EY
Building a better
working world

Bank Alfalah Limited - Afghanistan
Financial statements
For the year ended 31 December 2017

Independent auditor's report

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
House 1013, Street 2
Shirpoor Road, Kabul
Afghanistan

Tel: +93 752 055 025
ey.kbl@af.ey.com
ey.com/pk

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
House 1013, Street 2
Shirpoor Road, Kabul
Afghanistan

Tel: +93 (0) 752 055 025
ey.kbl@af.ey.com
ey.com/pk

INDEPENDENT AUDITORS' REPORT TO THE COUNTRY MANAGER OF BANK ALFALAH LIMITED AFGHANISTAN

Opinion

We have audited the accompanying financial statements of Bank Alfalah Limited Afghanistan (the Bank), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the accounting framework as stated in note 2 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Afghanistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter paragraph

We draw attention to note 2.1 to the financial statements which fully explains the matter relating to proposed sale of Afghanistan operations of the Bank to a potential buyer.

Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting framework as stated in note 2 to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Building a better
working world

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

EY

Building a better
working world

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Ford Rhodes Sidat Hyder

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Date: 10 March 2018
Kabul, Afghanistan
Audit Engagement Partner: Shabbir Yunus

BANK ALFALAH LIMITED AFGHANISTAN
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	31 December 2017	31 December 2016
		--------- (Afs '000') ---------	
Assets			
Cash and cash equivalents	5	**9,935,867**	5,861,381
Investments - net	6	**5,011,272**	8,428,591
Loans and advances to banks - net	7	**698,592**	536,819
Loans and advances to customers - net	8	**1,459**	1,490
Property and equipment	9	**7,526**	8,807
Deferred tax asset	10	**-**	9,932
Advance tax - net		**33,732**	88,639
Other assets	11	**1,221,515**	931,104
Total assets		**16,909,963**	15,866,763
Liabilities			
Deposits from banks	12	**2,018,941**	242,795
Deposits from customers	13	**13,445,364**	14,170,142
Deferred tax liability	10	**307**	-
Other liabilities	14	**43,371**	93,252
Total liabilities		**15,507,983**	14,506,189
Equity			
Capital contributed by Head Office	15	**1,000,000**	1,000,000
Capital reserve	16	**30,813**	19,611
Surplus on revaluation of available for sale investments		**69,051**	11,863
Retained earnings		**302,116**	329,100
Total equity		**1,401,980**	1,360,574
Total liabilities and equity		**16,909,963**	15,866,763
Contingencies and commitments	17		

The annexed notes 1 to 28 form an integral part of these financial statements.

Country Finance Manager

Country Manager

BANK ALFALAH LIMITED AFGHANISTAN
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	31 December 2017	31 December 2016
		------- (Afs '000') -------	
Interest income	18	498,587	348,758
Interest expense	18	(113,778)	(57,521)
Net interest income		384,809	291,237
Fee and commission income	19	97,842	158,106
Fee and commission expense	19	(14,938)	(13,242)
Net fee and commission income		82,904	144,864
Income from dealing in foreign currencies		13,721	12,344
Other income	20	119,345	40,310
Total operating income		600,779	488,755
Provision on placements		(15,606)	(1,336)
Provision on investments - net	6	(50,619)	-
Provision on loans and advances to banks - net		(2,846)	(4,210)
(Provision) / reversal on loans and advances to customers - net	8.2	(29)	1,699
Provision on other assets		(725)	(13,900)
Provision on letter of guarantees	14	(2,437)	-
Net operating income		528,517	471,008
Personnel expenses		(96,475)	(95,952)
Depreciation	9	(3,709)	(4,122)
Other operating expenses	21	(115,542)	(89,918)
Total operating expenses		(215,726)	(189,992)
Profit before taxation		312,791	281,016
Taxation	22	(88,753)	(38,478)
Profit for the year		224,038	242,538
Other comprehensive income			
Items that may be reclassified to profit or loss subsequently			
Surplus on revaluation of available for sale investments		71,484	86,502
Related deferred tax		(14,296)	(17,301)
Other comprehensive income, net of tax		57,188	69,201
Total comprehensive income for the year		281,226	311,739

The annexed notes 1 to 28 form an integral part of these financial statements.

Country Finance Manager

Country Manager

BANK ALFALAH LIMITED AFGHANISTAN
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Capital contributed by Head Office	Surplus on revaluation of available for sale investments	Capital reserve	Retained earnings	Total
		Afs '000'				
As at 01 January 2016		1,000,000	(57,338)	7,484	201,665	1,151,811
Total comprehensive income:						
Profit for the year		-	-	-	242,537	242,537
Other comprehensive income, net of tax						
Fair value reserve (available-for-sale financial assets):						
Net change in fair value		-	86,502	-	-	86,502
Related tax		-	(17,301)	-	-	(17,301)
		-	69,201	-	-	69,201
Total comprehensive income		-	69,201	-	242,537	311,738
Transferred to capital reserve		-	-	12,127	(12,127)	-
Transactions with owners of the Bank:						
Profits remitted to Head Office		-	-	-	(102,975)	(102,975)
As at 31 December 2016		1,000,000	11,863	19,611	329,100	1,360,574
Total comprehensive income:						
Profit for the year		-	-	-	224,038	224,038
Other comprehensive income, net of tax						
Fair value reserve (available-for-sale financial assets):						
Net change in fair value		-	86,313	-	-	86,313
Related tax		-	(17,263)	-	-	(17,263)
Reclassification adjustments relating to available for sale investments disposed off during the year - net		-	(14,829)	-	-	(14,829)
Related tax on disposal of available of available for sale investments during the year		-	2,967	-	-	2,967
		-	57,188	-	-	57,188
Total comprehensive income		-	57,188	-	224,038	281,226
Transferred to capital reserve	16	-	-	11,202	(11,202)	-
Transactions with owners of the Bank						
Profits remitted to Head Office		-	-	-	(239,820)	(239,820)
As at 31 December 2017		1,000,000	69,051	30,813	302,116	1,401,980

The annexed notes 1 to 28 form an integral part of these financial statements.

Country Finance Manager

Country Manager

BANK ALFALAH LIMITED AFGHANISTAN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017	31 December 2016
		--------- (Afs '000') ---------	
Cash flows from operating activities			
Profit before taxation		312,791	281,016
Adjustments for:			
Depreciation	9	3,709	4,122
Provision/(Reversal) on loans and advances to customers - net	8.2	29	(1,699)
Provision against placements		16,942	(1,336)
Provision on investments	6	50,619	-
Provision on loans and advances to banks - net		2,846	-
Provision on other assets	11.2.2	725	13,900
Provision on letter of guarantees	14	2,437	-
Loss on property and equipment written off		21	
Unrealised gain on Interest Rate Swaps		(4,884)	(8,236)
		385,235	287,767
Changes in:			
Loans and advances to banks - net		(164,619)	449,160
Loans and advances to customers - net		2	113,793
Advance tax - net		33,718	(24,554)
Other assets		(303,194)	162,505
Deposits from banks		1,776,146	(121,814)
Deposits from customers		(724,778)	1,467,303
Other liabilities		(52,455)	(27,313)
		950,055	2,306,847
Net cash generated from operating activities		950,055	2,306,847
Cash flows from investing activities			
Increase / (decrease) in investments - net		3,366,700	(4,116,742)
Purchase of property and equipment	9	(2,449)	(3,757)
Net cash generated from / (used in) investing activities		3,364,251	(4,120,499)
Cash flows from financing activities			
Remittances to the Head Office		(239,820)	(102,975)
Net cash used in financing activities		(239,820)	(102,975)
Net increase / (decrease) in cash and cash equivalents		4,074,486	(1,916,627)
Cash and cash equivalent at beginning of the year		5,861,382	7,778,009
Cash and cash equivalents at end of the year	5	9,935,868	5,861,382

The annexed notes 1 to 28 form an integral part of these financial statements.

Country Finance Manager

Country Manager

1. Status and nature of business

Bank Alfalah Limited Afghanistan ("the Bank") is a foreign branch of Bank Alfalah Limited, Pakistan and is registered and operating in Afghanistan as a commercial bank. The Bank obtained business license from Afghanistan Investment Support Agency which has been renewed by Ministry of Commerce and Industries (MoCI) on 23 July 2017. The Bank commenced its operations on 05 September 2005 under the license for commercial banking issued by Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan.

Currently, the Bank has two conventional banking branches at Kabul and Herat. Sub-branch of the Bank in UN Compound Kabul was closed upon completion of the agreement on 20 June 2017. During the year, the Bank has closed operations under Islamic banking window as per paragraph 7 of article 19 of the Banking Law of Afghanistan.

The registered office of the Bank is located in Kabul, Afghanistan.

2. Basis of preparation and measurement

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

These financial statements have been prepared using accrual basis of accounting under the historical cost convention except for the financial instruments designated as available-for-sale which are measured at fair value (Note 4.3(d)).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

2.1 During the year, the Board of Directors of Bank Alfalah Limited, Pakistan accorded its in-principle approval and authorized the management of the Bank to explore the possibility to sell the Afghanistan Operations of the Bank to the potential buyer, subject to obtaining all regulatory approvals, compliance with applicable laws and regulations in the matter.

Pursuant to receipt of a non-binding offer and in-principle approval from the State Bank of Pakistan, the Bank is in the process of completing all the above formalities including the due diligence of its Afghanistan operations and the negotiations with the potential buyer.

The management believes that the proposed transaction will not have any material impact on the carrying values and classification of assets and liabilities as reflected in the financial statements.

2.2 The accounting policies adopted in preparing the financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations described below, starting from 01 January 2017.

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

Standard or Interpretation

IAS 7 Financial Instruments: Disclosures - Disclosure Initiative - (Amendment)
IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses (Amendments)

Annual Improvements to IFRSs 2014- 2016 Cycle

IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12

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

2.3 Standards, amendments and improvements to approved accounting standards that are not yet effective

The following new or amended standards are not expected to have a significant impact on the Bank's financial statements.

Standard or Interpretation	Effective date (annual periods beginning on or after)
IFRS 2: Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)	01 January 2018
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	01 January 2019
IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)	01 January 2018
IAS 40 Investment Property: Transfers of Investment Property (Amendments)	01 January 2018
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2018
IFRS 9 – Prepayment Features with Negative Compensation (Amendments)	01 January 2018
IFRS 15 – Revenue from Contracts with Customers	01 January 2018
IFRS 16 – Leases	01 January 2019
IFRS 17 – Insurance Contracts	01 January 2021
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	01 January 2018
FRS 16 – Leases	01 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	01 January 2019

The Bank expects that the adoption of the above amendments and interpretation of the standards will not materially affect the Bank's financial statements in the period of initial application except for IFRS 9- "Financial Instruments".

IFRS 9 includes three parts on accounting of financial instruments: recognition and measurement, impairment and hedge accounting. IFRS 9 is mandatorily effective for annual periods beginning on or after 01 January 2018, with early adoption permitted. Except for hedge accounting, the standard is

applied retrospectively, but provision of comparative information is not mandatory. Requirements in respect of hedge accounting are mainly applied prospectively, with several limited exclusions.

The Bank plans to apply the new standard from the required effective date and will not recalculate comparative information. Currently, the Bank is in the process of performing a detailed assessment of the impact of IFRS 9 and therefore it has not been presented in these financial statements.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB in December 2016. Such improvements are generally effective for accounting periods beginning on or after 01 January 2018 and 01 January 2019. The Bank expects that such improvements to the standards will not have any impact on the Bank's financial statements in the period of initial application.

3. Use of critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgments will, by definition, rarely equal the related actual results.

During the year, DAB has revised Asset Classification and Provisioning Regulation which were effective from 01 October 2017. These regulations required banks to maintain certain general provisions in the financial statements. Accordingly, general provision created against placements, investments, loans and advances to banks, other assets and off-balance sheet obligations amounted to AFN 53,781 thousands at the year end. However, the above general provisions have been reversed subsequent to year end, due to further revision in the above regulations which was approved by the Supreme Council of DAB on 06 January 2018, and effective from 01 January 2018.

The material estimates, assumptions and judgments used to measure and classify the carrying amounts of assets and liabilities are outlined below:

a) Provision of income taxes

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

b) General provision on investments, placements and other assets

As per Asset Classification and Provisioning Regulation, the management maintains a provision of 1% on collective balance of investments (excluding those with DAB), 1% on placements (excluding placements with original maturity below 30 days) and 1% on other assets (excluding those with DAB) to cover the counter party risk.

c) Property and equipment

The Bank reviews the useful life, depreciation method and residual value of property and equipment at each statement of financial position date. Any change in estimates may affect the carrying amounts of the respective items of property and equipment with a corresponding effect on the depreciation charge.

d) Impairment of financial instruments

The Bank reviews customers' loan balances on monthly basis for impairment and records the impairment allowance for possible loan losses as per the Bank's policy, funding covenants and DAB regulation as disclosed in (note 4.4 (b)).

The Bank reviews loans to customer balances for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations. The Bank maintains a general provision of 1% (31 December 2016: 1.5%) against outstanding loan and advances to customers as at the year end.

e) Held-to-maturity investments

The Bank follows IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment the Bank evaluates its intention and ability to hold such investments to maturity.

4. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all the periods presented in these financial statements.

4.1 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity including cash in hand and at ATM, unrestricted balances with the DAB, balances with banks, capital notes and placements.

4.2 Financial instruments

Financial assets and liabilities are recognized when the Bank becomes a party to the contractual provisions of the instrument, and derecognized when the Bank loses control of the contractual rights that comprise the financial assets, and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

These are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or loss on de-recognition of financial assets and financial liabilities are included in income for the year.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in statement of comprehensive income.

When a sales or transfer of held to maturity securities represents a material contradiction with the Bank's stated intent to hold those securities to maturity or when a pattern of such sales has occurred, any remaining held to maturity securities are reclassified to available for sale. The reclassification is recorded in the reporting period in which the sale or transfer occurs and accounted for as a transfer.

4.3 Financial assets

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

a) *Financial assets at fair value through profit or loss*

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

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

Financial assets are designated at fair value through profit or loss at inception when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for such as loans and advances to customers or banks and debt securities in issue;

- certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or Bank Alfalah Limited Afghanistan investment strategy and reported to key management personnel on that basis are designated at fair value through profit or loss;

- financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify that cash flows, are designated at fair value through profit or loss; and

- financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss.

b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Cash and balances with DAB, balances with other banks, placements, and receivable from financial institutions, loans and advances to customers and security deposits and other receivables are classified under this category.

c) *Held-to-maturity financial assets*

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

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses (see 3 (d)).

Capital notes with DAB and certain investment bonds are classified under this category.

d) *Available-for-sale financial assets*

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets (AFS) are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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

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

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

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

4.4 Impairment of financial assets

a) *Assets carried at amortized cost except for loans and advances to customers*

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

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

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower (for example, equity ratio and net income percentage of sales);
- breach of loan covenants or conditions;
- initiation of bankruptcy proceedings;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral; and
- downgrading below investment grade level.

The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

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

b) *Loan and advances to customers*

These are stated net of general provision on loans and advances considered 'Standard' and specific provision for non-performing loans and advances if any. The outstanding principal of the advances are classified in accordance with the Asset Classification and Provisioning Regulation (ACPR) issued by DAB and the following:

i) **Standard**: These are loans and advances, which are paying in a current manner or at most past due for the period of 1-30 days, fully secured and is supported by sound net worth, profitability, liquidity and cash flow of the obligor. Standard assets are sufficiently secured with respect to the repayment of both the principal amount and interest. An overdraft would be regarded as Standard if monthly interest payments and other charges are past due for 1-30 days, and there was regular activity on the account with no sign of a hard core of debt developing. A standard provision is maintained in the books of account @1% (31 December 2016: 1.5%) of value of such loans and advances.

ii) **Watch**: These are loans and advances which are adequately protected, but are potentially weak. Such an asset constitutes an unwarranted credit risk, but not to the point of requiring a classification of Substandard. The credit risk may be minor, and most instances, bank management can correct the noted deficiencies with increased attention. Further, all loans and advances which are past due by 31 to 60 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account not less than 5% of value of such loans and advances.

iii) **Substandard**: These are loans and advances which show clear manifestations of credit weaknesses that jeopardize the liquidation of the debt. Substandard loans and advances include loans to borrowers whose cash flows are not sufficient to meet currently maturing debts, loans to borrowers which are significantly undercapitalized, and loans to borrowers lacking sufficient working capital to meet their operating needs.

Further, all loans and advances which are past due by 61 to 120 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account not less than 25% of value of such loans and advances.

iv) **Doubtful**: These are loans and advances which display all the weaknesses inherent in loans and advances classified as Substandard but with the added characteristics that they are not well secured and the weaknesses make collection or liquidation in full, on the basis of currently available information, highly questionable and improbable. The possibility of loss is extremely high, but because of certain mitigating circumstances, which may work to the advantage and strengthening of the facility, its classification as an estimated loss is postponed until its more defined status is ascertained. Further all loans and advances which are past due by 121 to 480 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account not less than 50% of value of such loans and advances.

v) **Loss**: These are loans and advances which are considered uncollectible and of such little value that their continuation as recoverable facilities is not defensible. This classification does not imply that the facility has absolutely no recoverable value, but rather it is not practical or desirable to defer making full provisions for the facility even though partial recover in future may not be entirely ruled out. Loans and advances classified as Loss include those to bankrupt companies and insolvent firms with negative working capital and cash flow or those to judgment debtors with no means or foreclosable collateral to settle the debts. Further, all loans and advances which are past due over 481 days for principal and interest payments are classified as Loss. This category of loans shall be retained in bank balance sheet for the period of 6 month for recovery purposes and 100% loan loss provisioning should be made. After 6 months, they shall be immediately written off with the provisioning made.

c) *Assets classified as available for sale*

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

4.5 Financial liabilities

The Bank classifies its financial liabilities in following categories.

a) *Financial liabilities at fair value through profit or loss*

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

b) *Other financial liabilities measured at amortized cost*

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

4.6 Fair value measurement

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is neither evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit and loss in an appropriate basis over the life of the instrument but no later than when valuation is wholly supported by observable market data or transaction is closed out.

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

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

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

4.7 Property and equipment

These are stated at historical cost less accumulated depreciation and impairment, if any, except for land and capital work in progress which is stated at cost less impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the depreciable amount of the assets over their estimated useful life as follows:

Leasehold improvements	5 years
Furniture and fittings	4 to 10 years
Electrical, office and computer equipment	4 years
Vehicles	4 years

Depreciation is charged on additions during the year from the month they become available for their intended use while no depreciation is charged in the month of disposal of assets.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount. These are included in other income in the statement of comprehensive income.

4.8 Impairment of non-financial assets

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

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Reversal of the impairment losses is restricted to the original cost of the assets.

4.9 Taxation

Current

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

Deferred

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

4.10 Revenue recognition

a) Interest income and expenses for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest rate method.

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

c) Gains and losses on disposal of property and equipment are recognized in the period in which disposal is made.

d) Fees and commission income and expense are recognized on an accrual basis when the service has been provided/received.

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

4.11 Foreign currency transactions and translation

a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is Afghani (Afs). All amounts have been rounded to the nearest thousands, except when otherwise indicated.

b) Transactions and balances

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

The exchange rates for following currencies against Afs were:

	1 US $	1 Euro	1 GBP
As at 31 December 2017	69.72	83.27	93.21
As at 31 December 2016	66.83	69.79	81.70

4.12 Provisions

Provisions are recognized when there are present, legal or constructive obligations as a result of past events; it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amounts can be made. Provision for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations.

4.13 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements when there is a legally enforceable right to offset the recognized amounts and the Bank intends to settle either on a net basis or realize the assets and settle the liabilities simultaneously.

4.14 Employee benefits

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

	Note	31 December 2017	31 December 2016
		--------- (Afs '000') ---------	
5. Cash and cash equivalents			
Cash in hand			
Local currency		**10,815**	32,292
Foreign currency		**111,800**	126,861
		122,615	159,153
Unrestricted balances with Da Afghanistan Bank			
Local currency		**2,639,355**	480,601
Foreign currency		**883,877**	761,109
		3,523,232	1,241,710
Balances with other banks and financial institutions			
Current accounts	5.1	**647,838**	1,566,714
Short term placements with banks			
Capital notes (maturity less than three months)	5.2	**2,319,536**	833,059
Time deposits with other banks	5.3	**3,339,588**	2,062,081
		5,659,124	2,895,140
General provision held	5.4	**(16,942)**	(1,336)
		9,935,867	5,861,381

5.1 These represent balances in nostro accounts with various financial institutions.

5.2 These represent capital notes issued by DAB for a maturity period of three months. These capital notes carry interest rate ranging from 0.13% to 1.68% (31 December 2016: 1.8% to 3.35%) per annum.

5.3 These represent overnight and fixed term placements with financial institutions outside Afghanistan up to a maximum period of one month (31 December 2016: three months) in USD carrying interest at rates ranging from 1.30% to 2.15% (31 December 2016: 1% to 1.5%) per annum.

5.4 General provision is held at 1% (31 December 2016: 1%) in accordance with "Asset Classification and Provisioning Regulation" issued by DAB.

	Note	31 December 2017	31 December 2016
		--------- (Afs '000') ---------	
6. Investments - net			
Available for sale			
- Foreign bonds	6.1	**4,367,733**	6,217,029
Held to maturity			
Capital notes with DAB		**-**	1,546,427
Bonds	6.2	**694,158**	665,135
		694,158	2,211,562
General provision held	6.3	**(50,619)**	-
		5,011,272	8,428,591

Ew

6.1 The breakup of foreign bonds is as follows;

	Rating	Rating Agency	31 December 2017	31 December 2016
			--------- (Afs '000') ---------	
Oman	Baa2	Moody's	**698,106**	669,062
The Islamic Republic of Pakistan	B3	Moody's	**387,364**	756,654
Third Pakistan International Sukuk Company Limited	B3	Moody's	**352,473**	341,458
Saudi Arabia	A1	Moody's	**342,463**	318,014
Abu Dhabi Government International	Aa2	Moody's	**342,451**	-
Oman	Baa2	Moody's	**339,514**	323,795
Indonesia Sovereign Bonds (Sukuks)	Baa3	Moody's	**287,196**	336,335
South Africa Sovereign Bonds (Sukuks)	Baa3	Moody's	**283,141**	271,394
Kazakhstan	B3	Moody's	**217,765**	201,432
Republic of Indonesia	Baa3	Moody's	**188,302**	100,774
Republic of Indonesia	Baa3	Moody's	**177,188**	143,449
Republic of Sri Lanka	B1	Moody's	**147,512**	-
Kingdom of Jordan	B1	Moody's	**138,913**	-
Abu Dhabi Government International	Aa2	Moody's	**136,596**	-
Republic of Sri Lanka	B1	Moody's	**109,485**	99,033
Kingdom of Jordan	B1	Moody's	**71,985**	-
Oman	Baa2	Moody's	**67,905**	-
United Mexican States	A3	Moody's	**43,458**	34,133
Republic of Indonesia	Baa3	Moody's	**35,916**	35,163
Abu Dhabi Commercial Bank (ADCB)	A1	Moody's	-	668,928
Qatar National Bank Finance Limited (QNB) Bond	Aa3	Moody's	-	-
Kingdom of Bahrain	Ba2	Moody's	-	348,729
State of Qatar	Aa2	Moody's	-	646,173
Turkey	Ba1	Moody's	-	227,243
Kingdom Of Bahrain	Ba2	Moody's	-	343,620
Republic of Indonesia	Baa3	Moody's	-	33,626
Saudi Arabia	A1	Moody's	-	318,014
			4,367,733	6,217,029

These bonds are listed at various stock exchanges including London Stock Exchange. The yield on these bonds ranges from 1.63% to 8.25% (31 December 2016: 1.53% to 8.25%) per annum maturing latest by 11 May 2027.

6.2 This represents investment in the Islamic Republic of Pakistan and State of Qatar bonds amounting to USD 5 million equivalent to Afs 348,600 thousands each (31 December 2016: USD 5 million equivalent to Afs 334,150 thousands each) carrying interest rate of 7.25% (31 December 2016: 7.25%) and 3.25% (31 December 2016: 3.25%) per annum respectively.

6.3 General provision is held at 1% (31 December 2016: Nil) in accordance with "Asset Classification and Provisioning Regulation" issued by DAB.

	Note	31 December 2017	31 December 2016
		------ (Afs '000') ------	
7. Loans and advances to banks - net			
Foreign bills discounted and purchased	7.1	**585,648**	421,029
Term loan	7.2	**120,000**	120,000
		705,648	541,029
Less: Impairment loss on loans and advances to banks	7.3	**(7,056)**	(4,210)
Net loans and advances to banks		**698,592**	536,819

7.1 These bills are purchased from various financial institutions. These have maximum maturity of seven months (31 December 2016: six months) and carry interest rate of 3% (31 December 2016: 0.75% to 3.5%) per annum.

7.2 Term loan is issued to Foundation for International Community Assistance (FINCA), having maturity of one year and carrying interest rate of one year capital note cut off rate plus 2%, floor 8% (31 December 2016: one year capital note cut off rate plus 2%, floor 8%) per annum. This loan is secured against Citibank guarantee.

7.3 General provision is held at 1% (31 December 2016: 1%) in accordance with "Asset Classification and Provisioning Regulation" issued by DAB.

	Note	31 December 2017	31 December 2016
		--------- (Afs '000') ---------	
8. Loans and advances to customers - net			
Loans and advances to customers at amortized cost	8.1	**1,488**	1,490
Less: Impairment loss on loan and advances to customers	8.2	**(29)**	-
Net loans and advances to customers		**1,459**	1,490

8.1 Loans and advances to customers at amortized cost

		2017 Gross amount	2017 Allowance for impairment	2017 Carrying amount	2016 Gross amount	2016 Allowance for impairment	2016 Carrying amount
		(Afs '000')					
Advance against credit cards	8.1.1	1,488	(29)	1,459	1,490	-	1,490
		1,488	(29)	1,459	1,490	-	1,490

8.1.1 These balances carry interest at the rate of 20% (31 December 2016: 20%) per annum. These are fully secured against cash margin.

	Note	31 December 2017	31 December 2016
		--------- (Afs '000') ---------	
8.2 Allowance for impairment (General / specific)			
Movement in allowance for impairment			
Balance at beginning of the year		-	1,712
Charge for the year	8.3	29	-
Reversal during the year		-	(1,699)
Exchange adjustment		-	(13)
Balance at end of the year		29	-

8.3 As at 31 December 2017, there is no overdue loan to be classified in the category of watchlist, substandard, doubtful or loss.

9. Property and equipment

	Leasehold improvements	Furniture & fixtures	Electrical, office and computer equipment	Vehicles	Total
	(Afs '000')				
Cost					
Balance at 1 January 2016	22,099	11,351	36,607	9,722	79,779
Additions	-	2,240	1,517	-	3,757
Balance at 31 December 2016	22,099	13,591	38,124	9,722	83,536
Balance at 1 January 2017	**22,099**	**13,591**	**38,124**	**9,722**	**83,536**
Additions	**-**	**-**	**2,449**	**-**	**2,449**
Disposals	**-**	**(2,468)**	**(1,909)**	**-**	**(4,377)**
Balance at 31 December 2017	**22,099**	**11,123**	**38,664**	**9,722**	**81,608**
Depreciation					
Balance at 1 January 2016	20,795	10,001	30,089	9,722	70,607
Charge for the year	359	690	3,073	-	4,122
Balance at 31 December 2016	21,154	10,691	33,162	9,722	74,729
Balance at 1 January 2017	**21,154**	**10,691**	**33,162**	**9,722**	**74,729**
Charge for the year	**354**	**435**	**2,920**	**-**	**3,709**
Depreciation on disposals	**-**	**(2,464)**	**(1,892)**	**-**	**(4,356)**
Balance at 31 December 2017	**21,508**	**8,662**	**34,190**	**9,722**	**74,082**
Carrying amounts					
Balance at 31 December 2016	945	2,900	4,962	-	8,807
Balance at 31 December 2017	**591**	**2,461**	**4,474**	**-**	**7,526**
Depreciation rate	**20%**	**10% - 25%**	**25%**	**25%**	

9.1 Included in cost of property and equipment are fully depreciated assets still in use having cost of Afs 47,064 thousands (31 December 2016: Afs 47,064 thousands).

0. Deferred tax (liabilities) / assets arising in respect tax losses / gains

	31 December 2017	31 December 2016
	(Afs '000')	
Surplus on revaluation of available for sale investments	**(17,263)**	(2,967)
Provision against other assets	**16,488**	13,303
Unrealised loss on Interest Rate Swaps	**1,616**	883
Accelerated tax depreciation and amortization	**(1,148)**	(1,287)
	(307)	9,932

0.1 Movement in temporary differences during the year

	Balance as at 01January 2016	Recognized in statement of comprehensive income	Recognized in equity through other comprehensive income	Balance at 31 December 2016	Recognized in statement of comprehensive income	Recognized in equity through other comprehensive income	Balance at 31 December 2017
		(Afs '000')					
Deferred tax assets arising in respect of:							
Tax losses carried forward	15,563	(15,563)	-	-	**-**	-	**-**
Provision against other assets	28,362	(15,059)	-	13,303	**3,185**	-	**16,488**
Unrealised loss on Interest Rate Swaps	2,696	(1,813)	-	883	**733**	-	**1,616**
Deferred tax liabilities arising in respect of:							
Accelerated tax depreciation	(1,573)	286	-	(1,287)	**139**	-	**(1,148)**
Surplus on revaluation of available for sale investments	14,334	-	(17,301)	(2,967)	**2,967**	**(17,263)**	**(17,263)**
	59,382	(32,149)	(17,301)	9,932	**7,024**	**(17,263)**	**(307)**

		Note	31 December 2017	31 December 2016
			--------- (Afs '000') ---------	
11.	**Other assets**			
	Accrued interest		**60,355**	69,116
	Accrued commission on bank guarantees		**-**	11,070
	Advances, deposits and prepayments		**2,838**	7,118
	Restricted deposits with DAB	11.1	**1,149,722**	835,727
	Receivable against credit card transactions		**209**	13,999
	Branch adjustment account		**5,308**	274
	Commission receivable		**1,607**	6,399
	Interest receivable on Interest Rate Swaps		**2,201**	1,324
	Others	11.2	**275,334**	263,921
			1,497,574	1,208,948
	Less: Provision against other assets	11.2.1	**(276,059)**	(277,844)
			1,221,515	931,104
11.1	**Restricted deposits with DAB**			
	- Local currency deposits		**73,635**	64,941
	- Foreign currency deposits		**1,076,087**	770,786
			1,149,722	835,727

Required reserve account is being maintained with DAB to meet minimum reserve requirement in accordance with "Reserve Requirement for Monetary Policy Purposes" of the Banking Regulations issued by DAB. These balances are interest free.

11.2 This represents amount placed in nostro account in New York, United States of America which has been put on hold by a commercial bank pursuant to receipt of notice of seizure based on the order passed by the District Court, District of Columbia, USA. The order was issued at the request of United States Department of Justice (DOJ) which claimed its rights through filing a complaint for forfeiture of assets of third parties in Afghanistan for two customers of the Bank and obtained a court order to hold/seize a certain amount in the nostro accounts of different banks (including Bank Alfalah Limited) wherein the Third Party Customers were maintaining the bank accounts. As a result, the amount has been put on hold for the time being in nostro account of the Bank in New York. The dispute is between the United States Government and the Third Party Customers, who provided logistic services to the United States Military in Afghanistan. The amount put on hold was equivalent to the balances held/blocked by the Bank. However, in January 2014, the Bank had to release the accounts of the Third Party Customers on specific instructions of the Central Bank of Afghanistan (DAB). The Bank, through its legal advisors, requested DOJ that the US Attorney General should exercise his discretion to release the said amount as the Bank did not have any involvement in the dispute between DOJ and the Third Party Customers. The matter is currently pending for adjudication.

11.2.1 Based on the facts as stated in note 11.2 above and because the said amount is not readily available for use of the Bank, the management has, as a matter of prudence, recorded full provision amounting to Afs 276,059 thousands in its books of account.

		31 December 2017	31 December 2016
		--------- (Afs '000') ---------	
11.2.2	**Movement of provision against other assets**		
	Balance at the beginning of the year	**277,844**	270,319
	Charge for the year	**725**	13,900
	Revaluation impact	**(2,510)**	(6,375)
	Balance at the end of the year	**276,059**	277,844

	Note	31 December 2017	31 December 2016
		--------- (Afs '000') ---------	
12. Deposits from banks			
Citibank - New York		**1,996,113**	223,716
The First MicroFinance Bank - Kabul		**22,828**	19,079
	12.1	**2,018,941**	242,795

12.1 These represent current accounts maintained by other banks for their operational activities. These balances are interest free (31 December 2016: Interest free).

	Note	31 December 2017	31 December 2016
		--------- (Afs '000') ---------	
13. Deposits from customers			
Current deposits		**10,520,794**	11,045,322
Saving deposits	13.1	**1,210,302**	610,340
Term deposits	13.2	**1,542,696**	2,322,009
Margin deposits		**171,572**	192,471
		13,445,364	14,170,142

13.1 Saving deposits carry interest rate ranging from 0% to 0.40% (31 December 2016: 0% to 0.55%) per annum.

13.2 Term deposits carry interest rate ranging from 0.75% to 6.52% (31 December 2016: 0.75% to 6.25%) per annum and have maturity period ranging from 01 to 12 months (31 December 2016: 01 to 12 months).

	Note	31 December 2017	31 December 2016
		--------- (Afs '000') ---------	
14. Other liabilities			
Unearned commission on letters of guarantees		**8,897**	20,196
Unrealized loss on re-measurement of Interest Rate Swaps		**7,150**	12,017
Interest payable on Interest Rate Swap		**5,625**	5,361
Accrued expenses		**5,241**	4,637
Interest payable		**3,390**	29,675
DAB assessment fee payable		**3,120**	2,900
Professional charges		**1,572**	7,112
Bills payable		**3,659**	4,849
General provision against letter of guarantees	14.1	**2,437**	-
Others		**2,280**	6,505
		43,371	93,252

14.1 General provision is held at 1% (31 December 2016: Nil) in accordance with "Asset Classification and Provisioning Regulation" issued by DAB.

15. Capital contributed by Head Office

Da Afghanistan Bank (DAB) vide its Letter No. 3783/3971 dated January 07, 2014 requires all branches of foreign banks to convert their minimum equity from other currencies to local currency Afs 1,000,000 thousands gradually till March 31, 2014. Accordingly, the Board of Directors (BOD) of the Head Office, in its meeting held on March 02, 2014 approved capitalization of unappropriated profit to meet the minimum equity requirements of Afs 1,000,000 thousands. The BOD also approved the remittance of remaining unappropriated profit to Head Office to the extent as decided by the management of the Bank. Accordingly, the management remitted profit of Afs 239,820 thousands to the Head Office in July 2017 (31 December 2016: Afs 102,975 thousands in June 2016).

16. Capital Reserves

Article 93 "Reserve Capital" of Corporations and Limited Liability Companies Law of Afghanistan, requires that Bank should transfer 5% of its profit to Capital Reserve to compensate for future possible losses to the extent such capital reserves reaches up to 25% of the Bank's capital.

	Note	31 December 2017	31 December 2016
		--------- (Afs '000') ---------	
17. Contingencies and commitments			
Guarantees	17.1	**640,392**	938,126

17.1 These represent bid bonds and performance based guarantees issued by the Bank.

	31 December 2017	31 December 2016
	--------- (Afs '000') ---------	
18. Net interest income		
Interest income		
Cash and cash equivalents	**164,920**	107,486
Loans and advances to banks and customers	**17,675**	26,926
Investments	**301,942**	206,372
Interest income on Interest Rate Swaps	**14,050**	7,974
	498,587	348,758
Interest expense		
Deposits from customers		
Interest on term deposits	**(84,740)**	(30,090)
Interest on saving deposits	**(2,795)**	(1,334)
	(87,535)	(31,424)
Interest expense on Interest Rate Swaps	**(26,243)**	(26,097)
	(113,778)	(57,521)
Net interest income	**384,809**	291,237
19. Net fee and commission income		
Fee and commission income		
Commission on letters of guarantees issued	**15,224**	24,611
Commission on credit cards	**9,491**	16,379
Funds transfer fee	**46,064**	78,404
Accounts servicing fee	**27,063**	38,712
	97,842	158,106
Fee and commission expense	**(14,938)**	(13,242)
Net fee and commission income	**82,904**	144,864

Eyn

	Note	31 December 2017	31 December 2016
		--------- (Afs '000') ---------	
20. Other income			
Capital gain on sale of foreign currency bonds		85,672	-
Customer charges		33,673	40,310
		119,345	40,310
21. Other operating expenses			
Rent, taxes, insurance, electricity, etc.		45,982	43,017
Legal and professional charges		31,100	4,735
Communications		4,257	4,962
Repairs and maintenance		3,524	3,818
Stationery and printing		1,158	900
Advertisement and publicity		897	1,228
Auditors' remuneration		1,628	1,525
Entertainment		1,487	2,728
Travelling and conveyance		2,725	2,623
Security		12,552	12,344
Visa charges		-	6,272
Loss on re-measurement of Interest Rate Swaps - net		8,079	4,417
Penalties paid to DAB		1,236	329
Other operating expenses		917	1,020
		115,542	89,918
22. Taxation			
In respect of current year		21,189	6,329
In respect of prior years		74,588	-
		95,777	6,329
Deferred tax	10.1	(7,024)	32,149
		(7,024)	32,149
Tax expense		88,753	38,478

22.1 The Bank has filed its tax return till tax year 2016. The Bank believes that its liabilities and accruals for tax are adequate for all open tax years i.e. tax years 2015, 2016 and 2017, based on its assessment of many factors including interpretations of tax law and prior experience.

22.2 Reconciliation of effective tax rate

	2017 Rate	2017 (Afs '000')	2016 Rate	2016 (Afs '000')
Accounting profit for the year		**312,791**		281,016
Applicable tax @ 20%	**20%**	**62,558**	20%	56,203
Effect of tax on dividend to shareholders	**-15%**	**(47,964)**	-7%	(20,595)
Effect of tax relating to prior years	**24%**	**74,588**	0%	-
Utilisation of brought forward losses	**0%**	**-**	-5%	(15,389)
Effect of inadmissible expenses	**5%**	**16,850**	1%	1,993
Deferred tax effect relating to:				
Origination and reversal of temporary differences	**-1%**	**(4,057)**	6%	16,586
Others	**-4%**	**(13,222)**	0%	(320)
	28%	**88,753**	14%	38,478

23. Financial assets and liabilities

Accounting classification and fair values

The following table shows the carrying amounts and classification of financial assets and financial liabilities.

	Note	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total
31 December 2017						
Assets						
Cash and cash equivalents	5	**5,642,182**	**4,293,685**	**-**	**-**	**9,935,867**
Investments - net	6	**687,216**	**-**	**4,324,056**	**-**	**5,011,272**
Loans and advances to banks - net	7	**-**	**698,592**	**-**	**-**	**698,592**
Loans and advances to customers - net	8	**-**	**1,459**	**-**	**-**	**1,459**
Other assets	11	**-**	**71,793**	**-**	**-**	**71,793**
		6,329,398	**5,065,529**	**4,324,056**	**-**	**15,718,983**
Liabilities						
Deposits from banks	12	**-**	**-**	**-**	**2,018,941**	**2,018,941**
Deposits from customers	13	**-**	**-**	**-**	**13,445,364**	**13,445,364**
Other liabilities	14	**-**	**-**	**-**	**40,251**	**40,251**
		-	**-**	**-**	**15,504,556**	**15,504,556**
31 December 2016						
Assets						
Cash and cash equivalents	5	2,893,804	2,967,577	-	-	5,861,381
Investments	6	2,211,562	-	6,217,029	-	8,428,591
Loans and advances to banks - net	7	-	536,819	-	-	536,819
Loans and advances to customers - net	8	-	1,490	-	-	1,490
Other assets	11	-	95,377	-	-	95,377
		5,105,366	3,601,263	6,217,029	-	14,923,658
Liabilities						
Deposits from banks	12	-	-	-	242,795	242,795
Deposits from customers	13	-	-	-	14,170,142	14,170,142
Other liabilities	14	-	-	-	90,352	90,352
		-	-	-	14,503,289	14,503,289

23.1 Fair value of financial assets and financial liabilities

(a) Financial instruments measured at fair value using a valuation technique

The table below analyses financial instruments carried at fair value, by valuation method. The various fair value levels have been defined as follows:

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

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

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3
Investments in bonds - available for sale investments	----------Afs"000----------		
As at 31 December 2017	**4,367,733**	-	-
As at 31 December 2016	6,217,029	-	-

Valuation technique and key inputs used for investments in bonds were quoted market bid price in active market.

(b) Fair values

Set out below is a comparison of the carrying amounts and fair value of the Bank's financial assets and liabilities, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying Value		Fair Value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	----------Afs"000----------			
Financial assets				
Cash and cash equivalents	**9,935,867**	5,861,381	**9,935,867**	5,861,381
Investments	**4,942,121**	8,416,728	**5,011,272**	8,428,591
Loans and advances to banks	**698,592**	536,819	**698,592**	536,819
Loans and advances to customers	**1,459**	1,490	**1,459**	1,490
Other assets	**71,793**	95,377	**71,793**	95,377
Financial liabilities				
Deposits from banks	**2,018,941**	242,795	**2,018,941**	242,795
Deposits from customers	**13,445,364**	14,170,142	**13,445,364**	14,170,142
Other liabilities	**40,251**	90,352	**40,251**	90,352

24. Risk management policies

The Bank is a foreign branch of Bank Alfalah Limited Pakistan (Head Office), therefore, the Board of Directors of the Head Office (the Board) has overall responsibility for the establishment and oversight of risk management framework of the Head Office as well as overseas branches. The Head Office has in place an approved integrated risk management framework for managing credit risk, market risk, liquidity risk, and operational risk as evidenced by its Board approved "Risk Management Policy" and "Risk Management Manual". The Board has established the Management Board, Asset and Liability Committee (ALCO), a Credit Committee and Board Risk Management Committee and Board Audit Committee which are responsible for developing and monitoring risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Management Board assists in these functions by the Internal Audit, compliance and Risk Management Division at the Head Office. Internal audit function is an independent risk review function that reports directly to the Board Audit Committee at the Head Office. The Head Office appoints Country Head specifically to oversee operations in Afghanistan and to manage the risks in accordance with the risk management policies of the Head Office.

The Bank's Internal Audit and Compliance Departments in Afghanistan are responsible for monitoring compliance with the risk management policies and procedures, and for reviewing adequacy of risk management framework in relation to the risks faced by the Bank. As a policy, the reporting line of the risk management function has been kept completely independent of the business division.

The Bank has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk

24.1 Credit risk

Credit risk management processes encompass identification, assessment, measurement, monitoring and control of credit risk exposure. In the Bank's experience, a key to effective credit risk management is a well thought out business strategy. The Bank's focus over the coming years will be to further enhance risk models, processes and systems infrastructure, in line with its ambition to bring maximum sophistication to the risk management function. The Board has delegated responsibility for the management of credit risk to its Head Office Credit Committee. A separate credit department has been established by the Bank for its Afghanistan operations that is responsible for oversight of the Bank's credit risk and which is reportable to the Credit Committee. The Credit department is headed by Group Head Credit along with credit department staff who looks after credit risk matters and conduct portfolio analysis and stress testing on regular basis for managing credit risk.

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board of Directors. The credit evaluation system comprises of well designed credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio. The function is also supported by Credit Administration and Credit Monitoring Departments at Head Office level to ensure segregation of duties and efficient management of credit risk. The Banks manages its portfolio of loan assets with a view to limit its concentrations in terms of risk quality, geography, industry, maturity and large exposure.

The amount of credit risk in this regard is represented by the carrying amounts of the assets on the balance sheet date. Exposure to credit risk managed through regular analysis of borrower to meet interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed against personal guarantee of the borrower and mortgage of immoveable property duly registered with the Court of Law and hypothecation over stock and current assets duly verified by the Bank's Credit Officer on monthly basis.

A sophisticated Internal Credit Rating System has been developed by the Bank, which is capable of quantifying counter-party and transaction risk in accordance with the best practices. The system takes into consideration qualitative and quantitative factors of the counter-party, transaction structure, security etc. and generates an internal rating vis-a-vis anticipated customer behavior.

The adherence to Risk-appetite statement approved by the Board is monitored by RMD. Further the compliance of regulatory & internal limits is also monitored and any deviations are ratified from the competent authorities.

- Credit concentration risk

Credit concentration risk arises mainly due to concentration of exposures under various categories viz. industry, geography, and single/group borrower exposures. Within credit portfolio, as a prudential measure aimed at better risk management and avoidance of concentration of risks, Da Afghanistan Bank has prescribed regulatory limits on bank's maximum exposure to single borrower and group borrowers. The Bank's annual credit plan spells out the maximum allowable exposure that it can take on specific industries for every business group.

	Notes	31 December 2017	31 December 2016
		----------- Afs '000' -----------	
Credit risk relating to on-balance sheet items are as follows;			
Cash and cash equivalents	5	**3,987,426**	3,628,795
Investments	6	**5,011,272**	6,882,164
Loans and advances to banks	7	**698,592**	536,819
Loans and advances to customers	8	**1,459**	1,490
Other assets	11	**71,793**	95,377
		9,770,542	11,144,645
Credit risk relating to off-balance sheet items is as follows;			
Guarantees	17	**640,392**	938,126
		640,392	938,126

The above table represents credit risk exposure to the Bank at 31 December 2017 and 31 December 2016, without taking account of any collateral held or other enhancements attached. For on-balance sheet assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

Credit quality of financial assets

The credit qualities of Bank's financial assets have been assessed below by reference to the external credit ratings of counter parties determined by various international credit rating agencies. The counterparties for which external credit ratings were not been available have been assessed by reference to internal credit ratings determined based on their historical information for any defaults in meeting obligations.

Cash and cash equivalents

As of the reporting date, the bank held cash and cash equivalents amounting to Afs 9,964,692 thousands (31 December 2016: Afs 5,862,717 thousands) out of which there is a credit risk on balances amounting to Afs 3,987,426 thousands (31 December 2016: Afs 3,628,795 thousands) as the management believes that there is no credit risk on balances maintained with DAB amounting to Afs 5,854,651 thousands (31 December 2016: Afs 2,233,922 thousands). Balances with other banks/placements are held with reputable banks with high quality external credit rating.

Loans and advances	**Note**	**31 December 2017**	**31 December 2016**
		----------- Afs '000'	-----------
Loans and advances to customers and banks	7 & 8	**700,051**	**538,309**
Neither past due but nor impaired:			
Gross amount		707,136	542,519
Allowance for impairment		(7,085)	(4,210)
Carrying amount		**700,051**	**538,309**
Carrying amount-amortized cost:		**700,051**	**538,309**

Carrying amount-amortized cost:
As at balance sheet date, loan portfolio of the Bank was not impaired. However, the Bank maintains general provision of 1% (31 December 2016:1.5%) on certain loan balances as per the its policy.

Past due but not impaired loans
Past due but not impaired loans are those for which contractual interest or principal payments are past due but the Bank believes impairment is not appropriate. As at 31 December 2017, there is no overdue loan to be classified in the category of watchlist, substandard, doubtful or loss.

Allowances for impairment - Specific allowance
The Bank establishes an allowance for impairment losses that represents the Bank's estimate of incurred losses on loan portfolio. The main component of this allowance is a specific loss component that relates to individually significant exposures, and a collective allowance for impairment established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

All loans and advances are classified into one of the five classification grades mentioned below for minimum provisioning amounts in accordance with the regulations of Da Afghanistan Bank.

Loan grading	Days past due	Percentage %
Standard	0-30 days	1%
Watch	31-60 days	5%
Substandard	61-90 days	25%
Doubtful	91-180 days	50%
Loss	181 plus days	100%

Write-off policy

The Bank writes off loans or advances and any related allowances for impairment losses, when the Bank's Credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Before allowing to written off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted or legal action is not advisable.

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

As at 31 December 2017, an estimate of the fair value of the collateral and other security enhancements held against loans and advances has adequately covered the amount of loans and advances.

24.2 Credit risk

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of loans and advances to customers and banks (gross) at reporting date is as follows:

	31 December 2017	31 December 2016
Segments by class of business-Gross amount	---------- Afs '000'	----------
Financial	705,648	541,029
Individuals	1,488	1,490
	707,136	542,519

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades, if any. Settlement risk is the risk of loss due to failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigate this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades require transactions specific or counterparty specific approvals from the Bank's risk department.

24.3 Liquidity risk

Liquidity risk is the potential for loss to the bank arising from either its inability to meet its obligations or to fund increase in assets as they fall due without incurring unacceptable cost or losses.

The Bank's Asset and Liability Committee (ALCO) manages the liquidity position on a regular basis and is primarily responsible for the formulation of the overall strategy and oversight of the asset liability function. ALCO monitors the maintenance of liquidity ratios, depositors concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits. Moreover, as a core retail deposits form a considerable part of the Bank's overall funding mix therefore significant importance is being given to the stability and growth of these deposits. The BOD has approved a comprehensive liquidity management policy which stipulates the early warning indicators of liquidity risk and maintenance of various ratios. Further, the Bank has designed different scenarios of cash outflows to stress test efficacy of its liquid assets and its impact on profit and loss. The results are regularly reviewed by ALCO for taking appropriate measures.

Liquidity risk

The Bank relies on deposits from customers as its primary source of funding. Deposits form customers generally has shorter maturities and large proportion of them are repayable on demand. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalent less any deposits from banks. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's Regulator (Da Afghanistan Bank). Detail of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period was as follows:

	2017	2016
At 31 December	51%	44%
Average for the period	45%	48%
Maximum for the period	63%	64%
Minimum for the period	28%	33%

Maturity analysis for financial liabilities

The tables below set out the remaining contractual maturities of the Bank's financial liabilities.

	Note	Gross nominal inflow/ (outflow)	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Carrying amount
		Afs '000'						
As at 31 December 2017								
Liabilities								
Deposits from banks	12	2,018,941	2,018,941	-	-	-	-	2,018,941
Deposits from customers	13	13,445,364	2,620,299	1,184,067	2,207,542	7,433,456	-	13,445,364
Other liabilities	14	37,815	4,550	11,029	20,195	2,041	-	37,815
		15,502,120	4,643,790	1,195,096	2,227,737	7,435,497	-	15,502,120
As at 31 December 2016								
Liabilities								
Deposits from banks	12	242,795	42,295	22,361	28,116	150,023	-	242,795
Deposits from customers	13	14,170,142	1,922,977	1,586,007	3,236,302	7,424,856	-	14,170,142
Other liabilities	14	90,352	12,435	22,790	13,872	29,238	12,017	90,352
		14,503,289	1,977,707	1,631,158	3,278,290	7,604,117	12,017	14,503,289

The Bank conducted a behavioral study of non-maturity deposits (non-contractual deposits) and performed regression analysis to determine deposits withdrawal pattern on Current and Savings Accounts (CASA). Regression analysis is used to investigate the relationship between time, the amount of deposits and deposits withdrawals in order to arrive at an estimated deposits withdrawals pattern in line with the best practices

24.4. Market risk

Market risk is the risk of loss in earnings and capital due to on and off balance sheet positions arising out of adverse changes in interest rates foreign exchange rates, equity prices and market conditions It also includes investments and structural positions in the banking books of the Bank To manage and control market risk a well defined limits structure is in place These limits received, adjusted and approved periodically. Market risk can be further divided into

24.4.1 Interest rate risk exposure

The interest rate risk arises from the fluctuation in the value of financial instruments consequent to the changes in the market interest rates The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period In order to ensure that this risk is managed within acceptable limits, the Bank's Asset and Liability Committee (ALCO) monitors the re-pricing of the assets and liabilities on a regular basis. The Bank's interest rate risk is limited since the majority of customer deposits are retrospectively re-priced on a biannual basis on the profit and loss sharing principles The Bank's interest rate gap position on its financial assets and financial liabilities is as follows

	Note	Interest bearing						Non-interest bearing	Total
		Interest rates	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years		
			Afs '000'						
31 December 2017									
Assets									
Cash and cash equivalents	5	0.13%% to 2.15%	6,585,740	-	-	-	-	3,350,127	9,935,867
Investments	6	1.63% to 8.25%	-	-	-	1,649,329	3,361,943	-	5,011,272
Loans and advances to banks	7	3% to 8.68%	348,600	231,192	118,800	-	-	-	698,592
Loans and advances to customers	8	20%	1,459	-	-	-	-	-	1,459
Other assets	11		-	-	-	-	-	71,793	71,793
			6,935,799	231,192	118,800	1,649,329	3,361,943	3,421,920	15,718,983
Liabilities									
Deposits from banks	12		-	-	-	-	-	2,018,941	2,018,941
Deposits from customers	13	0% to 6.52%	720,000	2,032,998		-	-	10,692,366	13,445,364
Other liabilities	14		-	-	-	-	-	37,815	37,815
			720,000	2,032,998	-	-	-	12,749,122	15,502,120
On balance sheet interest sensitivity gap			6,215,799	1,801,806	118,800	1,649,329	3,361,943	9,327,202	216,863

If the interest rate increase / (decrease) by 100 bps, the impact on profit or loss for the year would have been Afs 96,187 thousands (2016 Afs 10,110 thousands) lower/higher respectively.

	Note	Interest bearing						Non-interest bearing	Total
		Interest rates	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years		
			Afs '000'						
31 December 2016									
Assets									
Cash and cash equivalents	5	1.8% to 3.35%	2,004,939	-	-	-	-	3,856,442	5,861 381
Investments	6	1.53% to 8 25%	679,981	342.520	1,192,854	2,192,164	4,021,072	-	8,428,591
Loans and advances to banks	7	0.75% to 8 67%	418,019	-	118,800	-	-	-	536,819
Loans and advances to customers	8	20%	1,490	-	-	-	-	-	1,490
Other assets	11		-	-	-	-	-	95,377	95,377
			3,104,429	342.520	1,311,654	2,192,164	4,021,072	3,951,819	14,923,658
Liabilities									
Deposits from banks	12		-	-	-	-	-	242,795	242,795
Deposits from customers	13	0% to 0.55%	500,000	964,539	1,467,810	-	-	11,237,793	14,170,142
Other liabilities	14		-	-	-	-	-	90,352	90,352
			500,000	964,539	1 467,810	-	-	11,570,940	14,503,289
On balance sheet interest sensitivity gap			2,604,429	(622,019)	(156,156)	2,192,164	4,021,072	(7,619,121)	420 369

If the interest rate increase / (decrease) by 100 bps, the impact on profit or loss for the year would have been Afs 10,110 thousands (2015: Afs 6,639 thousands) lower/higher respectively.

Variable rate instruments

Financial assets and liabilities at variable interest rates	2017	2016
	---------- Afs '000' ----------	
Investments	-	668,928
Loans and advances to banks	**120,000**	120,000
	120,000	788,928

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the year end would have increased / decreased profit and loss for the year and equity by Afs 1,200 thousands (2016: Afs 7,905 thousands). This analysis assumes that all other variables remain constant.

Fixed rate instruments	2017	2016
	---------- Afs '000' ----------	
Financial assets and liabilities at fixed interest rates		
Investments	**5,061,891**	7,759,663
Loans and advances to banks	**585,648**	421,029
Loans and advances to customers	**1,488**	1,490
Deposits from customers	**(2,752,998)**	(2,932,349)
	2,896,029	5,249,833

Fair value sensitivity analysis for fixed rate instruments

The Bank does not account for any fixed rate financial assets at fair value through profit and loss account, therefore a change in interest rates at the reporting date would not affect profit and loss account of the Bank.

24.5 Currency risk

Foreign exchange risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The Bank manages this risk by setting and monitoring dealer, currency and counter-party limits for on and off-balance sheet financial instruments.

Off-balance sheet financial instruments are contracts which are the resultant outcome of the import and export transactions. Moreover, counterparties enter into forward transactions in inter-bank market on behalf of customers to cover-up their position against stipulated risks. The buy and sell transactions are matched in view of their maturities in the different predefined time buckets.

The Bank's exposure to foreign currency risk, based on notional amount, is as follows:

31 December 2017	**Afs**	**USD**	**Euro**	**GBP**	**Total**
	---------------	---------------	Afs '000'	---------------	---------------
Financial assets					
Cash and cash equivalents	**4,969,707**	**4,919,892**	**63,132**	**78**	**9,952,809**
Investments	**-**	**5,025,975**	**35,916**	**-**	**5,061,891**
Loans and advances to banks	**120,000**	**585,648**	**-**	**-**	**705,648**
Loans and advances to customers	**-**	**1,488**	**-**	**-**	**1,488**
Other assets	**1,313**	**67,537**	**2,943**	**-**	**71,793**
	5,091,020	**10,600,540**	**101,991**	**78**	**15,793,629**

	Afs	USD	Euro	GBP	Total
Financial liabilities					
Deposits from banks	**2,016,143**	**2,798**	**-**	**-**	**2,018,941**
Deposits from customers	**1,805,050**	**11,433,654**	**206,330**	**330**	**13,445,364**
Other liabilities	**9,516**	**27,589**	**-**	**710**	**37,815**
	3,830,709	**11,464,041**	**206,330**	**1,040**	**15,502,120**
Net foreign currency exposure	**1,260,311**	**(863,501)**	**(104,339)**	**(962)**	**291,509**

31 December 2016

	Afs	USD	Euro	GBP	Total
Financial assets					
Cash and cash equivalents	1,345,955	4,447,817	56,898	12,047	5,862,717
Investments	1,546,427	6,669,419	212,745	-	8,428,591
Loans and advances to banks	120,000	421,029	-	-	541,029
Loans and advances to customers	-	1,490	-	-	1,490
Other assets	7,595	84,797	2,985	-	95,377
	3,019,977	11,624,552	272,628	12,047	14,929,204
Financial liabilities					
Deposits from banks	233,757	9,038	-	-	242,795
Deposits from customers	2,372,397	11,616,455	170,564	10,726	14,170,142
Other liabilities	34,415	49,700	-	-	84,115
	2,640,569	11,675,193	170,564	10,726	14,497,052
Net foreign currency exposure	379,408	(50,641)	102,064	1,321	432,152

24.5.1 Sensitivity analysis on foreign currency financial assets and liabilities

A 1% strengthening of the Afghani, as indicated below, against the USD, GBP, Euro at 31 December 2017 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant

31 December 2017	USD	Euro	GBP	Total
Effect of 1% increase in exchange rate				
Financial assets				
Cash and cash equivalents	**(49,199)**	**(631)**	**(1)**	**(49,831)**
Investments	**(50,260)**	**(359)**	**-**	**(50,619)**
Loans and advances to banks	**(5,856)**	**-**	**-**	**(5,856)**
Loans and advances to customers	**(15)**	**-**	**-**	**(15)**
Other assets	**(675)**	**(29)**	**-**	**(704)**
Losses from financial assets	**(106,005)**	**(1,019)**	**(1)**	**(107,025)**
Financial liabilities				
Deposits from banks	**28**	**-**	**-**	**28**
Deposits from customers	**114,337**	**2,063**	**3**	**116,403**
Other liabilities	**276**	**-**	**7**	**283**
Gains from financial liabilities	**114,641**	**2,063**	**10**	**116,714**
Net-unrealised gains on foreign currency	**8,636**	**1,044**	**9**	**9,689**

31 December 2016	USD	Euro	GBP	Total
Effect of 1% increase in exchange rate				
Financial assets				
Cash and cash equivalents	(44,478)	(569)	(120)	(45,167)
Investments	(66,694)	(2,127)	-	(68,821)
Loans and advances to banks	(4,210)	-	-	(4,210)
Loans and advances to customers	(15)	-	-	(15)
Other assets	(848)	(30)	-	(878)
Losses from financial assets	(116,245)	(2,726)	(120)	(119,091)
Financial liabilities				
Deposits from banks	90	-	-	90
Deposits from customers	116,165	1,706	107	117,978
Other liabilities	497	-	-	497
Gains from financial liabilities	116,752	1,706	107	118,565
Net-unrealised gains/(losses) on foreign currency	507	(1,020)	(13)	(526)

25. Related parties

The Bank is a fully owned branch of Bank Alfalah Limited Pakistan. Related parties comprise associated undertakings, majority shareholders, retirement benefit plans, directors of the Head Office of the Bank and the key management personnel of the Bank and its Head Office Transactions with key management personnel have been carried out as per terms of their employment . Details of transactions and balances with related parties are as follows:

25.1 Transactions with other related parties

Name of group companies	Nature of transactions	2017	2016
		----------- Afs '000' -----------	
Bank Alfalah Limited Bahrain	Placements made	-	3,809,310
	Placements matured	-	4,277,120
	Income earned on placements	-	5,125
	Interest expense on Borrowing	**601**	506
	Interest income on Interest Rate Swap	**14,050**	7,973
	Interest receivable on Interest Rate Swap	**2,201**	1,324
	Interest expense on Interest Rate Swap	**26,243**	26,097
	Interest payable on Interest Rate Swap	**5,625**	5,361
Bank Alfalah Limited - Pakistan	Profit remitted to Head Office	**239,820**	102,975
	Reimbursement of insurance premium paid to Alfalah Insurance Company Limited	**6,033**	7,281

25.2 Balances with related parties

	2017	2016
Bank Alfalah Limited Bahrain	-	-
ADCB Finance Cayman Ltd.	-	668,300

25.3 Transactions with key management personnel

	2017	2016
Salaries and benefits	**28,868**	32,382

In addition to their salaries, the Bank also provides non-cash benefits to executives which include furnished accommodation.

ky

26. Capital Management

Regulatory Capital

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

(i) to comply with the capital requirements set by the DAB;
(ii) to safeguard the Bank's ability to continue as a going concern so that it can continue to be; and
(iii) to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. DAB requires each bank to maintain its Tier 1 Capital ratio and Regulatory Capital ratio to be at least 6 % and 12 % respectively. The Bank is maintaining this ratio well above the required level.

The table below summarizes the composition of the regulatory capital and ratio of the Bank:

	2017	2016
	----------- Afs '000' -----------	
Tier 1 (Core) Capital:		
Total equity capital	**1,401,980**	1,360,574
Less:		
Net deferred tax assets	-	9,932
Revaluation surplus	**69,051**	11,863
Profit for the year	**224,038**	242,538
	1,108,891	1,096,241
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	-	-
Reserve Surplus in Revaluation	**57,024**	11,863
Profit for the year	**224,038**	242,538
	281,062	254,401
Tier 2 (Supplementary) Capital (restricted 100% of Tier 1 (Core) Capital)	**281,062**	254,401
Regulatory Capital = Tier 1 + Tier 2	**1,389,953**	1,350,642
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	**122,615**	159,153
Direct claims on DAB	**6,989,783**	4,416,831
Total	**7,112,398**	4,575,984
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Balances with other banks	**4,693,074**	4,169,823
20% risk-weight total (above total x 20%)	**938,615**	833,965
50% risk weight:		
Other assets	**5,061,891**	6,882,164
50% risk-weight total (above total x 50%)	**2,530,946**	3,441,082
100% risk weight:		
All other assets	**417,444**	522,182
Less: Deferred tax assets	-	(9,932)
All other assets - net	**417,444**	512,250
100% risk-weight total (above total x 100%)	**417,444**	512,250

	2017	2016
	Afs '000'	
Credit conversion factor		
0% risk weight:		
Other off-balance sheet	**680,830**	938,126
0% credit conversion factor total (risk-weighted total x 0%)	-	-
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Commercial letters of credit	-	-
20% credit conversion factor total (risk-weighted total x 20%)	-	-
20% risk-weight total (above total x 20%)	-	-
50% risk weight:		
Other (off balance sheet)	**1,349,901**	1,331,229
50% credit conversion factor total (risk-weighted total x 50%)	-	-
50% risk-weight total (above total x 50%)	**674,951**	665,615
100% risk weight:		
Guarantees	-	-
100% credit conversion factor total (risk-weighted total x 100%)	-	-
100% risk-weight total (above total x 100%)	-	-
Total risk-weighted assets	**4,561,955**	5,452,911
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	**24.31%**	20.10%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	**30.47%**	24.77%

27. Corresponding figures

Corresponding figures have been re-arranged, where necessary, for the purpose of comparison.

28. Date of authorization of financial statements

These financial statements were authorized for issue by the Country Finance Manager and Country Manger of the Bank on ______________________.

Country Finance Manager

Country Manager