Bakhtar Bank

100% Subsidiary of Azizi Bank
Kabul, Afghanistan

Audited Financial Statements along with accompanying information

For theYear Ended as at December 31, 2017

Crowe Horwath
Smart decisions. Lasting value.

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Bakhtar Bank

Opinion

We have audited the financial statements of Bakhtar Bank ("the Bank"), which comprise the statement of financial position as at December 31, 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, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 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 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined one key audit matter to communicate in our report;

1. As a consequence of in principle permission secured by the bank for conversion to full-fledged Islamic bank on November 22, 2015, Bank had started the process of conversion as per letter no. 6786/6808 dated 26/10/1396 whereby the certain requirements were placed to be completed by Da Afghanistan Bank. Subsequently, bank had submitted the report on completion of the perquisites which could be finalized on interim basis to Da Afghanistan Bank on February 14, 2018. Currently bank is in the phase of system migration and license will be secured during 2018 after completion of all post-facto items required in the above mentioned letter, in the name of "Islamic Bank of Afghanistan".

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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.

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 statements 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.

Crowe Horwath Af

Crowe Horwath Afghanistan

Auditors and Business Advisors

Kabul

Crowe Horwath
Afghanistan
29 MAR 2018
Audit | Tax | Advisory | Risk

BAKHTAR BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	Note	2017	2016
		………. Afs '000'……….	
ASSETS			
Cash and cash equivalents	5	**7,722,538**	11,708,109
Loans and advances to customers	6	**680,379**	878,911
Investments	7	**4,102,370**	3,151,382
Property and equipment	8	**397,876**	304,054
Intangible assets	9	**137,153**	138,883
Non current assets held for sale		**104,958**	51,036
Deferred tax asset	10	**126,955**	69,393
Other assets	11	**1,284,801**	1,390,200
Total assets		**14,557,030**	17,691,968
EQUITY AND LIABILITIES			
Equity			
Share capital	12	**1,725,000**	1,575,000
Retained earning		**(577,209)**	(643,762)
Total equity		**1,147,791**	931,238
Liabilities			
Deposits from customers	13	**12,168,896**	11,529,480
Deposits from banks	14	**904,333**	4,986,139
Other liabilities	15	**336,010**	245,111
Total liabilities		**13,409,239**	16,760,730
Total equity and liabilities		**14,557,030**	17,691,968
Contingencies and commitments	23		

The annexed note 1 to 27 form an integral part of these financial statements.

Chief Executive Officer

Chief Finance Officer

BAKHTAR BANK

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017	2016
		..........Afs '000'..........	
Interest income		213,726	318,461
Interest expense		(116,722)	(162,790)
Net interest income	16	97,004	155,671
Fee and commission income		231,008	192,637
Fee and commission expense		(18,198)	(27,954)
Net fee and commission income	17	212,810	164,683
Other non-interest income	18	192,422	97,095
Operating income		502,236	417,449
Impairment (loss) / gain on loans and advances	6.8	298,559	(112,206)
Provision against non-funded facilitities		(46,653)	-
Employee benefit expenses	19	(256,329)	(225,688)
Operating lease expenses		(81,161)	(70,052)
Depreciation	8	(51,918)	(43,564)
Amortization	9	(1,731)	(1,803)
Other expenses	20	(354,011)	(310,194)
Operating expenses		(493,244)	(763,507)
Profit / (loss) before taxation		8,992	(346,058)
Provision for taxation			
Deferred	21	57,562	14,839
Profit / (loss) for the year		66,554	(331,219)
Other comprehensive income		-	-
Total comprehensive income for the year		66,554	(331,219)

The annexed note 1 to 27 form an integral part of these financial statements.

Chief Executive Officer

Chief Finance Officer

BAKHTAR BANK

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2017

	Share capital	Retained earnings	Total
	....................Afs '000'....................		
Balance as at January 01, 2016	1,525,000	(312,544)	1,212,456
Total Comprehensive income / (loss)	-	(331,219)	(331,219)
Transactions with owners:			
Ordinary shares issued	50,000	-	50,000
Balance as at December 31, 2016	1,575,000	(643,763)	931,238
Balance as at January 01, 2017	**1,575,000**	**(643,763)**	**931,238**
Total Comprehensive income	**-**	**66,554**	**66,554**
Transactions with owners:			
Ordinary shares issued	**150,000**	**-**	**150,000**
Balance as at December 31, 2017	**1,725,000**	**(577,209)**	**1,147,791**

The annexed note 1 to 27 form an integral part of these financial statements.

Chief Executive Officer

Chief Finance Officer

BAKHTAR BANK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017	2016
		..........AFN '000'..........	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (Loss) before taxation		8,992	(346,058)
Adjustments for:			
Depreciation	8	51,918	43,564
Amortization	9	1,731	1,803
Accrued interest on cash and cash equivalents		(13,051)	(15,156)
Impairment (gain)/ loss on loans and advances	6.8	(298,559)	112,206
Provion against non-funded facilitities	15	46,653	-
		(202,316)	(203,641)
Increase / decrease in operating assets and liabilities:			
Loans and advances to customers	6	497,091	304,062
Other assets	11	86,318	(248,339)
Deposits from customers	13	639,416	1,855,982
Deposits from banks	14	(4,081,806)	(799,516)
Other liabilities	15	90,899	110,524
Net cash generated from operating activities before interest and taxation		(2,970,398)	1,019,072
Tax adjustment		-	12,635
Net cash generated from operating activities		(2,970,398)	1,031,707
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - Net of interest	7	(965,511)	630,976
Acquisition of intangible assets	9	-	(766)
Recognition of non-current assets held for sale		(53,922)	(51,036)
Acquisition of property and equipment - Net of disposals	8	(145,740)	(179,176)
Net cash used in investing activities		(1,165,173)	399,998
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance / Redemption of share capital	12	150,000	50,000
Net cash used in / generated from financing activities		150,000	50,000
		(3,985,571)	1,481,705
Cash and cash equivalents at beginning of the year		11,708,109	10,226,404
Cash and cash equivalents at the end of the year	5	7,722,538	11,708,109

The annexed note 1 to 27 form an integral part of these financial statements.

Chief Executive Officer

Chief Finance Officer

1. STATUS AND NATURE OF OPERATIONS

Bakhtar Bank ("the Bank") is a wholly owned subsidiary of Azizi Bank, Kabul, Afghanistan. The Bank has been licensed by Da Afghanistan Bank (DAB) ("the Central Bank of Afghanistan") (refer to Note: 12.3 to the financial statements) since 2009 as a "Commercial Bank". The Bank obtained a business license from Afghanistan Investment Support Agency and is a limited liability company. The registered office of the Bank is located at Charahi Sher Pur, Shahr-e-Naw, District 10, Kabul, Afghanistan.

The Bank has 59 branches & 3 Extension Counters(2016: 59 branches) and 820 staff members (2016: 585 staff members).

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB). Whenever, the requirements of the Law of Banking in Afghanistan differs with the requirements of IFRS, the requirement of the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB) takes precedence.

As a consequence of in principle permission secured by the bank for conversion to full-fledged Islamic bank on November 22, 2015, Bank had started the process of conversion as per letter no. 6786/6808 dated 26/10/1396 whereby the certain requirements were placed to be completed by Da Afghanistan Bank. Subsequently, bank had submitted the report on completion of the perquisites which could be finalized on interim basis to Da Afghanistan Bank on February 14, 2018. Currently bank is in the phase of system migration and license will be secured during 2018 after completion of all post-facto items required in the above mentioned letter, in the name of "Islamic Bank of Afghanistan". Hence for the upcoming year financial would be prepared in compliance with the Islamic Accounting Standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

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.

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

2.3 Functional and presentation currency

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

The US Dollar amounts shown in the financial statements are stated solely for information convenience. For the purpose of translation to USD Dollars, the rate of AFN for the year 2017 is 69.72 (2016: 66.83) per US Dollar has been used.

3. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial years. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgment will, by definition, rarely equal the related actual results. The material estimates, assumptions and judgments used to measure and classify the carrying amounts of assets and liabilities are outlined below:

a) Provision for loan losses

The Bank reviews loan to customer balances quarterly for possible impairment and records the provisions for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in Note: 6.

b) Provision for income taxes

The Bank recognizes tax liability in accordance with the provisions of Income Tax Law 2009. The final tax liability is dependent on assessment of Ministry of Finance, Afghanistan.

c) Useful life of property and equipment and intangible assets

The Bank reviews the useful life and residual value of property and equipment and intangible assets on regular basis. Any change in estimates may effect the carrying amounts of the respective items of property and equipment and intangible assets with a corresponding effect on the depreciation / amortization charge.

d) Held to maturity investments

Investments classified as 'held to maturity' are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation 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 transaction and translation

Foreign currency transactions are translated into functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency assets and liabilities are translated using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of assets and liabilities denominated in foreign currencies are recognized in the Comprehensive Income currently.

Foreign currency transactions are translated into functional currency using the exchange rates. prevailing at the rates.

	USD	Euro
The exchange rate for following currencies against AFN were : As at 31st December 2017	69.72	83.27

4.2 Revenue recognition

a) 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 periods. The effective interest rate is the rate that discounts estimated future cast 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 fee 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.

b) Due but unpaid interest income is accrued on overdue advances for periods up to 90 Days in compliance with the regulations issued by DAB. After 90 days, overdue advances are classified as non-performing loans and further accrual of unpaid interest income ceases.

c) Gains and losses on disposal of property and equipment are recognized in the period in which disposal is made after adjusting necessary Book value & Accumulated Depreciation on such disposed items of Property and Equipments.

d) Fees and commission income are recognized on an accrual basis when the service has been provided, except commission on guarantee and letter of credit which is non-refundable and recognized at the time of issuance of guarantees and letter of credit.

e) Fees and commission income that are integral part to the effective interest rate on financial assets and financial liabilities are included in the measurement of effective interest rate. Other fees and commission expenses related mainly to the transactions are service fee, which are expensed as the services are received.

4.3 Operating leases

Operating lease rentals are recorded in profit and loss account on a time proportion basis over the term of the lease arrangements.

4.4 Taxation

Current

The current income tax is calculated in accordance with the Income Tax Law, 2009. Management periodically evaluates position taken in tax return with respect to situation in which applicable tax regulation is subject to interpretation and establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that the taxable profits will be available against which those deductible temporary can be utilized. Such differences of deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that effect neither the taxable profit nor the accounting profit.

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.

4.5 Financial assets and Financial liabilities

Financial Assets

The Bank classifies its financial assets in four categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held-for-trading if it is acquired principally for the purpose of selling in the short term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

b) Loans and receivables

Loans and receivables are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market, other than:

i) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit and loss;

ii) those that the entity upon initial recognition designates as available for sale; or

iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Cash and balances with Da Afghanistan Bank (DAB), balances with banks and receivables from financial institution, loan and advances to customers and security deposits and other receivables are classified under this category.

c) Held-to-maturity financial assets

Held-to-Maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity financial assets before its maturity, the entire category would be reclassified as available for sale. Short term placements are classified under this category.

d) Available-for-sale financial assets

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to need for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale financial assets (AFS) are non-derivatives that are either designated as AFS or are not classified as (i) loans and receivables, (ii) held-to-maturity investment or (iii) financial assets at fair value through profit or loss.

Recognition, subsequent measurement and adjustments of fair values of financial assets

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale are recognized on trade-date the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss category are presented in the statements of comprehensive income as a part of other income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gain and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Impairment of financial assets

a) Assets carried at amortized cost except for loans and advance

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash Flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiations of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration below investment grade level.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credits losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in impairment charge for credit losses.

b) Loans and receivables

These are stated net of general provisions on loan and advances considered "Standard" and specific provisions for non-performing loans and advances, if any. The outstanding principal of the advances are classified in accordance with the Classification and Loss Reserve Requirement(CLRR) issued by DAB.

Standard

These are loans and advances, which are paying in a current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any supporting it. For standard days will be 1 to 30 days.

Watch

These are loans and advances, which are adequately protected by the collateral, if any supporting it, but are potentially weak. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification of Substandard. further, all loans and advances which are past due by 31 to 60 days for principal or interest payment are classified as Watch. A provision is maintained in the books of account @5% of value of such loans and advances.

Substandard

These are loans and advances, which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral , if any, supporting it. Further, all loans and advances which are past due by 61 or 120 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account @25% of value of such loans and advances.

Doubtful

These are loans and advances, which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. further, all loans and advances which are past due by 121 to 480 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account @50% of value of such loans and advances.

Loss

These are loans and advances, which are not collectable and or such little value that in continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 481 days for principal or interest payments are also classified as Loss. A provision is maintained in the books of account @100% of value of such loans and advances and then these loans are charged off and the reserve for losses is reduced immediately upon determination of Loss status.

c) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired in the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value , less any impairment loss on those financial assets previously recognized in the statements of comprehensive income is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instrument are not reversed through the statement of comprehensive income, If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income, related to an event occurring after the impairment loss was recognized.

Financial Liabilities

The Bank classifies its financial liabilities in following categories;

a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified in this category if incurred principally for the purpose of trading or payment in the short term. Derivatives (if any) are also categorized as held for trading unless they are designed as hedges.

b) Other financial liabilities measured at amortized cost

These are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These are recognized initially at fair value., net of transaction costs incurred and are subsequently stated at amortized cost; any differences between the proceed (net of transaction costs) and the redemption value is recognized in the income statements.

4.6 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Non-financial assets that are subject to depreciation /amortization are reviewed for impairment whenever events or changes in circumstances indicates that the carrying amount may not be recoverable. An impairment loss or reversal of impairment loss is recognized in the statement of comprehensive income. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. (cash-generating units)

4.7 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprises balances with less than three months maturity from the date of acquisition including cash in hand, unrestricted balances with Da Afghanistan Bank (DAB) and balances with other banks. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4.8 Loans and advances

Loans and advances initially measured at fair value plus incremental direct transaction cost and subsequently measured at their amortized cost using the effective interest method. Determination of allowance for impairment, reserve for losses and non-accrual status cases is made in accordance with the regulations issued by Da Afghanistan Bank (DAB).

4.9 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 assets. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets 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 items of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Full month's depreciation is charged on property and equipment in the month of addition and no depreciation is charged in the month of deletion. The estimated useful lives of the items of property and equipment for the current and comparative period are as follows:

- Lease hold improvements
- Office equipment
- Furniture and fitting
- IT equipment
- Motor vehicles

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

4.10 Intangible assets

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 expenditures are expensed as incurred.

Amortization is recognized in the 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.

4.11 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 Employee compensation

Short-term employee benefits, if any, are measured on an undiscounted basis and are expensed as the related service is provided.

4.14 Off-setting

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 by the accounting standards, or for gain and losses arising from a group of similar transactions.

4.15 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 '000'..........	
5. CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	**2,833,922**	**3,133,810**
Balances with banks:			
Balances with Da Afghanistan Bank	23.1	**2,318,259**	**3,545,710**
Balances with other banks	5.2	**2,570,357**	**5,028,589**
		4,888,616	**8,574,299**
		7,722,538	11,708,109

5.1 Cash in hand

	2017	2016
Local currency	**1,143,322**	1,056,429
Foreign currency	**1,690,600**	2,077,381
	2,833,922	3,133,810

5.2 Balances with other banks

	Note	2017	2016
Axis Bank Limited		**24,819**	9
Azizi Bank	5.2.1	**185,749**	3,575,783
Aktif Bank		**140,761**	-
Yinzhou Bank		**8**	8
Development Credit Bank Ltd		**36,612**	5,394
BMCE BANK		**1,882,301**	1,147,291
Yes Bank India		**106**	103
Pashtany Bank		**300,001**	300,001
		2,570,357	5,028,589

	Note	2017	2016
		.......Afs '000'.........	
6. LOAN AND ADVANCES TO CUSTOMERS			
Loans and advances to customers	6.1	714,220	1,309,411

6.1

	Note	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		31 December 2017			31 December 2016		
		..........Afs '000'..........					
Retail customers- running finances	6.2	450,356	14,185	436,171	662,834	184,709	478,125
Long term commercial loans	6.3	202,345	5,685	196,660	374,890	134,894	239,996
Small and medium enterprise loan	6.4	33,575	10,282	23,293	75,510	23,080	52,430
Short term loans to employees	6.5	7,830	78	7,752	3,777	38	3,739
Other public consumer loans	6.6	20,114	3,611	16,503	21,992	2,576	19,416
Residential mortgage loans		-	-	-	170,408	85,203	85,205
		714,220	33,841	680,379	1,309,411	430,500	878,911

6.2 Running finance facilities are extended to corporate customers for a maximum period of one year subject to renewal at the end of term for another one year. These facilities carry interest ranging from 12% to 16% per annum (2017: 12% to 18%). The facilities are secured against immovable properties, stock and receivables of the borrowers and personal guarantees in certain cases.

6.3 Long term loan are extended to corporate customers for period of one to five years. These facilities carry interest ranging from 12% to 15% per annum (2016: 12% to 20% per annum) . The facilities are secured against immovable properties, stock and receivables of the borrowers and personal guarantees.

6.4 Small and medium enterprise (SME) loans are extended for meeting working capital requirements. These SME loans are extended to customers for a maximum period of five years. These facilities carry interest of 12% to 13% per annum (2016: 12% to 15% per annum). The facilities are secured against movable and immovable fixed assets, stock and receivables of the borrowers and personal guarantees.

6.5 Short term loans to employees are secured only by personal guarantees. Interest rate on loans to employees is 6% per annum (2016: 6% and these loans are extended for a period of one year.

6.6 Other public consumer loans are extended to individuals for a period of one to three years. These loans carry interest ranging from 10% to 14% per annum (2016: 12% to 17% per annum) and are secured against immovable properties and personal guarantees.

6.8 Impairment loss on loans and advances

Collective allowances for impairment:

	2017	2016
	..........Afs '000'..........	
Balance at beginning of year	430,500	295,265
Allowance for the year	(77,064)	112,206
Reversal during the year	(221,495)	23,029
Charged off during the year	(98,100)	-
Balance as at the end of the year	33,841	430,500

7. INVESTMENTS			
Capital Notes with DAB	7.1	4,085,482	3,134,494
Investment in Afghanistan Payment System	7.2	16,888	16,888
		4,102,370	3,151,382

7.1 Capital Notes with DAB

	Interest rate range		
Capital notes - 7 days	2017: 0.1400% (2016: 0%) per annum	699,981	-
Capital notes - 28 days	2017: 0.135% - 0.230% (2016: 3.535%) per annum	1,899,766	2,293,697
Capital notes - 91 days	2017: 1.440% (2016: 4.330%) per annum	996,373	840,797
Capital notes -182 days	2017: 4.300% (2016: 5.15%) per annum	489,362	-
		4,085,482	3,134,494

7.2 This represents 16.66% equity investment in Afghanistan Payment Systems (APS) incorporated as limited liability company with AISA on January 31, 2011. APS, a special purpose entity created with the support of World Bank and under special permission of Da Afghanistan Bank (DAB), was established to provide a non-cash domestic payments switch and related processing services to all the banks operating in Afghanistan.

8 PROPERTY AND EQUIPMENT

	Leasehold improvements	Office Equipment	Furniture & Fittings	IT equipment	Motor Vehicles	Assets held for capitalization / Advance against capital commitments	Total
				Afs '000'			
Gross carrying amount							
Balance as at January 01, 2016	45,489	88,491	19,807	80,592	19,881	72,937	327,197
Additions	14,581	15,437	4,617	35,178	8,786	100,577	179,176
Disposals / Adjustments	-	-	-	-	-	-	-
Balance as at December 31, 2016	60,070	103,928	24,424	115,770	28,667	173,514	506,373
Balance as at January 01, 2017	**60,070**	**103,928**	**24,424**	**115,770**	**28,667**	**173,514**	**506,373**
Additions	**7,464**	**13,913**	**3,973**	**14,115**	**4,800**	**101,475**	**145,740**
Disposals / Adjustments	-	-	-	-	-	-	-
Balance as at December 31, 2017	**67,534**	**117,841**	**28,397**	**129,885**	**33,467**	**274,989**	**652,113**
Depreciation							
Balance as at January 01, 2016	27,420	50,640	6,556	59,714	14,315	-	158,647
Depreciation for the year	7,290	14,098	2,115	17,102	2,958	-	43,564
Adjustments				108			108
Balance as at December 31, 2016	34,710	64,738	8,671	76,924	17,273	-	202,319
Balance as at January 01, 2017	**34,710**	**64,738**	**8,671**	**76,924**	**17,273**	-	**202,319**
Depreciation for the year	**9,407**	**16,173**	**2,727**	**20,463**	**3,147**	-	**51,918**
Adjustments	-	-	-	-	-	-	-
Balance as at December 31, 2017	**44,117**	**80,911**	**11,398**	**97,387**	**20,420**	-	**254,237**
Carrying amount							
Balance as at January 01,2016	18,069	37,851	13,251	20,878	5,566	72,937	168,550
Balance as at December 31, 2016	25,360	39,190	15,753	38,846	11,394	173,514	304,054
Balance as at December 31, 2017	**23,417**	**36,930**	**16,999**	**32,498**	**13,047**	**274,989**	**397,876**
Depreciation rates	**20%**	**20%**	**5-20%**	**33.33%**	**15%**	**Nil**	

9 INTANGIBLE ASSETS

	Purchased software	Goodwill	Total
	.... Afs '000'...............		
Gross carrying amount			
Balance as at January 01, 2016	13,543	135,985	149,528
Additions	766	-	766
Balance as at December 31, 2016	14,309	135,985	150,294
Balance as at January 01, 2017	**14,309**	**135,985**	**150,294**
Additions	-	-	-
Balance as at December 31, 2016	**14,309**	**135,985**	**150,294**
Amortization			
Balance as at January 01, 2016	9,608	-	9,608
Amortization during the year	1,803	-	1,803
Balance as at December 31, 2016	11,411	-	11,411
Balance as at January 01, 2017	**11,411**	-	**11,411**
Amortization during the year	**1,731**	-	**1,731**
Balance as at December 31, 2017	**13,142**	-	**13,142**
Carrying amount as at December 31, 2016	2,898	135,985	138,883
Carrying amount as at December 31, 2017	**1,167**	**135,985**	**137,153**

9.1 Purchased software has estimated useful life of 3 years and is being amortized at the rate of 33.33 %.

9.2 Goodwill represents the difference between the assets acquired and liabilities assumed by the Bank on the acquisition of the business of the Development Bank of Afghanistan ("DBA") which was acquired under an agreement, dated 18 March 2009, between DAB and Azizi Bank (parent entity of the Bank). Da Afghanistan Bank issued fresh license to the Bank on conclusion of the above mentioned agreement alongwith 16 existing Branch licenses.Management has resolved to start impairment of goodwill @ 20% from 2018. Following assets and liabilities were taken over by the Bank:

	Amount (Afs '000')
Assets	
Cash and cash equivalents	178,637
Property and equipment	19,872
Other Assets	15,313
	213,822
Liabilities	
Customer deposits	349,807
Net liabilities - representing cost of acquisition	**(135,985)**
Represented by:	
Net liabilities assumed	**(135,985)**

10 DEFERRED TAX ASSET

Recognized deferred tax asset

Deferred tax asset is attributable to the following:

	Note	Assets	Charged to Profit and Loss	Net
		..............Afs '000'..............		
As at December 31, 2017				
Tax loss carry - forward		69,393	57,562	126,955
	10.1	69,393	57,562	126,955
As at December 31, 2016				
Tax loss carry-forward		54,554	14,839	69,393
		54,554	14,839	69,393

10.1 Deferred tax asset has been recognized on estimated losses carried forward. However, related absorption of deferred taxation has been done in these financial statements.

11 OTHER ASSETS

	Note	2017	2016
		.... Afs '000'..........	
Prepayments		59,370	76,858
Receivable from DAB	11.1	5,104	10,209
Required reserve held with DAB	11.2	828,201	941,004
Security deposit		1,500	1,500
Advance income tax		145,196	126,115
Western union - In bound balance		51,938	44,572
Accrued interest		13,051	15,156
Others	11.3	180,441	174,786
		1,284,801	1,390,200

11.1 This represents assets receivable from DAB under an agreement on the inception of the Bank. Currently on the basis of correspondence with DAB management has decided to write off the amount periodically.

11.2 This represent the required reserve account maintained with DAB to meet minimum reserves requirement in accordance with Article 64 "Required reserves of banks" of the Da Afghanistan Bank Law. Currently, Da Afghanistan Bank is not paying interest on this account.

	2017	2016
	.... Afs '000'..........	
11.3 Others		
Gross amount	180,441	225,822
Less: Allowances for impairment losses	-	-
	180,441	225,822

12 SHARE CAPITAL

	2017	2016
Authorized		
250,000 ordinary shares of Afs 10,000 each	2,500,000	2,500,000
Issued and paid up		
172,500 ordinary shares (2016: 157,500) of Afs 10,000 each	1,725,000	1,575,000

12.1 Following is the reconciliation of number of shares:

	Number of shares 2017	Number of shares 2016
Number of shares at beginning of the year	**157,500**	152,500
Shares issued during the year	**15,000**	5,000
Number of shares at end of the year	**172,500**	157,500

12.2 Following is the reconciliation of amount of share capital:

	2017	2016
	.... Afs '000'	
Share capital at beginning of the year	**1,575,000**	1,525,000
Shares issued during the year	**150,000**	50,000
Share capital at end of the year	**1,725,000**	1,575,000

13 DEPOSITS FROM CUSTOMERS

	Note	2017	2016
Term deposits	13.1	**2,281,885**	2,027,405
Current deposits		**7,461,549**	7,001,643
Saving deposits	13.2	**2,425,462**	2,500,432
		12,168,896	11,529,480

13.1 These carry interest rate ranging from 3.25% to 5% per annum (2016: 3.25% to 6% per annum). It includes Afn 2,273.15 Million (2016: Afn 1,950.42 Million) of fixed deposit against Margin money carrying zero rate of interest payable at maturity of guarantees issued there against.

13.2 These carry interest ranging from 3% to 4% per annum (2016: 3% to 4% per annum).

	Note	2017	2016
		..........Afs '000'..........	
14 DEPOSITS FROM BANKS			
Azizi Bank		904,333	4,986,139
		904,333	4,986,139
15 OTHER LIABILITIES			
Withholding tax payable		5,326	5,126
Creditors and accruals		281,015	208,901
Others		3,016	31,084
Provision against non-funded facilitities		46,653	-
		336,010	245,111
16 NET INTEREST INCOME			
Interest income			
Cash and cash equivalents		89,760	176,933
Loans and advances to customers		123,966	141,528
Total interest income		213,726	318,461
Interest expense			
Deposits from customers		116,722	157,337
Deposits from banks		-	5,453
Total interest expense		116,722	162,790
Net interest income		97,004	155,671

	Note	2017	2016
		..........Afs '000'..........	

17 NET FEE AND COMMISSION INCOME

		2017	2016
Fee and commission income			
Commission income		**230,200**	192,145
Account servicing fee		**808**	492
Total fee and commission income		**231,008**	192,637
Fee and commission expense			
Inter-bank transaction fees		**18,198**	27,954
Total fee and commission expense		**18,198**	27,954
Net fee and commission income		**212,810**	164,683

18 OTHER NON-INTEREST INCOME

		2017	2016
Foreign exchange gain		**115,632**	(599)
Others		**76,790**	97,694
		192,422	97,095

19 EMPLOYEE BENEFIT EXPENSES

		2017	2016
Salaries and wages		**220,120**	189,810
Staff welfare		**36,209**	35,879
		256,329	225,688

20 OTHER EXPENSES

	Note	2017	2016
Repair and maintenance		**31,740**	21,203
Travelling expense		**19,733**	21,163
Advertising and publicity		**59,878**	47,147
Printing and stationery		**13,098**	13,313
Communication		**2,412**	2,280
Internet and connectivity		**19,869**	16,634
Electricity and power		**26,045**	20,449
Office supplies		**2,905**	2,866
Security expenses		**142,437**	130,332
Audit fee		**1,002**	1,002
Legal and professional charges		**4,996**	2,720
Postage and courier		**107**	93
Software maintenance fee		**4,938**	3,768
Deposit insurance premium	20.1	**15,398**	17,811
Others		**9,453**	9,414
		354,011	310,194

20.1 This premium is paid to Afghanistan Deposit Insurance Corporation (ADIC) at the rate of 0.20% (2016: 0.20%) of total deposits as required by DAB.

	2017	2016
	..........Afs '000'..........	

21 TAXATION

	2017	2016
Current		
- for the year	-	-
Deferred	(57,562)	(14,839)
	(57,562)	(14,839)

22 RELATED PARTIES

Parent and ultimate control party

The Bank is a 100% owned subsidiary of Azizi Bank, therefore all subsidiaries and associated entities are related parties of the Bank. The related entities also comprise entities in which directors are able to exercise significant influence and key management.

Transactions with key management personnel and other related parties

Key management personnel and their immediate relatives have transacted with the Bank during the period as follows:

	2017		2016	
	Maximum balance	Closing balance	Maximum balance	Closing balance
	......................Afs '000'......................			
Deposits with Azizi Bank	4,870,435	185,749	5,206,977	3,575,783
Deposits from Azizi Bank	4,583,595	904,521	5,720,086	4,986,327
Net Interest received from Azizi Bank	-	-	5,426	5,426
Loans to Key Managerial Personnel	2,767	1,002	-	-

Interest charged on balances outstanding from related parties fall within the same rates that would be charged in arms length transactions.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and other related parties, and no specific allowance has been made for impairment losses on these balances at the period end.

Key management personnel compensation for the period comprised:

	2017	2016
	..........Afs '000'..........	
Short-term employee benefits	36,209	35,879

In addition to their salaries, the Bank also provides non-cash benefits to executives which include furnished accommodation, meals and travel. Key management personnel include the following:

Chief Executive Officer

Deputy Chief Executive Officer

Chief Credit Officer

Chief Finance Officer

Chief Operations Officer

Chief Risk Officer

	2017	2016
	..........Afs '000'..........	
23 CONTINGENCIES AND COMMITMENTS		
Guarantees and Letter of Credit issued on behalf of customers	**4,665,318**	3,557,475
Commitment for rent payments:		
- not later than one year	**75,809**	3,360
- later than one year and not later than five years	**303,236**	31,120
	379,045	34,480

The Bank leases number of branches and office premises under operating leases. The leases typically run for a period of up to five years, with an option to renew the lease after that period.

23.1 On March 25, 2017 Da Afghanistan Bank had lined the amount of $5 Million from account of the bank on the basis of letter dated March 15, 2017 having reference no. 0628 as lien against the bank guarantee issued to Haji Khalil and Investment for the Ministry of Power and Energy. Claim was launched at April 19, 2016 vide letter no 1164/82, against the bank guarantee whereas, the expiry date of the bank guarantee was 30 April 2015. Management had taken written representation from the shareholders that incase of lodgment of the claim through court of law they will be liable to settle the liability, as Da Afghanistan Bank had marked the lien on the balance. However, management is showing the said amount as reconciling amount in the related US Dollar Bank Account 3000205027306 with DAB. Management had also communicated the matter to Presidential office and had informed them about the whole scenario of the matter vide letter no. 14/10/17/01075.

24 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	At fair value through profit and loss (FVTPL)		At amortized cost using effective interest rate			Available for sale financial assets	Non - financial assets / liabilities	Total for line item	Fair value
		Held for trading	Designated at FVTPL	Held to maturity	Loans and receivables	Financial liabilities				
		Afs '000'								
December 31, 2017										
Cash and cash equivalents	5	-	-	-	7,722,538	-	-	-	7,722,538	7,722,538
Loans and advances to customers	6	-	-	-	680,379	-	-	-	680,379	680,379
Investments	7	-	-	4,102,370	-	-	-	-	4,102,370	4,102,370
Other assets	11	-	-	-	828,201	-	-	456,600	1,284,801	1,284,801
		-	-	4,102,370	9,231,118	-	-	456,600	13,790,088	13,790,088
Deposits from customers	13	-	-	-	-	12,168,896	-	-	12,168,896	12,168,896
Deposits from banks	14	-	-	-	-	904,333	-	-	904,333	904,333
Other liabilities	15	-	-	-	-	286,341	-	3,016	289,357	289,357
		-	-	-	-	13,359,570	-	3,016	13,362,586	13,362,586
December 31, 2016										
Cash and cash equivalents	5	-	-	-	11,708,109	-	-	-	11,708,109	11,708,109
Loans and advances to customers	6	-	-	-	878,911	-	-	-	878,911	878,911
Investments	7	-	-	3,151,382	-	-	-	-	3,151,382	3,151,382
Other assets	11	-	-	-	941,004	-	-	449,196	1,390,200	1,390,200
		-	-	3,151,382	13,528,024	-	-	449,196	17,128,602	17,128,602
Deposits from customers	13	-	-	-	-	11,529,480	-	-	11,529,480	11,529,480
Deposits from banks	14	-	-	-	-	4,986,139	-	-	4,986,139	4,986,139
Other liabilities	15	-	-	-	-	214,027	-	31,084	245,111	245,111
		-	-	-	-	16,729,646	-	31,084	16,760,730	16,760,730

The carrying amounts approximate fair values as mostly the assets and liabilities have short maturities and are expected to be recovered/settled at their carrying amounts.

25 FINANCIAL RISK MANAGEMENT

25.1 Introduction and overview

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

a) credit risk;
b) liquidity risk;
c) market risk; and
d) Operation 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's have the overall responsibility for the establishment and oversight of the Bank's risk management framework. Bank has established a separate Risk Management Department headed by the Chief Risk Officer. The Chief Risk Officer is independently and directly reporting to the Board. The Board has established Management Board, Asset & Liability Committee (ALCO), Credit Committee and Operational Risk Management Committee (ORMC) which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees have executive members and report regularly to the Board of Supervisor's on their activities.

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed are described below.

25.2 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. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board of Supervisors has delegated responsibility for the oversight of credit risk to its Credit Committee. A separate Credit department has been established by the Bank that is responsible for oversight of the Bank's credit risk and 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 of Supervisors. The credit evaluation system comprises of credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio.

Exposure to credit risk

The Bank's maximum exposure to credit risk is the carrying amount of financial assets at the reporting date, as summarized below:

Classes of financial assets	Note	2017	2016
		.........Afs '000'.........	
Cash and cash equivalents	5 & 7	**8,990,986**	11,725,681
Loans and advances to customers	6	**680,379**	878,911
Other assets	11	**828,201**	941,004
Total carrying amounts		**10,499,566**	13,545,596

As at balance sheet date, all the loan portfolio of the Bank are recoverable and all the assets which are past due are provided for as per DAB guidelines.

In addition to the above, the Bank has issued financial guarantees contracts and letter of credits for which the maximum amount payable by the Bank, assuming all guarantees are called on, is Afs 4,665 million (2016: 1,950 million).

The Bank's management considers that all the above financial assets that are not impaired or past due for the reporting dates under review are of good credit quality. The credit risk for cash and cash equivalents comprising of capital notes, balances with other banks, nostro accounts and short term placements is considered negligible, since the counterparties are either the branches of Bank's own group with high quality external credit ratings or the central bank of Afghanistan / International Banks.

Allowances for impairment

The Bank establishes an allowance for impairment loss on assets carried at amortized cost that represent 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.

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered charge over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 2,570 million as at December 31, 2017 (2016: 5,028 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with parent bank and other banks.

25.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations arising 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, whilst enabling the Bank to pursue valued business opportunities. 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 and banks. For this purpose net liquid assets are considered as including cash and cash equivalent net off 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 and banks at the reporting date and during the reporting year was as follows:

	2017	2016
At the end of the year	71%	79%
Average for the year	65%	79%
Maximum for the year	71%	80%
Minimum for the year	61%	79%

Maturity analysis for financial liabilities

	Note	Carrying amount	Gross nominal inflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		....	....	....	Afs '000'	....	....	....
December 31, 2017								
Deposits from customers	13	12,168,896	12,168,894	1,370,504	-	-	10,798,390	-
Deposits from banks	14	904,333	904,333	135,650	-	-	768,683	-
Other liabilities	15	336,010	336,010	136,887	580	162,449	36,094	-
		13,409,239	13,409,237	1,643,040	580	162,449	11,603,167	-
December 31, 2016								
Deposits from customers	13	11,529,480	11,529,480	1,301,154	100	76,016	10,152,210	-
Deposits from banks	14	4,986,139	4,986,139	747,921	-	-	4,238,218	-
Other liabilities	15	245,111	245,111	231,339	401	3,291	10,080	-
		16,760,730	16,760,730	2,280,414	501	79,307	14,400,508	-

25.4 Market risk

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

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 not-trading portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The 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 is as follows:

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
		....	....	..........Afs '000'..........	....	....	....
December 31, 2017							
Cash and cash equivalents	5	489,361	489,361	-	300,001	-	-
Loans and advances to customers - (Gross)	6	714,220	94,075	91,903	397,041	131,201	-
Investments	7	4,102,370	-	996,373	3,089,109	-	16,888
Other assets	11	828,201	-	-	-	-	828,201
		4,816,590	583,436	1,088,276	3,786,151	131,201	845,089
Deposits from customers	13	2,372,315	242,546	8,726	2,121,043	-	-
Deposits from banks	14	-	-	-	-	-	-
		2,372,315	242,546	8,726	2,121,043	-	-

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
		......Afs '000'......					
December 31, 2016							
Cash and cash equivalents	5	3,875,784	3,875,784	-	-	-	-
Loans and advances to customers	6	1,309,411	206,975	262,940	690,333	149,163	-
Investments	7	3,151,382	2,293,697	840,797	-	-	16,888
Other assets	11	941,004	-	-	-	-	941,004
		9,277,581	6,376,456	1,103,737	690,333	149,163	957,892
Deposits from customers	13	2,577,413	251,007	8,196	2,318,210	-	-
Deposits from banks	14	-	-	-	-	-	-
		2,577,413	251,007	8,196	2,318,210	-	-

Exposure to currency risk

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

	Note	Total	Afs	US$	Euro	INR	CNY
			......Afs '000'......				
December 31, 2017							
Cash and cash equivalents	5	7,722,538	1,900,921	5,258,007	526,886	36,717	7
Loans and advances to customers (Gross)	6	714,220	42,343	671,877	-	-	-
Investments	7	4,102,370	4,085,482	16,888	-	-	-
Other assets	11	1,284,801	1,219,812	64,989	-	-	-
		13,823,929	7,248,558	6,011,762	526,886	36,717	7
Deposits from customers	13	12,168,896	6,185,675	5,476,057	507,164	-	-
Deposits from banks	14	904,333	446,315	458,018	-	-	-
Other liabilities	15	336,010	55,928	280,070	12	-	-
		13,409,239	6,687,918	6,214,145	507,176	-	-
Net foreign currency exposure		414,690	560,640	(202,383)	19,710	36,717	7

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	Total	Afs	US$	Euro	INR	CNY
	....	....	Afs '000'	....	....	
December 31, 2016						
Cash and cash equivalents	11,708,109	3,698,861	7,614,453	389,291	5,497	7
Loans and advances to customers	1,309,411	78,142	1,231,269	-	-	-
Investments	3,151,382	3,134,494	16,888	-	-	-
Other assets	1,390,200	1,330,472	59,728	-	-	-
	17,559,102	8,241,969	8,922,338	389,291	5,497	7
Deposits from customers	11,529,480	4,870,670	6,314,827	343,983	-	-
Deposits from banks	4,986,139	2,396,050	2,590,089	-	-	-
Other liabilities	245,111	28,693	216,032	386	-	-
	16,760,730	7,295,413	9,120,948	344,369	-	-
Net foreign currency exposure	798,372	946,556	(198,610)	44,922	5,497	7

The following significant exchange rates were applied during the period.

	2017		2016	
	Average rate	**Reporting date spot rate**	Average rate	Reporting date spot rate
USD	**68.27**	**69.72**	67.76	66.83
EURO	**76.53**	**83.27**	74.70	69.79
INR	**1.04265**	**1.0588**	1.0265	1.0265
CNY	**11.3933**	**11.3933**	11.3933	11.3933

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and Euro at December 31, 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.

	Equity	Profit or loss
	………. Afs '000'……….	
December 31, 2017		
USD	16,190	20,238
Euro	(1,577)	(1,971)
December 31, 2016		
USD	15,889	19,861
Euro	(3,594)	(4,492)

A 10% weakening of the Afghani against the above currencies at 31 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 remained constant.

25.5 Operation Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. At the macro level it aims towards identification of possible risks, development and implementation of risk control strategies and monitoring & reviewing the effectiveness of the risk management systems.

Operational Risk Management

The responsibility for the oversight of the operational risk in the Bank has been delegated to the Operational Risk Management Committee (ORMC). The committee ensures establishment, monitoring and review of procedures to identify, monitor and mitigate operational risk in accordance with the Bank's risk management policies. It adopts integrated approach in managing all the risks.

25.6 Capital management

Minimum capital requirement

Current requirement for minimum financial capital is Afs 1,000 million. DAB through Circular Reference No 703/914 dated August 08, 2010 and 2179/1825 dated March 01, 2011 has required all the commercial banks to increase their capital to Afs 1 billion (or equivalent USD). Accordingly the Bank has maintained the paid up capital to Afs 1,750 million as on 31st December 2017, which is well above the minimum requirement of DAB.

Regulatory capital

The Bank's regulator Da Afghanistan Bank sets and monitors capital requirements for the Bank. The capital adequacy of the Bank is assessed in two tiers as per regulations of the Da Afghanistan Bank.

- Tier 1 or core capital, consisting of the highest quality capital elements that fully meet all the essential characteristics of capital; to be 6% of risk weighted assets.

- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank as a going concern.

Regulatory capital is the sum of Tier 1 and Tier 2 capital and Tier 2 capital cannot exceed amount of Tier 1 capital. The Bank complies with these regulations.

The Bank's regulatory capital position was as follows:

	2017	2016
	..........Afs '000'..........	
Tier 1 capital		
Total equity capital	1,147,791	931,238
Less: Intangible assets	(137,153)	(138,883)
Less: Deferred tax assets	(126,955)	(69,393)
Total tier 1 (core) capital	883,683	722,962
Tier 2 capital		
Add: Profit for the year	-	-
Total tier 2 (supplementary) capital	-	-
Total regulatory capital	883,683	722,962

26. CORRESPONDING FIGURES

No significant rearrangement / reclassification has been made in these financial statements.

27. AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on March 29, 2018.

Chief Executive Officer

Chief Finance Officer