowed in a bid.

Multiple Price Auction means an auction in which each successful competitive bidder pays the price equivalent to the rate that it bid.

Par means a price of one hundred.

Person means any natural person, any legal person, any state and any political subdivision, agency or instrumentality of a state.

Principal means the purchase amount of the Capital Notes

Reuters Dealing Link means the electronic communication system to be used in transmitting bids and receiving awards.

Settlement means full payment for the total amount due Da Afghanistan Bank from a successful bidder in the purchase of Capital Notes through an auction.

Settlement Amount means the par value of Capital Notes Awarded.

Successful bidders mean bidders that are awarded winning bids.

Yield, also referred to as yield to maturity, means the annualized rate of return to maturity on fixed principal Capital Notes expressed as a percentage.

4. Book Entry Securities and System

Capital Notes issued pursuant to these regulations are offered exclusively in Book entry form and are direct obligations of Da Afghanistan Bank. Capital Notes will be maintained in securities accounts established for the Commercial Banks at Da Afghanistan Bank and will be freely transferable between the Banks upon notification. Transfer will only be effected between Licensed Banks and licensed Money Changers. and within the various securities accounts maintained at Da Afghanistan Bank

5. Function of Da Afghanistan Bank

Da Afghanistan Bank is authorized to perform all activities necessary to carry out the activities promulgated by these regulations, any offering announcements and any further necessary regulations.

6. Offering Announcement

Da Afghanistan Bank shall provide notice of the sale of Capital Notes to the Commercial Banks by issuing an offering announcement through electronic communication including the Reuters Dealing Link. Offering announcements shall be made two days prior to the Auction. The offering announcement shall list the specifics of each offering, e.g., offering amount, identification number and Maturity Date. The offering announcement and these regulations specify the terms and conditions of sale. To the extent that the provisions of the offering announcement are inconsistent with the terms of these regulations.

the provisions of the offering announcement will control.

7. Submission of Bids

Bids may be submitted directly to Da Afghanistan Bank through electronic communication, including but not limited to the Reuters Dealing Link. Tenders must be submitted in an approved format and on the basis of amounts requested and per annum yield expressed as a percentage to three decimal points. Bids are to be received prior to the closing time specified in the offering announcement. Bids not received timely will not be recognized in the auction. In order for a bid to be accepted, the Commercial Bank and/or Money haanger must have on file with Da Afghanistan Bank a certificate listing those persons who are authorized to submit tenders on its behalf of the Commercial Bank. A tender will not be recognized if the person submitting the tender is not listed on the certificate. All bids will remain confidential. Participating Licensed Commercial Banks may submit a maximum of two bids per auction. While licensed Money Changers are limited to one bid.

Licensed Banks may also submit multiple bids on behalf of its customers to a maximum of one per customer per maturity. For this purpose, the submitting bank must maintain its own registry of customer holdings

8. Certification

By submitting its tender for Capital Notes, the Commercial Bank and/or the licensed Money Dealers is deemed to have certified that it is in compliance with these regulations and the offering notice governing the sale and the issue of Da Afghanistan Capital Notes. Further, the participant is deemed to have certified that the information provided on the tender with regards to its bid is accurate and complete.

9. Responsibility for Payment and payment for awarded Capital Notes.

A Bidder agrees to pay the settlement amount for any Capital Notes awarded to it in the auction. Payment should be made on the day following the issue as prescribed by the offering announcement, either through payment by an authorized electronic means providing for immediately available funds or an authorization to charge to the Commercial Banks current account maintained with Da Afghanistan Bank. In the case a Commercial Bank wishes its current account charged, an authorization form authorizing such charges must be on file with Da Afghanistan bank at the time the tender is submitted. In addition, maturing Capital Notes held in the Commercial Banks security account may be used as payment for the new Capital Notes that are being offered, provided that such a request is received at the time of receiving the Commercial Banks Bid.

10. Determination of Auction Awards

Determination of awards in auctions are made at Da Afghanistan Bank after the closing time for receipt of Bids. Awards will be made on the basis of a Multi Price Auction whereby Bids are accepted at the lowest Yield up to the amount the amount of the offering. Awards will be made at the Rate submitted by the Bidder. When the total amount of Bids at the highest accepted Rate exceeds the amount of Capital Notes offered, a percentage of the Bids received at the highest Rate will be awarded. This proration is performed for the purpose of awarding a Par Amount of securities to the offering amount. The percentage is derived by dividing the remaining Par Amount needed to fill the offering by the Par Amounts recognized at the highest Rate accepted. These amounts are then discounted at the rate awarded and purchase price determined

11. Pro ration of Awards to Submitters

In Auctions where Bids at the highest accepted rate are prorated under section 10 above, Da Afghanistan Bank is responsible for prorating awards to the Bidders at the percentage announced by the Da Afghanistan Bank. For example, if 80% is the announced percentage at the highest rate, then each Bid at that rate shall be awarded 80% of that Bid amount.

12. Announcing Auction Results

After the conclusion of the Auction, Da Afghanistan Bank will make an official announcement by means of electronic communication means including the Reuters Dealing link of the Auction results. At the discretion of the Governor of Da Afghanistan Bank, the results may also be made public through publishing in newspapers. The announcement will include such information as:

- The amounts of Bids received and accepted
- The range of Rates received and the range of Rates accepted
- The pro ration percentage
- The weighted average Rate of accepted Bids
- Other information that Da Afghanistan Bank may decide to include.

13. Notice of Awards and Confirmations

Notice of awards shall be made to successful Bidders at the completion of the Auction. Confirmation shall be made through electronic communication means including the Reuters Dealing Link

14. Payment of Principal and Interest on Capital Notes

Par Value on Capital Notes will be paid on the maturity date as specified in the offering announcement. As the Capital notes are sold on a discount basis, interest shall be the amount between purchase cost and Par Value received at maturity.

15. Reservation of Rights

Da Afghanistan Bank reserves the right to accept or reject or refuse to recognize any or all Bids submitted under these regulations. Da Afghanistan Bank also reserves the right to award more or less Capital Notes than the amount of Capital Notes specified in the offering announcement. Da Afghanistan Bank further reserves the right to waive any provision or provisions of these regulations for any or all Bidders. The decision of Da Afghanistan Bank shall be final

16. Remedies

When a person or entity fails to comply with the requirements of these regulations, the Governor of Da Afghanistan Bank will consider the facts and circumstances of such failure and determine an appropriate remedy. Such remedy might include prohibiting the person or entity from participating in future auctions. The Governor of Da Afghanistan Bank may refer such occurrences to the appropriate regulatory agency for enforcement action.

17. Liquidated Damages

A Bidder shall agree to pay liquidated damages of 1% of the par value of Capital Notes awarded the Bidder in an auction if the Bidder fails to pay for the awarded Notes in a timely manner. The Governor of Da Afghanistan Bank may waive, in whole or in part the payment of liquidated damages. This liquidated damages provision shall not preclude the use of any other available option.

18. Reservations as to Terms of Offerings

Da Afghanistan Bank reserves the right to supplement or amend these regulations. Da Afghanistan Bank further reserves the right to modify the terms and conditions of new Capital Notes and depart from the customary pattern of Capital Note offerings at any time. Notice of any such changes will be provided through electronic communication means including the Reuters Dealing Link.