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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 20, 2016, 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 matter 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 20, 2016, 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 21, 2015 : Afs. 962.22 million) which is in contravention of the requirements of Article 34 'Prohibited Activities' pf law of banking of Afghanistan, which prohibits banks from engaging in such type of business activities.

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 20, 2016.

*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;
   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"

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b) As the members of Board of Supervisors are not more than 05 as per requirement of Article 53 of Law of Banking in Afghanistan, however in compliance with Article 52 and 53 Separate Audit and Risk Committee were not established by the bank.

c) During the year following position were remained vacant;

| | | |
|---|---|---|
| 1. | Chief Financial Officer | From 01/10/1394 – 30/05/1395 |
| 2. | Chief Operating Officer | From 06/08/1395 to 30/09/1395 |
| 3. | Chief Compliance Officer | From 01/10/1394 to 30/09/1395 |
| 4. | Chief Risk Officer | From 01/10/1394 to 30/09/1395 |

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. CEO, Dy. CEO, CCO 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 36 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 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.

A further description of the auditor's responsibilities for the audit of the financial is located at Horwath MAK, 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.

Horwath MAK

Horwath MAK
Auditors and Business Advisors

Kabul

Crowe Horwath
Horwath MAK
07 MAR 2017
Auditors & Business Advisor
Kabul, Afghanistan

PASHTANY BANK
STATEMENT OF FINANCIAL POSITION
AS AT 30 Qaws 1395 (20 December 2016)

| | Note | December 20, 2016 | December 21, 2015 Restated | December 21, 2014 Restated |
|---|---|---|---|---|
| | | ------------- (AFN) | ------------- | |
| **Assets** | | | | |
| Cash and bank balances | 5 | **15,241,736,274** | 14,440,451,000 | 14,086,366,000 |
| Loans and advances to customers | 8 | **-** | 4,462,000 | 1,003,872,000 |
| Investments | 7 | **120,922,512** | 141,275,000 | 133,873,000 |
| Property and equipment | 9 | **842,411,632** | 864,074,000 | 876,423,000 |
| Intangible assets | 10 | **-** | - | 1,173,000 |
| Investment properties | 11 | **962,183,000** | 962,183,000 | 962,228,000 |
| Non-current asset held for sale | 22.1 | **310,806,000** | - | - |
| Deferred tax assets | 26.1 | **438,503,958** | 470,235,328 | 375,607,227 |
| Other assets | 12 | **896,257,482** | 470,183,000 | 481,184,000 |
| **Total assets** | | **18,812,820,858** | 17,352,863,328 | 17,920,726,227 |
| **Liabilities** | | | | |
| Deposits from banks | 13 | **457,149,697** | 972,534,000 | 828,777,000 |
| Deposits from Customers | 14 | **15,587,474,140** | 14,908,182,000 | 15,344,022,000 |
| Deferred tax liabilities | | **111,767,400** | 112,405,000 | 113,042,600 |
| Deferred income - Non current assets held for sale | 22.1 | **310,806,000** | - | - |
| Other liabilities | 15 | **435,601,618** | 208,166,092 | 286,091,092 |
| **Total liabilities** | | **16,902,798,855** | 16,201,287,092 | 16,571,932,692 |
| **Equity** | | | | |
| Share capital | 16 | **3,820,257,000** | 3,820,257,000 | 3,500,000,000 |
| Retained earnings | | **(2,360,249,197)** | (4,087,895,364) | (3,572,971,465) |
| Surplus on revaluation of property and equipment - net | | **450,014,200** | 452,564,600 | 455,115,000 |
| Other reserves | | **-** | 966,650,000 | 966,650,000 |
| **Total equity** | | **1,910,022,003** | 1,151,576,236 | 1,348,793,535 |
| **Total liabilities and equity** | | **18,812,820,858** | 17,352,863,328 | 17,920,726,227 |

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**CONTINGENCIES AND COMMITMENTS** 19

The annexed notes form an integral part of the financial statements from Note 01 to 33.

Chief Executive Officer | Chairman | Chief Financial Officer

PASHTANY BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 Qaws 1395 (20 December 2016)

| | Notes | December 20, 2016 | December 21, 2015 | December 21, 2014 |
|---|---|---|---|---|
| | | | Restated | Restated |
| | | -----AFS----- | | |
| Interest / profit income | | 371,303,113 | 471,291,000 | 458,053,000 |
| Interest / profit expense | | (53,332,516) | (58,461,000) | (54,702,000) |
| **Net interest / profit income** | 20 | 317,970,597 | 412,830,000 | 403,351,000 |
| Fee and commission income | 21 | 58,513,577 | 72,578,000 | 48,976,000 |
| Fee and commission expense | | (4,514,020) | - | - |
| **Net fee and commission income** | | 53,999,556 | 72,578,000 | 48,976,000 |
| Other income | 22 | 413,133,364 | 276,415,000 | 278,247,000 |
| | | 413,133,364 | 276,415,000 | 278,247,000 |
| **Operating income** | | 785,103,517 | 761,823,000 | 730,574,000 |
| Other income from sale of collaterals | 12 | 384,062,640 | - | - |
| Impairment (loss) on loans and advances | 8.1 | (4,000,000) | (924,892,000) | (15,801,000) |
| Employee benefit expenses | 24 | (160,471,599) | (153,452,000) | (139,037,000) |
| Depreciation | | (30,276,612) | (21,979,000) | (25,867,000) |
| Amortization | | - | (1,173,000) | (4,156,000) |
| Other operating expenses | 25 | (167,571,022) | (313,141,000) | (140,651,000) |
| Exchange gain / (loss) | 23 | (17,307,387) | 34,684,000 | 5,789,000 |
| **Profit / (loss) before taxation** | | 789,539,537 | (618,130,000) | 410,851,000 |
| Income tax | 26 | (31,731,370) | 94,628,101 | 379,476,627 |
| **Net profit / (loss) for the year** | | 757,808,167 | (523,501,899) | 790,327,627 |
| 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 | 12,754,000 |
| Related deferred tax on incremental depreciation | | 637,600 | 637,600 | - |
| **Total comprehensive income / (loss) for the year ended** | | 844,514,567 | (520,313,899) | 803,081,627 |

The annexed notes form an integral part of the financial statements from Note 01 to 33.

Chief Executive Officer

Chairman

Chief Financial Officer

PASHTANY BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 1395(20 December 2016)

| | Note | December 20, 2016 | December 21, 2015 | December 21, 2014 |
|---|---|---|---|---|
| | | | Restated | Restated |
| | | ------------ (AFN) ------------- | | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit/(Loss) before income tax | | 789,539,537 | (520,313,899) | 803,081,627 |
| Adjustments for: | | | | |
| Depreciation | | 30,276,612 | 21,979,000 | 25,867,000 |
| Amortization | | - | 1,173,000 | 4,156,000 |
| Net impairment loss on loans and advances | 8.1 | 4,000,000 | 924,892,000 | 15,801,000 |
| Foreign exchange (gain) / loss | | 17,307,387 | (34,684,000) | (5,789,000) |
| | | 841,123,536 | 393,046,101 | 843,116,627 |
| (Increase) decrease in operating assets and liabilities: | | | | |
| Loans and advances - net | | - | 74,518,000 | 67,865,000 |
| Other assets | | (426,074,482) | 89,691,000 | (342,374,000) |
| Deposits from customers and banks | | 163,907,837 | (292,083,000) | 1,047,010,000 |
| Deferred tax asset / liability adjustment | | 31,114,261 | (95,265,701) | (379,476,627) |
| Deferred income - non current assets held for sale | | 310,806,000 | - | - |
| Other liabilities | | 227,435,526 | (77,925,000) | 57,198,092 |
| Net cash from operating activities before interest and tax | | 1,148,312,678 | 91,981,400 | 1,293,339,092 |
| Tax paid | | (82,543,202) | (78,690,000) | (69,637,000) |
| Net cash from operating activities | | 1,065,769,476 | 13,291,400 | 1,223,702,092 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of property and equipment | 9.1 | (11,425,854) | (9,848,000) | (11,390,000) |
| Investment made | | 20,352,488 | (7,402,000) | (1,367,000) |
| Recognition of Non-current asset held for sale | | (310,806,000) | - | - |
| Investment property - adjustment | | - | 45,000 | - |
| Net cash used in investing activities | | (301,879,366) | (17,205,000) | (12,757,000) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Issue of share capital | | - | 320,257,000 | 1,000,000,000 |
| Prior period adjustment | | 54,702,551 | (2,332,400) | 59,922,908 |
| Recognition of equity investments - Net | | - | 5,390,000 | - |
| Net cash from financing activities | | 54,702,551 | 323,314,600 | 1,059,922,908 |
| Net increase / (decrease) in cash and cash equivalents | | 818,592,661 | 319,401,000 | 2,270,868,000 |
| Cash and cash equivalents at beginning of the year | | 14,440,451,000 | 14,086,366,000 | 11,809,709,000 |
| Effect of exchange differences in cash and cash equivalents | | (17,307,387) | 34,684,000 | 5,789,000 |
| Cash and cash equivalents at the end of the year | 27 | 15,241,736,274 | 14,440,451,000 | 14,086,366,000 |

The annexed notes form an integral part of the financial statements from Note 01 to 33.

Chief Executive Officer

Chairman

Chief Financial Officer

PASHTANY BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 20, 2016

| | 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, 2013 | 2,500,000,000 | (4,438,807,000) | 500,000,000 | 466,650,000 | 467,650,000 | 3,050,000 | (501,457,000) |
| Comprehensive income for the year ended | - | 803,081,627 | - | - | (12,754,000) | - | 790,327,627 |
| De-recognition of income tax expense | - | 139,803,000 | - | - | - | - | 139,803,000 |
| Adjustments prior year | | (80,099,092) | | | 219,000 | | (79,880,092) |
| Transactions with owners: | | | | | | | |
| Issuance of capital | 1,000,000,000 | - | - | - | - | - | 1,000,000,000 |
| Exchange gain transferred to retained earnings | - | 3,050,000 | - | - | - | (3,050,000) | - |
| Balance as at December 21, 2014 - Restated | 3,500,000,000 | (3,572,971,465) | 500,000,000 | 466,650,000 | 455,115,000 | - | 1,348,793,535 |
| **Balance as at December 22, 2014 - Restated** | 3,500,000,000 | (3,572,971,465) | 500,000,000 | 466,650,000 | 455,115,000 | - | 1,348,793,535 |
| Comprehensive income for the year ended | - | (520,313,899) | - | - | (2,550,400) | - | (522,864,299) |
| De-recognition of income expense | - | - | - | - | - | - | - |
| Transactions with owners: | | | | | | | |
| Issuance of capital | 320,257,000 | - | - | - | - | - | 320,257,000 |
| Recognition of equity investment and adjustments | - | 5,390,000 | - | - | - | - | 5,390,000 |
| **Balance as at December 21, 2015** | 3,820,257,000 | (4,087,895,364) | 500,000,000 | 466,650,000 | 452,564,600 | - | 1,151,576,236 |
| **Balance as at December 22, 2015**<br>**Total Comprehensive income** | **3,820,257,000** | **(4,087,895,364)** | **500,000,000** | **466,650,000** | **452,564,600** | **-** | **1,151,576,236** |
| Comprehensive income for the year ended | - | **844,514,567** | - | - | **(2,550,400)** | - | **841,964,167** |
| Other comprehensive income | - | - | - | - | - | - | - |
| **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** |

The annexed notes form an integral part of the financial statements from Note 01 to 33.

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 one branches (2016: 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, interpretations and amendments to published approved accounting standards that are not yet effective:

The following revised standards, amendments and interpretations with respect to the approved accounting standards would be effective from the dates mentioned below against the respective standard or interpretation:

| | Effective from accounting |
|---|---|
| Amendment to IAS 7 on disclosure initiative<br>Amendment to IAS 12 on recognition of deferred tax assets for unrealized losses<br>IFRS 2, Share-based payment Amendment on clarifying sharebased payment transactions | January 01, 2017 |
| IFRS 9, Financial instruments<br>Amendment to IFRS 9, Financial instruments on general hedge accounting | January 01, 2018 |
| Amendment to IFRS 10 and IAS 28 on sale or contribution of assets IFRS 15, 'Revenue from contracts with customers'<br>Amendments to IFRS 15 ' Revenue from contracts with customers' - Clarifications | Annual periods beginning on or after 1 January 2018 to be determined |

There are other new and amended standards and interpretations that are mandatory for the bank's accounting periods beginning on or after January 1, 2016 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 01, 2017 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 36 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. As per DAB regulations management is following to keep the recognition of Non-current assets held for sale upto 3-4% of the total assets. For loan losses repossessed assets deferred income (Liability) has been recognized as per rules and regulations issued by DAB.

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 | 2016 | 2015 |
|---|---|---|---|
| | | ..........Afs.......... | |
| **5. CASH AND BANK BALANCES** | | | |
| Cash in hand | | | |
| Local currency | | **154,168,095** | 163,743,000 |
| Foreign currency | | **528,892,573** | 297,606,000 |
| | | **683,060,668** | 461,349,000 |
| Balances with Da Afghanistan Bank | 5.1 | **14,164,189,080** | 11,374,345,000 |
| Balances with other banks | | **394,486,525** | 2,604,757,000 |
| | | **15,241,736,274** | 14,440,451,000 |

5.1 Balances with Da Afghanistan Bank

| | Note | 2016 | 2015 |
|---|---|---|---|
| Local currency | | | |
| Deposit accounts | | | - |
| Required reserve account | 5.2 | **1,244,576,000** | 1,171,040,000 |
| Current accounts | | **189,074,288** | 210,642,000 |
| | | **1,433,650,288** | 1,381,682,000 |
| Foreign currency | | | |
| Current accounts | | **7,744,285,991** | 4,599,734,000 |
| Placements | | | |
| Capital notes | 5.3 | **4,835,317,203** | 5,385,764,000 |
| Over night Account with DAB | | **150,935,599** | 7,165,000 |
| | | **14,164,189,080** | 11,374,345,000 |

5.2 Required reserve account is being maintained with DAB which is denominated in AFN 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 ,184 and 365 days (2015: from 28 ,184 and 365 days) carrying coupon interest at rate ranging from 1.80% to 6.77 % p.a. for the period ended as at Dec 20, 2016 (2015: 1.80% to 7.10 % p.a.)

| | Note | 2015 | 2014 |
|---|---|---|---|
| | | ..........Afs.......... | |
| **6. BALANCES WITH OTHER BANKS** | | | |
| **In Afghanistan** | | | |
| Current accounts | | **34,990,457** | 1,975,000 |
| Deposit accounts | 6.1 | - | 2,056,207,000 |
| **Outside Afghanistan** | | | |
| Current accounts | | **359,496,068** | 544,668,000 |
| Deposit accounts | 6.2 | - | 1,907,000 |
| | | **394,486,525** | 2,604,757,000 |

| | Note | 2015 | 2014 |
|---|---|---|---|
| | | ..........Afs.......... | |
| **7. INVESTMENTS - NET** | | | |
| Investment in associated companies: | | | |
| Balance at beginning of year | | **17,359,000** | 14,593,000 |
| Exchange loss recognized in income statement | | **(649,000)** | 2,766,000 |
| Balance at end of year | 7.1 | **16,710,000** | 17,359,000 |
| Investment in equity instruments | 7.2 | **104,212,512** | 104,212,000 |
| Held-to -Maturity | 7.3 | - | 19,704,000 |
| | | **120,922,512** | 141,275,000 |

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% (2015: 25%) 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.

7.2 Investment in equity instruments

| | 2015 | 2014 |
|---|---|---|
| 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 |

7.3 This represented term deposit with United Bank Limited amounting to PKR 31 million for a period of eight years having expired during the year (2015: 11% p.a.) which is transferred to current account after maturity in 2016

## 8. LOANS AND ADVANCES - NET

| | Note | Gross amount | Impairment allowance | Carrying amount | Gross amount | Impairment allowance | Carrying amount |
|---|---|---|---|---|---|---|---|
| | | | 2016 | | | 2015 | |
| Term finance - amortized cost | 8.1 | **4,000,000** | **(4,000,000)** | **-** | 8,000,000 | (4,000,000) | 4,000,000 |
| | | **-** | **-** | | 462,000 | - | 462,000 |
| | | **4,000,000** | **(4,000,000)** | **-** | 8,462,000 | (4,000,000) | 4,462,000 |

8.1 During the year management had not issued any loan and advances, (2015: 14% per annum for 03 years).These loans were secured against mortgage of property, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers.

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ......Afs...... | |
| **8.2** Impairment allowance | | | |
| Balance at the beginning of year | | **4,000,000** | 383,701,000 |
| Impairment loss for the year | | **-** | 924,892,000 |
| Loan written offs | | **(4,000,000)** | (1,310,923,000) |
| Reversal of provision | | **-** | 6,330,000 |
| Balance at end of year | | **-** | 4,000,000 |

## 9. PROPERTY AND EQUIPMENT

| | Note | 2016 | 2015 |
|---|---|---|---|
| Operating fixed assets | 9.1 | **773,779,880** | 795,442,000 |
| Capital work-in-progress | | **68,631,752** | 68,632,000 |
| | | **842,411,632** | 864,074,000 |

## 10. INTANGIBLE ASSETS

| | 2016 | 2015 |
|---|---|---|
| **Cost** | | |
| Balance at December 21, 2015 | - | 30,333,000 |
| Additions | - | - |
| Reallocations | | (30,333,000) |
| Balance at December 20,2016 | - | - |
| **Amortization** | | |
| Balance at December 21, 2015 | - | 29,160,000 |
| Charge for the year | - | 1,173,000 |
| | - | (30,333,000) |
| Balance at December 20, 2016 | - | - |

## 11. INVESTMENT PROPERTIES

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

## 9.1 Operating fixed assets

| | Land | Building | Electric equipment | IT equipment | Furniture and fittings | Computers | Motor vehicles | Leasehold appreciations | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | ...Afs... | | | | |
| **Cost** | | | | | | | | | |
| Balance at December 22, 2013 | 352,592,000 | 485,660,000 | 54,108,000 | - | 23,376,000 | 26,810,000 | 21,202,000 | 1,225,000 | 964,973,000 |
| Additions | - | 5,180,000 | 5,097,000 | - | 711,000 | 214,000 | 188,000 | - | 11,390,000 |
| Disposals | | - | (234,000) | - | (115,000) | (15,000) | (3,000) | - | (367,000) |
| Balance at December 21, 2014 - Restated | 352,592,000 | 490,840,000 | 58,971,000 | - | 23,972,000 | 27,009,000 | 21,387,000 | 1,225,000 | 975,996,000 |
| 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** |
| **Depreciation** | | | | | | | | | |
| Balance at December 22, 2013 | - | 76,197,000 | 18,301,000 | - | 8,295,000 | 22,741,000 | 16,600,000 | 575,000 | 142,709,000 |
| Charge for the year | - | 9,817,000 | 8,391,000 | - | 2,528,000 | 1,400,000 | 3,731,000 | - | 25,867,000 |
| Disposals/ Adjustments | - | - | (102,000) | - | (42,000) | (8,000) | (1,000) | - | (153,000) |
| Balance at December 21, 2014 | - | 86,014,000 | 26,590,000 | - | 10,781,000 | 24,133,000 | 20,330,000 | 575,000 | 168,423,000 |
| **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)** |
| **Carrying amounts** | | | | | | | | | |
| At December 21, 2015 | 352,592,000 | 395,120,973 | 30,047,367 | - | 15,720,707 | 135,331 | 1,175,623 | 650,000 | 795,442,000 |
| **At December 20, 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** |

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ..........Afs.......... | |

## 12. OTHER ASSETS

| | Note | 2016 | 2015 |
|---|---|---|---|
| Advances to employees | | 4,466,006 | - |
| Advances to suppliers | | 73,303,146 | 64,026,000 |
| Interest accrued on capital notes & Demand deposit | | 122,249,746 | 138,068,000 |
| Other assets | | 354,303,089 | 310,226,000 |
| Receivable against sale of collaterals | | 384,062,640 | - |
| Receivable from BCCI-London | | 105,895,189 | 108,287,000 |
| | | 1,044,279,816 | 620,607,000 |
| Provision against advances and receivables | 12.1 | (148,022,334) | (150,424,000) |
| Net carrying amount | | 896,257,482 | 470,183,000 |

12.1 PROVISION AGAINST ADVANCES RECEIVABLES

| | Note | 2016 | 2015 |
|---|---|---|---|
| Opening for the year | | (150,424,000) | - |
| (Charged) / Reversed for the year | 25.2 | 2,401,666 | (150,424,000) |
| Closing for the year | | (148,022,334) | (150,424,000) |

12.2 This includes provision against receivable from BCCI and advances to customers and 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.

## 13. DEPOSITS FROM BANKS

| | 2016 | 2015 |
|---|---|---|
| Agricultural Bank Kabul | 617,180 | 5,000 |
| Construction Bank | 1,598,939 | 1,725,000 |
| New Kabul Bank | - | 34,178,000 |
| Bank-e-Millie Afghan | 314,507 | 331,000 |
| Maiwand Bank | 759,720 | 777,000 |
| Afghan United Bank | 334,714,210 | 285,518,000 |
| Azizi Bank | - | 350,000,000 |
| Bakhtar Bank | - | 300,000,000 |
| Ghazanfar Bank | 119,145,141 | - |
| | 457,149,697 | 972,534,000 |

## 14. DEPOSITS FROM CUSTOMERS

| | Note | 2016 | 2015 |
|---|---|---|---|
| Term deposits | 14.1 | 119,324,292 | 496,700,000 |
| Saving deposits | 14.2 | 7,362,005,819 | 7,094,977,000 |
| Current deposits | | 8,106,144,028 | 7,316,505,000 |
| | | 15,587,474,140 | 14,908,182,000 |

14.1 All the term deposits are expected to be settled in twelve months of the balance sheet date and carry interest rate at 1 % p.a 2016. (2015: 1%p.a.).

14.2 These carry interest rate at 1% p.a. (2015: 1% p.a.).

## 15. OTHER LIABILITIES

| | | | |
|---|---|---|---|
| Withholding tax payable | | **33,618,113** | 39,991,000 |
| Employees pension funds | 15.1 | **94,988,972** | 89,108,895 |
| Payable to Gulbahar Centre - Maintenance cost | | **-** | 9,509,000 |
| Other payables | | **74,226,211** | 512,000 |
| Creditor payable | | **232,768,321** | 69,045,197 |
| | | **435,601,618** | 208,166,092 |

### 15.1 Defined benefit plan

| | 20-Dec-2016 | Restated 21-Dec-2015 | Restated 21-Dec-2014 |
|---|---|---|---|
| Present value of defined benefit obligation | **94,988,972** | 89,108,895 | 81,397,243 |
| Fair value of any plan assets | **-** | - | - |
| | **94,988,972** | 89,108,895 | 81,397,243 |
| **Movement in net liability/ (asset) recognized** | | | |
| Opening net (asset)/ liability | **89,108,895** | 81,397,243 | - |
| (Prepaid cost)/ expense | **13,606,979** | 11,035,813 | - |
| Employee contributions | **2,661,312** | 3,468,737 | - |
| Other comprehensive income (OCI) | **(4,550,805)** | (3,628,651) | 72,692,000 |
| Liability provided as at Dec 2014 | **-** | - | 8,705,243 |
| Benefits paid during the year | **(5,837,408)** | (3,164,247) | - |
| Closing net (asset)/ liability | **94,988,973** | 89,108,895 | 81,397,243 |
| **(Prepaid cost)/ charge for the defined benefit plan** | | | |
| Current service cost | **7,369,356** | 5,338,006 | - |
| Net interest | **6,237,623** | 5,697,807 | - |
| | **13,606,979** | 11,035,813 | - |
| **Actuarial assuptions** | | | |
| Valuation discount rate p.a | 7% | 7% | 7% |
| Salary increase rate p.a | 6% | 6% | 6% |

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ..........Afs.......... | |
| **16. SHARE CAPITAL** | | | |
| Authorized capital | | | |
| - 3,820,257 (2014: 3,500,000) ordinary shares of AFN 1000 each | | **3,820,256,999** | 3,820,256,999 |
| Issued and paid capital | | | |
| -3,820,257 (2014: 3,500,000) ordinary shares of AFN 1000 each | 16.1 | **3,820,256,999** | 3,820,256,999 |

16.1 Issued and paid capital

| | 2016 | 2015 |
|---|---|---|
| Opening balance | **3,820,256,999** | 3,500,000,000 |
| Shares issued in cash | - | 320,256,999 |
| Closing balance | **3,820,256,999** | 3,820,256,999 |

16.2 Pattern of Shareholding

| Name of shareholder | 2016 | 2015 |
|---|---|---|
| | ----------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 |

## 17. ACCIDENTAL RESERVE

This represents accidental reserve created out of retained earnings as approved by the Board of Supervisor in their meeting held on 14 July 2008. This reserve was created for the purpose of covering any expected losses as a result of natural calamity or any accidents. During the current year management has utilized the reserve against the retained losses.

## 18. LEGAL RESERVE

This represents legal reserve created out of retained earnings as approved by the Board of Supervisor in their meeting held on 18 October 2009. This reserve is not for the distribution of dividends and is also not for the adjustment of any impaired loans and advances. During the current year management has utilized the reserve against the retained losses.

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ..........Afs.......... | |
| **19. CONTINGENCIES AND COMMITMENTS** | | | |
| Bank guarantees issued | | **957,847,000** | 1,018,597 |

| | | Note | 2016 | 2015 |
|---|---|---|---|---|
| | | | ..........Afs.......... | |
| **20.** | **NET INTEREST INCOME** | | | |
| | **Interest income** | | | |
| | Cash and cash equivalents | | **357,788,018** | 429,266,000 |
| | Loans and advances to customers | | **13,515,095** | 42,025,000 |
| | | | **371,303,113** | 471,291,000 |
| | **Interest expense** | | | |
| | Deposits from customers | 20.1 | **53,332,516** | (58,461,000) |
| | | | **53,332,516** | (58,461,000) |
| | **Net interest income** | | **317,970,597** | 412,830,000 |
| 20.1 | Deposits from customers | | | |
| | Term deposits | | **4,956,222** | 1,064,000 |
| | Saving deposits | | **48,376,294** | 57,397,000 |
| | | | **53,332,516** | 58,461,000 |
| **21.** | **FEE AND COMMISSION INCOME** | | | |
| | Fund transfers fees / commission | | **58,513,577** | 72,578,000 |
| | | | **58,513,577** | 72,578,000 |
| **22.** | **OTHER INCOME** | | | |
| | Rental income | | **36,282,163** | 31,712,000 |
| | Bad debt recovered | | | |
| | Loan principal | | **246,820,050** | 110,832,000 |
| | Loan interest | | **125,572,745** | 42,485,000 |
| | Income from investments | | **26,217** | 26,000 |
| | Other | | **4,432,189** | 91,360,000 |
| | | | - | - |
| | | | **413,133,364** | 276,415,000 |

22.1 **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.

## 23. FOREIGN EXCHANGE GAIN / (LOSS)

| | | |
|---|---|---|
| Unrealized gain and loss on exchange rate fluctuation | **(17,307,387)** | 34,684,000 |
| | **(17,307,387)** | 34,684,000 |

## 24. EMPLOYEE BENEFIT EXPENSES

| | | |
|---|---|---|
| Salaries and wages | **122,464,825** | 132,150,000 |
| Contribution towards pension fund | **23,684,933** | 19,161,000 |
| Staff welfare | **14,321,841** | 2,141,000 |
| | **160,471,599** | 153,452,000 |

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ..........Afs.......... | |

## 25. OTHER OPERATING EXPENSES

| | Note | 2016 | 2015 |
|---|---|---|---|
| Repair and maintenance | | **4,848,202** | 6,824,000 |
| Travel and conveyance | | **1,088,470** | 805,000 |
| Advertisement and publicity | | **5,315,887** | 989,000 |
| Rent expense | | **13,187,599** | 13,236,000 |
| Building tax | | **1,833,005** | 2,312,000 |
| Deposit insurance | 25.1 | **56,290,214** | 38,052,000 |
| Internet expense | | **15,261,371** | 12,405,000 |
| Security expense | | **28,812,826** | 17,378,000 |
| Printing and stationery | | **4,636,935** | 7,859,000 |
| Communication | | **880,106** | 1,040,000 |
| Electricity | | **10,146,796** | 7,284,000 |
| Fuel expenses | | **4,117,643** | 2,930,000 |
| Auditor's remuneration | | **1,272,382** | 1,173,000 |
| Cleaning and water | | **526,677** | 667,000 |
| Kindergarten expenses | | **256,362** | 237,000 |
| Employees training expenses | | **535,400** | 247,000 |
| Provision against receivables | 25.1 | - | 150,424,000 |
| Maintenance cost - Gulbahar centre | | - | 9,509,000 |
| Written off Cash Shortage - Kandahar Branch | | - | 17,869,000 |
| Others | | **18,561,147** | 21,901,000 |
| | | **167,571,022** | 313,141,000 |

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

25.2 PROVISION AGAINST RECEIVABLES

| | Note | 2016 | 2015 |
|---|---|---|---|
| Receivable from BCCI | 12.1 | - | 108,287,000 |
| Receivable from loan customers - advertisements | | - | 10,002,000 |
| Receivable from customers - against services | | - | 461,000 |
| Receivable from Ministry of Transportation | | - | 2,000,000 |
| Unreconciled DAB Balances - Mazar-e-Sharif Branch | 5.4 | - | 29,674,000 |
| | | - | 150,424,000 |

## 26. INCOME TAX EXPENSE

| | | **2016** | 2015 | 2014 |
|---|---|---|---|---|
| Current | | - | - | - |
| Deferred | | **(31,731,370)** | 94,628,101 | 379,476,627 |
| | 26.1 | **(31,731,370)** | 94,628,101 | 379,476,627 |

Reconciliation of effective tax rate

| | | | | |
|---|---|---|---|---|
| Profit before income tax | Rate | **789,539,537** | (618,129,572) | 410,851,000 |
| Income tax using tax rate | 20% | - | | |
| Adjustment inadmissible expenses and non-taxable income | | **(630,882,690)** | (110,832,000) | (187,335,241) |
| **Taxable income** | | **158,656,847** | - | 223,515,759 |
| Corporate tax @ 20% | | **31,731,369** | - | 44,703,152 |
| Adjusted against advance tax | | **(31,731,369)** | - | (44,703,152) |
| Tax liability | | - | - | - |

| | | | | |
|---|---|---|---|---|
| 26.1 | Carry forward losses | **2,192,519,791** | 2,351,176,639 | 1,878,036,135 |
| | Deferred taxation @ 20% | **438,503,958** | 470,235,328 | 375,607,227 |
| | Reversal of deferred tax liability | **-** | - | 3,869,400 |
| | Total income tax | **(31,731,370)** | 94,628,101 | 379,476,627 |

## 27. CASH AND CASH EQUIVALENTS

| | | |
|---|---|---|
| Cash and balances with DA Afghanistan Bank (DAB) | **14,847,249,749** | 11,835,694,000 |
| Balances with other banks | **394,486,525** | 2,604,757,000 |
| | **15,241,736,274** | 14,440,451,000 |

## 28. 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 | Related parties |
|---|---|
| Chief Executive Officer | Bank-e-Millie Afghan |
| Chief Financial Officer | Afghan National Insurance Company |
| Chief Operating Officer | Shirkat-e-Aryana |
| Chief Credit Officer | Hotel Intercontinental |
| | Afghan Card Corporation |
| | Shirkat Nasaji Afghan |
| | Afghan Payment System |

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 | 2016 | 2015 | 2016 | 2015 |
|---|---|---|---|---|---|
| | | ..........Afs.......... | | | |
| | | Balances | | 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** | 83,518,000 | - | - |
| Afghanistan Payment Systems | | **120,922,512** | 17,359,000 | - | - |
| **Deposits from banks** | | | | | |
| Bank-e-Mille Afghan | | **314,507** | 331,000 | **16,493** | 29,000 |
| **Transactions with key management personnel** | | | | | |
| Short-term employee benefits | | **13,771,199** | 9,600,000 | **13,771,199** | 9,600,000 |

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.

## 29. 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----- | | | | |
| **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** |
| **2015** | | | | | | | | |
| Cash and balances with Da Afghanistan Bank | 5 | - | - | 5,385,764,000 | 9,054,687,000 | - | - | 14,440,451,000 |
| Balances with other banks | 6 | - | - | - | 2,604,757,000 | - | - | 2,604,757,000 |
| Loans and advances to customers | 8 | - | - | - | 4,462,000 | - | - | 4,462,000 |
| Other assets | 12 | - | - | - | 556,581,000 | - | - | 556,581,000 |
| | | - | - | 5,385,764,000 | 12,220,487,000 | - | - | 17,606,251,000 |
| Deposits from banks | 13 | - | - | - | - | - | 972,534,000 | 972,534,000 |
| Deposits from customers | 14 | - | - | - | - | - | 14,908,182,000 | 14,908,182,000 |
| Other liabilities | 15 | - | - | - | - | - | 208,166,092 | 208,166,092 |
| | | - | - | - | - | - | 16,088,882,092 | 16,088,882,092 |

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

## 30. FINANCIAL RISK MANAGEMENT

### 30.1 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.

### 30.2 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 540 days are 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 | 2016<br>AFN '000' | 2015<br>AFN '000' |
|---|---|---|---|
| **Carrying amount** | | - | 4,462 |
| *Concentration by sector* | | | |
| Construction | | | - |
| Business | | - | 4,000 |
| Industrial | | - | - |
| Services | | - | - |
| Staff | | - | 462 |
| | | - | 4,462 |

The Bank held cash and cash equivalents of Afs 15.24 billion (2015: Afs 14.44 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.

## 30.3 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:

| | 2016 | 2015 |
|---|---|---|
| | AFN '000' | AFN '000' |
| At period end / year end | 94.31 | 91.03% |
| Average for the period / year | 95.27 | 91.74% |
| Maximum for the period / year | 97.31 | 91.87% |
| Minimum for the period / year | 93.49 | 91.03% |

***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' -------- | -------- | -------- | -------- |
| **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) | (16,021,894) | (419,324) | (39,007) | - |

| | Note | Carrying amount | Gross inflow/ (outflow) | Less than 1 month | 1-3 months | 3 months to 1 year | More than 5 years |
|---|---|---|---|---|---|---|---|
| | | | -------- | -------- AFN '000' -------- | -------- | -------- | |
| **2015** | | | | | | | |
| Deposits from banks | 13 | 972,534 | (972,534) | (37,016) | - | (935,518) | - |
| Deposits from Customer | 14 | 14,908,182 | (14,908,182) | (14,411,482) | - | (496,700) | - |
| Other Liabilities | 15 | 208,166 | (208,166) | (128,067) | - | (80,099) | - |
| | | 16,088,882 | (16,008,783) | (14,576,565) | - | (1,512,317) | - |

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.

## 30.4 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' | | | | | |
| **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 | 8 | 4,000 | 4,000 | - | - | - | - |
| | | | 6,234,829 | 154,936 | 4,835,317 | - | - | 1,244,576 |
| | Deposits from banks | 13 | 453,859 | - | (453,859) | - | - | - |
| | Deposits from customers | 14 | (7,481,330) | (7,362,006) | - | (119,324) | - | - |
| | | | (7,027,471) | (7,362,006) | (453,859) | (119,324) | - | - |
| | | | (792,642) | 7,516,942 | 5,289,176 | 119,324 | - | |
| **2015** | | | | | | | | |
| | Cash and balance with DAB Afghanistan | 5 | 6,563,969 | 7,165 | 5,385,764 | - | - | 1,171,040 |
| | Balances with other banks | 6 | 2,600,138 | - | 2,600,138 | - | - | - |
| | Loans and advances | 7 | 8,000 | 8,000 | - | - | - | - |
| | | | 9,172,107 | 15,165 | 7,985,902 | - | - | 1,171,040 |
| | Deposits from banks | 13 | (935,518) | - | (935,518) | - | - | - |
| | Deposits from customers | 14 | (7,591,677) | (7,094,977) | - | (496,700) | - | - |
| | | | (8,527,195) | (7,094,977) | (935,518) | (496,700) | - | - |
| | | | 644,912 | (7,079,812) | 7,050,384 | (496,700) | - | 1,171,040 |

***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' |
|---|---|---|---|
| **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 | 8,421,784 | 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** | (1,641,262) | 786,676 | 664,377 |

| | AFN '000' | US$ '000' | Others '000' |
|---|---|---|---|
| **2015** | | | |
| Cash and balance with DAB Afghanistan | 6,938,354 | 4,867,843 | 29,497 |
| Balances with other banks | 1,580 | 2,502,813 | 95,745 |
| Loans and advances | 8,000 | - | - |
| Other assets | 224,190 | 108,287 | - |
| | 7,172,124 | 7,478,943 | 125,242 |
| Deposits from banks | 937,364 | 35,060 | 110 |
| Deposits from customers | 7,707,075 | 7,113,978 | 87,129 |
| Other liabilities | 158,697 | 48,970 | 499 |
| | 8,803,136 | 7,198,008 | 87,738 |
| Net foreign currency exposure | (1,631,012) | 280,935 | 37,504 |

The following significant exchange rates were applied during the periods.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Average rate** | **Reporting date spot rate** | Average rate | Reporting date spot rate |
| US$ | **67.60** | **66.84** | 63.36 | 68.35 |
| Euro | **71.92** | **69.91** | 72.69 | 73.93 |
| GBP | **92.00** | **82.89** | 95.70 | 101.11 |

***Sensitivity analysis***

A 10% strengthening of the Afghani, as indicated below, against the USD, and 10% strengthening euro at 20 December 2016 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.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Equity | Profit or loss | Equity | Profit or loss |
| | | -------------AFN '000'------------- | | |
| US$ | **(62,934)** | **(78,668)** | (22,475) | (28,094) |

A 2.2 % weakening of the Afghani against the above currencies at 20 December 2016 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.

## 31. 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, 2016 is as follows:

| | 2016 | 2015 |
|---|---|---|
| | AFN '000' | AFN '000' |
| **Regulatory capital:** | | |
| Core (Tier 1) Capital: | | |
| Total shareholder's equity | **1,910,022** | 1,151,576 |
| Less: | | |
| Profit for the year | **(844,515)** | - |
| Deferred tax assets - Net | **(326,737)** | (357,830) |
| Surplus on revaluation | **(450,014)** | (452,565) |
| | **288,757** | 341,181 |
| Supplementary (Tier 2) Capital: | | |
| Profit for the year | **844,515** | - |
| Surplus on revaluation | **450,014** | 452,565 |
| | **1,294,529** | 452,565 |
| **Total regulatory capital** | **1,583,285** | 793,746 |

## 32. CHANGE IN ACCOUNTING ESTIMATES, POLICIES AND PRIOR YEAR ERROR

In accordance with the IAS - 08 " Accounting Policies, Changes in Accounting Estimates and Error " following adjustments have been made retrospectively;

- Reversal of revaluation surplus on land and building
- Adjustment of incremental depreciation
- Adjustment of deferred taxation for surplus on revaluation
- Adjustment of deferred taxation for carried forward losses

The effect of restatement on these financial statements is summarized as follows:

| | | December 21, 2014 Afn '000 |
|---|---|---|
| Deferred tax asset | Debit | 375,607 |
| Income tax expense - deferred | Credit | 375,607 |
| Building | Debit | 219 |
| Revaluation surplus - Other comprehensive income | Credit | 219 |
| Revaluation surplus - Other comprehensive income | Debit | 2,548 |
| Revaluation surplus | Credit | 2,548 |
| Deferred tax liability | Debit | 3,869 |
| Retained earnings - Profit and loss account | Credit | 3,869 |
| Surplus on revaluation | Debit | 15,302 |
| Revaluation surplus - Other comprehensive income | Credit | 15,302 |
| Retained earnings | Debit | 80,099 |
| Provision for pension liability | Credit | 80,099 |

## 33. CORRESPONDING FIGURES

Significant reclassification / rearrangement has been made in these financial statements.

| | | |
|---|---|---|
| Chief Executive Officer | Chairman | Chief Financial Officer |

# PASHTANY BANK AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 20 DECEMBER, 2016