



Da Afghanistan Bank



Annual Report 1396



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Annual Report

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Message from the Governor

On behalf of the Executive Board of Da Afghanistan Bank, I am pleased to present the performances report of this bank during the FY 1396 (2017) in various economic fields. Besides the global economic overview and country's economic condition; this report also includes the performances of the Monetary Policy Department, Market Operations, Payment Systems, Deposits Insurance, Public Credit Registry, Financial Transactions and Reports Analysis Center, and Administration and Development sections.

Fortunately, the FY 1396 (2017) was a favorable year for Afghanistan in different economic fields which includes developments in the GDP, Goods Exports and Service Provisions, Inflation Rate, Reserve Money and Banking Sector.

During the FY 1396 (2017), the Gross Domestic Products of the country was recorded at 2.9 percent, while this figure stood at 2.0 percent in FY 1395 (2016).

During the FY 1396, the Goods Exports and Services Provisions of the country have increased by 7 percent as compared to the preceding period. The total of goods exports and services provision amounts to USD 1,219.84 million during the FY 1396 (2017) while, this figure was recorded at USD 1,135.23 million in the preceding period.

During the FY 1396 (2017), Afghanistan's monetary inflation rate was maintained in a favorable limit which lies between 3.08 percent and 7.47 percent. The inflation rate is calculated at 4.30 percent for the month of Jaddi-1396.

The Reserve Money growth rate was set at 12 percent in the FY 1396 (2017) and Fortunately Da Afghanistan Bank was able to successfully achieve the predetermined target. The actual ceiling for the Reserve Money is recorded at AFN 276.318

billion at the end of the FY 1396 (2017), which is maintained lower than the target ceiling by AFN 5.73 billion.

Net International Reserves of the country were recorded at USD 7,350.34 million at the end of FY 1396 (2017) which exceeds the predetermined target by USD 425 million.

In the meantime, total assets of the banking sector grew by 5.69 percent as compared to the preceding year and as of Qaws-1396 the total assets of the banking sector amounts to AFN 316 billion which stood at AFN 298.98 billion in the preceding year (Qaws-1395).

The total deposits of the banking sector witnessed a fluctuating trend in FY 1395 (2016) while, it increased by 4.52 percent during Qaws-1396. These deposits are made up of 74.24 percent current deposits and 19.24 percent of saving deposits which have been executed in both AFN and USD while, timely deposits depicted a downward trend in Qaws-1396.

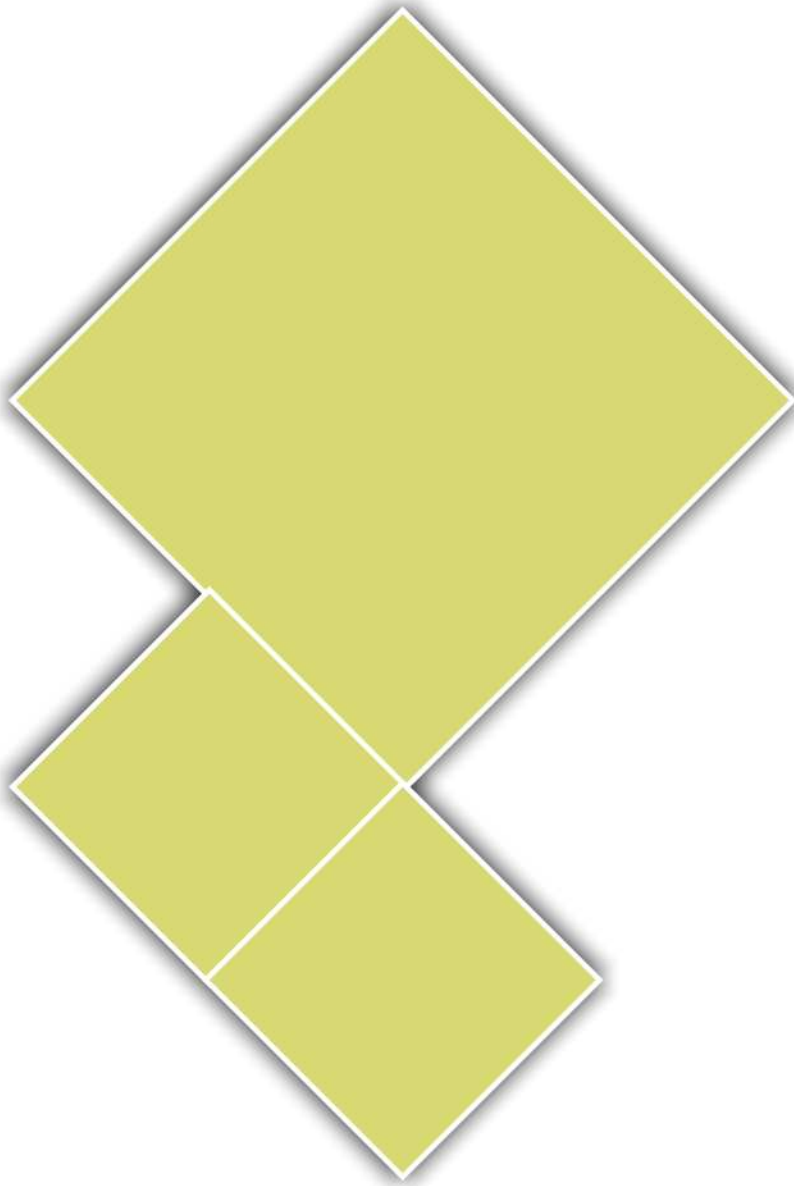
The successful exit of Afghanistan from the Grey-List of the International Financial Action Task Force is one of the other achievements of Afghanistan. Da Afghanistan Bank was drawn in the attention of the International Financial Action Task Force for its constant efforts in strengthening the Anti-Money Laundering and Combating Financing Terrorism regimes. As a result, it is no longer under the constant supervision of the Money Laundering and Terrorist Financing cases of the International Financial Action Task Force.

Besides the aforementioned tasks, Da Afghanistan Bank has made main achievements during the FY 1396 (2017) in Public Credit Registry, Deposits Insurance, assessing the performances of the different offices of DAB, activities and performances

reflection of DAB through Publications and Communications, modification and amendment of Laws and Regulations, Capacity Building and other sections. At the end, I would like to appreciate the

tireless efforts of every employee for improving the affairs of DAB and I wish them greater success in fulfilling the objectives and duties of Da Afghanistan Bank.

Khalil Sediq
Governor of Da Afghanistan Bank



Global Economic Environment

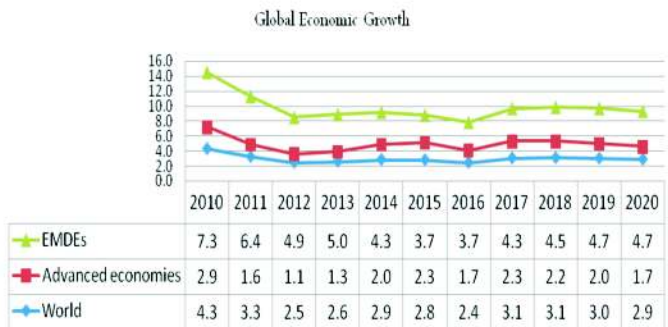
Global Economic Environment

According to the World Bank, the global economy after two years of negative growth has improved in 2017, due to improved industrial activities and rise in global trade which now holds a positive growth direction. The outlook for economic changes in the short term is also positive and it is expected that the economic growth will continue to improve in the developed, emerging and developing countries. Despite the relatively inappropriate financial position, the self-sufficiency of the global economic growth is also in a good condition. The global economic growth which was recorded at 2.4 percent in 2016 now stands at 2.7 percent in 2017.

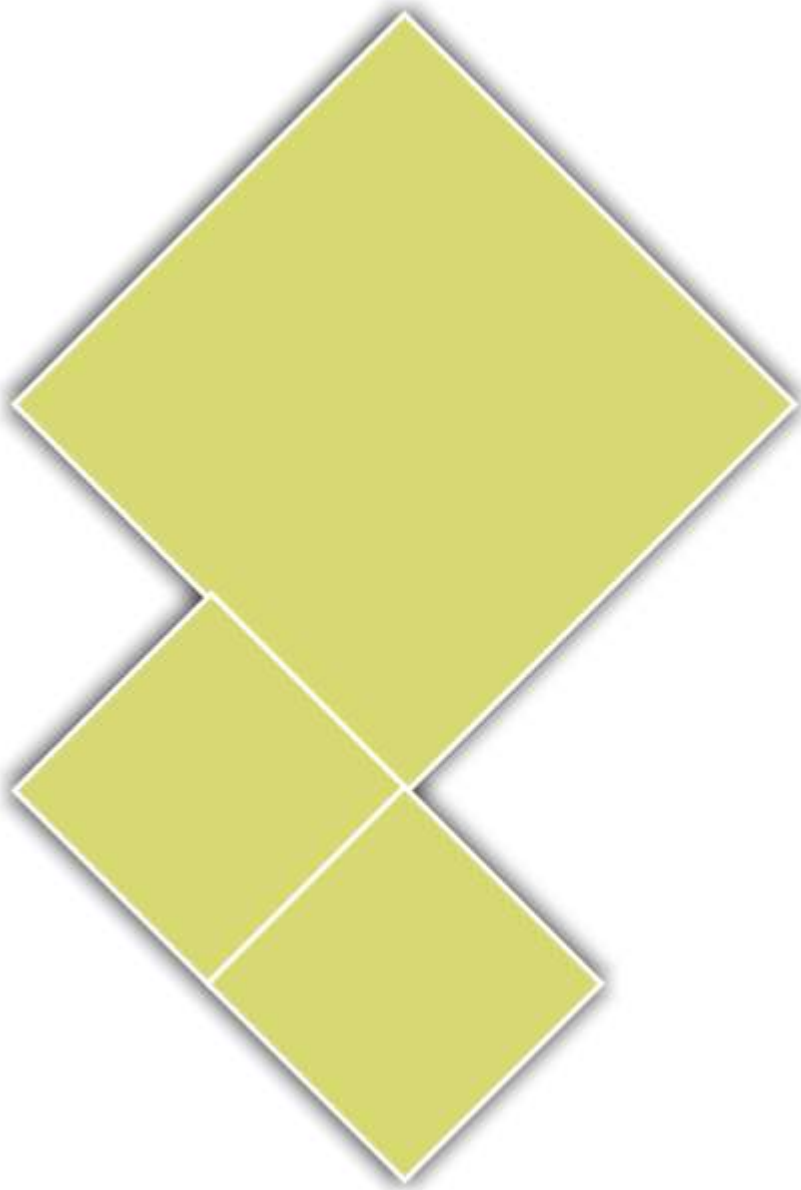
During 2017, developed countries have experienced a dull growth trend, but with increase in the economic growth of the United States of America, it seems that these countries will also experience economic growth. Economic growth in Japan and the Euro areas had a good condition due to increase in exports and demands. Despite the relative increase in private spending, Investments in the developed countries have decreased. Economic growth in the developed countries was recorded at 1.9 percent in the year under review whereas; it stood at 1.7 percent in the preceding year.

Economic growth in the emerging countries and developing economies has been challenging, as the activities of the exporters of goods are weak in these countries, but the level of imports for these countries have been reported to be good. According to the World Bank during 2017, the economic growth of the emerging markets and developing economies was recorded at 4.1 percent, while this figure stood at 3.5 percent in the previous year.

Figure (1) depicts the economic growth from 2010 to 2020



Source: The World Bank



Economic Changes in Afghanistan

Economic Changes in Afghanistan

1. Real Sector

Economic Growth

The gross domestic products of Afghanistan are comprised of the agricultural, industrial and services sectors. The gross domestic products growth excluding opium was recorded at 2.9 percent in 2017 whereas, this figure stood at 2.0 percent in the preceding year. The industrial and services sectors have been contributing the most in the GDP whereas, the agricultural sector shows a slight growth during the period under review.

The agricultural sector which constitutes 20.3 percent of the gross domestic products has decreased by 3.8 percent in 2017 compared to 6 percent recorded in 2016. This decrease is mainly attributed to decrease in the levels of production of the sub-components of the agricultural sector which have also influenced the named sector. The industrial sector is contributing to the gross domestic products which accounts for 22.2 percent of the total GDP. The growth of the industrial sector reaches to 0.9 percent in 2017 while; this figure was recorded at -1.8 percent in the previous year. This increase is mainly attributed to increase in the levels of production of the sub-components of the industrial sector (mines and extraction increased by 13.6 percent

against 10.4 recorded in the previous year, food items, beverages and tobacco increased by 2.1 percent compared to 1.1 percent, paper products, printing and publications increased by 4.8 percent in 2017 against 0.1 percent recorded in the preceding year).

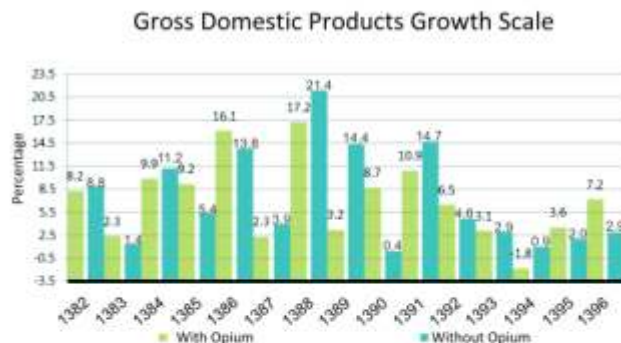
The services sector comprises 52.7 percent of the gross domestic product. The services sector's growth has increased by 2.6 percent in 2017 compared to 2.0 percent of the preceding year. This increase is mainly attributed to increase in the levels of retail and wholesale trade, restaurants and hotels, which shows an increase by 10.6 percent in the year under review compared to -7.2 percent recorded in the previous year. The retail and wholesale trade shows an increase from -9.5 percent to 12.6 percent, Transport and reserves from 0.5 percent to 1.3 percent, real estate and trade services from -3.1 percent to 2.2 percent, home-ownership from 2.0 percent to 3.2 percent, governmental services from 0.5 percent to 5.5 percent.

This increase indicates country's effective economic activities, which has placed the service sector in a positive direction.

Table (1) depicts the gross domestic products growth from 2015 to 2017 (Percentage Changes).

Index	Comparison of gross domestic products growth		
	FY 1396	FY 1395	FY 1394
	2017/18	2016/17	2015/16
Gross Domestic Product	2.9	2.0	1.5
Agriculture	3.8	6.0	-5.7
Industry	0.9	-1.8	4.5
Services	2.6	2.0	1.7

Figure (2) shows the gross domestic products growth scale from 2003 to 2017



Monetary Inflation:

During 2017, the monetary inflation rate in Afghanistan has been favorable. Despite the fluctuations in the inflation rate, Da Afghanistan Bank was able to successfully control the monetary inflation.

During 2017, the inflation rate was between 3.08-7.47 percent in 2017, and was calculated at (4.30) percent in Jaddi-1396 (Dec, 2017), while this figure was recorded at 3.08 percent in Qaws-1396 (Nov, 2017). This process indicates increase in the economic activities and the bank's success to realize its monetary goals. In Jaddi-1396 (Dec, 2017), the increase in general inflation rates was mainly attributed to rise in prices of both food and non-food items. During Jaddi-1396 (Dec, 2017), the

food item's index stood at 5.57 percent while, this figure was recorded at 4.55 percent in Qaws-1396 (Nov, 2017). Similarly during Qaws-1396 (Nov, 2017), the inflation for the non-food items was recorded at 1.72 percent, which has increased by 3.12 percent in Jaddi-1396 (Dec, 2017).

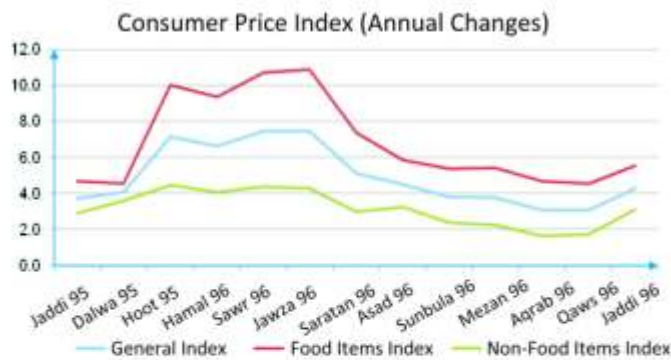
In order to more accurately study the inflation changes in the country, the Central Bank also examines the core inflation standards. Based on these standards, unusual factors which can be caused by seasonal changes or other special conditions should be made out of the index in order to prevent its impact on the general index. One of the important standards of the core inflation is the Trimmed Mean. This standard includes a specific segment (70 percent) of the index which shows normal changes. Based on this standard, the inflation rate has increased by 2.69 percent in Jaddi-1396 (Dec, 2017), as compared to 2.01 percent recorded in Qaws-1396 (Nov, 2017).

Table (2) depicts general index annual inflation rate from Jaddi 1395 (Dec, 2016) to Jaddi 1396 (Dec, 2017)

General Index annual inflation rate

Items	Jaddi 1395	Dalwa 1395	Hoot 1395	Hamal 1396	Sawr 1396	Jawza 1396	Saratan 1396	Asad 1396	Sunbula 1396	Mezan 1396	Aqgrab 1396	Qaws 1396	Jaddi 1396
General Index	3.75	4.07	7.16	6.65	7.45	7.47	5.11	4.53	3.82	3.77	3.09	3.08	4.30
Food Items Index	4.70	4.55	10.03	9.37	10.72	10.88	7.35	5.86	5.38	5.44	4.66	4.55	5.57
Non-Food Items Index	2.88	3.63	4.48	4.10	4.41	4.30	3.01	3.28	2.38	2.24	1.65	1.72	3.12
Trimmed Mean (30%)	4.03	4.56	6.83	5.95	6.91	6.22	3.71	3.11	2.37	2.11	1.92	2.01	2.69

Figure (3) shows the consumer price index from Jaddi 1395 (Dec, 2016) to Jaddi 1396 (Dec, 2017) (Annual Changes)



2 – Foreign Sector

Foreign Trade:

Based on available figures, the country's exports of goods and services as compared to the preceding year, represent 7 percent increase in 2017. During 2017, the total exports of goods and services amount to USD 1,219.84 million while, this figure was recorded at USD 1,135.23 million in the preceding period.

In addition, the country's imports of goods and services as compared to the previous year have increased by 10 percent in the year under review,

the total imports of goods and services amount to USD 8,191.95 million whereas, this figure stood at USD 7,476.07 million in the previous year.

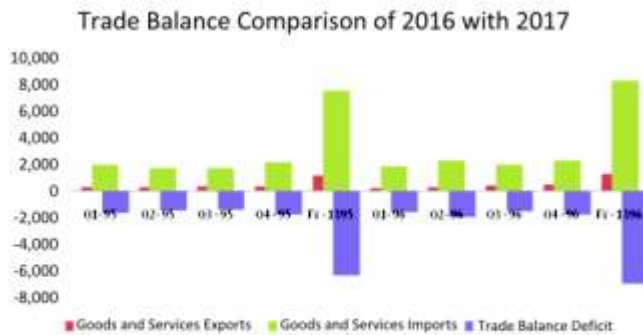
Therefore, the trade balance deficit shows an increase by 10 percent which amounts to USD 6,972.11 million in 2017, compared to USD 6,340.83 million recorded in the preceding period. The net primary revenues of the country have increased by 2 percent which as compared to USD 94.57 million recorded in the preceding period amounts to USD 96.122 million in 2017. However, the secondary revenues (grants and labor remittances) have decreased by 16 percent which as compared to USD 2,598.54 million recorded in the preceding period, stands at USD 2,192.88 million in 2017.

In total, the current account deficit represents an increase by 28 percent which as compared to USD 3647.72 million recorded in 2016 amounts to USD 4,683.11 million in the year under review.

Table (3) depicts Current Account Balance (in million USD)

Components/ Periods	First Quarter 1385	Second Quarter 1395	Third Quarter 1395	Fourth Quarter 1395	1395FY	First Quarter 1396	Second Quarter 1396	Third Quarter 1396	Fourth Quarter 1395	FY 1396
Goods and Services Exports	262.35	250.94	289.47	332.48	1,135.23	215.78	232.65	351.64	419.76	1,219.84
Goods and Services Imports	1,932.17	1,710.46	1,704.62	2,128.82	7,476.07	1,822.42	2,213.79	1,920.05	2,235.69	8,191.95
Trade Balance Deficit	-1,669.82	-1,459.52	-1,415.16	-1,796.34	-6,340.83	-1,606.63	-1,981.14	-1,568.41	-1,815.93	-6,972.11
Primary Revenues Account	19.04	17.31	24.42	33.80	94.57	17.17	34.91	19.25	24.79	96.12
Secondary Revenues Account	567.69	835.41	486.24	709.20	2,598.54	424.68	446.95	700.91	620.35	2,192.88
Current Account Deficit	-1,083.09	-606.80	-904.49	-1,053.34	-3,647.72	-1,164.78	-1,499.29	-848.25	-1,170.79	-4,683.11

Figure (4) shows the Trade Balance Comparison for 2016 and 2017



Source: Monetary Policy Department, DAB.

Financial and Capital Accounts Balance:

The capital account of the balance of payments declined by 11 percent which amounts from USD

1,654.25 million in 2016 to USD 1478.93 million in 2017, mainly due to decrease in the capital transfers.

The net value of foreign direct investments declined by 41 percent which stands at USD 64.18 million in 2017 as compared to USD 108.37 million recorded in 2016. Similarly, foreign indirect investments (investments on loan instruments) declined from 98.70 million recorded in 2016 to USD -29.11 million in the year under review.

Table (4) depicts the Financial and Capital accounts balance (in million USD)

Components/ Periods	First Quarter 1395	Second Quarter 1395	Third Quarter 1395	Fourth Quarter 1395	FY 1395	First Quarter 1396	Second Quarter 1396	Third Quarter 1396	Fourth Quarter 1396	FY 1396
Financial and Capital	431.47	558.98	460.76	720.68	2,171.89	203.44	330.54	656.97	685.12	1876.07
Capital	324.97	400.98	388.68	539.61	1,654.25	153.36	356.48	480.88	488.21	1478.93
Capital Transfers	327.88	403.84	388.68	541.53	1,661.93	153.36	356.48	480.88	488.21	1478.93
Financial	106.49	158.00	72.08	181.07	517.64	50.08	-25.94	176.09	196.91	397.14
Direct Foreign	-20.17	-25.63	-28.03	-34.54	-108.37	-12.97	-20.44	-17.00	-13.78	-64.18
Indirect Foreign	18.47	39.15	20.33	20.75	98.70	36.62	-30.15	-11.57	-24.01	-29.11

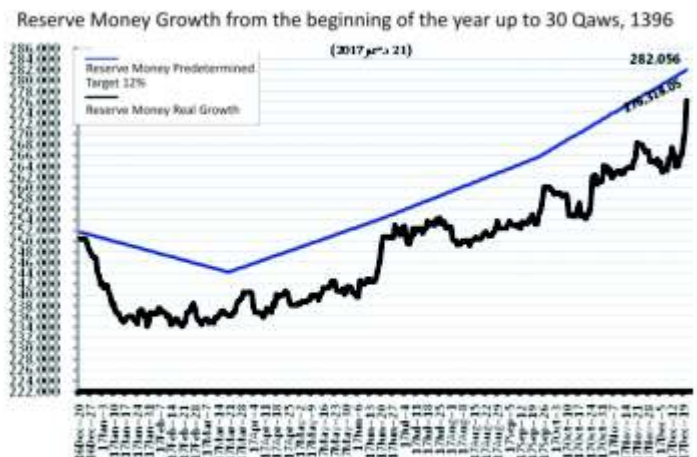
Source: Monetary Policy Department, DAB.

3- Monetary Sector

Liquidity (Reserve Money and Currency in Circulation):

The growth rate for the Reserve Money is registered at 12 percent in 2017. Da Afghanistan Bank has been successful in achieving its predetermined target. The actual Reserve Money at the end of 2017 stands at AFN 276.318 billion which shows that it is about AFN 5.73 billion lower than the determined ceiling.

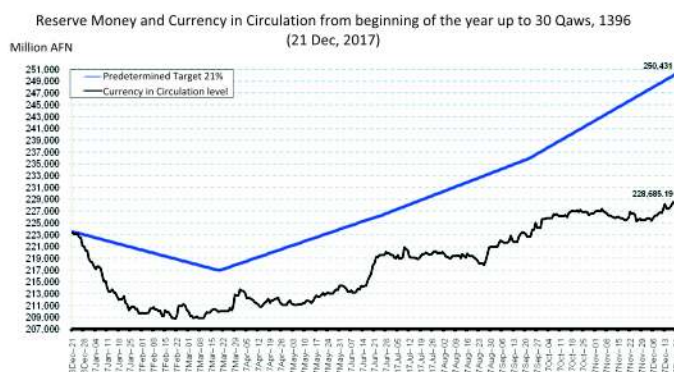
Figure (5) Reserve Money Growth from the beginning of the year up to 30 Qaws, 1396



Source: Monetary Policy Department, DAB.

Similarly, the growth rate for the Currency in Circulation is registered at 12 percent in 2017 which was recorded at AFN 228.68 billion at the end of the year. During 2017, the actual growth of currency in circulation increased by 2.16 percent as compared to the preceding period and was recorded at AFN 21.74 billion which is lower than the predetermined target. Based on these figures we can conclude that both Reserve Money and Currency in Circulation were below the determined target which shows that monetary policy has been successfully implemented to control the liquidity.

Figure (6) depicts the Reserve Money and Currency in Circulation from beginning of the year up to 30 Qaws, 1396 (Nov, 2017)



Source: Monetary Policy Department, DAB.

Net International Reserves:

The Net International Reserves of the country is recorded at USD 7,350.34 million at the end of 2017 which is about USD 425 million more than the determined target.

Table (5) details about the changes in the monetary indexes

Monetary Indexes and International Reserves			
	30 Qaws 1395	30 Qaws 1396	Changes in Percentage
Afghanis Exchange Rate against USD	66.84	69.49	3.96
Reserve Money in million AFN	252,075.76	276,318.05	9.62
Currency in Circulation in million AFN	223,839.17	228,685.19	2.16
Total International Reserves in million USD	6,824.66	7,350.34	7.70

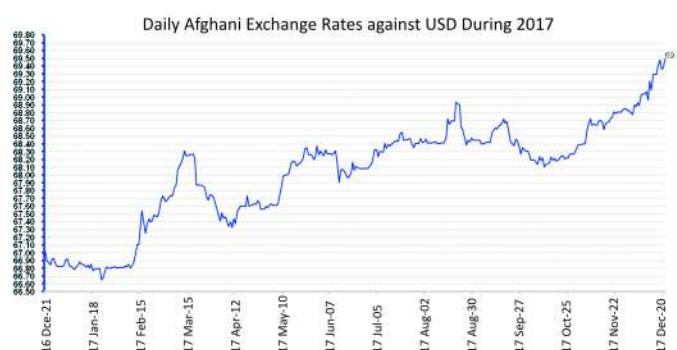
Source: Monetary Policy Department, DAB.

Afghani Exchange Rate against USD:

The Central Bank follows the managed floating exchange rate regime. Afghanistan faces a severe trade deficit due to the import payments being made in foreign currencies. Therefore, the value of Afghani is under the pressure of the currency market, which is one of the main reasons for the devaluation of the Afghanis against other currency.

The Afghani Exchange rate against USD stood at AFN 69.49 at the end of 2017 which demonstrates the value decline by 3.96 percent as compared to the preceding period. Likewise, the Afghani exchange rate against Pound and Euro has respectively recorded a decline by 11.47 percent and 17.80 percent.

Figure (7) shows the afghani exchange rate against USD



Source: Monetary Policy Department, DAB.

The factors which push the afghani exchange value to undergo pressure are mainly attributed to the importing economy, capital flight, and security challenges.

Steps taken by DAB for the implementation of the Monetary Policy:

One of the main objectives of DAB is the stabilization of the domestic prices. Da Afghanistan Bank follows the Managed Floating Exchange Rate regime, in such regimes the economy being exchanging and importing along with other factors cause fluctuations in the exchange rate of Afghanis against foreign currencies. In order to con-

to control the fluctuations, DAB uses the open market operations (Foreign Currencies and Capital Notes Auctions). During the FY 1396 (2017), this department has sold a total of USD 1,947.17 million through Foreign Currency Auctions and has collected an equivalent amount of AFN 132.62 billion from the market.

One of the other instruments which is used by DAB to control liquidity is the sale of capital notes. During the FY 1396 (2017), the central bank has sold capital notes which amount to AFN 24.98 billion and the outstanding amount of the capital notes with banks total to AFN 43.98 billion.

4- Financial Sector Developments:

During the FY 2017, for the growth and stability of the country's economy the Financial Sector's deputy directorate of the Monetary Policy Department has analyzed the various aspects of the of the financial sector (Budget, Revenues and Expenses) of the country for the quarterly and annual publications. During the year under review, the activities of the financial sector have been negatively affected by the security and political problems, and the exchange rate changes.

The Financial Sector department of the Monetary Policy is in contact with the Ministry of Finance (Budget, Treasury, and Financial Policies Directorates) through an organized program to obtain the information and financial figures including (Budget, Revenues and Expenses) of the country and also to obtain the reasons of increase, decrease and changes in the foreign grants. In this context, this department is in contact with all high-level officials through holding separate meetings with them. In order to implement different programs, the Financial Sector of the Monetary Policy Department and the various directorates of the Ministry of Finance have held separate meetings with the managers of different departments including (Budget, Revenues and Expenses) to share the required information and figures of the Minis-

try of Finance with respect to the confidentiality of the documents, they are working closely with the cooperation of each other on the situation of the financial sector and how to improve it.

Furthermore, according to the annual work plan of DAB, the financial sector of the Monetary Policy Department of the Central Bank, as the special representative for the implementation of the Public Private Partnership (PPP), also participates as the member of the advisory board of the Public Partnership of this directorate. Similarly, this department in accordance with the European Unions laws and regulations participates in the State Building Contract of the Ministry of Finance which was initiated in 2017. Based on the mentioned contract, an agreement has been made on a series of reforms in the sections of Public Policy, Macro-Economic Framework, and Public Financial Management and in regards to these reforms the European Union has voluntarily agreed to provide Afghanistan with a grant of Euro 200 million. Da Afghanistan Bank as the special representative for the above-mentioned programs has been a key contributor in regards of providing the various reports of the economic indicators separately and with respect to the confidentiality of the documents and providing them with the required information which is collected, prepared and arranged by the financial sector of the Monetary Policy Department, in order to ensure that the above mentioned contract is being accurately and timely implemented and continued in accordance with the plan of the Ministry of Finance.

In accordance with its work plan, the Financial Sector of the Monetary Policy has been able to collect the statistics related to the changes in the financial sector on monthly, quarterly and annual basis and has prepared the quarterly and annual bulletin issues. Similarly, this department has submitted monthly economic reports to the Executive Board of DAB and has provided the accurate sta-

tistics of the financial sector (Budget, Revenues and Expenses) of the government for the Financial Programming and Policies program of DAB.

Despite the existing challenges, the revenue collections for the FY 2017 amounted to AFN 169.38 billion, which represents an increase of about 10

percent as compared to AFN 154.48 billion revenue collections recorded in the previous year.

Table (6) shows the approved budget for the FY 1396 (2017), the actual and realized budget at the end of FY 1396 (2017)

	Approved Budget of FY 1396		The Actual and Realized Budget at the end of FY 1396		Proposed Budget for FY 1397	
	Billion AFN	Billion USD	Billion AFN	Billion USD	Billion AFN	Billion USD
Total Core Budget	429.41	6.40	356.63	5.32	377.011	5.516
Operational Budget	268.41	4.00	253.09	3.77	266.133	3.894
Developmental Budget	161.00	2.40	103.54	1.54	110.878	1.622
Total Revenues	419.36	6.25	351.84	5.25	352.90	5.111
Domestic Revenues	160.56	2.39	169.38	2.52	161.62	2.364
Foreign Grants	258.80	3.86	182.46	2.72	191.28	2.747

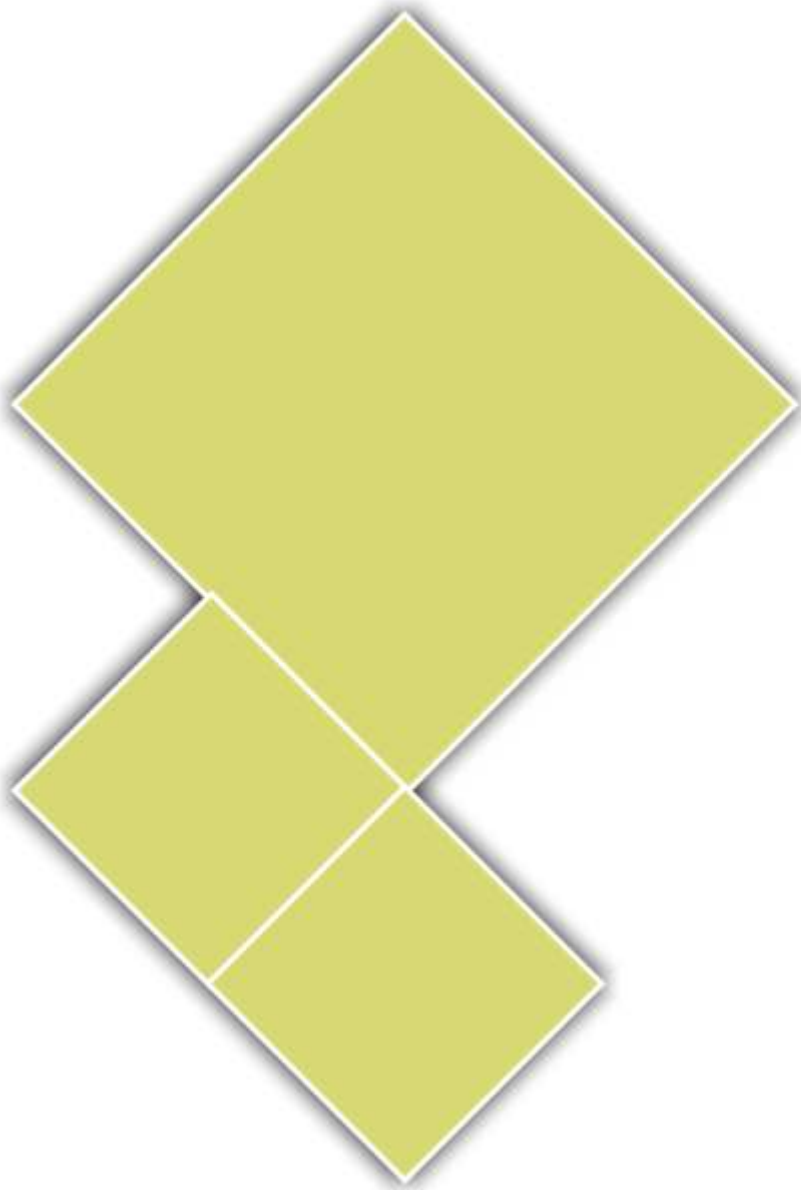
Budget Condition in 2017:

The national Budget of 2017 amounts to AFN 429.41 billion and the realized budget up to Qaws, 1396 (Nov, 2017) amounts to AFN 356.63 billion

- Operational Budget: Forecasted Budget AFN 268.41 billion, Realized Budget AFN 253.09 billion
- Developmental Budget: Forecasted Budget AFN 161.00 billion, Realized Budget AFN 103.54 billion
- Domestic Revenues: Forecasted Budget AFN 160.56 billion, Realized Budget AFN 169.38 billion
- Foreign Grants: Forecasted Budget AFN 258.80 billion, Realized Budget 182.46 billion

The National Budget forecasted for FY 1397 (2018) amounts to AFN 377.01 billions which is equivalent to USD 5.51 billion

- Forecasted Operational Budget: AFN 266.13 billion equivalent to USD 3.89 billion
- Forecasted Developmental Budget: AFN 110.878 billion equivalent to USD 1.62 billion
- Forecasted Domestic Revenues: AFN 161.62 billion equivalent to USD 2.36 billion
- Forecasted Foreign Grants: AFN 191.28 billion equivalent to USD 2.74 billion



Banking System Performances

Banking System Performances

The main indicators in banking system show an upward trend during the previous year, but due to low asset quality the banking system is under pressure. The main reason behind growth in assets is attributed to rise in loans, infusion of cash and deposits. The capital of banking system was stable in terms of liquidity. The total gross loans increased due to loan grants and rise in dollar exchange rates during the preceding year.

The total assets grew by 5.69 percent and recorded AFN 316.00 billion in Qaws 1396 compared to AFN 298.98 billion in the previous year (Qaws 1395). On cumulative basis, the banking sector's total assets rose by 3.77 percent in the preceding month.

The total gross loans increased by 1.31 percent compared to the preceding period (Qaws 1395) and amounts to AFN 41.80 billion as per Qaws 1396. Increase in total loans over the past year is attributed to loan grants and rise in dollar exchange rates. The total loans compared to the preceding month of Aqrab 1396 also indicated an increase of 4.51 percent. While during the month of Qaws 1396, a number of loans were settled and charged off from the banks balance sheet.

The total deposits as main funding source of banks grew by 6.00 percent compared to the previous year (Qaws 1395) which amounts to AFN 270.25 billion in Qaws 1396. Since the previous month (Aqrab 1396), Deposits have increased by 4.52 percent. The increase in total deposits constitutes 74.24 percent of Current Deposits and 19.24 percent of Saving Deposits which are deposited both in AFN and USD. While, time deposits depict a downward trend in the month of Qaws 1396.

The banking sector holds robust financial capital which grew by 5.36 percent compared to the preceding period (Qaws 1395). This increase is mainly attributed to the infusion of capital and increased profits.

On aggregate basis, Afghanistan's banking sector has earned a net profit of AFN 1.76 billion during the FY 1396 (2017) which was recorded at AFN 4.29 Billion in the previous period (1395/2016). As a result, return on assets decreased by 0.64 percent in Qaws 1396 compared to 1.56 percent in Qaws 1395.

The liquidity ratio of all banks are complied with the minimum target set by Da Afghanistan Bank, but on Currencies Open Position, all banks have met the target except four banks that breached Da Afghanistan Bank's ± 40 for currencies and ± 20 for individual currencies.

During Qaws 1396, the financial capital of one bank is below the defined limits, while the regulatory capital of all banks except one bank is higher than Da Afghanistan Bank's target (12 percent risk-weighted assets).

The regulatory capital ratio of the banking sector stands at 29.92 percent which depicts an increase of 2.24 percent compared to 27.68 percent in previous year (Qaws).

There are 15 licensed banks operating in Afghanistan that include 3 state-owned banks, 9 private banks and the rest 3 are branches of foreign banks.

Table (7) provides information about the number of branches and other banking facilities across the country.

Debit Card	335,274
Credit Card	1,516
ATM Card	192,044
Web Surfer Card	10,120
Pre-paid Card	3,776
Total	542,730
Facilities	Quantity
Branches with full services	204
Branches with limited services	212
ATMs (type 22)	248
Other Facilities (type 21, 24, 25)	92
Sale Sites (Type 23)	182
Total	938

These facilities are available across 33 provinces including Kabul; While ATM is operative in 12 provinces, Debit Card in 30 provinces and Credit Card in 6 provinces of the country.

In the meantime, a total of 1,108 licensed MSPs and 1,749 FX dealers are active across the country. Out of 1,108 MSPs, 229 of them operate in Kabul and the remaining 568 are engaged in provinces countrywide. Additionally, 311 branches of MSPs are active across the country including Kabul. Out of 1,748 licensed FX dealers, 379 of them are in Kabul and the remaining 1,369 are operating in provinces throughout the country.

Figure (8) depicts the trend of MSPs and FX dealers

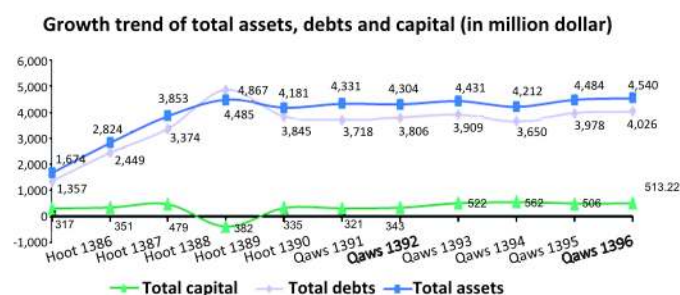


1.1 Total Assets

The total assets of the banking system was recorded AFN 316.00 billion (USD 4.54 billion) in Qaws 1396, which shows an increase of 5.69 percent compared to Qaws 1395. This is while the total assets of the banking system amounted to AFN 298.97 billion (4.48 billion USD) in Qaws 1395 with an estimated growth of 10.45 percent. The increase in total assets is mainly attributed to total deposits, infusion of capital and profits. The breakup of the total assets reveal that cash, claims on Da Afghanistan Bank and significantly one night deposits have increased while inter-bank claims, gross loans and other assets have decreased in the period under review.

Given the increase in total assets of the banking group, state-owned banks witnessed the highest growth by 11.38 percent and private banks by 5.69 percent compared to the preceding period (Qaws 1395) while branches of foreign banks declined by 10.25 percent in the period under review. According to percentage of total assets, private banks (with 63.11 percent share) ranked first, state-owned banks (with 28.62 percent share) held second place and branches of foreign banks (with 8.25 percent share) held the third place.

Figure (9) shows growth trend of total assets from 1386 to Qaws 1396.



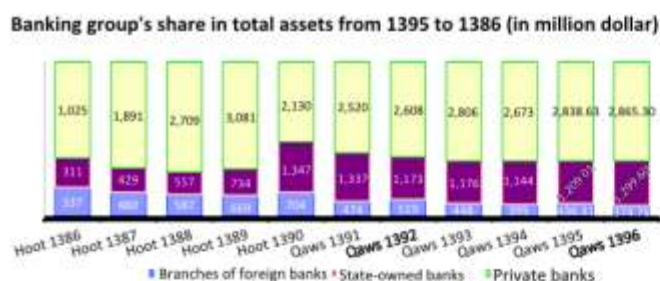
(1) Facility type 21: Unit authorized to conduct initial processing of loan, but not allowed to pay loans.

Facility type 24: Unit solely authorized to pay cash such as salary of state and non-state employees or other cash payments for the banks clients.

Facility type 25: Unit solely authorized to receive public cash in the form of deposits to legal and natural person's accounts (embassies, hotels and others) and issue invoice to receive cash.

Facility type 23: Service networks in superstores (only charges and not allowed to save).

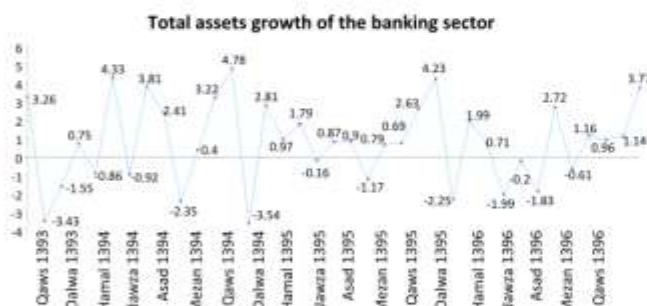
Figure (10) depicts the share of banking group's in total assets from 1386 to Qaws 1396



1.1.1 Growth of total assets

Total assets of the banking sector have undergone fluctuating trend during FY 1395 and grew by 3.77 percent in Qaws 1396 which is mainly achieved by rise in cash in vault and claims on Da Afghanistan Bank observable in the current accounts with DAB, inter-bank claims and gross loans.

Figure (11) provides details on total assets growth of the banking sector



1.2 Total Loans

Total gross loans amount to AFN 41.80 billion (USD 614 million) in Qaws 1396 (December 2017) which constitutes 13.23 percent of total assets of the banking sector, declined by 9.14 percent in preceding period (December 2016) that formed 13.80 percent of total assets and recorded a growth rate of 1.31 percent in the current period (Qaws 1396). The increase in total loan portfolio is mainly attributed to loan grants and increase in USD exchange rates.

From total gross loans, loans in Afghani amount to AFN 13.13 billion (USD 189 million) which constitutes 31.41 percent of total gross loans or 4.16

percent of total assets of the banking sector, this figure has increased by 3.41 percent compared to the preceding period (Qaws 1395). Loans in USD amounts to AFN 29.58 billion (USD 411 million) which constitutes 70.77 percent of total gross loans or 9.04 percent of total assets of the banking sector, representing an increase of 3.78 percent mainly attributed to increase in USD exchange rates compared to the preceding period (Qaws 1395), while USD loans have experienced decrease in the period under review. Private Banks top with 89.84 percent share of total loans; state-owned banks are second with 9.16 percent share and branches of foreign banks stand at last with 0.13 percent share.

1.2.1 Monthly Comparison of Total Loans

Despite the fact that the total loans of the banking sector was fluctuating during the FY 1395, it increased by 4.51 percent in Qaws 1396, mainly due to loan grants and increase in USD exchange rates. Moreover, during the current month some of the loans have been settled and charged off from the balance sheet.

Figure (12) depicts Growth trend of total loans of the banking system.

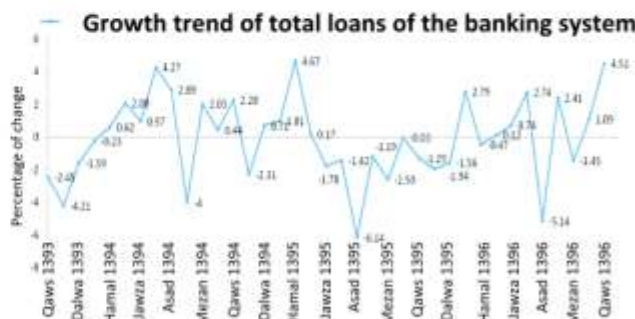


Table (8) provides information on classification of total loans of the banking sector

Items	December 2016 Qaws 1395	September 2017 Sonbala 1396	December 2017 Qaws 1396	Percentage of total gross loans	Percentage of Quarterly growth	Percentage of annual growth
Nonperforming Loans ¹	5,226	7,286	5,192	12.42	28.74-	0.65-
Adversely Classified Loans ²	11,226	10,877	8,579	20.52	21.12-	23.57-
Loans Classified Watch ³	3,898	3,780	4,815	11.51	27.38	23.52
Loans classified loss ⁴	556	62	959	2.29	1,446.77	72.48

In general, the quality of assets has been assessed as weak during FY 1396. As provided in the table above, nonperforming loans constitutes 12.42 percent of total loans compared to 12.67 percent of the preceding year, has declined by 0.25 percent which is mainly attributed to increase in total gross loans and charge off and settlement of loans. Nonperforming loans of three banks show an increase which depicts the low quality of loans.

At the same time, nonperforming loans of five banks show a downward trend due to charge off and settlement of their loans. From 12.42 percent nonperforming loans, 11.85 percent is attributed to five banks. At the same time, these banks account for 68.60 percent of total gross loans which is equivalent to 50.04 percent of regulatory capital of the banking sector.

Table (9) Percentage of medium and small loan grants

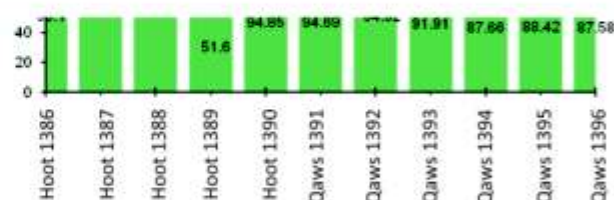
Items	December 2016 Qaws 1395	September 2017 Sonbala 1396	December 2017 Qaws 1396	Percentage of total gross loans	Percentage of quarterly growth	Percentage of annual growth
Medium Loans	2,595	2,720	2,436	5.83	10.44-	6.12-
Small Loans	4,079	4,772	4,540	10.86	4.86-	11.30

Table (10) provides breakdown of gross loans, Qaws 1396

Bank categories	Gross loans (figures in million AFN)
State-owned banks	3,830.38
Private banks	37,555.55
Branches of foreign banks	415.05
Total	41,800.98

Figure (13) depicts ratio of nonperforming loans to total gross loans

Hoot 1386, Hoot 1387, Hoot 1388, Hoot 1389, Hoot 1390, Qaws 1391, Qaws 1392, Qaws 1393, Qaws 1394, Qaws 1395, Qaws 1396



(1) Nonperforming loans: loans and advances whose borrowed amount is not received for 91-360 days and remain outstanding (doubtful).

(2) Adversely classified loans: assets whose borrowed amount or interest is not received for 31-90 days and remain outstanding (substandard)

(3) Loans classified watch: assets whose borrowed amount or interest is not received for 1-30 days and remain outstanding (watch)

(4) Loan classified loss: nonperforming loans and advances whose borrowed amount or interest is not received for 361 days or more and remain outstanding (loss)

According to Qaws 1396 statistics, distribution of other sectoral loans is divided into 30 sectors.⁵ No diversity is considered in geographical and institutional distribution of loans, but it is expected that the loan distribution would be diversified over time.

Table (11) provide information about distribution of loans in provinces (geographically)

NO.	Provinces	Amount of loan (figure in million AFN)	Percentage of total loans
1	Kabul	28,683.54	68.62
2	Balkh	3,723.61	8.91
3	Herat	3,644.47	8.72
4	Kandahar	1,869.88	4.47
5	Badghis	1,092.60	2.61
6	Baghlan	524.05	1.25
7	Badakhshan	457.15	1.09
8	Nangarhar	325.70	0.78
9	Sarpul	279.10	0.67
10	Takhar	247.83	0.59
11	Bamyan	245.04	0.59
12	Faryab	217.67	0.52
13	Jawzjan	151.61	0.36
14	Parwan	144.98	0.35
15	Samangan	127.88	0.31
16	Kunduz	63.56	0.15
17	Others	2.31	0.01
18	Total	41,800.98	100.00

Table (12) provide information on sectoral distribution of loans, Qaws 1396

No	Sectors	Percentage of total loans
1	Mortgage and construction loans	
	Construction	8.70
2	Infrastructural Projects	-
	Electricity	0.40
	Roads and railways	1.32
	Dams	-

	Mines	0.48
	Other infrastructural projects	3.46
3	Productions and Industry	-
	Metallic, leather, plastic, rubber, wooden and paper productions	2.67
	Mechanical products and handi-crafts	3.16
	Cement and construction materials	3.52
4	Trade	-
	Textile	1.54
	Wholesale trade	4.67
	Machineries	0.09
	Petroleum and lubricants	10.78
	Spare parts	1.39
	Electrical appliances	2.76
	Cement and construction materials	2.57
	Food items	7.27
	Other items	3.28
	Retail trade	8.15
5	Services	-
	Education	0.00
	Hotel and restaurants	2.04
	Communications	5.52
	Land transportations	1.86
	Air transportations	2.90
	Healthcare	1.73
	Publication and printings	1.18
	Other services	12.26
6	Agriculture, livestock and farming	-
	Agriculture	3.94
	Livestock and farming	0.23
7	Consumer loans	0.86
8	Residential mortgage loans to individuals	0.71
9	All other loans	0.57
	Total	%100.00

(5) Accounting and reporting circular number 93/01 dated 26/06/1393

Table (13) provides information about MISFA partners in the country by quantity in the capital, provinces, districts as well as in terms of quantity of clients, borrowers, loan amounts, female clients percentage, female borrowers and others

Particulars	Quantity
Number of MISFA partners	4
Provinces	14
Districts	80
Clients	232,623
Borrowers	127,258
Number of granted loans	1,177,620
Amount of granted loans (Billion AFN)	77.63
Number of remaining loans	127,253
Total remaining gross loans (in billion AFN)	8.09
Clients' voluntary remaining savings (in billion AFN)	1.90
Percentage of female clients	27
Female borrowers	42,082
Rural loans (in billion AFN)	1.69
Urban loans (in billion AFN)	6.40
Source	www.misfa.org.af

1.3 Total Deposits

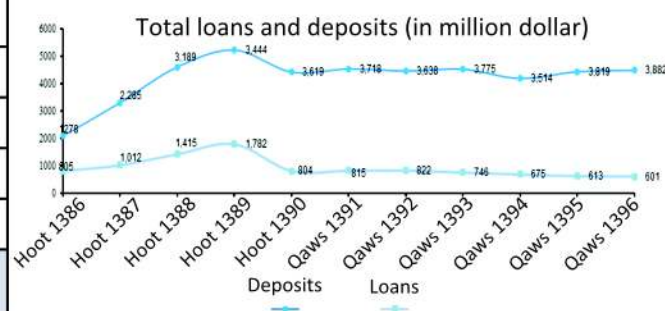
Deposits are the main funding source and the large segment of liabilities. According to Qaws 1396 data, total deposits amount to AFN 270.25 billion (USD 3.88 billion), constituting 96.42 percent of total liabilities of the banking sector which increased by 6.00 percent in the reporting period compared to 7.57 percent or AFN 254.95 billion (USD 3.82 billion) in preceding period (Qaws 1395). This increase is significantly attributed to current deposits (AFN 9.94 billion or 5.21 percent) and time deposits (AFN 3.90 billion or 28.43 percent). While, savings deposit recorded an increase by AFN 1.46 billion or 2.88 percent during the period under review. It is worth mentioning that the

main increase took place in Afghani denominated deposits whereas, USD denominated deposits experienced decline.

Afghani deposits amount to AFN 90.01 billion (USD 1.29 billion), constituting 33.30 percent of total deposits which grew by 14.15 percent compared to preceding period (Qaws 1395). USD deposits reach to AFN 160.83 billion (USD 2.31 billion), constituting 59.51 percent of total deposits which declined by 0.55 percent compared to preceding period (Qaws 1395), which is mainly due to decline in USD deposits.

Private Banks hold the highest share of 64.13 percent of total deposits, whereas state-owned banks and branches of foreign banks each hold 27.95 percent and 7.92 percent shares of the total deposits respectively.

Figure (14) illustrates total deposits and loans.



1.3.1 Monthly Comparison of Total Deposits

The deposits of the entire banking sector experienced fluctuations throughout FY 1395. In the present month of Qaws 1396, deposits grew by 4.52 percent that relates to a certain number of banks. The deposits are mainly gained through current and savings accounts each forming 74.24 percent and 19.24 percent which are conducted in Afghani and USD. While, time deposits experienced a downward trend during the period under review (Qaws 1396).

Figure (15) depicts growth trend of total deposits

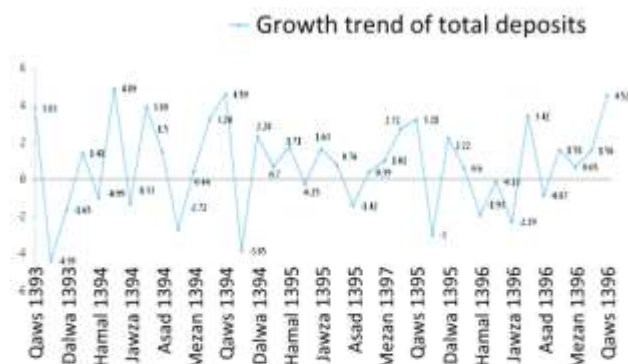


Table (14) provides figures about total deposits, Qaws 1396

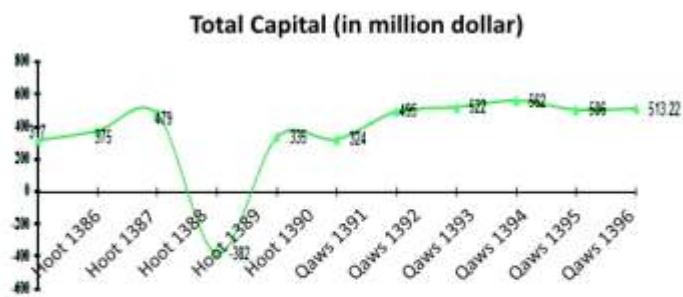
Composition of total deposits, Qaws 1396 (in million AFN)	
Current Account	200,633.72
Time Account	17,634.24
Savings Account	51,988.50
Total	270,256.46

1.4 Total Capital

The banking Sector holds adequate capital. The capital stood at AFN 35.72 billion (USD 513.22 million) in Qaws 1396, that represents an augment of 5.36 percent compared to AFN 33.91 billion (USD 509 million) in preceding period (Qaws 1395). The increase in total capital of the banking sector is mainly attributed to infusion of cash and profit during the year. The rate of regulatory capital was recorded at 29.92 percent in Qaws 1396 that indicates an increase of 2.24 percent in reporting period compared to 27.68 percent of the preceding period (Qaws 1395).

In Qaws 1396, the financial capital of one bank is below the target, but the regulatory capital of all banks (except one) is above minimum target of Da Afghanistan Bank (12% risk weighted assets).

Figure (16) depicts total capital from Hoot 1386 to Qaws 1396



1.5 Profit

The banking sector profited AFN 203 million in current month (Qaws 1396 or December 2017), while the system has experienced loss of AFN 47 million in the previous month (Aqrab 1396). From among 15 banks, ten banks have undergone a total loss of AFN 576 million in Qaws 1396. In previous month of (Aqrab), three banks faced a total loss of AFN 458 million. The profit earned in Qaws 1396 is largely received from significant rise in non-interest based profit most of which relates to off-balance-sheet items' fees and commissions. Other components contributing to the banking sector's profit include increased profit from currencies' revaluation and loan loss provisions. In the meantime, the tax-related and operational expenses which include salaries and other expenses increased during Qaws 1396.

Median or spread (margin of loan interest and new deposit interest) recorded at 11.51 percent in (Qaws 1396), increased compared to 8.06 percent in previous month (Aqrab 1396). Spread of three banks was below the median of banking sector while for eight banks, spread is incalculable.⁶

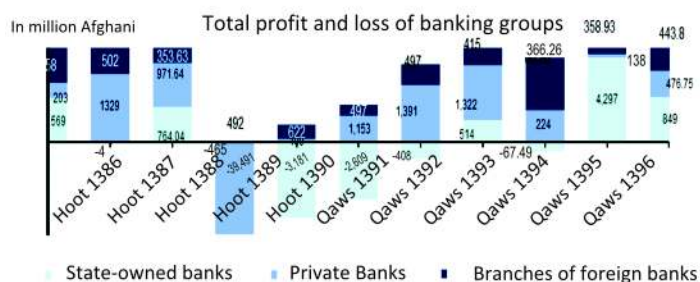
The average efficiency rate of the banking sector reaches 0.92 percent in Qaws 1396, decreased by 0.28 percent compared to previous month. Additionally, there are seven banks that are below average efficiency rate.

(6) Since spread is calculated on monthly basis, if a bank processes no loan or gets no new deposit or both, its spread is not calculable.

On aggregate basis, the banking sector has made profits during the FY 1396 (2017). The banking sector earned a net profit of AFN 1.76 billion (USD 25.40 million) in the period under review while, this figure was AFN 4.29 billion in preceding period (Qaws 1395), representing a decline. As a result, return on assets declined to 0.64 percent in the period under review (Qaws 1396) compared to 1.56 percent of the preceding period (Qaws 1395). It is worth mentioning that a huge part of banking profit in the preceding period (FY 1395) was gained through revaluation of trading assets that took place in Islamic Banking arm of one the state-owned banks.

The profit declined due to decrease in non-interest based profit. Other components that contributed in the banking sector's declined profit include increase in tax-related and operational expenses and decrease in net interest profit while, the loss due to currencies revaluation have turned into profit and loan loss provisions have declined during the period under review. On Cumulative basis, two banks experienced the loss of AFN 790 billion in reporting period, while this figure amounts to AFN 1.18 billion in preceding period (Qaws 1395) attributed to three banks. It is worth mentioning that considering Core Income, four banks are in loss while in the preceding period three banks suffered loss.

Figure (17) indicates total profit and loss of banking groups



1.6 Liquidity

In general, the liquidity ratio of entire banking system is above Da Afghanistan Bank minimum target for liquidity (broad liquidity ratio is 15 percent and rapid liquidity ratio is 20 percent). In terms of median, the broad liquidity ratio was recorded 65.92 percent in Qaws 1396, indicating a decline of 1.82 percent compared to 67.74 percent in preceding period (Qaws 1395).

Considering Qaws 1396 statistics, there is concern over growing focus of banking deposits on large deposits (above AF five million). These large deposits account for almost 59.91 percent of total deposits and are composed of 5,548 accounts, which are deemed critical for liquidity and considered as one of elusive debts. Moreover, the average of large deposits stands at AFN 532 million that show increase compared to AFN 473 million in previous quarter.

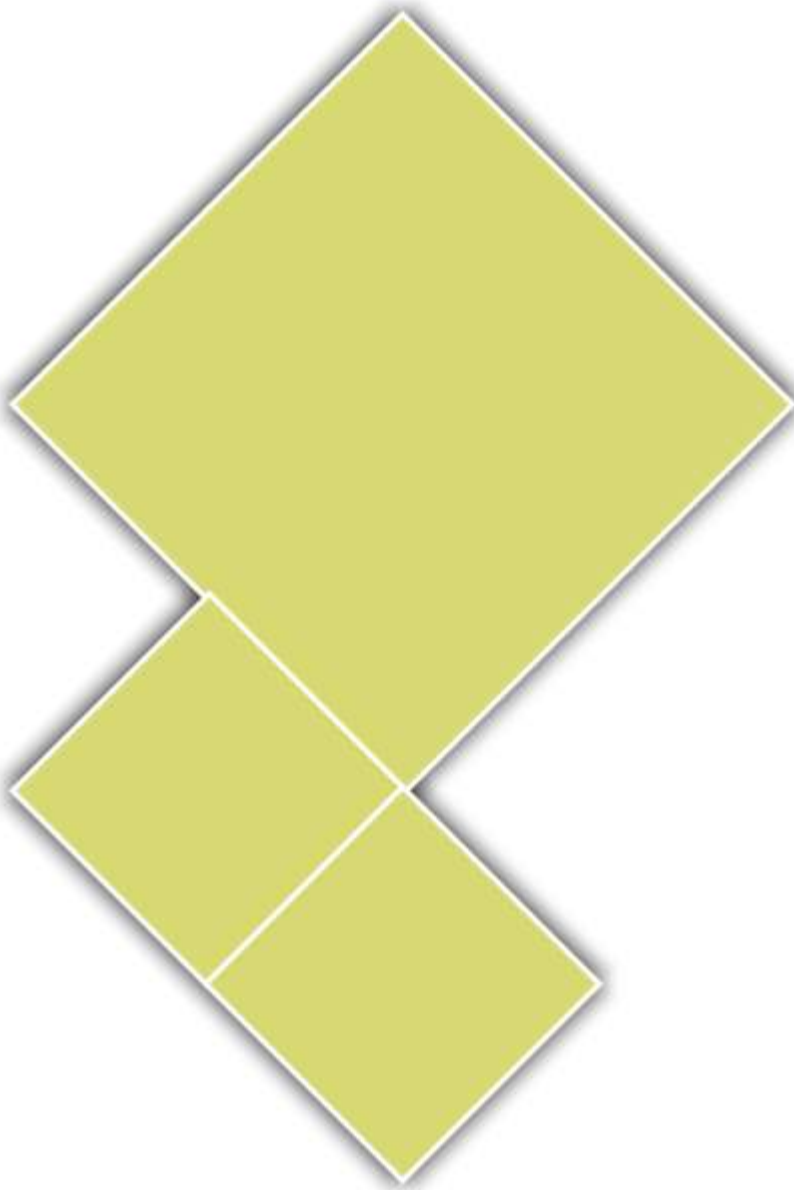
1.7 Currency Open Position

All banks met Da Afghanistan Bank's target for currencies open position (± 40 percent) and individual currencies open position (± 20 percent), except four banks that breached currencies open position and individual currencies open position (long term position of USD).

Table (15) provides figures about employees, borrowers, depositors and other clients, Qaws 1396

Items	Quantity
Local employees	9,201
Foreign employees	89
Borrowers	64,103
Depositors	3,396,621
Other clients ⁷	20,871

(7) Other clients that hold banking guarantees, letter of credits and other guarantees and pledges



Payments System

Payments System

One of the main duties of Da Afghanistan Bank is to establish, maintain and develop sound, safe, effective and reliable national payment systems in line with the international standards.

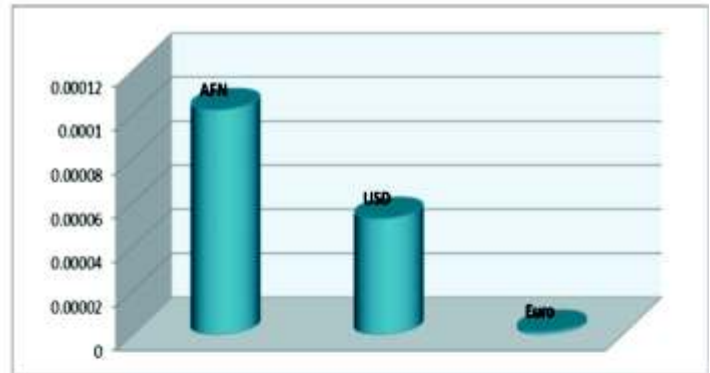
The performance of payments department will be discussed under two sections (Operational Section and Research and Development Section).

1. Operational Section: Its main duties include conducting of domestic and international system transactions, clearance and settlement of inter-bank transactions and settlement of domestic cheques which will be explained briefly in the below:

1.1 Inter-bank payments

As an operator of inter-bank transactions, this section has processed and cleared 102,120 transactions in Afghani amounting to AFN 491,449,292,746.26 - 52,747 transactions in USD amounting to AFN 482,161,155,275.52 and 1394 transactions in Euro amounting to AFN 11,715,570,392.00 that make up a total of 156,261 transactions. If we take a look at the growth of inter-bank transactions, it can be inferred that using banking systems for transfer of Afghani is gradually taking over cash transactions which will be effective in promoting the banking innovations, preventing risks associated with transfer of physical money and reducing the costs.

Figure (18) depicts the number of inter-bank transactions in Afghani and currencies during the FY 1396.

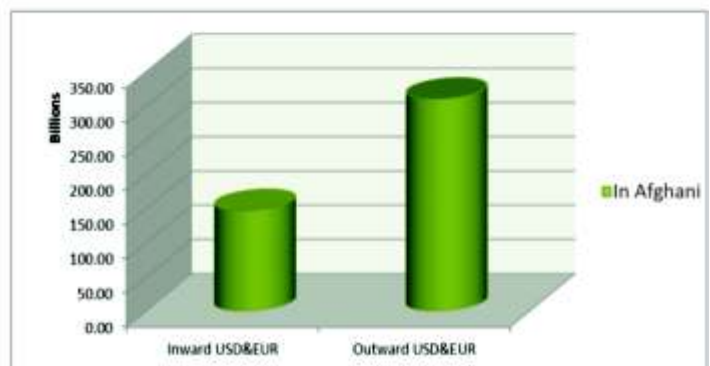


1.2 International Payments System (SWIFT)

In the international payments, some 1,851 incoming transactions in USD/Euro at a cost of AFN 146,824,302,524.48 and outgoing transactions in USD/Euro at a cost of AFN 309,836,404,275.36 have been carried out in FY 1396.

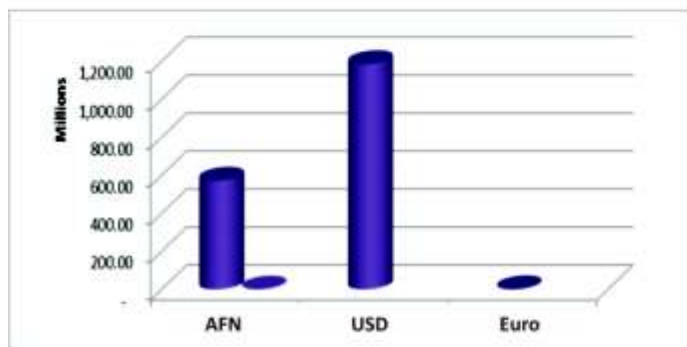
In addition to the incoming and outgoing transactions, a total of 627 USD transactions amounting to AFN 75,111,475,868.64 which are related to IBRD/FX deal exchange transactions, have been conducted through International payments system or SWIFT.

Figure (19) depicts the number of currency transactions of the international payment system during the FY 1396 (Figures in Afghani)



1.3 Clearing House:

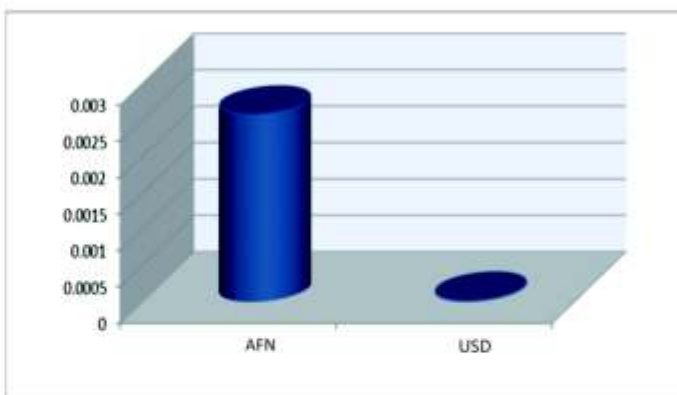
Through the Clearing House, a number of 2753 cheques denominated in Afghani amounting to AFN 572,498,216.10, 1,729 cheques denominated in USD amounting to AFN 1,187,067,755.68 and 1 Euro cheque amounting to AFN 1,520,000 have been processed during the period under review. Figure (20) shows the amount of Afghani, USD and Euro cheques of the clearing house during the FY 1396.



1.4 Domestic Payments System

With the domestic payments, a number of 596 incoming and outgoing transactions amounting to AFN 9,757,824,259.85 and 19 USD transactions amounting to AFN 54,630,996.00 have been executed through domestic payments system, code and telegram. In the operational section, foreign exchange (Afghani and USD) auction has been conducted completely. In the meantime, the transactions of provincial branches of commercial banks also known as ICPSS system has been recently launched and integrated into the process of transferring of government revenues into relevant accounts. In the period under review, some 341 transactions amounting to AFN 152,148,013.00 million have been processed through ICPSS.

Figure (21) represents the number of Afghani and Currency transactions during the FY 1396.



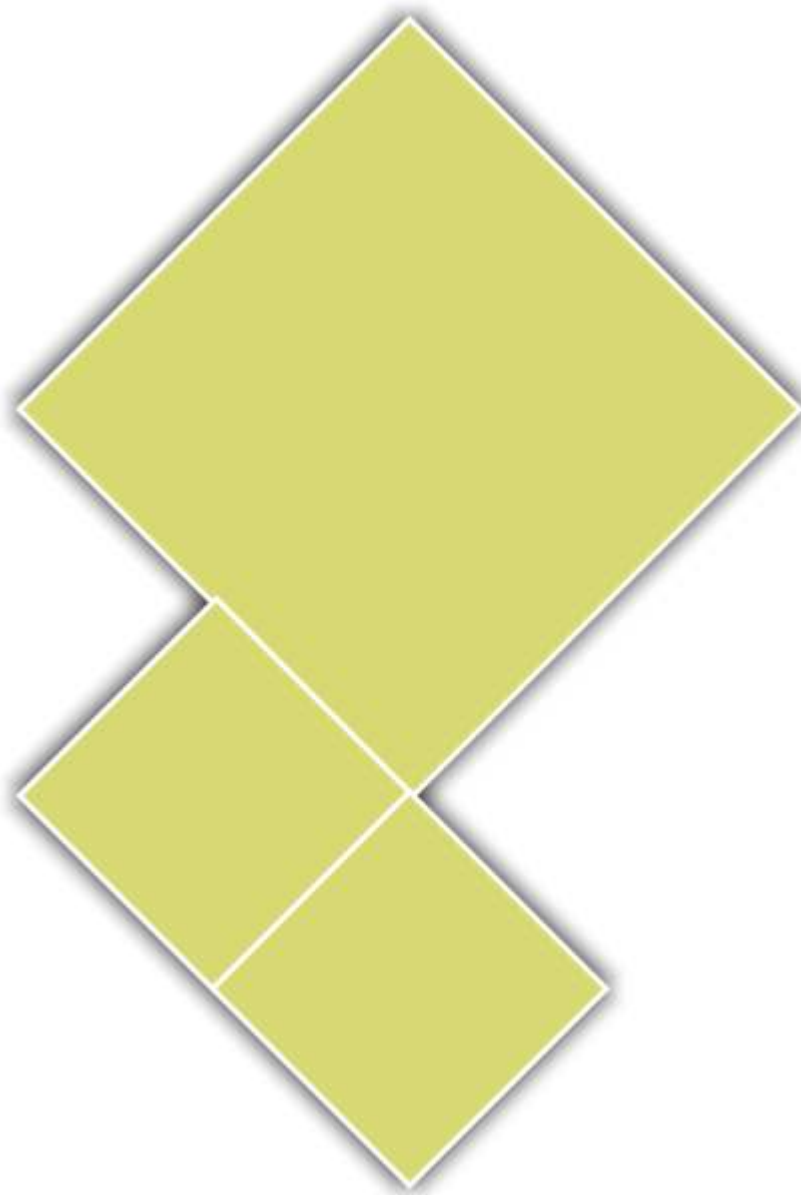
2. Policy Research and Development Section: The policy research and development section of the payments department works towards the development and expansion of payment systems, which has performed the following tasks during the FY 1396:

- 2.1 The process of collection of custom revenues in electronic form through the commercial banks with interbank payment systems has officially been launched in Kabul customs office and airport custom office. The interbank payments which initially started in border and provincial custom offices has been extended to additional 14 custom offices and according to the schedule of custom revenues directorate of finance ministry, it is intended to furnish the entire custom offices with the mentioned modern payment means.
- 2.2 In order to provide facilities, regulate and develop the process of revenue and custom collection in electronic form from the customs offices in ports and provinces, ICPSS or intercity payments has also been designed and implemented. It enables branches of commercial banks to promptly execute the transactions of custom duties in the ports and provinces.

2.3 Standardization, identification and processing of cheques through MICR which has already been launched. All banks must tailor their cheques according to a 38 pages guideline submitted to them. Fortunately, Afghanistan's Banks Association inform that the practical work of this process is completed by 90% and clears the ground for implementation of the ATS project, a part of which is ACH. It is to be said that the ATS project has been initiated with the cooperation and finance of World Bank to modernize the payments and capital notes systems. According to a monthly report of a project which is sent by the CMA Company, the works on operationalization of ATS/CSD project has pro-

gressed 72% in October and it is expected to complete and come into utilization by the end of June 2018.

The policy of new ATS and CSD systems prepared in 92 and 36 pages respectively has been reviewed and finalized by the responsible committee. Later on, the policies were submitted to the banks by the Office Legal Counsel to draw on public opinions. Meanwhile, the translation of Dari and Pashto versions of the policy have been completed will soon be presented to the Executive Board and Supreme Council for approval.



Market operation

Market operation

One of the main duties of Da Afghanistan Bank is to outline, adopt and implement foreign exchange policy, arrangement of currencies and maintaining official currencies reserves of the country. Da Afghanistan Bank has, therefore, tasked the market operation department to manage the currency reserves, open letter of credits for ministries and other governmental organizations and conduct the currency and capital note auctions besides serving as main monetary policy operative.

A concise report of this department performance during FY 1396 is discussed as under:

Foreign currency reserves: the net international reserve of Da Afghanistan Bank was reported USD 7.345 billion in Dec 2016, while it was registered at USD 8.118 in the 21st of Dec 2017 which shows an increase of USD 773 million in the period under review.

The investment of Da Afghanistan Bank which is carrying out by the reserve management of this department includes investment on time deposits held in the world reputable banks and investment on government securities of the major economies. It is worth mentioning that the current investment position of USD is remained well in the global investment markets against GBP and Euro, while it indicates an upward trend during the FY 1396.

Letter of Credit:

During the fiscal year 1396, in order to purchase or import goods (goods and equipments) and necessary appliances for ministries and other governmental organizations from domestic and foreign producing companies by the order of related organizations and approval of the ministry of finance from the allocated current and development budget as well as by the use of USD 28,637,180.65 contribution of the World Bank and Asian Development Bank to the account of correspondent companies of the ministries through domestic and foreign correspondent banks in different curren-

cies, a total number of 25 importing letter of credits have been opened by the letter of credit management whose integrated annual report by currency breakdown is provided as following:

- Opening of 25 LOCs in USD, totally amounting to USD 73,256,889.51.
- Opening of 2 LOCs in Afghani, totally amounting to 19,068,632.00.
- Opening of 3 LOCs in Euro, totally amounting to 639,242.00.

Capital Notes Auction:

Besides foreign exchange, capital note is also one of the monetary policy tools which was firstly issued to the market by Da Afghanistan Bank in 2004. The purchasing volunteer of these notes are commercial banks, foreign exchange dealers and commercial banks' customers. Currently, Da Afghanistan Bank auctions capital notes by different maturities such as 7 days, 1 month, 3 months, 6 months and 1 year in its weekly auction process. Since the beginning of FY 1396, Da Afghanistan Bank has conducted weekly auction of capital notes, while in 49 auctions the above mentioned capital notes were sold. The total investment of these notes reaching to AFN 212,184,000,000. Figure (22) reflects total sold amount and demand for capital notes in different maturities during FY 1396



Figure (23) capital notes interest rate fluctuations and overnight deposits during FY 1396 based on demand and supply

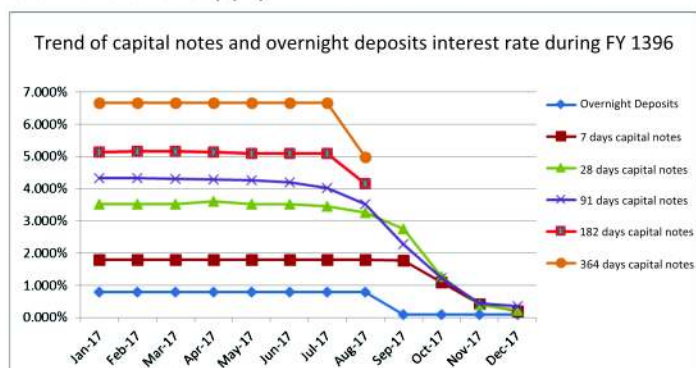
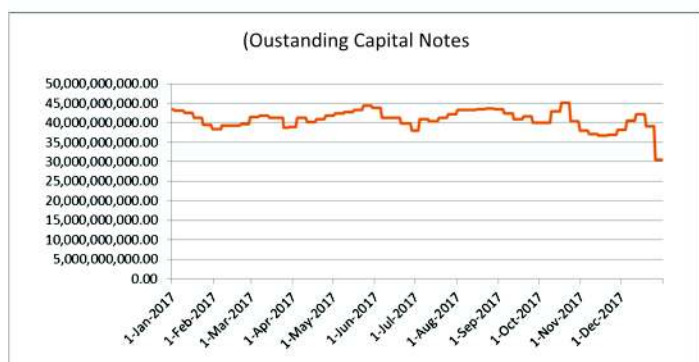
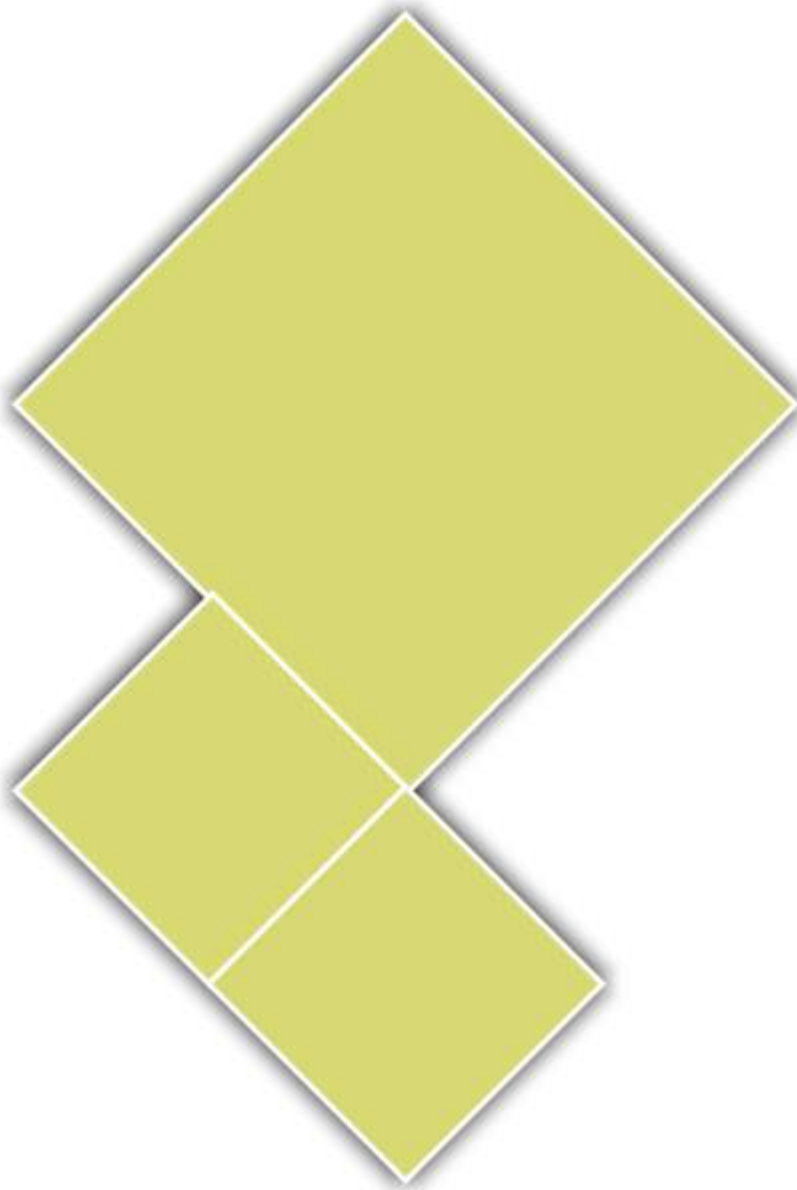


Figure (24) depicts total outstanding amount of capital notes during FY 1396



Foreign Currency Auction:

Foreign exchange auction is one of the other monetary policy instruments of Da Afghanistan Bank which are used to keep domestic price stability and prevent excess fluctuations of Afghani exchange rate against USD. During the FY 1396 a total of 140 foreign exchange auctions have been conducted and issued to the market which amounts to USD 2,101,350,000 equaling to AFN 144,325,603,055.69.



Public Credit Registry

Public Credit Registry

The Public Credit Registry department which possesses the registration systems of mortgage rights on moveable properties and credit registry is composed of the sections of registration of mortgage rights on moveable properties, credit registry, information technology, business development, administration and finance.

The performance of the various sections of the Public Credit Registry Department with a breakdown of the responsibilities of each section is provided as following:

Registration System of mortgage rights on moveable properties:

This section manages the affairs related to registration of mortgage rights on moveable properties. This system is established in accordance with the provisions of law of mortgage on moveable properties, regulation on registration of mortgage notices on moveable properties and best international practices. The purpose of the system is to verify the mortgage rights priorities and to issue mortgage notices for informing the third parties.

The following report is provided by the registration system of mortgage rights on moveable properties for the period from 19/03/2013 to 31/12/2017.

- Around 7,277 notices have been registered on the system till date which includes (primary, corrective, extension, objection and cancelation notices) shows an increase of 840 notices compared to the preceding year.
- Total loans granted against moveable properties are around 4,170 loans out of which 3,476 loans were granted to those companies who have less than 15 employees. Moreover, 452 loans were granted to those

companies who have 30>15 employees likewise, 131 loans were granted to those companies who have 50>30 employees. Furthermore, 51 loans were granted to those companies who have 100>30 employees and 60 loans were granted to those companies who have more than 100 employees.

From 4,170 loans, 4,117 were granted to those companies whose owners were male, 39 were granted to those companies whose owners were both male and female and only 14 loans were granted to those companies whose owners were females.

- The Public Searches conducted (via the internet) reach to 19,480 in the year under review which compared to 15,370 searches conducted in the preceding year depicts an increase of 4,110 searches.
- The contract of using the registration system of mortgage rights on moveable properties was signed with five micro-finance institutions on 16 of January 2018. These institutions are (Oxus Afghanistan, Exchangerzone, FINCA Afghanistan, IIFC Group and Mutahid Afghanistan Institutions).

Public Credit Registry:

The purpose for the establishment of the PCR section is to gather credit information and provide desired credit services to financial institutions, commercial banks, telecom companies and other related government organizations. By using the public credit registry system, the financial institutions are able to know about the background and credit information of the customers upon their request for loan. Developing PCR in the country's banking system brings many direct and indirect benefits to the banking sector and results in the

economic growth and development of the country.

The agreement for using the public credit registry system was signed by this section with two micro-finance institutions (Exchangerzone and IIFC Group) on July 2017.

Table (16) depicts the total contracts in the public credit registry system.

No. of Open Contracts	93,527
No. of Closed Contracts	192,123
Total	285,650

Table (17) shows the total companies and individuals whose contracts are registered with the system.

No. of Companies	5,861
No. of Individuals	197,566
Total	203,427

This section strives to further develop and expand its system by implementing the development program and provide further facilities for its users.

In the Information Technology Section, telephone facilities as standard communication instrument for the clients of the public credit registry system was established which has increased services and customer satisfaction. On the other side, for security and safety purposes and for the improvement of the websites necessary actions were taken on hand and the PCR website was designed, these two achievements of the public credit registry has created many facilities for its clients. As a result, information applicants can now receive their desired information online via the website 24/7.

The Administration and Finance Section, in accordance with the contract signed between Da

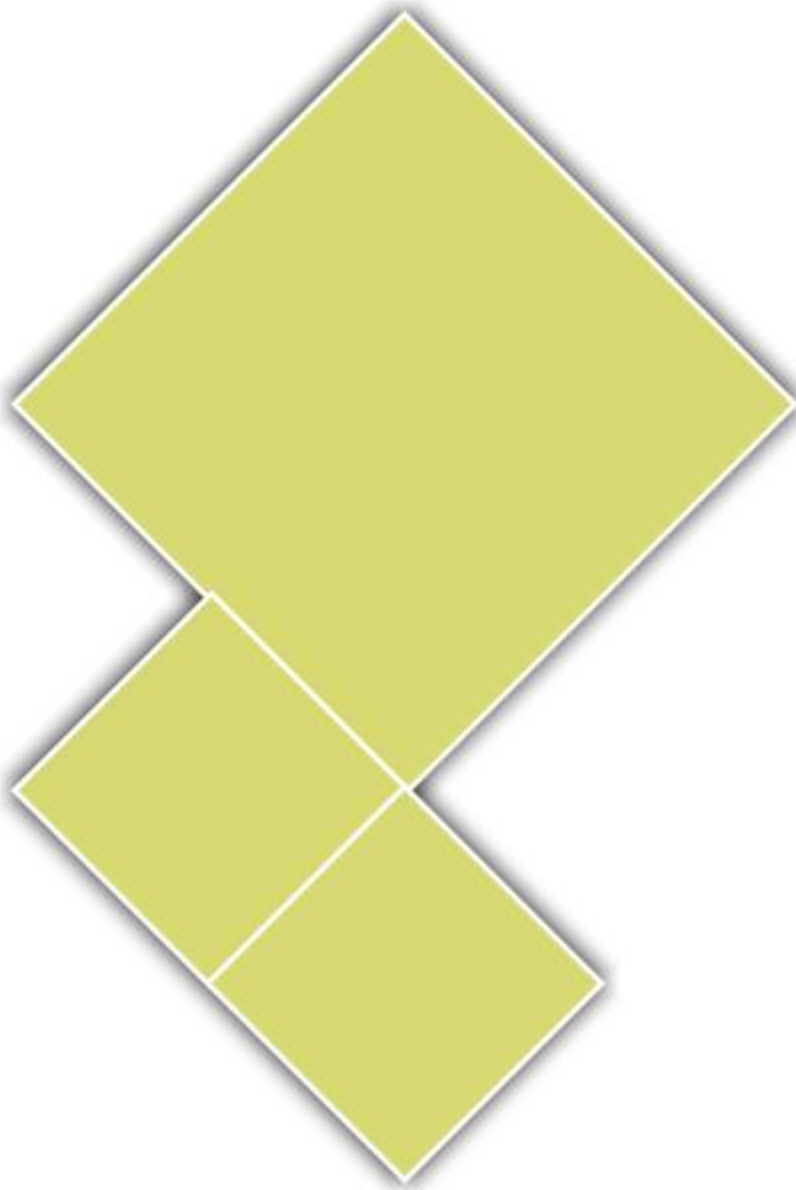
Afghanistan Bank, Commercial Banks and Micro-Finance Institutions has collected the fees which is related to the both systems which includes the registration systems of the mortgage rights on moveable properties and the public credit registry. The total revenues collected in the FY 1396 from both the systems amount to 2,572,075.

- The revenues from the monthly fees payments of the commercial banks for the registration system of mortgage rights on moveable properties amount to AFN 291,150.
- The total revenues of the public credit registry from commercial banks in FY 1396 amounts to AFN 1,933,425.
- The total revenues of the public credit registry from micro-finance institutions in FY 1396 amounts to AFN 260,000.
- The total revenues of the public credit registry from commercial bank crimes in FY 1396 amounts to 87,500..

A total revenue of AFN 2,572,075 were collected from monthly fees and commercial bank fines were transferred to the central bank's revenues account by the finance and accounting department.

The Public Credit Registry has performed several activities in regards to the Business Development section which is briefly discussed as below:

The technical introduction of the public credit registry systems was initiated through several workshops for the micro-finance institutions with the support and finance provided by the World Bank. These workshops were held in Herat, Kandahar, Nangarhar, and Bamyan for the enterprises, national merchants, craftspeople, professionals, micro-finance institutions and students. The main objective of these workshops were to introduce the benefits and other facilities provided by the public credit registry for its users.



**Afghan Deposit Insurance Corporation
(ADIC)**

Afghan Deposit Insurance Corporation (ADIC)

By precisely reviewing the banking sectors perimeters which currently operate in the world, we find that banks or financial institutions were able to secure an atmosphere of trust and confidence for the depositors by establishing the Deposits Insurance Corporation, using fundamental and legal techniques and methods.

After the FY 1380, Afghanistan was able to mark a new beginning in all fields especially in the banking system of the country based on which banks were able to receive their operations license form DAB, initiated their activities and were able to provide the investors, private enterprises, clients and public with the service facilities. With the passage of time and the start of commercial bank activities in the country, the government of The Islamic Republic of Afghanistan and Da Afghanistan Bank decided to establish a new department in order to protect and safeguard the deposits of the depositors with the commercial banks, finally for the realization of which, ADIC was established within DAB's structure to protect public deposits in commercial banks, preserve banking sector stability, prevent financial and economic crisis, and encourage investors to increase their savings and to promote public confidence on banking sector of Afghanistan. The realization of these goals will provide the atmosphere of trust and confidence for the public over the financial system of the country.

In case of a banks bankruptcy, ADIC will play an important role nationwide in repaying the deposits at designated period of time under certain conditions. Establishment of ADIC within the structure of DAB to achieve its goals would definitely raise public confidence towards the banking sector and

ensures the safety and security of public deposits in the commercial banks.

ADIC member commercial banks during the FY 1396

During the FY 1396, 14 commercial banks are holding ADIC membership which along with other banking activities and providing services, pay a fixed amount to ADIC as a premium on annual and quarterly basis which includes (Azizi Bank, Arian Bank, Afghanistan International Bank, First Micro-finance Bank, National Bank of Pakistan, Alfalah Ltd Bank, Habib Bank Ltd., Afghan United Bank, Bank-e-Mili Afghan, Pashtany Bank, Afghanistan Commercial Bank, Maiwand Bank, Ghazanfar Bank and Bakhtar Bank).

- **ADIC fund resource**

Fund resources of ADIC consists four sources (Initial and working capital obtained from Da Afghanistan Bank and Ministry of Finance, membership fees charged on commercial banks, premium collected form commercial banks and investment of ADIC funds and its proceedings). Table (18) depicts the information on the financial resources of ADIC:

No.	ADIC Financial Resources
1	Initial and Working Capital
2	One-time Membership Fee from Commercial Banks
3	Premiums from Commercial Banks on quarterly basis
4	Fund Investments

- **Premium charges on commercial banks**

ADIC charges annual premiums on all commercial banks that have its membership on quarterly basis as per the formula. As com-

mercial banks are supervised and monitored by the Financial Supervision Department of Da Afghanistan Bank, they are rated at various (CAMEL Rating) categories on the level of operation. ADIC charges a specific percentage of premium of each quarter from commercial bank's accounts on the basis of CAMEL ratings at the end of each year.

To motivate competition and mitigate risks among commercial banks, this department has charged premiums based on the table (19) which provides details on each of the CAMEL rating categories along with its specific percentage:

CAMEL Rating	Premium Percentage
1	%0.10
2	%0.15
3	%0.20
4	%0.30
5	%0.35

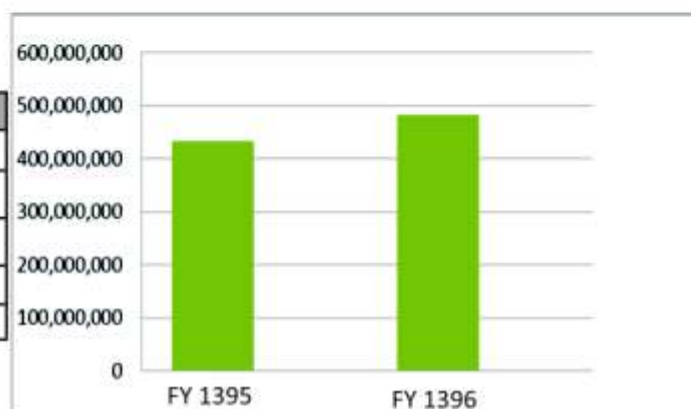
AS seen in the above table, banks with lower risks are charged with less premiums by ADIC but banks whose risk level is high, they are required to pay a higher amount of premium to ADIC. It is to be mentioned that the highest percentage is 0.35% and lowest is 0.10%.

- Premiums collected by ADIC from commercial banks during the FY 1396**

ADIC charges premiums on commercial banks' accounts using certain formula four times a year on quarterly basis. During the FY 1396 AFN 481,150,385 has been collected from the commercial banks' accounts. For further details kindly refer to table (20).

TOTAL PREMIUM COLLECTED FROM ADIC MEMBER BANKS' DURING FY 1396		
Quarters of the year	Amount in AFN	Years
Q4	116,919,705	January, February, March 2017
Q1	115,009,109	April, May, June 2017
Q2	120,631,373	July, August, September 2017
Q3	128,590,198	October, November, December 2017
Total	481,150,385	

Figure (25) depicts the comparison of premium collections for FY 1395-1396



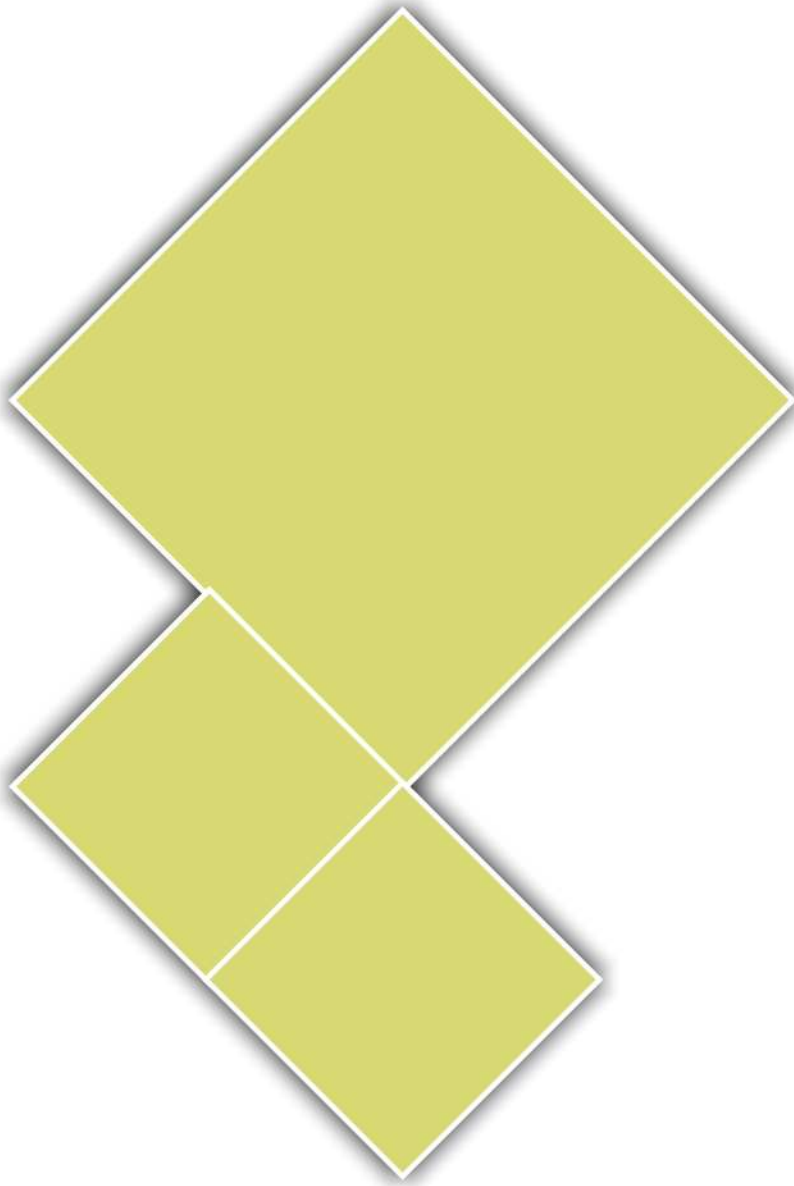
As it can be seen in the above graph, the amount collected in 1395 (AFN 434,703,513) and 1396 (AFN 481,150,385) shows an increase of AFN 46,446,872 in 1396 compared to preceding year.

- ADIC's investment activities on DAB's securities**

In order to achieve its strategic goals, while this department holds cash in its account, to increase and strengthen its monetary reserves and prevent the stagnation of its funds, it has frequently participated in the investment process of commercial banks through the secondary market. During the FY 1396, this department has invested 28 times in the secondary market on securities with the commercial banks, in order to have transparency in the investment process of the secondary market, initially the commer-

cial bank requests are studied and investigated after which necessary decisions are taken. This department has participated 28 times in the investment of capital notes dur-

ing the FY 1396; and has received a total of AFN 39,989,768.87 as profit from investment.



**Financial Transactions and Reports Analysis Center
of Afghanistan**

Financial Transactions and Reports Analysis Center of Afghanistan

On the basis of anti money laundering and proceeds of crimes law, FinTRACA is an independent unit at its activities, duties and functions. In order to develop and maintain a better space in identification of related activities to money laundering and financing terrorism, FinTRACA endeavors to work in close cooperation with financial supervisors, law enforcement agencies and Attorney General Office.

The summary of this department's performances and achievements during 2017 are as follows:

Delisting of Afghanistan from the gray list of Financial Action Task Force (FATF)

The FATF has praised Afghanistan's significant improvements regarding the strengthening of anti money laundering and financing terrorism regime, while Afghanistan has established a legal and supervisory framework to implement its commitment in respect to the Strategic gaps which were assessed by this organization in 2012. Therefore, Afghanistan is not under the supervision and continued control of FATF anymore in order to address money laundering and financing terrorism issues.

Afghanistan will continue its close cooperation with the Pacific Ocean in relation to the assessed

matters and points in bilateral evaluation report in respect to money laundering and financing terrorism, especially in full compliance of the regulation on controlling and reporting of domestic currency, foreign exchange and negotiable instruments transfers in all over the borders of Afghanistan.

Receipt of Large Cash Transaction Reports from Reporting Entities:

As per the Anti-Money Laundering / Combating the Financing of Terrorism and Preventative Measures Regulation, Banking Institutions shall report the particulars of transactions (deposits, withdrawals or transfers) in excess of AFN 1,000,000 or its equivalent to other currencies to FinTRACA no earlier than the first business day of the month and no later than the fifth business day of a month following to the month during which the transaction occurred.

Any two (2) transactions by and between the same two parties that occur within 2 consecutive days of one and other, which transactions aggregate AFN 1,000,000 or greater should also be reported as well.

Table (21) shows the large cash transactions of the banking institutions during FY 1396 (2017)

Month	January	February	March	April	May	June	July	August	September	October	November	December
2016	126,411	117,288	125,090	120,992	141,015	105,950	91,716	115,100	87,920	116,485	125,422	115,579
2017	105,192	88,470	87,449	108,848	104,963	69,408	111,590	111,024	87,926	106,170	100,913	0

Figure (26) indicates large cash transactions on the monthly basis



Note: Considering the FY 1396 (2017), the report for the month of December is excluded from this report.

Money Service Providers (Hawalah)

Money laundering and terrorist financing vulnerability through MSP sector is one of the key concerns for FinTRACA, in order to mitigate this risk, FinTRACA measured and took the following actions during the FY 1396 (2017):

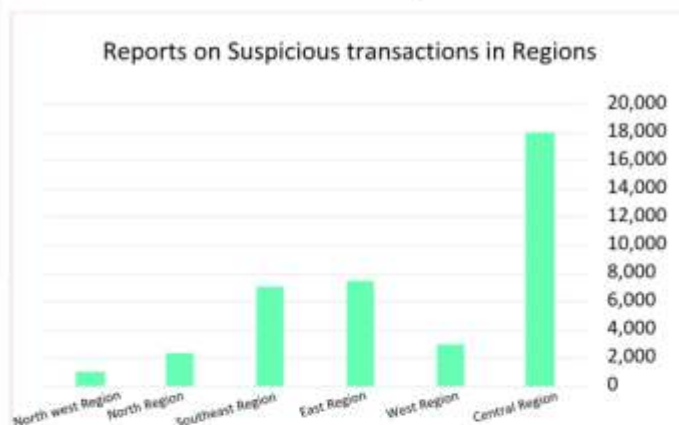
- Providing regular trainings and coaching support to money service providers.
- Revocation of 25 business licenses of MSPs across the country.
- Suspension of 8 business licenses of MSPs.
- Enforcement of AFN 3.8M financial penalties.
- Prohibiting utilization of individual bank accounts for money service purposes.
- Issuance of 4 warning notices.
- Publishing the list of revoked MSPs on FinTRACA website.
- Improving the level of electronic reporting to 72%.

Receipt of Large Cash Transaction Reports from Money Service Providers:

As per the plan for the year 2017, FinTRACA organized over 20 pieces of training to MSPs from all over the country in order to switch their manual reporting mechanism to electronic reporting plat-

form. Currently, **695** out of **955** MSPs are reporting electronically which makes **72 percent** in MSP sector.

Figures (27) and (28) illustrate reports on suspicious transactions in regions and reports on suspicious transactions on monthly basis



On-Site Examinations

FinTRACA accompanied Financial Supervision Department of DAB to jointly conduct on-site examinations of MSP and FXD markets. It is worth mentioning that a total number of 10 joint examinations were conducted in 10 provinces during the FY 1396 (2017).

Collection of Money Service Providers Bank Accounts

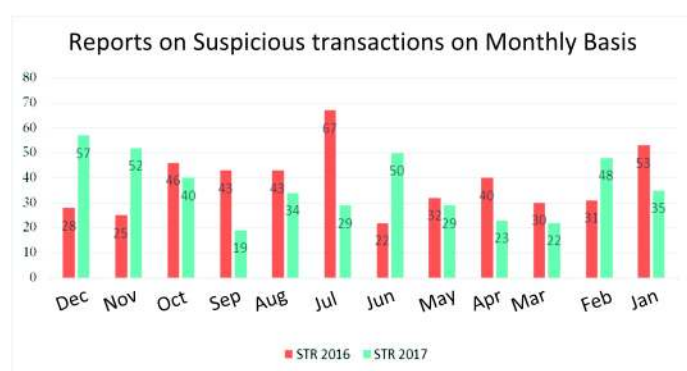
In compliance with the MSP/FXD Regulation, all MSPs are mandated to have corporate bank accounts and channel all their transactions through it. To ensure this process and avoid MSPs using personal bank accounts for business purposes,

FinTRACA measured and collected the total number of 1,911 bank accounts from all licensed MSPs across the country.

Receipt of Suspicious Transaction Reports

During the year 2017, the quality of Suspicious Transaction Reports from the commercial banks have been improved considerably compared to the previous years as a result of direct meetings and communications conducted with the compliance department of each commercial bank.

Figure (29) depicts 459 suspicious transactions conducted by commercial banks in FY 1396



Note: considering the FY 1396 (2017), the reports for the month of December 2017 are partially included to the above.

Cash, Foreign Exchange and Negotiable Instruments Transfers Control and Reports to Customs

Since the approval of the regulation governing the Reporting and Control of Physical Transfer of Currency and Bearer Negotiable Instruments, Afghanistan's Customs Department in cooperation with FinTRACA, has taken necessary actions for better implementation of this regulation and FATF Recommendation 32. The process of controlling and reporting the physical transfer of cash and Bearer Negotiable Instruments has been launched across all four international airports (Kabul, Balkh, Herat, and Kandahar) of the country as well as at Islam Qala, Turghundi, and Turkham land borders. Pursuant to article # 12 (1) of the aforementioned regulation, FinTRACA provided the required technical assistance and on-the-job trainings to the Customs officials and representatives of Police, National Directorate of Security and to other relevant staff of the government authorities in order to improve their capacity for better implementation of the regulation and to begin written cash declaration system.

Further, the Customs officials and representatives from the relevant agencies received practical trainings on preventing and mitigation of cash smuggling organized by the UNODC in cooperation with FinTRACA at Hamid Karzai International Airport. In addition, the General Directorate of Customs has printed new declaration forms and launched public awareness programs through posting billboards containing regulatory information on cash declaration forms as well as installed ASYCUDA Cash Declaration Module at international airports and border crossing points. FinTRACA is provided access to the online database to receive all cash declarations electronically.

Cash, Foreign Exchange and Negotiable Instruments Transfer Declarations to Customs

Based on the Regulation Governing the Reporting and Control of Physical Transfers of Currency, Bearer Negotiable Instruments, Gold, Other Precious Metals or Precious Stones through the Borders of the Islamic Republic of Afghanistan, General Directorate of Custom is the competent implementer of this regulation and has the responsibility to receive declaration forms. The Customs Office is required to report the declarations to Financial Transactions and Reports Analysis Center of Afghanistan within three working days.

Cash, Foreign Exchange and Negotiable Instruments Transfer Declarations to Customs

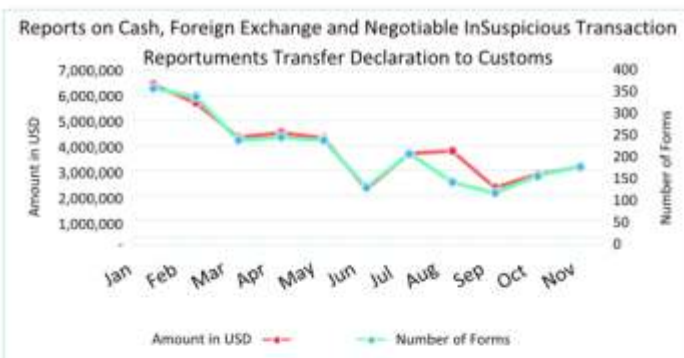
The regulation states that any person who leaves or enters the Islamic Republic of Afghanistan in possession of currency, bearer negotiable instruments, gold, other precious metals or precious stones which are of a value exceeding USD 10,000 or its equivalents in other currencies or arranges for the transportation of such items into or out of

the Islamic Republic of Afghanistan through a person cargo, postal service or through any other means must complete the relevant declaration form and submit that to the Custom's Officer. However, there is no limit to bring any amount of currency, bearer negotiable instruments, gold, other precious metals or precious stones into Afghanistan. The Customs Department shall report the amount [transported] and identity of its carrier to National Directorate of Security and Financial Intelligence Unit.

Table (22) depicts the following inbound and outbound declarations of cash and BNI to FinTRACA during the FY 1396 (2017):

No	Month	No of report	Amount in USD
1	January	361	64,469,621.09
2	February	341	5,732,498.6
3	March	241	4,344,387.43
4	April	249	4,525,360
5	May	241	4,310,631
6	June	134	2,260,960.9
7	July	211	3,698,198.95
8	August	145	3,796,017
9	September	120	2,330,008
10	October	160	3,878,696
11	November	181	3,138,443.26
12	December	-	0
Total		2,384	43,484,822.00

Figure (30) shows the reports on Cash, Foreign Exchange and Negotiable Instruments Transfer Declaration to Customs



Prohibition of Transfers and Law Enforcement

As per the regulation, it is prohibited for any person to leave the Islamic Republic of Afghanistan in possession of currency, bearer negotiable instruments, gold, other precious metals or precious stones which are of a value exceeding USD 20,000 or its equivalents in other currencies or arrange for the transportation of such items out of the Islamic Republic of Afghanistan through a person cargo, postal service or through any other means.

If a person refuses to provide any information or provides misleading information regarding the transfer of items, and the value of the items exceeds the threshold USD 10,000, the "Authorized Officer" must seize the items and refer the individual to the judicial authorities for ascertaining whether evidence of Money Laundering/Terrorist Financing may be found, and for prosecution on suspicion of committing money laundering offence as defined in article # 4 of the Anti-Money Laundering and Proceeds of Crime Law.

In FY 1396 (2017), FinTRACA received 14 cash and gold detection cases from the Customs Department. From 14 cash seizures, 4 cases have been finalized. A total cash fine penalty of AFN 9,446,789.00 was imposed in violating the regulation.

Spontaneous Disclosures

According to article # 25 of the Anti-Money Laundering and Proceeds of Crime Law, the Financial Intelligence Unit should serve as the national center responsible for the receipt and analysis of the Suspicious Transaction Reports and other information relevant to money laundering, associated predicate offences, and terrorist financing.

During the FY 1395 (2016), FinTRACA analyzed 77 Suspicious Transaction Reports out of 438 Suspicious Transaction Reports which were received from reporting entities. During the FY 1396 (2017), FinTRACA prioritized and analyzed 59 Suspicious Transaction Reports out of 459 following internal risk matrix which rates Suspicious Transaction Reports 1-10.

Table (23) and (24) depict the received reports on suspicious transactions during the FY 1395 (2016) and FY 1396 (2017)



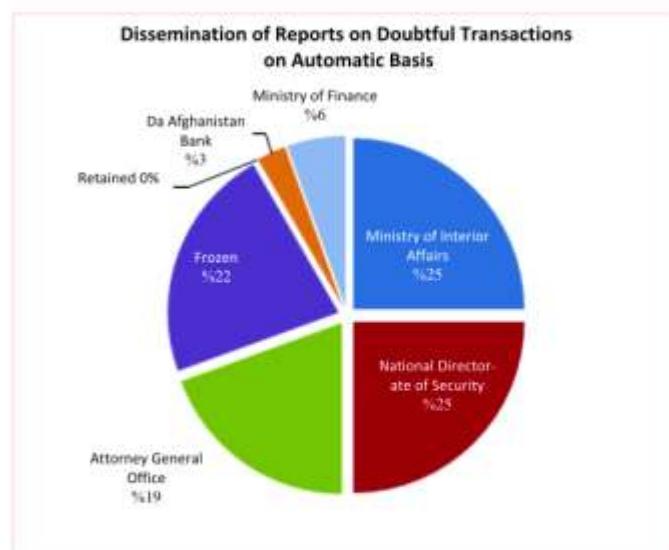
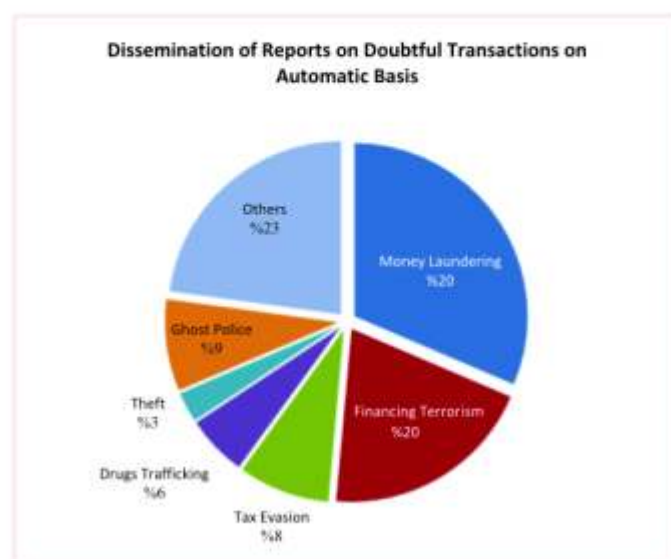
According to article # 36 of Anti-Money Laundering and Proceeds of Crime Law, below mentioned analytical cases on Suspicious Transactions Reports were disseminated to the domestic law enforcement agencies for investigation:

Table (25) shows the number of suspicious transactions circulated to the law enforcement authorities

NO	CASE TYPE	PREDICATE OFFENSE	NO. SUSPICIOUS TRANSACTION REPORTS	NO. SUBJECTS	ENTITY
1	Proactive	Un-Licensed Operations	-	139	DAB, NDS, and MOI
2	Suspicious Transaction Reportategic	Money Laundering	7	14	National Directorate of Security
3	Reactive	Terrorist Financing	2	1	National Directorate of Security
4	Reactive	Terrorist Financing	1	1	Attorney General's Office
5	Reactive	Money Laundering	1	1	Attorney General's Office
6	Reactive	Terrorist Financing	1	1	National Directorate of Security
7	Reactive	Drug Trafficking	1	1	MiniSuspicious Transaction Reporty of Interior Affairs (IIU)
8	Reactive	Terrorist Financing	1	1	National Directorate of Security
9	Reactive	Tax Evasion	5	2	MiniSuspicious Transaction Reporty of Finance
10	Suspicious Transaction Reportategic	Wire Fraud	6	21	National Directorate of Security
11	Reactive	Theft	1	1	Attorney General's Office

12	Reactive	Terrorist Financing	2	12	National Directorate of Security
13	Reactive	Ghost Police	1	1	Intelligence Directorate of MiniSuspicious Transaction Reporty of Interior Affairs
14	Suspicious Transaction Reportategic	Money Laundering	11	27	National Directorate of Security
15	Suspicious Transaction Reportategic	Money Laundering	2	7	MiniSuspicious Transaction Reporty of Interior Affairs (MCTF)
16	Suspicious Transaction Reportategic	Tax Evasion	1	3	MiniSuspicious Transaction Reporty of Interior Affairs (MCTF)
17	Reactive	Ghost Police	1	1	Attorney General's Office
18	Reactive	Terrorist Financing	1	1	National Directorate of Security
19	Reactive	Kidnapping	-	1	National Directorate of Security
20	Reactive	Terrorist Financing	1	1	MiniSuspicious Transaction Reporty of Interior Affairs (IIU)
21	Reactive	Ghost Police	2	5	Attorney General's Office
22	Reactive	Tax Evasion	2	2	MiniSuspicious Transaction Reporty of Finance (ARD)
23	Upon Request	Drug Trafficking	-	2	Attorney General's Office (CNJC)
24	Proactive	Money Laundering	-	1	MiniSuspicious Transaction Reporty of Interior Affairs (IIU)
25	Proactive	Money Laundering	-	1	MiniSuspicious Transaction Reporty of Interior Affairs (IIU)
26	Upon Request	Money Laundering	2	1	MiniSuspicious Transaction Reporty of Interior Affairs (MCTF)
27	Reactive	Money Laundering	1	2	MiniSuspicious Transaction Reporty of Interior Affairs (IIU)
28	Reactive	Money Laundering	1	1	MiniSuspicious Transaction Reporty of Interior Affairs (IIU)

Figures (31) and (32) illustrate the major crimes and automatically publication of reports on suspicious transactions



Enforcement measures to compliance

In order to enforce compliance, FinTRACA measured the followings during the FY 1396 (2017);

Revocation and suspension licenses

To mitigate the risk of money laundering and financing terrorism, FinTRACA has terminated and suspended a number of licenses which are described in the table (26) below:

Revocation of License (Monetary Service Providers)	25
Suspension of Licenses (Monetary Service Providers)	8

At the same time, FinTRACA has imposed some cash fines on reporting entities showing in the table (27) below:

Fines imposed on Monetary Service Providers	3,791,800.00
Fines imposed on Banking Institutions	3,550,000.00
Total (AFN)	7,341,800.00

Figure (33) depicts financial fines counted on the monthly basis



FinTRACA Watch-List

FinTRACA Watch-List was established to identify “High-Risk Subjects”, where irregularities are present, or where the potential for money laundering and/or other predicate offenses exists. “FinTRACA Watch-List” will support the reporting entities in terms of customer due diligence and can be considered as the supportive surveillance tool to identify high-risk individuals and legal entities.

Reporting entities should note that this list is not exhaustive and may be changed/updated. “FinTRACA Watch-List” may not include UNSCR designations, Office of Foreign Assets Control or any other foreign sanction lists. This watch list doesn’t bypass the responsibilities of financial institutions against foreign sanction’s regime or any other instruction issued by competent local authority (ies). Financial institutions are still obliged to follow the laws, regulations, internal policies and mutual commitments with the national and international counterparts.

Figure (34) and (35) depicts the statistical summary of designated subjects which has been sent through five notifications:

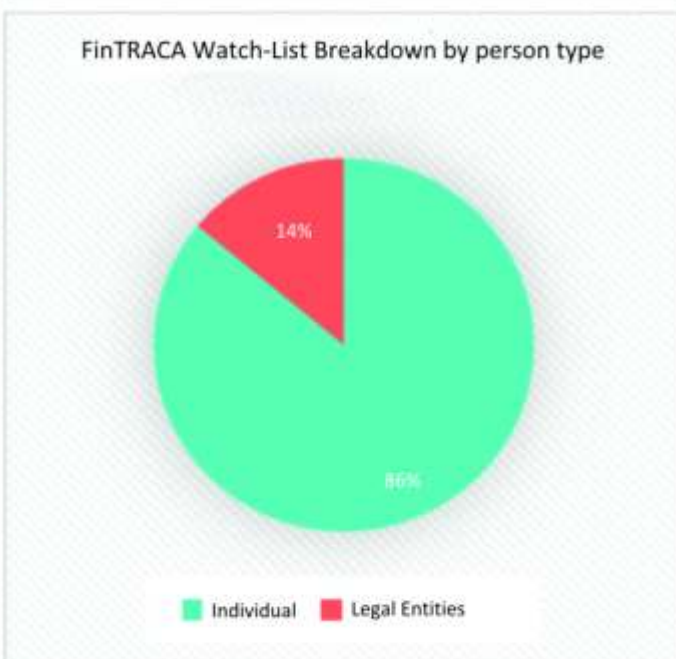
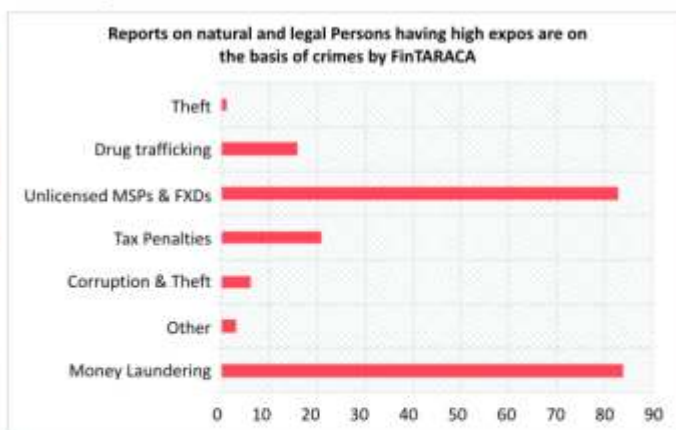


Table (28) shows the implementation of the list belonging to natural and legal persons having high level of risks with FinTRACA

No	Execution	Description
1	Frozen bank accounts	7 bank accounts were frozen
2	Closed Bank accounts	19 bank accounts were blocked
3	High exposure category	36 natural and legal persons were enlisted in the category of people having high exposure
4	Medium exposure category	5 natural and legal persons were enlisted in the category of people having high exposure
5	Report on suspicious transactions	6 suspicious transactions were reported
6	No Credit	20 bank accounts have enlisted in no credit category

Disruption Measures

During the FY 1395 (2016) the internal committee of FinTRACA (executive committee) has convened 9 meetings and discussed about the findings of analysis department and approved 26 analytical cases related to money laundering, financing terrorism, drug trafficking, corruption and other predicate offenses which were subsequently disseminated to Attorney General Office and other law enforcement authorities. Meanwhile, during the FY 1396 (2017) this committee held 22 meetings and approved 28 cases and submitted them to the Attorney General Office and other law enforcement authorities.

Considering the details of the committee findings, and adopting the legal power given in article # 24 of the Anti-Money Laundering and Proceeds of Crime Law to enforce compliance on ceasing to engage in certain actions or practices, FinTRACA has taken the following measures to disrupt misuse of the financial system:

- FinTRACA prohibited and enforced the utilization of individual (personal) bank accounts by businesses to disrupt tax evasion and make it easy to follow the money. As a result, 1,776 individual personal accounts which might possibly be used for the business purposes have been either closed or switched to corporate accounts during the FY 1396 (2017).
- FinTRACA established the database of “High-Risk Subjects” in July 2017. By end of the financial year, a total number of 193 legal and natural persons who were suspected in money laundering, drug trafficking, tax crimes and other predicate offenses are designated and shared with banking institutions. As a result, banking institutions terminated their business relationship with 19 natural and legal persons. The purpose behind the “Watch-List” is not to freeze the bank account or terminate the relationship but requires the financial institutions to implement article # 12 of the Anti-Money Laundering and Proceeds of Crime Law for enhanced due diligence. In the event the financial institution is unable to verify the identification of the subject, it should terminate the relationship in accordance with the article # 13 of the Anti-Money Laundering and Proceeds of Crime Law and file the Suspicious Transaction Report.
- Non-compliant money service providers are identified; their business licenses are revoked and made the list publicly available. This has had significant disruption impact and improved the level of compliance regime.
- Unlicensed money service providers are identified in 7 provinces of the country and thereafter, have been designated as high-risk subjects, shared the list with banking institutions and

supervisory body, and have asked the National Directorate of Security to close down their businesses. FinTRACA clearly indicated to the relevant authorities that unlicensed operation is not only a regulatory violation but also facilitates tax evasion.

- Information were exchanged with Customs and Tax Authorities. Exchange of information with tax authority disrupts the systematic tax avoidance which leads to tax evasion. During the FY 1396 (2017), information about 43 businesses were exchanged with the tax authority.
- FinTRACA published the details of the business licenses of active, revoked and quitted money service providers on its website. This has significantly facilitated the verification process for banking institutions. Non-compliant businesses are identified and treated immediately.
- In accordance with the Money Service Providers Regulation, money service providers should have corporate bank account and channel their services through bank account. FinTRACA enforced this measure and collected the list of bank accounts carried out by money service providers. The total number of 1,911 banks ac-

counts has been collected and will be subjected to comparative analysis and investigation if any violation is identified.

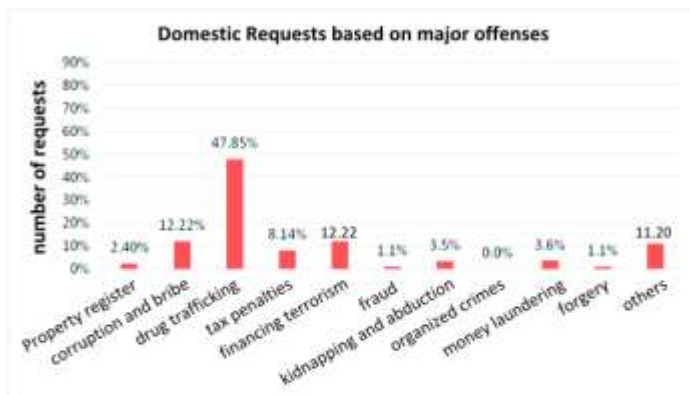
- The collection, analysis, and dissemination of Suspicious Transaction Report is a legal mandate for FIU. In addition to the dissemination of Suspicious Transaction Reports to Attorney General's Office and LEAs; Financial Intelligence Unit designates the subjects and associates as "High-Risk Person". During the FY 1396 (2017), Financial Intelligence Unit Analysis Department designated 86 natural and legal persons. The enlisted subjects can only be delisted if feedback is received from Law Enforcement Agencies. This has improved the collection of feedback from Law Enforcement Agencies and awareness of the banking institutions about the high-risk subjects.

Financial cooperation

During FY 1396 (2017), FinTRACA has carried out a number of national cooperation programs with the government authorities

Figure (36) and Table (29) shows the domestic requests based on offenses

No	Agencies	Total number of requests
1	Attorney General Office (Counter Narcotic Justice Center and Anti Corruption Justices Center)	69
2	Ministry of Interior Affairs (Police)	50
3	Ministry of Finance (Afghanistan Revenue Department)	14
4	National Directorate of Security (NDS)	35
5	High Office of Oversight (HOO)	3
6	Other	9
Total Requests Received		180
Total Responded Requests (Response rate 92%)		166
Number of Legal and Natural Subjects Included		666



Domestic Requests

Based on article # 28th of Anti-Money Laundering and Proceeds of Crime Law, FinTRACA has sent and received a total number of 28 inquiries concerning income tax, export and import details, verification of the business licenses, verification of

contracts, verification of identities and other to the Ministry of Finance, Ministry of Interior Affairs, Ministry of Public Work and National Directorate of Security on the basis of outgoing domestic inquiries.

MONEY LAUNDERING CONVICTIONS BY ANTI-CORRUPTION JUSTICE CENTER

In July 2016, His Excellency President Ghani signed a decree establishing the independent Anti-Corruption Justice Center (ACJC) to tackle high-level corruption cases.

This center has condemned two cases related to money laundering during the FY 1396 (2017) which is described in the table (30) below:

No	Executions
1	<i>A foreign exchange dealer was arrested on dated 03-12-2016 by Baghlan province police headquarter on the charge of embezzlement of AFN 24,415,811 funds of Bank-e-Milli Afghan and money laundering AFN 6,740,000. The Primary court of Anti-Corruption Justice center (ACJC) has convicted the accused on charge of money launder and sentenced to 2 years custodial imprisonment, a cash penalty of AFN 50,000 and to pay cash penalty equivalent to the laundered funds based on the article number 4, 5 and 52 of Anti-Money Laundering and Proceeds of Crime (AMLPC) law. Accordingly, the Appellate Court of ACJC on dated 15-01-2017 has approved the decision of the Primary Court but has rejected the penalty to pay cash fine equivalent to the laundered funds because there was prosecution demand for it.</i>
2	<i>The Public Court of subject X was held at Anti-Corruption Justice Center (ACJC) on 15/2/2017. The convict was sentenced for three years in prison and to pay a fine of AFN 100,000.00 by the Primary court of ACJC, on the charges of money laundering based on provisions of Anti-Money Laundering and Proceeds of Crime Law of Afghanistan. The charges on convict were included money-laundering of more than USD 260 thousands, PKR 299 thousand, AFN 3.3 million and 317.3 gram of gold. The court stated that it received the money and jewelry seized from the convict. The convict was arrested by the police on October 18, 2016 in the Hamid Karzai International Airport while traveling from Uruzgan province to Kabul.</i>

Source: Judicial Center of High Office of Anti Corruption

According to the report submitted by ACJC dated November 06, 2017, so far, Anti Corruption Justice Center has convicted 23 high-level corruption cases including money laundering, bribery, embezzlement, usurpation, misuse of duty, fraud and etc. The convicted cases include 91 individuals, AFN 816,642,743 and USD 6,787,954.9 cash fine penalties.

It's worth mentioning that FinTRACA has contributed in sharing the financial information with specialized police (Major Crime Task Force) of Anti Corruption Justice Center during the investigation of the aforementioned cases.

Terrorist Financing Convictions

Based on report released in November 21, 2017, the attorney general office has handed over 7 cases related to financing terrorism by directorate of prosecution of internal and external security crimes to the related court.

Out of 7 people 5 of them were sentenced during the year 2017 in accordance to anti financing terrorism which is shown in table (31) below.

No	Name	Address	Judgments		
			Primary Court	Appellate Court	Supreme Court
1	Case A	Kandahar	Pending	Pending	Pending
2	Case B	Kandahar	10 months imprisonment	The decision of Primary Court was approved by Appellate court	The decision of Appellate Court was approved by Supreme Court
3	Case C	Kandahar	18 months imprisonment	6 years imprisonment and cash fine of AFN 400,000.00	The decision of Appellate Court was approved by Supreme Court
4	Case D	Ningarhar	5 years and 1-month imprisonment	8 years imprisonment and cash fine of AFN 500,000.00	Rejected and forwarded back to Appellate Court
5	Case E	Kunar	1 year and 6 months for the membership and 5 years and 6 months for terrorist financing and cash fine of AFN 400,000.00	The decision of Primary Court was approved by Appellate Court	The decision of Appellate Court was approved by Supreme Court
6	Case F	Logar	5 years and 6 months imprisonment and cash fine of AFN 400,000.00	The decision of Primary Court was approved by Appellate Court	Pending
7	Case G	Kabul	Pending	Pending	Pending
Total of penalties			800,000	1,700,000	As now: 800,000

Source: Anti-terrorist Prosecution Department of Attorney General's Office

Counter Narcotic Justices Center

According to the article number 28th of Anti-Money Laundering and Proceeds of Crime Law, FinTRACA has exchanged financial information on 65 cases that include 85 subjects with the dedicated prosecution departments of Counter Narcotics Justice Center during the FY 1396 (2017).

Based on article number 37 of Anti-Money Laundering and Proceeds of Crime Law, in the cases of seriousness and urgency, FinTRACA has issued orders to the reporting entities to freeze the funds or transactions of drug traffickers for a period not exceeding ten days. During the FY 1396 (2017), FinTRACA has frozen AFN 2,168,083 and USD

604,029 funds that derived from selling and purchasing drugs and narcotics within 32 bank accounts related to the drug traffickers. Accordingly, FinTRACA has also assisted Counter Narcotics Justice Center in transferring the seizure funds of drug traffickers.

The following statistics shown in table (32) are presented by the Counter Narcotics Justice Center (CNJC) based on interagency cooperation during the period January-November, 2017 that have been seized from across the country and their cases have been dispatched to Investigation and Laboratory Police of CNJC/CJTF are:

Counter Narcotics Justice Center Reports									
Month	Cases sent to counter narcotic justices center	Total number of suspected persons	Heroin	Morphine	Opium	Hashish	Solid Chemical Precursor	Liquid Chemical Precursor	Sentenced cases by the Supreme Court
January	42	44	201.97	3,510.8	6,262.3	197,352	1,094.689	180	21
February	36	48	304.636	37.16	6,007.1	2,420	3,071.6	0	19
March	55	56	127.19	8,490	8,724.426	1,437.28	2,210	540	20
April	40	47	204.169	30.86	228.7	5,482.745	1.36	0	36
May	35	41	315.345	0	203.7	3,595.128	1,010.7	302.5	17
June	51	68	244.135	2500	1,334	317.525	6,340.9	0	14
July	35	37	38.256	2,634	2,419	1,043	15,791	0	10
August	60	69	283.092	7,164.3	3,160.6	1,882.5	6,537.233	180	21
September	30	43	28.73	16	171.5	1761	0	0	8
October	42	54	61.182	54.41	1,009.9	2,344.12	1,316	16295	15
November	36	51	61.377	39	1,782.2	1552	0	304.68	24
Total	462	558	1,870.082	24,476.53	29,521.226	217,635.298	37,373.482	17802.18	205
	Cases	Suspected persons	KG	KG	KG	KG	KG	Liter	Cases

Source: Counter Narcotics Justice Center (Counter Narcotics Justice Center/Criminal Justice Task Force)

According to the aforementioned chart information submitted by Counter Narcotics Justice Center/Criminal Justice Task Force, a total number of 462 cases were filed on suspicion of 558 individuals suspected in drug-related crimes from all over the country and primary investigation of the cases have been completed in the light of the Anti-Drug Law, and were forwarded to the dedicated prosecution department of Counter Narcotics Justice Center for further investigation and prosecution. It's worth mentioning that Supreme Court has issued verdict decisions on the conviction of 205 drug-related cases during the aforementioned period.

International Cooperation

In accordance with the article # 31 of the Anti-Money Laundering and Proceeds of Crime Law, FinTRACA exchanged the total number of 33 out of 38 analytical reports included 194 subjects with counterpart Financial Intelligence Units during the FY 1396 (2017).

Memorandum of Understanding on Information Exchange

Adopting International best practices and applying national legal basis, FinTRACA signed 3 MoUs in the light of FATF recommendation and article # 31 of Anti-Money Laundering and Proceeds of Crime Law with counterpart Financial Intelligence Units during the year 2017 which are as following:

- State Financial Monitoring Service of Ukraine (SFMS);
- Korean Financial Intelligence Unit (KoFIU); and
- China Anti-Money Laundering Monitoring and Analysis Center (CAMLMAC)

These MoUs will enable cooperation between the Financial Intelligence Units on the collection, analysis and exchange of financial intelligence spontaneously or upon request. The MoUs were signed based on the spirit of cooperation and mutual interest within the framework of national laws of each authority to join international com-

munity in the fight against money laundering and terrorism financing.

Also, FinTRACA has accomplished the internal formalities for signing MoUs with Australian Transactions and Reports Analysis Center (AUSTRAC), Financial Transactions and Reports Analysis Center (FinTRAC) of Canada and the Committee on Financial Monitoring of the Ministry of Finance of the Republic of Kazakhstan. The aforementioned drafts MoUs are planned to be signed in 2018 accordingly.

So far, FinTRACA has signed the following 16 MoUs with its counterpart FIUs concerning cooperation in the exchange of financial Intelligence related to money laundering, associated predicate offences and terrorism financing.

Capacity Building Workshops and International Participations

During the FY 1396 (2017), FinTRACA's employees have participated in 28 international conferences and capacity building programs on prevention of money laundering and other financial issues domestically and abroad.

Compliance Coordination Committee

In FY 1396 (2017), FinTRACA conducted the committee meetings on the different compliance issues with the relevant organizations on quarterly basis.

The first meeting was held on 31st March 2017 at the head office of FinTRACA, discussed the implementation of 1267, 1988 UN sanction lists, customer due diligence, initial analysis of Suspicious Transaction Reports, updating Know Your Clients (KYCs) and Financial Action Task Force (FATF) statements about Afghanistan. The second meeting took place on 6th August 2017, was earmarked for the delisting of Afghanistan from compliance document of FATF, future plans, implementation of FATF recommendations and the FinTRACA's Watch-List. The third meeting was held on 6th November 2017 at the Afghanistan Banks Associa-

tion. The aim of the meeting was to discuss the issues in relation to correspondent banking relations, proper mechanism for PEP identification, practical challenges with updating KYCs, verification of MSP/ FXDs licenses with DAB, and Suspicious Transaction Report online reporting facilities.

The fourth meeting of the compliance coordination meeting was allocated to train the compliance officer on how to file a good Suspicious Transaction Report. The training material and delivery was made by Mr. Nesar Yosufzai, Director General of FinTRACA.

Evaluation process of the domestic risks of money laundering and financing terrorism

Based on the approved strategic plan (2017-2020), FinTRACA as Financial Intelligence Unit will coordinate the ML/TF national risk assessment. NRA working groups are composed of five teams (Threat, Vulnerability, Banking Sector, DNFBP, Financial Inclusion and Other FIs) which will be carried out by almost 40 members from 17 public and private sector agencies.

The first 3-day NRA workshop was conducted on 17-19 December 2017 at World Bank Office in Kabul. The WG members were provided required learning materials, supported with tools and process presented by World Bank experts. WGs members were also given the opportunity of breakout sessions and individual group discussions.

JOINT TASK FORCES

TASK FORCE ASSIGNED BASED ON FIU DOSSIER

According to the instructions of his Excellency President of Islamic Republic of Afghanistan, a joint action task force consists of Attorney General's Office, Ministry of Finance, National Directorate of Security and FinTRACA, was formed to investigate the 3 spontaneous disclosures of FinTRACA that contain 11 corporate businesses including Money Service Provider and Foreign Exchange Dealers in the violations of money laun-

dering, tax evasion, forgery, concealment or disguising the illicit origin of funds and proposal of Kickbacks to the bank official.

The disclosures were previously disseminated by FinTRACA to National Directorate of Security in the light of article # 36 of Anti-Money Laundering and Proceeds of Crime Law. A large amount has been transferred by the businesses to abroad in order to import commercial goods to Afghanistan. The joint action task force has started their investigation on the 1st out of the 3 cases that contains 3 businesses and has found that the businesses have:

- Transferred an enormous amount to abroad and paid insignificant taxes to government;
- Provided misleading supporting documents for transferring the funds to abroad; and
- Offered and proposed kickback to the bank official.

The investigation of first case was completed by the joint action task force and according to the article # 134 Constitution of Afghanistan and article # 147 Criminal Code, the case was submitted to Attorney General's Office for prosecution on charges of money laundering, tax evasion, proposal of kickbacks, and forgery.

It's worth mentioning that currently the joint action task force is engaged in collecting information on the remaining cases from Customs and Tax authorities to review and compare the wired amounts of the businesses with their importation of goods and paid taxes.

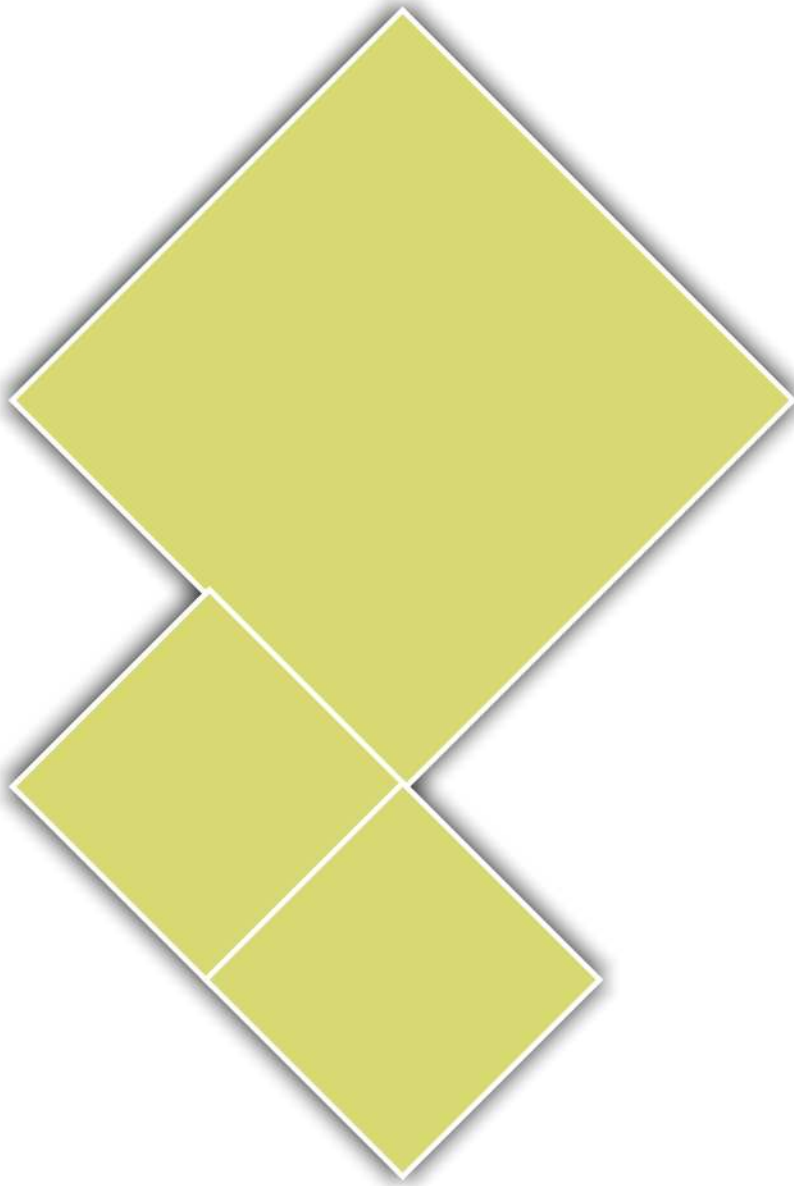
Assessment of Ministry of Mines and Petroleum Contracts

Based on the ordinance of His Excellency the President of the Islamic Republic of Afghanistan on the assigning of the delegation for the financial and technical audit of the Ministry of Mining and Petroleum contracts. The purpose of the technical audit was to ensure legitimacy, transparency in the management of contracts, the collection of

contract revenues, imposition of fines and debts in accordance with economic, financial, technical, contractual obligations, efficiency and profitability performance of the central and provincial units, enterprises and projects of the Ministry of Mines

and Petroleum.

The overall audit was conducted during six months in ten provinces of the country. Findings of the report will provide ground for pro-active analysis to FinTRACA.



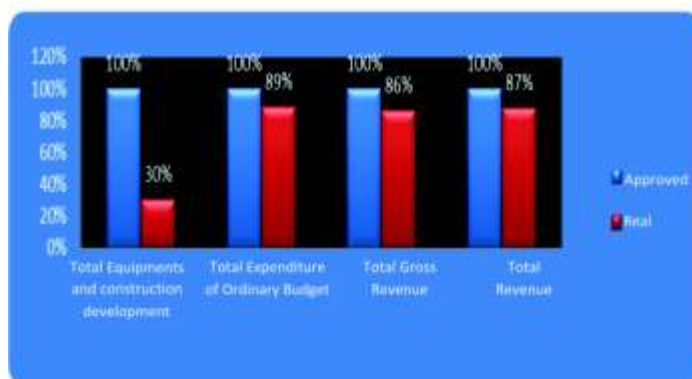
Budget and Financial Statement

Budget and Financial Statement

The Finance and Accounting Department is responsible for preparation of Da Afghanistan Bank's budget, revenues, expenditures and statements.

After processing various stages, Da Afghanistan Bank's budget is finally approved by the Supreme Council as the highest decision taking body of the Central Bank in each year. The budget of Da Afghanistan Bank constitutes various components of revenue, expenditures constituents, goods and equipments, and construction-development portions.

Figure (37) illustrates the real and approved budget for FY 1396 (in percentage)



Revenue

The revenue components include commission revenues, interest revenue from investment on foreign exchange, Kabul Bank loan interest revenue, realized revenue from the sale of foreign exchange, revenue from contributions and other revenues which are detailed as under:

Commission revenues: this component of revenues includes commissions from financial controls, current account opening, check books, SWIFT, capital transfers, penalty against sale of foreign exchanges and exchange of USD and miscellaneous commissions. The real figures of revenues for

the FY 1396 show 43 percent decrease compared to planned budget. This decrease was due to a decline in revenue from commissions. In comparison to the last year, the decrease is mainly attributed to the volume of transactions by American forces and outgoing transactions of the commercial banks. On the other hand, another reason that has negatively contributed to this part is the blockage of USD account in all the branches of commercial banks during the year 1396.

Interest Revenues: this comprises the realized foreign exchange revenues from RAMP project, interest from deposits at foreign banks and correspondent banks as well as discount on purchase of securities. Real figures of the FY 1396 in this part represent 8 percent increase in investment on foreign exchanges, showing considerable change compared to the planned budget.

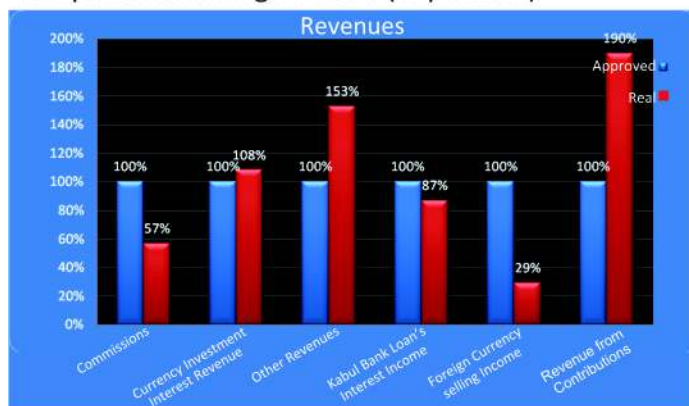
Other revenues: this part of the revenues constitutes the fees from currencies' new account opening, penalties on delay in agreements and against financial institutions, revenues from grants, rents, bank supervision fees, banks financial condition control, premises revenues, physical money transfer fees, annual income of the money service provider institutions and other related revenues. The real figures of the FY 1396 in this section depict 53 percent increase mainly due to extending FDX license of the banks and revocation of the licenses during FY 1396.

Kabul Bank Loan Interest Revenues: the real figures of the FY 1396 in this part show 13 percent decrease while compared to the planned budget. This decrease was mainly due to reimbursement of loans based on the current agreement which has direct impact on the interest.

Revenues from Foreign Currency Selling: this includes realized revenue from the sale of foreign currency. The real figures of FY 1396 in this source show 71 percent decrease compared to the planned budget that was mainly attendant to the fluctuations (decrease/increase) in the exchange rate market during FY 1396.

Revenue from Contributions: this portion of the revenue comprises the granted equipments. Considering the real figures, this part of the revenue shows 90 percent increase compared to the planned budget. The main factor behind this increase is attributed to noticeable contributions compared to the projections of the related departments.

Figure (38) depicts the approved and real revenues components during FY 1396 (in percent)



Expenditures:

This part includes operational expenditures, staff salaries and incentive rewards and depreciation which are as follows:

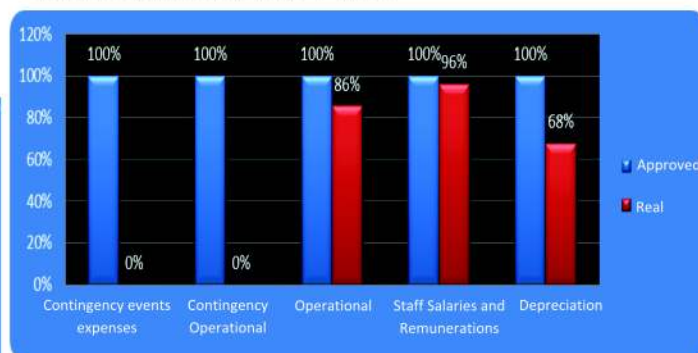
Operational: this includes operational expenditures. Real figures in FY 1396, in many cases reflected decrease/increase, totally showed a decrease of 14 percent compared to the planned budget mainly associated to the stagnation of capital notes' charges comparing to the planned budget and defaults of internet bills in the FY 1396.

Staff Salaries and Incentive Rewards: this part

includes salaries, overtime payments, incentive rewards, contributions and pension of the staff. Real figures of FY 1396 represent 4 percent decline in personnel part that exhibit considerable changes against planned budget.

Depreciation/Devaluation: one of the components of expenditures is depreciation or devaluation of the goods. Real figures of FY 1396 indicate 32 percent decrease compared to planned budget. This decrease is mainly attributed to non purchasing of some goods and equipments during the year which has direct impact on goods' depreciation.

Figure (39) indicates the approved and real expenditures parts during FY 1396



Expenditures

Equipments and Construction-Development Expenditures:

This section of expenditures consists loans to the staff, discretionary-developmental, construction and goods and equipments.

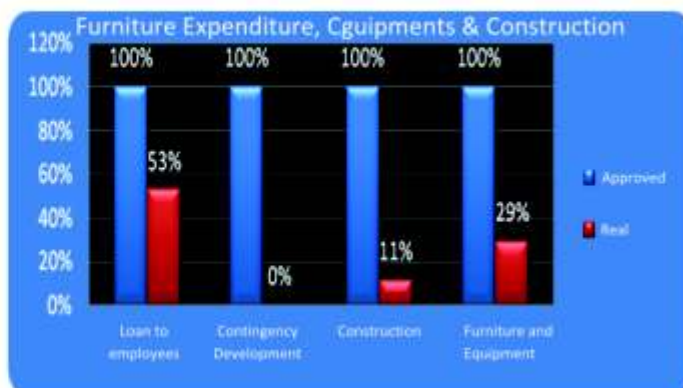
Loan facility to the staff: this includes different loans granted to the employees of Da Afghanistan Bank. Real figures of FY 1396 show a decrease of 47 percent compared to the approved budget. This decrease is due to the changes in loans' procedure.

Construction: this part constitutes the expenditures related to the new headquarter building of DAB and compounds of Da Afghanistan Bank's

provincial offices. The real figures of FY 1396 in this part show 89 percent decrease compared to the planned budget. This decrease was due to non implementation of constructional plan by the ministry of urban development.

Goods and Equipments: this includes furniture and goods, electronic devices, vehicles, computers and printers, technological equipments and tools, banknote printing, miscellaneous goods and software. Real figures of FY 1396 indicates 61 percent decrease in this section compared to planned budget due to non implementation of banknotes printing.

Figure (40) shows approved and real expenditures for goods, equipments and construction for the FY 1396 (in percent)



Da Afghanistan Bank
Statement of Financial Position
AS OF 30 Qaws FY 1396 (20, Dec-2017)

		1396 (2017)	1395 (2016)
	Note	----- (In Afghani 000') -----	
Assets			
Gold Reserves	8	61,668,571	52,800,896
Foreign Currency Cash Reserves	9	84,615,473	100,349,304
Receivables from Banks and Financial Institutions	10	225,969,606	186,046,259
Investments	11	192,002,703	149,532,131
Loan as lender of last resort	12	14,588,096	22,097,788
Other loan receivables	13	1,633,012	1,399,139
Investment Properties	14	-	9,000
Properties and Equipments	15	5,286,096	5,279,023
Intangible Assets (Banking Software)	16	86,381	105,600
Other Assets	17	13,300,371	13,550,437
Total Assets		599,150,309	531,169,577
Liabilities and Capital (Equity)			
Liabilities			
Afghanis in Circulation	18	228,633,956	223,611,449
Capital Notes	19	38,963,862	42,585,881
Due to Banks and other Financial Institutions	20	106,084,635	80,955,780
Due to customers	21	100,959,988	89,243,178
IMF realted liabilities	22	1,402,666	423,215
Defined Benefit Plan	23	301,584	1,663,512
Deferred Grants	24	111,429	137,699
Provisions and other liabilities	25	2,427,981	582,201
Total Liabilities		478,886,101	439,202,915
Capital (Equity)			
Capital	26	23,809,250	19,267,500
Revaluation Reserves	26	41,134,147	34,479,722
Other Capital Components	26	31,511,561	18,951,940
General Reserves	26	23,809,250	19,267,500
Total Capital (Equity)		120,264,208	91,966,662
Total Liabilities and Equity		599,150,309	531,169,577

27

The annexed notes 1-38 form an integral part of the financial statement.

Wahidullah Noshier
(First Deputy Governor)

Khalil Seddiq
(Governor)

Sayed Younus Sadat
(Cheif Financial Officer)

Da Afghanistan Bank
Statement of Profit and Loss
AS OF 30 Qaws FY 1396 (20, Dec-2017)

		1396 (2017)	1395 (2016)
	Note	----- (In Afghani 000') -----	
Interest Income	28	3,762,404	2,737,276
Interest Expenses	29	(2,629,693)	(2,811,654)
Net Profit/Loss of Interest		1,132,711	(74,378)
Fee and Commission Income		310,156	580,588
Fee and Commission Expenses		(102,904)	(248,608)
Net Profit/Loss of Fee and Commission		207,252	331,980
Net Profit from dealings in Foreign Currencies		311,685	17,693,285
Net Loss on sale of available financial assets		(463,318)	(112,776)
Other Income	30	1,089,298	189,439
		937,665	17,769,948
Operating Income		2,277,628	18,027,550
Employees/Personnel Expenses	31	(1,346,223)	(1,260,925)
Printing Expense of banknotes	13.3	(53,726)	-
Other Expenses	32	(303,161)	(285,401)
Depreciation and Amortization	15 & 16	(103,535)	(97,370)
Net Operating Income		470,983	16,383,854
Net Profit/Loss on unrealized echange gain		21,161,323	(32,414,022)
Profit/loss of the year		21,632,306	(16,030,168)

The annexed notes 1-38 form an integral part of the financial statement.

Wahidullah Noshier
(First Deputy Governor)

Khalil Seddiq
(Governor)

Sayed Younus Sadat
(Cheif Financial Officer)

Da Afghanistan Bank
Other Income Statement
AS OF 30 Qaws 1396 (20, Dec-2017)

		1396 (2017)	1395 (2016)
	Note	----- (In Afghani 000') -----	
Profit/Loss for the year		21,632,306	(16,030,168)
Other Comprehensive Income			
Profit/Loss on classification of the frequent/past years			
Revaluation of Gold Reserves	8	6,512,596	2,246,146
Unrealized Profit/Loss on available for sale assets		<u>152,644</u>	<u>(201,838)</u>
		6,665,240	2,044,308
Comprehensive Income/Loss in the current year		<u>6,665,240</u>	<u>2,044,308</u>
Comprehensive Income/Loss of the year		<u>28,297,546</u>	<u>(13,985,860)</u>

The annexed notes 1-38 form an integral part of the financial statement.

Wahidullah Noshier
(First Deputy Governor)

Khalil Seddiq
(Governor)

Sayed Younus Sadat
(Chief Financial Officer)

Da Afghanistan Bank
Cash Flow Statement
AS OF 30 Qaws FY 1396 (20, Dec-2017)

		1396 (2017)	1395 (2016)
	Note	----- (In Afghani 000') -----	
Cash Flows from Operating Activities			
Profit/Loss for the year		21,632,306	(16,030,168)
Adjustments			
Depreciation and Amortization	15 & 16	103,535	97,370
Interest Income	28	(3,762,404)	(2,737,276)
Interest Expense	29	2,629,693	2,811,654
Grants Income	24	(36,116)	(32,544)
Provision for defined benefit plan	23	-	23,648
Profit/Loss from revised plan		-	10,868
Loss from Investment Properties		9,000	-
Unrealized exchange gain on gold reserves		(2,355,079)	958,309
		18,220,935	(14,898,139)
Adjustments			
Increase in from Banks and Financial Institutions	10	(20,677,201)	(81,028,156)
Decrease in assistance as lender of last resort	12	7,343,039	6,338,947
Decrease/Increase in advances and other receivables	13	(233,873)	829,951
Decrease/Increase in other assets	17	518,375	(532,407)
Increase in Afghanis in Circulation	18	5,022,507	21,442,147
Increase in due from Banks and Financial Institutions	20	25,128,855	19,516,146
Increase/Decrease in due to customers	21	11,716,810	(3,733,135)
Increase in IMF-related liabilities	22	979,451	403,167
Increase /Decrease in Loans (Provisions)	25	1,845,780	(10,752,756)
		31,643,743	(47,516,096)
		49,864,678	(62,414,235)
Interest Received		3,660,748	2,438,052
Interest Paid		(2,629,693)	(2,811,654)
Grants Received		9,846	164,886
Staff contribution for defined benefits / benefits (paid) to staff	23	(1,361,928)	(124,466)
Net cash generated from Operating Activities		49,543,651	(62,747,417)
Cash Flows from Investing Activities			
Investments made during the year	11	(42,317,928)	(4,874,784)
Purchase of properties and equipments	15	(95,194)	(273,783)
Purchase of intangible assets	16	(8,995)	(126,397)
Receivables from sale of properties and equipments		12,800	27,636
Net Cash used by Investing Activities		(42,409,317)	(5,247,328)
Cash Flows from Financial Activities			
Payables/Receivables from Capital Notes	19	(3,622,019)	10,838,596
Net Cash used by Financing Activities		(3,622,019)	10,838,596
Net Increase/Decrease in Cash and Cash Equivalents		3,512,315	(57,156,149)
Cash and Cash Equivalents at the beginning of the year		199,584,600	256,740,749
Cash and Cash Equivalents at the end of the year	33	203,096,915	199,584,600

The annexed notes 1-38 form an integral part of the financial statement.

Wahidullah Noshier
(First Deputy Governor)

Khalil Seddiq
(Governor)

Sayed Younus Sadat
(Chief Financial Officer)

Da Afghanistan Bank
Statement of Changes in Capital
AS OF 30 Qaws FY 1396 (20, Dec-2017)

Other parts of Capital				Revaluation Reserves								
Grand Total	Gained Profit	Aggregated Reserves	Plus other parts of Capital	Net/remaining unrealized profit from revaluation	Defined Benefit Plan	Gain from dealings in foreign Currencies	Plus Reserves Evaluation	Gold	Land/Property	Net Profit/Loss on sale of available operating Income	Capital	Note
<hr/>												
105,941,654	-	19,267,500	34,971,240	34,981,971	(10,868)	137	32,435,414	31,479,791	947,292	8,331	19,267,500	
(16,030,168)	(16,030,168)	-	-	-	-	-	-	-	-	-	-	
(201,838)	-	-	-	-	-	-	(201,838)	-	-	(201,838)	-	
2,246,146	-	-	-	-	-	-	2,246,146	2,246,146	-	-	-	
2,044,308	-	-	-	-	-	-	2,044,308	2,246,146	-	(201,838)	-	
(13,985,860)	(16,030,168)	-	-	-	-	-	2,044,308	2,246,146	-	(201,838)	-	
10,868	-	-	10,868	-	10,868	-	-	-	-	-	-	
-	16,030,168	-	(16,030,168)	(16,030,168)	-	-	-	-	-	-	-	26.1
91,966,662	-	19,267,500	18,951,940	18,951,803	-	137	34,479,722	33,725,937	947,292	(193,507)	19,267,500	
91,966,662	-	19,267,500	18,951,940	18,951,803	-	137	34,479,722	33,725,937	947,292	(193,507)	19,267,500	
21,632,306	21,632,306	-	-	-	-	-	-	-	-	-	-	
152,644	-	-	-	-	-	-	152,644	-	-	152,644	-	
6,512,596	-	-	-	-	-	-	6,512,596	6,512,596	-	-	-	
6,665,240	-	-	-	-	-	-	6,665,240	6,512,596	-	152,644	-	
28,297,546	21,632,306	-	-	-	-	-	6,665,240	6,512,596	-	152,644	-	
-	10,815	-	-	-	-	-	(10,815)	-	(10,815)	-	-	
-	(4,541,750)	-	-	-	-	-	-	-	-	-	4,541,750	26.1
-	(4,541,750)	4,541,750	-	-	-	-	-	-	-	-	-	26.1
-	-	-	-	-	-	-	-	-	-	-	-	26.1
-	(12,559,621)	-	-	-	-	-	-	-	-	-	-	26.1
120,264,208	-	23,809,250	31,511,561	31,511,424	-	137	41,134,147	40,238,533	936,477	(40,863)	23,809,250	

Balance in the 1st of Jada6 1394 (22-Dec-2015)

Total Income/Expense of the year

Loss of the year

Other Comprehensive Income and Expenses

Net Unrealized Loss

Financial assets available for sale

Profit on the revaluation of gold reserves

Total of other Income and Expenses

Total loss of the year

Profit on re-measurement of profit of defined benefit plan

Direct registered transactions in investment

Transfer of unrealized profit

Balance, at the end of Qaws 1395 (20-Dec-2016)

Balance, at the first of Jada6 1395 (20-Dec-2016)

Total Revenue Expenses of the year

Profit of the year

Other revenue expenses

Net Unrealized Profit

Unrealized profit on sale of available financial assets

Profit on the revaluation of gold reserves

Total of comprehensive revenue expenses

Total of comprehensive revenue/expense of the year

Transfer of realized expense surplus

Transactions directly registered in assets

Transfer to the Capital

Transfer to the total Reserves

Transfer to the Ministry of Finance

Transfer of Net Unrealized Profits

Balace, 30 Qaws 1396 (21-Dec-2017)

Wahidullah Noshier
(First Deputy Governor)

Khail Seddiq
(Governor)

Sayed Younus Sadat
(Chief Financial Officer)

Balance in the 1st of Jaldi 1394 (22-Dec-2015)

Total Income/Expense of the year
Loss of the year
Other Comprehensive Income and Expenses
Net Unrealized Loss
Financial assets available for sale
Profit on the revaluation of gold reserves
Total of other Income and Expenses
Total loss of the year

Profit on re-measurement of profit of defined benefit plan

Direct registered transactions in investment
Transfer of unrealized profit

Balance, at the end of Qaws 1395 (20-Dec-2016)

Balance, at the first of Jaldi 1395 (20-Dec-2016)

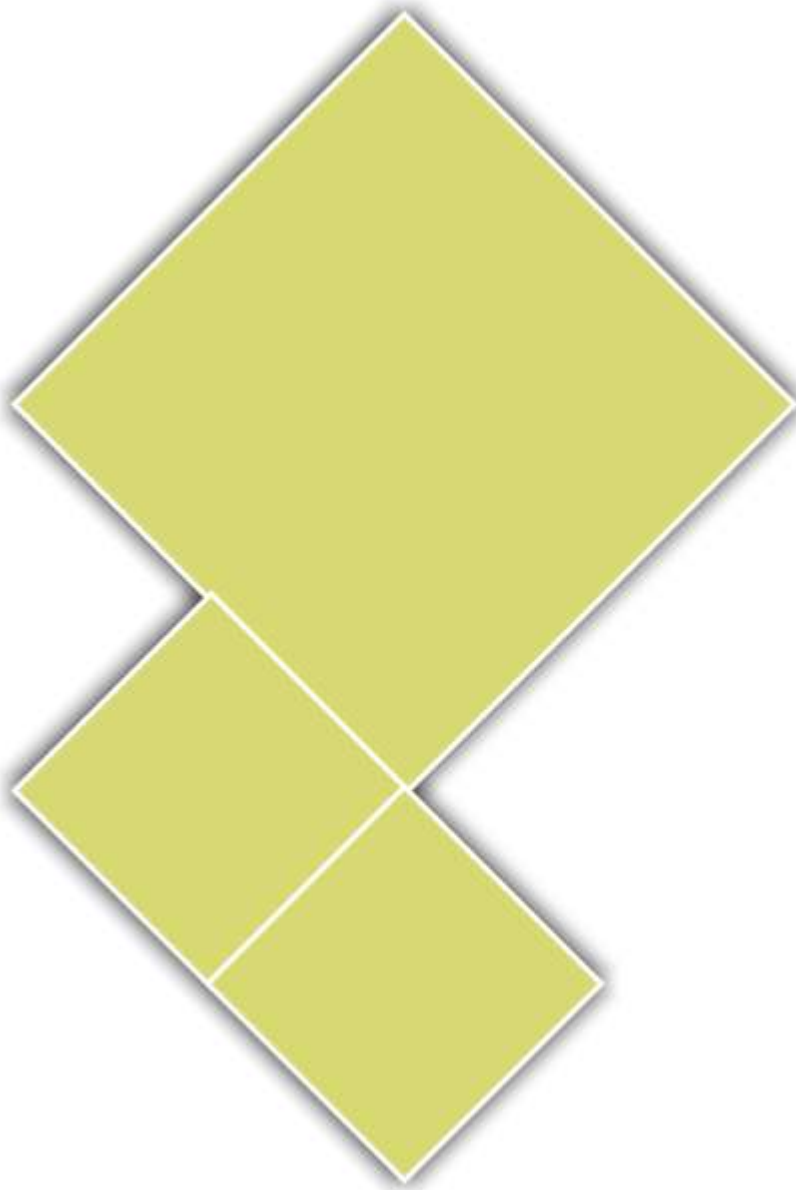
Total Revenue Expenses of the year
Profit of the year

Other revenue expenses
Net Unrealized Profit
Unrealized profit on sale of available financial assets
Profit on the revaluation of gold reserves
Total of comprehensive revenue expenses
Total of comprehensive revenue/expense of the year

Transfer of realized expense surplus

Transactions directly registered in assets
Transfer to the Capital
Transfer to the total Reserves
Transfer to the Ministry of Finance
Transfer of Net Unrealized Profits
Balance, 30 Qaws 1396 (21-Dec-2017)

The annexed notes 1-18 form an integral part of the financial statement.



Banking Operation Department

Banking Operations Department

Da Afghanistan Bank being the state banker and banker of the banks, ought to provide banking services to the government organizations and commercial banks, hence Banking Operations Department is established through which afore mentioned activities are performed.

According to the action plan of the FY 1396, this department managed to achieve its planned objectives and activities, which will be concisely described as following:

Cash and Non-Cash Transactions Management

During the FY 1395, a contract of printing AFN 100 billion new banknotes was signed with one of the reputable international banknotes printing company. 10 out of 100 billion banknotes were printed and delivered in the same year and the remaining amount of AFN 90 billion banknotes of smaller denominations (AFN 10, 20, 50 and 100) were delivered to Kabul in three stages and placed in the state treasury. This process was completed in 1396 and the mentioned banknotes were used for the disbursement of government expenditures and other monetary needs of the national economy and to meet the economic growth. In order to maintain the liquidity of branches, finance the government expenditures, ensure the liquidity of commercial banks and make disbursement to the National Solidarity Program, a total of twenty four billion and five hundred million AFN (24,500,000,000) have been transferred to provinces through ground and air with the cooperation of Security authorities of Afghanistan. In the mean time, to ensure the liquidity in main office and retain a proper limit of funds in the branches, a total of twenty two billion and two hundred million AFN (22,200,000,000), one hundred and thirty six million USD (136,000,000) and eight million Euro

(8,000,000) of surplus cash have been successfully transmitted from provinces to head office and placed in the central treasury. In spite of the existing security challenges, lack of civil and military flights to provinces and other constraints to the transfer of physical money, none of the branches have faced shortage of cash in the past year and the liquidity has instantly been supplied to meet the needs.

To prevent the increasing worn banknotes in the market, have mechanisms and transparent monetary systems, Da Afghanistan Bank, with the cooperation of commercial banks and considering the related description, conducts the roundup of the battered banknotes each year under the supervision of a panel composed of government officials and put it to incineration in the main and regional offices. In the FY 1396, an amount of AFN 6,900,000,000 billion of worn banknotes had been burnt to ashes under the supervision of the mentioned authorities that reduced the volume of worn banknotes in circulation to a great extent.

Da Afghanistan Bank always transfers its currency surplus to the Federal Reserve Bank of US for investment. During the FY 1396, an amount of USD 250,000,000 million has been transferred to the Federal Reserve Bank of US as a first phase following the processing of the treasury office and added it up to DAB's account with the Federal Reserve Bank of US before being put into investment.

The banking operation department has spared no effort in providing quick, safe and transparent banking services. It has transferred the state revenues of the FY 1396 to the relevant accounts in a systematic and organized manner. Government expenditures and monetary needs have immedi-

ately been met, representing 170000 AFN and currency transactions of the state, banks and other institutions processed in the main office. The following table 33 explains the details of transactions.

Transaction Type	Currency Type	Quantity	Value (amount in billions)
Transfer Transactions	AFN	61400	395
	USD	40000	13.3
	Euro	300	0.15
Cash Transactions	AFN	66200	175
	USD	1700	1
	Euro	360	0.8

Development and Administration

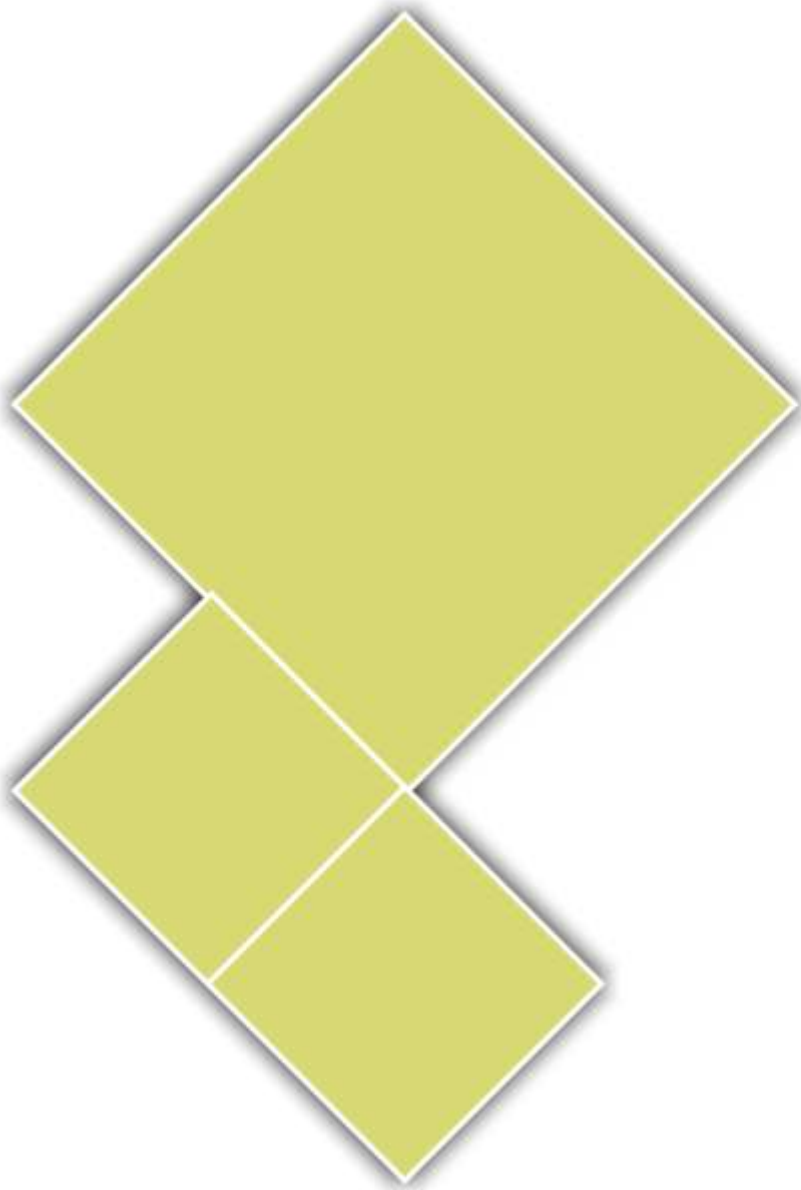
The National Solidarity Program was successfully completed in the FY 1396 and Da Afghanistan Bank played a key role in providing banking services such as developing working mechanisms, opening accounts for developmental councils, transfers, maintenance of assets and financing developmental projects. Following the end of The National Solidarity Program, it was replaced with The Citizens' Charter National Priority Program. Since the entire monetary transactions of this program – same as The National Solidarity Program – are carried out across all provinces, Da Afghanistan Bank has signed a joint agreement with The Ministry of Rural Rehabilitation and Development and Directorate of Local Governance in order to provide safe payments and quick transfer of assets to the accounts of developmental councils and other banking services. Presently, the entire banking services are provided in light of aforementioned agreement between the mentioned organizations in order to facilitate the financing of the development projects countrywide as soon and safe as possible.

Given the fundamental role of payment system in the banking sector, Da Afghanistan Bank has taken significant and critical steps towards further development of the system in order to upgrade it to

international standards and ensure convenience, speed and transparency in transferring of assets in the banking sector. Hence, Da Afghanistan Bank in collaboration with the ministry of finance has launched an awareness-raising campaign across government agencies, commercial banks, chambers of commerce and merchants and, thus far, has successfully implemented the campaign in the main office and five regional zones. It has to be noted that other programs are also intended for the development and standardization of payment system and with the implementation of aforementioned programs, a new chapter will be unfolded in the payment system of Afghanistan.

According the Article 78 of Da Afghanistan Bank Law, this bank is authorized to confer the authority of receiving government deposits to other financial institutions as per the conditions prescribed. Da Afghanistan Bank executes around 2,000,000 government transactions each year. By passing part of the responsibilities of transactions on to commercial banks through a five year step-by-step program, on one hand, it will create a good market for the banking sector and on the other hand, it will ensure convenience and speed in the collection of revenues for both the government and public.

To this end, Da Afghanistan Bank has composed a mechanism on the collection of government revenues through commercial banks in four chapters and 14 articles and has received the consent of the Ministry of Justice and the Ministry of Finance which will eventually be the legal basis for transferring of the responsibility of collection of government revenues to commercial banks. Currently Da Afghanistan Bank is in the implementation phase of this program.



Administration and Development

Administration and Development

Comptroller General Office

The article 21 of Da Afghanistan Bank Law states about the establishment of the Comptroller General Office (Internal Audit) and the appointment of Comptroller General in its structure. According to section 4 of the article 21 of DAB Law, Comptroller General Office is responsible for implementation and monitoring of procedures, maintenance of documents to prevent any potential financial risks to DAB and monitoring its implementation. In addition to this, Comptroller General Office also keeps DAB departments performances under constant audit to monitor compliance with the enforced laws and regulations of DAB.

Comptroller General Office also Conducts inspection, provide reports and recommendations to the Supreme Council regarding accounts, records, procedures, accounting controls and DAB budget; conduct regular checks of financial statements and other relevant bank documents and issuance of certificate in case it is authentic; monitor the sound implementation of Supreme Council's and DAB governor's decision and execution of other duties and tasks directed by Supreme Council and DAB governor.

the approved annual plans and the unplanned functions of this Office performed during FY 1396 are provided in the below:

During the FY 1396, out of 70 planned sites of audit (central office, city branches, seven zones and provincial offices), 55 sites have been fully audited which constitute 78 percent of the planned sites. The failure to reach some limited areas was mainly attributed to security threats available on route to destinations. During the FY 1396, this office has audited the Afghanistan Payment System which was not included in its action plan and reported to

DAB's Management Board. It is to be stated that during the year under review, the audit team was assigned with 10 special cases, under which the primary audit reports were completed and submitted to DAB's Management Board (Executive Board and internal audit committee) for necessary decision making.

The findings of the audit teams from the audit sites have been reported separately to DAB officials in the form of observation plus risk-rated explanation coupled with recommendations for solutions. On the other hand, considering the General Comptroller Office's reports, the Governor Office has issued necessary directives and instructions to the related departments. To ensure the implementation and non-implementation of the recommendations prescribed under submitted reports, the quality assurance unit conduct the follow-up audit when it is due. With regard to recommendations not implemented due to some excuses and reasons, they are provided with a second opportunity after rescheduling.

It has to be noted that during FY 1396, 45 resolutions of the Supreme Council and 446 resolutions made by the Executive Board of Da Afghanistan Bank have been followed-up and reported to DAB's Management Board by the quality assurance team. In addition, out of 55 follow up sites, 21 due sites have been tracked.

During the FY 1396, the Certified Internal Audit which is also one of the IMF recommendations has been initiated and 16 employees of the Comptroller General Office were introduced to the mentioned program.

Communications and Documentation Department

The Communications and Documentation depart-

ment (CDD) is fundamentally responsible for the communications of Da Afghanistan Bank. This department carries out its duties and responsibilities in two section offices (Publications and Communications/Documents and Protocol). Since, access to information on the performances of institutions of the Islamic Republic of Afghanistan is the right of each and every citizen; this department has consistently put efforts to disseminate accurate, timely and transparent information on the performances of Da Afghanistan Bank.

During the FY 1396 (2017), this department besides performing administrative tasks, made efforts in reflecting the activities and other achievements of DAB via publications, DAB websites and social networks which is briefed with segregation of the Publications, Communications and Translation Board Sections as below:

Publications

The Publications section of the Communications and Documentations Department has always put efforts to publish the activities, achievements and messages of DAB in various fields via Monthly Bank Magazine, Quarterly Bulletins, Annual Reports and other publications).

In order to enlighten the public minds of the bank's goals, this management along with reflecting the activities of DAB, has engaged in promotional activities through magazine, pictorial booklets and leaflets partly promotion and preservation of Afghani banknotes.

During the fiscal year 1396 (2017), the publications section has been able to publish 12 issues of the Monthly Bank Magazine with a circulation of 2000 volumes per month, containing domestic and international economic articles as well as reports on DAB's official ceremonies, in both the official languages of Pashto and Dari for the interested parties.

The FY 1395 (2016) annual report, which includes the performances of the Monetary Policy, Market

Operations, Payments System, Afghanistan Banking System, Afghan Deposit Insurance, Financial Transactions and Reports Analysis Center of Afghanistan, Public Credit Registry, Global Economic Overview and Administration and Developments which is prepared during the FY 1396 (2017) in three languages (Dari, Pashto and English) and has been provided to the access of the beneficiary shareholders of the bank's policies.

In the meantime, the publications section has prepared and published the economical and statistical bulletin of the third quarter of FY 1396 (2017) in Pashto and Dari which contains monetary and financial issues of the nation along with global economic issues.

The Publications Section has also prepared two booklets in both Dari and Pashto languages in regards to the Afghani banknote Promotions.

During FY 1396 (2017), other functions of this section are comprised by the preparation of a report about 70 conferences, workshops and other official ceremonies of DAB for the social networks, websites and DAB's magazine, video-recordings and photography of 36 bank-related official ceremonies (conferences, worn banknotes incineration process, executive board interviews with the media, operational and administrative meetings and other official ceremonies of DAB), during FY 1396 (2017), archiving DAB's official ceremonies videos, magazines, bulletins and annual report of DAB in the publications archive of the publications management, preparation of video interviews with people and photographs on the promotion and preservation of Afghani banknotes for the bank's Facebook, Twitter, and other social networks.

Communications

During the FY 1396 (2017), Considering the principle of access to information, the communications section of the Communications and Documentations department has put efforts in regards to re-

flecting the overall objectives, duties, policies and activities of DAB via website, social networks such as Facebook, Google Plus, Twitter, YouTube as well as through organizing conferences, seminars and workshops.

The brief overview of the activities carried out by the Communications section of the Communications and Documentations Department of Da Afghanistan Bank during the FY 1396 (2017) are provided as below:

During the FY 1396 (2017), this section has operated in organizing 12 news conferences in regards to different sections of the decision makings made by the executive board in regards to banking system and country's monetary condition and has initiated about 7 workshops and seminars for the public awareness in context of DAB's objectives, duties and overall policies. In addition, the communications section has published over 70 executive board meeting reports which includes administrative and operational meetings and 4 Supreme Council meetings via website and social networks for the public awareness. This section has not limited its ability to publish newsletters only through domestic channels, but has sent the mentioned newsletters to the media for their awareness via e-mail. Other tasks performed in FY 1396 (2017) include publication and distribution of 15 messages of the executive board of DAB, other publishing pieces through DAB's communication means and responding to emails received through bank's official "info" address.

In accordance with the Afghani banknote Campaign and awareness promotions plan, This Section has executed these promotions via cost bearing and non-cost bearing sections which includes publication of 200 written and pictorial messages through DAB's social networks, publication and distribution of 8 pictorial advertisements and 8 vocal advertisements via more than 50 pictorial and vocal media agencies in capital and in prov-

inces. In addition, physical presence awareness in 15 schools in Kabul for the students, installation of the billboards and distribution of the mentioned promotional pieces while supervising its distribution at the same time. A long with the above mentioned tasks, the Communications section has put efforts to update and enrich both the internal and external websites in cooperation with the different relevant departments of DAB which includes (booklets, monthly magazine, Quarterly Bulletins, annual report and other publishing materials) via the internal and external websites and the social networks.

Translation Board

The Translation Board of the Communications and Documentations Department is responsible for the translation of the materials such as publications, laws, regulations and other documents of the bank from one language to another. To present the goals, policies, duties and achievements of Da Afghanistan Bank to public and beneficiary shareholder of the bank's policies in an understandable way, the CDD worked hard to translate the publishable and communications related materials in national languages (Dari and Pashto) and English. Besides translating CDD-related principle documents such as the bank's magazine's topics, annual report, statistical and economic bulletins, social media and internal and external websites' contents, The Translation Section worked out a handful of policies, laws, regulations, procedures, contracts and so others.

Legal Advisory Office

The legal advisory office which is responsible for drafting, compiling and processing of the legislative documents, regulations, internal policies and procedures of Da Afghanistan Bank, has carried out the following tasks on the basis of its action plan:

1. DAB law revised and amended; its legislative processing completed by DAB and relevant

bodies and submitted to the National Assembly for approval.

2. DAB's Negotiable Instruments Act is amended to bring it in line with contemporary requirements of the country's financial sector in accordance with II Strategic Plan (1396-1399).
3. The Law on Mortgage of Immovable Properties in Banking Transaction published in Official Gazette issue No. 990 dated 1388 is amended to best meet the contemporary requirements of the financial and banking sector in accordance with II Strategic Plan (1396-1399).
4. Regulation of MSPs and FX Dealers is amended and passed by Supreme Council via approval No. 19 dated 16/10/1396.
5. Loan Regulation (Housing Loan) amended and passed by Supreme Council via approval No. 24 dated 16/10/1396.
6. Regulation of Asset Classification and Credit Loss Provision is amended and passed by Supreme Council via approval no. 18 dated 16/10/1396.
7. Pension Rights of Bank Employees Regulation amended and passed by Supreme Council via approval no. 9 dated 13/4/1396.
8. Regulation of Required Reserve is amended and passed by Supreme Council via approval no. 9 dated 13/4/1396.
9. Currency Auction Regulation amended and passed by Supreme Council via approval no. 43 dated 17/10/1396.

Human Resources Department

The Human Resources department is responsible for recruitment, arrangement of employee profiles, organizational structure, preparing and launching training programs for employees' capacity building and other employee related affairs.

The HR Department strives to provide better environments to increase the employee's efficiency

and growth; it has improved the HR management systems by amending the current designs, policies and descriptions, creating training opportunities and organizing persuasive programs for the employees. Therefore, according to the seventh pillar of the strategic plan of Da Afghanistan Bank, This Department must perform three major tasks such as designing and **developing** policies (correction and revision of the organizational structure, employees' capacity and salaries, mechanization (changing into electronic system) of the HR departments work process and installation of the electronic attendance devices in the headquarter and inclose coordination with the Financial Sector Strengthening project offices and IT department and creating succession plan, employees capacity building (strengthening and improving training programs in different ways, though developing professional programs specially Professional Leadership programs) and strengthening relations with other central banks and internal training centers) and improving relations with employees (design and creation of employees health insurance mechanism, providing sport facilities and conducting persuasive programs for the employees).

Considering the 5 year action plan of Da Afghanistan Bank, this department is obliged to design and implement the organizational structure reform and work processes, design and prepare the HR regulation, design and prepare the working procedures of HR subsidiary committees, and establishment of employees' succession plan. The details of the mentioned tasks performed by this department is as following:

Design and Implementation of the organizational structure reform and work processes:

The HR department has performed a range of tasks in respect to developing and implementing organizational reform and work processes during the FY 1396 which has strengthened the work processes of the HR and other departments.

The department created positions of Economic Analyst and International and Regional Coordinator; changed the title of the General Director's Assistant position to Assistant and Coordinator; uplifted the position of Head of CBS to the position of CBS deputy director; elevated one of the translators of the Governor Office's Department to the head of translation board position; removed two posts of the banking operations department and moved it into the payments department structure. Moreover, it established six technical posts for regional offices within IT department structure; proposed a new structure for the Risk Management Department; designed and offered new organizational chart for the financial services inclusion department, procurement department, financial supervision department, monetary policy department, city branches and provincial agencies; formulated and approved the salary scales for directors and deputy directors for the next five years and revised the salary structure of bank employees that is likely to finalize in early FY 1397.

Design and Preparation of the HR regulation:

The HR regulation was developed and finalized in the beginning of FY 1397 which will cover/include all the affairs of the HR department. The articles/context of the HR departments regulation will include employees code of conduct, duties and obligations of the employees, conflict of interest, Human Resources Planning, job descriptions, **structure and duties analysis**, position titles and duties classification, recruitment, the recruitment process tests, employees capacity building, employees performance evaluation, Promotion, salary and benefits, punishment, appointment of employees, disciplinary and correction measures, working hours, leaves, overtime, personal matters of the employees, conflicts resolution, health and safety (health insurance), pension, HR committees and other miscellaneous cases.

Training and Capacity Building of the employees:

During the FY 1396 a total of 125 overseas trainings has been prepared for the employees of DAB, benefiting 221 male and female employees. From the mentioned programs 18 were financed by Da Afghanistan Bank while the remaining 107 programs were financed by international organizations such as UNODC, METC, IMF, AFI, World Bank, TCMB and other financing partner institutions.

Likewise, during the FY 1396 a number of 30 domestic training programs were planned for the employees of DAB which has been completely implemented, benefiting 775 male and female employees of the bank.

It is important to note that in the year under review, a total of 61 knowledge-sharing programs on trade that have been learned overseas by the bank employees have been conducted. In these programs, a number of 519 male and female employees have participated.

During the FY 1396, the HR deputy office for **employee trainings and capacity building** provided higher education opportunities at bachelors and masters level in the fields related to banking and finance for 42 bank employees.

Recruitment and Employee Profiles:

Human Resources Department has carried out major activities in identifying and recruiting suitable and qualified candidates in the required positions. During the year under review a total number of 141 have been recruited followed by which, 134 replacements has also occurred. In the meantime, 96 promotions and 91 retirements, suspensions, resignations and dismissals have also been put into practice during this period.

The Employee Profiles section of the Human Resources Department, with the activation of the new Human Resources Management Information System (HRMIS), has carried out activities in regards of entering the employee records electrically in the system database.

The other activities carried out by this section are preparing and entering the employee profiles of 141 newly recruited staff in the HRMIS, supervising the activation process of the electronic attendance system, preparing and distributing 800 ID cards, execution of 57 employees holidays and post-death benefits (ekramiyah), calculating the service period of 2360 employees in order to transfer their pensions in their relevant accounts, executing the educational benefit letters of about 127 newly recruited staff and processing 2364 employee TIN.

Performances and Benefits:

Processing the performances and benefits is one of the HR department's duties which plays a key role in the HR departments management. The HR department has carried out some tasks in regards to the salaries and benefits of the employees according to their performances.

The major duties of this section are amendment in the exceptional bonus policy, performance evaluation policy, preparing the HR department's action plan for 2017-2020, accomplishment/finalizing the performances evaluation of 1965 employees for the year 1395, designing and arrangement of the health insurance establishment which has benefited up to 92 employees of DAB who have received the membership of the health insurance, execution of 101 employee pensions who have received their pensions during the FY 1396 and the pension transfer project of all employees in their accounts.

Financial Sector Strengthening Project

The Financial Sector Strengthening Project Department with implementing the Financial Sector Rapid Response Project (FSRRP) from 2009 up to 2017, has had significant improvements in the fields of Public Credit Registry and Moveable Properties Registry, Financing the AIBF, Mechanization of the Human Resources Department, Procurement and Installation of the National Card and

Mobile Payment System, Procurement and Installation of DAB's Payment System and others, which will be explained concisely in the below:

- **Hiring International Advisors for the Risk Management and Procurement Departments of DAB:**
- During the FY 1396, The Financial Sector Strengthening Project under its FSRRP hired International advisor for the Procurement and Contracts Department (Mr. Pune Indra Narayan Varma) in order to provide them with advisory services and carry out the procurement affairs.
- Likewise, under the forenamed project, Mr. Valentine was also hired as the international advisor for the Risk Management Department in order to provide the named department with the required services.
- **Building the functional capacity of the Financial Supervision Department, DAB:**
- The procurement process of hiring a consultation company to raise the working capacity of the Financial Supervision Department of DAB was announced for biddings at both national and international levels in late 2014. As a result of the procurement and contract negotiation process, UNICON LTD qualified to win the contract. In the FY 1396, after the contract blueprint was approved by DAB and the World Bank, the contract was subsequently signed with the named company which is currently being implemented.
- **Procurement and Installation of the Public Credit Registry System:**
- The public credit registry system which was activated by the INFO Credit Company in the FY 1393, for maintenance purposes the FSSP department in FY 1396, has extended the contract for the provision of services with the named company, and is now planning to extend the contract for the next 3 years in

order to completely maintain the system.

- It should be noted that the PCR System is fully electronic and is adjusted in accordance with the international standards which has expanded conveniences of access to financial resources in the country. The clients requesting finance under these services are benefited and as a result, this system assists banks and financial institutions in meticulous lending decision-making and provides them with precise and quick credit information.
- Likewise in the FY 1396, the FSRRP completed the procurement process for the provision and installation of the hardware for the information center of the PCR; as a result the hardware was provided, installed and put into use in the PCR department by the contracting company.
- **Financing Afghanistan Institute of Banking and Finance**
- Afghanistan Institute of Banking and Finance was established in late 2010 by the Da Afghanistan Bank with the cooperation of MISFA and Afghanistan Banking Association in order to provide educational services, trainings and research programs for the financial and banking sectors. The FSSP under its project with the World Bank's agreement has paid-off all the goods, technical services and other miscellaneous operational expenses of the institute up to 2017. According to quarterly reports, as of its establishment to the fourth quarter of 2017, a total of 7873 staff of the commercial banks, micro finance institutions and other trainees including 1425 females have been provided with trainings in various areas.
- **Procurement and installation of National Card and Mobile Payment**
- Creation and modernization of national payment system is second important goal of

FSRRP to ensure speed and transparency in national and international payments and curtail difficulties arising out of physical cash flows. Following completion of procurement process in 2013, Da Afghanistan Bank under this project signed a contract with the Banking Production Center (BPC) to produce, install and implement mobile payment services for Afghanistan Payments System (APS). The named system was provided, installed and put into utilization by the contracting company. In 1396, the agreement of receiving technical services for the maintenance of the system for a period of 3 years was finalized and signed with the aforementioned company which is currently being implemented.

- **Procurement and Installation of DAB's Payment System**
- Among the efforts to modernize the national payments, procurement and installation of RTGS, CSD, ACH and DAB related linkages are also considered as the important components of the FSRRP, playing an essential part in the financial and banking sectors.
- In April 2016, Da Afghanistan Bank signed a contract with CMA Small Systems Corporation to procure, install and implement the payment equipments (RRGS, CSD and ACH). Till date, the contract has progressed 40 percent and is expected to complete by June 2018.
- **Procurement and Installation of the Inter-Bank links system**
- The FSSP department in accordance with the FSRRP procurement plan announced the procurement process for the provision and installation of the inter-bank link system and networks of the ATS through biddings for the third time in FY 1396, which is currently in its last phase and will soon be signed and

implemented between DAB and the contracting company.

- **Core Banking System.**

In 2016, FSSP department received the World Bank's additional fund through an official agreement for the provision and finance of DAB's Core Banking System and included it in its procurement plan. A technical specifications draft for the above mentioned system is prepared by the appointed technical committee which will soon be finalized, the next stage of which will be the initiation of the procurement process.

- **Higher Education Program for DAB's Employees**

The documents and estimation reports for inaugurating the higher education programs for DAB's employees has been prepared and has been approved by the World Bank which will be initiated practically in the next year.

- **Providing the expenses of DAB's employee training programs**

In 1396, this department under the FSRRP has paid-off the expenses of various trainings for the employees of Da Afghanistan Bank outside the country. Likewise, the international procurement advisor has also organized different trainings for the DAB's employees in the public procurement section.

Information Technology Department

The Information Technology (IT) department of Da Afghanistan Bank is one of the key departments which plays an important role in providing facilities in line with the growing technologies and conveniences and standardizing the banking systems such as the Core Banking solutions, SWIFT, auctions, AFTS and ACSS. This department is equipped with the modern technologies of the era and has created many facilities through mechanization of processes using tools at disposal.

The performances of individual sections of the IT department over the period under review will be explained concisely in the below:

Network

It is one of the key IT units which deals with E1 network, controls internet connection in the head office and branches, supervises the connectivity of the dual sites of disaster recovery of DAB located in the Ministry of Telecommunications and Dubai and also supervises other networks in the head and branch offices.

In the period under review, it also established and maintained a new and standard data center equipped with cooling systems and regular electricity, E1 network services for all the branches of DAB in the capital, internet services in the main office, zones and branches of DAB, renewed and installed network systems in the main office, upgraded the internal systems and telephones with contemporary technologies in the main office and in some of the banks offices in Kabul, established VLAN in the banks departments for the ease of utilization and connection of the previous data center with the new one using fiber optics.

Information Security

This IT section is responsible for the security of the network, servers, websites and other systems of Da Afghanistan Bank in the main office and branches. This section also protects the triple systems of payment, SWIFT and the information security of data center against all disasters in the Ministry of Telecommunications and the data center in Dubai. Aside from these tasks, this section is also responsible for the monitoring of all the banking systems and networks. This section has executed the following tasks during the FY 1396:

- Installation of a proper monitoring system
- Renewal of the anti virus policies in order to protect DAB's system files against latest miscellaneous viruses such as: Ransomwar, Phishing, worm malware etc.....

- Auditing different sections of the Information Technology department using the standard ISO 27001
- Managing the users of the triple systems of payments and SWIFT
- Devising procedures to manage users and arrange new users and suspend users in the in the Payments and SWIFT systems.
- Execution of Self Attestations in the SWIFT System
- Implementation of CSP the SWIFT system initiated by the SWIFT Co.

Application

The Application unit is one of the fundamental functional areas of DAB's technologies, which is in charge for developing the necessary processes for Da Afghanistan Bank such as: Auction, ACSS, DAB Website and other systems of DAB.

The important duties of the Application Unit are activation of the database, coordination of the database information and regulation of the attendance applications, renewal of the currency rate distribution system, designing new mechanism for the transportation management for the official transportation needs of DAB's employees, which enjoys the advantage of regular reporting, developing new mechanism for the Human Resources department to launch online recruitment exams, integration of the ICPS in the ACSS used in the inter-bank transactions and renewal of the DMS, which helps connect the entire departments with their respective documents.

Database Section

The most significant roles of the database office are to supervise the databases of the foreign exchange auction, ACSS, AFTS and other systems of DAB.

The database section of the IT Department has performed the following tasks during the FY 1396:

- Transfer of the PAT2 from the operating system of Windows Server 2012 to Linux and

upgrading of the database from Oracle 11g to Oracle 12c and adapting the working environment to the standard practices.

- Installation, activation and set-up of the attendance devices i.e. arranging the machine server's, installation of Windows Server 2012 and also setting the ZKTeco software for the activation of the attendance module.
- Installation, activation and set-up of the renewed ACSS database from the disk operator CentOS to Fedora Server 25 and also activation of the replication of its database.
- Disintegration of the application and the In-House Developed database servers to different servers in order to implement the international practices and to further secure the named systems.
- Standardization of the PAT 2 system's working environment with setting up the multiplexing of the Oracle database files, setting up Flashback and its backup to the automatic system using Shell **Scripting** of the Linux system and RMAN.

SWIFT Section

The International Payments or SWIFT section is a key department of Da Afghanistan Bank which is used for conducting (incoming and outgoing) transactions of the governmental authorities and international financial institutions,

The IT department carried out the followings in the FY 1396:

- Installation and Regulation of Alliance Web Platform (Deploying) in the servers of SWIFT which can be used by the users through the browser and also replacement of the old (Workstation) system with Web (Platform).
- Installation of Alliance Security for the further safety of the SWIFT system.
- Activation of the SWIFT testing servers for the Web Platform and AFT through which on a trail basis we can carry out the technical

and operational tasks of SWIFT.

- Re-activation of the Juniper VPN Box and SSL-VPN Connectivity systems.
- Besides carrying out its principle tasks which were just described, the IT department has also operated the sections of Help Desk and Email which has created facilities for the employees of DAB in their daily activities.

Financial Inclusion Department

The Financial Inclusion Department is established to expand financial services to the public especially to the deprived segment of the society. In order to formulate and adopt the national strategy of financial inclusion, during the FY 1396 this department has been able to establish the internal and national financial inclusion services committees covering 23 governmental and nongovernmental organizations. The purpose of forming the national committee is to create coordination structure, commitment of advisory cooperation and commitment of stakeholders' policy in respect to designing, adopting and cooperation on implementation of the national strategy of financial inclusion. The Financial Inclusion Department has conducted its first primary and informational workshop to the stakeholders in the month of Sawr 1396. In addition, for further coordination, this department has established the operative execution committee including Da Afghanistan Bank, Ministry of Finance, Banks' Union and MISFA, and conducted several consultancy meetings in this regard.

In collaboration of the World Bank, the Financial Inclusion Department has been able to provide the survey questionnaires scheme of -financial inclusion and financial infrastructure sector- supply side. Based on this scheme, the department has collected concerned data and information from banks, microfinance and electronic money institutions.

Moreover, to implement the survey on protection

consumers' rights of financial sector, this department with collaboration of the World Bank, has formulated related questionnaires and subsequently conducted the survey from banks, microfinance and electronic money institutions. By completing this survey, the first diagnostic study of protection consumers' rights of financial sector has been done in the country while its consequence, in the very near future, would pave the ground for creating a legal framework as well as supervision from ensuring the consumers' rights of financial sector. In order to perform diagnostic studies of financial inclusion and financial knowledge, this department in collaboration with World Bank has also outlined the questionnaires, procedures and guidelines of the first national survey of demand side and the mentioned survey will be conducted in the month of Jawza 1397 with the assistance of Afghanistan Institute for Rural Development of Ministry of Rural Rehabilitation and Development. The outcomes of this survey will be then used in conducting the concerned diagnostic studies to assess the hurdles and challenges faced to financial inclusion and evaluate the financial knowledge of the public within the country.

Furthermore, the Financial Inclusion Department has initiated strengthening and integration of financial sector. This department has also conducted researches in the field of financial services and strengthening and integration of financial sector under the framework of national risks measurement and is expected to be completed in the beginning of the first quarter of 1397. This research can analyze the potential risks (money laundering and financing terrorism) which are faced to the strengthening and integration of financial sector. Also, based on this research, those products and services of the financial sector whose wide use are not causing such risks to the soundness of financial sector of the country could easily be accessible for the revenue agencies.

Risk Management Department

The Risk Management Department is responsible for identification, assessment, control, reduction and mitigation of various risks. This department identifies, assesses and analyzes the potential risks that arise out of incompliance in the policies, procedures, regulations and/or the job descriptions and proposes the related recommendations to the Governor's Office.

The Risk Management Department undertakes a range of precautionary measures and actions and actson accordingly.

Following is a concise explanation of RMD's performances over FY 1396:

- According to the fifth pillar of the Strategic Plan (FY 1396-1399) entitled "Protection and Strengthening of the financial and operational systems of DAB against potential risks", the Risk Management department has devised the business continuity and disaster recovery plan of DAB for contingent cases which has been approved by the Supreme Council and is currently in the implementation phase.
- Risk Management Department has developed appropriate and standard policies and procedures to assess risks existing in the working sections of the department, in cooperation with the World Bank's advisor which are also translated into national languages. These policies and procedures entail the functional procedures for the credit and liquidity risk management section, market risk management section, operational risk management section, IT section, legal and procurement management sections.
- Developing DAB's risk management framework for better supervision and control of risks was another task that has been done by Risk Management Department which latterly was translated into national languages and has been approved by the Supreme Council and is currently in the implementation phase.
- Risk Management Department established risk management committee and subordinate committees for financial and non financial risk management. The Risk Management committee is established in line with international standards and convene meetings under the chairmanship of the DAB's Governor. This committee evaluates and monitors all the activities and reports of the Risk Management Department and issue necessary orders and guidance for further actions and reforms. In the meantime, the Risk Management Committee will keep the Supreme Council members informed of the risk reviews and take critical issues into further considerations.
- It modified the organizational structure of RMD which is noteworthy here. This structure has been agreed and approved by the Supreme Council of Da Afghanistan Bank, and new posts have been put on announcements.
- It participated actively in the country's national risk assessment program which is carried out by the Financial Transactions and Reports Analysis Center of Afghanistan with cooperation of the World bank.
- It developed plans to design the establishment of a unit for the management of risks arising from compliance which assesses the compliance imposed requirements (laws, regulations, contracts, strategies and policies) in the bank for achieving managerial processes. This plan is set to be discussed and reviewed in the first meeting of the risk management committee, and subsequently proposed to the supreme council of DAB for approval.

- The department's staff members participated in different training programs in order to build on their working capacity and acquire specialized and professional knowledge in their respective work areas.

Considering the Strategic Plan 1396-1399 of DAB, the Risk Management Department has performed some specific tasks to develop and regulate the internal structures of the department including proper and standard policies and procedures; developing standard risk management framework for DAB's and regulations of the department. Meanwhile, this department has de-

vised special plans for the management of emergency situations, established a comprehensive mechanism for the Business Continuity Plan and created risk management committee for strengthening the risk management system in the bank. It is to say that the above mentioned tasks are currently being implemented.

The risk management system, which is launched and conducted for the first time in the history of Da Afghanistan Bank, regulate the internal control system which undoubtedly boosts the effectiveness, productivity, transparency and the return of the bank investments.

