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DA AFGHANISTAN BANK

Financial Statements

For the year ended 20 December 2016



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INDEPENDENT AUDITORS' REPORT TO THE SUPREME COUNCIL

Opinion

We have audited the financial statements of **Da Afghanistan Bank** (the Bank), which comprise the statement of financial position as at **30 Qaws 1395 (20 December 2016)** and the statement of profit or loss, statement of other comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at **30 Qaws 1395 (20 December 2016)**, and of its financial performance and its cash flows for the year then ended in accordance with the accounting framework as stated in note 2 to the financial statements.

Basis for 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 the 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.

Emphasis of Matter

We draw attention to:

- a) note 12 to the financial statements, which states that the Bank has a receivable from the Ministry of Finance (MoF), Government of Islamic Republic of Afghanistan, against assistance as lender of last resort (LoLR) provided to Kabul Bank (KB) amounting to Afs.22,097.788 million. This receivable is secured by a promissory note agreement (PNA) between the Bank, KB and MoF. During the current year, total amount of repayments received by the Bank in this regard amounted to Afs.6,007.744 million. Subsequent to the year end, the Afghan Parliament has approved a budget of Afs.8,633.333 million for the year 1396 (2017) in this regard. Management is confident that this amount will be recovered in full as the same is secured under the PNA with the MoF and KB; and

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- b) note 21.3 to the financial statements which states that the Bank is not in compliance with Article 74 of Da Afghanistan Bank Law requiring the Bank to limit its foreign currency liabilities up to 50% of its unimpaired capital and reserves, which works out to be Afs.45,983.331 million as at 30 Qaws 1395 (20 December 2016). Foreign currency liabilities of the Bank as at year end amounted to Afs.117,794.473 million, resulting in foreign currency liabilities exceeding the prescribed limit by Afs.71,811.142.

Our opinion is not modified in respect of these matters.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting framework as stated in note 2 to the financial statements, 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 Responsibilities for the Audit of the Financial Statements

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 users taken on the basis of these financial statements.

Chartered Accountants

Audit Engagement Partner: Shabbir Yunus

Date: 14 March 2017

Kabul, Afghanistan


DA AFGHANISTAN BANK
STATEMENT OF FINANCIAL POSITION
AS AT 30 QAWS 1395 (20 DECEMBER 2016)

		1395 (2016)	1394 (2015)
	Note	----- (Afs in '000) -----	-----
ASSETS			
Gold reserve	8	52,800,896	51,513,059
Foreign currency cash reserve	9	100,349,304	110,947,031
Due from banks and financial institutions	10	186,046,259	151,576,525
Investments	11	149,532,131	144,859,185
Assistance as lender of last resort	12	22,097,788	28,426,596
Advances and other receivables	13	1,399,139	2,229,090
Investment property	14	9,000	9,000
Property and equipment	15	5,279,023	5,103,605
Intangible asset	16	105,600	5,844
Other assets	17	13,550,437	12,728,945
Total assets		531,169,577	507,398,880
LIABILITIES AND EQUITY			
LIABILITIES			
Currency in circulation	18	223,611,449	202,169,302
Capital notes	19	42,585,881	31,747,285
Due to banks and financial institutions	20	80,955,780	61,439,634
Due to customers	21	89,243,178	92,976,313
IMF related liabilities	22	423,215	20,048
Defined contribution plan	23	1,755,064	1,764,330
Deferred grants	24	137,699	5,357
Provisions and other liabilities	25	490,649	11,334,957
Total liabilities		439,202,915	401,457,226
EQUITY			
Capital	26	19,267,500	19,267,500
Revaluation reserve	26	34,479,722	32,435,414
Other components of equity	26	18,951,940	34,971,240
General reserve	26	19,267,500	19,267,500
Total equity		91,966,662	105,941,654
Total liabilities and equity		531,169,577	507,398,880

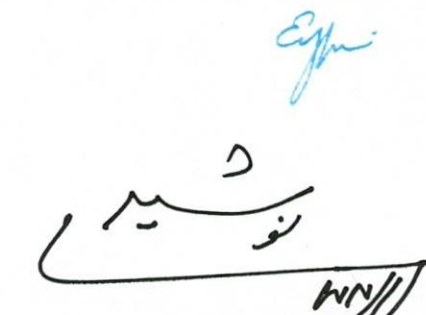
CONTINGENCIES AND COMMITMENTS

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The annexed notes 1 to 38 form an integral part of these financial statements.


 Syed Younas Sadat
 Chief Financial Officer


 H.E. Khalil Sediq
 Governor


 Wahidullah Noshier
 First Deputy Governor

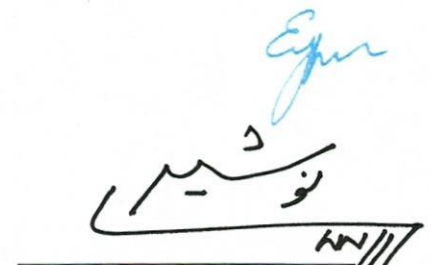
DA AFGHANISTAN BANK
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 QAWS 1395 (20 DECEMBER 2016)

	Note	1395 (2016) ----- (Afs in '000) -----	1394 (2015) -----
Interest income	28	2,737,276	2,038,722
Interest expense	29	(2,811,654)	(2,393,289)
Net interest expense		(74,378)	(354,567)
Fee and commission income		580,588	345,636
Fee and commission expense		(248,608)	(135,712)
Net fee and commission income		331,980	209,924
Net gain from dealings in foreign currencies		17,693,285	12,967,013
Net (loss) / gain on sale of available for sale financial assets		(112,776)	21,050
Other income	30	189,439	158,251
		17,769,948	13,146,314
Operating income		18,027,550	13,001,671
Personnel expenses	31	(1,260,925)	(1,358,333)
Other expenses	32	(285,401)	(268,541)
Depreciation and amortization	15 & 16	(97,370)	(75,923)
Net operating income		16,383,854	11,298,874
Net unrealised exchange (loss) / gain		(32,414,022)	34,981,971
(Loss) / profit for the year		(16,030,168)	46,280,845

The annexed notes 1 to 38 form an integral part of these financial statements.


 Syed Younas Sadat
 Chief Financial Officer



 H.E. Khalil Sediq
 Governor


 Wahidullah Noshier
 First Deputy Governor

DA AFGHANISTAN BANK
STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 QAWS 1395 (20 DECEMBER 2016)

		1395 (2016)	1394 (2015)
	Note	----- (Afs in '000) -----	-----
(Loss) / profit for the year		(16,030,168)	46,280,845
Other comprehensive income			
Not to be reclassified to profit or loss account in subsequent periods			
Remeasurement gain on defined benefit plan	23	-	13,853
		-	13,853
To be reclassified to profit or loss account in subsequent periods			
Revaluation gain / (loss) on gold reserve	8	2,246,146	(4,766,143)
Net unrealised (loss) / gain on available for sale financial assets		(201,838)	184,863
		2,044,308	(4,581,280)
Other comprehensive income / (loss) for the year		2,044,308	(4,567,427)
Total comprehensive (loss) / income for the year		(13,985,860)	41,713,418

The annexed notes 1 to 38 form an integral part of these financial statements.


 Syed Younas Sadat
 Chief Financial Officer


 H.E. Khalil Sediq
 Governor


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 First Deputy Governor


DA AFGHANISTAN BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 QAWS 1395 (20 DECEMBER 2016)

	Note	1395 (2016)	1394 (2015)
		----- (Afs in '000) -----	
Cash flows from operating activities			
(Loss) / profit for the year		(16,030,168)	46,280,845
Adjustments:			
Depreciation and amortisation	15 & 16	97,370	75,923
Interest income	28	(2,737,276)	(2,038,722)
Interest expense	29	2,811,654	2,393,289
Grant income	24	(32,544)	(1,207)
Provision for defined benefit plan	23	69,424	158,341
Reversal of actuarial loss on termination of defined benefit plan		10,868	-
Net unrealised exchange loss / (gain) on gold reserve		958,309	(7,556,357)
		<u>(14,852,363)</u>	<u>39,312,112</u>
Working capital adjustments:			
(Increase) / decrease in due from banks and financial institutions	10	(81,028,156)	115,325,312
Decrease / (increase) in assistance as lender of last resort	12	6,338,947	(709,232)
Decrease / (increase) in advances and other receivables	13	829,951	(416,899)
(Increase) / decrease in other assets	17	(532,407)	79,189
Increase in currency in circulation	18	21,442,147	5,189,057
Increase / (decrease) in due to banks and financial institutions	20	19,516,146	(3,485,428)
(Decrease) / increase in due to customers	21	(3,733,135)	2,171,125
Increase / (decrease) in IMF related liabilities	22	403,167	(16,974)
Decrease in provisions and other liabilities	25	(10,844,308)	(6,266)
		<u>(47,607,648)</u>	<u>118,129,884</u>
		<u>(62,460,011)</u>	<u>157,441,996</u>
Interest received		2,438,052	2,099,546
Interest paid		(2,811,654)	(2,393,289)
Grant received		164,886	745
Staff contribution for defined benefits (paid) to staff	23	(78,690)	(33,450)
Net cash flows (used in) / from operating activities		<u>(62,747,417)</u>	<u>157,115,548</u>
Cash flows from investing activities			
Investments made during the year	11	(4,874,784)	(20,294,898)
Purchase of property and equipment	15	(273,783)	(379,199)
Purchase of intangible assets	16	(126,397)	(1,639)
Proceeds from sale of property and equipment		27,636	16,399
Net cash flows used in investing activities		<u>(5,247,328)</u>	<u>(20,659,337)</u>
Cash flows from financing activities			
Proceeds from / (repayments of) capital notes	19	10,838,596	(5,118,710)
Net cash flows from / (used in) financing activities		<u>10,838,596</u>	<u>(5,118,710)</u>
Net (decrease) / increase in cash and cash equivalents		<u>(57,156,149)</u>	<u>131,337,501</u>
Cash and cash equivalents at beginning of the year		256,740,749	125,403,248
Cash and cash equivalents at end of the year	33	<u><u>199,584,600</u></u>	<u><u>256,740,749</u></u>

The annexed notes 1 to 38 form an integral part of these financial statements.


Syed Younas Sadat
 Chief Financial Officer


H.E. Khalil Sediq
 Governor


Wahidullah Noshier
 First Deputy Governor

DA AFGHANISTAN BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 QAWS 1395 (20 DECEMBER 2016)

	Note	Revaluation reserve			Other components of equity							Grand total	
		Net unrealised (loss) / gain on sale financial assets	Freehold land	Gold	Total revaluation reserve	Exchange translation reserve	Defined benefit plan	Residual undistributed net unrealized valuation gains	Total other components of equity	General reserve	Accumulated profits		
													(Afs in '000)

Balance at 01 Jadi 1393 (22 December 2014)		19,237,435	(176,532)	947,292	36,245,934	37,016,694	137	(24,721)	-	(24,584)	18,257,467	-	74,487,012
Total comprehensive income for the year:													
Profit for the year		-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income:													
Net unrealised gain on available-for-sale financial assets		-	184,863	-	-	184,863	-	-	-	-	-	-	184,863
Revaluation loss on gold reserve		-	-	-	(4,766,143)	(4,766,143)	-	-	-	-	-	-	(4,766,143)
Remeasurement gain on defined benefit plan		-	-	-	-	-	-	13,853	-	13,853	-	-	13,853
Total other comprehensive loss		-	184,863	-	(4,766,143)	(4,581,280)	-	13,853	-	13,853	-	-	(4,567,427)
Total comprehensive income for the year		-	184,863	-	(4,766,143)	(4,581,280)	-	13,853	-	13,853	-	-	41,713,418

Transactions recorded directly in equity:													
Transfer to capital	26.1	30,065	-	-	-	-	-	-	-	-	-	(30,065)	-
Transfer to general reserve	26.1	-	-	-	-	-	-	-	-	1,010,033	-	(1,010,033)	-
Transfer to MoF	26.1	-	-	-	-	-	-	-	-	-	-	(10,258,776)	(10,258,776)
Transfer to residual net unrealized valuation gains	26.1	-	-	-	-	-	-	-	34,981,971	34,981,971	-	(34,981,971)	-
Balance at 30 Qaws 1394 (21 December 2015)		19,267,500	8,331	947,292	31,479,791	32,435,414	137	(10,868)	34,981,971	34,971,240	19,267,500	-	105,941,654

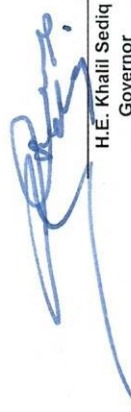
Balance at 01 Jadi 1394 (22 December 2015)		19,267,500	8,331	947,292	31,479,791	32,435,414	137	(10,868)	34,981,971	34,971,240	19,267,500	-	105,941,654
Total comprehensive income for the year:													
Loss for the year		-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income:													
Net unrealised loss on available for sale financial assets		-	(201,838)	-	-	(201,838)	-	-	-	-	-	-	(201,838)
Revaluation gain on gold reserve		-	-	-	2,246,146	2,246,146	-	-	-	-	-	-	2,246,146
Total other comprehensive income		-	(201,838)	-	2,246,146	2,044,308	-	-	-	-	-	-	2,044,308
Total comprehensive loss for the year		-	(201,838)	-	2,246,146	2,044,308	-	-	-	-	-	-	(13,985,860)

Reversal of actuarial loss on termination of defined benefit plan		-	-	-	-	-	-	10,868	-	10,868	-	-	10,868

Transactions recorded directly in equity:													
Transfer to residual net unrealized valuation gains	26.1	-	-	-	-	-	-	-	(16,030,168)	(16,030,168)	-	16,030,168	-
Balance at 30 Qaws 1395 (20 December 2016)		19,267,500	(193,507)	947,292	33,725,937	34,479,722	137	-	18,951,803	18,951,940	19,267,500	-	91,966,662

The annexed notes 1 to 38 form an integral part of these financial statements.


Syed Younas Sadat
 Chief Financial Officer


H.E. Khalil Sediq
 Governor


Wahidullah Noshier
 First Deputy Governor

DA AFGHANISTAN BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 QAWS 1395 (20 DECEMBER 2016)

1. STATUS AND NATURE OF OPERATIONS

Da Afghanistan Bank (the Bank) was originally established in 1939 in accordance with Article 12 of the 1932 Constitution of Afghanistan. The Bank was operating under the supervision of the Ministry of Finance (MoF), Government of Islamic Republic of Afghanistan. Subsequently, during the transitional Government, the Da Afghanistan Bank Law (the DAB Law) of the Islamic Republic of Afghanistan was enacted on 18 September 2003, and the Bank was re-established as an independent legal entity. This law and the change in the Bank's status were ratified by an amendment to Article 12 of the Constitution of the Islamic Republic of Afghanistan in January 2004.

Da Afghanistan Bank is the Central Bank of Afghanistan. As per the DAB Law, the Bank's main objective is to achieve and maintain domestic price stability with other objectives to foster the liquidity, solvency and proper functioning of a stable market based financial system. The Bank also controls monetary policy and manages reserves and acts as a bank, financial consultant and agent of the Government of Islamic Republic of Afghanistan and other state governed bodies.

Registered office (Head Office) of the Bank is situated in Kabul. As at 20 December 2016, the Bank operated with 47 (1394: 47) branches.

2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), the requirements of the DAB Law and accounting policies for gold and metals, bank notes and coins as stated in notes 6.9 and 6.16 respectively. Where the requirements of the DAB Law and accounting policies adopted by the Bank differ with requirements of IFRSs, the requirements of DAB Law and accounting policies adopted by the Bank take precedence.

Details of the Bank's accounting policies, including changes during the year, are included in note 6.

3. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Afghani ('Afs'), which is the Bank's functional and presentation currency.

4. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are given below:

- | | |
|---|-----------|
| - gold reserve; | Note 6.9 |
| - useful lives and valuation of property and equipment; | Note 6.10 |
| - provision for impairment; and | Note 6.13 |
| - employee benefits. | Note 6.17 |

5. BASIS OF MEASUREMENT

These financial statements have been prepared on the historical cost convention, except for gold reserves, foreign currency reserves, investments and few items of property and equipment as referred to in their respective notes which have been reported at revalued amounts.

6. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below:

The Bank has adopted the following accounting standards, amendments and interpretations of IFRSs which became effective for the current year:

Standard or Interpretation

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendment)

IFRS 11 Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)

IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)

IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)

IAS 16 Property, Plant and Equipment IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)

IAS 27 – Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)

IFRS 14 – Regulatory Deferral Accounts

Improvements to Accounting Standards Issued by the IASB in December 2013

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal

IAS 19 Employee Benefits - Discount rate: regional market issue

IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements.

Certain annual improvements have also been made to a number of IFRSs.

6.1 Foreign currency

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 translated into the functional currency at the spot exchange rate at reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of retranslation as at 20 December 2016, the Afghani exchange rates used for the major currencies were:

	1395 (2016)	1394 (2015)
	----- Afs -----	
US Dollar	66.84	68.05
Euro	69.91	73.63
Sterling Pound	82.89	100.81
Pakistan Rupee	0.62	0.64

Foreign currency differences arising on translation are recognised in statement of profit or loss.

6.2 Interest income and expense

Interest income and expense are recognised in statement of profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

6.3 Fees and commission income and expense

Fee and commission income and expenses that are integral to the financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fee, transfer commission, branch coordination commission are recognised as the related services are performed. When a loan commitment is not expected to result in draw-down of a loan, loan commitment fee is recognised on straight-line basis over the commitment period.

Other fee and commission expense relates mainly to transaction service fee and asset management services, which are expensed as the services are received.

6.4 Rental income

Rental income from investment properties is recognised in statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

6.5 Taxation

Under Article 118.2 of the DAB Law, the Bank is exempt from taxes on income or profits; personal property taxes on assets; taxes on transfer of funds and other financial transactions; stamp duties on issuance of securities and bank notes; customs duties, import duties, sales taxes, value added taxes on import of gold, bank notes and coins; and sales tax on domestic supply of gold, bank notes, and coins etc. Accordingly, no provision for income tax has been made in these financial statements.

6.6 Financial assets and financial liabilities

a) Recognition and initial measurement

All financial assets and liabilities (including financial assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets

b) Classification

The Bank classifies its financial assets into the following categories:

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Bank as fair value through profit or loss or available-for-sale. This includes receivable against sale of investments and other receivables and are carried at amortised cost using the effective yield method, less impairment losses, if any.

Held-to-maturity

At the time of acquisition, investments with fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

Subsequently, these are measured at amortised cost less provision for impairment in value, if any. Amortised cost is calculated by taking into account any discount or premium on acquisition by using the effective yield method.

The difference between the redemption value and the purchase price of the held-to-maturity investments is amortised and taken to the statement of profit or loss over the term of the investment.

These are reviewed for impairment at year end and any losses arising from impairment in values are charged to the profit and loss account.

Available-for-sale

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in market prices, are classified as 'available-for-sale'.

Financial asset at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Bank manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Bank's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held-for-trading or derivatives.

Upon initial recognition, attributable transaction cost is recognised in statement of profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in statement of profit or loss.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

c) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risk and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and consideration received (including any new asset obtained less any new liability assumed). Also all cumulative gain or loss that had been recognised in the other comprehensive income, is recognised in profit or loss. Any interest in the transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

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

d) Offsetting

Financial assets and financial liabilities are offset and a net amount is presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable 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 IFRS, or for gains and losses arising from a group of similar transactions.

e) Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial 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 recognised and the maturity amount, minus any reduction for impairment.

f) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participant would take into account in pricing a transaction.



The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in statement of profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or transaction is closed out.

If an asset or liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis that the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell on a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of deposits is not less than the amount payable, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of fair value hierarchy as of the end of the reporting period during which the change has occurred.

g) Identification of measurement of impairment

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 a group of financial assets is 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 of the asset(s) that can be estimated reliably.

Objective evidence that the financial assets are impaired includes:

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

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.



An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

The Bank determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the investee and sector performance, changes in technology and operational / financial cash flows.

Impairment losses are recognised in statement of profit or loss. Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to statement of profit or loss. The cumulative loss that is reclassified from equity to statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in statement of profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through statement of profit or loss; otherwise, any increase in fair value is recognised through other comprehensive income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in other comprehensive income.

6.7 Cash and cash equivalents

Cash and cash equivalents include foreign currency cash on hand 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 amortised cost in the statement of financial position.

6.8 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. 'Assistance as lender of last resort' is classified as loans and receivables. Loans and advances are initially measured at fair value and subsequently measured at their amortised cost using the effective interest method.

6.9 Gold

Gold held as reserve

Refined gold held as foreign reserve is recorded at fair value at the statement of financial position date. Fair price is determined by reference to the London Bullion Market Association (LBMA) fixings at a discount of USD 2 per troy ounces. Fair value changes in gold are taken to reserve account whereas foreign exchange changes are included in statement of profit or loss.

Gold at Bank vault

Non-refined gold and precious metals held at the Bank's vault are stated at cost, and are included in other assets.

6.10 Property and equipment

Property and equipment, other than free-hold land (which is not depreciated), are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses, if any. Land is carried at revalued amount less impairment losses, if any.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss as and when incurred.

Depreciation is calculated by the Bank using the straight line method which writes down the cost of assets to their residual values over the estimated useful lives. Depreciation is charged from the date when the asset is available for use and no depreciation is charged from the date when the asset is disposed off. The estimated useful lives for the current and comparative periods are as follows:

	1395 (2016)	1394 (2015)
Buildings	40 years	40 years
Furniture and fixtures	5 years	5 years
Motor vehicles	5 years	5 years
IT and office equipment	5 years	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each statement of financial position date.

Land and buildings are revalued by professionally qualified valuers with sufficient regularity to ensure that their net carrying value does not differ materially from their fair value. A surplus arising on revaluation is credited to the revaluation reserve account. Any deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above-mentioned surplus account. The surplus on revaluation of fixed assets, to the extent of incremental depreciation, is transferred to retained earnings.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets is recognised in the statement of profit or loss in the year when asset is derecognised.

6.11 Investment property

Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in statement of profit or loss.

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.

6.12 Intangible assets

Banking software acquired by the Bank is stated at cost less accumulated amortization and accumulated impairment losses, if any.

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

Software is amortised on a straight-line basis in statement of profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of a software for the current and comparative periods is five years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

6.13 Impairment of non-financial assets

The carrying amounts of assets are reviewed at each statement of financial position date for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The resulting impairment loss is taken to the profit and loss account.

6.14 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each statement of financial position date and are adjusted to reflect the current best estimate.

6.15 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.

Liabilities arising from financial guarantee are initially measured at fair value and the initial fair value is amortised over the life of the guarantee. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

6.16 Bank notes and coins

Bank notes and coins in circulation represent a demand liability of the Bank when issued from the vaults and are recorded in the statement of financial position at their face value. Expenses on bank notes and coins in circulations include expenses on production, security, transportation, insurance and other expenses. Expenses on bank notes and coins in circulation are recognised as and when they are incurred. Any un-issued currency notes and coins lying at the presidential palace are not reflected in these financial statements.

6.17 Employee benefits

Defined benefit plan

The Bank operates an unfunded pension scheme for its permanent employees. Contributions to the scheme are made by employees and the Bank. Employees contribute 8% of net monthly salary and education allowance while the Bank contributes 8% of the budgeted salary on yearly basis. A lump sum amount of pension is payable after the retirement in accordance with pension rules of the Bank.

During the year, the Bank has discontinued its defined pension scheme with effect from April 2016. The gratuity till the date of discontinuation has been recognised in these financial statements.

Defined contribution plan

During the year the Bank has introduced an unfunded contribution scheme and operates it for all of its permanent employees. Equal monthly contributions are made both by the Bank and the employees at the rate of 8% of basic salary.



6.18 Grants

Grants are recognised at their fair value where there is reasonable assurance that the grant will be received and the Bank will comply with all the required conditions attached to it.

i) Revenue grants

Grants relating to costs are recognised as income over the period necessary to match these grants with the related costs that they are intended to compensate. Fixed obligation grants are recognised when the right to receive the grant has been established on the achievement of certain milestones as stated in the grant agreement.

ii) Deferred grants

Grants for property and equipment are recorded as deferred grants in the statement of financial position and recognised income on a systematic basis over the useful life of assets acquired from the grant.

7. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following 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:

Standards, Interpretations and Amendments	Effective date (accounting periods beginning on or after)
IFRS 2: Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)	January 01, 2018
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IAS 7 Financial Instruments: Disclosures - Disclosure Initiative - (Amendment)	January 01, 2017
IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses (Amendments)	January 01, 2017
IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)	January 01, 2018
IAS 40 Investment Property: Transfers of Investment Property (Amendments)	January 01, 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	January 01, 2018
IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2018
IFRS 15 – Revenue from Contracts with Customers	January 01, 2018
IFRS 16 – Leases	January 01, 2019

The above standards and amendments are not expected to have any material impact on the Bank's financial statements in the period of initial application.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB in December 2016. Such improvements are generally effective for accounting periods beginning on or after January 01, 2017. The Bank expects that such improvements to the standards will not have any impact on the Bank's financial statements in the period of initial application.

	Note	1395 (2016)	1394 (2015)
		----- (Afs in '000) -----	
8. GOLD RESERVE			
Balance at beginning of the year	8.1	51,513,059	48,722,845
Gain / (loss) on revaluation		2,246,146	(4,766,143)
Exchange (loss) / gain		(958,309)	7,556,357
Balance at end of the year		<u>52,800,896</u>	<u>51,513,059</u>
<p>8.1 This represents 703,004.944 fine troy ounces (1394: 703,004.944 fine troy ounces) of gold in bar form held at Federal Reserve Bank, New York (FRB) as the Bank's international reserve.</p> <p>8.2 As per FRB, these bars meet the minimum LBMA LGD standards for quality (995.0 parts per thousand) but these do not comply with the requirements for dimension (top surface: 255 x 81 millimeters; bottom surface: 236 x 37 millimeters; thickness: 37 millimeters). In addition, some of these bars present imperfections such as surface roughness, cracks, fissures and holes which are considered unacceptable by the LBMA.</p> <p>Accordingly, the Bank has obtained an advice for the estimate of discount to the LBMA rate of USD 1125.7 per troy ounce (1394: USD 1,078.75 per troy ounce) from the Bank for International Settlement (BIS), Switzerland, which has suggested a discount of USD 2 per troy ounce to the LBMA rate. Accordingly, the Bank has valued the gold reserves at USD 1123.7 per troy ounce (1394: USD 1076.75 per troy ounce) using a discount of USD 2 per troy ounce to the LBMA rate as at the date of statement of financial position.</p>			
9. FOREIGN CURRENCY CASH RESERVE			
Cash at head office		97,537,804	106,827,513
Cash at branches		<u>2,811,500</u>	<u>4,119,518</u>
		<u>100,349,304</u>	<u>110,947,031</u>
10. DUE FROM BANKS AND FINANCIAL INSTITUTIONS			
Time deposits	10.1	157,898,059	128,748,142
Current accounts with foreign banks		27,689,529	22,697,621
Deposit account with foreign bank	11.1.1	<u>458,671</u>	<u>130,762</u>
		<u>186,046,259</u>	<u>151,576,525</u>
<p>10.1 These carry interest rates ranging from 0.01 to 1.60% per annum (1394: 0.12% to 5.59% per annum).</p>			
11. INVESTMENTS			
Available-for-sale financial assets	11.1	142,839,631	144,859,185
Held-to-maturity financial assets	11.2	<u>6,692,500</u>	<u>-</u>
		<u>149,532,131</u>	<u>144,859,185</u>
11.1 Available for sale financial assets			
US treasury bills	11.1.1	64,905,365	72,540,118
Other fixed income securities	11.1.1	26,803,091	20,516,317
Bank for International Settlements Investment Pool- A	11.1.2	50,432,353	51,293,913
Shares in ECOTDB	11.1.3	<u>698,822</u>	<u>508,837</u>
		<u>142,839,631</u>	<u>144,859,185</u>
<p>11.1.1 The Bank has entered into an investment management and consultation agreement with the International Bank for Reconstruction and Development ("IBRD") for Reserves Advisory Management Program (RAMP). The IBRD has placed the funds in US treasury bills, federal agency securities and deposit accounts maintained with the FRB. This portfolio of investments carries return at rates ranging from 0.75% to 1.63% per annum (1394: 0.38% to 2.63% per annum).</p> <p>11.1.2 The Bank has made investment in US Government Bonds and other interest bearing securities through an asset management agreement with "Bank for International Settlements Investment Pool A" (BISIP-A). The total units held by the Bank at the reporting date were 5,562,953 (1394: 5,562,953) having market value of USD 135.63 (1394: 135.49) per unit.</p>			

11.1.3 In 2014, the Bank has subscribed 500 shares of authorised capital, which are equivalent to ECO Units (SDR) 50 million, of Economic Cooperation Organization Trade and Development Bank (ECOTDB).

The total shares subscribed by the Bank include 150 shares equivalent to SDR 15 million payable in cash while remaining 350 shares equivalent to SDR 35 million are callable.

The Bank has made initial payment for 30 shares equivalent to SDR 3 million (Afs. 242.878 million) in accordance with the agreement between the Bank and ECOTDB, whereas rest of the amount of 120 shares equivalent to SDR 12 million is payable in 5 equal annual installments. The Bank has paid two out of the five equal annual installments for 48 shares equivalent to SDR 4.8 million uptill the year end.

The investment has been made to leverage and cater the development and finance needs of the Islamic Republic of Afghanistan and to enhance economic development, growth and welfare of citizens of the Islamic Republic of Afghanistan.

	1395 (2016)	1394 (2015)
Note	----- (Afs in '000) -----	-----

11.2 Held-to-maturity financial assets

US treasury note	11.1.3	<u>6,692,500</u>	<u>-</u>
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11.2.1 This represents US treasury note having face value of USD 100 million equivalent to Afs.6,683.940 million. This carries mark-up at the rate of 0.88% (1394: Nil) per annum and will mature on 15 April 2019.

12. ASSISTANCE AS LENDER OF LAST RESORT

Lender of last resort assistance to Kabul Bank	12.1	<u>22,097,788</u>	<u>28,426,596</u>
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12.1 This represents the amount paid to Kabul Bank as a lender of last resort ("LoLR") under Article 86 of the DAB Law.

On 21 Hamal 1390 (10 April 2011), the Bank signed a Promissory Note and Agreement ("PNA") with the Ministry of Finance ("MoF"), Government of Afghanistan, where in the MoF agreed to underwrite cost of LoLR facilities to Kabul Bank amounting to Afs.37,620 million (USD 825 million), which was subject to adjustments due to payments of claims against Kabul Bank in receivership. The PNA includes procedures for payment for guarantee of deposits of Kabul Bank. The repayment is subject to other conditions, as mentioned in the PNA, including assignment of claims of the Bank against Kabul Bank to the MoF. As per the terms of repayment the entire amount shall be paid to the Bank in 8 years in 32 quarterly increasing installments beginning from the end of first quarter of 1390. This carries interest at the annual rate of 2% compounded quarterly on outstanding balance.

As mentioned above, repayments to the Bank by the MoF are subject to other conditions as mentioned in the PNA. In this context, the Bank received Afs.3,976.887 million and Afs.2,030.857 million from MoF and Kabul Bank, respectively, while as per the original repayment schedule under the PNA, MoF scheduled repayment for 1395 was Afs.6,428.961 million. The movement in this balance during the year is as follows:

Opening balance	28,426,596	27,731,280
Add: Interest charged for the year	568,939	558,800
Add: Receivable directly from MoF	-	136,516
Less: Present value discount on LoLR	(890,003)	-
Less: Recoveries during the year:		
- directly from Kabul Bank	(2,030,857)	-
- received from MoF	(3,976,887)	-
	(6,007,744)	-
	<u>22,097,788</u>	<u>28,426,596</u>

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As per the PNA, the total amount of repayments due to be received by the Bank from MoF upto 1395 was Afs.25,432.193 million, whereas the actual payments received by the Bank (including the payments received directly from Kabul Bank under receivership) amounted to Afs.18,345.460 million.

Subsequent to year end, the Parliament has approved a budget of Afs.8,633.333 million for the year 1396 in respect of payments to be made by MoF to the Bank under the PNA, while as per the PNA, MoF scheduled repayment for 1396 was Afs.7,027.057 million.

Based on the repayment schedule, the Bank has measured the above loan at amortized cost using the risk free interest rate of 7%. The resulting decrease has been recognized as interest expense in the statement of profit or loss account.

		1395 (2016)	1394 (2015)
	Note	----- (Afs in '000) -----	-----
13. ADVANCES AND OTHER RECEIVABLES			
Advances to staff		777,426	696,684
Advance for investment in Afghanistan Deposit Insurance Corporation	13.1	500,000	500,000
Others	13.2	625,488	2,157,918
		<u>1,902,914</u>	<u>3,354,602</u>
Less: Allowance for impairment loss	13.3	(503,775)	(1,125,512)
		<u>1,399,139</u>	<u>2,229,090</u>

13.1 This represents contribution of the Bank for establishment of Afghanistan Deposit Insurance Corporation (ADIC). As per Article 7 of the draft ADIC Law, the initial capital of ADIC of Afs.1,050 million shall be contributed by the Bank, MoF and commercial banks in proportion to Afs.500 million, Afs.500 million and Afs.50 million respectively. This amount will be recognised as an investment in ADIC upon approval of ADIC Law by the Parliament of Islamic Republic of Afghanistan.

13.2 These include advances to past regimes and receivables on account of misappropriation of cash by the Bank's employees in prior years. During the year, the Bank has identified amounts aggregating to Afs.621.737 million whose recovery is doubtful and hence, these balances are written off (see note 13.3 below).

13.3 Allowance for impairment loss

Balance at beginning of year	1,125,512	1,125,512
Charge for the year	-	-
Written off against provision	(621,737)	-
Balance at the end of year	<u>503,775</u>	<u>1,125,512</u>

14. INVESTMENT PROPERTY

Investment property	14.1	<u>9,000</u>	<u>9,000</u>
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14.1 Investment property comprises an agricultural land situated near Kabul which is leased out to a farmer. The Bank has also given on lease certain shops attached with the premises of the branches, however, the portions given on lease are not significant and, hence, are not classified as investment properties.

The most recent valuation was carried out during the year 1389 by M/S Pamir Property Dealer Kabul, a reputed property dealer having professional competency and experience in the location and category of the property being valued. Fair value was determined with regard to recent market transactions for similar properties in the same location as the Bank's investment property.

Rental income earned from investment property is disclosed under note 30.

15. PROPERTY AND EQUIPMENT

	Land	Buildings	Furniture and fixtures	Motor vehicles	IT and office equipment	Total
(Afs in '000)						
Cost						
Balance at 01 Jadi 1393 (22 December 2014)	4,296,166	400,011	116,632	167,976	417,658	5,398,443
Additions	610	332,902	6,546	-	39,141	379,199
Disposals	-	-	(31)	-	(1,793)	(1,824)
Transfers / Adjustments	-	(904)	(75)	-	(16,770)	(17,749)
Balance at 30 Qaws 1394 (21 December 2015)	4,296,776	732,009	123,072	167,976	438,236	5,758,069
Balance at 01 Jadi 1394 (22 December 2015)	4,296,776	732,009	123,072	167,976	438,236	5,758,069
Additions	381	153,390	6,257	9,509	104,246	273,783
Disposals	-	-	(3,020)	(10,078)	(11,703)	(24,801)
Transfers / Adjustments	-	(56)	(550)	(11,432)	(12,386)	(24,424)
Balance at 30 Qaws 1395 (20 December 2016)	4,297,157	885,343	125,759	155,975	518,393	5,982,627
Depreciation						
Balance at 01 Jadi 1393 (22 December 2014)	-	26,161	35,116	111,866	410,052	583,195
Charge for the year	-	18,295	3,268	23,264	29,616	74,443
Disposals	-	-	(24)	-	(355)	(379)
Transfers / Adjustments	-	-	-	-	(2,795)	(2,795)
Balance at 30 Qaws 1394 (21 December 2015)	-	44,456	38,360	135,130	436,518	654,464
Balance at 01 Jadi 1394 (22 December 2015)	-	44,456	38,360	135,130	436,518	654,464
Charge for the year	-	22,128	3,772	8,715	36,114	70,729
Disposals	-	-	(2,032)	(9,897)	(4,808)	(16,737)
Transfers / Adjustments	-	-	-	-	(4,852)	(4,852)
Balance at 30 Qaws 1395 (20 December 2016)	-	66,584	40,100	133,948	462,972	703,604
Carrying amounts						
At 30 Qaws 1394 (21 December 2015)	4,296,776	687,553	84,712	32,846	1,718	5,103,605
At 30 Qaws 1395 (20 December 2016)	4,297,157	818,759	85,659	22,027	55,421	5,279,023

15.1 Land and buildings were revalued as at 30 Hoot 1389 by an independent dealer, M/S Pamir Property Dealer, a valuation expert having knowledge and experience in the location and category of property, on the basis of market values. The revaluation resulted in a surplus of Afs.741.802 million on revaluation of land which has been included in revaluation reserve and deficit of Afs.243.527 million on revaluation of building which has been charged to statement of profit or loss in 1389.

15.2 Land and buildings include properties having cost of Afs.93.947 million (1394: Afs.93.947 million) which have been transferred to the Bank by different ministries, however, the title to these properties have not yet been transferred in the name of the Bank. Further, properties having cost of Afs.51.864 million (1394: Afs.51.864 million) are disputed, mainly due to title / possession issues and are under review by the court of law.

15.3 Had no revaluation been carried out, the carrying amount of the land and buildings that would have been recognised in these financial statements is as under:

	1395 (2016)	
	----- (Afs in '000) -----	
	Land	Buildings
Cost	3,349,865	1,128,870
Accumulated depreciation	-	(136,960)
Carrying amount	3,349,865	991,910

15.4 In previous year, the Bank has implemented an automated "Fixed Assets Management System" (FAMS) for monitoring and reporting of fixed assets data. Due to this transition, fully depreciated assets and few other anomalies were identified and accordingly, necessary adjustments were made to reconcile all records with FAMS.

	1395 (2016)	1394 (2015)
Note	----- (Afs in '000) -----	
16. INTANGIBLE ASSET		
Banking software		
Cost		
Balance at beginning of the year	42,740	41,101
Additions during the year	126,397	1,639
	169,137	42,740
Amortisation		
Balance at beginning of the year	(36,896)	(35,416)
For the year	(26,641)	(1,480)
	(63,537)	(36,896)
Carrying amount at end of the year	105,600	5,844

17. OTHER ASSETS

Non-monetary gold bullion and bars		5,861,728	5,861,728
Non-monetary silver		6,711,255	6,711,255
	17.1	12,572,983	12,572,983
Inventories		23,211	19,110
Inter-branch accounts		528,306	-
Accrued interest on time deposits	10	425,917	136,832
Disbursements against Letter of Credits (LCs)	21.4	20	20
		13,550,437	12,728,945

17.1 These represent the gold bullion and bars and silver coins held in the Bank's vault at the Presidential Palace. Under a Memorandum of Understanding ("MoU") agreed between the Bank and the Ministry of Finance (MoF) in the year 1383, the Bank has been granted clear title to all the gold bullion and bars, as well as certain gold and silver coins, asserted to be owned by the Bank and physically located in the Presidential Palace vault.

18. CURRENCY IN CIRCULATION

Coins	428,401	428,401
Bank notes	229,180,067	208,412,137
	229,608,468	208,840,538
Bank notes and coins held by the Bank	(5,997,019)	(6,671,236)
	223,611,449	202,169,302

19. CAPITAL NOTES

Face value	43,619,262	32,678,469
Un-amortised discount	(1,033,381)	(931,184)
	42,585,881	31,747,285

19.1 These represent debt instruments issued by the Bank to the licensed commercial banks and licensed money changers. These instruments have maturity between 7 days to 364 days (1394: 7 days to 364 days) and are freely transferable between licensed commercial banks, licensed money changers and the Bank.

These notes carry interest at rates ranging from 1.78% to 7.1% (1394: 1.8% to 7.1%) per annum.

	Note	1395 (2016)	1394 (2015)
20. DUE TO BANKS AND FINANCIAL INSTITUTIONS			
Foreign currency:			
Current accounts		48,422,758	31,248,694
Local currency:			
Current accounts		10,023,307	8,153,851
Required reserve balance	20.1	18,422,240	16,854,145
Overnight deposits	20.2	4,087,475	5,182,944
		<u>32,533,022</u>	<u>30,190,940</u>
		<u>80,955,780</u>	<u>61,439,634</u>

20.1 This represents interest free reserve balances maintained by the commercial banks with the Bank in accordance with the requirements of Article 64 of the DAB Law.

20.2 These carry interest at the rate of 0.8% (1394: ranging between 0.8% and 1.3%) per annum.

21. DUE TO CUSTOMERS

Foreign currency:			
Current accounts	21.1	65,939,445	67,446,432
Dormant accounts	21.2	223,636	99,707
		<u>66,163,081</u>	<u>67,546,139</u>
Local currency:			
Current accounts	21.1	20,281,274	22,306,525
Dormant accounts	21.2	108,927	121,070
		<u>20,390,201</u>	<u>22,427,595</u>
Margin against letters of credit	21.4	2,689,896	3,002,579
	21.3 & 21.5	<u>89,243,178</u>	<u>92,976,313</u>

21.1 Due to customers consist of:

Government accounts	78,316,485	84,422,333
Others	10,926,693	8,553,980
	<u>89,243,178</u>	<u>92,976,313</u>

21.2 These are prior year's non-operative accounts of the customers of the Bank and non-operative accounts transferred by other commercial banks. According to Article 75 of the banking law of Afghanistan, all commercial banks are required to dispatch a notice to each dormant account holder at their registered address and publish a notice in at least one local newspaper, the name and particular of the dormant account holder. If the dormant account holder cannot be located within 90 days after the notice and publication of details, these non-operative accounts are classified as dormant for 10 years and transferred to the Bank which are held in a special account. Thereafter, if any dormant account holder satisfactorily proves his / her ownership, the Bank will repay the amount immediately. If the dormant account holder does not claim back their deposit within this period, the Bank transfers it to the Ministry of Finance (MoF) for inclusion in the revenues of the Government of Afghanistan.

21.3 The Bank is not in compliance with Article 74 of the DAB law which requires the Bank to limit its foreign currency liabilities up to 50% of its unimpaired capital and reserves, which works out to be Afs.45,983.331 million as at 30 Qaws 1395 (20 December 2016). Foreign currency liabilities of the Bank as at the said date stand at Afs.117,794.473 million, resulting in foreign currency liabilities exceeding the prescribed limit by Afs.71,811.142 million as at the year end.

21.4 These represent the deposits received by the Bank against issuance of letters of credit (LCs). The Bank issues LCs only to the government and governmental organisations against receipt of 100% deposit.

21.5 All these deposits are interest-free.

	Note	1395 (2016) ----- (Afs in '000) -----	1394 (2015) -----
22. IMF RELATED LIABILITIES			
Account 1	22.1	20,021	20,021
Account 2	22.1	27	27
Extended Credit Facility Loan	22.2	403,167	-
		<u>423,215</u>	<u>20,048</u>

22.1 The Islamic Republic of Afghanistan is a member of International Monetary Fund (IMF) since 1955. The member country can designate Ministry of Finance, central bank or any other agency as their Fiscal Agent. In addition, each member is statutorily required to designate its central bank as Depository. The Government of Afghanistan has nominated MoF as their Fiscal Agent and the Bank as Depository.

As the Depository for the Islamic Republic of Afghanistan, the Bank is required to maintain, in addition to other accounts, the following accounts:

Account 1 (Afghani)

Account 2 (Afghani)

IMF's holding of the member's currency is placed in IMF Account No 1 and Account No 2 in the Bank. The Bank is required to record balances in the IMF No.1 and No. 2 accounts as its liabilities. These balances, although maintained within the Bank, are owned by the IMF. The IMF Account No. 1 is used for the IMF's operational transactions whereas the IMF Account No. 2 is used for operational expenses incurred by the IMF in the member's currency.

22.2 As per the arrangement between the Bank and IMF, as Trustee of the Poverty Reduction and Growth Trust, the Bank has been granted an extended credit facility loan (ECF loan) equivalent to SDR 32.38 million for a period of three years which is non-interest bearing. During the year, the Bank has received the first installment of this ECF loan of SDR 4.5 million (Afs.403.167 million).

22.3 Off-balance sheet balances

Securities issued by IMF	25,741,692	12,505,593
CVA Account No 1	250	(2,954)
CVA Account No 2	5	-
CVA Securities issued by IMF	<u>5,661,827</u>	<u>697,783</u>

23. DEFINED CONTRIBUTION PLAN

During the year, the Bank has discontinued its defined pension scheme with effect from April 2016. Furthermore, the Bank has introduced an unfunded contribution scheme and operates it for all of its permanent employees. Equal monthly contributions are made both by the Bank and the employees at the rate of 8% of basic salary.

24. DEFERRED GRANTS

This represents grants received in kind from various donors in the form of motor vehicles, information technology and power equipments and accounting software.

Balance at the beginning of the year		5,357	5,819
Additions	24.1	164,886	745
		<u>170,243</u>	<u>6,564</u>
Less: Deferred grants recognised as income		(32,544)	(1,207)
Balance at the end of the year		<u>137,699</u>	<u>5,357</u>

24.1 This represents grant received from World Bank through FSRRP project US embassy and Harakat – Afghanistan Investment Climate Facility Organization in form of computers and other IT equipments.

		1395 (2016)	1394 (2015)
	Note	----- (Afs in '000) -----	
MOU adjustments		-	95,053
Payable to MoF		-	10,258,776
Sundry payables	25.1	402,200	716,557
Inter-branch accounts	17.2	-	106,934
Others		88,449	157,637
		<u>490,649</u>	<u>11,334,957</u>

25.1 During the year, the Bank has written back sundry payable amounts aggregating to Afs.398.644 million which was payable to the previous regimes.

26. CAPITAL AND RESERVES**26.1 Capital and capital management**

According to Article 27 of the DAB Law, the authorised capital of the Bank is Afs 8,000 million or such higher amount as shall result from allocations from net profit pursuant to Article 29 of the DAB Law. The capital of the Bank is solely held by the Government of Islamic Republic of Afghanistan, and shall not subject to lien or encumbrances.

According to Article 30 of the DAB Law, if the Bank has incurred a net loss for any financial year (i.e. net unrealized valuation losses are greater than net operating income as stated in Article 30.2 of DAB law), it shall be allocated in the following order of priority:

- 1) to the Valuation Reserve Account or, to the extent that the balance of the Valuation Reserve Account would be negative as a result of such allocation;
- 2) to the General Reserve; and
- 3) to the Capital Account.

26.2 Revaluation reserve

According to Article 29 of the DAB Law, the Bank shall hold a general reserve and a revaluation reserve. The Bank may, if required, create a special reserve with the approval of MoF.

The Bank's revaluation reserve represents the cumulative unrealised gains on the revaluation of gold reserves at market prices, revaluation of freehold land at fair values and net unrealised valuation gains from available-for-sale financial assets at statement of financial position date.

27. CONTINGENCIES AND COMMITMENTS**27.1 Contingencies**

There are no outstanding financial guarantees and performance guarantees to third parties including the government.

27.2 Commitments

There are no other outstanding commitments, except for commitments for letters of credits that are fully supported by cash deposits in the related customers' accounts.

	Note	1395 (2016) ----- (Afs in '000) -----	1394 (2015) -----
28. INTEREST INCOME			
Interest on balances with banks and financial institutions	10.1	1,129,901	702,085
Interest on available for sale financial assets	11.1.1	992,094	770,566
Interest on treasury bills		45,265	7,271
Interest on LoLR assistance to Kabul Bank	12.1	570,016	558,800
		<u>2,737,276</u>	<u>2,038,722</u>
29. INTEREST EXPENSE			
Interest on capital notes	19.1	1,897,954	2,189,421
Interest - others	29.1	913,700	203,868
		<u>2,811,654</u>	<u>2,393,289</u>
29.1 This includes interest on overnight deposits of Afs.23.697 million (also refer to note 20.2) and present value discount on LoLR of Afs.890,003 million (also refer note 12.1).			
30. OTHER INCOME			
Rental income		2,605	3,089
Grant income	30.1	50,269	1,312
Regulatory income		120,424	152,688
Others		16,141	1,162
		<u>189,439</u>	<u>158,251</u>
30.1 This includes Afs.32.544 million transferred from deferred grant.			
31. PERSONNEL EXPENSES			
Salaries		1,191,501	1,199,992
Defined benefit plan - Pension	23	69,424	158,341
		<u>1,260,925</u>	<u>1,358,333</u>
32. OTHER EXPENSES			
Audit fee		5,352	5,671
Repair and maintenance		45,143	35,450
Entertainment expenses		23,546	16,192
Rent		6,076	6,258
Staff training		5,334	7,823
Printing and stationery		13,531	14,469
Office supplies and maintenance		9,626	8,962
Transportation		15,814	14,487
Fee and subscription		12,131	11,884
Communication		48,308	40,176
Security guard services		3,661	4,609
Insurance		-	2,091
Travelling		27,254	23,219
Utilities		24,328	27,198
Others		45,297	50,052
		<u>285,401</u>	<u>268,541</u>

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(2016) (2015)
----- (Afs in '000) -----

33. CASH AND CASH EQUIVALENTS

Foreign currency cash reserve	100,349,304	110,947,031
Deposits (having maturity of less than three months)	71,087,096	122,965,335
Current accounts with foreign banks	27,689,529	22,697,621
Deposit account with foreign bank	458,671	130,762
	<u>199,584,600</u>	<u>256,740,749</u>

34. RELATED PARTIES

Transactions with related parties

The Bank is a Government entity as the Islamic Republic of Afghanistan is the ultimate owner of the Bank. Related parties to the Bank include the Government of Afghanistan, various departments of the government, government controlled entities and enterprises. The Bank enters into transactions with related parties in its normal course of business and it is impracticable to disclose all transactions with related parties. Generally the Bank enters into the following transactions with the government and its related organizations.

- The Bank acts as a depository of the government or its agent, providing banking services to government, governmental organizations and enterprises;
- Issues letters of credit on behalf of government, governmental organisation and enterprises;
- The Bank does not ordinarily collect any commission, fees or other charges for the services which it renders to the government; and
- As an agent of the government, the bank manages foreign reserves.

Members of the Supreme Council and Key Managerial Personnel

H.E Mr. Khalil Sediq Governor & Chairman of the Supreme Council
H.E Mr. Wahidullah Noshier First Deputy Governor & Vice Chairmen of Supreme Council
H.E Dr. Shah Mohammad Mehrabi, the member of the Supreme Council and the Chairman of the Audit Committee
H.E Mr. Mohammad Yasin Osmani, member of the Supreme Council
H.E Dr. Abdul Ghani Ghousi, member of the Supreme Council
H.E Miss. Katrin Faqiri, member of the Supreme Council

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(2016) (2015)
----- (Afs in '000) -----

Transactions with key management personnel

Key management personnel compensation

Salary and other employee benefits	13,169	9,994
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Compensation of the Bank's key management personnel includes salaries and benefits.

The aggregate value of transactions and outstanding balances related to key management personnel were as follows:

	Transaction values for the year ended		Balance outstanding as at	
	1395 (2016) ----- (Afs in '000) -----	1394 (2015) ----- (Afs in '000) -----	1395 (2016) ----- (Afs in '000) -----	1394 (2015) ----- (Afs in '000) -----
Advances to key management personnel	9,125	9,620	14,956	5,831

Other related party transactions

	Transactions during the year		Balance outstanding as at 21 December	
	1395 (2016) ----- (Afs in '000) -----	1394 (2015) ----- (Afs in '000) -----	1395 (2016) ----- (Afs in '000) -----	1394 (2015) ----- (Afs in '000) -----
Assistance as lender of last resort	(6,328,808)	-	22,097,788	28,426,596
Advance to Afghanistan Deposit Insurance Corporation	-	-	500,000	500,000
General government accounts	6,105,848	807,585	78,316,485	84,422,333

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35. FINANCIAL ASSETS AND LIABILITIES

Accounting classification of financial assets and financial liabilities and fair values

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements and disclosures about fair value measurement where such measurements are required as permitted by other IFRSs. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the statement of financial position date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value.

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values.

30 Qaws 1395 (20 December 2016)

Financial Assets

Note	Designated at fair value	Available- for-sale	Held-to- maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
----- (Afs in '000) -----							
9	-	-	-	-	100,349,304	100,349,304	100,349,304
10	-	-	157,898,059	-	28,148,200	186,046,259	186,046,259
11	-	142,839,631	6,692,500	-	-	149,532,131	149,532,131
12	-	-	-	22,097,788	-	22,097,788	22,097,788
13	-	-	-	1,399,139	-	1,399,139	1,399,139
17	-	-	-	-	425,937	425,937	425,937
	-	142,839,631	164,590,559	23,496,927	128,923,441	459,850,558	459,850,558

Financial Liabilities

18	-	-	-	-	223,611,449	223,611,449	223,611,449
19	-	-	-	-	42,585,881	42,585,881	42,585,881
20	-	-	-	-	80,955,780	80,955,780	80,955,780
21	-	-	-	-	89,243,178	89,243,178	89,243,178
22	-	-	-	-	423,215	423,215	423,215
25	-	-	-	-	490,649	490,649	490,649
	-	-	-	-	437,310,152	437,310,152	437,310,152

30 Qaws 1394 (21 December 2015)

Financial Assets

Note	Designated at fair value	Available- for-sale	Held-to- maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
							(Afs in '000)
9	-	-	-	-	110,947,031	110,947,031	110,947,031
10	-	-	128,748,142	-	22,828,383	151,576,525	151,576,525
11	-	144,859,185	-	-	-	144,859,185	144,859,185
12	-	-	-	28,426,596	-	28,426,596	28,426,596
13	-	-	-	2,229,090	-	2,229,090	2,229,090
17	-	-	-	-	136,852	136,852	136,852
	-	144,859,185	128,748,142	30,655,686	133,912,266	438,175,279	438,175,279

Financial Liabilities

18	-	-	-	-	202,169,302	202,169,302	202,169,302
19	-	-	-	-	31,747,285	31,747,285	31,747,285
20	-	-	-	-	61,439,634	61,439,634	61,439,634
21	-	-	-	-	92,976,313	92,976,313	92,976,313
22	-	-	-	-	20,048	20,048	20,048
25	-	-	-	-	11,228,023	11,228,023	11,228,023
	-	-	-	-	399,580,605	399,580,605	399,580,605

The following table shows financial instruments recognised at fair value, analysed between those whose fair value is based on:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

Level 1	Level 2	Level 3	Total
----- (Afs in '000') -----			

30 Qaws 1395 (20 December 2016)

Financial assets classified as 'available-for-sale'

US treasury bills	64,905,365	-	-	64,905,365
Other fixed income securities	26,803,091	-	-	26,803,091
Bank for International Settlements Investment Pool- A	-	50,432,353	-	50,432,353
	91,708,456	50,432,353	-	142,140,809

30 Qaws 1394 (21 December 2015)

Financial assets classified as 'available-for-sale'

US treasury bills	72,540,118	-	-	72,540,118
Other fixed income securities	20,516,317	-	-	20,516,317
Bank for International Settlements Investment Pool- A	-	51,293,913	-	51,293,913
	93,056,435	51,293,913	-	144,350,348

During the year ended 20 December 2016, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

36. RISK MANAGEMENT POLICIES

The Supreme Council of the Bank, chaired by the Governor, has the overall responsibility and oversight of the Bank's risk management framework. The Bank is primarily subject to credit, liquidity, market (interest and currency) risks and operational risk. The policies and procedures for managing these risks are outlined in notes 36.1 to 36.5. The Bank has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and managing of these risks. In addition, International Monetary Fund (IMF) representatives visit the Bank periodically to advise senior management and Governor on the management of these risks.

The Market Operations Department within the Bank is responsible for monitoring the Foreign Currency Reserves as per the Bank's Reserves Management Policy and Guidelines.

36.1 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Bank, resulting in a financial loss to the Bank. The Bank's primary exposure to credit risk arises through investment in treasury bills, deposits with banks and financial institutions and investments in available for sale financial assets. Treasury bills and receivable in respect of Assistance as LoLR have insignificant credit risk as these are "guaranteed" by the respective governments. Credit risk arising from deposit with banks and financial institutions is managed by monitoring, reviewing and analyzing these deposits frequently. Investments in available for sale financial assets are made in securities of central banks, government entities and other highly reputable organizations; periodic monitoring and review is carried out and the portfolio is managed through the World Bank. The Bank manages credit risk arising from issuance of letters of credit by obtaining 100% margin against letters of credit.

Concentration of credit risk

The Bank's concentration of credit risk exposure is as follows:

	1395 (2016)	1394 (2015)
Note	----- (Afs in '000) -----	
Due from banks and financial institutions	10 186,046,259	151,576,525
Investments	11 149,532,131	144,859,185
Advances and other receivables	13 1,399,139	2,229,090
Other assets	17 425,937	136,852
	<u>337,403,466</u>	<u>298,801,652</u>

The Bank neither enters into nor is a party to financial instruments and contractual obligations that, under certain conditions, could give rise to or involve elements of, market or credit risk in excess of that shown in the statement of financial position, such as interest rate swaps, forward foreign exchange contracts, financial guarantees, and commitments to extend credit.

The analysis below summarises the credit quality of the Bank's liquid portfolio as on 20 December 2016:

Due from banks and time deposits rating by Rating Category

	1395 (2016)	1394 (2015)
	----- (Afs in '000) -----	
A+	33.97%	25.37%
AAA	2.52%	23.52%
A	35.10%	27.70%
BBB+	15.63%	14.22%
B-	0.09%	0.01%
BBB-	12.69%	8.99%
Unrated (BIS)	-	0.19%
	100.00%	100.00%

Geographical sector

The Bank monitors concentrations of credit risk by sector and geographic location.

The following table breaks down the Bank's main credit exposure by geographical region. For this table, the Bank has allocated exposures to the regions based on the country of domicile of counterparties.

	Due from banks and financial institutions	Investments	Advances and other receivables	Other assets	Total
	----- (Afs in '000) -----				
30 Qaws 1395 (20 December 2016)					
Afghanistan	-	-	1,399,139	-	1,399,139
Asia	62,478,423	698,822	-	153,076	63,330,321
Europe	85,842,057	-	-	259,044	86,101,101
America	37,725,779	148,833,309	-	13,817	186,572,905
	186,046,259	149,532,131	1,399,139	425,937	337,403,466
30 Qaws 1394 (21 December 2015)					
Afghanistan	-	-	2,229,090	-	2,229,090
Asia	21,432,842	508,837	-	3,802	21,945,481
Europe	114,949,514	-	-	72,819	115,022,333
America	15,194,169	144,350,348	-	60,231	159,604,748
	151,576,525	144,859,185	2,229,090	136,852	298,801,652

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36.2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. For liquidity risk arising from local currency activities, the Bank manages the daily liquidity position of the local banking system by monitoring daily inter-bank clearing system operating under the Bank. The risk arising out of the Bank's obligations for foreign currency balances or deposits is managed through available reserves, open market operations and issue of capital notes.

The table below analyse the Bank's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

The maturity profile of the Bank's liabilities based on contractual maturities is given below:

Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Carrying amount
(Afs in '000)						
30 Qaws 1395 (20 December 2016)						
Liabilities						
Currency in circulation	(223,611,449)	-	-	-	(223,611,449)	223,611,449
Capital notes	(42,585,881)	(12,304,487)	(5,156,012)	(25,125,382)	-	42,585,881
Due to banks and financial institutions	(80,955,780)	(80,955,780)	-	-	-	80,955,780
Due to customers	(89,243,178)	(86,553,282)	(2,689,896)	-	-	89,243,178
IMF related liabilities	(423,215)	(423,215)	-	-	-	423,215
Provisions and other liabilities	(490,649)	(490,649)	-	-	-	490,649
	(437,310,152)	(180,727,413)	(7,845,908)	(25,125,382)	-	(223,611,449)
						437,310,152
30 Qaws 1394 (21 December 2015)						
Liabilities						
Currency in circulation	(202,169,302)	-	-	-	(202,169,302)	202,169,302
Capital notes	(31,747,285)	(3,971,847)	(2,481,938)	(25,293,500)	-	31,747,285
Due to banks and financial institutions	(61,439,634)	(61,439,634)	-	-	-	61,439,634
Due to customers	(92,976,313)	(89,973,734)	(3,002,579)	-	-	92,976,313
IMF related liabilities	(20,048)	(20,048)	-	-	-	20,048
Provisions and other liabilities	(11,228,023)	(11,228,023)	-	-	-	11,228,023
	(399,580,605)	(166,633,286)	(5,484,517)	(25,293,500)	-	(202,169,302)
						399,580,605

36.3 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. The Bank is exposed to market risk, as a consequence of its operations to deliver its policy objectives as well as in the course of managing the Bank's statement of financial position, principally through changes in the relative interest rates received on its assets and paid on its liabilities. Exposure may also be incurred to changes in exchange rates and to shifts in general market conditions, such as the liquidity of asset markets.

All market risk is managed within the Bank's Market Operations Department through Reserves Management Policy and Guidelines. The Bank is exposed to interest rate risk principally via its investments in available for sale financial assets and short term deposits with other banks and financial institutions bought and held to maturity in normal circumstances with the intention of maintaining the value of the Bank's capital and generating income to pay for the Bank's policy functions.

36.4 Interest rate risk exposure

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank's investments in available for sale financial assets and short term deposits with other banks and financial institutions are primarily linked to prevailing market conditions. All other liabilities of the Bank are non interest bearing except the capital notes and overnight deposits included in due to banks and financial institutions.

The Bank does not have any material positions in off-balance-sheet instruments, whose value can be affected by interest rate changes, such as swaps, futures, and forwards; option contracts, such as caps, floors, and options on futures; and firm forward commitments to buy or sell loans, securities, or other financial instruments.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's financial assets and liabilities at carrying or revalued amounts, categorised by earlier of contractual reprising of maturity dates. Non interest bearing financial instruments are shown for reconciliation purposes.

30 Qaws 1395 (20 December 2016)

Financial assets									
Foreign currency cash reserve	-	-	-	-	-	-	100,349,304	100,349,304	
Due from banks and financial institutions	0.01 % to 1.60 %	71,087,096	63,150,136	24,119,498	-	158,356,730	27,689,529	186,046,259	
Investments	0.75% to 1.63%	77,235,444	-	-	6,692,500	83,927,944	65,604,187	149,532,131	
Assistance as lender of last resort	2%	8,910,816	1,550,544	3,180,889	8,455,539	22,097,788	-	22,097,788	
Advances and other receivables	-	-	-	-	-	-	1,399,139	1,399,139	
Other assets	-	-	-	-	-	-	425,937	425,937	
		157,233,356	64,700,680	27,300,387	15,148,039	264,382,462	195,468,096	459,850,558	
Financial liabilities									
Currency in circulation	-	-	-	-	-	-	223,611,449	223,611,449	
Capital notes	1.78% to 7.1%	17,460,499	13,475,561	11,649,821	-	42,585,881	-	42,585,881	
Due to banks and financial institutions	0.8%	4,087,475	-	-	-	4,087,475	76,868,305	80,955,780	
Due to customers	-	-	-	-	-	-	89,243,178	89,243,178	
IMF related liabilities	-	-	-	-	-	-	423,215	423,215	
Provisions and other liabilities	-	-	-	-	-	-	490,649	490,649	
		21,547,974	13,475,561	11,649,821	-	46,673,356	390,636,796	437,310,152	
On balance sheet interest sensitivity gap									
		135,685,382	51,225,119	15,650,566	15,148,039	217,709,106	(195,168,700)	22,540,406	

If the interest rate increase / decrease by 100 bps, the effect on profit for the year would have been Afs.2,177,091 million (1394; Afs. 1,921,855 million) higher / lower respectively.

30 Qaws 1394 (21 December 2015)

	Interest rates (p.a)	Interest bearing					Non-interest bearing	Total	
		Less than 3 months	3-6 months	6-12 months	1-5 years	Total			
		(Afs in '000)							
30 Qaws 1394 (21 December 2015)									
Financial assets									
Foreign currency cash reserve	-	-	-	-	-	-	110,947,031	110,947,031	
Due from banks and financial institutions	0.12 % to 5.59%	122,965,335	5,913,569	-	-	128,878,904	22,697,621	151,576,525	
Investments	0.38% to 2.63%	71,810,230	-	-	-	71,810,230	73,048,955	144,859,185	
Assistance as lender of last resort	2%	1,463,752	1,700,575	3,401,150	21,861,119	28,426,596	-	28,426,596	
Advances and other receivables	-	-	-	-	-	-	2,229,090	2,229,090	
Other assets	-	-	-	-	-	-	136,852	136,852	
		196,239,317	7,614,144	3,401,150	21,861,119	229,115,730	209,059,549	438,175,279	
Financial liabilities									
Currency in circulation	-	-	-	-	-	-	202,169,302	202,169,302	
Capital notes	1.8% to 7.1%	6,453,785	13,710,836	11,582,664	-	31,747,285	-	31,747,285	
Due to banks and financial institutions	0.8% to 1.3%	5,182,944	-	-	-	5,182,944	56,256,690	61,439,634	
Due to customers	-	-	-	-	-	-	92,976,313	92,976,313	
IMF related liabilities	-	-	-	-	-	-	20,048	20,048	
Provisions and other liabilities	-	-	-	-	-	-	11,228,023	11,228,023	
		11,636,729	13,710,836	11,582,664	-	36,930,229	362,650,376	399,580,605	
On balance sheet interest sensitivity gap									
		184,602,588	(6,096,692)	(8,181,514)	21,861,119	192,185,501	(153,590,827)	38,594,674	

36.5 Currency risk

Currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. Foreign currency activities result mainly from the Bank's holding of foreign currency assets under its foreign reserve management function. The overall level of these assets is determined based on the prevailing extent of credit and liquidity risks. In order to avoid losses arising from adverse changes in the rates of exchange, the Bank's compliance with the limits established for foreign currency positions is required to be monitored by the management. The Bank has not entered in to any foreign currency hedging transaction as at year end.

The Bank's exposure to foreign currency risk is as follow:

	USD	Euro	GBP	PKR	Others	Total
	----- (Afs in '000) -----					
30 Qaws 1395 (20 December 2016)						
Financial assets						
Foreign currency cash reserve	91,610,452	8,733,696	5,126	30	-	100,349,304
Due from banks and financial institutions	119,617,855	23,849,414	40,959,491	1,617,285	2,214	186,046,259
Investments	148,833,309	-	-	-	698,822	149,532,131
Assistance as lender of last resort	-	-	-	-	22,097,788	22,097,788
Advances and other receivables	57,792	336,534	-	-	1,004,813	1,399,139
Other assets	300,444	2,592	122,901	-	-	425,937
	360,419,852	32,922,236	41,087,518	1,617,315	23,803,637	459,850,558
Financial liabilities						
Currency in circulation	-	-	-	-	223,611,449	223,611,449
Capital notes	-	-	-	-	42,585,881	42,585,881
Due to banks and financial institutions	39,252,786	9,154,048	15,924	-	32,533,022	80,955,780
Due to customers	67,235,958	1,468,926	3,394	14,068	20,520,832	89,243,178
IMF related liabilities	-	-	-	-	423,215	423,215
Provisions and other liabilities	120,690	-	-	26,857	343,102	490,649
	106,609,434	10,622,974	19,318	40,925	320,017,501	437,310,152
Net foreign currency exposure	253,810,418	22,299,262	41,068,200	1,576,390	(296,213,864)	22,540,406

30 Qaws 1394 (21 December 2015)

Financial assets

Foreign currency cash reserve
 Due from banks and financial institutions
 Investments
 Assistance as lender of last resort
 Advances and other receivables
 Other assets

USD	Euro	GBP	PKR	Others	Total
----- (Afs in '000) -----					
105,112,010	5,833,957	160	904	-	110,947,031
75,889,844	24,612,704	49,592,469	1,475,392	6,116	151,576,525
144,350,348	-	-	-	508,837	144,859,185
-	-	-	-	28,426,596	28,426,596
897,742	125	1,782	3,233	1,326,208	2,229,090
60,231	7,549	65,290	3,782	-	136,852
326,310,175	30,454,335	49,659,701	1,483,311	30,267,757	438,175,279

Financial liabilities

Currency in circulation
 Capital notes
 Due to banks and financial institutions
 Due to customers
 IMF related liabilities
 Provisions and other liabilities

-	-	-	-	202,169,302	202,169,302
-	-	-	-	31,747,285	31,747,285
27,916,790	3,257,551	315	74,038	30,190,940	61,439,634
66,582,513	3,601,852	6,973	14,892	22,770,083	92,976,313
-	-	-	-	20,048	20,048
11,299	129,899	-	-	11,086,825	11,228,023
94,510,602	6,989,302	7,288	88,930	297,984,483	399,580,605

Net foreign currency exposure

231,799,573	23,465,033	49,652,413	1,394,381	(267,716,726)	38,594,674
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36.5.1 Sensitivity analysis on foreign currency financial assets and liabilities

A 1% increase in the exchange rates of USD, GBP, PKR and Euro at 20 December 2016 would have increased / (decreased) equity and profit 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.

	USD	Euro	GBP	PKR	Others	Total
	----- (Afs in '000) -----					
30 Qaws 1395 (20 December 2016)						
Effect of 1% increase in exchange rate						
Financial assets						
Foreign currency cash reserve	916,105	87,337	51	-	-	1,003,493
Due from banks and financial institutions	1,196,179	238,494	409,595	16,173	-	1,860,441
Investments	1,488,333	-	-	-	-	1,488,333
Advances and other receivables	578	3,365	-	-	-	3,943
Other assets	3,004	26	1,229	-	-	4,259
	3,604,199	329,222	410,875	16,173	-	4,360,469
Financial liabilities						
Due to banks and financial institutions	(392,528)	(91,540)	(159)	-	-	(484,227)
Due to customers	(672,360)	(14,689)	(34)	(141)	(987)	(688,211)
IMF related liabilities	-	-	-	-	(4,032)	(4,032)
Provisions and other liabilities	(1,207)	-	-	(269)	-	(1,476)
	(1,066,095)	(106,229)	(193)	(410)	(5,019)	(1,177,946)
Effect on Equity / Profit	2,538,104	222,993	410,682	15,763	(5,019)	3,182,523

	USD	Euro	GBP	PKR	Others	Total
	----- (Afs in '000) -----					-----
30 Qaws 1394 (21 December 2015)						
Effect of 1% increase in exchange rate						
Financial assets						
Foreign currency cash reserve	1,051,120	58,340	2	9	-	1,109,471
Due from banks and financial institutions	758,898	246,127	495,925	14,754	-	1,515,704
Investments	1,443,503	-	-	-	-	1,443,503
Advances and other receivables	8,977	1	18	32	-	9,028
Other assets	602	75	653	38	-	1,368
	3,263,100	304,543	496,598	14,833	-	4,079,074
Financial liabilities						
Due to banks and financial institutions	(279,168)	(32,576)	(3)	(740)	-	(312,487)
Due to customers	(665,825)	(36,019)	(70)	(149)	-	(702,063)
Provisions and other liabilities	(113)	(1,299)	-	-	(39)	(1,451)
	(945,106)	(69,894)	(73)	(889)	(39)	(1,016,001)
Effect on Equity / Profit	2,317,994	234,649	496,525	13,944	(39)	3,063,073

36.5.2 Effect of 1% decrease in exchange rates will have same effect on net unrealised gains / (losses) for both years but in opposite direction.

37. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Supreme Council of the Bank on
14-March-2017

38. GENERAL

38.1 Figures have been re-arranged and re-classified, wherever necessary, for the purpose of better presentation.

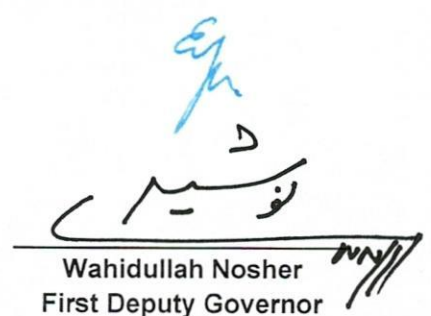
38.2 Figures have been rounded off to the nearest thousand, except as otherwise mentioned.



Syed Younas Sadat
Chief Financial Officer



H.E. Khalil Sediq
Governor



Wahidullah Noshier
First Deputy Governor