Building a better
working world

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AFGHANISTAN INTERNATIONAL BANK

Opinion

We have audited the accompanying financial statements of Afghanistan International Bank (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.

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 are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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
Chartered Accountants

Date: 10 March 2018
Kabul, Afghanistan
Engagement Partner: Shabbir Yunus

Statement of Financial Position

As at 31 December 2017

	Note	31 December 2017 AFN '000'	31 December 2016 AFN '000'
ASSETS			
Cash and balances with Da Afghanistan Bank	5	**13,765,061**	10,452,572
Balances with other banks	6	**10,174,148**	6,606,085
Placements – net	7	**13,439,256**	19,313,157
Investments – net	8	**15,966,565**	14,382,579
Loan and advances to customers – net	9	**3,369,970**	3,729,388
Receivables from financial institutions	10	**587,534**	522,484
Operating fixed assets	11	**2,546,205**	1,625,342
Intangible assets	12	**445,918**	527,457
Deferred tax assets	13	**73,603**	21,440
Other assets	14	**568,956**	1,007,100
Total assets		**60,937,216**	58,187,604
LIABILITIES			
Customers' deposits	15	**56,261,420**	54,077,642
Deposits from bank	16	**500,000**	–
Deferred income		**18,989**	15,824
Other liabilities	17	**311,873**	193,068
Total liabilities		**57,092,282**	54,286,534
EQUITY			
Share capital	18	**1,465,071**	1,465,071
Capital reserves	19	**236,497**	218,600
Retained earnings		**2,139,818**	2,211,835
Surplus on revaluation of available for sale investments – net		**3,548**	5,564
Total equity		**3,844,934**	3,901,070
Total equity and liabilities		**60,937,216**	58,187,604

Contingencies and commitments	20		

Chief Executive Officer

Chief Financial Officer

Chairman

The annexed notes 1 to 35 form an integral part of these financial statements.

Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	31 December 2017 AFN '000'	31 December 2016 AFN '000'
Interest income	21	1,141,357	1,071,271
Interest expense	22	(60,009)	(13,346)
Net interest income		1,081,348	1,057,925
Fee and commission income	23	940,467	788,349
Fee and commission expense	24	(16,601)	(31,492)
Net fee and commission income		923,866	756,857
Income from dealing in foreign currencies		172,609	144,023
		2,177,823	1,958,805
Other income	25	55,964	55,717
Gain (loss)/on sale of securities		36,472	(477)
Reversal/(provision) on placements		52,444	(65,222)
Provision on investments		(64,366)	(1,788)
Provision against loan losses	9.4	48,091	(79,818)
General provision on:			
Guarantees	17.2	(65,310)	–
Other assets	14.2	(5,747)	–
Commercial letter of credit	17.2	(2,928)	–
General and administrative expenses	26	(1,586,985)	(1,299,302)
PROFIT BEFORE INCOME TAX		645,458	567,915
Taxation	27	(287,513)	(48,843)
PROFIT FOR THE YEAR		357,945	519,072
OTHER COMPREHENSIVE INCOME			
Items that may be classified to profit and loss subsequently			
Net changes in fair value of available for sale financial instruments		(15,382)	36,554
Related tax		13,366	(7,215)
Other comprehensive income/(loss), net of tax		(2,016)	29,339
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		355,929	548,411
Earnings per share	30	11.93	17.30

Chief Executive Officer

Chief Financial Officer

Chairman

The annexed notes 1 to 35 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2017

	Note	31 December 2017 AFN '000'	31 December 2016 AFN '000'
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		357,945	519,072
Adjustments for:			
Provision against loans and advances	9.4	(48,091)	79,818
Depreciation	11.2	57,319	50,651
Amortization	12.1	99,236	99,056
Reversal/(provision) on placements	7.3	(52,444)	65,222
Provision on investments		64,366	1,788
General provision on:			
Guarantees	17.2	65,310	–
Other assets	14.2	5,747	–
Commercial letters of credit	17.2	2,928	–
Net interest income		(1,081,348)	(1,057,925)
Income tax expense	27	287,513	48,843
		(241,519)	(193,475)
Changes in operating assets and liabilities			
Receivable from financial institutions		(65,050)	(350,004)
Required reserve maintained with DAB		(1,378,903)	244,839
Cash margin held with other banks		(48,143)	8,962
Loans and advances to customers – net		407,509	(351,353)
Other assets		287,837	(309,771)
Deferred income		(3,165)	(11,286)
Customers' deposits		2,183,778	(3,919,884)
Deposits from banks		500,000	–
Other liabilities		50,567	(14,497)
		1,693,011	(4,896,468)
Interest received		1,167,371	998,190
Interest paid		(60,009)	(13,346)
Income tax paid		(435,318)	(221,219)
Net cash (used in)/from operating activities		2,365,055	(4,132,843)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital work-in-progress		(941,868)	(586,110)
Acquisition of operating fixed assets		(36,314)	(42,568)
Acquisition of intangible assets		(17,697)	(53,565)
Placements (with maturity more than three months)		7,801,384	(3,746,107)
Investments		(1,649,623)	(815,904)
Net cash used in investing activities		5,155,882	(5,244,254)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid	18	(412,605)	(335,100)
Net cash used in financing activities		(412,605)	(335,100)
Net increase/(decrease) in cash and cash equivalents		7,108,872	(9,712,197)
Cash and cash equivalents at 01 January		18,458,976	28,171,173
Cash and cash equivalents at 31 December	29	25,567,848	18,458,976

Chief Executive Officer

Chief Financial Officer

Chairman

The annexed notes 1 to 35 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital AFN '000	Surplus on available for sale on investments AFN '000	Capital reserve AFN '000	Retained earnings AFN '000	Total AFN '000
Balance as at 31 December 2015	1,465,071	(23,296)	192,646	2,053,817	3,688,238
Balance as at 31 December 2015	1,465,071	(23,296)	192,646	2,053,817	3,688,238
Balance as at 01 January 2016	1,465,071	(23,296)	192,646	2,053,817	3,688,238
Profit for the year	–	–	–	519,072	519,072
Other comprehensive income, net of tax:					
Fair value reserve (available-for-sale financial assets):					
Net change in fair value	–	36,553	–	–	36,553
Related tax on available for sale financial assets	–	(7,311)	–	–	(7,311)
Reclassification adjustments relating to available for sale investments disposed off during the year – net	–	(477)	–	–	(477)
Related tax on loss on disposal of available for sale					
investments during the year	–	95	–	–	95
Total comprehensive income					
Transferred to capital reserve	–	–	25,954	(25,954)	–
Transactions with owners of the bank					
Dividend paid	–	–	–	(335,100)	(335,100)
Balance as at 31 December 2016	1,465,071	5,564	218,600	2,211,835	3,901,070
Total comprehensive income					
Profit for the year	–	–	–	357,945	357,945
Other comprehensive income, net of tax:					
Fair value reserve (available-for-sale financial assets):					
Net change in fair value	–	(15,382)	–	–	(15,382)
Related Tax on available for sale financial assets	–	3,076	–	–	3,076
Reclassification adjustments relating to available for sale investments disposed off during the year – net	–	12,862	–	–	12,862
Related tax on loss on disposal of available for sale					
Investments during the year	–	(2,572)	–	–	(2,572)
Total comprehensive income					
Transferred to capital reserve	–	–	17,897	(17,897)	-
Transactions with owners of the bank					
Dividend paid	–	–	–	(412,065)	(412,065)
	–	(2,016)	17,816	(72,017)	(56,136)
Balance as at 31 December 2017	1,465,071	3,548	236,497	2,139,818	3,844,934

Chief Executive Officer

Chief Financial Officer

Chairman

The annexed notes 1 to 35 form an integral part of these financial statements.

1. STATUS AND NATURE OF BUSINESS

Afghanistan International Bank (the Bank) was registered with Afghan Investment Support Agency (AISA) on 27 December 2003 and received formal commercial banking license on 22 March 2004 from Da Afghanistan Bank (DAB), the central bank of Afghanistan, to operate nationwide. The Bank obtained Islamic banking license from DAB via letter no. 1863/1890 dated 21 July 2014.

The Bank initially was incorporated as a limited liability company and domiciled in Afghanistan, however on the basis that the Bank's capital is divided into shares, the status of the Bank changed from limited liability to Corporation under the Corporations and Limited Liability Companies Law, effective from 4 May 2016. The principal business place of the Bank is at AIB head office, Shahr-e-now, Haji Yaqoob Square, Shahabuddin Watt, Kabul, Afghanistan.

The Bank has been operating as one of the leading commercial banking service providers in Afghanistan. The Bank has 37 branches and 2 cash outlets (2016: 35 branches and 4 cash outlets) in operation.

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 under the historical cost convention except that certain investments are stated at fair value.

These financial statements comprise statement of financial position, statement of comprehensive income as a single statement, statement of changes in equity, statement of cash flows and the accompanying notes.

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 4.18.

3. NEW STANDARDS, AMENDMENTS TO APPROVED ACCOUNTING STANDARDS AND NEW INTERPRETATIONS

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 during the current year:

Standard or Interpretation

IAS 7 Financial Instruments: Disclosures – Disclosure Initiative – (Amendment)

IAS 12 Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses (Amendments)

Annual Improvements to IFRSs 2014-2016 Cycle

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

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

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

The following revised standards, amendments and improvements would be effective from the dates mentioned below against the respective standard or interpretation:

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 FRS 16 – Leases 01 January 2019	01 January 2018
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.

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 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 is 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 or 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 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 (HTM) 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 4.4(a)).

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

d) Available-for-sale (AFS) 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 de-recognised 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

4.4 Impairment of financial assets continued

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

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, 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 and 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) 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 is classified in accordance with the Asset Classification and Provisioning Regulation issued by DAB.

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 are 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: 3%) 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 in 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's 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 statement of financial position 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 Jas 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 maximizes 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 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 Operating fixed assets

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:

	Useful life
Leasehold improvements	3 to 10 years
Computers	3 to 5 years
Office equipment	3 to 5 years
Furniture and fittings	3 to 10 years
ATMs	5 years
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. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each statement of financial position date.

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 Intangible assets

Intangible assets are capitalized only to the extent that the future economic benefits can be derived by the Bank having useful life of more than one year. Intangible assets are stated at cost less accumulated amortization. Amortization is charged to income applying the straight line method.

i) Computer software

Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of 3 to 10 years.

ii) License fee

Acquired trademarks and licenses are initially recognized at historical cost and subsequently recognized at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the licenses over their estimated useful life.

iii) Core deposits

Core deposits are recognized as a result of acquisition of Standard Chartered Branch Afghanistan. Amortization is calculated using the straight-line method over the estimated useful life of core deposits.

The useful lives of intangibles are reviewed and adjusted, if appropriate, at each statement of financial position date.

4.9 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.

4.10 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.

4.11 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.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

4.11 Revenue recognition continued

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. Deferred income is amortized over the period of underlying guarantees.

e) Fee and commission income that are integral part of 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

4.12 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 rate for following currencies against AFN were:

	1 USD	1 Euro	1 AED
As at 31 December 2016	69.72	83.27	18.89
As at 31 December 2015	66.82	70.01	18.19

4.13 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.

4.14 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.

4.15 Dividend Distribution

Final dividend distributions to the Bank's shareholders are recognized as a liability in the financial statements in the period in which the dividends are approved by the Bank's shareholders at the Annual General Meeting while interim dividends are recognized in the period in which the dividends are declared by the Board of Supervisors.

4.16 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to shareholders of the Bank by the weighted-average number of shares outstanding during the year.

4.17 Employee benefits

Defined contribution plan

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses (salaries and benefits) in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Short-term benefits

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

4.18 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 other assets and off-balance sheet obligations amounted to AFN 74,080 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 for loan losses

The Bank reviews loans to customer balances quarterly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations. The Bank maintains a general provision of 1% (31 December 2016: 3%) against outstanding loan and advances to customers as at the year end.

b) 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.

c) General provision on investments and placements

The management also maintains a provision of 1% on collective balance of investments (excluding those with DAB and investments in money market fund) and placements (excluding placements having with original maturity of 1 month) to cover the counter party risk.

d) General provision on off-balance sheet items

As per Asset Classification and Provisioning Regulation, the management maintains a provision of 1% on secured portion and 5% on unsecured portion of off-balance sheet items.

e) Useful life of property and equipment and intangible assets

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

f) Held-to-maturity investments

The Bank follows the 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.

5. CASH AND BALANCES WITH DA AFGHANISTAN BANK (DAB)

	Note	2017 AFN '000	2016 AFN '000
Cash in hand		1,759,928	1,357,027
Cash in hand – Islamic banking division		118,804	76,114
Cash at Automated Teller Machines (ATMs)		605,922	545,278
		2,484,654	1,978,419
Balances with Da Afghanistan Bank:			
Local currency:			
- Deposit facility accounts	5.1	2,490,242	1,050,902
- Required reserve accounts	5.2	649,217	4,185,981
- Current accounts		687,403	300,329
		3,826,862	5,537,212
Foreign currency:			
- Required reserve accounts	5.2	4,915,567	–
- Current accounts		2,537,978	2,936,941
		11,280,407	8,474,153
		13,765,061	10,452,572

5.1 This represents interest bearing account carrying interest @ 0.10% (31 December 2016: 0.80%) per annum.

5.2 Required reserve account is being maintained with DAB which is denominated in respective currencies to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. Theses balances are interest free.

6. BALANCES WITH OTHER BANKS

	Note	2017 AFN '000	2016 AFN '000
Outside Afghanistan:			
With Standard Chartered Bank			
- in nostro accounts		3,025,559	2,375,329
- others		3,563,784	2,146,777
	6.1	6,589,343	4,522,106
With Commerzbank, Germany:			
- in nostro accounts	6.2	66,916	143,282
- in cash margin held	6.3	45,260	93,403
		112,176	236,685
With other banks	6.4	3,472,629	1,847,294
		10,174,148	6,606,085

6.1 These represent balances with Standard Chartered Bank, Singapore which carries interest @ 0.2% to 0.3% p.a. (2016: 0.2% to 0.3% p.a.) and are available on demand.

6.2 This represents interest bearing nostro accounts and carries interest @ LIBOR – 0.25% (31 December 2016: LIBOR – 0.25%).

6.3 It carries interest @ LIBOR – 0.25% (31 December 2016: LIBOR – 0.25%), held with Commerzbank, Germany against letters of credit issued on behalf of the Bank.

6.4 This includes balances maintained with investment managers and other banks. These are non-interest bearing and available on demand.

7. PLACEMENTS – NET

	Note	2017 AFN '000	2016 AFN '000
Placements with banks	7.1	13,551,521	19,477,866
		13,551,521	19,477,866
General provision held	7.2 & 7.3	(112,265)	(164,709)
		13,439,256	19,313,157

7.1 These represent overnight and fixed term placements with financial institutions outside Afghanistan up to a maximum period of one year (2016: one year) in USD carrying interest at rates ranging from 0.75% p.a. 2.10% p.a. (31 December 2016: 0.40% p.a. to 1.75% p.a.).

7.2 General provision of 1% (31 December 2016: 1%) maintained on placements with original maturity of more than 30 days is provided based on DAB requirement to cover the counter party and market risk.

7.3 Movement in provision during the year

	2017 AFN '000	2016 AFN '000
Balance at 01 January 2017	164,709	99,487
Reversal/(provision) made during the year	(52,444)	65,222
Balance at 31 December 2017	112,265	164,709

8. INVESTMENTS – NET

	Note	2017 AFN '000	2016 AFN '000
Available for sale investments:			
- Investment bonds	8.1	4,586,137	4,351,290
- Investment in money market fund		–	679,702
		4,586,137	5,030,993
Held-to-maturity investments:			
- Capital notes with DAB	8.2	3,533,535	1,520,054
- Investment bonds	8.3	7,972,479	7,892,752
		11,506,014	9,412,806
		16,092,151	14,443,799
General provision held	8.4	(125,586)	(61,220)
		15,966,565	14,382,579

8.1 These represent investments in bonds having maturity ranging from January 2018 to April 2025 and carrying coupon interest rates ranging from 1% to 9.38% (31 December 2016: 1% to 11.63%) per annum. These investments are managed by Julius Baer and Emirates NBD on behalf of the Bank.

8.2 These represent investments in capital notes issued by DAB up to a maximum period of one year (31 December 2016: one year) carrying yield at rates ranging from 0.40% to 4.2% p.a. (31 December 2016: 3.53% to 6.68% p.a.) receivable on maturity of respective notes.

8.3 These represent investments in bonds from various financial institutions and sovereign corporates carrying coupon interest rates ranging from 1.30% to 7.75% (2016: 1.50% to 7.75%). These investments have maturity ranging from January 2018 to October 2022. These investments are classified as "Held-to-maturity" because of the Bank's ability and intention to hold these investments up to maturity. These investments are managed by Julius Baer and Emirates NBD on behalf of the Bank.

8.4 General provision of 1% (31 December 2016: 0.5%) on collective investments (excluding capital notes with DAB and Investment in money market fund) is provided to cover the market and counter party risk.

9. LOANS AND ADVANCES TO CUSTOMERS – NET

	Note	2017 AFN '000	2016 AFN '000
Overdrafts	9.1	2,751,975	3,489,206
Term loans	9.2	654,135	343,016
Consumer loans	9.3	49,489	44,226
		3,455,599	3,876,448
Provision against loans and advances	9.4	(85,629)	(147,060)
		3,369,970	3,729,388
Particulars of loans and advances – (gross)			
Short term (for up to one year)		2,760,106	3,101,287
Non-current (for over one year)		695,493	775,161
		3,455,599	3,876,448

9. LOANS AND ADVANCES TO CUSTOMERS – NET CONTINUED

9.1 These represent balances due from customers at various interest rates ranging from 10% to 15% p.a. (31 December 2016: 11% to 15% p.a.) and are secured against mortgage of properties, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. The overdrafts are repayable on demand. These include loans and advances to customers amounting to AFN 427,567 thousands (31 December 2016: AFN 440,702 thousands) which are partially backed by Deutsche Investitions-und Entwicklungsgesellschaft mbh (ACGF) guarantees to the extent defined in agreement with ACGF.

9.2 Term loans carry interest at various rates ranging from 11% to 18% p.a. (31 December 2016: 11% to 18% p.a.) and are secured against mortgage of properties, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. These include loans and advances to customers amounting to AFN 125,738 thousands (31 December 2016: AFN 137,594 thousands) which are partially backed by DEG guarantee to the extent defined in the agreement with DEG.

Term loans include Small Business loans amounting to AFN 32,819 thousands (31 December 2016: AFN 17,320 thousands) carrying interest rate ranging from 13% to 18% p.a. (31 December 2016: 13% to 18% p.a.). These loans are secured against deposit of original title deed, negative lien letter, corporate guarantee by a registered company and hypothecation of movable fixed assets as collateral after registration from DAB.

9.3 These represent consumer loans due from individual payroll account holders, employees of corporate customers having payroll account with the Bank carries interest ranging from 15% to 22% (31 December 2016: 15% to 18%) and credit card carries interest up to @ 36% (31 December 2016: 36%) on annual basis outstanding balances. General provision of 1% (31 December 2016: 3%) has been maintained on these balances.

9.4 Provision against loans and advances

		2017			2016		
	Note	Specific AFN '000	General AFN '000	Total AFN '000	Specific AFN '000	General AFN '000	Total AFN '000
Opening		37,304	109,756	147,060	140,982	41,623	182,605
Charge for the year		34,650	–	34,650	38,939	77,022	115,961
Reversal of provision		(1,331)	(81,741)	(82,741)	(28,198)	(7,945)	(36,143)
		33,319	(81,410)	(48,091)	10,741	69,077	79,818
Write off against provision	9.4.1	(17,656)	–	(17,656)	(111,055)	–	(111,055)
Exchange rate difference		(446)	4,762	4,316	(3,364)	(944)	(4,308)
Closing		52,521	33,108	85,629	37,304	109,756	147,060

9.4.1 These represent 'loss' category loans balances overdue by more than 360 days which have been written off in accordance with the requirements of policy of the Bank.

In terms of paragraph 3.3.1(g) of part C of the DAB Regulations, the write-off does not affect the Bank's rights to recover the debt due from customers and does not eliminate the borrowers' responsibility to repay the loan.

9.5 Classification of loans and advances

		2017			
Classification	Note	*Provisioning rates AFN '000	Amount outstanding AFN '000	Provision required AFN '000	Provision held AFN '000
Standard	4 (a)	1%	3,310,708	33,107	33,107
Watch-list	9.6	5%	16,770	839	254
Substandard		25%	41,724	10,431	10,431
Doubtful	9.6 & 9.7	50%	86,397	43,199	41,837
Loss	9.8	100%	8	8	8
Write-offs			(8)	(8)	(8)
			–	–	–
Loans and advances and provision held 31 December 2017			3,455,599	87,576	85,629

	2016			
Classification	*Provisioning rates AFN '000	Amount outstanding AFN '000	Provision required AFN '000	Provision held AFN '000
Standard	1%	3,677,294	36,773	109,588
Watch-list	5%	117,344	5,317	5,317
Substandard	25%	2,301	564	564
Doubtful	50%	79,509	24,507	31,591
Loss	100%	22	22	22
Write-offs		(22)	(22)	(22)
Loans and advances and provision held 31 December 2016		3,876,448	67,161	147,060

* Provisioning rates are as per DAB regulation except for in case of standard loans and advances which are provided by bank as per bank's policy.

9.6 The Bank has taken provision on outstanding amount of four (31 December 2016: three) parties included in Watch and Doubtful category after deducting amount covered by ACGF guarantees.

9.7 As per the DAB Regulation, Article three (part-B) (3.2.1), loan loss provision has been immediately charged off against the reserve for losses. The amount of these loans are AFN 8 thousands (31 December 2016: AFN 22 thousands).

9.8 Classification of regular, overdue but not impaired and impaired loans and advances to customers in terms of product and overdue time period along with details of loans and advances to customers which are renegotiated during the year, has been disclosed in note 31.2.6.

9.9 The Bank has filed suits for the recovery of loans and advances principal due against the defaulted borrowers amounting to AFN 683,168 thousands (31 December 2016: AFN 756,630 thousands) as at the year end. These suits are pending decisions at various courts. The Bank's management is of the view that the aforementioned suits will be decided in its favor due to sound legal footings.

10. RECEIVABLE FROM FINANCIAL INSTITUTIONS

This represents non-interest bearing receivable balance due from CSC Bank SAL (CSC). The Bank has entered into an agreement with CSC whereby credit card/debit card holders of various financial institutions can use ATM machines of the Bank and the amount withdrawn including bank charges will be paid by CSC to the Bank.

11. OPERATING FIXED ASSETS

	Note	2017 AFN '000	2016 AFN '000
Capital work in progress	11.1	2,264,025	1,362,167
Property and equipment	11.2	282,180	263,175
		2,546,205	1,625,342

11.1 Capital work in progress

	Note	2017 AFN '000	2016 AFN '000
Advances to suppliers and contractors		766,118	281,757
Advances to related party	11.1.2	1,497,907	1,080,410
	11.1.1	2,264,025	1,362,167

11.1.1 Movement in capital work-in-progress

	2017 AFN '000	2016 AFN '000
Opening	1,362,167	799,377
Additions during the year	941,868	586,110
Transferred to property and equipment	(40,010)	(23,320)
Closing	2,264,025	1,362,167

11.1.2 This represents to date payments made against the construction of head office building to Mohib Advance Design Construction Company (MADCC), related party of the bank.

11.2 Property and equipment

	Land AFN '000	Leasehold improvements AFN '000	Computers AFN '000	Office equipment AFN '000	Furniture & fittings AFN '000	ATMs AFN '000	Vehicles AFN '000	Total AFN '000
Cost								
Balance at 1 January 2016	177,568	69,304	90,823	131,985	16,835	95,290	80,003	661,808
Transfers from CWIP	–	4,448	–	1,881	325	13,258	3,407	23,319
Additions	–	923	13,089	19,118	597	8,635	206	42,568
Balance at 31 December 2016	177,568	74,675	103,912	152,984	17,757	117,183	83,616	727,695
Balance at 1 January 2017	177,568	74,675	103,912	152,984	17,757	117,183	83,616	727,695
Transfers from CWIP	–	6,638	–	8,494	1,380	10,452	13,046	40,010
Additions	–	497	11,839	13,622	67	9,300	989	36,314
Balance at 31 December 2017	177,568	81,810	115,751	175,100	19,204	136,935	97,651	804,019
Depreciation								
Balance at 1 January 2016	–	66,656	68,686	120,018	15,279	71,883	71,346	413,868
Charge for the year	–	3,682	8,141	21,537	788	10,748	5,756	50,652
Balance at 31 December 2016	–	70,338	76,827	141,555	16,067	82,631	77,102	464,520
Balance at 1 January 2017	–	70,338	76,827	141,555	16,067	82,631	77,102	464,520
Charge for the year	–	5,109	10,266	23,455	988	10,908	6,593	57,319
Balance at 31 December 2017	–	75,447	87,093	165,010	17,055	93,539	83,695	521,839
Carrying amounts								
Balance at 1 January 2016	177,568	2,648	22,137	11,967	1,556	23,407	8,657	247,940
Balance at 31 December 2016	177,568	4,337	27,085	11,429	1,690	34,552	6,514	263,175
Balance at 31 December 2017	177,568	6,363	28,658	10,090	2,149	43,396	13,956	282,180
Useful life		3 to 10 years	3 to 5 years	3 to 5 years	3 to 10 years	5 years	5 years	

12. INTANGIBLE ASSETS

	Note	2017 AFN '000	2016 AFN '000
Computer software, licenses and core deposits	12.1	445,918	527,457

12.1 Computer software, licenses and core deposits

	Computer software AFN '000	License fee AFN '000	Core deposits AFN '000	Total AFN '000
Cost				
Balance at 1 January 2016	283,447	43,897	542,677	870,021
Additions	24,942	28,623	–	53,565
Balance at 31 December 2016	308,389	72,520	542,677	923,586
Balance at 1 January 2017	308,389	72,520	542,677	923,586
Additions	17,197	–	–	17,197
Balance at 31 December 2017	326,086	72,520	542,677	941,283
Amortization				
Balance at 1 January 2016	140,310	37,617	119,146	297,073
Charge for the year	52,274	10,604	36,178	99,056
Balance at 31 December 2016	192,584	48,221	155,324	396,129
Balance at 1 January 2017	192,584	48,221	155,324	396,129
Charge for the year	53,018	8,487	37,731	99,236
Balance at 31 December 2017	245,602	56,708	193,055	495,365
Carrying amounts				
Balance at 1 January 2016	143,137	6,280	423,531	572,948
Balance at 31 December 2016	115,805	24,299	387,353	527,457
Balance at 31 December 2017	80,484	15,812	349,622	445,918
Useful life	3 to 10 years	3 to 10 years	15 years	

13. DEFERRED TAX ASSETS

	2017 AFN '000	2016 AFN '000
Deferred tax (assets)/liabilities arising in respect of:		
Provision on investments, placements and other assets	48,720	45,186
Provision on guarantees and commercial letter of credits	13,648	–
Deficit on revaluation of investments	(887)	(1,391)
Accelerated tax depreciation and amortization	12,122	(22,355)
	73,603	21,440

13.1 Movement in temporary differences during the year

	Balance as at 01 January 2016 AFN '000	Recognized in profit or loss AFN '000	Recognized in equity AFN '000	Balance as at 31 December 2016 AFN '000	Recognized in profit or loss AFN '000	Recognized in equity AFN '000	Balance as at 31 December 2017 AFN '000
Deferred tax assets arising in respect of:							
Provision on investments and placements	31,784	13,402	–	45,186	3,534	–	42,802
Provision on guarantees and commercial letter of credits	–	–	–	–	13,648	–	
Revaluation reserve on investments	5,824	–	(7,215)	(1,391)	–	(504)	(887)
	37,608	–	(7,215)	43,795	(2,888)	(7,215)	34,196
Deferred tax liabilities arising in respect of:							
Accelerated tax depreciation and amortization	(16,967)	(5,388)	–	(22,355)	34,477	–	12,122
	(16,967)	(5,388)	–	(22,355)	(5,388)	–	12,122
	20,641	8,014	(7,215)	21,440	51,659	504	73,603

14. OTHER ASSETS

	Note	2017 AFN '000	2016 AFN '000
Advances to employees		60,756	15,734
Security deposits		10,029	8,859
Prepayments		59,144	88,525
Interest receivable		295,513	321,525
Advance income tax – net		63,191	181,739
Other receivable and advances		86,070	56,516
Receivable from DoJ	14.1	250,605	250,605
Less: Balance written off		(250,605)	(250,605)
		–	–
		574,703	1,007,100
General provision held	14.1.1	(5,747)	–
		575,907	1,007,100

14.1 Receivable from DoJ

This represents receivables from the United States Government department, Department of Justice (the "DoJ"). The DoJ seized an amount of AFN 565,701,000 (equivalent to USD 10,100,000) from the Bank's account with Standard Chartered's branch in New York. Pursuant to Title 18, U.S. Code Section 981(k), the United States sought to reach the customer's Afghan-based accounts by seizing funds from the Bank's correspondent account in the United States. The United States has not alleged any wrongdoing against the Bank. In September 2013, the United States returned to the Bank approximately US$ 5.7 million, plus accrued interest, of the seized funds. The United States then moved to strike AIB's claim as to the remaining monies. In September 2015, that motion was denied as to all but USD 147,939, leaving approximately USD 4.1 million at issue. AIB has had some discussions with the U.S. government regarding settlement of the funds, but the U.S. government has advised that it is unable to engage in further discussions given the pendency of customer's competing claim to the same money. The U.S. government has moved to strike customer's claim, and, if the motion is granted, the Bank intends to pursue settlement discussions with the U.S. government. However, on prudent basis, the Bank has made provision of AFN 250,605 thousands in its books of account.

14.1.1 General provision of 1% (31 December 2016); Nil) on other assets in maintained as per Asset Classification and Provisioning Regulations issued by DAB.

15. CUSTOMERS' DEPOSITS

	Note	2017 AFN '000	2016 AFN '000
Current deposits		53,505,342	51,180,050
Saving deposits	15.1	203,752	151,699
Term deposits	15.2	697,200	1,091,490
Islamic deposits	15.3	640,199	364,619
Cash margin held against bank guarantees and letters of credit		1,214,927	1,289,784
		56,261,420	54,077,642

15.1 Saving deposits carry interest @ 3% p.a. (31 December 2016: 3% p.a.).

15.2 Term deposits carry 0.75% to 7.05% interest rates per annum (31 December 2016: 0.25% to 0.75% interest rates per annum).

15.3 Current and saving Islamic deposits stand at AFN 62,070 thousands (31 December 2016: AFN 81,065 thousands) and AFN 578,129 thousands (31 December 2016: AFN 283,554 thousands) respectively.

16. DEPOSITS FROM BANK

Represents term deposit of AFN 500,000 thousands (31 December 2016: Nil) by Bank Millie Afghan that carries interest @ 7.05% per annum and maturing on 05 April 2018.

17. OTHER LIABILITIES

	Note	2017 AFN '000	2016 AFN '000
Accruals and other payables		40,888	53,899
Amounts pending transfers to customers' accounts	17.1	88,461	5,882
Provision for bonus to employees		16,176	15,238
Retention money payable		61,815	67,467
Provision on:			
Guarantees	17.2	65,310	–
Commercial letter of credits	17.2	2,928	–
Others		36,295	29,756
		311,873	193,068

17.1 This represents amounts received on behalf of the customers, however not credited in the respective customers' accounts due to incomplete identification data.

17.2 Represents 1% provision on secured portion and 5% on unsecured portion as required under Assets Classification and Provisioning Regulation issued by DAB

18. SHARE CAPITAL

		2017	2016
Authorized 30,000,000 (2016: 30,000,000) ordinary shares of USD 1 each	USD '000'	30,000	30,000
	AFN '000'	1,465,071	1,465,071
Issued, subscribed and paid-up – 30,000,000 (31 December 2016: 30,000,000) ordinary shares of USD 1 each fully paid in cash	AFN	1,465,071	1,465,071

18.1 Pursuant to letter no.918/703 dated 17 May 2010 issued by Da Afghanistan Bank (DAB), the Bank complies with the minimum paid-up capital requirement for commercial banks in Afghanistan amounting to AFN 1,000,000 thousands (equivalent to US $ 20,000 thousands).

18.2 Issued, subscribed and paid up capital comprises 46.25% holding by Horizon Associates LLC and 46.25% holding by Wilton Holding Limited and 7.5% by International Finance Corporation. (31 December 2016: 50% holding by Horizon Associates LLC and 50% holding by Wilton Holding Limited).

During the year IFC purchased 7.5% shareholding in the bank from the two shareholders (i.e. Horizon Associates LLC and Wilton Holdings Limited) in equal proportions.

18.3 During the year the Bank has paid an Interim dividend of AFN 11.17 per share amounting to AFN 335.10 million.

19. CAPITAL RESERVES

'Article 93 "Reserve Capital" of Corporations and Limited Liability Companies Law of Afghanistan, requires that Bank should transfer 5% of its profit to Capital Reserve to compensate for future possible losses to the extent such capital reserves reaches up to 25% of the Bank's capital. The Bank's capital reserves as at 31 December 2017 stood at AFN 236,497 thousands (31 December 2016: AFN 218,600 thousands).

20. CONTINGENCIES AND COMMITMENTS

20.1 Contingencies

	Note	2017 AFN '000	2016 AFN '000
Guarantees	20.1.1	6,463,038	3,404,690

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

20.1.2 The Bank has filed suits for the recovery of loans and advances (principle due) against the defaulted borrowers that are pending for decisions at various courts. The management is confident that these cases will be decided in Bank's favor due to sound legal footings.

20.2 Commitments

	2017 AFN '000	2016 AFN '000
(a) Undrawn loan and overdraft facilities	1,265,872	848,222
(b) Commercial letters of credit	134,575	149,945
	1,400,447	998,167

21. INTEREST INCOME

	2017 AFN '000	2016 AFN '000
Interest income on:		
Balances with DAB and other banks	20,838	13,776
Placements	275,778	221,658
Investments	397,749	392,848
Investments classified as 'available for sale'	119,252	278,497
Investments classified as 'held to maturity'	278,497	114,351
Loans and advances to customers	446,992	442,989
	1,141,357	1,071,271

22. INTEREST EXPENSE

	2017 AFN '000	2016 AFN '000
Interest expense on:		
Customers' deposits	33,354	13,346
Deposits from bank	26,655	
	60,009	13,346

23. FEE AND COMMISSION INCOME

	2017 AFN '000	2016 AFN '000
Fee and commission income on:		
Loans and advances to customers	32,561	34,074
Trade finance products	41,810	9,670
Cash withdrawals/Cash transfers	539,551	448,070
Customers' account service charges	144,152	114,843
Income from ATMs	73,822	57,068
Income from guarantee arrangements	39,168	74,297
Payroll services	44,921	41,403
Others	24,482	8,924
	940,467	788,349

24. FEE AND COMMISSION EXPENSE

	2017 AFN '000	2016 AFN '000
Guarantee/letter of credit commission	9,532	11,046
Bank charges	7,069	20,446
	16,601	31,492

25. OTHER INCOME

	2017 AFN '000	2016 AFN '000
Loans and advances recovered previously written off	55,664	54,490
Others	300	1,227
	55,964	55,717

26. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2017 AFN '000	2016 AFN '000
Salaries and benefits		544,573	378,388
Rental, rates and taxes		95,200	98,019
Electricity, generator and fuel		48,215	32,961
Repairs and maintenance		76,325	65,551
Security cost		108,167	84,869
Depreciation	11.2	57,319	50,651
Amortization	12.1	99,236	99,056
Directors fee and their meeting expenses		32,935	20,103
Travelling and accommodation		43,765	39,223
Communication, swift and internet		50,207	53,461
Stationary and printing		42,917	30,385
Legal and professional charges		97,142	78,203
Investment management fee to investment advisors		28,261	24,532
Auditors' remuneration	26.1	12,690	4,823
Marketing and promotion		33,477	38,493
Money service providers charges		1,873	858
Insurance		137,276	135,492
Subscriptions and memberships		8,732	8,676
Other charges		56,127	47,609
Taxes and penalties		768	1,062
Corporate social responsibility		3,898	4,779
Others		7,882	3,979
		1,586,985	1,299,302

26.1 Auditor's remuneration

	2017 AFN '000	2016 AFN '000
Audit fee	6,552	5,518
Other professional services	6,138	3,173
	12,690	8,691

27. TAXATION

	2017 AFN '000	2016 AFN '000
Current		
For the year	65,455	56,857
Prior periods	273,716	–
Deferred		
For the year	(51,658)	(8,014)
	287,513	48,843

27.1 Relationship between tax expense and accounting profit

	2017 AFN '000	2016 AFN '000
Accounting profit for the year	645,458	567,915
Applicable tax @ 20%	129,092	113,583
Deductible expenses	(123,570)	11,887
Non-deductible expenses	59,933	–
Effect of deferred tax charge for the year	(51,658)	(8,014)
Adjustment in respect of current income tax of prior years	273,716	(67,019)
Others	–	(1,594)
	287,513	48,843

28. RELATED PARTY TRANSACTIONS

The Bank has a related party relationship with its shareholders, their related entities, directors and key management personnel. The Bank had transactions with following related parties at mutually agreed terms during the year:

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	2017 AFN '000	2016 AFN '000	2017 AFN '000	2016 AFN '000
a) Loans and advances to related parties				
Loans outstanding at the beginning of the year	–	–	177,559	213,750
Loans issued during the year	–	–	232,266	410,379
Loans repayments during the year	–	–	(255,031)	(454,565)
Exchange gain	–	–	721	7,995
Loans outstanding at the end of the year	–	–	155,515	177,559
Interest income earned	–	–	24,759	36,710

During the year, an amount of AFN 417,459 thousands (31 December 2016: 409,170 thousands) was paid to MADCC (related party) on account of contract awarded on arms length basis for the construction of head office building.

Provision on outstanding balances of loans and advances to related parties amounts to AFN 3,174 thousands (31 December 2016: AFN 5,327 thousands).

The facilities provided to related parties carries mark-up at interest rates 10% p.a. (31 December 2016: 10% p.a.) payable on monthly basis and are secured against mortgage of residential property and personal guarantees of directors and representative of shareholders of the Bank.

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	2017 AFN '000	2016 AFN '000	2017 AFN '000	2016 AFN '000
b) Deposits from related parties				
Deposits at the beginning of the year	57,402	87,051	107,434	154,206
Deposits received during the year	290,454	411,590	1,499,544	1,509,946
Deposits repaid during the year	(299,629)	(439,765)	(1,509,173)	(1,553,423)
Exchange rate difference	1,040	(1,474)	6,305	(3,295)
Deposits at the end of the year	49,267	57,402	104,110	107,434
Interest expense of deposits	–	–	–	–

These represent current account of related parties, which carry Nil interest rate (31 December 2016: Nil).

		Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	Note	2017 AFN '000	2016 AFN '000	2017 AFN '000	2016 AFN '000
c) Other related party transactions					
Fee and commission income		–	–	13,203	5,256
Directors' fee		22,922	14,351	–	–
Fee and commission expense		–	–	–	–
Rental expenses		–	–	136,197	7,892
Other expenses		10,851	8,780	–	–
Capital work-in-progress	28.1	–	–	589,509	409,170
Guarantees issued by the Bank		–	–	333	333
Commercial letters of credit issued including accepted bills and export bills purchased		–	–	84,423	84,423

28.1 This represents the payment made against the construction of new head office building to Mohib Advance Design Construction Company (MADCC), related party of the Bank.

	2017 AFN '000	2016 AFN '000
d) Key Management compensation		
Salaries and other short-term benefits	99,596	63,012
	99,596	63,012

Key Management personnel of the Bank include the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Head of Banking.

29. CASH AND CASH EQUIVALENTS

	2017 AFN '000	2016 AFN '000
Cash in hand and at ATM	2,484,654	1,978,419
Balances with DAB (other than minimum reserve requirement)	5,715,623	4,288,172
Balances with other banks	10,128,888	6,512,681
Placements (with maturity less than three months)	7,238,68	5,679,704
	25,567,847	18,458,976

30. EARNINGS PER SHARE – BASIC AND DILUTED

	2017	2016
Profit after taxation (AFN '000)	357,945	519,072
Weighted average number of ordinary shares (number in thousand)	30,000	30,000
Earnings per share – Basic and diluted (AFN per share)	11.93	17.30

30.1 There is no dilutive effect on basic earnings per share of the Bank.

31. FINANCIAL RISK MANAGEMENT

31.1 Financial assets and liabilities

31 December 2017	Loans and receivables AFN '000	Held-to-maturity AFN '000	Available-for-sale AFN '000	Other financial liabilities AFN '000	Total AFN '000
Financial assets					
Cash and balances with					
Da Afghanistan Bank	13,765,061	–	–	–	13,765,061
Balances with other banks	10,174,148	–	–	–	10,174,148
Placements – net	13,439,256	–	–	–	13,439,256
Investments – net	–	11,426,289	4,540,276	–	15,966,565
Loans and advances to customers – net	3,369,970	–	–	–	3,369,970
Receivables from financial institutions	587,534	–	–	–	587,534
Other assets	–	–	–	447,844	447,844
	41,335,969	11,426,289	4,540,276	447,844	57,750,378
Financial liabilities					
Customers' deposits	–	697,200	–	55,564,220	56,261,420
Deposits from banks	–	–	–	500,000	500,000
Other liabilities	–	–	–	191,164	191,164
	–	–	–	56,255,384	56,952,584

31 December 2016	Loans and receivables AFN '000	Held-to-maturity AFN '000	Available-for-sale AFN '000	Other financial liabilities AFN '000	Total AFN '000
Financial assets					
Cash and balances with					
Da Afghanistan Bank	10,452,572	–	–	–	10,452,572
Balances with other banks	6,606,085	–	–	–	6,606,085
Placements – net	19,313,157	–	–	–	19,313,157
Investments – net	–	9,373,343	5,009,236	–	14,382,578
Loans and advances to customers – net	3,729,388	–	–	–	3,729,388
Receivables from financial institutions	522,484	–	–	–	522,484
Other assets	–	–	729,467	729,467	
	40,623,686	9,373,343	5,009,236	729,467	55,735,732
Financial liabilities					
Customers' deposits	–	1,091,490	–	54,077,642	54,077,642
Other liabilities	–	–	–	148,074	148,074
	–	–	–	54,225,716	54,225,716

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial risk factors

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a Risk Management Department (RMD) under policies approved by the Management Board. RMD identifies, evaluates and manages financial risks in close co-operation with the Bank's operating units. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non-derivative financial instruments. The internal audit is responsible for the independent review of risk management and control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

31.2.1 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, balances with banks and receivable from financial institution, participation purchased and placements with other banks. Credit risk also arises in off-balance sheet financial instruments, such as Bank's contingencies and commitments. The credit risk management and control are centralized in credit risk management team of Bank and reported to the management team and head of each business unit regularly. Balances with DAB are not exposed to credit risk.

31.2.2 Credit risk measurement

a) Loans and advances

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the date of statement of financial position.

i) Overdue balances on loans to customers are segmented into four categories as described in note 4.4(b). The percentage of provision created on such overdue balances are as per guidelines issued by DAB and reflects the range of default probabilities defined for each category. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

ii) Exposure at default is based on the amounts, the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

iii) Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

b) Other than loans and advances

Other than loans and advances includes balances with other banks and financial institutions and placements with other banks, investments in bonds and held with DAB, participation purchased and other assets. Judgments and instructions from the Bank's treasury are being used by the Bank's management in placing funds with other banks and are viewed as a way to gain better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time when required.

Further, the Bank has banking relationships with financial institutions which have good international reputation and strong financial standing and therefore, probability of default by such financial institutions is low.

31.2.3 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved quarterly by the Management Board.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations at the time of loan appraisal for initial and subsequent loans.

Some other specific control and mitigation measures are outlined below.

a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties
- Charges over business assets such as premises, inventory and accounts receivable

In addition, in order to minimize the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

	Maximum exposure	
	2017 AFN '000	2016 AFN '000
Credit risk exposures relating to on-balance sheet items are as follows:		
Balances with other banks	10,174,148	6,606,085
Placements – net	13,439,256	19,313,157
Investments – net (excluding capital notes with DAB)	12,433,030	12,862,525
Loans and advances to customers – net	3,369,970	3,729,388
Receivables from other financial institutions	587,534	522,484
Other assets	447,844	736,836
	40,451,783	43,770,475

	Maximum exposure	
	2017 AFN '000	2016 AFN '000
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	6,463,038	3,404,690
Undrawn loan and overdraft facilities	1,265,872	1,894,331
Commercial letters of credit	134,575	149,945
	7,863,485	4,402,857

The above table represents credit risk exposure to the Bank at 31 December 2017 and 31 December 2016, 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.

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):

	2017 AFN '000	2016 AFN '000
Balances with other banks	25.15%	15.09%
Placements – net	33.22%	44.12%
Investments – net (excluding capital notes with DAB)	30.74%	29.39%
Loans and advances to customers – net	8.33%	8.52%

31.2.5 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/FIs	Credit rating	Credit rating agency	2017 AFN '000	2016 AFN '000
Counter parties with external credit ratings:				
Standard Chartered Bank	Aa2	Moody's	6,589,343	4,522,106
Commerzbank Germany	Baa1	Moody's	112,176	236,685
Emirates NBD	Baa1	Moody's	399,620	661,632
AkBank, Turkey	Baa3	Moody's	12,958	1,956
State commercial bank of Turkmenistan	N.A	N.A	1,647,969	669,552
IDFC Bank	BBB-	Fitch	1,380	474
Julius Baer	A2	Moody's	1,160,916	513,653
Aktif Bank	B2	Moody's	13,871	–
Asaka Bank	BBB-	Eurasia	235,634	–
Yes Bank, India	Baa3	Moody's	281	27

Placements	Credit rating	Credit rating agency	2017 AFN '000	2016 AFN '000
Abu Dhabi Commercial bank	A1	Moody's	348,600	1,002,300
Al Hilal Bank	A1	Moody's	1,394,400	–
Al Khalij Commercial Bank	A3	Moody's	348,600	–
Bank of Baroda Dubai	Baa3	Moody's	697,200	668,200
CIMB Malaysia	A3	Moody's	697,200	1,002,300
Commercial Bank International	A	Fitch	697,200	1,002,300
Commercial Bank of Dubai	Baa1	Moody's	697,200	–
Dubai Islamic Bank	A2	Moody's	697,200	668,200
IDBI DXB	Ba2	Moody's	697,200	–
IDFC Bank	Aa3	Moody's	697,200	–
Julius Baer	Aa2	Moody's	1,351,871	1,336,400
National bank of Oman	Baa3	Moody's	697,200	–
Qatar Islamic Bank	A1	Moody's	697,200	1,002,300
Qatar National Bank	Aa3	Moody's	1,045,800	1,002,300
Union National Bank	A1	Moody's	697,200	668,200
Yes Bank India	Baa3	Moody's	697,200	668,200
CSC Bank SAL	Ba2	Moody's	416,350	–
Emirates NBD	Baa1	Moody's	864,448	704,508

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial risk factors continued

31.2.5 Credit quality of financial assets continued

	2017 AFN '000	2016 AFN '000
Receivables from financial institutions		
Counter parties	587,534	522,484
Loans and advances – net		
Counter parties	3,369,970	3,729,388
Other assets		
Counter parties	568,956	736,836

Investments

Investments held carries various credit rating and ranges from B1& BBB+ to A & AAA,. These investments are managed by investment managers Emirates NBD and Julius Baer under investment criteria defined by the Bank.

31.2.6 Loans and advances – net

	Note	2017 AFN '000	2016 AFN '000
Loans and advances are summarized as follows:			
Neither past due nor impaired		3,310,708	3,676,076
Past due but not impaired		–	167
Impaired		144,891	200,205
Gross		3,455,599	3,876,448
Less: Allowance for impairment			
General		(33,108)	(109,756)
Specific		(52,521)	(37,304)
	9.4	(85,629)	(147,060)
		3,369,970	3,729,388

a) Loans and advances 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		SME loans	Consumer loans	
	Overdraft AFN '000	Term loans AFN '000	Term loans AFN '000	Term loans AFN '000	Total AFN '000
31 December 2017					
Regular loans	2,694,235	528,384	41,215	46,874	3,310,708
31 December 2016					
Regular loans	3,415,649	161,630	80,606	18,191	3,676,076
(b) Loans and advances past due but not impaired					
31 December 2017					
Past due up to 30 days	–	–	–	–	–
Fair value of collateral	–	–	–	–	–
31 December 2016					
Past due up to 30 days	–	167	–	–	167
Fair value of collateral	–	10,308	–	–	10,308

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AFN 141,640 thousands (31 December 2016: AFN 189,865 thousands).

	Commercial loans		
	Overdraft AFN '000	Term loans AFN '000	Total AFN '000
31 December 2017			
Watch	16,770	–	16,770
Substandard	–	41,724	41,724
Doubtful	–	86,397	86,397
Loss	–	–	–
Total	16,770	128,121	144,891
Fair value of collateral	31,993	433,101	465,094
31 December 2016			
Watch	117,344	–	117,344
Substandard	–	2,301	2,301
Doubtful	–	79,509	79,509
Loss	–	–	–
Total	117,344	81,810	199,154
Fair value of collateral	253,448	568,277	821,725

d) Loans and advances restructured/rescheduled

Restructuring activities include extended payment arrangements and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired at 31 December 2017 were AFN nil (31 December 2016: Nil).

	2017		2016	
Commercial loans and advances:	Loan amount at the time of rescheduling AFN '000	At year-end AFN '000	Loan amount at the time of rescheduling AFN '000	At year-end AFN '000
- Term loans	–	–	–	–
- Overdraft	55,776	51,909	3,144,475	409,948
Total	55,776	51,909	3,144,475	409,948

31.2.7 Concentration of risk of financial assets with credit risk exposure

a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2017. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

	Afghanistan AFN '000	Lebanon AFN '000	Singapore AFN '000	Germany AFN '000	Mexico AFN '000	Turkey AFN '000	Switzerland AFN '000	UAE AFN '000	India AFN '000	Qatar AFN '000	Korea AFN '000	Slovenia AFN '000	England AFN '000	Pakistan AFN '000	USA AFN '000	*Others AFN '000	Total AFN '000
2017																	
On balance sheet:																	
Balances with other banks	–	–	3,563,784	112,176	–	26,829	1,160,916	399,620	1,661	–	–	–	57,495	–	2,968,064	1,883,603	10,174,148
Placements – net	–	416,350	–	–	–	–	1,351,871	6,093,448	1,394,400	2,788,800	–	–	–	–	–	1,394,387	13,439,269
Investments – net (excluding capital notes)	–	–	–	–	400,241	388,376	–	1,308,467	–	1,222,350	1,333,919	301,420	–	407,894	–	7,263,757	12,433,031
Loans and advances to customers – net	3,369,970	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,369,970
Receivable from financial institutions	–	587,534	–	–	–	–	–	–	–	–	–	–	–	–	–	–	587,534
Other assets	447,844	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	447,844
	3,817,814	1,003,884	3,563,784	112,176	400,241	415,205	2,512,787	7,715,418	1,396,061	3,903,874	1,333,919	301,420	57,495	407,894	2,968,064	10,541,747	40,451,783
Off balance sheet:																	
Contingencies and commitments	7,863,485	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	7,863,485
	11,681,299	1,003,884	3,563,784	112,176	404,241	419,205	2,512,787	7,715,418	1,396,061	3,903,874	1,333,919	301,420	57,495	407,894	2,968,064	10,541,747	48,315,268
2016																	
On balance sheet:																	
Balances with other banks	–	–	2,146,777	236,685	–	1,956	513,653	661,632	501	–	–	–	60,593	–	2,314,736	669,552	6,606,085
Placements – net	–	–	–	–	–	–	1,336,400	8,221,758	2,004,600	–	–	–	–	–	–	8,018,400	19,581,158
Investments – net (excluding capital notes)	–	14,289	33,701	–	545,070	515,174	–	2,540,902	–	1,245,652	715,030	697,968	64,551	545,599	228,434	5,716,154	12,862,524
Loans and advances to customers – net	3,729,388	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,729,388
Receivable from financial institutions	–	522,484	–	–	–	–	–	–	–	–	–	–	–	–	–	–	522,484
Other assets	736,836	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	736,836
	4,466,224	536,773	2,180,478	236,685	545,070	517,130	1,850,053	11,424,292	2,005,101	1,245,652	715,030	697,968	125,144	545,599	2,543,170	14,404,106	44,038,475
Off balance sheet:																	
Contingencies and commitments	4,402,857	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,402,857
	8,869,081	536,773	2,180,478	236,685	545,070	517,130	1,850,053	11,424,292	2,005,101	1,245,652	715,030	697,968	125,144	545,599	2,543,170	14,404,106	48,441,332

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial risk factors continued

31.2.7 Concentration of risk of financial assets with credit risk exposure continued

b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of counterparties.

	Government/ Public sector AFN '000	Manu-facturing AFN '000	Agriculture AFN '000	Construction AFN '000	Telecommu-nication AFN '000	Banks and financial institutions AFN '000	Traders AFN '000	Fuel suppliers AFN '000	Others AFN '000	Total AFN '000
2017										
On balance sheet:										
Balances with other banks	–	–	–	–	–	10,174,148	–	–	–	10,174,148
Placements – net	–	–	–	–	–	13,439,256	–	–	–	13,439,256
Investments – net (excluding capital notes)	12,397,030	–	–	–	–	36,001	–	–	–	12,433,031
Loans and advances to customers – net	–	505,873	–	78,384	–	–	1,739,513	943,347	102,853	3,369,970
Receivable from financial institutions	–	–	–	–	–	587,534	–	–	–	587,534
Other assets	–	–	–	–	–	–	–	–	447,844	447,844
	12,397,030	504,873	–	78,384	–	24,236,939	1,739,513	943,347	550,697	40,451,783
Off balance sheet:										
Contingencies and commitments	–	85	–	886,110	379,762	–	333,340	1,292,608	4,971,580	7,863,485
Total	12,397,030	505,958	–	964,494	379,762	24,236,939	2,072,853	2,235,955	5,522,277	48,315,268
2016										
On balance sheet:										
Balances with other banks	–	–	–	–	–	6,606,085	–	–	–	6,606,085
Placements – net	–	–	–	–	–	19,313,157	–	–	–	19,313,157
Investments – net (excluding capital notes)	10,145,337	100,158	–	–	166,175	2,037,660	–	–	413,198	12,862,528
Loans and advances to customers – net	–	463,767	49,175	134,340	–	–	1,318,370	938,826	824,910	3,729,388
Receivable from financial institutions	–	–	–	–	–	522,484	–	–	–	522,484
Other assets	–	–	–	–	–	–	–	–	736,836	736,836
	10,145,337	563,925	49,175	134,340	166,175	28,479,386	1,318,370	938,826	1,974,944	43,770,478
Off balance sheet:										
Contingencies and commitments	–	74	–	614,847	71,902	–	401,233	225,246	3,089,555	4,402,857
Total	10,145,337	563,999	49,175	749,187	238,077	28,479,386	1,719,603	1,164,072	5,064,499	48,173,335

31.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange.

31.3.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2017 and 31 December 2016. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

	AED	USD	EURO	GBP	INR		Total
	Converted to AFN '000					AFN '000	AFN '000
As at 31 December 2017							
Assets							
Cash and balances with Da Afghanistan Bank	–	7,567,866	342,489	–	–	5,854,706	13,765,061
Balances with other banks	44,426	9,331,226	681,131	57,495	1,661	58,210	10,174,148
Placements – net	–	13,022,906	416,350	–	–	–	13,439,256
Investments – net	–	12,433,030	–	–	–	3,533,535	15,966,565
Loans and advances to customers – net	–	2,210,797	–	–	–	1,159,173	3,369,970
Receivables from financial institutions	–	505,555	67,425	–	–	14,554	587,534
Other assets	–	308,805	14,265	–	–	245,886	568,956
Total financial assets	44,426	45,380,184	1,521,660	57,495	1,661	10,866,064	57,871,491
Liabilities							
Customers' deposits	–	46,540,670	1,386,887	51,778	–	8,782,085	56,761,420
Deposits from bank	–	–	–	–	–	500,000	500,000
Other liabilities	–	208,052	2,401	–	–	101,420	311,873
Total financial liabilities	–	46,748,721	1,389,288	51,778	–	8,883,506	57,073,293
On-balance sheet financial position – net	44,426	(1,368,537)	132,372	5,717	1,661	1,982,559	798,197
As at 31 December 2016							
Total financial assets	90,938	45,277,296	1,575,119	62,991	500	9,006,520	56,013,365
Total financial liabilities	–	45,265,022	1,580,939	82,939	–	7,341,810	54,270,710
On-balance sheet financial position – net	90,938	(88,076)	(5,820)	(19,948)	500	1,765,060	1,742,655

If the functional currency, at the year end date, strengthens/weakens by 10% against the USD with all other variables held constant, the impact on profit or loss for the period would have been AFN 136,854 thousands higher/lower (31 December 2016: AFN 88,076 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the year end date, strengthens/weakens by 10% against the EURO with all other variables held constant, the impact on profit or loss for the period would be AFN 13,237 thousands lower/higher (31 December 2016: AFN 582 thousands lower/higher) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the year end date, strengthens/weakens by 10% against the AED with all other variables held constant, the impact on profit or loss for the period would be AFN 4,443 thousands higher/lower (2016: AFN 9,094 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the year end date, strengthens/weakens by 10% against the GBP with all other variables held constant, the impact on profit or loss for the period would be AFN 572 thousands higher/lower (2016: AFN 1,995 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the year end date, strengthens/weakens by 10% against the INR with all other variables held constant, the impact on profit or loss for the period would be AFN 166 thousands higher/lower (2016: AFN 50 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

31.3.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. Bank's investments, loans and advances are primarily linked to EONIA, LIBOR and US Prime.

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amount, categorized by the earlier of contractual reprising or maturity dates.

	Interest bearing							
	Up to 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total interest bearing AFN '000	Non-interest bearing AFN '000	Total AFN '000
As at 31 December 2017								
Assets								
Cash and balances with Da Afghanistan Bank	2,490,242	–	–	–	–	2,490,242	11,274,819	13,765,061
Balances with other banks	6,701,519	–	–	–	–	6,701,519	3,472,629	10,174,148
Placements – net	4,656,519	2,507,937	5,577,600	697,200	–	13,439,256	–	13,439,269
Investments – net	219,489	219,658	1,121,028	13,675,930	730,460	15,966,565	–	15,966,565
Loans and advances to customers – net	2,953,959	68,721	205,693	141,597	–	3,369,970	–	3,369,970
Receivables from financial institutions	–	–	–	–	–	–	587,534	587,534
Other assets	–	–	–	–	–	–	447,844	447,844
Total financial assets	17,021,728	2,796,316	6,904,321	14,514,727	730,460	41,967,552	15,782,826	5,750,378
Liabilities								
Customers' deposits	510,738	37,353	37,353	455,707	–	1,041,151	55,220,269	56,761,420
Deposits from bank	–	–	500,000	–	–	500,000	–	500,000
Other liabilities	–	–	–	–	–	–	191,164	191,164
Total financial liabilities	510,738	37,353	537,353	455,707	–	1,541,151	55,411,433	56,952,584
Total interest reprising gap	16,510,990	2,758,963	6,366,968	14,059,020	730,460	40,426,401	(39,628,606)	797,794
As at 31 December 2016								
Total financial assets	12,831,055	4,712,164	16,732,275	10,310,126	223,164	44,808,783	10,934,317	55,743,100
Total financial liabilities	516,319	33,410	386,074	668,200	–	1,604,003	52,621,713	54,225,716
Total interest reprising gap	12,314,736	4,678,754	16,346,201	9,641,926	223,164	43,204,780	(41,687,396)	1,517,384

If the interest increase/(decrease) by 100 bps, the impact on profit or loss for the year would have been AFN 432,048 thousands (31 December 2016: AFN 396,401 thousands) lower/higher respectively.

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.4 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

31.4.1 Liquidity risk management process

The Bank's liquidity management process, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

31.4.2 Funding approach

Sources of liquidity are regularly reviewed by the Asset Liability Committee (ALCO) to maintain a wide diversification by currency, geography, provider, product and term.

Liquidity Ratios

Advance to deposit ratios

	2017	2016
Year-end	**6.09%**	6.90%
Maximum	**6.90%**	6.37%
Minimum	**5.57%**	5.14%
Average	**6.31%**	5.92%

31.4.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held to manage liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Up to 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at 31 December 2017						
Liabilities						
Customers' deposits	**55,731,007**	**37,353**	**537,353**	**455,707**	**–**	**56,261,420**
Deposits from bank	**–**	**500,000**	**–**	**–**	**–**	**500,000**
Other liabilities	**191,164**	**–**	**–**	**–**	**–**	**191,164**
Total financial liabilities (contractual maturity dates)	**55,922,171**	**37,353**	**537,353**	**455,707**	**–**	**56,952,584**
Total financial assets (contractual maturity dates)	**32,804,554**	**2,796,316**	**6,904,321**	**14,514,727**	**730,460**	**57,750,378**
As at 31 December 2016						
Liabilities						
Customers' deposits	52,989,958	33,410	386,074	668,200	–	54,077,642
Other liabilities	193,068	–	–	–	–	193,068
Total financial liabilities (contractual maturity dates)	53,183,026	33,410	386,074	668,200	–	54,270,710
Total financial assets (contractual maturity dates)	23,765,371	4,712,164	16,732,275	10,310,126	223,164	55,743,100

Assets available to meet all of the liabilities and to cover outstanding loans commitment include cash and balances with Da Afghanistan Bank, balances with other banks and receivable from financial institutions, placements, loans and advances to customers and security deposits and other receivables.

31.4.4 Off-balance sheet items

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarized in the table below.

	Not later than 1 year AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at 31 December 2017				
Guarantees	**2,321,104**	**4,141,935**	**–**	**6,463,038**
Undrawn loans and overdraft facilities	**850,618**	**415,254**	**–**	**1,265,872**
Commercial letters of credit	**134,575**	**–**	**–**	**134,575**
Total	**3,306,297**	**4,557,188**	**–**	**7,863,485**
As at 31 December 2016				
Guarantees	2,147,457	1,257,233	–	3,404,690
Undrawn loans and overdraft facilities	848,222	252,880	–	1,101,102
Commercial letters of credit	149,945	–	–	149,945
Total	3,145,624	1,510,113	–	4,655,737

31.5 Fair value of financial assets and financial liabilities

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

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

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

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

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

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

	Level 1 AFN '000	Level 2 AFN '000	Level 3 AFN '000
Investments in bonds – available for sale investments	–	**4,586,137**	–
As at 31 December 2017	–	**4,586,137**	–
As at 31 December 2016	–	5,030,993	–

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

There were no transfers made among various levels of fair value hierarchy during the year.

b) Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities which are presented on the Bank's statement of financial position at value other than fair value.

	Carrying Value		Fair Value	
	2017 AFN '000	2016 AFN '000	**2017 AFN '000**	2016 AFN '000
Financial assets				
Cash and balances with Da Afghanistan Bank	**13,765,061**	10,452,572	**13,765,061**	10,452,572
Balances with other banks	**10,174,148**	6,606,085	**10,174,148**	6,606,085
Placements – net	**13,439,256**	19,313,157	**13,439,256**	19,313,157
Investments – net	**15,963,017**	14,377,016	**15,966,565**	14,382,580
Loans and advances to customers – net	**3,369,970**	3,729,388	**3,369,970**	3,729,388
Receivables from financial institutions	**587,534**	522,484	**587,534**	522,484
Advance to staff, Security deposits and other receivables – net	**447,844**	736,836	**447,844**	736,836
Financial liabilities				
Customers' deposits	**56,761,420**	54,077,642	**56,761,420**	54,077,642
Deposits from bank	**500,000**	–	**500,000**	–
Other liabilities	**311,873**	193,068	**311,873**	193,068
Off-balance sheet financial instruments				
Bank's guarantees	**6,463,038**	3,404,690	**6,463,038**	3,404,690
Bank's commitments	**1,400,447**	998,167	**1,400,447**	998,167

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

i) Investments:

These include investment bonds classified as held-to-maturity which are measured at amortized cost. The fair value of these investments is equal to the carrying amount.

ii) Loans and advances, other assets and other financial liabilities

Fair value of loans and advances, security deposits and other receivables and all the financial liabilities cannot be calculated with sufficient reliability due to absence of current and active market for such assets and reliable data regarding market rates for similar instruments, so its carrying amount is its fair value. The provision for loans and advances has been calculated in accordance with the Bank's policy and regulations issued by DAB.

iii) Off-balance sheet financial instruments

The fair value of the off-balance sheet financial instruments is equal to the carrying amounts.

31.6 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:

	2017 AFN '000	2016 AFN '000
Tier 1 (Core) Capital:		
Total equity capital	**3,844,934**	3,901,072
Less: Intangible assets	**445,918**	527,457
Net deferred tax assets	**73,603**	21,440
Profit for the year	**357,945**	519,072
	2,967,468	2,833,103
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	**213,611**	109,756
Profit for the year	**357,945**	519,072
Revaluation reserve on bonds (45%)	**1,597**	–
	571,556	628,828
Tier 2 (Supplementary) Capital (restricted 100% of Tier (Core) Capital)	**571,556**	628,828
Regulatory Capital = Tier 1 + Tier 2	3,539,024	3,461,931

31. FINANCIAL RISK MANAGEMENT CONTINUED

Risk-weight categories

	2017 AFN '000	2016 AFN '000
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	2,484,654	1,978,419
Direct claims on DAB	14,813,942	9,994,207
Direct claims on other Governments	1,613,406	773,442
Others	–	578,314
Total	18,912,002	13,324,382
0% risk-weight total (above total x 0%)	–	–
20% risk weight:		
Balances with other banks	24,313,203	26,441,726
	586,124	–
20% risk-weight total (above total x 20%)	4,979,865	5,288,345
100% risk weight:		
All other assets	17,037,862	18,757,185
Less: Intangible assets	(445,918)	(527,457)
Less: Deferred tax assets	(73,603)	(21,440)
All other assets – net	16,518,341	18,208,288
100% risk-weight total (above total x 100%)	16,518,341	18,208,288

Credit conversion factor

	2017 AFN '000	2016 AFN '000
0% risk weight:		
Undrawn loan and overdraft facilities	1,265,872	848,222
Guarantees	1,175,619	3,391,190
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	134,575	149,945
Guarantees	3,847,157	–
20% credit conversion factor total (risk-weighted total x 20%)	26,915	29,989
20% risk-weight total (above total x 20%)	5,383	5,998
100% risk weight:		
Guarantees	1,440,262	13,500
100% credit conversion factor total (risk-weighted total x 100%)	1,440,262	13,500
100% risk-weight total (above total x 100%)	1,440,262	13,500
Total risk-weighted assets	22,943,852	23,516,131
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	12.93%	12.05%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	15.42%	14.72%

32. ISLAMIC BANKING

The Bank started Islamic banking operations in November 2015 with the following Islamic deposit products.

Qardul Hasana Current Account

This account is profit-free account specifically designed to meet the requirements of the Bank's customers. Account holders will have easy access to their account at any time to meet their personal or business expenses.

Mudarabah Savings Account

This account is designed specifically to meet the requirements of customers who authorize the Bank to invest their cash deposits. Customers can deposit or withdraw money at any time they wish, and can earn profits on their savings.

Mudarabah Term Investment Deposit

These funds are accepted with different investment periods. The Bank manages and invests the funds aiming at realizing the best profit for the mutual interest of the parties.

Below are the figures relating to Islamic banking as at 31 December 2017

	2017 AFN '000	2016 AFN '000
Assets		
Cash and balances with banks	290,887	202,158
Loans and advances	42,279	–
Other assets	10,600	–
Receivable – head Office	299,600	148,445
	643,366	350,603
Liabilities		
Payable to head Office	–	–
Deposit – current	94,520	81,065
Deposit – saving	495,818	246,962
Deposit – term Deposit	49,861	36,592
Others	12,419	–
	652,618	364,619
Accumulated losses	(9,252)	(14,017)
	643,366	350,602
General and administrative expenses net off	(13,197)	(14,017)

33. GENERAL

33.1 Corresponding figures have been reclassified/re-arranged wherever necessary to facilitate comparison in the presentation in the current year. However, there are no material reclassification/re-arrangement to report.

33.2 The figures in these financial statements have been rounded off to the nearest in thousands in AFN.

34. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Supervisors of the Bank on 10 March 2018.

Chief Executive Officer | Chief Financial Officer | Chairman