PASHTANY BANK

AUDITED FINANCIAL STATEMENTS ALONG
WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED,

DECEMBER 21, 2017

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Pashtany Bank

Opinion

We have audited the financial statements of Pashtany Bank ("the Bank"), which comprise the statement of financial position as at December 21, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effect of the matters described in the basis of qualified opinion paragraph, the financial statements present fairly, in all material respects, *(or give a true and fair view of)* the financial position of the Bank as at December 21, 2017, and *(of)* its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), the Law of Banking in Afghanistan and directivities issued by the Central Bank of Afghanistan (DAB).

Basis of qualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Afghanistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

1. The bank owns investment properties amounting to Afs. 962.22 million (December 20, 2016: Afs. 962.22 million) which is in contravention of the requirements of Article 34 'Prohibited Activities' of law of banking of Afghanistan, which prohibits banks from engaging in such type of business activities.

   As per initial decree no. 39 dated 21/10/1388 from presidential office and correspondence through Directorate General of Properties with Ministry of Finance (MoF) and Da Afghanistan Bank vide letter no. 4002 dated 07/11/ 1394 management is not receiving the rental income against these investment properties.

   Moreover, we have not been provided with the ledger of rental income to verify that from which month of 2017, rental income has been received and onward Ministry of Finance (MOF) is directly receiving all the rental income against these investment properties. Management has placed its representation that correspondence with the Ministry of Finance (MOF) has been started and matters has been raised with concerned governmental authorities to retain the right to receive rental income. Bank management is not currently having any access to the rental agreements made by the Ministry of Finance (MoF) on new terms and conditions, thus owing to this scenario we could not quantify the financial effect of the rental income receivable from Ministry of Finance (MoF).

2. Impairment test of financial assets "Investment in Equity Instruments" as required by International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" was not carried out as not all of the companies in which Pashtany Bank has equity investment have audited financial statements prepared for recent years. We therefore, are not in a position to ascertain whether carrying amounts of 'Investment in Equity Instruments' of the bank are not stated in excess of their recoverable amount as at December 21, 2017.

Key Audit Matters

We have determined that there are two key audit matters to communicate in our report;

1. During our audit we observed following deficiencies in the Code of Corporate Governance of the bank;

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a) In the absence of Audit Committee, Risk Committee and Complete Members of Board of Management, Board of Supervisor remained unable to perform following power and duties effectively as per Article 50 of the Law of Banking in Afghanistan i.e.

"- Ensure the establishment, functionality, appropriateness and adequacy of internal controls and risk management of the bank
- Ensure integrity of the financial reporting including reporting to Da Afghanistan Bank.
- Ensure appropriate functioning of internal audit function"

b) We have observed that bank has not ensured required no. of members in Board of Supervisors i.e. "05" which warrant the bank to not establish Independent Audit and Risk Committee.

c) During the year following position were remained vacant;

1.	Deputy Chief Executive Officer	From 01/05/1395 to date
2.	Chief Operating Officer	From 01/08/1395 to date

d) As per requirements of Article 56.1 of Law of Banking in Afghanistan minimum number of Board of Members were not ensured i.e. Dy. CEO and COO.

2. We have noted that advance amounting to Afs.68, 631,302 given to M/s Tameer Saraji against capital work in progress is outstanding for a period more than 60 months. Moreover, we have been informed that work is in dispute and final assessment for payment is remaining in the upcoming year, however, we have not been provided with the legal status of the dispute so that we are unable to quantify any recognitions of provision which could have been incorporated against the same.

Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and with the requirements of the Law of Banking in Afghanistan and directives issued by the Central Bank of Afghanistan (DAB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

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considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these financial statements.

For the matters communicated with those charged with governance, we determine the matter that was of the most significant in the audit of the financial statements of the current period and is, therefore, the key audit matter. We describe these matters in our auditor's report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A further description of the auditor's responsibilities for the audit of the financial is located at Crowe Horwath Afghanistan, Auditors and Business Advisors (A member firm of Crowe Horwath International) website at: www.crowehorwath.com . This description forms part of our auditor's report.

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Crowe Horwath Afghanistan
Auditors and Business Advisors
Kabul

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Afghanistan
20 MAR 2018
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PASHTANY BANK
STATEMENT OF FINANCIAL POSITION
AS AT 30 Qaws 1396 (21 December 2017)

	Note	December 21, 2017	December 20, 2016
		(AFN)	
Assets			
Cash and bank balances	5	18,503,549,962	15,241,736,274
Investments	7	121,585,012	120,922,512
Property and equipment	8	826,621,686	842,411,632
Investment properties	9	962,183,000	962,183,000
Non-current asset held for sale	18.1	323,128,500	310,806,000
Deferred tax assets	22	235,527,558	438,503,958
Other assets	10	436,793,672	896,257,482
Total assets		21,409,389,389	18,812,820,858
Liabilities			
Deposits from banks	11	8,384,659	457,149,697
Deposits from Customers	12	18,822,135,472	15,587,474,140
Deferred tax liabilities		111,129,800	111,767,400
Deferred income - Non current assets held for sale	18.1	323,128,500	310,806,000
Other liabilities	13	206,129,424	435,601,618
Total liabilities		19,470,907,854	16,902,798,855
Equity			
Share capital	14	3,820,257,000	3,820,257,000
Retained earnings		(2,329,239,265)	(2,360,249,197)
Surplus on revaluation of property and equipment - net		447,463,800	450,014,200
Total equity		1,938,481,535	1,910,022,003
Total liabilities and equity		21,409,389,390	18,812,820,858

CONTINGENCIES AND COMMITMENTS 15

The annexed notes form an integral part of the financial statements from Note 01 to 28.

A. Aziz Babela
Chief Executive Officer

Chairman

Chief Finance Officer

PASHTANY BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 Qaws 1396 (21 December 2017)

	Notes	December 21, 2017	December 20, 2016
		AFS	
Interest / profit income		272,589,468	371,303,113
Interest / profit expense		(47,477,454)	(53,332,516)
Net interest / profit income	16	225,112,014	317,970,597
Fee and commission income	17	50,392,354	58,513,577
Fee and commission expense		(4,250,923)	(4,514,020)
Net fee and commission income		46,141,432	53,999,556
Other income	18	397,218,982	413,133,364
		397,218,982	413,133,364
Operating income		668,472,427	785,103,517
Other income from sale of collaterals		-	384,062,640
Impairment (loss) on loans, Investment and Other assets		(8,874,247)	(4,000,000)
Employee benefit expenses	20	(195,799,380)	(160,471,599)
Depreciation		(27,590,794)	(30,276,612)
Other operating expenses	21	(181,196,134)	(167,571,022)
Exchange gain / (loss)	19	35,878,877	(17,307,387)
Profit before taxation		290,890,749	789,539,537
Income tax	22	(263,068,817)	(31,731,370)
Net profit for the year		27,821,932	757,808,167
Other comprehensive income			
Un-realized gain on investment in Nasaji Group		-	83,518,400
Adjustment in surplus on revaluation		2,550,400	2,550,400
Related deferred tax on incremental depreciation		637,600	637,600
Total comprehensive income for the year ended		31,009,932	844,514,567

The annexed notes form an integral part of the financial statements from Note 01 to 28.

A-AzizBabaka
Chief Executive Officer

Chairman

Chief Finance Officer

PASHTANY BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 Qaws 1396 (21 December 2017)

	Note	December 21, 2017	December 20, 2016
		(AFN)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		290,890,749	789,539,537
Adjustments for:			
Depreciation		27,590,794	30,276,612
Amortization		-	-
Net impairment loss on loans and advances	8.1	-	4,000,000
Foreign exchange (gain) / loss		(35,878,877)	17,307,387
		282,602,666	841,123,536
(Increase) decrease in operating assets and liabilities:			
Loans and advances - net		-	-
Other assets		459,463,811	(426,074,482)
Deposits from customers and banks		2,785,896,293	163,907,837
Deferred tax asset / liability adjustment		202,338,800	31,114,261
Deferred income - non current assets held for sale		12,322,500	310,806,000
Other liabilities		(229,472,193)	227,435,526
		3,513,151,877	1,148,312,678
Net cash from operating activities before interest and tax			
Tax paid / adjustment		(261,451,333)	(82,543,202)
Net cash from operating activities		3,251,700,544	1,065,769,476
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(12,780,733)	(11,425,854)
Investment made		(662,500)	20,352,488
Recognition of Non-current asset held for sale		(12,322,500)	(310,806,000)
Net cash used in investing activities		(25,765,733)	(301,879,366)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of share capital		-	-
Prior period adjustment		-	54,702,551
Net cash from financing activities		-	54,702,551
Net increase / (decrease) in cash and cash equivalents		3,225,934,811	818,592,661
Cash and cash equivalents at beginning of the year		15,241,736,274	14,440,451,000
Effect of exchange differences in cash and cash equivalents		35,878,877	(17,307,387)
Cash and cash equivalents at the end of the year	23.	18,503,549,962	15,241,736,274

The annexed notes form an integral part of the financial statements from Note 01 to 28.

A. Aziz Babakarkhail

Chief Executive Officer

Chairman

Chief Finance Officer

PASHTANY BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 Qaws 1396 (21 December 2017)

	Share capital	Retained earnings	Accidental reserve	Legal reserve	Surplus on revaluation of property plant and equipment	Exchange translation reserve	Total
	AFN						
Balance as at December 22, 2015	3,820,257,000	(4,087,895,364)	500,000,000	466,650,000	452,564,600	-	1,151,576,236
Total Comprehensive income							
Comprehensive income for the year	-	844,514,567	-	-	(2,550,400)	-	841,964,167
Transfer of accidental reserve and legal reserve	-	883,131,600	(500,000,000)	(466,650,000)	-	-	(83,518,400)
Balance as at December 20, 2016	3,820,257,000	(2,360,249,197)	-	-	450,014,200	-	1,910,022,003
Balance as at December 20, 2016	**3,820,257,000**	**(2,360,249,197)**	-	-	**450,014,200**	-	**1,910,022,003**
Total Comprehensive income							
Comprehensive income for the year	-	31,009,932	-	-	(2,550,400)	-	28,459,532
Balance as at December 20, 2017	**3,820,257,000**	**(2,329,239,265)**	-	-	**447,463,800**	-	**1,938,481,535**

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The annexed notes form an integral part of the financial statements from Note 01 to 28.

A-Aziz Babakan
Chief Executive Officer

Chairman

Chief Finance Officer

1. STATUS AND NATURE OF OPERATIONS

Pashtany Bank ("the Bank") was registered with Afghanistan Investment Support Agency (AISA) on 26 June 2004 and on 26 June 2004 received formal commercial bank license from Da Afghanistan Bank (DAB), the Central Bank in Afghanistan, to operate nationwide. The Bank is a Limited Liability Company and is incorporated and domiciled in Afghanistan. The Principal business place of the Bank is at Muhammad Jan Khan Watt, Kabul, Afghanistan.

1.1 The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The Bank has twenty branches (2017: twenty branches) in operation.

2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Law of Banking in Afghanistan. In case requirements differ, the provisions of the Law of Banking in Afghanistan shall prevail.

2.1 **Standards, amendments and interpretations to publish approved accounting standards that are effective in the current year**

The following standards, amendments and interpretations of approved accounting standards are effective for the first time for the first time for December 31, 2017 are as below;

- Amendment to IAS-7 "Cash flow statements" with effective date 01 January 2017
- Amendment to IAS-12 "Income taxes" with effective date 01 January 2017
- Amendment to IFRS-12 "Disclosure of interest in other entities" with effective date 01 January 2017

Standards, amendments and interpretations to publish approved accounting standards that are not yet effective

- Amendment to IFRS-4 "Insurance Contracts" with effective date 01 January 2018
- Amendment to IFRS-9 "Financial Instruments" with effective date 01 January 2018
- Amendment to IFRS-15 "Revenue from contracts with customers" with effective date 01 January 2018
- Amendment to IAS-40 "Investment Property" with effective date 01 January 2018
- Amendment to IAS-02 "Share based payments" with effective date 01 January 2018
- Amendment to IFRS-16 "Leases" with effective date 01 January 2019
- Amendment to IFRS-17 "Insurance Contracts" with effective date 01 January 2021
- Amendment to IFRIC-22 "Foreign Currency transaction and advance consideration" with effective date 01 January 2018
- Amendment to IFRIC-23 "Uncertainty over income tax treatments " with effective date 01 January 2019

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2017 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 **Basis of preparation**

These financial statements have been prepared on the historical cost basis except as otherwise disclosed in accounting policies.

These financial statements have been authorized to be issue at March 20,2018 with approval of Board of Supervisors.

3.2 **Functional and presentation currency**

These financial statements are presented in Afghani (AFN), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in AFN has been rounded to the nearest thousand.

3.3 **Use of critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience, industry trends, legal and technical pronouncements and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised. Significant areas requiring the use of management estimates in these financial statements relate to the useful life of depreciable assets, estimates of recoverable amounts of depreciable and financial assets, provisions for doubtful loans and receivables. However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Significant accounting policies adopted in the preparations of these financial statements are set out below. These policies have been consistently applied to all the years presented unless or otherwise stated.

4.1 **Foreign currency translation**

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date. The foreign currency gain or loss arising on retranslation is recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of transaction.

4.2 **Interest income and expense**

Interest income and expense is recognized in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

4.3 **Fee and commission**

Fees and commission income includes account servicing fees, cash withdrawal charges, funds transfers and commissions on issuance of guarantees and are recognized as the related services are performed.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

4.4 **Lease payments**

Payments under operating leases are recognized in profit or loss on straight line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

4.5 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax, if any, is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4.6 Financial assets and financial liabilities

Recognition and initial measurement

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument. Regular way purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the assets. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires. Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position.

On Derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in the other comprehensive income is recognized in profit or loss.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Currently, the Bank has financial assets only in the form of loans and receivables. Therefore, policies related to other categories of financial assets would not be relevant.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, loans and advances fall into this category of financial instruments.

Identification and measurement of impairment

The Bank determines allowance for impairment loans and advances in accordance with regulation issued by DAB "Asset Classifications, Monitoring of Problem Assets, Reserve for losses, and Non-accrual Status".

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial asset or group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows on the asset(s) that can be estimated reliably.

Objective evidence that the financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indication that a borrower or issuer will enter bankruptcy, disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of a borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

The Bank considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

In determining the potential loss in specific loans, groups of loans, or in the aggregate loan portfolio, all relevant factors are considered including, but not limited to: current economic conditions, historical loss experience, delinquency trends, the effectiveness of the Bank's lending policies and collection procedures, and the timeliness and accuracy of its loan review function.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount (if applicable). When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

The Bank writes off certain loans and advances when they are determined to be uncollectable.

4.7 Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central bank including capital notes, balances in Nostro accounts and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4.8 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, (if any).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of an item of property and equipment, and are recognized net within other income in profit or loss.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each item of property and

-	Building	50 years	2%
-	Furniture and fixtures	10 years	10%
-	Electric equipment	6.66 years	15%
-	Computer equipment	10 years	10%
-	Vehicles	5 years	20%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

4.9 Intangibles

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

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

Amortization is recognized in statement of comprehensive income on a straight line basis over the estimated useful life of the software, from the date it is available for use since this most closely reflects the pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years.

Amortization methods, useful lives and residual values are reassessed at each financial year end and adjusted, if appropriate.

4.10 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

4.11 Deposits

Deposits are the Bank's source of funding. Deposits are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using effective interest method, except where the bank choose to carry the liabilities at fair value through profit and loss.

4.12 Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

4.13 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable.

4.14 Share Capital

Shares issued are classified as equity.

4.15 Related party transactions

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

4.16 Borrowing cost

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalized as part of the cost of that asset.

4.17 Cash and cash equivalents

Cash and cash equivalents for the purpose of the cash flow statement consist of cash and balances with Da Afghanistan Bank.

4.18 Employees benefits

The banks operates pension scheme for its employees. Contributions to the scheme are made by the employees and the bank. Detailed actuarial valuation basis are explained in Note. 15.1 of the financial statements.

4.19 Investment properties

Investment properties are properties which are held to earn rental income or for capital appreciation or for both. Investment properties are stated at their fair values. The fair values are based on the market values, being the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowingly, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognized in the income statement. Rental income from investment property is accounted for on straight line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

4.20 Non-current assets held for sale

Non-current assets held for sale signifies those assets taken up by the bank from collaterals held against the written off and doubtful loans and advances. For classifying these assets criteria set forth in the relevant standard has been followed i.e. management is committed to plan to sell, the asset is immediately available for sale, an active programme to locate the buyer has been initiated, the sale is highly probable with in 60 months of classification as held for sale, the assets is being actively marketed for sales price reasonable in relation to its fair value and actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

At the time of classification as held for sale. Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset will be measured in accordance with applicable IFRSs. After classification as held for sale, Non-current assets that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

At the time of classification as held for sale; Immediately prior to classifying an asset or disposal group as held for sale, impairment is measured and recognized in accordance with the applicable IFRSs.
After classification as held for sale; Calculate any impairment loss based on the difference between the adjusted carrying amounts of the asset and fair value less costs to sell. Any impairment loss that arises by using the measurement principles in IFRS 5 must be recognized in profit or loss.

Subsequent increases in fair value. A gain for any subsequent increase in fair value less costs to sell of an asset can be recognized in the profit or loss to the extent that it is not in excess of the cumulative impairment loss that has been recognized in accordance with the relevant IFRSs.

	Note	2017	2016
		....................Afs....................	
5. CASH AND BANK BALANCES			
Cash in hand			
Local currency		193,278,379	154,168,095
Foreign currency		792,319,618	528,892,573
		985,597,997	683,060,668
Balances with Da Afghanistan Bank	5.1	17,446,037,475	14,164,189,080
Balances with other banks	6	71,914,491	394,486,525
		18,503,549,962	15,241,736,274
5.1 Balances with Da Afghanistan Bank			
Local currency			
Deposit accounts		-	-
Required reserve account	5.2	871,526,420	1,244,576,000
Current accounts		325,673,377	189,074,288
		1,197,199,797	1,433,650,288
Foreign currency			
Required reserve account	5.2	762,325,836	-
Current accounts		6,456,022,715	7,744,285,991
Placements			
Capital notes	5.3	8,451,371,650	4,835,317,203
Over night Account with DAB		579,117,478	150,935,599
		17,446,037,475	14,164,189,080

5.2 Required reserve account is being maintained with DAB differently this year based on DAB letter number 3808/3865 dated 08/06/1396 denomination has been considered based on the all original currency deposit, the rate used for AFN is 8% and for other currencies are 10% to meet minimum reserve requirement in accordance with Article 3 "Required Reserve regulations" of the Banking regulations issued by DAB. The required reserve and the deposit facility accounts kept with DAB are interest bearing.

5.3 This represents capital notes issued by DAB from over night 7, 28, 91 ,and 365 days (2016: from 7, 28 ,184 and 365 days) carrying coupon interest at rate ranging from 0.15% to 6.665% p.a. for the period ended as at Dec 21, 2017 (2016: 1.80% to 6.77 % p.a)

	Note	2017	2016
		..........Afs..........	
6. BALANCES WITH OTHER BANKS			
In Afghanistan			
Current accounts		20,972,711	34,990,457
Outside Afghanistan			
Current accounts		50,941,780	359,496,068
		71,914,491	394,486,525

	Note	2017	2016
		................Afs.................	
7. INVESTMENTS - NET			
Investment in associated companies:			
Balance at beginning of year		16,710,000	17,359,000
Exchange loss recognized in income statement		662,500	(649,000)
Balance at end of year	7.1	17,372,500	16,710,000
Investment in equity instruments	7.2	104,212,512	104,212,512
		121,585,012	120,922,512

7.1 The Bank has made investment of USD 250,000 in Afghanistan Payment System (APS) LLC during the year 1389. The Bank currently holds 16.66% (2016: 16.66%) shares in the company. As per the Articles of Association of the investee company, its shares cannot be sold or transferred or offered to the public.

	2017	2016
	................Afs.................	
7.2 Investment in equity instruments		
Bank-e-Mille Afghan	9,800,000	9,800,000
Afghan National Insurance Company	7,660,000	7,660,000
Shirkat-e-Ariyana	281,250	281,250
Hotel Intercontinental	64,435	64,435
Afghan Card Corporation	2,822,884	2,822,884
Pakht-e-Herat	65,542	65,542
Shirkat Nasaji Afghan	83,518,400	83,518,400
	104,212,512	104,212,512

	2017	2016
	................Afs.................	
8. PROPERTY AND EQUIPMENT		
Operating fixed assets	757,989,934	773,779,880
Capital work-in-progress	68,631,752	68,631,752
	826,621,686	842,411,632

8.1 Operating fixed assets

	Land	Building	Electric equipment	IT equipment	Furniture and fittings	Computers	Motor vehicles	Leasehold appreciations	Total
					Afs				
Cost									
Balance at December 22, 2014	352,592,000	490,840,000	58,971,000	-	23,972,000	27,009,000	21,387,000	1,225,000	975,996,000
Additions	-	947,000	4,353,000	-	3,144,000	982,000	422,000	-	9,848,000
Disposals	-	-	-	-	-	-	-	-	-
Balance at December 21, 2015	352,592,000	491,787,000	63,324,000	-	27,116,000	27,991,000	21,809,000	1,225,000	985,844,000
Balance at December 21, 2015	352,592,000	491,787,000	63,324,000	12,131,513	27,116,000	47,180,906	21,809,000	1,225,000	1,017,165,419
Additions	-	1,663,941	4,406,203	1,153,544	282,754	1,331,412	2,588,000	-	11,425,854
Disposals / Adjustment	-	(211,200)	(6,499,337)	7,161,549	(4,345,997)	2,592,186	(858,563)	(1,225,000)	(3,386,362)
Balance at December 20, 2016	352,592,000	493,239,741	61,230,866	20,446,606	23,052,757	51,104,504	23,538,437	-	1,025,204,911
Balance at December 20, 2016	**352,592,000**	**493,239,741**	**61,230,866**	**20,446,606**	**23,052,757**	**51,104,504**	**23,538,437**	**-**	**1,025,204,911**
Additions	**-**	**2,775,271**	**3,189,948**	**4,413,744**	**782,480**	**1,619,290**	**1**	**-**	**12,780,733**
Disposals / Adjustment	**(494)**	**(1,506)**	**(589,418)**	**1,281,385**	**(744,357)**	**2,750,907**	**(5,219,835)**	**-**	**(2,523,317)**
Balance at December 21, 2017	**352,591,506**	**496,013,506**	**63,831,396**	**26,141,735**	**23,090,880**	**55,474,701**	**18,318,603**	**-**	**1,035,462,327**
Depreciation									
Balance at December 22, 2014	-	86,014,000	26,590,000	-	10,781,000	24,133,000	20,330,000	575,000	168,423,000
Charge for the year	-	9,785,000	8,145,000	-	2,377,000	995,000	677,000	-	21,979,000
Disposals/ Adjustments	-	-	-	31,321,419	-	-	-	-	31,321,419
Balance at December 21, 2015	-	95,799,000	34,735,000	31,321,419	13,158,000	25,128,000	21,007,000	575,000	221,723,419
Depreciation									
Balance at December 22, 2015	-	96,666,027	33,276,633	12,131,513	11,395,293	47,045,575	20,633,378	575,000	221,723,419
Charge for the year	-	12,487,382	9,195,259	2,720,250	3,652,129	1,979,009	242,584	-	30,276,612
Disposals/ Adjustments	-	-	-	-	-	-	-	(575,000)	(575,000)
Balance at December 20, 2016	-	(109,153,409)	(42,471,892)	(14,851,763)	(15,047,422)	(49,024,584)	(20,875,961)	-	(251,425,031)
Depreciation									
Balance at December 20, 2016	**-**	**109,153,409**	**42,471,892**	**14,851,763**	**15,047,422**	**49,024,584**	**20,875,961**	**-**	**251,425,031**
Charge for the year	**-**	**9,879,563**	**9,507,207**	**2,594,875**	**3,322,680**	**1,639,471**	**646,999**	**-**	**27,590,794**
Disposals/ Adjustments	**-**	**70,674**	**(937,158)**	**1,364,628**	**(62,079)**	**2,926,837**	**(4,906,333)**	**-**	**(1,543,432)**
Balance at December 21, 2017	**-**	**(119,103,646)**	**(51,041,940)**	**(18,811,266)**	**(18,308,023)**	**(53,590,892)**	**(16,616,627)**	**-**	**(277,472,393)**
Carrying amounts									
At December 21, 2016	352,592,000	384,086,332	18,758,974	5,594,843	8,005,335	2,079,920	2,662,476	-	773,779,880
At December 21, 2017	**352,591,506**	**376,909,861**	**12,789,456**	**7,330,469**	**4,782,857**	**1,883,810**	**1,701,976**	**-**	**757,989,934**

9. INVESTMENT PROPERTIES

Investment properties are stated at cost. These are held to earn rental income and capital appreciation. These includes land, building including shops.

Details of Investment Properties are as under;

	Note	2017	2016
		..............Afs..............	
Andarabi 1 Market Shahidoshamshira Kabul		33,209,379	33,209,379
Andarabi 2 Market Shahidoshamshira Kabul		33,721,601	33,721,601
Saraji Building Kabul Kabul		200,443,652	200,443,652
Baghban Koja Building 1 Kabul		96,818,941	96,818,941
Baghban Koja Building 2 Kabul		22,004,461	22,004,461
Abida Maiwand Kabul		75,000,000	75,000,000
Timorshahi Building Kabul		68,200,000	68,200,000
Gul Bahar Center Kabul		395,997,256	395,997,256
Qala-Qazi Kabul		1,210	1,210
Bagha Hozori Mazar Sharif		31,000,000	31,000,000
Torghondi land 'Herat		2,186,500	2,186,500
Karwan Sarai Herat Land 'Herat		3,600,000	3,600,000
		962,183,000	962,183,000

9.1 Rent Income against these investment properties is collecting by the MoF. However, no correspondence has been done by the MoF with DAB for this matter.

		Note	2017	2016
			..........Afs..........	
10	**OTHER ASSETS**			
	Advances to employees		9,403,211	4,466,006
	Advances to suppliers		64,149,493	73,303,146
	Interest accrued on capital notes & Demand deposit		47,295,449	122,249,746
	Other assets		356,963,097	354,303,089
	Receivable against sale of collaterals		-	384,062,640
	Receivable from BCCI-London		-	105,895,189
			477,811,250	1,044,279,816
	Provision against advances and receivables	10.1	(41,017,578)	(148,022,334)
	Net carrying amount		436,793,672	896,257,482
10.1	PROVISION AGAINST ADVANCES RECEIVABLES			
	Opening for the year		(148,022,334)	(150,424,000)
	(Charged) / Reversed for the year	21.2	107,004,756	2,401,666
	Closing for the year		(41,017,578)	(148,022,334)

10.1 This includes provision against receivable of unreconciled amount with Da Afghanistan Bank and Pashtany Bank Mazar-e-Sharif branch against the account no. 177048. However as per correspondence the amount is unreconciled due to non-availability of the supporting evidences and management has taken up the matter with Da Afghanistan Bank.

		Note	2017	2016
11	**DEPOSITS FROM BANKS**			
	Agricultural Bank Kabul		234,821	617,180
	Construction Bank		1,599,059	1,598,939
	Bank-e-Millie Afghan		332,569	314,507
	Maiwand Bank		783,629	759,720
	Afghan United Bank		3,559,781	334,714,210
	Azizi Bank		1,837,421	-
	Ghazanfar Bank		37,379	119,145,141
			8,384,659	457,149,697
12	**DEPOSITS FROM CUSTOMERS**			
	Term deposits	12.1	32,508,056	119,324,292
	Saving deposits	12.2	7,715,876,688	7,362,005,819
	Current deposits		11,073,750,727	8,106,144,028
			18,822,135,472	15,587,474,140

12.1 All the term deposits are expected to be settled in twelve months of the balance sheet date and carry interest rate as per the mutual agreement of cutomer and bank 2017 0.5% (2016: 1%p.a.).

12.2 These carry interest rate at 1.5% for AFN currency p.a and 0.5% for USD currency p.a 2017 (2016: 1% p.a.).

		Note	2017	2016
13.	**OTHER LIABILITIES**			
	Withholding tax payable		20,138,085	33,618,113
	Employees pension funds	13.1	95,422,040	94,988,972
	Other payables		30,721,958	74,226,211
	Creditor payable		59,847,342	232,768,321
			206,129,424	435,601,618

13.1 Defined benefit plan

		21-Dec-2017	20-Dec-2016
Present value of defined benefit obligation			
Fair value of any plan assets		95,422,040	94,988,972
		-	-
Movement in net liability/ (asset) recognized		95,422,040	94,988,972
Opening net (asset)/ liability			
(Prepaid cost)/ expense			
Employee contributions		94,988,973	89,108,895
Other comprehensive income (OCI)		16,784,939	13,606,979
Liability provided as at Dec 2014		2,575,447	2,661,312
Benefits paid during the year		-	(4,550,805)
Closing net (asset)/ liability		-	-
		(18,927,319)	(5,837,408)
		95,422,040	94,988,973

	Note	2017	2016
		...............Afs.............	

14. SHARE CAPITAL

	Note	2017	2016
Authorized capital			
- 3,820,257 (2016: 3,500,000) ordinary shares of AFN 1000 each		3,820,257,000	3,820,256,999
Issued and paid capital			
-3,820,257 (2016: 3,500,000) ordinary shares of AFN 1000 each	14.1	3,820,257,000	3,820,257,000

14.1 Issued and paid capital

Opening balance	3,820,257,000	3,820,257,000
Shares issued in cash	-	-
Closing balance	3,820,257,000	3,820,257,000

14.2 Pattern of Shareholding

Name of shareholder	2017	2016
	...............Afs..............	
Ministry of Finance	2,584,800,000	2,584,800,000
Bank-e- Millie Afghan	1,098,982,000	1,098,982,000
Afghan Red Crescent Society	20,050,000	20,050,000
Health Insurance	1,200,000	1,200,000
Spin zar corporation	725,000	725,000
Ministry of Labor and social affairs	91,600,000	91,600,000
Chamber of commerce	11,450,000	11,450,000
Saderaat kashmesh	3,900,000	3,900,000
Institute of Qaraqol	3,775,000	3,775,000
Carpet corporation	3,775,000	3,775,000
	3,820,257,000	3,820,257,000

	Note	2017	2016
		.............Afs.............	

15. CONTINGENCIES AND COMMITMENTS

Bank guarantees issued	958,708,847	957,847,000

		Note	2017	2016
16.	NET INTEREST INCOME		..........Afs..........	..........Afs..........
	Interest income			
	Cash and cash equivalents		272,589,468	357,788,018
	Loans and advances to customers		-	13,515,095
			272,589,468	371,303,113
	Interest expense			
	Deposits from customers	16.1	47,477,454	53,332,516
			47,477,454	53,332,516
	Net interest income		225,112,014	317,970,597
16.1	Deposits from customers			
	Term deposits		324,435	4,956,222
	Saving deposits		47,153,019	48,376,294
			47,477,454	53,332,516
17.	FEE AND COMMISSION INCOME			
	Fund transfers fees / commission		50,392,354	58,513,577
			50,392,354	58,513,577
18.	OTHER INCOME			
	Rental income		8,138,547	36,282,163
	Bad debt recovered			
	Loan principal		273,429,558	246,820,050
	Loan interest		113,395,200	125,572,745
	Income from investments		506,110	26,217
	Other		1,749,567	4,432,189
			397,218,982	413,133,364

18.1 **Non-current assets held for sale / Deferred Income**

This represents the amount of loans previously written off, as per circular issued by Da Afghanistan Bank (DAB) for adoption of International Financial Reporting Standards (IFRSs) - 05 "Non-current assets held for sale and discontinued operation" management has currently recognized on the basis of lower of carrying value and fair value of the collaterals for which management has initiated the bidding procedures / made sale agreements. Loans and advances where by only the bidding procedures were initiated deferred income has been recognized in these financial statements. As per circulars management is authorized to categorized these collaterals as Non-current assets held for sale for 05 years.

		2017	2016
19.	FOREIGN EXCHANGE GAIN / (LOSS)		
	Unrealized gain and loss on exchange rate fluctuation	35,878,877	(17,307,387)
		35,878,877	(17,307,387)
20.	EMPLOYEE BENEFIT EXPENSES		
	Salaries and wages	128,854,984	122,464,825
	Contribution towards pension fund	38,203,183	23,684,933
	Bonus expense	26,022,007	13,356,057
	Staff welfare	2,719,206	965,784
		195,799,380	160,471,599

	Note	2017	2016
		..........Afs..........	

21. OTHER OPERATING EXPENSES

	Note	2017	2016
Repair and maintenance		6,331,532	4,848,202
Travel and conveyance		2,751,840	1,088,470
Advertisement and publicity		6,799,417	5,315,887
Rent expense		15,393,299	13,187,599
Building tax		146,290	1,833,005
Deposit insurance	21.1	47,749,141	56,290,214
Internet expense		11,069,005	15,261,371
Security expense		39,921,904	28,812,826
Printing and stationery		5,487,658	4,636,935
Communication		856,397	880,106
Electricity		7,623,468	10,146,796
Fuel expenses		3,726,898	4,117,643
Auditor's remuneration		722,177	1,272,382
Cleaning and water		568,807	526,677
Kindergarten expenses		267,460	256,362
Employees training expenses		6,652,513	535,400
Others		25,128,329	18,561,147
		181,196,134	167,571,022

21.1 These charges are paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.30 % of total deposits as required by Da Afghanistan Bank.

21.2 PROVISION AGAINST RECEIVABLES

	Note	2017	2016
Receivable from BCCI	10.1	-	108,287,000.00
Receivable from loan customers - advertisements		-	10,002,000
Receivable from customers - against services		469,058	461,000
Receivable from Ministry of Transportation		2,000,000	2,000,000
Unreconciled DAB Balances - Mazar-e-Sharif Branch		29,674,273	29,674,000
		32,143,331	150,424,000

22. INCOME TAX EXPENSE

	2017	2016
Current	-	-
Deferred	(263,068,817)	(31,731,370)
	(263,068,817)	(31,731,370)
Reconciliation of effective tax rate		
Profit before income tax	290,890,749	789,539,537
Taxable income	290,890,749	789,539,537
Corporate tax @ 20%	58,178,150	157,907,907
Advance income tax - expensed out	(60,092,417)	-
Adjusted against advance tax	-	(31,731,369)
Tax liability	-	-
Carry forward losses	1,177,637,789	1,468,528,538
Deferred taxation @ 20%	235,527,558	438,503,958
Reversal of deferred tax liability	-	-
Total income tax	(202,976,400)	(31,731,370)
Deferred recognized already	438,503,958	470,235,328
Deferred recognition / (reversal	(202,976,400)	(31,731,370)
Closing Balance	235,527,558	438,503,958

23. CASH AND CASH EQUIVALENTS

	2017	2016
Cash and balances with DA Afghanistan Bank (DAB)	18,431,635,471	14,847,249,749
Balances with other banks	71,914,491	394,486,525
	18,503,549,962	15,241,736,274

24. RELATED PARTIES

The related parties of the Bank comprise entities with equity holdings, common directors, major shareholders, directors and key management personnel and close family members of such individuals. Following are the related parties of the Bank:

Key management personnel
Chief Executive Officer
Chief Financial Officer
Chief Operating Officer
Chief Credit Officer

Transactions and balances with related parties , including remuneration and benefits paid to key management personnel under the terms of their employment are as follows:

	Note	2017	2016	2017	2016
		..........Afs..........		..........Afs..........	
		Balances	Balances	Transactions	Transactions
Investment in equity instruments					
Bank-e-Mille Afghan		9,800,000	9,800,000	-	-
Afghan National Insurance Company		7,660,000	7,660,000	-	-
Shirkat-e-Ariyana		281,250	281,250	-	-
Hotel Intercontinental		64,435	64,435	-	-
Afghan Card Corporation		2,822,884	2,822,884	-	-
Pakht-e-Herat		65,542	65,542	-	-
Shirkat Nasaji Afghan		83,518,400	83,518,400	-	-
Afghanistan Payment Systems		17,372,500	16,710,000	-	-
Deposits from banks					
Bank-e-Mille Afghan		332,569	314,507	(18,062)	16,493
Transactions with key management personnel					
Short-term employee benefits		13,074,800	13,771,199	13,074,800	13,771,199

In addition to their salaries and allowances, the Bank also provides non-cash benefits to directors and executive officers, and contribute to a post employment defined plan on their behalf. The terms of the plan are same as for all employees.

25. FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of the Bank's financial assets and financial liabilities:

	Note	Held for trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total Carrying Value
		Afs						
2017								
Cash and balances with Da Afghanistan Bank	5	-	-	8,451,371,650	10,052,178,312	-	-	18,503,549,962
Balances with other banks	6	-	-	-	71,914,491	-	-	71,914,491
Loans and advances to customers		-	-	-	-	-	-	-
Other assets	10	-	-	47,295,449	389,498,223	-	-	436,793,672
		-	-	8,498,667,099	10,513,591,025	-	-	19,012,258,124
Deposits from banks	11	-	-	-	-	-	8,384,659	8,384,659
Deposits from customers	12	-	-	-	-	-	18,822,135,472	18,822,135,472
Other liabilities	13	-	-	-	-	-	206,129,424	206,129,424
		-	-	-	-	-	19,036,649,554	19,036,649,554
2016								
Cash and balances with Da Afghanistan Bank	5	-	-	4,835,317,203	10,406,419,071	-	-	15,241,736,274
Balances with other banks	6	-	-	-	394,486,525	-	-	394,486,525
Loans and advances to customers	8	-	-	-	-	-	-	-
Other assets	12	-	-	-	966,510,664	-	-	966,510,664
		-	-	4,835,317,203	11,767,416,260	-	-	16,602,733,463
Deposits from banks	13	-	-	-	-	-	457,149,697	457,149,697
Deposits from customers	14	-	-	-	-	-	15,587,474,140	15,587,474,140
Other liabilities	15	-	-	-	-	-	435,601,618	435,601,618
		-	-	-	-	-	16,480,225,455	16,480,225,455

The fair values of financial assets and financial liabilities approximates their carrying amounts at the reporting date.

26 FINANCIAL RISK MANAGEMENT

26.1 Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

a) Credit risk
b) Liquidity risk
c) Market risk

This note presents information about Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Supervisor has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO) and Credit Committee which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Supervisors on their activities.

26.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and placements with other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board has delegated responsibility for the management of credit risk to its Bank's Credit Committee. Credit department reporting to the Bank Credit Committee is responsible for oversight of the Bank's credit risk.

A separate credit department has been established by the Bank that is responsible for oversight of the Bank's credit risk and which is reportable to the Credit Committee. The Credit department is headed by Chief Credit Officer (CCO). Credit Officer along with credit department staff looks after credit risk matters and conduct portfolio analysis for managing credit risk.

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board. The credit evaluation system comprises of well designed credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio.

The amount of credit risk in this regard is represented by the carrying amounts of the assets on the balance sheet date. The Bank has major concentration of credit risk in trading sector. Exposure to credit risk is managed through regular analysis of borrower to met interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed against personal guarantee of the borrower and mortgage of immoveable property dully registered with the court of law and hypothecation over stock dully verified by the Bank's Credit Officer on monthly basis.

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due but the Bank believes impairment is not appropriate.

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortized cost that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for the groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off Policy

The Bank write off a loan balance against allowances for impairment losses when the Bank' Credit Department determines that the loan are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrowers financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller standardized loans, charge off decisions generally are based on a product specific past due status. Loan past due by more than 480 days are 100% provisioned and would be kept on books of account for 06 months additional after 480 days and than after expiry of 06 months loans would be written off pursuant to guidelines issued by the Central Bank of Afghanistan, however, this does not waive off the right of the Bank to recover these loans including through legal action.

Concentration of credit risks by sector

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of loans and advances to customers at reporting date is as follows:

	Note	2017 AFN '000'	2016 AFN '000'
Carrying amount		-	-
Concentration by sector			
Construction		-	-
Business		-	-
Industrial		-	-
Services		-	-
Staff		-	-
		-	-

The Bank held cash and cash equivalents of Afs 18.5 billion (2016: Afs 15.24 billion) which represents its maximum credit exposure on these assets. The cash and cash equivalent are held with central banks and other banks.

Settlement risk

The Banks activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of an entity to honor its obligation to deliverable cash, other assets as constructed agreed.

26.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Board ensures that the Bank has necessary tools and framework to cater the requirements of liquidity risk management and the Bank is capable to confronting uneven liquidity scenarios. The Bank's management is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board. Asset & Liability Committee (ALCO) is entrusted with the responsibility of managing the mismatch in maturities to ensure sufficient available cash flow to meet possible withdrawal of deposits, other commitment or challenges associated with sudden changes in market conditions, whist enabling the Bank to pursue valued business opportunities.

The Bank relies on deposits from customers as its primary source of funding. Deposits form customers generally has shorter maturities and large proportion of them are repayable on demand. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquidity assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalent less any deposits from banks. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's Regulator (Da Afghanistan Bank). Detail of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period was as follows:

	2017	2016
	AFN '000'	AFN '000'
At period end / year end	93.50	94.31
Average for the period / year	93.60	95.27
Maximum for the period / year	97.79	97.31
Minimum for the period / year	90.02	93.49

Maturity analysis for financial liabilities

	Note	Carrying amount	Gross inflow/ (outflow)	Less than 1 month	1-3 months	3 months to 1 year	More than 5 years
		----------	----------	----------AFN '000'----------			
2017							
Deposits from banks	11	8,385	(8,385)	(8,385)	-	-	-
Deposits from customers	12	18,822,135	(18,822,135)	(18,789,627)	(32,508)		-
Other liabilities	13	206,129	(206,129)	(206,129)	-	-	-
		19,036,650	(19,036,650)	(19,004,141)	(32,508)	-	-
2016							
Deposits from banks	13	457,150	(457,150)	(157,150)	(300,000)	-	-
Deposits from customers	14	15,587,474	(15,587,474)	(15,429,142)	(119,324)	(39,007)	-
Other liabilities	15	435,602	(435,602)	(435,602)	-	-	-
		16,480,225	(16,480,225)	(16,021,893)	(419,324)	(39,007)	-

The above table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal inflow/ (out flow) disclosed in the above table is the contractual, undiscounted cash flow on the financial liability.

26.4 Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/ issuer's credit standing) will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures with in acceptable parameters, while optimizing the return on risk.

Management of market risks

To manage and control market risk a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. Overall authority for market risk is vested in ALCO. The Bank's Assets and Liability Committee (ALCO) is responsible for the development of detailed risk management policies and day to day review of their implementation.

Exposure to interest rate risk

The Bank risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of change in market interest rates. Interest rate risk managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day to day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolio is as follows:

	Note	Carrying amount	Less than one month	Less than 3 months	6-12 months	1-5 years	More than 5 years
		-AFN '000'-					
2017							
Cash and balance with DAB Afghanistan	5	10,664,341	579,117	8,451,372	-	-	1,633,852
Balances with other banks	6	-	-	-	-	-	-
Loans and advances		-	-	-	-	-	-
		10,664,341	579,117	8,451,372	-	-	1,633,852
Deposits from banks	11	-	-	-	-	-	-
Deposits from customers	12	(7,748,385)	(7,715,877)	-	(32,508)	-	-
		(7,748,385)	(7,715,877)	-	(32,508)	-	-
		2,915,957	8,294,994	8,451,372	32,508	-	-
2016							
Cash and balance with DAB Afghanistan	5	6,230,829	150,936	4,835,317	-	-	1,244,576
Balances with other banks	6	-	-	-	-	-	-
Loans and advances	0	4,000	4,000	-	-	-	-
		6,234,829	154,936	4,835,317	-	-	1,244,576
Deposits from banks	0	453,859	-	(453,859)	-	-	-
Deposits from customers	0	7,481,330	(7,362,006)	-	(119,324)	-	-
		7,935,189	(7,362,006)	(453,859)	(119,324)	-	-
		14,170,018	7,516,942	5,289,176	119,324	-	

Exposure to currency risk

The Bank's exposure to foreign currency risk was as follows based on notional amounts.

		AFN '000'	US$ '000'	Others '000'
2017				
	Cash and balance with DAB Afghanistan	10,399,995	7,119,950	911,690
	Balances with other banks	20,973	173	50,769
	Loans and advances	-	-	-
	Other assets	411,253	25,461	75
		10,832,220	7,145,584	962,534
	Deposits from banks	3,150,268	5,122,320	112,071
	Deposits from customers	11,036,377	7,603,166	182,592
	Other liabilities	188,195	17,934	0.17
		14,374,840	12,743,420	294,664
	Net foreign currency exposure	(3,542,620)	(5,597,836)	667,870
2016				
	Cash and balance with DAB Afghanistan	6,574,071	8,086,651	186,527
	Balances with other banks	34,990	318,692	40,805
	Loans and advances	4,000	-	-
	Other assets	429,798	16,442	598,041
		7,042,859	8,421,785	825,373
	Deposits from banks	2,847	454,204	99
	Deposits from customers	8,502,360	6,933,167	151,947
	Other liabilities	178,915	247,737	8,950
		8,684,122	7,635,108	160,996
	Net foreign currency exposure	(1,641,263)	786,677	664,377

The following significant exchange rates were applied during the periods.

	2017		2016	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
US$	68.17	69.49	67.60	66.84
Euro	76.05	82.18	71.92	69.91
GBP	87.60	92.31	92.00	82.89

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and 10% strengthening euro at 21 December 2017 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2017		2016	
	Equity	Profit or loss	Equity	Profit or loss
	AFN '000'			
US$	(447,827)	(559,784)	(62,934)	(78,668)

A 10 % weakening of the Afghani against the above currencies at 21 December 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

27 **Capital management**

The Bank's objective when managing capital, which is broader concept than the equity on the face of balance sheets are:

(i) To comply with the capital requirement set by the DAB
(ii) To safeguard the Bank's ability to continue as going concern so that it can continue to be self sustainable ; and
(iii) To maintain strong capital base to support the development of its business.

The Bank regulatory capital position as at December 21, 2017 is as follows:

	2017	2016
	AFN"000"	AFN"000"
Regulatory capital:		
Core (Tier 1) Capital:		
Total shareholder's equity	1,938,481,535	1,910,022
Less:		
Profit for the year	(31,009,932)	(844,515)
Deferred tax assets - Net	(124,397,758)	(326,737)
Surplus on revaluation	(447,463,800)	(450,014)
	1,335,610,045	288,757
Supplementary (Tier 2) Capital:		
Profit for the year	31,009,932	844,515
Surplus on revaluation	447,463,800	450,014
	478,473,732	1,294,529
Total regulatory capital	1,814,083,777	1,583,285

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28. **CORRESPONDING FIGURES**

Significant reclassification / rearrangement has been made in these financial statements

Chief Executive Officer

Chairman

Chief Financial Officer