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10 February 2018

Online at <https://mpra.ub.uni-muenchen.de/88477/>

MPRA Paper No. 88477, posted 24 Aug 2018 10:13 UTC

Study on financial performance of da Afghanistan Bank

2015 and 2016

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Study on financial performance of da Afghanistan Bank 2015 and 2016

Abstract:

This study attempts primarily to measure the financial performance of Da Afghanistan Bank which one of the largest government bank of Afghanistan for the period 2015-2016 and to identify whether any difference exists between a banks' years of operation and its performance classifying two period (2015-2016).

To complete my task I have to use various materials and take help form online source. Analyses the ratio here used financial ratio analysis (FRA) method which help to draw a overview about financial performance of the Da Afghanistan bank in terms of profitability, liquidity.

These analyses helps to see the current performance condition of this bank compare past performance. Because now a day's banking sector of Afghanistan is suffering the disease of default culture which is the consequence or result of bad performance of most banks. The performances of banks are dependent more on the management's ability in formulating strategic plans and the efficient implementation of its strategies. The study findings can be helpful for management of Da Afghanistan, Always for private commercial banks in Afghanistan to improve their financial performance and formulate policies that will improve their performance.

The study also identified specific areas for bank to work on which can ensure sustainable growth for these banks.

Keywords: private commercial bank, financial performance, financial ratios

JEL Classification Codes: G21, H71, J81

Introduction

Financial performance refers to the act of performing financial activity. In broader sense financial performance refers to the degree to which financial objectives has been accomplished. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation through financial analysis.

Financial analysis is structural and logical way to present overall financial performance of a financial institution. It's also help to evaluate and decision making for business operation. In financial analysis process ratio analysis is the most dominant and logical structure to help business related stakeholder. Under the financial ratio analysis process there are few categories to identical area of financial institution. So business stakeholders try to concentrate to get overall business overview from profitability, liquidity ratio analysis. These ratios not only help to decision making process also emphasized on risk avoiding and profit raising related factors. To calculate this ratio need to take quantitative data from bank trading activity and other sources.

Investopedia Describe about ratio analysis as Quantitative analysis of information contained in a company's financial statements. Ratio analysis is based on line items in financial statements like the balance sheet, income statement and cash flow statement the ratios of one item or a combination of items to another item or combination are then calculated. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability. This study evaluates bank performance for the period 2015-2016 using financial ratio analysis (hereafter FRA).

Financial ratio analysis has wide range advantage to show the bank financial position compare to past year performance. To analyses the ratio I have took data from central Bank of

Afghanistan annual report. That helps me to understand the financial position of this bank and purpose of the study. The study has been used Financial Ratio analysis (FRA) method.

Data of this study collected from secondary source in annual report of central bank of Afghanistan. This data research helps to evaluate the overall bank financial position.

Profile of Da Afghanistan Bank

According to CM (Council of ministers) approval number 152 dated 3/2/1318, Wolesi Jirga (House of Representatives) approval number 11 dated 19/6/1318, Meshrano Jirga (House of Elders) historical approval dated 12/6/1318 and then-king's approval number 1317/5280 dated 17/11/1318 Da Afghanistan Bank was established in capital Kabul with initial asset of 120 million Afghanis, which, with its defined authorities and responsibilities, was able to set up its branches and subsidiaries inside and outside the country.

Afghanistan banking system was first founded with the institution of Bank Millie Afghan in 1312 HS which was managing Afghanistan state banking affairs before the establishment of Da Afghanistan Bank. After DAB's establishment, state banking responsibilities were transferred from Bank Millie Afghan to Da Afghanistan Bank.

As of establishment date until 1380 HS, Da Afghanistan Bank was carrying out commercial activities as other commercial banks alongside managing of state banking affairs. But after 1381 HS and as per article 12 of Afghanistan Constitution, Da Afghanistan Bank as an independent institution with its specific duties, goals and responsibilities promoted to as Central Bank of the country.

Based on DAB law stability of price is the primary objective of this bank and therefore devising, implementing and adopting of monetary policies, foreign currency policy and provision, printing of banknotes and minting of coins are considered among Central Bank duties. Furthermore, as the banker and the financial institution of the state, DAB, according to the law,

issues licenses to and supervises banks, FX dealers, financial services providers and securities and provides safe and sound payment system as well.

Vision

To become a center of excellence in fighting against money laundering terrorist financing and other predicate offenses in collaboration with law enforcement agencies regulators prosecutors and international counterparts.

Mission

To safeguard the financial system of Afghanistan from money laundering terrorist financing and other predicates offences in collaboration with law enforcement agencies regulators prosecutors and international counterparts.

Objectives

The primary objective of Da Afghanistan Bank is to achieve and maintain domestic price stability. Other objectives of Da Afghanistan Bank which are subordinated to the primary objective are: to foster the liquidity, solvency and effective functioning of a stable market based financial system, and to promote a safe, sound and efficient national payments system. Considering its main objective, Da Afghanistan Bank supports general economic policies of government and strengthens sustainable economic growth.

Main Tasks

The basic tasks, for which Da Afghanistan Bank is responsible to execute, are:

1. Formulate, adopt and execute the monetary policy of Afghanistan.
2. Formulate adopt and implement currency policy and Afghanistan currency arrangements.
3. Hold and manage the official foreign exchange reserves of Afghanistan.
4. Print, mint and issue Afghani banknotes and coins.
5. Act as banker and adviser to, and as fiscal agent of the State.

6. License, regulate and supervise banks, foreign exchange dealers, money service providers, payment system operators, securities service providers, and securities transfer system operators.
7. Establish, maintain and promote sound and efficient systems for payments, for transfers of securities issued by the State or DAB, and for the clearing and settlement of payment transactions and transactions in such securities.

Departments

1. Monetary Policy
2. Financial Supervision
3. Market Operations
4. General Comptroller
5. Risk Management
6. Financial Intelligence Unit (FIU)
7. Afghan Deposit Insurance Corporation (ADIC)
8. CIB
9. Chief Financial Officer (CFO)
10. Communication And Documentations
11. Information Technology (IT)
12. Human Resources
13. General Counsel
14. Bank Operations
15. Payment
16. FSSP
17. General Services

Core Values

Values are the underpinning of Da Afghanistan Bank's operations. They reflect DAB's identity and influence DAB's course and direction. Every DAB staff member is expected to exhibit the DAB core values in every task execution.

The core values of DAB are the following:

Commitment to serving public interest: Da Afghanistan Bank is committed to fulfilling the needs of the public.

Stakeholder Orientation: Da Afghanistan Bank takes pride in offering the best services to its stakeholders including the government for which it acts as a fiscal agent.

Ethics and integrity: Da Afghanistan Bank is committed to upholding professional ethics and integrity in all its activities.

Transparency: Da Afghanistan Bank accepts and welcomes public scrutiny of all its actions.

Leadership by Example: Da Afghanistan Bank is committed to practicing what it preaches at both the organizational and individual levels.

Team Work: Da Afghanistan Bank is committed to working together within and across organizational divisions.

Equity and Fairness: Da Afghanistan Bank is committed to the fair treatment of customers, employees and other stakeholders. This includes a conducive working environment and gender sensitivity.

Confidentiality: Da Afghanistan Bank maintains appropriate confidentiality in all transactions with its customers, employees and other stakeholders.

Executive Board

Executive Board of Da Afghanistan Bank is composed of three members, each who are: Governor, First and Second Deputy Governors. The Executive Board is responsible for all matters concerning the administration and operations of Da Afghanistan Bank

Supreme Council

Supreme Council of Da Afghanistan Bank is known as highest decision-making and policy-making body of Da Afghanistan Bank. Members of Supreme Council are responsible to develop overall policies of DAB and supervise administration and its operations. Supreme Council of DAB is composed of seven members and the term for each member is five years. Supreme council of Da Afghanistan Bank sets a meeting once each three months or more frequently when needed. Their assignment is made through presidential decree.

Museum

Since Da Afghanistan Bank has been responsible to print and issue banknotes and coins in different eras of history while in this course of history some governments have printed newer banknotes and coins as per their needs in order to carry out exchanges and deals swiftly and free of challenges, Da Afghanistan Bank therefore established a museum to introduce evolution of banknote and coin in the country that gathered and now exhibits coins from different eras such as Yunan-Bakhtarid, Achaemenians, Kushanid, Saakh, Sasanid, Kudarid, and advent of Islam religion, Ghaznavid, Seljukid and others. It has also showcase of different eras' banknotes since printing of the first banknote in Afghanistan which interested visitors, students, researchers and others can take advantage of lucrative information available in the museum. It is pertinent to mention that beside coins and banknotes, there are a number of gifts presented by foreign leaders and presidents to Afghan president and other high-ranking government officials who have then submitted these gifts to treasury directorate general of Da Afghanistan Bank to be kept as national wealth of the nation.

Objective

Da Afghanistan Bank's museum is not just for the sole use of researchers, but to feature course of monetary history in Afghanistan, it has been made to inspire people and partner them for further enrichment of Afghanistan achievements with their helpful views. All people from public to high ranking government officials, school to university students, researchers and analysts can contribute to promotion of culture and recognition of history by enriching and improving historic Museum of Da Afghanistan Bank.

Da Afghanistan Bank museum is considered as a place that provides and strengthens informal education of school and university students, where they are assisted to boost their cultural values and pave a friendly environment for discussion and exchange of views on historic honors of the country.

Problem Statement

The era of globalization modern free market economy introduce a window of banking acidity that has huge impact on any countries trade and overall development. To complete the process of banking or trading financial intermediaries and institution act like as safe gateway between two sides. As an institution, bank has been contributing towards the development of any economy for a long time and at the moment it is treated as an important banking industry in modern world. Now days the functioning area of bank not limited within same geographical limit of any country. Therefore bank has to manage large volume transaction. Industry related stakeholder need to know about the financial performance of the bank. To analyses financial performance ratio analysis is the most logical way to show the bank financial position. So this study has conduct to expose restriction of the function area and process of Financial performance through ratio analysis of Da Afghanistan bank by comparing banks past year balance sheet,

Income statement by generating ratio that conduct how much financial stability can be achieve. A general belief is that a firm's financial performance depends on certain key financial factors i.e. turnover, profit and the variables which are found in the balance sheet of a firm, have a direct and indirect relation with each other. By establishing a close relationship between the variables, a firm can analyze its financial performance in terms of liquidity, profitability (M.S.Ramaratnam & R.Jayaraman, 2010).

To evaluate financial ratio I have used various instrument for analysis like FRA method for finding difference between variable.

The problem statement is to Analysis the financial performance of Da Afghanistan bank by using financial ratio

Research Question

1. Is there any significant difference between 2015 and 2016 Return on investment and financial performance?
2. Is there any significant difference between 2015 and 2016 Return on Equity and Financial performance?
3. Is there any significant difference between 2015 and 2016 income and financial performance?
4. Is there any significant difference between 2015 and 2016 Net Loans to total asset and financial performance?

Research Objectives

1. To Discussed the Financial ratio measurement and analysis.
2. To measure profitability, liquidity a of central Bank
3. To show the financial stability analysis consists of (profitability and liquidity).

4. To analyze the balance sheet and income statement.
5. To using financial ratio analysis (FRA method).
6. And to know overall Bank financial performance condition.

Significance of the Study

After studying and checking many online resources, the researcher figured out that such studies have not been launched on financial performance of Da Afghanistan Bank on 2015 and 2016, so such a study was needed in the context. The study was launched with the intention of paving the way for further discussions and researchers with regard to financial performance of Da Afghanistan and its effects on the economic growth and profitability of national bank and all publics and private banks. On the other side, this study could be considered as a prime mover for the upcoming researchers and motivations.

Literature Review

Williams J and Nguyen N (2005) this paper examined the impact of changes in bank governance on bank performance for a sample of commercial banks operating in SE Asia between 1990 and 2003. We identify bank governance in terms of bank ownership and measure bank performance as rank order alternative profit efficiency, technical change, and productivity. The period was characterized by financial deregulation, the Asian crisis and bank restructuring programmes. To resolve financial distress, SE Asian authorities implemented inter alia bank privatisation programmes and widened access for foreign ownership. Our results tend to support bank privatisation and the repeal of state ownership on economic grounds. We suggest the potential benefits of foreign ownership may take longer to be realized. For domestic private-owned banks, the challenge is improving bank efficiency.

Al-Hawari, M and Ward, T (2006) first to investigated the relationship between customer perception of service quality and bank financial performance in the new context of the automated banking environment in Australia, Second to test for the mediating role of customer satisfaction in that relationship.

Barr R S. Killgo, K A.Siems, T. F., & Zimmel, S (2002)Reviewed previous research on the efficiency and performance of financial institutions and uses Siems and Barr's (1998) data envelopment analysis (DEA) model to evaluate the relative productive efficiency of US commercial banks 1984-1998. Explains the methodology, discussed the input and output measures used and relates bank performance measures to efficiency. Described the CAMELS rating system used by bank examiners and regulators; and finds that banks with high efficiency scores also have strong CAMELS ratings, Summarizes the other relationship identified and recommends the use of DEA to help analysts and policy makers understand organizations in greater depth, regulators and examiners to develop monitoring tools and banks to benchmark their processes.

Mercan M Reisman A Yolalan R and Emel A B (2003) Turkey and the International Monetary Fund (IMF) agreed to a stand-by arrangement at the outset of 2000. Consequently, Turkey implemented an exchange-rate based stabilization program to combat its high inflation. However, two financial crises followed: one in November, 2000 and the other in February, 2001. As the result some banks became problematic. This necessitated restructuring of the banking sector to increase its financial efficiency.

This paper presented a financial performance index for commercial banks. The index allows one to observe the effects of scale and of the mode of ownership (public/domestic,

private/domestic/foreign) on bank behavior and, therefore, on bank performance in a developing economy. It documents the effects of financial liberalization, cross-country movements, and the impact of financial crises originating in neighboring countries e.g. Russia. The study applies Data Envelopment Analysis (DEA) to selected fundamental financial ratios using 1989–99 data from commercial banks in Turkey. Year-by-year results explain the effects on this sector of major shifts in both national macro-economic policy and various international developments. The banks that were taken over by the regulatory government agency most recently in the analyzed period were observed to perform poorly with respect to their DEA performance index values.

Puri M. (1994) The Glass-Steagall Act of 1933 barred commercial banks and their affiliates from underwriting and dealing in securities activities, amidst concerns those banks abused the trust of their depositors and clientele by systematically underwriting poor quality security issues. This paper examined if these concerns were justified by studying the long-term default performance of bank underwritten issues as compared to non-bank underwritten issues. The evidence shows that, contrary to conventional wisdom, bank underwritten issues defaulted *less* than non-bank underwritten issues, over a seven year period from the issue date and had a significantly lower mortality rate.

Campa, J. M. & Hernando I. (2006) This paper looked at the performance record of M and as that took place in the European Union financial industry in the period 1998–2002. First the paper reported evidence on shareholder returns from the merger. Merger announcements implied positive excess returns to the shareholders of the target company around the date of the announcement, with a slight positive excess-return on the 3-months period prior to announcement. Returns to shareholders of the acquiring firms were essentially zero around

announcement. One year after the announcement, excess returns were not significantly different from zero for both targets and acquirers. The paper also provided evidence on changes in the operating performance for the subsample of merge involving banks. M and as usually involved targets with lower operating performance than the average in their sector. The transaction resulted in significant improvements in the target banks performance beginning on average 2 years after the transaction was completed. Return on equity of the target companies increased by an average of 7%, and these firms also experience efficiency improvements.

El-Bannany. M. (2008) the purpose of this paper was to investigated the determinants of intellectual capital performance in the UK banks over the period 1999-2005.

Puri. M. (1996). When commercial banks make loans to firms and also underwrite securities. Does this hamper or enhance their role as certifiers of firm value? This paper examined empirically the pricing of bank-underwritten securities as compared to investment-house-underwritten securities over a unique period in the U.S. (pre-Glass-Steagall) when both banks and investment houses were allowed to underwrite securities. The evidence shows that investors were willing to pay higher prices for securities underwritten by banks rather than investment houses. The results support a certification role for banks, which is more valuable for junior and information sensitive securities.

DeYoung. R. and Hasan I. (1998). We examined the profit efficiency of US banks chartered between 1980 and 1994. Our results suggest that profit efficiency improves rapidly at the typical de novo bank during its first three years of operation, but on average takes about nine years to reach established bank levels. Excess branch capacity, reliance on large deposits, and

affiliation with a multibank holding company are associated with low profit efficiency at de novo banks. De novo national banks are initially less profit efficient than are state-chartered de novo perhaps reflecting differences in the chartering philosophy of federal and state bank regulators.

Kao.C. and Liu.S. T. (2004) Data envelopment analysis (DEA) has been used as a tool for evaluating past accomplishments in the banking industry. However, due to a time lag, the results usually arrive too late for the evaluated banking institutions to react timely. This paper made advanced predictions of the performances of 24 commercial banks in Taiwan based on their financial forecasts. The forecasts based on uncertain financial data are represented in ranges, instead of as single values. A DEA model for interval data is formulated to predict the efficiency. The predictions of the efficiency scores are also presented as ranges. We found that all the efficiency scores calculated from the data contained in the financial statements published afterwards fall within the corresponding predicted ranges of the efficiency scores which we had calculated from the financial forecasts. The results also show that even the bad performances of the two banks taken over by the Financial Restructuring Fund of Taiwan could actually be predicted in advance using this study.

Hussain, M., and Hoque, Z. (2002). This paper reported the performance measurement practices of four Japanese banks. The research is a field study informed by the new institutional sociology theory. It sought to understand and explain what factors affected the design and use of non-financial performance measurement systems in the banks studied. The results indicated that several institutional forces influenced the banks to implement a particular performance measurement system. Of these, economic constraints appeared to be the most forceful factor, followed by the central bank's regulatory control, accounting

standards/financial legislation, management's strategic focus, bank size, competition, and organizational tendency to copy best practices from others.

Leightner, J. E., and Lovell, C. K. (1998). Using best practice production frontiers we constructed Malmquist growth indexes and productivity indexes for each Thai bank for 1989–1994. We constructed these indexes for two different specifications of the services banks provide: one derived from the objectives of the banks themselves, and the other derived from the objectives of the Bank of Thailand. We found that, when bank objectives were used, the average bank in Thailand experienced relatively rapid growth in production (relative to the previous year's best practice) and in total factor productivity. When Bank of Thailand objectives were used, similar levels of rapid growth relative to best practice were found, but total factor productivity declined for Thai banks and increased for foreign banks.

Barth, J. R., Nolle, D. E., Phumiwasana, T and Yago, G. (2003). Ongoing changes in the structure and nature of banking, as well as banking crises across the globe have focused the attention of policy makers on the appropriate structure, scope, and degree of independence of banking supervision. Key issues for banking *supervision structure* are whether there should be one or multiple supervisory authorities, and whether the central bank should be involved in bank supervision. The issue pertaining to the *scope of supervision* is whether bank supervisory authorities should supervise other financial service industries, including in particular securities and insurance. Finally, the issue regarding the *independence of supervisory authorities* is the degree to which bank supervisors should be subject to political and economic policy pressure and influence. How these issues are addressed is important, because policies that fail to provide for an appropriate bank supervisory framework may undermine bank performance and even lead to full-scale banking crises.

The intense interest policy makers have shown in these issues has not been matched, however, by researchers. In particular, there is very little systematic empirical evidence on how, or indeed whether, the structure, scope, or independence of bank supervision affects the banking industry. This paper addressed this gap in three respects. First, drawing on the existing literature, we discuss the various policy issues surrounding the structure, scope, and degree of independence of bank supervision. Second, we provide comparative information on the actual choices that have been made regarding these three aspects of supervision across a wide range of developed and emerging market economies. Third, using both country-specific data for 55 countries in all parts of the world, and data for over 2,300 individual banks in those countries, we examine the relationship between the structure, scope, and independence of bank supervision and one key dimension of the banking industry – bank profitability. Our results indicate, at most, a weak influence for the structure of supervision on bank performance. In particular, we find some evidence that a single-supervisor system enhances bank performance. However, following our discussion of the caution one must use in interpreting data on the supervisory framework, our re-estimates using an alternative source of data on the structure of supervision failed to duplicate this result.

Our results have a bearing on a key dimension of the policy debate on how to structure supervision. In particular, given the dearth of empirical evidence on the issues, advocates of one form or another of supervisory structure have asserted that a particular change is likely to affect (favorably or adversely, as the advocate sees fit) the performance of banks. Our results provide little support at best to the belief that any particular bank supervisory structure will greatly affect bank performance. This is significant, because it suggests that the on-going debate might more broadly focus on the impact of the supervisory structure on other aspects of the health of the

banking system, including individual bank safety and soundness, systemic stability, and the development of the banking system.

Sathye M. (2005). Enhancing efficiency and performance of public sector banks (PSBs) is a key objective of economic reforms in many countries including India. It is believed that private ownership helps improve efficiency and performance. Accordingly, the Indian government started diluting its equity in PSBs from early 1990s in a phased manner. Has the partial privatization of Indian banks really helped improve their efficiency and performance? International evidence on impact of privatization is mixed. Though the issue is important in the Indian context, no study to the author's knowledge has addressed it so far. The present study, thus, fills an important gap.

The data required for the study were obtained from Performance Highlights of Banks, a publication of the Indian Banks' Association. The author could readily obtain publications for five years — 1998-2002; his analysis is, thus, restricted to these five years. The financial performance of the banks was measured using the standard financial performance measures such as return on assets. The efficiency of banks was measured using accounting ratios, e.g., deposits per employee. Two main approaches are generally used to evaluate the impact of privatization on firm performance:

- Synchronic approach in which the performance of state-owned firms is compared with the firms that were privatized or with the firms that was already in private ownership.
- 'Historical' approach, in which ex-ante and ex-post privatization performance of the same enterprise is compared.

Given that the data are available for only five years, the author uses the synchronic approach. Since the dataset is not large enough to allow the use of more robust multivariate statistical procedures, he confines himself to the use of the difference of means test.

Data & Methodology

Research Approach

In this chapter the research process will be described. The methods we have used and why they were selected will be discussed. The structure of this chapter is presented as follow: Research Purpose, Research Approach, Research Strategy, Research Methods, Data Presentation and Analysis, Validity and Reliability. The credibility of findings and conclusions extensively depend on the quality of the research design, data collection, data management, and data analysis. This chapter is dedicated to the description of the methods and procedures done in order to obtain the data, how they have been analyzed, interpreted, and how the conclusion will be met. This section is to justify the means in which the study was obtained and will help in giving it purpose and strength as it will then be truthful and analytical. All these will help in the processing of the data and the formulation of conclusions. Specifically this research will cover the following issues: Research design and method, Data collection instrument, and Data analysis. These will be presented below.

In this research, I have used descriptive method of research, is to gather information about the present existing condition. The purpose is to improve financial performance Da Afghanistan bank when it developed the economic country well improved.

Quantitative and Qualitative Approaches

Research methodology is a collective term for the structured process of conducting research. There are many different methodologies used in various types of research and the term

is usually considered to include research design, data gathering and data analysis, and we have two kind of research methodologies:1) Quantitative and 2) Qualitative.

Quantitative Research: is using for measuring the number of times someone does something under certain conditions.

Qualitative Research: is using asking people how they feel about a certain situation of quality of data.

Source of Data

For achieving the specific objective of the study, data will be gathered entirely from secondary Source.

- Website of Da Afghanistan National Bank.
- Annual Reports Brochures Manuals and Publication of the National Bank of Afghanistan.
- Manual published by National Bank Ltd. Using collected data as raw sample to make of this research project.
- National bank of Afghanistan last two years financial history are used as per require of this study. Most of this data are used in financial ratio analysis of this bank.
- The data was obtained from Bank scope and the bank's financial statements and websites.

Primary data

The data in raw form collected for the first time is called primary data. There are different methods for collecting primary data, these include: asking questions directly from the respondents, taking informal interviews, sending questionnaires and getting them filled, etc.

Secondary data

The secondary data provides ready to be used information regarding an issue or event. This can be gathered by internet, journals, articles, research papers, magazines, statistics reports and books.

Target size

The number of central bank in Afghanistan is 1 central bank that is why the samples are taken only from two years of Da Afghanistan National bank annual reports of 2015 and 2016 and

the data collected has been received from the Department of Financial Transactions and Reports Analysis Centre of Afghanistan (FinTRACA).

Data Analysis and Presentation

The study could not utilize first hand data (primary data), although I tried to gather some primary data through quantitative method, but it was somehow difficult and impossible since the primary data is gathered from actual findings like questionnaires and interviews which is very inadequate in this environment. The study only utilized secondary data. Secondary data include raw data and published summaries, as well as both quantitative and qualitative data. As I have analyzed the secondary data which I have used in this study falls into two main groups: Documentary data and data which have been compiled from other sources. With this particular study, I have utilized documentary secondary data (in the form of articles from annual reports and journals, magazines, statistical bulletins and websites).

This study is based on a sample survey of financial performance of Da Afghanistan Bank during last two years 2015/2016 with using financial statements of Da Afghanistan Bank and different ratio analyses.

Results and Analysis

According to CM (Council of ministers) approval number 152 dated 3/2/1318, Wolesi Jirga (House of Representatives) approval number 11 dated 19/6/1318, Meshrano Jirga (House of Elders) historical approval dated 12/6/1318 and then-king's approval number 1317/5280 dated 17/11/1318 Da Afghanistan Bank was established in capital Kabul with initial asset of 120 million Afghanis, which, with its defined authorities and responsibilities, was able to set up its branches and subsidiaries inside and outside the country.

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As of establishment date until 1380 HS, Da Afghanistan Bank was carrying out commercial activities as other commercial banks alongside managing of state banking affairs. But after 1381 HS and as per article 12 of Afghanistan Constitution, Da Afghanistan Bank as an independent institution with its specific duties, goals and responsibilities promoted to as Central Bank of the country.

Financial Ratios

Ratio analysis is a cornerstone of fundamental analysis (Investopedia). This study evaluates bank performance for the period 2015-2016 using financial ratio analysis (hereafter FRA). Financial ratio analysis has wide range advantage to show the bank financial position compare to past year performance.

To analyses the ratio I am takes data from central Bank of Afghanistan annual report. That's help me to understand the financial position of this bank and purpose of the study. The study has been used Financial Ratio analysis (FRA) method and for hypothesis testing Student's T-test. The bread and butter of statistical data analysis are the Student's t-test. It was named after a statistician who called himself Student but whose real name was William Gossett. As an employee of Guinness Brewery in Dublin, Ireland, he tackled a number of practical statistical problems related to the operation of the brewery. Since he was discouraged from publishing under his own name, he adopted the Student moniker.

I have analyzed financial performance of Da Afghanistan by the help of following ratios from financial statements of Da Afghanistan 2015/2016.

1. Current ratio
2. Quick Ratio
3. Working Capital Ratio
4. Debt to Total Asset Ratio
5. Net Income Ratio
6. Return on Equity Ratio
7. Return on Investment Ratio
8. Total Asset Turnover Ratio


In this chapter we have analysed financial performance of Afghanistan central bank by the help of following financial ratios for identify the performance of 2016 and 2015.

Balance Sheet of 2016&2015 of Da Afghanistan

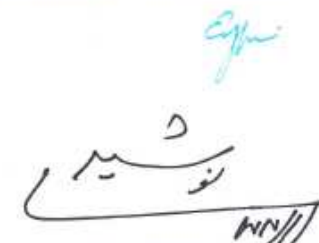
DA AFGHANISTAN BANK
STATEMENT OF FINANCIAL POSITION
AS AT 30 QAWS 1395 (20 DECEMBER 2016)

	Note	1395 (2016)	1394 (2015)
----- (Afs in '000) -----			
ASSETS			
Gold reserve	8	52,800,896	51,513,059
Foreign currency cash reserve	9	100,349,304	110,947,031
Due from banks and financial institutions	10	186,046,259	151,576,525
Investments	11	149,532,131	144,859,185
Assistance as lender of last resort	12	22,097,788	28,426,596
Advances and other receivables	13	1,399,139	2,229,090
Investment property	14	9,000	9,000
Property and equipment	15	5,279,023	5,103,605
Intangible asset	16	105,600	5,844
Other assets	17	13,550,437	12,728,945
Total assets		531,169,577	507,398,880
LIABILITIES AND EQUITY			
LIABILITIES			
Currency in circulation	18	223,611,449	202,169,302
Capital notes	19	42,585,881	31,747,285
Due to banks and financial institutions	20	80,955,780	61,439,634
Due to customers	21	89,243,178	92,976,313
IMF related liabilities	22	423,215	20,048
Defined contribution plan	23	1,755,064	1,764,330
Deferred grants	24	137,699	5,357
Provisions and other liabilities	25	490,649	11,334,957
Total liabilities		439,202,915	401,457,226
EQUITY			
Capital	26	19,267,500	19,267,500
Revaluation reserve	26	34,479,722	32,435,414
Other components of equity	26	18,951,940	34,971,240
General reserve	26	19,267,500	19,267,500
Total equity		91,966,662	105,941,654
Total liabilities and equity		531,169,577	507,398,880
CONTINGENCIES AND COMMITMENTS	27		

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


 Syed Younas Sadat


 H.E. Khalif Sediq



 Wahidullah Noshier

Income Statement of 2016&2015 of Da Afghanistan bank


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

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

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


 Syed Younas Sadat
 Chief Financial Officer


 H.E. Khalil Sediq
 Governor


 Wahidullah Noshier
 First Deputy Governor

Profitability Performance

The most common measure of bank performance is profitability. Generally, accounting profits are the difference between revenues and costs. Profitability is considered to be the most difficult attributes of a firm to conceptualize and to measure (Ross, Westerfield, and Jaffe 2005). These ratios are used to assess the ability of the business to generate earnings in comparison with

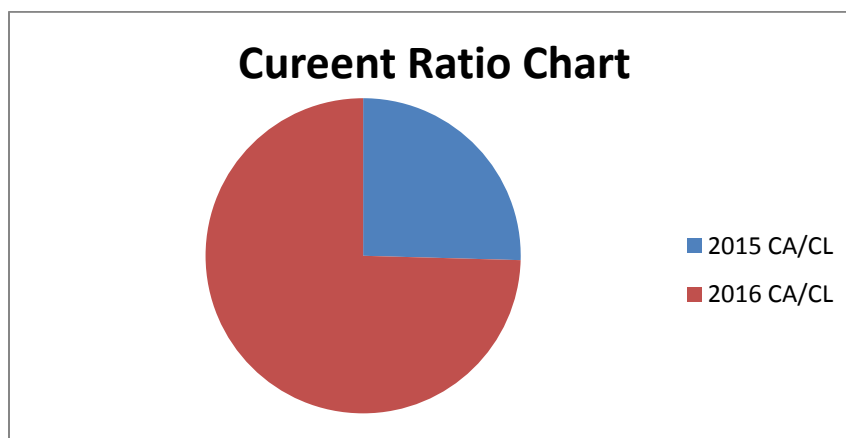
its all expenses and other relevant costs during a specific time period. More specifically, these ratios indicate firm's profitability after taking account of all expenses and income taxes, the efficiency of operations, firm pricing policies, profitability on assets and to shareholders of the firm (Van Horne 2005). Profitability ratios are generally considered to be the basic bank financial ratio in order to evaluate how well bank is performing in terms of profit. For the most part, if a profitability ratio is relatively higher as compared to the competitor(s), industry averages, guidelines, or previous years' same ratios, then it is taken as indicator of better performance of the bank. Study applies these criteria to judge the profitability of the National banks Profitability is measured using the following criteria.

Current Ratio CA/CL

Shows a firm's ability to cover its current liabilities with its current assets in this ratio that is why we have analyses the ability of Da Afghanistan bank in 2016 and 2015 as follow.

Table 1 Current Ratio Analysis

Year	Year 2015	Year 2016
Current Ratio	CA/CL	CA/CL
Total	1.260650198	3.694407036



Source Da Afghanistan bank

Current ratio is mainly used to give an idea of a company's ability to pay back its liabilities (debt and accounts payable) with its assets (cash, marketable securities, inventory, and accounts receivable). As such, current ratio can be used to make a rough estimate of a company's financial health.

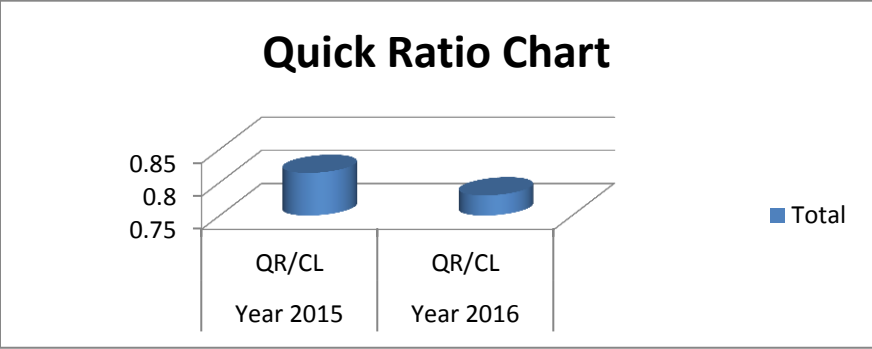
As we have collocated current ratio of Da Afghanistan Bank in two years 2015&2016 it shows that in 2015 Da Afghanistan bank had low abilities to pay all them liabilities but according to chart it show that the abilities of Da Afghanistan bank improved and became stronger in 2016 it show strong ability of bank for covering them current liabilities and assets.

Quick Ratio

Quick ratio is a measure of how well a company can meet its short-term financial liabilities. Also known as the acid-test ratio it can be calculated as follows: (Cash + Marketable Securities + Accounts Receivable) / Current Liabilities.

Table 2 Quick Ratio Analysis

Year	Year 2015	Year 2016
Quick Ratio	2015	2016
Total	0.81442499	0.780473179



Source Da Afghanistan bank

While a quick ratio lower than 1 does not necessarily mean the company is going into default or bankruptcy, it could mean that the company is relying heavily on inventory or other assets to pay its short term liabilities.

The higher the quick ratio, the better the company's liquidity position but result shows that in both years quick ratio is less than 1 that is why we can say Da Afghanistan bank faced to problems during last two years but 2015 is better than 2016 because result of 2015 is good than 2016.

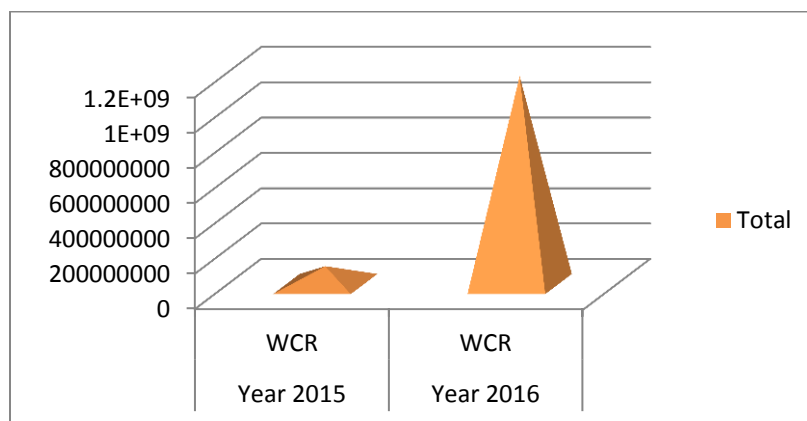
Working capital ratio

Working capital ratio is calculated as: Working Capital = Current Assets - Current Liabilities. The working capital ratio (Current Assets/Current Liabilities) indicates whether a company has enough short term assets to cover its short term debt.

The working capital ratio is the same as the current ratio. It is the relative proportion of an entity's current assets to its current liabilities, and is intended to show the ability of a business to pay for its current liabilities with its current assets.

Table 3 Working Capital Ratio Analysis

Year	Year 2015	Year 2016
Working Capital Ratio	WC-CL	WC-CL
Total	101218952	1175829229



Source Da Afghanistan bank

The working capital ratio (Current Assets/Current Liabilities) indicates whether a company has enough short term assets to cover its short term debt. Anything below 1 indicates negative W/C (working capital). While anything over 2 means that the company is not investing excess assets.

According to the result of working capital ratio 2015 shows negative result in compare to 2016 Da Afghanistan bank improved in 2016 with strong working capital Da Afghanistan can easily cover them short term debts.

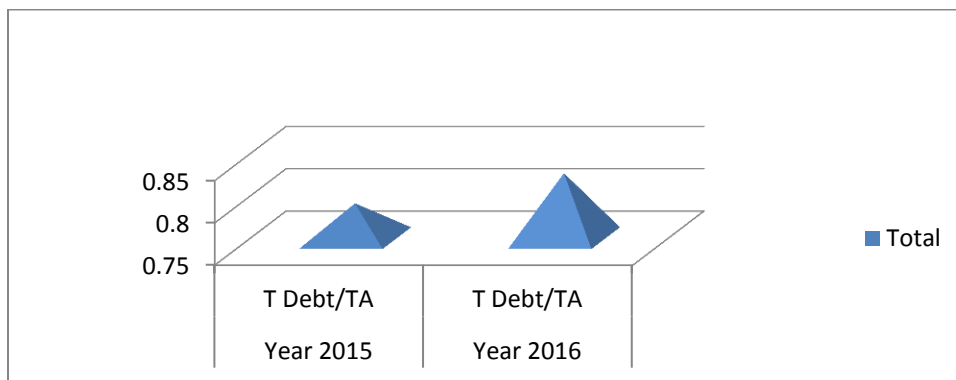
Means Da Afghanistan bank have more current asset in 2016 than 2015 it show strong financial position and good improvements in all part of bank.

Debt to total Asset ratio

Debt to Asset Ratio The debt to asset ratio is a leverage ratio that measures the amount of total assets that are financed by creditors instead of investors. In other words, it shows what percentage of assets is funded by borrowing compared with the percentage of resources that are funded by the investors.

Table 4 Debt to total asset Ratio Analysis

Year	Year 2015	Year 2016
Quick Ratio	T Debt/TA	T Debt/TA
Total	0.79120637	0.826860073
	79.1%	82.6%



Source Da Afghanistan Bank

Debt Ratio is a financial ratio that indicates the percentage of a company's assets that are provided via debt. It is the ratio of total debt (long-term liabilities) and total assets (the sum of current assets, fixed assets, and other assets such as 'goodwill).

It is calculated by dividing total liabilities by total assets, with higher debt ratios indicating higher degrees of debt financing. Whether or not a debt ratio is good depends on the context within which it is being analyzed. From a pure risk perspective, lower ratios (0.4 or lower) are considered better debt ratios.

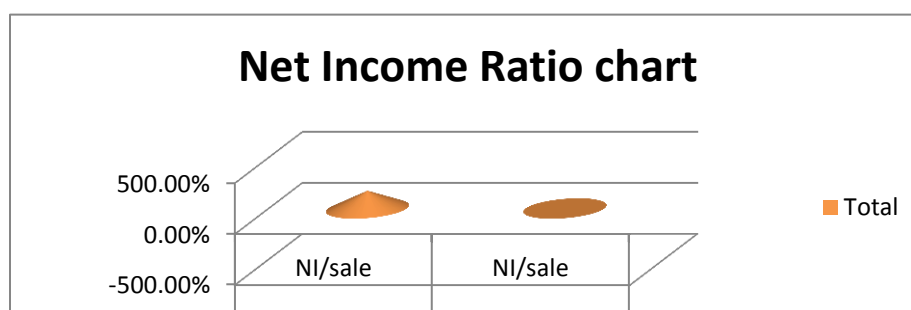
According to the results of debt ratio of Da Afghanistan bank it shows higher degree of debt financing because the results is above 0.4% but 2015 result is good in compare to 2016.

Net income Ratio

Net income ratio is a measurement of financial efficiency and is determined based on information derived from a business or from operations' financial statements, specifically using the financials that determine gross farm income.

Table 5 Net Income Ratio Analysis

Year	2015	2016
Net Income Ratio	NI/sale	NI/sale
Total	174.91%	-76.01%



Source Da Afghanistan Bank

Net income ratio indicates the firm's profitability after taking account of all expenses and income taxes.

If a company has a net profit margin of 20 percent, it means the company makes 20 cents of profit for each dollar of sales. A high net profit margin means a company is able to control its costs that buy goods and services at prices significantly higher than it costs to produce or provide them.

Result of income ratio shows us that Da Afghanistan bank had a good profit position in 2015 in compare to 2016 because 2016 result shows (-76) cent profit per dolor of sale or revenue but result of 2015 shows 174.91% cent profit per dolor of sale/revenue.

Main reasons are increase of tax on different laciness and commission.

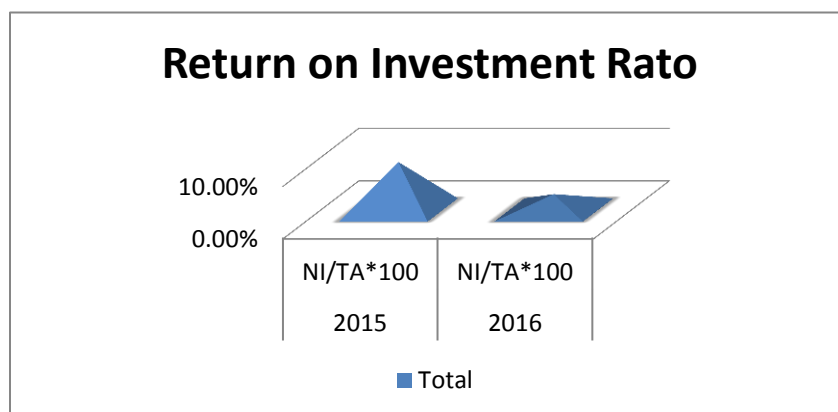
Return on Investment Ratio

Return on income ratio a profitability measure that evaluates the performance of a business by dividing net profit by net worth.

Return on investment, or ROI, is the most common profitability ratio. There are several ways to determine ROI but the most frequently used method is to divide net profit by total assets.

Table 6 Return on Investment Analysis

Year	2015	2016
ROI Ratio	NI/TA*100	NI/TA*100
Total	9.12%	3.02%



Source Da Afghanistan Bank

A high ROI means the investment's gains compare favorably to its cost. As a performance measure, ROI is used to evaluate the efficiency of an investment or to compare the efficiencies of several different investments. In purely economic terms, it is one way of relating profits to capital invested.

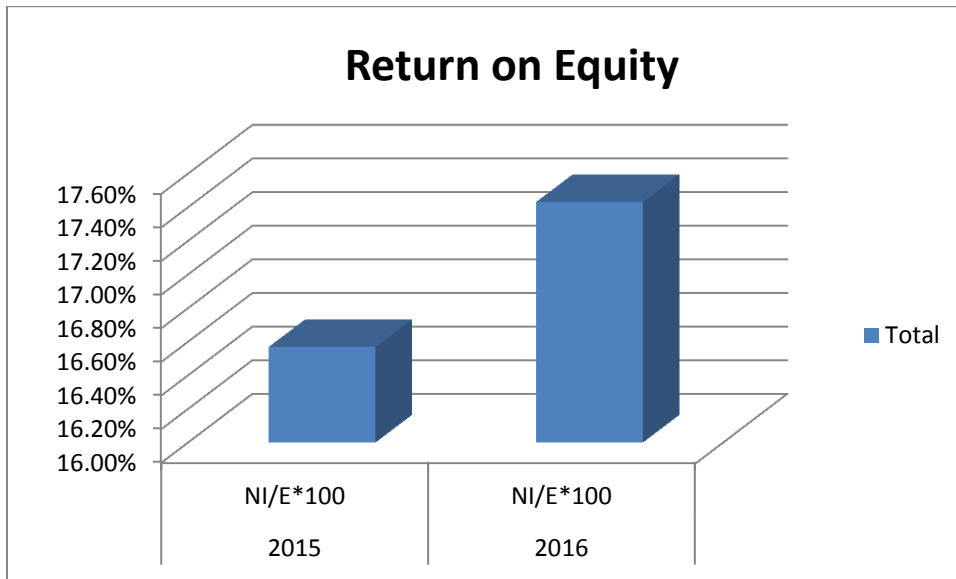
Results shows us that Da Afghanistan bank had good return on investment 9.12% in 2015 but in 2016 return on investment is 3.02% it means that Da Afghanistan bank had not low investment level in 2016.

Return on Equity ratio

Return on equity ratio is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Table 7 Return on Equity

Year	2015	2016
ROE Ratio	NI/E*100	NI/E*100
Total	16.57%	17.43%



Source Da Afghanistan Bank

The return on equity (ROE) ratio tells you how much profit the company can earn from your money.

The formula is this one: $ROE \text{ Ratio} = \text{Net Income} / \text{Shareholder's Equity}$. This ratio tells you how much money the company earns on an investor's dollar. The higher the ROE ratio the higher the profitability

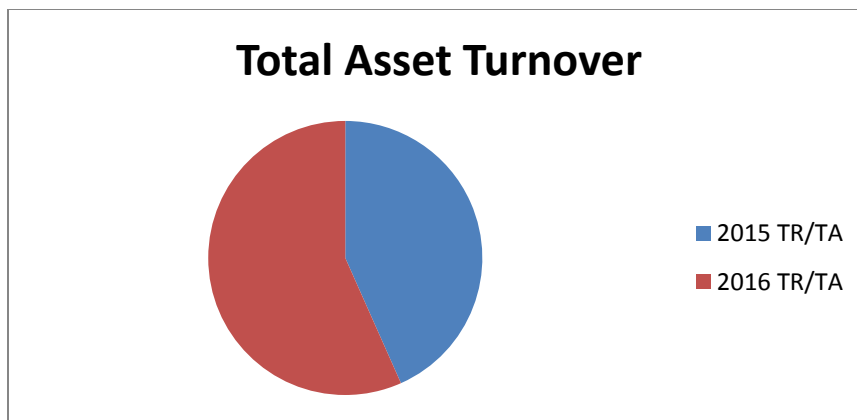
Result of Da Afghanistan bank ROE ratio shows that they generate profit from shareholder dollar in 2015 16.57% and 17.43 in 2016 which 2016 shows higher profit than 2015 means bank is in going to strong position.

Total Asset turnover Ratios

Total asset turnover ratio is an efficiency ratio that measures a company's ability to generate sales from its assets by comparing net sales with average total assets. In other words, this ratio shows how efficiently a company can use its assets to generate sales.

Table 8 Total Asset Turnover Ratio Analysis

Year	2015	2016
Total Asset Turnover	TR/TA	TR/TA
Total	3.03%	3.96%



Source Da Afghanistan Bank

Total Asset turnover is a financial ratio that measures the efficiency of a company's use of its assets in generating sales revenue or sales income to the company. Companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover.

Higher turnover ratios mean the company is using its assets more efficiently. Lower ratios mean that the company isn't using its assets efficiently and most likely have management or production problems.

For instance a ratio of 1 means that the net sales of a company equal the average total assets for the year.

Results of 2016 and 2015 of Da Afghanistan bank shows higher turnover in both years special in 2016 more than 2015 it shows best use of Asset in efficient way.

Conclusion and Recommendations

1.1 Conclusion

The main purpose of this thesis was to investigate financial performance of the Da Afghanistan bank for 2015&2016 which I have done it through financial ratios analysis and by the help of financial annual reports of both years.

Financial performance of Da Afghanistan bank in 2015 show best position In compare to 2014&2016 because banking system of country shows high capital increase in asset 5.48% in compare to 2014 about 256.62 billion and Total gross loan increase 5.03% in compare to 2014 about 44.41 billion and customer deposit which are consider as the main funding source in bank have increased 8.29% in compare to 2014 amounting 23700 billion, Da Afghanistan bank gain

total net income 522 million in 2015 which show decrease 74% from the net profit of 2.18 billion of previous years 2014.

Result shows that Asset increased in 2016 amounting 23770697 in compare to 2015 and decrease in profit 30250677 and as we have collocated current ratio of Da Afghanistan Bank in two years 2015&2016 it shows that in 2015 Da Afghanistan bank had low abilities in compare to 2016 to pay all them liabilities but according to chart it show that the abilities of Da Afghanistan bank improved and became stronger in 2016 which show strong ability of bank for covering them current liabilities and assets. The higher the quick ratio, the better the company's liquidity position but result shows that in both years quick ratio is less than 1 that is why we can say Da Afghanistan bank faced to problems during last two years but 2015 is better than 2016 but result of 2015 is good than 2016.

According to the result of working capital ratio of 2015 shows negative result in compare to 2016 Da Afghanistan bank improved in 2016 with strong working capital which can easily cover them short term debts. Means Da Afghanistan bank have more current asset in 2016 than 2015 it show strong financial position and good improvements in all part of bank.

Results of debt ratio of Da Afghanistan bank it shows higher degree of debt financing because the results is above 0.4% but 2015 result is good in compare to 2016 and result of income ratio shows us that Da Afghanistan bank had a good profit position in 2015 in compare to 2016 because 2016 result shows 76 cent profit per dolor of sale or revenue but result of 2015 shows 301 cent profit per dolor of sale/revenue. Da Afghanistan bank ROE ratio shows that they generate profit from shareholder dolor in 2015 16.57% and 17.43 in 2016 which 2016 shows higher profit than 2015.

Higher turnover ratios mean the company is using its assets more efficiently. Lower ratios mean that the company isn't using its assets efficiently and most likely have management or production problems results of 2016 and 2015 of Da Afghanistan bank shows higher turnover in both years special in 2016 more than 2015 it shows best use of Asset in efficient way.

Over all result shows best performance of Da Afghanistan bank in 2015 in compare to 2016 in each part exception of some parts because profit of 2015 was 46280845 but 2016 profit was 16030168 which has huge difference because it has three main reasons which is consist in:

1. Increase of lenience and commission fee by new management.
2. Big change in foreign exchange rate which it has brought negative impact on net income.

3. Decreasing over all reserve of bank which is doors.

Recommendation

This report is prepared on the basis of financial performance analysis. The report has attempted to give details of financial performance. In preparing the report it is understood that financial performance is not a simple matter, rather it is the parents of all analysis of a bank.

The following point my help Da Afghanistan bank for investment and finance to perform will in the future.

- Increasing the bank branches and working speed: for the purpose of sending central bank service to all in each part of Afghanistan.
- Operational efficiency should be increased by reducing cost and wastages and improving operating and management performance.
- To concentrate more to increase return on asset and return on equity ratios by ensuring maximum utilization of its assets.
- In the branches most of the employees are working so many extra time, so management should provide some extra incentives to motivate the employee.
- The training evaluation process and form is to be more modernized.
- The bank should regularly make use of ratio analysis and measure should be taken to improve undesirable ratios.
- Government regulation should be flexible and policy should be realistic
- Liquidity position of the bank should be improved by reducing current liabilities.
- Financing agriculture, manufacturing and small scale industries sectors.
- Maximum utilities of information technology electronic banking service.
- Participation in capital market
- Student accounts and financing education.
- Sharing enough information with customer for good communication purpose.
- Creating financial market in Afghanistan with high control.
- Increasing and supporting Islamic banking service in each part of country.
- Hiring young generation for managing Da Afghanistan bank in modern ways as they have learned in and out of country.

- High controlling on exchange rate for the purpose to save value of AF currency normal.
- Increasing investment in different part for the purpose to serve more to Afghanistan and earn enough net income.
- Print, mint and issue Afghani banknotes and coins in high quality paper money.
- High level collection of people deposits.
- Providing advantageous information about having bank account to people because many of our homelands even do not know that what is bank account.
- High control on private banks of country for best accommodation of central bank rules.
- Strong investigation of money laundering.
- Creating new policy for registration of all Afghanistan resident capital.
- Accommodation of all rules in best way internally and externally.
- Implementation of rule all related banks equally to all.
- Strong attention to Liquidity position because it has changed to weak position in compare to 2015.

Limitation to study

From Starting of this study some force has restricted the area of study, which may interrupt the accuracy, fluency knowledge limitation of this whole work.

Study exclusively depends on the published financial data, so it is subject to all limitations that are inherent in the condensed published financial statements.

The study is confined to two years data only (2015–2016). Detailed analysis covering a lengthy period, which may give slightly different results, has not been made.

The study is based on secondary data collected from the website www.dab.gov.af and branch so the quality of the study depends purely upon the accuracy, reliability and quality of the secondary data source.

Shorter time frame may be restricted area of study.

The main model, profitability analysis, used in this research to evaluate the Foreign exchange financial performance of DAB has some limitations itself.

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