Building a better
working world

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

INDEPENDENT AUDITORS' REPORT TO THE COUNTRY MANAGER OF HABIB BANK LIMITED, AFGHANISTAN BRANCHES

Opinion

We have audited the accompanying financial statements of **Habib Bank Limited Afghanistan Branches** (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.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

EY
Building a better working world

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.

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: 30 June 2018
Kabul, Afghanistan
Audit Engagement Partner: Shabbir Yunus

HABIB BANK LIMITED, AFGHANISTAN BRANCHES
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	31 December 2017 AFN '000'	31 December 2016 AFN '000'
Assets			
Cash and cash equivalents	5	**3,444,007**	5,231,279
Lendings to financial institutions - net	6	**804,563**	1,580,302
Investments - net	7	**1,640,972**	2,526,106
Loans and advances to customers - net	8	**6,376**	36,154
Property and equipment	9	**2,502**	2,141
Other assets	10	**22,853**	49,412
Deferred tax asset	11	**9,636**	6,293
Total assets		**5,930,909**	9,431,687
Liabilities			
Borrowing from banks	12	**348,550**	979,070
Deposits from customers	13	**4,146,518**	7,184,954
Income tax payable		**34,107**	27,101
Other liabilities	14	**26,591**	35,399
Total liabilities		**4,555,766**	8,226,524
Equity			
Capital contributed by head office		**1,000,242**	1,000,242
Capital reserve	15	**16,874**	6,234
Retained earnings		**358,027**	198,687
Total equity		**1,375,143**	1,205,163
Total liabilities and equity		**5,930,909**	9,431,687
Contingencies and commitments	16		

The annexed notes 1 to 30 form an integral part of these financial statements.

Country Finance Manager

Country Manager

HABIB BANK LIMITED, AFGHANISTAN BRANCHES
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017 AFN '000'	31 December 2016 AFN '000'
Interest income	17	**291,286**	238,225
Interest expense	18	**(119,915)**	(74,445)
Net interest income		**171,371**	163,780
Fee and commission income - net	19	**45,258**	38,356
Other income	20	**167,143**	17,962
		383,772	220,098
Provision on placements	5.2	**(22,454)**	-
Reversal / (provision) on lendings to financial institutions		**4,568**	(12,694)
Provision on investments	7.3	**(16,575)**	-
Reversal / (provision) on loans and advances to customers		**1,456**	(574)
Provision on other assets	10.1	**(216)**	-
Provision on off-balance sheet items	14.1	**(10,693)**	-
Personnel expenses	21	**(39,445)**	(44,019)
Occupancy expenses	22	**(15,698)**	(15,865)
Depreciation	9	**(1,072)**	(641)
Other operating expenses	23	**(28,991)**	(27,928)
		(129,120)	(101,721)
Profit before taxation		**254,652**	118,377
Taxation	24	**(41,859)**	6,300
Profit after taxation		**212,793**	124,677
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent years		**-**	-
Total comprehensive income		**212,793**	124,677

The annexed notes 1 to 30 form an integral part of these financial statements.

Country Finance Manager

Country Manager

HABIB BANK LIMITED, AFGHANISTAN BRANCHES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017 AFN '000'	31 December 2016 AFN '000'
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		**254,652**	118,377
Adjustment for:			
Depreciation	9	**1,072**	641
Provision on placements	5.2	**22,454**	-
(Reversal) / provision on lendings to financial institutions		**(4,568)**	12,694
Provision on investments	7.3	**16,575**	-
Reversal of provision on loans and advances		**(1,456)**	-
Provision on other assets	10.1	**216**	-
Provision on off-balance sheet items	14.1	**10,693**	574
		299,638	132,286
(Increase) / decrease in operating assets			
Lendings to financial institutions		**771,171**	(1,081,176)
Loans and advances to customers		**28,322**	43,753
Other assets		**3,889**	(21,931)
(Decrease) / increase in operating liabilities			
Borrowing from banks		**(630,520)**	(319,960)
Deposits from customers		**(3,038,436)**	1,357,777
Other liabilities		**(19,501)**	(3,258)
		(2,585,437)	107,491
Income tax paid		**(26,148)**	(5,763)
Net cash flows (used in) / generated from operating activities		**(2,611,585)**	101,728
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments matured / (made)		**868,559**	(392,438)
Acquisition of property and equipment	9	**(1,433)**	(285)
Net cash flows generated from / (used in) investing activities		**867,126**	(392,723)
Transfer to Head Office		**(42,813)**	(153,125)
Net decrease in cash and cash equivalents during the year		**(1,787,272)**	(444,120)
Cash and cash equivalents at the beginning of the year		**5,231,279**	5,675,399
Cash and cash equivalents at the end of the year	5	**3,444,007**	5,231,279

The annexed notes 1 to 30 form an integral part of these financial statements.

Country Finance Manager

Country Manager

HABIB BANK LIMITED, AFGHANISTAN BRANCHES
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Head office equity			
	Capital contributed by head office	Capital reserve	Retained earnings	Total
	AFN '000'			
Balance as at 01 January 2016	1,000,242	-	233,369	1,233,611
Profit for the year	-	-	124,677	124,677
Payment to Head Office during the year	-	-	(153,125)	(153,125)
Other comprehensive income for the year	-	-	-	-
	-	-	(28,448)	(28,448)
Transferred to capital reserve	-	6,234	(6,234)	-
Balance as at 31 December 2016	1,000,242	6,234	198,687	1,205,163
Balance as at 01 January 2017	**1,000,242**	**6,234**	**198,687**	**1,198,929**
Profit for the year	-	-	212,793	212,793
Payment to Head Office during the year	-	-	(42,813)	(42,813)
Other comprehensive income for the year	-	-	-	-
	-		169,980	169,980
Transferred to capital reserve	-	10,640	(10,640)	-
Balance as at 31 December 2017	**1,000,242**	**16,874**	**358,027**	**1,375,143**

The annexed notes 1 to 30 form an integral part of these financial statements.

Country Finance Manager

Country Manager

HABIB BANK LIMITED, AFGHANISTAN BRANCHES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. Status and nature of business

Habib Bank Limited Afghanistan Branches (the Bank) is a foreign operation of Habib Bank Limited, Pakistan operating in Afghanistan. The Bank obtained business license from Afghanistan Investment Support Agency on 14 April 2004 which has been renewed by Ministry of Commerce and Industries (MoCI) on 01 August 2017 and is valid till 30 July 2020. Currently, the Bank is operating with 1 conventional Banking Branch (2016: 2) in Kabul.

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 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 (Amendments)	Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses

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.

2.2 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 49,938 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 off-balance sheet items

As per Asset Classification and Provisioning Regulation, the management maintains a provision of 1% on secured portion of off-balance sheet items.

c) 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.

d) 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.

e) 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 against outstanding loan and advances to customers as at the year end as per Asset Classification and Provisioning Regulation.

f) 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%) 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:

Furniture and fixtures	5 years
Leasehold improvements	5 years
Office equipment	3 to 5 years
Computer and accessories	3 years
Motor vehicles	5 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 (AFN). 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	69.71	83.27	93.21
As at 31 December 2016	66.82	70.00	81.99

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 AFN '000'	31 December 2016 AFN '000'
5. CASH AND CASH EQUIVALENTS			
Cash in Hand			
Local Currency - AFN		9,580	13,518
Foreign Currency - USD		28,397	26,195
Foreign Currency - EURO		1,232	3,497
		39,209	43,210
Balances with Financial Institutions			
Balances with DAB	5.1	1,081,905	546,392
Balances with HBL international branches - related parties	5.2	2,322,893	4,107,117
Balances with Bank Alfalah, Kingdom of Bahrain		-	534,560
		3,404,798	5,188,069
		3,444,007	5,231,279

5.1 Balances with DAB

	Note	31 December 2017 AFN '000'	31 December 2016 AFN '000'
Foreign currency			
Current accounts		299,749	71,734
Required reserve account	5.1.1	250,524	-
		550,273	71,734
Local currency			
Current accounts		505,103	140,427
Required reserve account	5.1.1	25,733	334,231
Overnight deposits		796	-
		531,632	474,658
		1,081,905	546,392

5.1.1 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.

5.2 Balances with HBL international branches - related parties

	Note	31 December 2017 AFN '000'	31 December 2016 AFN '000'
Foreign currency			
Nostro accounts		99,908	465,281
Placements	5.2.1	2,245,439	3,641,836
General provision held	5.2.2	(22,454)	-
		2,322,893	4,107,117

5.2.1 This represents a portfolio of placements with HBL international branches (related party). These placements have maturity period up to 3 months and carry interest rate ranging from 1.9% to 3.3% (2016: 1.1% to 4.1%) per annum.

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

6. LENDINGS TO FINANCIAL INSTITUTIONS - NET

	Note	31 December 2017 AFN '000'	31 December 2016 AFN '000'
Foreign currency			
Trade bills	6.1	812,690	1,592,996
General provision held	6.2	(8,127)	(12,694)
		804,563	1,580,302

6.1 This represents trade bills purchased at discount rate ranging from 2% to 3% (2016: 2% to 2.95%) per annum having a maturity period from 3 to 6 months (2016: 3 to 6 months).

6.2 General provision is held at 1% (2016: 1%) in accordance with 'Asset Classification and Provisioning Regulation' issued by DAB.

7. INVESTMENTS - NET	Note	31 December 2017 AFN '000'	31 December 2016 AFN '000'
Investments classified as:			
Available-for-sale	7.1	**348,550**	334,100
Held-to-maturity:			
Capital notes with DAB		**-**	1,594,775
Bonds	7.2	**1,308,997**	597,231
		1,308,997	2,192,006
General provision held	7.3	**(16,575)**	-
		1,640,972	2,526,106

7.1 This represents investment amounting to USD 5 million (2016: USD 5 million) in variable rate subordinated loan notes Class C, issued by Habib Allied International Bank Plc, United Kingdom, a subsidiary company of Habib Bank Limited and a related party. The notes carry mark-up at a rate of 6.06% (6 months LIBOR + 5%) per annum (2016: 5.83% to 6.32% per annum (6 months LIBOR + 5%) and will mature up to 28 June 2018 (2016: 28 December 2017).

7.2 These represent investment in foreign currency bonds issued by Government of Islamic Republic of Pakistan and Government of Democratic Socialist Republic of Srilanka. These carry interest rates ranging from 5.5% to 8.66% (2016: 6% to 7.25%) per annum maturing on 14 January 2019 and 15 April 2024 respectively. These investments are managed by Habibsons Bank Limited (London), related party on behalf of the Bank.

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

8. LOANS AND ADVANCES TO CUSTOMERS - NET

Corporate and commercial finances	8.1	**6,725**	37,959
Less: Provision against loans and advances	8.2	**(349)**	(1,805)
		6,376	36,154

8.1 Overdrafts are extended for a period of one year, subject to renewal at the end of loan term. Overdraft carry interest rate of 13% (2016: 12% to 13%) per annum. This facility is secured against immovable property, hypothecation of stock and personal guarantee of directors.

8.2 Provisions against loans and advances

Opening balance		**1,805**	1,231
Charge for the year	8.2.1	**109**	1,732
Reversal during the year		**(1,643)**	(1,130)
Exchange rate fluctuation		**78**	(28)
		(1,456)	574
Closing balance		**349**	1,805

8.2.1 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

Description	COST			ACCUMULATED DEPRECIATION			WRITTEN DOWN VALUE	DEPRECIATION RATES
	As at 01 January 2017	Additions / (Deletions)	As at 31 December 2017	As at 01 January 2017	Charge for the year	As at 31 December 2017	As at 31 December 2017	Per annum
	AFN '000							%
Furniture and fixtures	2,130	228	2,358	1,938	141	2,079	279	20
Leasehold improvements	6,174	-	6,174	6,174	-	6,174	-	20
Office equipment	5,995	501	6,496	4,636	546	5,182	1,314	20 - 33
Computer and accessories	2,467	704	3,171	2,430	98	2,528	643	33
Motor vehicles	3,093	-	3,093	2,540	287	2,827	266	20
2017	19,859	1,433	21,292	17,718	1,072	18,790	2,502	

Description	COST			ACCUMULATED DEPRECIATION			WRITTEN DOWN VALUE	DEPRECIATION RATES
	As at 01 January 2016	Additions / (Deletions)	As at 31 December 2016	As at 01 January 2016	Charge for the year	As at 31 December 2016	As at 31 December 2016	Per annum
	AFN '000							%
Furniture and fixtures	2,065	104 (39)	2,130	1,946	31 (39)	1,938	192	20
Leasehold improvements	6,174	-	6,174	6,174	-	6,174	-	20
Office equipment	5,974	204 (183)	5,995	4,448	371 (183)	4,636	1,359	20 - 33
Computer and accessories	2,268	199	2,467	2,265	165	2,430	37	33
Motor vehicles	3,093	-	3,093	2,244	296	2,540	553	20
2016	19,574	507 (222)	19,859	17,077	863 (222)	17,718	2,141	

10. OTHER ASSETS

	Note	31 December 2017 AFN '000	31 December 2016 AFN '000
Security deposit with DAB		1,500	18,851
Prepayments		6,389	5,644
Interest / mark-up receivable		15,117	24,834
Others		63	83
		23,069	49,412
General provision held	10.1	(216)	-
		22,853	49,412

10.1 General provision is held at 1% (2016: Nil), in accordance with 'Asset Classification and Provisioning Regulation' issued by DAB.

11. DEFERRED TAX ASSET

	Note	31 December 2017 AFN '000	31 December 2016 AFN '000
Deferred tax assets / (liabilities) arising in respect of:			
Tax losses		-	6,631
Accelerated depreciation		(352)	(338)
Provision on investments, placements and other assets		7,849	-
Provision on off-balance sheet items		2,139	-
		9,636	6,293

11.1 Movement in temporary differences during the year

	Balance as at 01 January 2016	Recognized in profit or loss	Recognized in equity	Balance as at 31 December 2016	Recognized in profit or loss	Recognized in equity	Balance as at 31 December 2017
	AFN '000						
Deferred tax assets arising in respect of:							
Tax losses	-	6,631	-	6,631	(6,631)	-	-
Provision on investments placements and other assets	246	(246)	-	-	7,849	-	7,849
Provision on guarantees and commercial letter of credits	-	-	-	-	2,139	-	2,139
	246	6,385	-	6,631	3,357	-	9,988
Deferred tax liabilities arising in respect of:							
Accelerated depreciation	(253)	(85)	-	(338)	(14)	-	(352)
	(253)	(85)	-	(338)	(14)	-	(352)
	(7)	6,300	-	6,293	3,343	-	9,636

12. BORROWING FROM BANKS

	Note	31 December 2017 AFN '000	31 December 2016 AFN '000
Bank-e-Millie Afghan		348,550	-
The First MicroFinance Bank Limited - Afghanistan		-	578,150
Afghan United Bank		-	400,920
	12.1	348,550	979,070

12.1 These represent borrowing from other banks carrying interest rate of 2.45% (2016: 0.35% to 1.4%) having maturity of 1 year (2016: up to 3 months).

13. DEPOSITS FROM CUSTOMERS

	Note	31 December 2017 AFN '000	31 December 2016 AFN '000
Local currency			
Term deposits	13.1	50,000	1,420,000
Current deposits		208,831	164,236
Saving deposits	13.2	56,299	196,792
		315,130	1,781,028
Foreign currency			
Term deposits	13.3	717,316	1,088,498
Current deposits		2,062,210	4,263,579
Saving deposits	13.2	1,004,862	10,185
		3,784,388	5,362,262
Margin deposits		47,000	41,664
		4,146,518	7,184,954

13.1 These carry interest at the rate of 3.70% (2016: 3.60% to 5%) per annum and have a maturity period of 06 months (2016: 01 year).

13.2 These carry interest rates ranging from 0.10% to 1.5% (2016: 0.10% to 2%) per annum and have a maturity period ranging from 03 to 06 months (2016: 01 to 06 months).

13.3 These carry interest rates ranging from 1% to 1.75% (2016: 1% to 1.78%) per annum and have maturity period from 06 to 12 months (2016: 03 to 06 months).

14. OTHER LIABILITES	**Note**	**31 December 2017 AFN '000**	**31 December 2016 AFN '000**
Interest payable		6,647	28,221
Accrued expenses		4,920	7,178
Unclaimed customers deposits		3,089	-
Others		1,242	-
General provision held against off-balance sheet items	14.1	10,693	-
		26,591	35,399

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

15. CAPITAL RESERVE

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.

16. CONTINGENCIES AND COMMITMENTS

16.1 Contingencies

	Note	31 December 2017 AFN '000	31 December 2016 AFN '000
Letter of guarantees	16.1.1	1,059,151	1,260,971

16.1.1 These represent bid bond and performance based guarantees issued by the Bank.

Letter of credits	10,108	10,346

16.2 Commitments	**31 December 2017 AFN '000**	**31 December 2016 AFN '000**
Undrawn loan and overdraft facilities	246	2,133

17. INTEREST INCOME

Interest income on:	31 December 2017 AFN '000	31 December 2016 AFN '000
Cash and cash equivalents	88,390	77,236
Investments	198,856	153,776
Loans and advances to customers	4,040	7,213
	291,286	238,225

18. INTEREST EXPENSE

Interest expense on:	31 December 2017 AFN '000	31 December 2016 AFN '000
Deposits from customers	101,772	67,566
Deposits from banks	18,143	6,879
	119,915	74,445

19. FEE AND COMMISSION INCOME - NET

	31 December 2017 AFN '000	31 December 2016 AFN '000
Commission on guarantees issued	17,153	12,648
Commission on bills and transfers	22,232	12,744
Other incidental commission	5,873	12,964
	45,258	38,356

	Note	31 December 2017 AFN '000	31 December 2016 AFN '000
20. OTHER INCOME			
Exchange gain		158,469	16,791
Others		8,674	964
Recovery of loans and advances to customers previously written off		-	207
		167,143	17,962
21. PERSONNEL EXPENSES			
Expatriate salaries and benefits		22,670	21,140
Local staff salaries		9,607	9,010
Other benefits - local staff		7,168	13,869
		39,445	44,019
22. OCCUPANCY EXPENSES			
Rent		7,704	10,694
Utilities		7,511	4,817
Repairs and renovation		483	354
		15,698	15,865
23. OTHER OPERATING EXPENSES			
Insurance charges		8,745	10,409
Security charges		2,748	2,502
Communication charges		2,500	2,819
Legal and professional charges		2,983	2,069
Travelling expenses		1,326	1,612
Subscriptions and license fee		80	845
Auditors' remuneration		1,235	1,123
Entertainment charges		335	745
Newspapers and printing		552	7
Advertisement		222	234
DAB penalties		1,288	222
Other expenses		6,977	5,341
		28,991	27,928
24. TAXATION			
For the year		45,202	-
Deferred			
For the year		(3,343)	6,300
		41,859	6,300
24.1 Relationship between tax expense and accounting profit			
Profit before taxation		254,652	118,377
Tax at applicable rate of 20% (2016: 20%)		50,930	23,675
Effect of recognized temporary difference due to taxable loss		(6,561)	(23,675)
Effect of deferred tax (reversal) / charge		(3,343)	6,300
Others		833	-
		41,859	6,300

25. RELATED PARTY TRANSACTIONS

The Bank is a branch office of Habib Bank Limited Pakistan. HBL Head office, HBL overseas branches, HBL subsidiaries and associates are related parties to the Bank. Other related parties include key management personnel of the Bank. The transactions with related parties are carried out as per agreed terms.

25.1 Transactions with other related parties

25.1.1 Details of transactions with the related parties during the year are as follows:

Name of group companies Nature of transaction	For The Year Ended 31 December 2017 AFN '000'	For The Year Ended 31 December 2016 AFN '000'
HBL Hong Kong		
Placement made	4,664,448	4,325,688
Placement matured	5,558,426	4,582,144
Income earned on placements	13,778	11,991
HBL Singapore		
Placement made	1,901,560	2,636,400
Placement matured	2,107,840	3,380,000
Income earned on placements	3,164	5,540
HBL Turkey		
Placement made	67,730	608,400
Placement matured	67,590	608,400
Income earned on placements	348	586
HBL Bahrain		
Placement made	7,795,105	5,948,800
Placement matured	8,962,456	4,934,800
Income earned on placements	54,148	39,874
HBL Kenya		
Placement made	7,432,984	6,895,200
Placement matured	8,285,239	6,523,400
Income earned on placements	8,168	7,407
HBL Srilanka		
Placement made	1,084,690	1,487,200
Placement matured	1,088,540	1,757,600
Income earned on placements	1,053	2,370
HBL Pakistan - Treasury		
Placement made	714,840	2,636,400
Placement matured	714,840	2,433,600
Income earned on placements	660	279
HBL London		
Investment made	697,100	683,700
Investment matured	348,550	1,002,300
Income earned on investment	19,503	18,678
HBL Karachi EPZ		
Placement made	1,738,210	-
Placement matured	1,977,885	-
Income earned on placements	418	-
HBL Lebanon		
Placement made	633,237	-
Placement matured	653,754	-
Income earned on placements	269	-
FMFB-Afghanistan		
Placement made	300,000	-
Placement matured	300,000	-
Income earned on placements	4,048	-
Borrowing made	6,153,835	6,252,538
Borrowing matured	6,769,911	6,759,500
Interest paid on borrowing	3,129	3,693

	For The Year Ended	
	31 December 2017 AFN '000'	31 December 2016 AFN '000'
Tourism Promotion Services - KSH (Current Accounts)		
Withdrawals	**347,405**	450,780
Receipts	**349,891**	457,654
French Medical Institute for Children (Current Accounts)		
Withdrawals	**4,601**	3,388
Receipts	**5,207**	2,873
Telecom Development Co Afghanistan (Current Accounts)		
Withdrawals	**284,846**	1,099
Receipts	**284,355**	2,562
Key management personnel compensation		
Salaries and benefits	**9,007**	11,196

Salaries to key management personnel are paid as per the terms of their employment contract. In addition to their salaries, the Bank also provides non-cash benefit to expatriates staff which includes furnished accommodation.

25.1.2 Balances with related parties as at year end are as follows:

Name of group companies	Nature of balances	31 December 2017 AFN '000'	31 December 2016 AFN '000'
Placements / Investments / Lendings to financial institution			
HBL Bahrain	Placement	**2,245,439**	1,470,040
HBL Singapore	Placement	-	267,280
HBL Hong Kong	Placement	-	982,400
HBL Kenya	Placement	-	701,610
HBL Treasury HOK	Placement	-	200,460
HBL Lebanon	Placement	-	20,046
HBL Karachi EPZ	Placement	-	-
Habib Allied International Bank	Available for sale inve	**348,550**	334,100
HBL Brussels	Current Account	**99,304**	137,990
Habib Allied International Bank	Current Account	**321**	113,484
HBL New York	Current Account	-	212,103
HBL Foreign Exchange Pakistan	Current Account	**283**	1,704
HBL Bangladesh	Lendings to financial institutions		323,535
Borrowings from banks			
FMFB - Afghanistan		-	578,150
Deposits from Customers			
Tourism Promotion Services - KSH		**16,973**	13,154
French Medical Institute for Children (FMIC)		**4,101**	3,408
Telecom Development Co. Afghanistan		**2,173**	2,653
Key management personnel			
Account balances		**2,890**	1,250

26. FINANCIAL ASSETS AND LIABILITIES

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

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

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

2017 **Financial Assets**	Note	Held to Maturity	Loans and Receivables	Available for Sale	Total Carrying Amount
		AFN '000'			
Cash and cash equivalents	5	2,222,985	1,221,022	-	3,444,007
Lendings to financial institutions-net	6	804,563	-	-	804,563
Investments - net	7	1,295,907	-	345,065	1,640,972
Loans and advances to customers - net	8	-	6,376	-	6,376
Other assets	10	-	14,964	-	14,964
		4,323,455	1,242,362	345,065	5,910,882

Financial Liabilities	Note	Amortized cost AFN '000'	Total Carrying amount AFN '000'
Borrowing from banks	12	348,550	348,550
Deposits from customers	13	4,146,518	4,146,518
Other liabilities	14	26,591	26,591
		4,521,659	4,521,659

2016 **Financial Assets**	Note	Held to Maturity	Loans and Receivables	Available for Sale	Total Carrying Amount
		AFN '000'			
Cash and cash equivalents	5	3,641,836	1,589,443	-	5,231,279
Lendings to financial institutions-net	6	1,580,302	-	-	1,580,302
Investments - net	7	2,192,006	-	334,100	2,526,106
Loans and advances to customers - net	8	-	36,154	-	36,154
Other assets	10	-	24,917	-	24,917
		7,414,144	1,650,514	334,100	9,398,758

Financial Liabilities	Note	Amortized Cost AFN '000'	Total Carrying Amount AFN '000'
Borrowing from banks	12	979,070	979,070
Deposits from customers	13	7,184,954	7,184,954
Other liabilities	14	35,399	35,399
		8,199,423	8,199,423

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS 13 "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of quoted securities other than those classified as held to maturity, is based on quoted market price. Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for these assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 8.2.1 to the annual audited financial statements for the year ended 31 December 2017.

In the opinion of the management, the fair value of the remaining financial assets and financial liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature or in the case of customer loans and deposits are frequently repriced.

IFRS 13 requires the Bank to classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

27.1 The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to Level 3 based on the degree to which the fair value is observable.

Available for sale investments	Level 1	Level 2	Level 3	Total
	------------------- AFN '000' -------------------			
As at 31 December 2017	-	-	**348,550**	**348,550**
As at 31 December 2016	-	-	334,100	334,100

During the year ended 31 December 2017, there were no transfers between level 1 and level 2 fair value measurements, and no transfer into and out of level 3 fair value measurements.

The carrying amounts of financial assets and liabilities approximate their fair values as at the date of statement of financial position.

28. FINANCIAL RISK MANAGEMENT

28.1 Introduction and overview

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

a) credit risk
b) liquidity risk
c) market risks
d) interest rate risk
e) operational risks

This note presents information about Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors at Head Office (Pakistan) has the overall responsibility for the establishment and oversight of the Bank's risk management framework. Country Manager and Treasury Head are responsible for monitoring under the supervision and advice from the Head Office.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management Policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

HBL's (Habib Bank Limited) Audit Committee at head office is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee at head office is assisted by the Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

28.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk and sector risk).

28.2.1 Management of 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 intending activities and ensuring the high quality of asset portfolio.

The exposure to credit risk is 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 guarantees of the borrowers and mortgage of immovable property duly registered with the court of law and hypothecation over stock duly verified by the Bank's Credit Officer on monthly basis.

28.2.2 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum Exposure	
	2017	**2016**
	AFN '000'	**AFN '000'**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and cash equivalents	**-**	534,560
Lendings to financial institutions - net	**804,563**	1,580,302
Investments - net	**1,295,907**	597,231
Loans and advances to customers - net	**6,376**	36,154
Other assets	**14,964**	30,561
	2,121,810	2,778,808
Credit risk exposures relating off-balance sheet items are as follows:		
Letters of guarantee	**1,059,151**	1,260,971
Letters of credit	**10,108**	10,346
	1,069,259	1,271,317

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.

Exposure of the Bank do not include balances and investments with HBL network and Da Afghanistan Bank (DAB) being related party and the regulator respectively.

The percentage of the maximum credit exposure in balances with other banks, placements, investments and loans and advances are as follows (in percentage of the total credit exposure):

	31 December 2017	31 December 2016
Cash and cash equivalents	**0.00%**	19.24%
Lendings to financial institutions	**37.92%**	56.87%
Investments	**61.08%**	21.49%
Loans and advances to customers	**0.30%**	1.30%
Other assets	**0.71%**	1.10%

28.2.3 Credit quality of financial assets

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

Balances with other Banks / Financial Institutions	**Credit Rating**	**Credit Rating Agency**	**31 December 2017**	**31 December 2016**
			AFN '000	**AFN '000**
Counter parties with external credit ratings:				
HBL Brussels	AAA	JCR-VIS	**99,304**	137,990
Habib Allied London	AAA	JCR-VIS	**321**	113,484
HBL Foreign Exchange Pakistan	AAA	JCR-VIS	**283**	1,704
HBL New York	AAA	JCR-VIS	**-**	212,103
			99,908	465,281

Placements	Credit Rating	Credit Rating Agency	31 December 2017 AFN '000	31 December 2016 AFN '000
HBL OBU Bahrain	A-1+	JCR-VIS	2,245,439	1,470,040
HBL Singapore	A-1+	JCR-VIS	-	267,280
HBL Hong Kong	A-1+	JCR-VIS	-	982,400
HBL Hong Kong - Treasury	A-1+	JCR-VIS	-	200,460
HBL Kenya	A-1+	JCR-VIS	-	701,610
HBL Lebanon	A-1+	JCR-VIS	-	20,046
Alfalah Bank Bahrain	A-1+	JCR-VIS	-	534,560
			2,245,439	4,176,396

Lendings to Financial Institutions - net of provision		
Counter parties	804,563	1,580,302

Investments

Investments held carries various credit rating and ranges from B1 & B3 in Government of Islamic Republic of Pakistan Bonds and Government of Democratic Socialist Republic of Srilanka Bonds respectively. These investments are managed by investment managers Habib Sons Bank Limited under investment criteria defined by the Bank. AFS investments are with Habib Bank London - related party whose rating is AAA.

	31 December 2017 AFN '000	31 December 2016 AFN '000
Loans and advances to customers - net		
Counter party	6,376	36,154
Other assets		
Counter party	14,964	24,917

Exposure to credit risk

	Note	Loans and Advances to Customers 2017	2016	Total Carrying Amount 2017	2016
		---------- AFN ' 000 ----------			
Carrying amount - amortized cost	10	6,376	36,154	6,376	36,154
Neither past due nor impaired		6,725	37,959	6,725	37,959
Past due and impaired		-	-	-	-
Past due but not impaired		-	-	-	-
Gross amount		6,725	37,959	6,725	37,959
Allowance for impairment	10	(349)	(1,805)	(349)	(1,805)
Carrying amount		6,376	36,154	6,376	36,154
Carrying amount - amortized cost		6,376	36,154	6,376	36,154

In addition to the above, at year end, other lending commitments are disclosed in note 16.2 to these financial statements.

Cash and cash equivalents

As of the reporting date, the Bank do not have any credit exposure on cash and cash equivalents (2016: maximum credit exposure AFN 534,560 thousands). The cash and cash equivalents are held with the Bank's own international branches, and with central bank and other banks. Management believes that cash and cash equivalents are not exposed to significant risk as disclosed.

Concentration of credit risk

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

In addition to the above, at year end, there were no lending commitments pending for disbursement.

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 in not appropriate. There was no such loan at the year end.

Concentration of credit risk

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

	2017	2016
	AFN '000	
Carrying amount	**6,376**	36,154
Concentration by sector		
Oil and Gas distribution	-	31,649
Distribution of medical supplies	**6,376**	4,505
	6,376	36,154

ez

Concentration by location for loans and advances is measured based on the location of the entity holding the asset, which has a high correlation with the location of the borrower.

Concentration of credit risks for cash and cash equivalents has been disclosed in note 27.2 to these financial statements.

Bank's loans and advances to customers as at 31 December 2017 represents overdraft facility extended to the customers.

28.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities that are settled by delivering cash or some other financial asset.

Management of liquidity risk

The Management ensures that the Bank has necessary tools and framework to cater the requirements of liquidity risk management and the Bank is capable to confronting uneven liquidity scenarios. The Management is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board of Directors at head office. Local management under the supervision of Head Office is entrusted with the responsibility of managing the mismatch in maturities to ensure sufficient available cash flow to meet possible withdrawal of deposits, other commitments or challenges associated with sudden changes in market conditions, whilst enabling the bank to pursue valued business opportunities.

The Bank's management receives information regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Management then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investments, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank relies on deposits from customers as its primary source of funding. Deposits from customers generally have 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.

Exposure to liquidity risk

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 Borrowings 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). Details of the reported bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period is as follows:

	2017	2016
At the year end	**45%**	66%
Average for the year	**34%**	66%
Maximum for the year	**72%**	145%
Minimum for the year	**17%**	32%

Maturity analysis for financial assets

	Note	Carrying amount	Gross nominal outflow	less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
				AFN ' 000				
2017								
Financial assets								
Cash and cash equivalents	5	3,444,007	3,444,007	1,221,022	-	2,222,985	-	-
Lendings to financial institutions	6	804,563	804,563	311,203	323,877	169,483	-	-
Investments	7	1,640,972	1,640,972	-	-	345,065	1,295,907	-
Loans and advances to customers	8	6,376	6,376	6,376	-	-	-	-
Other assets	10	14,964	14,964	-	7,889	7,075	-	-
Total Financial Assets		5,910,882	5,910,882	1,538,601	331,766	2,744,608	1,295,907	-
Financial liabilities								
Borrowings from banks	12	(348,550)	(348,550)	-	-	(348,550)	-	-
Deposits from customers	13	(4,146,518)	(4,146,518)	(2,271,041)	(1,108,161)	(767,316)	-	-
Other liabilities	14	(26,591)	(26,591)	(24,445)	(1,052)	(1,094)	-	-
Total financial liabilities		(4,521,659)	(4,521,659)	(2,295,486)	(1,109,213)	(1,116,960)	-	-
		1,389,223	1,389,223	(756,885)	(777,447)	1,627,648	1,295,907	-
2016								
Financial assets								
Cash and cash equivalents	7	5,231,279	5,231,279	1,589,443	-	3,641,836	-	-
Lendings to financial institutions	8	1,592,996	1,592,996	218,354	574,705	799,937	-	-
Investments	9	2,526,106	2,526,106	-	-	1,598,829	927,277	-
Loans and advances to customers	10	36,154	36,154	36,154	-	-	-	-
Other assets	12	24,917	24,917	19,247	5,644	26	-	-
Total Financial Assets		9,411,452	9,411,452	1,863,198	580,349	6,040,628	927,277	-
Financial liabilities								
Borrowings from banks	12	(979,070)	(979,070)	(334,100)	(244,050)	(400,920)	-	-
Deposits from customers	13	(7,184,954)	(7,143,290)	(4,427,815)	(206,978)	(2,508,497)	-	-
Other liabilities	14	(35,399)	(77,063)	-	-	(77,063)	-	-
Total financial liabilities		(8,199,423)	(8,199,423)	(4,761,915)	(451,028)	(2,986,480)	-	-
		1,212,029	1,212,029	(2,898,717)	129,321	3,054,148	927,277	-

The above table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal out flow disclosed in the above table is the contractual, undiscounted cash flow on the financial liability.

28.4 Geographical profile of cash and cash equivalents

	Afghanistan	Europe	North America	South Asia	Far East Asia	Other	Total
				AFN ' 000			
2017	1,121,114	99,625	-	283	2,222,985	-	3,444,007
2016	589,602	251,474	212,102.97	1,703.90	1,450,140	2,726,256	5,231,279

28.5 Market risks

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risks exposures within acceptable parameters, while optimizing the return on risk.

Management of market risks

To manage and control market risk a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. Overall authority for market risk is vested in local management i.e. Country head and Treasury Head along with the instructions from Head Office.

28.6 Exposure to interest rate risk

The Bank's risk to which not-trading portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Management Board is the monitoring body for compliance with these limits and is assisted by risk management in its monthly monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolio is as follows

	Interest rates (p.a)	Interest bearing					Non-Interest bearing	Total
		Less than 3 months	3-6 months	6-12 months	1-5 years	Total		
				AFN '000				
31 December 2017								
Financial assets								
Cash and cash equivalents	1.9% to 3.3%	2,222,985	-	-	-	2,222,985	1,221,022	3,444,007
Lendings to financial institutions	2% to 3%	-	804,563	-	-	804,563	-	804,563
Investments	5.5% to 8.66%	-	345,065	-	1,295,907	1,640,972	-	1,640,972
Loans and advances to customers	13%	-	-	6,376	-	6,376	-	6,376
Other assets		-	-	-	-	-	14,964	14,964
Total Financial Assets		2,222,985	1,149,628	6,376	1,295,907	4,674,896	1,235,986	5,910,882
Financial liabilities								
Borrowings from banks	2.45%	-	348,550	-	-	348,550	-	348,550
Deposits from customers	0.1% to 3.7%	1,622,999	202,690	2,788	-	1,828,477	2,271,041	4,099,518
Other liabilities		-	-	-	-	-	26,591	26,591
Total financial liabilities		1,622,999	551,240	2,788	-	2,177,027	2,297,632	4,474,659
On balance sheet interest sensitivity gap		599,986	598,388	3,588	1,295,907	2,497,869	(1,061,646)	1,436,223

If the interest rate increase / decrease by 100 bps, the effect on loss for the year would have been AFN 24.97 (2016: AFN 46.24) million higher / lower respectively.

	Interest rates (p.a)	Less than 3 months	3-6 months	6-12 months	1-5 years	Total	Non-Interest bearing	Total
		Interest bearing						
				AFN '000				
31 December 2016								
Financial assets								
Cash and cash equivalents	1.1% to 4.1%	4,176,396	-	-	-	4,176,396	1,054,883	5,231,279
Lendings to financial institutions	2% to 2.95%	-	1,580,302	-	-	1,580,302	-	1,580,302
Investments	5.83% to 7.25%	-	83,785	1,865,090	597,231	2,526,106	-	2,526,106
Loans and advances to customers	12% to 13%	-	-	36,154	-	36,154	-	36,154
Other assets		-	-	-	-	-	24,917	24,917
Total Financial Assets		4,176,396	1,644,087	1,901,244	597,231	8,318,958	1,079,800	9,398,758
Financial liabilities								
Borrowings from banks	0.35% to 1.4%	979,070	-	-	-	979,070	-	979,070
Deposits from customers	0.1% to 5%	1,252,000	525,322	938,153	-	2,715,475	4,427,815	7,143,290
Other liabilities		-	-	-	-	-	35,399	35,399
Total financial liabilities		2,231,070	525,322	938,153	-	3,694,545	4,463,214	8,157,759
On balance sheet interest sensitivity gap		1,945,326	1,118,765	963,091	597,231	4,624,413	(3,383,414)	1,240,999

Exposure to currency risk

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

	Total	AFN	USD	Euro	GBP	PKR
			AFN '000			
2017						
Financial Assets						
Cash and Cash equivalents	3,444,007	542,712	2,779,352	121,339	321	283
Lendings to financial institutions	804,563	-	804,563	-	-	-
Investments	1,640,972	-	1,640,972	-	-	-
Loans and advances to customers	6,376	-	6,376	-	-	-
Property and equipment	2,502	2,502	-	-	-	-
Other assets	14,964	7,012	7,952	-	-	-
	5,913,384	552,226	5,239,215	121,339	321	283
Financial Liabilities						
Borrowings from banks	(348,550)	-	(348,550)	-	-	-
Deposits from customers	(4,148,518)	(315,129)	(3,828,059)	(3,330)	-	-
Taxation-net	(34,107)	(34,107)	-	-	-	-
Other liabilities	(26,591)	(16,990)	(9,601)	-	-	-
	(4,555,766)	(366,226)	(4,186,210)	(3,330)	-	-
Net foreign currency exposure	1,357,618	186,000	1,053,005	118,009	321	283

	Total	AFN	USD	Euro	GBP	PKR
			AFN '000			
2016						
Financial Assets						
Cash and Cash equivalents	5,231,279	488,176	4,451,177	176,738	113,484	1,704
Lendings to financial institutions	1,580,302	-	1,580,302	-	-	-
Investments	2,526,106	1,603,861	922,245	-	-	-
Loans and advances to customers	36,154	-	36,154	-	-	-
Property and equipment	2,141	2,141	-	-	-	-
Other assets	24,917	21,271	3,568	78	-	-
	9,400,899	2,115,449	6,993,446	176,816	113,484	1,704
Financial Liabilities						
Borrowings from banks	(979,070)	-	(902,070)	(77,000)	-	-
Deposits from customers	(7,184,954)	(1,821,295)	(5,334,585)	(29,074)	-	-
Taxation-net	(27,101)	(27,101)	-	-	-	-
Other liabilities	(35,399)	(25,417)	(9,974)	(8)	-	-
	(8,226,524)	(1,873,813)	(6,246,629)	(106,082)	-	-
Net foreign currency exposure	1,174,375	241,636	746,817	70,734	113,484	1,704

The following major exchange rates were applied during the year

	2017		2016	
	Average rate AFN	Reporting date spot AFN	Average rate AFN	Reporting date spot AFN
USD	68.27	69.71	61.00	66.82
Euro	76.64	83.27	67.65	70.00
GBP	88.03	93.21	90.49	82.84
PKR	0.63	0.63	0.59	0.62

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, Euro, GBP and PKR at 31 December 2017 would have increased / (decreased) equity and statement of comprehensive income by the amounts (pre-tax) 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.

	2017		2016	
	Equity	Statement of comprehensive income	Equity	Statement of comprehensive income
		AFN '000		
USD	105,301	105,301	74,682	74,682
Euro	11,801	11,801	7,073	7,073
GBP	32	32	11,348	11,348
PKR	28	28	170	170

A 10% weakening of the Afghani against the above currencies at 31 December 2017 would have the equal but opposite pre-tax effect on equity and statement of comprehensive income to the amounts shown above subject to all other variables remaining constant.

28.7 Operational risks

Operational risks is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business units.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implantation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls.

- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

Compliance with the Bank's standards is supported by a programme of periodic review undertaken by Internal Audit. The results of Internal Audit review are discussed with the management to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

28.8 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 self-sustainable; 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:

	31 December 2017 AFN '000	31 December 2016 AFN '000
Tier 1 (Core) Capital:		
Total equity capital	**1,375,143**	1,205,163
Less:		
Intangible assets	**-**	-
Net deferred tax assets	**9,636**	6,293
Profit for the year	**212,793**	124,677
	1,152,714	1,074,193
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	**58,065**	12,694
Profit for the year	**212,793**	124,677
	270,858	137,371
Tier 2 (Supplementary) Capital (restricted 100% of Tier 1 (Core) Capital)	**270,858**	137,371
Regulatory Capital = Tier 1 + Tier 2	**1,423,572**	1,211,564
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	**39,209**	43,210
Direct claims on DAB	**1,083,405**	547,892
Direct claims on other Governments	**-**	-
Others	**-**	-
Total	**1,122,614**	591,102
0% risk-weight total (above total x 0%)	**-**	-
20% risk weight:		
Balances with other banks	**2,322,893**	4,107,117
20% risk-weight total (above total x 20%)	**464,579**	821,423
50% risk weight:		
Loans and advances	**6,376**	36,154
Lending to Financial Institutions	**804,563**	1,580,302
Investments	**1,640,972**	2,526,106
Total	**2,451,911**	4,142,562
50% risk-weight total (above total x 50%)	**1,225,956**	2,071,281
100% risk weight:		
All other assets	**43,127**	597,199
Less: intangible assets	**-**	-
Less: Deferred tax assets	**(9,636)**	(6,293)
All other assets - net	**33,491**	590,906
100% risk-weight total (above total x 100%)	**33,491**	590,906

	31 December 2017 AFN '000	31 December 2016 AFN '000
Credit conversion factor		
0% risk weight:		
Commercial letters of credit	**10,108**	10,346
Guarantees	**32,769**	37,420
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	**-**	-
Guarantees	**1,026,382**	1,223,551
20% credit conversion factor total (risk-weighted total x 20%)	**205,276**	244,710
20% risk-weight total (above total x 20%)	**41,055**	48,942
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	**1,765,081**	3,532,552
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	**65.31%**	30.41%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	**80.65%**	34.30%

29. COMPARATIVE FIGURES

Comparative information has been reclassified, rearranged or additionally incorporated in these financial statements for the purposes of better presentation. Detail is mentioned below:

Description	**Reclassified from**	**Reclassified to**	**Amount AFN '000**
Margin deposits	Other liabilities	Deposits from customers	41,664
Capital reserve	Retained earnings	Capital reserve	6,234

30. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Country Finance Manager and Country Manager of the Bank on 30-June-2018.

Country Finance Manager

Country Manager