HABIB BANK LIMITED, AFGHANISTAN BRANCHES
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note	31 December 2016 AFN '000'	31 December 2015 AFN '000'
Assets			
Cash and cash equivalents	7	**5,231,279**	5,675,399
Lendings to financial institutions	8	**1,580,302**	511,820
Investments	9	**2,526,106**	2,133,668
Loans and advances to customers - net	10	**36,154**	80,481
Property and equipment	11	**2,141**	2,497
Other assets	12	**49,412**	27,481
Deferred tax asset	13	**6,293**	-
Total assets		**9,431,687**	8,431,346
Liabilities			
Borrowing from banks	14	**979,070**	1,299,030
Deposits from customers	15	**7,143,290**	5,785,513
Deferred tax liability	13	**-**	7
Taxation - net		**27,101**	32,864
Other liabilities	16	**77,063**	80,321
Total liabilities		**8,226,524**	7,197,735
Equity			
Capital contributed by head office		**1,000,242**	1,000,242
Retained earnings		**204,921**	233,369
Total equity		**1,205,163**	1,233,611
Total liabilities and equity		**9,431,687**	8,431,346
Contingencies and commitments	17		

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 2016

	Note	31 December 2016 AFN '000'	31 December 2015 AFN '000'
Interest income	18	**238,225**	213,178
Interest expense	19	**(74,445)**	(52,919)
Net interest income		**163,780**	160,259
Fee and commission income	20	**38,356**	36,551
Other income	21	**17,962**	156,437
		220,098	353,247
Provision on loans and advances	10.2	**(574)**	(10,851)
Provision on lendings to financial institutions	8	**(12,694)**	-
Personnel expenses	22	**(44,019)**	(45,113)
Occupancy expenses	23	**(15,865)**	(9,621)
Depreciation	11	**(641)**	(650)
Other operating expenses	24	**(27,928)**	(39,629)
		(101,721)	(105,864)
Profit before taxation		**118,377**	247,383
Taxation	25	**6,300**	(21,147)
Profit after taxation		**124,677**	226,236
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent years		**-**	-
Total comprehensive income for the year		**124,677**	226,236

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 2016

	Note	31 December 2016 AFN '000'	31 December 2015 AFN '000'
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		**118,377**	247,383
Adjustment for non-cash item			
Depreciation		**641**	650
Provision on loans and advances		**574**	10,851
Provision on lendings to financial institutions		**12,694**	-
		132,286	258,884
(Increase) / decrease in operating assets			
Lendings to financial institutions		**(1,081,176)**	(471,449)
Loans and advances to customers - net		**43,753**	66,809
Other assets		**(21,931)**	(3,181)
(Decrease) / increase in operating liabilities			
Borrowings from banks		**(319,960)**	(173,467)
Deposits from customers		**1,357,777**	767,379
Other liabilities		**(3,258)**	(1,446)
		107,491	443,529
Income tax paid		**(5,763)**	(35,748)
Net cash flows generated from operating activities		**101,728**	407,781
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments		**(392,438)**	(186,152)
Acquisition of property and equipment		**(285)**	(1,591)
Net cash flows used in investing activities		**(392,723)**	(187,743)
Transfer to Head Office		**(153,125)**	(100,000)
Net (decrease) / increase in cash and cash equivalents during the year		**(444,120)**	120,038
Cash and cash equivalents at the beginning of the year		**5,675,399**	5,555,361
Cash and cash equivalents at the end of the year	7	**5,231,279**	5,675,399

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 2016

	Head office equity		
	Capital attributed by the head office	Retained earnings	Total
		AFN '000'	
Balance as at 01 January 2015	1,000,242	107,133	1,107,375
Payment to Head Office during the year	-	(100,000)	(100,000)
Profit for the year	-	226,236	226,236
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	226,236	226,236
Balance as at 31 December 2015	**1,000,242**	**233,369**	**1,233,611**
Payment to Head Office during the year	-	(153,125)	(153,125)
Profit for the year	-	124,677	124,677
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	124,677	124,677
Balance as at 31 December 2016	**1,000,242**	**204,921**	**1,205,163**

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 2016

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 commenced its operations on 14 April 2004 as "Banking Branch", registered with Da Afghanistan Bank ("DAB" or "the Central Bank"), for "Commercial Banking". The Bank obtained a business license from Afghanistan Investment Support Agency ("AISA") bearing No. I-10464 which was renewed on 21 September 2016 and is valid till 22 June 2017. Currently, the Bank is operating with 2 conventional Banking branches (2015: 2) in Kabul.

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

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the requirements of the Law of Banking in Afghanistan and the directives issued by the DAB, In case requirements differ, the requirements of the Law of Banking in Afghanistan prevail.

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 5.

3. BASIS OF MEASUREMENT

3.1 These financial statements have been prepared on the historical cost basis except as otherwise disclosed in the accounting policies.

3.2 These financial statements have been presented in Afghani (AFN) which is the Bank's functional and presentation currency.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those applied in the preparation of the financial statements of the Bank for the year ended 31 December 2015. These are enumerated as follow:

4.1 Cash and cash equivalent

Cash and cash equivalents include notes and coins in hand, balances in Nostro accounts and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

4.2 Investments

The investments of the Bank, upon initial recognition, are classified as fair value through profit or loss, held-to-maturity or available-for-sale, as appropriate.

Investments (other than held-for-trading) are initially measured at fair value plus transaction costs associated with the investments. Held-for-trading investments are initially measured at fair value and transaction costs are charged to statement of comprehensive income.

Purchase and sale of investments that require delivery within the time frame established by regulation or market convention are recognised at the trade date, which is the date the Bank commits to purchase or sell the investment.

Fair value through profit or loss - Held-for-trading

These represent securities, which are acquired for the purpose of generating profit from short-term profit making exists. After initial measurement, such investments are carried at fair value and the surplus / (deficit) arising as a result of revaluation is taken to statement of comprehensive income.

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity. After initial measurement, such investments are carried at amortised cost less impairment, if any.

Available-for-sale

These are investments which do not fall under the head held-for-trading and held-to-maturity categories. After initial measurement such investments are measured at fair value, investments that do not have a quoted price in an active market and whose fair value cannot otherwise be readily measured, are measured at cost. The surplus/ (deficit) arising on revaluation is recognised as other comprehensive income until the investment is derecognised or impaired.

4.3 Lendings to / borrowings from financial institutions

The Bank enters into transactions of lendings to / borrowings from financial institutions at contracted rates for a specified period of time. These are recorded as under:

(a) Lending to financial institutions

Trade bills purchased by the bank from financial institutions are classified as lendings to financial institutions. These are the lendings with fixed or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity. After initial measurement, these are carried at amortised cost less impairment, if any.

(b) Borrowings from financial institutions

Other borrowings include borrowings from the local financial institutions which are recorded at the proceeds received. Mark-up paid on such borrowings is charged to the profit and loss account over the period of borrowings on time proportionate basis using effective interest method.

4.4 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction cost and subsequently measured at their amortised cost using the effective interest method less allowance for impairment loss, if any.

All loans and advances are classified into one of the five classification grades mentioned below for minimum provisioning amounts in accordance with the regulations of Da Afghanistan Bank. Allowances for impairment are made by the Bank using the following percentages:

Loan Grading	Days past dues	Percentage %
Standard	0 days	1%
Watch	1-30 days	5%
Substandard	31-90 days	25%
Doubtful	91-360 days	50%
Loss	Over 360 days	100%

The Bank writes off a loans and advances (and any related allowances for impairment losses) when the Bank's Credit department determines that these are uncollectible.

4.5 Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful life, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of an item of property and equipment, and are recognized net within other income in the statement of comprehensive income.

(ii) *Subsequent costs*

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) *Depreciation*

Depreciation is recognized on a straight-line basis over the estimated useful lives of each item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Full month's depreciation is charged on property and equipment in the month of addition and no depreciation is charged in the month of deletion. Depreciation rates are mentioned in note 11 to the financial statements. Depreciation methods, useful lives and residual values are reassessed annually and adjusted if appropriate.

(iv) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment, if any. Intangible assets are amortised from the month when the assets are available for use, using the straight line method, whereby the cost of the intangible asset is amortised over its estimated useful life over which economic benefits are expected to flow to the Bank. The useful life and amortisation method are reviewed and adjusted, if appropriate, annually.

Intangible assets having an indefinite useful life are carried at cost less any impairment in value and are not amortised. Intangible assets having an indefinite useful life are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(v) Capital work-in-progress

Capital work-in-progress is stated at cost less impairment losses, if any. These are transferred to specified assets as and when assets are available for use.

4.6 Deposits

Deposits are the Bank's source of funding. Deposits are initially measured at fair value and subsequently measured at their amortized cost using effective interest method except where the Bank choose to carry the liabilities at fair value through profit or loss.

4.7 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 recognised using the statement of financial position liability method, on all temporary differences arising at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which the assets may be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The carrying amount of deferred tax asset is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recognised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the periods when the asset is utilised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

4.8 Provisions

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

Provisions are made as per '*Assets Classification Regulation*' of Da Afghanistan Bank (DAB) as below:

i) **Standard:** These are loans and advances, which are paying in current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any, supporting it. A general provision is maintained in the books of account @ 3% (31 December 2015: 1.38%) of value of such loans and advances.

ii) **Watch:** These are loans and advances which are adequately protected by the collateral, if any, supporting it, but are potentially weak. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification to Substandard. 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 are inadequately protected by current sound net worth and paying capacity of the borrower or by collateral, if any, supporting it. Further, all loans and advances which are past due by 61 to 90 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 can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. Further all loans and advances which are past due by 91 to 360 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 not collectable ad or such little value that its continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 361 days for principal and interest payments are also classified as Loss. A provision is maintained in the books of account @100% of value of such loans and advances and then these loans are charged off and the reserve for losses is reduced immediately upon determination of Loss status.

4.9 Revenue

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

Fee and commission income, including account servicing fee, funds transfer fee and placement fee, are recognized on receipt basis.

4.10 Financial assets and financial liabilities

(i) Recognition

See accounting policies 4.2, 4.3 and 4.4 above.

(ii) Classification

See accounting policies 4.2, 4.3 and 4.4 above.

(iii) Fair value of derivatives

The fair value of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates in effect at the balance sheet date and the contracted rates.

(iv) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and / or (ii) any cumulative gain or loss that had been recognized in the other comprehensive income is recognized in profit or loss.

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

(iv) Offsetting

Financial assets and financial liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs or for gains and losses arising from a group of similar transactions.

(v) Amortized cost measurement

The amortized cost of a financial asset or a financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

4.11 Impairment of financial assets

a) Assets carried at amortised 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 not carried at fair value through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is 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 amount of the 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 profit or loss.

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 the reversal is recognized in the statement of comprehensive income in impairment charge for credit losses.

b) Loans 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 Classification and Loss Reserve Requirement (CLRR) issued by DAB. (also refer note 4.4)

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 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 profit and loss, the impairment loss is reversed through the profit or loss, related to an event occurring after the impairment loss was recognized.

4.12 Impairment of non-financial asset

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in statement of comprehensive income. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

4.13 Foreign currency transactions

Transactions in foreign currencies are translated into functional currency at the foreign exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are translated into functional currency at the rates of exchange ruling on the statement of financial position date. Exchange gains and losses on transactions are included in the statement of comprehensive income.

4.14 Fair value measurements

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, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 — Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 — Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 — Level 3 inputs are unobservable inputs for the asset or liability.

4.15 Head office expenses

Head office expenses include expenses incurred by head office of the bank which relates to the combined operations of the Habib Bank Limited. The bank records Head Office expenses in the year in which the claim is received from Head Office.

4.16 Non-current asset held for sale

Any property acquired in settlement of certain advances are classified as non-current assets held for sale under IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. These are stated at lower of the carrying value of the related advances and the current fair value of such assets.

5. ACCOUNTING JUDGEMENTS AND ESTIMATES

The Preparation of financial statements in conformity with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and the requirements of the Law of Banking in Afghanistan require the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The estimates / judgements and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates / judgements and associated assumptions are reviewed on an ongoing basis. Revision to the accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The estimates, judgements and assumptions that have significant effect on the financial statements are as follows:

		Note
-	Classification and valuation of investments	9
-	Classification of lendings to financial institutions	8
-	Provision against non-performing advances	10
-	Estimation of residual values and useful lives of fixed assets and methods of depreciation	11
-	Recognition of current and deferred taxation	25

6. NEW ACCOUNTING STANDARDS / AMENDMENTS AND IFRS INTERPRETATIONS

6.1 New Standards, Interpretations and Amendments

The Bank has adopted the following accounting standard and the amendments and interpretation of IFRSs which became effective for the current year:

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

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

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

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

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

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

6.2 Improvements to Accounting Standards Issued by the IASB

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

IAS 19 Employee Benefits - Discount rate: regional market issue"

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

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any material effect on the financial statements except for certain additional disclosures.

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

6.4 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)	1-Jan-18
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IAS 7 Financial Instruments: Disclosures - Disclosure Initiative - (Amendment)	1-Jan-17
IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses (Amendments)	1-Jan-17
IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)	1-Jan-18
IAS 40 Investment Property: Transfers of Investment Property (Amendments)	1-Jan-18
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1-Jan-18
IFRS 9 – Financial Instruments: Classification and Measurement	1-Jan-18
IFRS 14 – Regulatory Deferral Accounts	1-Jan-16
IFRS 15 – Revenue from Contracts with Customers	1-Jan-18
IFRS 16 – Leases	1-Jan-19

7. CASH AND CASH EQUIVALENTS

	Note	31 December 2016 AFN '000'	31 December 2015 AFN '000'
Cash in Hand			
Local Currency - AFN		**13,518**	17,150
Foreign Currency - USD		**26,195**	86,447
Foreign Currency - EURO		**3,497**	4,357
		43,210	107,954
Balances with Financial Institutions			
Balances with DAB	7.1	**546,392**	495,896
Balances with HBL international branches - related parties	7.2	**4,107,117**	3,977,629
Balances with Bank Alfalah, Kingdom of Bahrain	7.3	**534,560**	1,093,920
		5,188,069	5,567,445
		5,231,279	5,675,399

7.1 Balances with DAB

	Note	31 December 2016 AFN '000'	31 December 2015 AFN '000'
Foreign currency			
Current accounts		**71,734**	9,668
Local currency			
Current accounts		**140,427**	63,271
Required reserve account	7.1.1	**334,231**	422,927
Overnight deposits		**-**	30
		474,658	486,228
		546,392	495,896

7.1.1 This represents the required reserve maintained with Da Afghanistan Bank (DAB) to meet minimum reserve requirements. This carries no mark-up.

7.2 Balances with HBL international branches - related parties

	Note	31 December 2016 AFN '000'	31 December 2015 AFN '000'
Foreign currency			
Nostro		**465,281**	444,609
Placements	7.2.1	**3,641,836**	3,533,020
		4,107,117	3,977,629

7.2.1 This represents a portfolio of placements with HBL international branches (related party). These placements have different maturity periods starting from 14 days to 3 months and carry interest rate ranging from 1.1% to 4.1% per annum (2015: 0.8% to 3.64% per annum).

7.3 Balances with Bank Alfalah, Kingdom of Bahrain

	Note	31 December 2016 AFN '000'	31 December 2015 AFN '000'
Foreign currency			
Placements	7.3.1	**534,560**	1,093,920

7.3.1 This represent a portfolio of placements with Bank Alfalah Bahrain. This placements has a maturity of 14 days and carry interest rate of 1.3% per annum (2015: 1.5% to 2.05% per annum).

8. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	31 December 2016 AFN '000'	31 December 2015 AFN '000'
Foreign currency			
Trade bills	8.1	**1,592,996**	511,820
Provision held against trade bills	8.2	**(12,694)**	-
		[illegible]	[illegible]

8.1 This represents trade bills purchased at discount rate ranging from 2% to 2.95% per annum (2015: 1.5% to 2.6% per annum) maturity period from 3 to 6 months.

8.2 Provision is charged at 1% (31 December 2015: Nil) on outstanding amount as required by 'Asset Classification Regulation' of the Da Afghanistan Bank (DAB).

9. INVESTMENTS

	Note	31 December 2016 AFN '000'	31 December 2015 AFN '000'
Investments classified as:			
Available-for-sale	9.1	**334,100**	683,700
Held-to-maturity:			
Capital notes with DAB	9.2	**1,594,775**	1,053,434
Bonds	9.3	**597,231**	396,534
		2,192,006	1,449,968
		2,526,106	2,133,668

9.1 This represents investment amounting to USD 5 million (2015: USD 10 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. The notes carry mark-up rates ranging from 5.83% to 6.32% (6 months LIBOR + 5%) per annum (2015: 6.33% to 6.58% (6 months LIBOR + 5%) and will mature up to 28 December 2017 (2015: 28 December 2016).

9.2 These are capital notes issued by DAB having face value of AFN 1,677,500,000 (2015: AFN 1,091,000,000) carrying interest rates ranging from 6.65% to 6.7% per annum (2015: 6.68% to 6.72% per annum). These have original maturity period of 364 days (2015: 364 days).

9.3 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 6% to 7.25% per annum (2015: 7.125% to 7.25%) maturing on 15 April 2019 and 14 January 2019. These investments are managed by Habibsons Bank Limited on behalf of the Bank.

10. LOANS AND ADVANCES TO CUSTOMERS - NET

	Note	2016	2015
Corporate and commercial finances	10.1	**37,959**	81,712
Less: Provision against loans and advances	10.2	**(1,805)**	(1,231)
		36,154	80,481

10.1 These include demand finance amounting to USD Nil (Equivalent to AFN Nil) (2015: USD 200,000 Equivalent to AFN 13,674,000) and overdrafts amounting to USD 568,082 (Equivalent to AFN 37,959,239) (2015: AFN 68,038,000). Demand finance carry interest at Nil per annum (2015: 12% per annum) having maturity for a maximum period of one year. Overdrafts are extended for a period of one year, subject to renewal at the end of loan term. Overdrafts carry interest rates ranging from 12% to 13% per annum (2015: 12% to 14% per annum). Both the facilities are secured against immovable properties, stocks and receivables of the borrowers and personal guarantees in certain cases.

10.2 Provisions against loans and advances

	Note	2016	2015
Opening balance		**1,231**	8,978
Charge for the year		**1,732**	9,999
Reversal during the year	10.2.1	**(1,130)**	-
Exchange rate fluctuation		**(28)**	852
		574	10,851
Loan written off during the year		**-**	(18,598)
Closing balance		**1,805**	1,231

10.2.1 As at 31 December 2016, the provisioning has been made in accordance with the *'Asset Classification Regulation'* issued by Da Afghanistan Bank (DAB) during last year which has been effective from 30 September 2016.

11. PROPERTY AND EQUIPMENT

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	2,130	1,946	31	1,938	192	20
		(39)			(39)			
Leasehold improvements	6,174	-	6,174	6,174	-	6,174	-	20
Office equipment	5,974	204	5,995	4,448	371	4,636	1,359	20 - 33
		(183)			(183)			
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	19,859	17,077	863	17,718	2,141	
		(222)			(222)			

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	2,005	60	2,065	1,905	41	1,946	119	20
Leasehold improvements	6,174	-	6,174	6,174	-	6,174	-	20
Office equipments	4,551	1,423	5,974	4,262	186	4,448	1,526	20 - 33
Computer and accessories	2,160	108	2,268	2,132	133	2,265	3	33
Motor vehicles	3,118	-	3,093	1,979	290	2,244	849	20
		(25)			(25)			
2015	18,008	1,591	19,574	16,452	650	17,077	2,497	
		(25)			(25)			

12. OTHER ASSETS

	31 December 2016 AFN '000	31 December 2015 AFN '000
Security deposit with DAB	18,851	1,500
Prepayments	5,644	2,984
Interest / mark-up receivable	24,834	22,786
Others	83	211
	49,412	27,481

	31 December 2016 AFN '000	31 December 2015 AFN '000

13. DEFERRED TAX ASSET

Deferred tax (assets) / liabilities arising in respect of:

	31 December 2016 AFN '000	31 December 2015 AFN '000
Tax losses	**6,631**	-
Accelerated depreciation	**(338)**	(253)
Provision	**-**	246
	6,293	(7)

13.1 Movement in temporary differences during the year

	Balance as at 01 January 2015	Recognized in profit or loss	Recognized in equity	Balance as at 31 December 2015	Recognized in profit or loss	Recognized in equity	Balance as at 31 December 2016
Deffered tax assets arising in respect of:							
Tax losses	-	-	-	-	**6,631**	-	**6,631**
provisions	874	(628)	-	246	**(246)**	-	**-**
	874	(628)	-	246	**6,385**	-	**6,631**
Deffered tax liabilities arising in respect of:							
Un-realised exchange gain on currency transaction	(22,979)	22,979	-	-	**-**	-	**-**
accerlerated depreciation	(202)	(51)	-	(253)	**(85)**	-	**(338)**
	(23,181)	22,928	-	(253)	**(85)**	-	**(338)**
	(22,307)	22,300	-	(7)	**6,300**	-	**6,293**

14. Borrowings from banks

	Note	31 December 2016 AFN '000	31 December 2015 AFN '000
Bank Alfalah Limited - Afghanistan		**-**	273,480
First Micro Finance Bank Limited - Afghanistan		**578,150**	1,025,550
Afghan United Bank		**400,920**	-
	14.1	**979,070**	1,299,030

14.1 These represent borrowing form other banks carrying interest rates ranging from 0.35% to 1.4% (2015: 0.35% to 3.75%) having maturities of up to 3 months.

15. DEPOSITS FROM CUSTOMERS

	Note	31 December 2016 AFN '000	31 December 2015 AFN '000
Local currency			
Term deposits	15.1	**1,420,000**	1,052,000
Current deposits		**164,236**	174,075
Saving deposits	15.2	**196,792**	44,880
		1,781,028	1,270,955
Foreign currency			
Term deposits	15.3	**1,088,498**	181,181
Current deposits		**4,263,579**	4,044,901
Saving deposits	15.2	**10,185**	288,476
		5,362,262	4,514,558
		7,143,290	5,785,513

15.1 These carry interest rates ranging from 3.6% to 5% per annum (2015: 3.5% to 5.17% per annum) and have a maturity period of 1 year (2015: 03 to 06 months).

15.2 These carry interest rates ranging from 0.10% to 2% per annum (2015: 0.10% to 1.5% per annum) and have a maturity period from 1 to 6 months (2015: 01 to 06 months).

15.3 These carry interest rates ranging from 1% to 1.78% per annum (2015: 3.5% to 5.17% per annum) and have a maturity period from 3 to 6 months (2015: 03 to 06 months).

	Note	31 December 2016 AFN '000	31 December 2015 AFN '000
16. OTHER LIABILITES			
Bills payable		-	74
Interest payable		**28,221**	11,384
Margin money		**41,664**	45,542
Accrued expenses		**7,178**	7,760
Payable to head office		-	15,542
Others		-	19
		77,063	80,321

17. CONTINGENCIES AND COMMITMENTS

17.1 Contingencies

	Note		
Letter of guarantees	17.1.1	**1,260,971**	1,120,363

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

	31 December 2016 AFN '000	31 December 2015 AFN '000
17.2 Commitments		
Letter of credit and acceptances	**10,346**	38,345
18. INTEREST INCOME		
Cash and cash equivalents	**77,236**	67,286
Investments	**153,776**	130,125
Loans and advances to customers	**7,213**	15,767
	238,225	213,178
19. INTEREST EXPENSE		
Deposits from customers / banks	**74,445**	52,919
	74,445	52,919
20. FEE AND COMMISSION INCOME		
Commission on guarantees issued	**25,026**	24,350
Commission on bills and transfers	**366**	78
Other incidental commission	**12,964**	10,207
	38,356	34,635

	Note	31 December 2016 AFN '000	31 December 2015 AFN '000
21. OTHER INCOME			
Gain on sale of property and equipment		-	5
Exchange gain		16,791	151,982
Recovery of loans and advances to customers previously written off		207	4,450
Others		964	1,916
		17,962	158,353
22. PERSONNEL EXPENSES			
Expatriate salaries and benefits		21,140	20,550
Local staff salaries		9,010	11,379
Other benefits - local staff		13,869	13,184
		44,019	45,113
23. OCCUPANCY EXPENSES			
Rent		10,694	7,685
Utilities		4,817	1,726
Repairs and renovation		354	210
		15,865	9,621
24. OTHER OPERATING EXPENSES			
Insurance charges		10,409	8,289
Head office expenses		-	15,542
Security charges		2,502	2,265
Communication charges		2,819	2,848
Legal and professional charges		2,069	2,707
Travelling expenses		1,612	1,336
Subscriptions and license fee		845	935
Auditors' remuneration		1,123	840
Other expenses		6,549	4,867
		27,928	39,629

25. TAXATION	31 December 2016 AFN '000	31 December 2015 AFN '000
Current		
Current year	-	49,225
Prior year	-	(5,778)
Deferred	6,300	(22,300)
	6,300	21,147
25.1 Relationship between tax expense and accounting profit		
Profit before taxation	118,377	247,383
Tax at applicable rate of 20% (2015: 20%)	23,675	49,477
Effect of recognized temporary difference due to taxable loss	(23,675)	(22,350)
Effect of deferred tax charge	6,300	-
Others	-	(5,980)
	6,300	21,147

26. RELATED PARTY TRANSACTIONS

The Bank is a branch office of Habib Bank Limited Pakistan, therefore, 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.

26.1 Transactions with other related parties

26.1.1 Details of transactions with the related parties during the period are as follows:

	For The Year Ended	
	31 December 2016	31 December 2015
Name of group companies	AFN '000'	AFN '000'
Nature of transaction		
HBL Hong Kong		
Placement made	**4,325,688**	4,893,113
Placement matured	**4,582,144**	2,385,930
Income earned on placements	**11,991**	2,419
HBL Singapore		
Placement made	**2,636,400**	2,293,950
Placement matured	**3,380,000**	2,635,800
Income earned on placements	**5,540**	3,882
HBL Turkey		
Placement made	**608,400**	646,575
Placement matured	**608,400**	817,500
Income earned on placements	**586**	570
HBL Bahrain		
Placement made	**5,948,800**	78,590
Placement matured	**4,934,800**	-
Income earned on placements	**39,874**	-
HBL Kenya		
Placement made	**6,895,200**	4,847,742
Placement matured	**6,523,400**	2,880,045
Income earned on placements	**7,407**	1,405
HBL Srilanka		
Placement made	**1,487,200**	800,640
Placement matured	**1,757,600**	546,960
Income earned on placements	**2,370**	1,032
HBL Pakistan - Treasury		
Placement made	**2,636,400**	-
Placement matured	**2,433,600**	-
Income earned on placements	**279**	-
HBL London		
Investment made	**683,700**	1,080,234
Investment matured	**1,002,300**	1,080,234
Income earned on investment	**18,678**	30,208
FMFB-Afghanistan		
Borrowing made	**6,252,538**	14,989,815
Borrowing matured	**6,759,500**	15,603,460
Interest paid on borrowing	**3,693**	7,104
Tourism Promotion Services - KSH (Current Accounts)		
Withdrawls	**450,780**	146,783
Receipts	**457,654**	126,853
French Medical Institute for Children (Current Accounts)		
Withdrawls	**3,388**	3,984
Receipts	**2,873**	-
Telecom Development Co Afghanistan (Current Accounts)		
Withdrawls	**1,099**	8,609
Receipts	**2,562**	5,004
Key management personnel compensation		
Salaries and benefits	**11,196**	8,060

In addition to their salaries, the Bank also provides non-cash benefit to expatriates staff which includes furnished accommodation.

26.1.2 Balances with related parties as at period / year end are as follows:

Name of group companies	Nature of balances	31 December 2016 (Audited) AFN '000'	31 December 2015 (Audited) AFN '000'
Placements / Investments / Lendings to financial institution			
HBL Srilanka	Placement	**-**	273,480
HBL Bahrain	Placement	**1,470,040**	478,590
HBL Singapore	Placement	**267,280**	1,025,550
HBL Hong Kong	Placement	**982,400**	1,264,845
HBL Kenya	Placement	**701,610**	341,850
HBL Treasury HOK	Placement	**200,460**	-
HBL Lebanon	Placement	**20,046**	-
HBL Kepz	Placement	**-**	148,705
Habib Allied International Bank	Available for sale investments	**334,100**	683,700
HBL Brussels	Current Account	**137,990**	7,960
Habib Allied International Bank	Current Account	**113,484**	91,479
HBL New York	Current Account	**212,103**	344,021
HBL Foreign Exchange Pakistan	Current Account	**1,704**	1,149
HBL Bangladesh	Lendings to financial institutions	**323,535**	-
Borrowings from banks			
FMFB		**578,150**	1,025,550
Deposits from Customers			
Tourism Promotion Services - KSH		**13,154**	7,482
French Medical Institute for Children (FMIC)		**3,408**	3,972
Telecom Development Co Afghanistan		**2,653**	67,173
Key management personnel compensation			
Accounts Balances		**1,250**	1,101

27. FINANCIAL ASSETS AND LIABLITIES

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.

2016	Note	Held to maturity	Loans and receivables	Available for sale	Total Carrying amount
Financial Assets		AFN '000'			
Cash and cash equivalents	7	-	5,231,279	-	5,231,279
Lendings to financial institutions - net of provision	8	1,580,302	-	-	1,580,302
Investments	9	2,192,006	-	334,100	2,526,106
Loans and advances to customers	10	-	36,154	-	36,154
Other assets	12	-	43,685	-	43,685
		3,772,308	5,311,118	334,100	9,417,526

Financial Liabilities	Note	Amortized cost AFN '000'	Total Carrying amount AFN '000'
Borrowings from banks	14	979,070	979,070
Deposits from customers	15	7,143,290	7,143,290
Other liabilities	16	77,063	77,063
		8,199,423	8,199,423

2015	Note	Held to maturity	Loans and receivables	Available for sale	Total Carrying amount
Financial Assets		AFN '000'			
Cash and cash equivalents	7	-	5,675,399	-	5,675,399
Lendings to financial institutions	8	511,820	-	-	511,820
Investments	9	1,449,968	-	683,700	2,133,668
Loans and advances to customers	10	-	80,481	-	80,481
Other assets	12	-	24,286	-	24,286
		1,961,788	5,780,166	683,700	8,425,654

Financial Liabilities	Note	Amortized cost AFN '000'	Total Carrying amount AFN '000'
Borrowings from banks	14	1,299,030	1,299,030
Deposits from customers	15	5,785,513	5,785,513
Other liabilities	16	80,321	80,321
		7,164,864	7,164,864

The carring amounts approximate fair values as mostly the assets and liabilities have short maturities and are expected to be recovered / settled at their carrying amounts.

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 mee tits 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	
	2016	2015
	AFN '000'	AFN '000'
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and cash equivalents	**534,560**	1,093,920
Lendings to financial institutions	**1,256,767**	205,851
Investments	**597,231**	396,534
Loans and advances to customers	**36,154**	80,481
Other assets	**24,917**	22,997
	2,449,629	1,799,783
Credit risk exposures relating off-balance sheet items are as follows:		
Letters of guarantee	**1,260,971**	1,120,363
Letters of credit	**10,346**	38,345
	1,271,317	1,158,708

The above table represents credit risk exposure to the Bank at 31 December 2016 and 31 December 2015, 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 2016	31 December 2015
Cash and cash equivalents	**21.82%**	60.78%
Lendings to financial institutions	**51.30%**	11.44%
Investments	**24.38%**	22.03%
Loans and advances to customers	**1.48%**	4.47%
Other assets	**1.02%**	1.28%

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 2016	31 December 2015
			AFN '000	AFN '000
Counter parties with external credit ratings:				
HBL Brussels	AAA	JCR-VIS	137,990	7,960
Habib Allied London	AAA	JCR-VIS	113,484	91,479
HBL Foreign Exchange Pakistan	AAA	JCR-VIS	1,704	1,149
HBL New York	AAA	JCR-VIS	212,103	344,021
			465,281	444,609

Placements	Credit Rating	Rating Agency	31 December 2016 AFN '000	31 December 2015 AFN '000
HBL OBU Bahrain	A-1+	JCR-VIS	**1,470,040**	478,590
HBL Singapore	A-1+	JCR-VIS	**267,280**	1,025,550
HBL Hongkong	A-1+	JCR-VIS	**982,400**	1,264,845
HBL Hongkong - Treasury	A-1+	JCR-VIS	**200,460**	-
HBL Kenya	A-1+	JCR-VIS	**701,610**	341,850
HBL Lebanon	A-1+	JCR-VIS	**20,046**	-
Al Falah Bank Bahrain	A-1+	JCR-VIS	**534,560**	1,093,920
HBL Srilanka	A-1+	JCR-VIS	**-**	273,480
HBL Kepz	A-1+	JCR-VIS	**-**	148,705
			4,176,396	4,626,940

	31 December 2016 AFN '000	31 December 2015 AFN '000
Lendings to Financial Institutions - net of provision		
Counter parties	**1,580,302**	511,820

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 Habibsons Bank Limited under investment criteria defined by the Bank. AFS investments are with Habib Bank London - related party whose rating is AAA.

	31 December 2016 AFN '000	31 December 2015 AFN '000
Loans and advances to customers - net		
Counter party	**36,154**	80,481
Other Assets		
Counter party	**43,685**	24,286

Exposure to credit risk

	Note	Loans and advances to 2016	Loans and advances to 2015	Total carrying amount 2016	Total carrying amount 2015
		AFN ' 000			
Carrying amount - amortized cost	10	**36,154**	80,481	**36,154**	80,481
Neither past due nor impaired		**-**	81,712	**-**	81,712
Past due and impaired		**37,959**	-	**37,959**	-
Past due but not impaired		**-**	-	**-**	-
Gross amount		**37,959**	81,712	**37,959**	81,712
Allowance for impairment	10	**(1,805)**	(1,231)	**(1,805)**	(1,231)
Carrying amount		**36,154**	80,481	**36,154**	80,481
Carrying amount - amortized cost		**36,154**	80,481	**36,154**	80,481

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

Neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the DAB regulations.

	Commercial loans		
	Overdraft	Term loans	Total
	AFN '000	AFN '000	AFN '000
31 December 2016			
Regular loans	-	-	-
31 December 2015			
Regular loans	68,039	13,673	81,712

Past due and impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AFN 37,959 thousands (31 December 2015: Nil).

	Commercial Loans		
	Overdraft	Term loans	Total
	AFN '000	AFN '000	AFN '000
31 December 2016			
Watch	**37,959**	-	**37,959**
Substandard	-	-	-
Doubtful	-	-	-
Loss	-	-	-
Total	**37,959**	-	**37,959**
Fair value of collateral	**339,913**	-	**339,913**
31 December 2015 *			
Watch	-	-	-
Substandard	-	-	-
Doubtful	-	-	-
Loss	-	-	-
Total	-	-	-
Fair value of collateral	-	-	-

* Last year all parties are classified under the standard category and hence is not appearing in the category 'Past due and impaired'. But in current year due to change in asset classification regulations, parties are classified under this category.

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.

Cash and cash equivalents

As of the reporting date, the Bank held cash and cash equivalents amounting to AFN 534,560 thousands (2015: 1,093,920 thousands) which represents its maximum credit exposure on these assets. 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:

	2016	2015
	AFN '000	
Carrying amount	**36,154**	80,481
Concentration by sector		
Oil and Gas distribution	33,074	-
Distribution of medical supplies	4,505	-
Commercial real estate and construction	-	13,674
Trade	-	66,807
	37,579	80,481

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 28.2 and 28.5 to these financial statements.

Bank's loans and advances to customers as at 31 December 2016 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 Banks 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:

	2016	2015
At the year end	**66%**	74%
Average for the year	**66%**	70%
Maximum for the year	**145%**	84%

Maturity analysis for financial assets

AFN '000'	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
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	49,412	49,412	19,247	5,644	24,521	-	-
Total Financial Assets		9,435,947	9,435,947	1,863,198	580,349	6,065,123	927,277	-
Financial liabilities								
Borrowings from banks	14	(979,070)	(979,070)	(334,100)	(244,050)	(400,920)	-	-
Deposits from customers	15	(7,143,290)	(7,143,290)	(4,427,815)	(206,978)	(2,508,497)	-	-
Other liabilities	16	(77,063)	(77,063)	-	-	(77,063)	-	-
Total financial liabilities		(8,199,423)	(8,199,423)	(4,761,915)	(451,028)	(2,986,480)	-	-
		1,236,524	1,236,524	(2,898,717)	129,321	3,078,643	927,277	-

AFN '000'	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
2015								
Financial assets								
Cash and cash equivalents	7	5,675,399	5,675,399	2,142,379	-	3,533,020	-	-
Lendings to financial institutions	8	511,820	511,820	-	511,820	-	-	-
Investments	9	2,133,668	2,133,668	-	-	1,057,483	1,076,185	-
Loans and advances to customers	10	80,481	80,481	66,808	13,673	-	-	-
Other assets	12	27,481	27,481	2,448	2,984	22,049	-	-
Total Financial Assets		8,428,849	8,428,849	2,211,635	528,477	4,612,552	1,076,185	-
Financial liabilities								
Borrowings from banks	14	(1,299,030)	(1,303,146)	(273,964)	(1,029,182)	-	-	-
Deposits from customers	15	(5,785,513)	(5,796,168)	(4,228,451)	(334,537)	(1,233,181)	-	-
Other liabilities	16	(80,321)	(80,321)	-	-	(80,321)	-	-
Total financial liabilities		(7,164,864)	(7,179,635)	(4,502,415)	(1,363,719)	(1,313,502)	-	-
		1,263,985	1,249,214	(2,290,780)	(835,242)	3,299,050	1,076,185	-

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			
2016	589,602	251,474	212,102.97	1,703.90	1,450,140	2,726,256	5,231,279
2015	603,850	441,289	344,021	149,854	2,290,395	1,845,990	5,675,399

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 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%	-	63,785	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	-	-	-	-	-	-	49,412	49,412
Total Financial Assets		4,176,396	1,644,087	1,901,244	597,231	8,318,958	1,104,295	9,423,253
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	-	-	-	-	-	-	77,063	77,063
Total financial liabilities		2,231,070	525,322	938,153	-	3,694,545	4,504,878	8,199,423
On balance sheet interest sensitivity gap		1,945,326	1,118,765	963,091	597,231	4,624,413	(3,400,583)	1,223,830

	Interest rates (p.a)	Interest bearing: Less than 3 months	3-6 months	6-12 months	1-5 years	Total	Non-interest bearing	Total
		AFN '000						
31 December 2015								
Financial assets								
Cash and cash equivalents	0.8% to 3.64%	4,626,940	-	-	-	4,626,940	1,048,459	5,675,399
Lendings to financial institutions	1.5% to 2.6%	-	511,820	-	-	511,820	-	511,820
Investments	6.33% to 6.72%	-	-	1,737,134	396,534	2,133,668	-	2,133,668
Loans and advances to customers	12% to 14%	-	-	80,481	-	80,481	-	80,481
Other assets	-	-	-	-	-	-	27,481	27,481
Total Financial Assets		4,626,940	511,820	1,817,615	396,534	7,352,909	1,075,940	8,428,849
Financial liabilities								
Borrowings from banks	0.35% to 3.75%	1,299,030	-	-	-	1,299,030	-	1,299,030
Deposits from customers	0.1% to 5.17%	-	1,566,537	-	-	1,566,537	4,218,976	5,785,513
Other liabilities	-	-	-	-	-	-	80,321	80,321
Total financial liabilities		1,299,030	1,566,537	-	-	2,865,567	4,299,297	7,164,864
On balance sheet interest sensitivity gap		3,327,910	(1,054,717)	1,817,615	396,534	4,487,342	(3,223,357)	1,263,985

Exposure to currency risk

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

AFN ' 000'	Total	AFN	USD	Euro	GBP	PKR
2016						
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**	**1,571,607**	**922,245**	-	-	-
Loans and advances to customers	**36,154**	-	**36,154**	-	-	-
Property and equipment	**2,141**	**2,141**	-	-	-	-
Other assets	**49,412**	**53,103**	**28,485**	**78**	-	-
	9,425,394	**2,115,027**	**7,018,363**	**176,816**	**113,484**	**1,704**
Borrowings from banks	**(979,070)**	-	**(902,070)**	**(77,000)**	-	-
Deposits from customers	**(7,143,290)**	**(1,779,631)**	**(5,334,585)**	**(29,074)**	-	-
Taxation-net	**(27,101)**	**(27,101)**	-	-	-	-
Other liabilities	**(77,063)**	**(25,417)**	**(51,638)**	**(8)**	-	-
	(8,226,524)	**(1,832,149)**	**(6,288,293)**	**(106,082)**	-	-
Net foreign currency exposure	**1,198,870**	**282,878**	**730,070**	**70,734**	**113,484**	**1,704**

AFN ' 000'	Total	AFN	USD	Euro	GBP	PKR
2015						
Cash and Cash equivalents	5,675,399	503,378	5,062,880	16,513	91,479	1,149
Lendings to financial institutions	511,820	-	511,820	-	-	-
Investments	2,133,668	1,053,434	1,080,234	-	-	-
Loans and advances to customers	81,712	49,882	31,830	-	-	-
Other assets	27,481	11,755	15,726	-	-	-
	8,430,080	1,618,449	6,702,490	16,513	91,479	1,149
Borrowings from banks	(1,299,030)	-	(1,299,030)	-	-	-
Deposits from customers	(5,785,513)	(1,270,955)	(4,484,018)	(30,540)	-	-
Taxation-net	(32,864)	(32,864)	-	-	-	-
Other liabilities	(80,321)	(34,004)	46,317	-	-	-
	(7,197,728)	(1,337,823)	(5,736,731)	(30,540)	-	-
Net foreign currency exposure	1,232,352	280,626	965,759	(14,027)	91,479	1,149

The following major exchange rates were applied during the year:

	2016		2015	
	Average rate AFN	Reporting date spot AFN	Average rate AFN	Reporting date spot AFN
USD	**67.60**	**66.82**	61.00	68.37
Euro	**72.24**	**70.00**	67.65	74.48
GBP	**91.81**	**82.84**	90.49	100.77
PKR	**0.63**	**0.62**	0.59	0.64

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, Euro, GBP and PKR at 31 December 2016 would have increased / (decreased) equity and statement of comprehensive income by the amounts (pre-tax) shown below. This analysis is abased 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.

In AFN '000'	2016 Equity	2016 Statement of comprehensive income	2015 Equity	2015 Statement of comprehensive income
USD	**73,007**	**73,007**	(87,313)	(87,313)
Euro	**7,073**	**7,073**	1,403	1,403
GBP	**11,348**	**11,348**	(9,148)	(9,148)
PKR	**170**	**170**	(115)	(115)

A 10% weakening of the Afghani against the above currencies at 31 December 2016 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 behaviour. 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

The Bank's regulator Da Afghanistan Bank (DAB) sets and monitors capital requirements for the Bank. The Bank is required to maintain at all times the paid up capital plus reserves of AFN 1 billion.

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 2016	31 December 2015
	AFN '000	AFN '000
Tier 1 (Core) Capital:		
Total equity capital	**1,205,163**	1,233,611
Less:		
Intangible assets	**-**	-
Net deferred tax assets	**6,293**	7
Profit for the year	**124,677**	226,236
	1,074,193	1,007,368
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	**12,694**	-
Profit for the year	**124,677**	226,236
	137,371	226,236
Tier 2 (Supplementary) Capital (restricted 100% of Tier 1 (Core) Capital)	**137,371**	226,236
Regulatory Capital = Tier 1 + Tier 2	**1,211,564**	1,233,604
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	**43,210**	107,954
Direct claims on DAB	**546,392**	495,896
Direct claims on other Governments	**-**	-
Others	**-**	-
Total	**589,602**	603,850
0% risk-weight total (above total x 0%)	**-**	-
20% risk weight:		
Balances with other banks	**-**	-
20% risk-weight total (above total x 20%)	**-**	-
50% risk weight:		
Loans and advances	**36,154**	-
Total	**36,154**	-
50% risk-weight total (above total x 50%)	**18,077**	-
100% risk weight:		
All other assets	**8,812,224**	7,827,489
Less: intangible assets	**(6,293)**	7
Less: Deferred tax assets	**-**	-
All other assets - net	**8,805,931**	7,827,496
100% risk-weight total (above total x 100%)	**8,805,931**	7,827,496
Credit conversion factor		
0% risk weight:		
Guarantees	**-**	-
0% credit conversion factor total (risk-weighted total x 0%)	**-**	-
0% risk-weight total (above total x 0%)	**-**	-

	31 December 2016	31 December 2015
	AFN '000	AFN '000
20% risk weight:		
Commercial letters of credit	**10,346**	38,345
20% credit conversion factor total (risk-weighted total x 20%)	**2,069**	7,669
20% risk-weight total (above total x 20%)	**414**	1,534
100% risk weight:		
Guarantees	**1,260,971**	1,120,363
100% credit conversion factor total (risk-weighted total x 100%)	**1,260,971**	1,120,363
100% risk-weight total (above total x 100%)	**1,260,971**	1,120,363
Total risk-weighted assets	**10,085,393**	8,949,393
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	**10.65%**	11.26%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	**12.01%**	13.78%

29. GENERAL

Figures have been rounded off to the nearest thousand Afghani.

30. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Country Manager and Country Finance Manager of the Bank on 29 March 2017.

Country Finance Manager

Country Manager