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Bank Alfalah Limited - Afghanistan
Financial statements
For the year ended 31 December 2016

Independent auditor's report

Ernst & Young Ford Rhodes Sidat Hyder
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INDEPENDENT AUDITOR'S REPORT TO THE COUNTRY MANAGER OF BANK ALFALAH LIMITED AFGHANISTAN

Opinion

We have audited the accompanying financial statements of Bank Alfalah Limited Afghanistan, which comprise the statement of financial position as at 31 December 2016, 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 present fairly, in all material respects, the financial position of Bank Alfalah Limited Afghanistan as at 31 December 2016, 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.

Other Matter

The financial statements of Bank Alfalah Limited Afghanistan for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2016.

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.

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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.

Ernst & Young Ford Rhodes

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Date: 26 February 2017
Kabul, Afghanistan
Engagement Partner: Shabbir Yunus Khairullah

BANK ALFALAH LIMITED AFGHANISTAN
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
		--------- (AFS '000') ---------	
Assets			
Cash and cash equivalents	5	5,862,717	7,778,009
Investments	6	8,428,591	4,225,347
Loans and advances to banks - net	7	541,029	990,189
Loans and advances to customers - net	8	1,490	113,584
Property and equipment	9	8,807	9,172
Deferred tax asset	10	9,932	59,382
Advance tax - net		88,639	64,085
Other assets	11	931,104	1,107,509
Total assets		**15,872,309**	**14,347,277**
Liabilities			
Deposits from banks		242,795	364,609
Deposits from customers	12	14,170,142	12,702,839
Other liabilities	13	98,798	128,018
Total liabilities		**14,511,735**	**13,195,466**
Equity			
Share capital	14	1,000,000	1,000,000
Capital reserve	15	19,611	7,484
Surplus/(Deficit) on revaluation on available for sale investments		11,863	(57,338)
Retained earnings		329,100	201,665
Total equity		**1,360,574**	**1,151,811**
Total liabilities and equity		**15,872,309**	**14,347,277**
Contingencies and commitments	16		

The annexed notes 1 to 27 form an integral part of these financial statements.

Country Finance Manager

Country Manager

BANK ALFALAH LIMITED AFGHANISTAN
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
		------- (AFS '000') -------	
Interest income	17	358,433	295,102
Interest expense	17	(67,196)	(24,893)
Net interest income		291,237	270,209
Fee and commission income	18	158,106	180,790
Fee and commission expense	18	(13,242)	(11,131)
Net fee and commission income		144,864	169,659
Income from dealing in foreign currencies		12,344	27,338
Other income	19	48,546	54,204
Total operating income		496,991	521,410
Reversal of provision against non-performing advances	8.2	1,699	3,088
Other provisions	11.2	(19,447)	(155,117)
Net operating income		**479,243**	**369,381**
Personnel expenses	20	(95,952)	(100,904)
Depreciation	9	(4,122)	(4,652)
Other operating expenses	21	(98,154)	(156,666)
Total operating expenses		(198,228)	(262,222)
Profit before taxation		**281,015**	**107,159**
Taxation	22	(38,478)	42,519
Net profit		**242,537**	**149,678**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Surplus/ (Deficit) on revaluation on available for sale investments		86,502	(61,230)
Related deferred tax		(17,301)	12,246
Other comprehensive income, net of tax		69,201	(48,984)
Total comprehensive income, net of tax		**311,738**	**100,694**

The annexed notes 1 to 27 form an integral part of these financial statements.

Country Finance Manager

Country Manager

BANK ALFALAH LIMITED AFGHANISTAN
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Capital contributed by Head Office	Deficit on revaluation of available for sale investments	Capital reserve	Retained earnings	Total
		AFS '000'				
As at 01 January 2015		**1,000,000**	**(8,354)**	**-**	**269,471**	**1,261,117**
Total comprehensive income:						
Profit		-	-	-	149,678	149,678
Other comprehensive income:						
Fair value reserve (available-for-sale financial assets):						
Net change in fair value		-	(61,230)	-	-	(61,230)
Related tax		-	12,246	-	-	12,246
		-	(48,984)	-	-	(48,984)
Total comprehensive income		-	(48,984)	-	149,678	100,694
Transferred to Capital Reserve		-	-	7,484	(7,484)	-
Transactions with owners of the Bank:						
Profits remitted to Head Office		-	-	-	(210,000)	(210,000)
As at 31 December 2015		**1,000,000**	**(57,338)**	**7,484**	**201,665**	**1,151,811**
Total comprehensive income for the year:						
Profit		-	-	-	242,537	242,537
Other comprehensive income:						
Fair value reserve (available-for-sale financial assets):						
Net change in fair value		-	86,502	-	-	86,502
Related tax		-	(17,301)	-	-	(17,301)
		-	69,201	-	-	69,201
Total comprehensive income		-	69,201	-	242,537	311,738
Transferred to Capital Reserve	15	-	-	12,127	(12,127)	-
Transactions with owners of the Bank						
Profits remitted to Head Office		-	-	-	(102,975)	(102,975)
As at 31 December 2016		**1,000,000**	**11,863**	**19,611**	**329,100**	**1,360,574**

The annexed notes 1 to 27 form an integral part of these financial statements.

Country Finance Manager

Country Manager

BANK ALFALAH LIMITED AFGHANISTAN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016	2015
		--------- (AFS '000')	---------
Cash flows from operating activities			
Profit		281,015	107,159
Adjustments for:			
Depreciation	9	4,122	4,652
Reversal of provision against non-performing advances	8.2	(1,699)	(3,088)
Other provisions	11.2.2	13,900	155,117
Gain on disposal of property and equipment		-	(70)
Unrealised gain on hedged instrument	19	(8,236)	(7,978)
		289,102	255,792
Changes in:			
Loans and advances to banks		449,160	513,559
Loans and advances to customers		113,793	206,907
Advance tax - net		(24,554)	(42,558)
Other assets		162,505	(210,182)
Deposits from banks		(121,814)	(25,451)
Deposits from customers		1,467,303	62,086
Other liabilities		(27,313)	87,235
		2,308,182	847,388
Net cash generated from operating activities		**2,308,182**	**847,388**
Cash flows from investing activities			
Increase in investments - net		(4,116,742)	911,632
Purchase of property and equipment		(3,757)	(1,087)
Proceeds from disposal of property and equipment		-	213
Net cash used in investing activities		(4,120,499)	910,758
Cash flows from financing activities			
Remittances to the Head Office		(102,975)	(210,000)
Net cash used in financing activities		**(102,975)**	**(210,000)**
Net increase / (decrease) in cash and cash equivalents		**(1,915,292)**	**1,548,146**
Cash and cash equivalent at beginning of the year		7,778,009	6,229,863
Cash and cash equivalents at end of the year	5	**5,862,717**	**7,778,009**

The annexed notes 1 to 27 form an integral part of these financial statements.

Country Finance Manager

Country Manager

1. Status and nature of business

Bank Alfalah Limited Afghanistan ("the Bank") is a foreign branch of Bank Alfalah Limited, Pakistan and is registered and operating in Afghanistan as a commercial bank. The Bank obtained business license from Afghanistan Investment Support Agency on 21 May 2005 which has been renewed on 03 August 2016. The Bank commenced its operations on 05 September 2005 under the license for commercial banking issued by Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan. Currently, the Bank has two conventional banking branches at Kabul and Herat including one sub-branch in UN Compound Kabul.

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

2. Basis of preparation and measurement

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

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

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

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

Standard or Interpretation

IFRS 10	Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendment)
IFRS 11	Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)
IAS 1	Presentation of Financial Statements - Disclosure Initiative (Amendment)
IAS 16	Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)
IAS 16	Property, Plant and Equipment IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)
IAS 27	Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)

Improvements to Accounting Standards Issued by the IASB in September 2014

IFRS 5	Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal
IFRS 7	Financial Instruments: Disclosures - Servicing contracts
IFRS 7	Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements
IAS 19	Employee Benefits - Discount rate: regional market issue
IAS 34	Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

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

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

Standard or Interpretation		**Effective date (annual periods beginning on or after)**
IFRS 2	Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)	01 January 2018
IFRS10	Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IAS 7	Financial Instruments: Disclosures - Disclosure Initiative-(Amendment)	01 January 2017
IAS 12	Income Taxes – Recognition of Deferred Tax Assets for Unrealized losses (Amendments)	01 January 2017
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
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01 January 2018
IFRS 9	Financial Instruments: Classification and Measurement	01 January 2018
IFRS 14	Regulatory Deferral Accounts	01 January 2016
IFRS 15	Revenue from Contracts with Customers	01 January 2018
IFRS 16	Leases	01 January 2019

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 2017. The Bank expects that such improvements to the standards will not have any impact on the Bank's financial statements in the period of initial application.

3. Use of critical accounting estimates and judgments

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are given below:

a) Provision of income taxes

The Bank recognizes tax liabilities for pending tax assessments using estimates based on expert opinion obtained from legal/tax advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined.

b) Property and equipment

The Bank reviews useful lives, residual values and methods of depreciation of property and equipment (note 4.6) on regular basis. Any changes in estimates may affect the carrying amounts of the respective items of property and equipment with a corresponding effect on the depreciation charge.

c) Impairment of financial instruments

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

The Bank reviews loans to customer balances for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations. The Bank maintains a general provision of 1.5% (31 December 2015: 1.5%) against outstanding loan and advances to customers as at the year end.

d) Held-to-maturity investments

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

4. Summary of significant accounting policies

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

4.1 Cash and cash equivalents

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

4.2 Financial instruments

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

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

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

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

4.3 Financial assets

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

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

Financial assets are classified at fair value through profit or loss when the financial asset is either held-for-trading or it is designated as at fair value through profit 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 Bank Alfalah Limited Afghanistan investment strategy and reported to key management personnel on that basis are designated at fair value through profit or loss;

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

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

b) *Loans and receivables*

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

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

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

c) *Held-to-maturity financial assets*

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

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses (see 3.4(a)).

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

d) *Available-for-sale financial assets*

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

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

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

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

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

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

4.4 Impairment of financial assets

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

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

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio and net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as 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) Loan and advances to customers

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

i) **Standard**: These are loans and advances, which are paying in current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any, supporting it. A general provision is maintained in the books of account @ 1% (31 December 2015: 1.5%) of value of such loans and advances.

ii) **Watch**: These are loans and advances which are adequately protected by the collateral, if any, supporting it, but are potentially weak. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification to Substandard. Further, all loans and advances which are past due by 1 to 30 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account not less than 5% of value of such loans and advances.

iii) **Substandard**: These are loans and advances which are inadequately protected by current sound net worth and paying capacity of the borrower or by collateral, if any, supporting it. Further, all loans and advances which are past due by 31 to 90 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account not less than 25% of value of such loans and advances.

iv) **Doubtful**: These are loans and advances which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. Further all loans and advances which are past due by 91 to 360 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account not less than 50% of value of such loans and advances.

v) **Loss**: These are loans and advances which are not collectable and or such little value that its continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 360 days for principal and interest payments are also classified as Loss. A provision is maintained in the books of account @100% of value of such loans and advances and then these loans are charged off and the reserve for losses is reduced immediately upon determination of Loss status.

c) Assets classified as available for sale

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

4.5 Financial liabilities

The Bank classifies its financial liabilities in following categories.

a) Financial liabilities at fair value through profit or loss

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

b) Other financial liabilities measured at amortized cost

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

4.6 Fair value measurement

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

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

If there is no quoted price in an active market, then the Bank uses valuation techniques that 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 neither evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or 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 and measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

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

4.7 Property and equipment

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

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

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

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

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

4.8 Impairment of non-financial assets

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

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

4.9 Taxation

Current

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

Deferred

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

4.10 Revenue recognition

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

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.

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

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

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

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

4.11 Foreign currency transactions and translation

a) Functional and presentation currency

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

b) Transactions and balances

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

The exchange rates for following currencies against Afs were:

	1 US $	1 Euro	1 GBP
As at 31 December 2016	66.83	69.79	81.70
As at 31 December 2015	68.43	74.54	100.79

4.12 Provisions

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

4.13 Offsetting of financial instruments

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

4.14 Employee benefits

Short-term benefits

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

	Note	2016	2015
		--------- (AFS '000') ---------	
5. Cash and cash equivalents			
Cash in hand			
Local currency		32,292	71,003
Foreign currency		126,861	308,276
		159,153	**379,279**
Unrestricted balances with Da Afghanistan Bank			
Local currency		480,601	620,424
Foreign currency		761,109	1,579,452
		1,241,710	**2,199,876**
Balances with other banks and financial institutions			
Current accounts	5.1	**1,566,714**	**1,645,981**
Short term placements with banks			
Capital notes (maturity less than three months)	5.2	833,059	374,390
Time deposits with other banks	5.3	2,062,081	3,178,483
		2,895,140	**3,552,873**
		5,862,717	**7,778,009**

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

5.2 These represent capital notes issued by DAB for maturity of periods three months. These capital notes carry interest rate ranging from 1.8% to 3.35% (2015: 1.8% to 3.54%) per annum.

5.3 These represent overnight and fixed term placements with financial institutions outside Afghanistan up to a maximum period of three months (2015: three months) in USD carrying interest at rates ranging from 1% to 1.5% (31 December 2015: 0.80% to 1%) per annum.

	Note	2016	2015
		--------- (AFS '000') ---------	
6. Investments			
Available for sale			
- Foreign bonds	6.1	6,206,287	2,340,904
Held to maturity			
Capital notes with DAB	6.2	1,546,427	839,478
Bonds	6.3	665,135	1,044,965
		2,211,562	1,884,443
		8,417,849	**4,225,347**

			Note	2016	2015
				--------- (AFS '000') ---------	

6.1 The breakup of foreign bonds is as follows;

		Rating	Rating Agency	2016	2015
Abu Dhabi Commercial Bank (ADCB)		A1	Moody's	668,988	685,335
Qatar National Bank Finance Limited (QNB) Bond		Aa3	Moody's	-	343,181
Kingdom of Bahrain		Ba2	Moody's	348,412	348,869
Indonesia Sovereign Bonds (Sukuks)		Baa3	Moody's	335,233	327,562
South Africa Sovereign Bonds (Sukuks)		Baa2	Moody's	271,188	264,294
Kazakhstan		Baa3	Moody's	201,308	193,930
The Islamic Republic of Pakistan		B3	Moody's	755,859	-
Third Pakistan International Sukuk Company Limited		B3	Moody's	341,294	-
State of Qatar		Aa2	Moody's	645,535	-
Turkey	34415	Ba1	Moody's	227,054	-
Oman		Baa1	Moody's	668,249	-
Oman		Baa1	Moody's	322,247	-
Republic of Sri Lanka		B1	Moody's	98,916	-
Kingdom Of Bahrain		Ba2	Moody's	342,871	-
Republic of Indonesia		Baa3	Moody's	100,284	-
Republic of Indonesia		Baa3	Moody's	33,566	-
Saudi Arabia		A1	Moody's	316,499	-
Saudi Arabia		A1	Moody's	316,511	-
Republic of Indonesia		Baa3	Moody's	35,156	-
Republic of Indonesia		Baa3	Moody's	143,180	141,953
United Mexican States		A3	Moody's	33,937	35,780
				6,206,287	**2,340,904**

These bonds are listed at London Stock Exchange. The rate of profit on QNB Bonds and ADCB bonds ranges from 3 months US LIBOR + 125 bps to 3 months US LIBOR + 130 bps per annum whereas rate of profit on other bonds ranges from 1.53% to 8.25% (2015: 1.53% to 4.35%) per annum maturing latest by 14 October 2024.

6.1.1 Derivatives held for risk management- fair value hedges of interest

The Bank has entered into an Interest Rate Swap ("IRS") arrangement from a foreign bank to hedge its exposure of changes in fair value of its investments in fixed interest rate foreign currency bonds due to fluctuation in interest rates in international market (fair value hedge). According to the terms of the IRS arrangement, the Bank is required to pay fixed amount ranging from 1.94% to 2.54% per annum of the notional principal to the foreign bank and receives amount ranging from LIBOR + spread basis. The receivable / payable amounts and gain /loss on re-measurement of hedge instruments have been accounted for in accordance with the requirements of *IAS 39 - Financial Instruments -Recognition and Measurement.*

6.2 These represent investments in capital notes issued by DAB up to a maximum period of one year carrying yield at rates ranging from 4.33% to 6.67%. (31 December 2015: 3.56% to 7.25%) per annum receivable on maturity of respective notes.

6.3 This represents investment in The Islamic Republic Pakistan and State of Qatar bonds amounting to USD 10 million carrying interest rate of 7.25% (2015: 7.13%) and 3.25% per annum respectively.

		Note	2016	2015
			------ (AFS '000') ------	
7.	**Loans and advances to banks**			
	Foreign bills discounted and purchased	7.1	421,029	870,189
	Term loan	7.2	120,000	120,000
			541,029	**990,189**

7.1 These bills are purchased from various financial institutions. These have maximum maturity of six months and carrying interest rates ranging from 0.75% to 3.5% (2015: 0.6% to 3.65%) per annum.

7.2 Term loan is issued to Foundation for International Community Assistance (FINCA) , having maturity of one year and carrying interest rate of Capital note + 2% per annum. This loan is secured against Citibank guarantee.

		Note	2016	2015
			--------- (AFS '000') -------	
8.	**Loans and advances to customers**			
	Loans and advances to customers at amortized cost	8.1	1,490	115,296
	Less: Impairment loss on loan and advances	8.2	-	(1,712)
	Net loans and advances to customers		**1,490**	**113,584**

8.1 Loans and advances to customers at amortized cost

		Gross amount	Allowance for impairment	Carrying amount	Gross amount	Allowance for impairment	Carrying amount
		---------- AFS '000' ----------					
		2016			2015		
Term finance		-	-	-	114,106	(1,712)	112,394
Advance against credit cards	8.1.1	1,490	-	1,490	1,190	-	1,190
		1,490	**-**	**1,490**	**115,296**	**(1,712)**	**113,584**

8.1.1 These balances are carrying interest at the rate of 20% (2015: 20%) per annum. These are fully secured against cash margin.

		Note	2016	2015
			--------- (AFS '000') -------	
8.2	**Allowance for impairment (General)**			
	Movement in allowance for impairment			
	Balance at beginning of the year		1,712	4,800
	Reversal during the year		(1,699)	(3,381)
	Exchange adjustment		(13)	293
	Balance at end of the year		**-**	**1,712**

8.3 As at 31 December, 2016, there is no overdue loan to be classified in the category of watch list, substandard, doubtful or loss.

9. Property and equipment

	Leasehold improvements	Furniture & fixtures	Electrical, office and computer equipment	Vehicles	Total
Cost					
Balance at 1 January 2015	22,099	11,781	39,149	9,722	82,751
Additions	-	34	1,053	-	1,087
Disposals	-	(464)	(3,595)	-	(4,059)
Balance at 31 December 2015	**22,099**	**11,351**	**36,607**	**9,722**	**79,779**
Balance at 1 January 2016	**22,099**	**11,351**	**36,607**	**9,722**	**79,779**
Additions	**-**	**2,240**	**1,517**	**-**	**3,757**
Disposals	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2016	**22,099**	**13,591**	**38,124**	**9,722**	**83,536**
Depreciation					
Balance at 1 January 2015	20,416	9,526	30,206	9,722	69,870
Charge for the year	379	862	3,411	-	4,652
Depreciation on disposals	-	(387)	(3,528)	-	(3,915)
Balance at 31 December 2015	20,795	10,001	30,089	9,722	70,607
Balance at 1 January 2016	**20,795**	**10,001**	**30,089**	**9,722**	**70,607**
Charge for the year	**359**	**690**	**3,073**	**-**	**4,122**
Depreciation on disposals	**-**	**-**	**-**	**-**	**-**
Balance at 31 December 2016	**21,154**	**10,691**	**33,162**	**9,722**	**74,729**
Carrying amounts					
Balance at 31 December 2015	1,304	1,350	6,518	-	9,172
Balance at 31 December 2016	**945**	**2,900**	**4,962**	**-**	**8,807**
Depreciation rate	**20%**	**10%**	**20%**	**25%**	

9.1 Included in cost of property and equipment are fully depreciated assets still in use having cost of Afs 47,064 thousands (2015: 52,470 thousands).

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

	2016	2015
	--------- (AFS '000') ---------	
Tax losses	-	15,563
Deficit on re-measurement of available for sale investments	1,171	14,334
Provision against other assets	13,303	28,362
Unrealised loss on interest rate SWAP	(778)	2,696
Accelerated tax depreciation and amortization	(1,287)	(1,573)
	12,409	**59,382**

10.1 Movement in temporary differences during the year

	Balance as at 01January 2015	Recognized in statement of comprehensive income	Recognized in equity through other comprehensive income	Balance at 31 December 2015	Recognized in statement of comprehensive income	Recognized in equity through other comprehensive income	Balance at 31 December 2016
	--- (AFS '000') ---						
Deferred tax assets arising in respect of:							
Tax losses carried forward	4,318	11,245	-	15,563	(15,563)	-	-
Surplus/ Deficit on available for sale investments	2,088	-	12,246	14,334	-	(13,163)	1,171
Provision against other assets	-	28,362	-	28,362	(15,059)	-	13,303
Unrealised loss on interest rate SWAP	-	2,696	-	2,696	(3,474)	-	(778)
Deferred tax liabilities arising in respect of:							
Accelerated tax depreciation	(1,789)	216	-	(1,573)	286	-	(1,287)
	4,617	**42,519**	**12,246**	**59,382**	**(33,810)**	**(13,163)**	**12,409**

11. Other assets

	Note	2016	2015
		--------- (AFS '000') ---------	
Accrued interest		69,116	56,068
Accrued commission on bank gurantees		11,070	41,203
Advances, deposits and prepayments		7,118	3,721
Restricted deposits with DAB	11.1	835,727	987,876
Receivable against credit card transactions	11.2.2	13,999	14,853
Branch adjustment account		274	420
Commission receivable		6,399	3,368
Interest receivable on Interest Rate Swap (IRS)		1,324	-
Other asset	11.2	263,921	270,319
		1,208,948	**1,377,828**
Less: Provision against other assets	11.2.2	(277,844)	(270,319)
		931,104	**1,107,509**

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

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

11.2.1 Based on the fact that the said amount is not readily available for use of the Bank, the management has reclassified this amount from "balances with other banks" to "other assets" and as a matter of prudence, recorded full provision amounting to Afs 263,921 thousands in its books of account and financial statements.

11.2.2 Movement of provision against other assets

	Note	2016	2015
		--------- (AFS '000') ---------	
Balance at the beginning of the year		270,319	115,202
Charge for the year		13,900	155,117
Revaluation impact		(6,375)	-
Balance at the end of the year		**277,844**	**270,319**

12. Deposits from customers

	Note	2016	2015
		--------- (AFS '000') ---------	
Current deposits		11,045,322	11,689,773
Saving deposits	12.1	610,340	772,792
Term deposits	12.2	2,322,009	54,762
Margin deposits	12.3	192,471	185,512
		14,170,142	**12,702,839**

Deposits from customers (continued)

12.1 Saving deposits carry interest rate ranging from 0% to 0.55% (2015: 0.25% to 0.55%) per annum.

12.2 Term deposits carry interest rate ranging from 0.75% to 6.25% (2015: 0.75% to 5.22%) per annum and have maturity period ranging from 01 to 12 months (2014: 01 to 12 months).

12.3 None of the deposits from customers are expected to be settled in more than 12 months.

13. Other liabilities

	Note	2016	2015
		--------- (AFS '000') ---------	
Unearned commission on letter of credit and letter of guarantee		20,196	35,331
Unrealized loss on re-measurement of Interest Rate Swap		12,017	26,490
Interest payable on Interest Rate Swap		5,361	5,605
Accrued expenses		4,637	4,857
Interest payable		29,675	5,717
Payable to HO against staff retirement gratuity		-	4,173
DAB assessment fee payable		2,900	2,540
Professional charges		7,112	734
Bills payable		4,849	447
Compensation relating to customer's blocked funds	13.1	-	40,861
Provision for law suit		5,546	-
Others		268	1,263
		92,561	**128,018**

13.1 This represents court fee and compensation relating to customer's blocked funds as explained in note 11.2 to the financial statements.

14. Capital contributed by Head Office

Da Afghanistan Bank (DAB) vide its Letter No. 3783/3971 dated January 07, 2014 requires all branches of foreign banks to convert their minimum equity from other currencies to local currency Afs 1,000,000 thousands gradually till March 31, 2014. Accordingly, the Board of Directors (BOD) of the Head Office, in its meeting held on March 02, 2014 approved capitalization of unappropriated profit to meet the minimum equity requirements of Afs 1,000,000 thousands. The BOD also approved the remittance of remaining unappropriated profit to Head Office to the extent as decided by the management of the Bank. Accordingly, the management remitted profit of Afs 102,975 thousands to the Head Office in June 2016 (2015: Afs 210,000 thousands).

15. Capital Reserves

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

	Note	2016	2015
		--------- (AFS '000')	---------
16. Contingencies and commitments			
Letter of credit and acceptances		**-**	**13,142**
Guarantees	16.1	**938,126**	**1,159,516**

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

16.2 Audit department of the Ministry of Finance (MoF) conducted audit of the Bank for the years 2009 and 2010 and imposed an additional demand amounting of Afs 45,269,600. The Bank has accepted the demand of Afs 25,700,000 and same was paid to MoF. Subsequent to the period end, on 27 July 2016 the remaining amount of Afs 19,569,600 was paid under protest by the Bank. The decision of the department was appealed by the Bank, however, due to lapse in the specified time mentioned in the Tax Administration Law (Tax Law), the department did not respond to the appeal. According to article 11 of the Tax Law, the Dispute Resolution Board of the MoF is the next stage of appeal, however, since the Dispute Resolution Board has not been established yet, therefore, as per the article 12 of the Tax Law, the Bank has filed the case in authorised court of law to get a refund of amount paid in protest. The case is now in Public Tribunal of Primary Civil Court of Kabul, the judges for the hearing of the case are appointed, and written statement and defence will be provided to the court soon.

Management is confident based on tax advisor's opinion that there are good chances that the case will be decided in favour of the Bank and accordingly no provision has been made in this regard in the financial statements.

	Note	2016	2015
		--------- (AFS '000')	---------
17. Net interest income			
Interest income			
Cash and cash equivalents		107,486	46,913
Loans and advances to banks and customers		26,926	39,473
Investments		216,047	205,615
Interest income on Interest Rate Swap		7,974	3,101
		358,433	**295,102**
Interest expense			
Deposits from customers			
Interest on term deposits		(30,090)	(167)
Premium on bonds		(9,675)	-
Interest on saving deposits		(1,334)	(963)
		(41,099)	**(1,130)**
Interest Rate Swap expense		(26,097)	(23,763)
		(67,196)	**(24,893)**
Net interest income		**291,237**	**270,209**
18. Net fee and commission income			
Fee and commission income			
Commission on letter of credit and guarantees issued		24,611	19,995
Commission on credit cards		16,379	18,004
Funds transfer fee		78,404	114,766
Accounts servicing fee		38,712	28,025
		158,106	**180,790**
Fee and commission expense		(13,242)	(11,131)
Net fee and commission income		**144,864**	**169,659**

		Note	2016	2015
			--------- (AFS	'000') ---------
19.	**Other income**			
	Customer charges		40,310	45,793
	Gain/ (loss) due to increase in fair value of foreign currency bonds pursuant to change in interest rates (hedge risk)		14,473	7,978
	Gain on disposal of property and equipment		-	69
	Income on unutilized limits on credit cards		-	364
			54,783	**54,204**
20.	**Personnel expenses**			
	Salaries and benefits		100,109	100,096
	Staff retirement benefits		(4,157)	808
			95,952	**100,904**
21.	**Other operating expenses**			
	Rent, taxes, insurance, electricity, etc.		43,017	42,239
	Legal and professional charges		4,735	11,911
	Communications		4,962	6,051
	Repairs and maintenance		3,818	4,419
	Stationery and printing		900	1,026
	Advertisement and publicity		1,228	956
	Auditors' remuneration		1,525	1,239
	Entertainment		2,728	2,651
	Travelling and conveyance		2,623	2,863
	Security		12,344	13,468
	Visa charges		6,272	5,698
	Loss on remeasurement of Interest Rate Swap (IRS)		18,365	17,056
	Compensation relating to customer's blocked funds as explained in note 11.2 note 13.1		-	35,591
	Other operating expenses		1,349	11,498
			103,866	**156,666**
22.	**Taxation**			
	Amounts recognized in profit and loss			
	Current tax expense			
	For the year		6,329	-
			6,329	-
	Deferred tax			
	For the year	10.1	33,810	(42,519)
			33,810	**(42,519)**
	Tax expense/(benefit)		**40,139**	**(42,519)**

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

22.2 Reconciliation of effective tax rate

	2016		2015	
	Rate	(Afs '000')	Rate	(Afs '000')
Accounting profit for the year		281,540		107,159
Applicable tax @ 20%	20%	56,308	20%	21,432
Effect of tax on dividend to shareholders	-7%	(20,595)	-39%	(42,000)
Effect of difference in assessment of tax losses by MoF	0%	-	-5%	(5,637)
Utilisation of brought forward losses	-5%	(15,389)	0%	-
Effect of inadmissible expenses	1%	1,888	0%	-
Deferred tax effect relating to:				
Origination and reversal of temporary differences	6%	18,247	-15%	(16,310)
Others	0%	(320)	0%	(4)
	14%	**40,139**	**-40%**	**(42,519)**

23. Financial assets and liabilities

Accounting classification and fair values

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

	Note	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total
31 December 2016						
Assets						
Cash and cash equivalents	5	-	5,862,717	-	-	5,862,717
Investments	6	2,211,562	-	6,206,287	-	8,417,849
Loans and advances to banks	7	-	541,029	-	-	541,029
Loans and advances to customers	8	-	1,490	-	-	1,490
Other assets	11	-	95,377	-	-	95,377
		2,211,562	**6,500,613**	**6,206,287**	**-**	**14,918,462**
Liabilities						
Deposits from banks		-	-	-	242,795	242,795
Deposits from customers	12	-	-	-	14,170,142	14,170,142
Other liabilities	13	-	-	-	84,115	84,115
		-	**-**	**-**	**14,497,052**	**14,497,052**
31 December 2015						
Assets						
Cash and cash equivalents	5	-	7,778,009	-	-	7,778,009
Investments	6	1,884,443	-	2,340,904	-	4,225,347
Loans and advances to banks	7	-	990,189	-	-	990,189
Loans and advances to customers	8	-	113,584	-	-	113,584
Other assets	11	-	119,633	-	-	119,633
		1,884,443	**9,001,415**	**2,340,904**	**-**	**13,226,762**
Liabilities						
Deposits from banks		-	-	-	364,609	364,609
Deposits from customers	12	-	-	-	12,702,839	12,702,839
Other liabilities	13	-	-	-	84,617	84,617
		-	**-**	**-**	**13,152,065**	**13,152,065**

23.1 Fair value of financial assets and financial liabilities

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

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

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

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

841,364

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

	Level 1	Level 2	Level 3
Investments in bonds - available for sale investments	-------------------Afs"000-------------------		
As at 31 December 2016	**6,206,287**	**-**	**-**
As at 31 December 2015	2,340,904	-	-

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

(b) Fair values

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

	Carrying Value		Fair Value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	-----------------------------Afs"000-----------------------------			
Financial assets				
Cash and cash equivalents	**5,862,717**	7,778,009	**5,862,717**	7,778,009
Investments	**2,211,562**	1,884,443	**2,211,562**	1,884,443
Loans and advances to banks	**541,029**	990,189	**541,029**	990,189
Loans and advances to customers	**1,490**	113,584	**1,490**	113,584
Other assets	**95,377**	119,633	**95,377**	119,633
Financial liabilities				
Deposits from banks	**242,795**	364,609	**242,795**	364,609
Deposits from customers	**14,170,142**	12,702,839	**14,170,142**	12,702,839
Other liabilities	**84,115**	84,617	**84,115**	84,617

24. Risk management policies

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

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

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

24.1 Credit risk

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

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

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

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

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

- Credit concentration risk

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

	Notes	2016	2015
		----------- Afs '000'	-----------
Credit risk relating to on-balance sheet items are as follows;			
Cash and cash equivalents	5	3,628,795	4,824,464
Investments	6	6,871,422	3,385,869
Loans and advances to banks	7	541,029	990,189
Loans and advances to customers	8	1,490	113,584
Other assets	11	95,377	119,633
		11,138,113	**9,433,739**
Credit risk relating to off-balance sheet items is as follows;			
Letter of credit and acceptances	16	-	13,142
Guarantees	16	938,126	1,159,516
		938,126	**1,172,658**

The above table represents credit risk exposure to the Bank at 31 December 2016 and 31 December 2015, without taking account of any collateral held or other enhancements attached. For on-balance sheet assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

Credit quality of financial assets

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

Cash and cash equivalents

As of the reporting date, the bank held cash and cash equivalents amounting to Afs 5,862,717 thousands (2015: 7,778,009 thousands) out of which there is a credit risk on balances amounting to Afs 3,628,795 thousands (2015: 4,824,464 thousands) as the management belives that there is no credit risk on balances maintained with DAB amounting to Afs 2,233,922 thousands (2015: 2,574,266 thousands). Balances with other banks/placements are held with reputable banks with high quality external credit rating.

Loans and advances	Note	**2016**	**2015**
		----------- Afs '000' -----------	
Loans and advances to customers and banks	**7 & 8**	**542,519**	**1,103,773**
Neither past due but nor impaired:			
Gross amount		542,519	1,105,485
Allowance for impairment		-	(1,712)
Carrying amount		**542,519**	**1,103,773**
Carrying amount-amortized cost:		**542,519**	**1,103,773**

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

Past due but not impaired loans
Past due but not impaired loans are those for which contractual interest or principal payments are past due but the Bank believes impairment is not appropriate. As at 31 December 2016, the loans are neither past due nor impaired.

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

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

Loan grading	**Days past due**	**Percentage %**
Standard	None	1%
Watch	1-30 days	5%
Substandard	31-90 days	25%
Doubtful	91-360 days	50%
Loss	Over 360 days	100%

Write-off policy

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

The Bank holds collateral against loans and advances in the form of mortgage interest over property, other registered securities overassets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally arenot updated except when a loan is individually assessed as impaired.

As at 31 December 2016, an estimate of the fair value of the collateral and other security enhancements held against loans and advances has adequately covered the amount of loans and advances.

24.2 Credit risk

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

	2016	2015
Segments by class of business-Gross amount	----------- Afs '000' -----------	
Financial	541,029	990,189
Individuals	1,490	1,190
Travel leisure	-	114,106
	542,519	**1,105,485**

Settlement risk

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

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

24.3 Liquidity risk

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

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

Liquidity risk

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

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

	2016	2015
At 31 December	44%	69%
Average for the period	48%	70%
Maximum for the period	64%	76%
Minimum for the period	33%	65%

Maturity analysis for financial liabilities

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

	Note	Gross nominal inflow/ (outflow)	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Carrying amount
		Afs '000'						
As at 31 December 2016								
Liabilities								
Deposits from banks		242,795	42,295	22,361	28,116	150,023	-	242,795
Deposits from customers	12	14,170,142	1,922,977	1,586,007	3,236,302	7,424,856	-	14,170,142
Other liabilities	13	84,115	6,198	22,790	13,872	29,238	12,017	84,115
		14,497,052	**1,971,470**	**1,631,158**	**3,278,290**	**7,604,117**	**12,017**	**14,497,052**
As at 31 December 2015								
Liabilities								
Deposits from banks		364,609	6,077	12,154	54,691	291,687	-	364,609
Deposits from customers	12	12,702,839	1,497,439	1,173,885	3,490,975	1,244,546	5,295,994	12,702,839
Other liabilities	13	84,617	10,462	36,594	4,907	6,164	26,490	84,617
		13,152,065	**1,513,978**	**1,222,633**	**3,550,573**	**1,542,397**	**5,322,484**	**13,152,065**

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

24.4. Market risk

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

24.4.1 Interest rate risk exposure

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

	Note	Interest bearing						Non-interest bearing	Total
		Interest rates	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years		
		Afs '000'							
31 December 2016									
Assets									
Cash and cash equivalents	5	1.8% to 3.35%	2,006,275	-	-	-	-	3,856,442	5,862,717
Investments	6	1.53% to 8.25%	679,981	342,520	1,192,854	2,192,164	4,021,072	-	8,428,591
Loans and advances to banks	7	0.75% to 8.67%	421,029	-	120,000	-	-	-	541,029
Loans and advances to customers	8	20%	1,490	-	-	-	-	-	1,490
Other assets	11		-	-	-	-	-	95,377	95,377
			3,108,775	**342,520**	**1,312,854**	**2,192,164**	**4,021,072**	**3,951,819**	**14,929,204**
Liabilities									
Deposits from banks			-	-	-	-	-	242,795	242,795
Deposits from customers	12	0% to 0.55%	500,000	964,539	1,467,810	-	-	11,237,793	14,170,142
Other liabilities	13		-	-	-	-	-	84,115	84,115
			500,000	964,539	1,467,810	-	-	11,564,703	14,497,052
On balance sheet interest sensitivity gap			**2,608,775**	**622,019**	**154,956**	**2,192,164**	**4,021,072**	**7,612,884**	**432,152**

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

	Note	Interest bearing						Non-interest bearing	Total
		Interest rates	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years		
		Afs '000'							
31 December 2015									
Assets									
Cash and cash equivalents	5	1.8% to 3.54%		-	-	-	-	4,225,136	4,225,136
Investments	6	1.53% to 7.25%	-	-	1,916,583	1,298,080	1,385,074	-	4,599,737
Loans and advances to banks	7	0.6% to 8%	841,364	28,826	120,000	-	-	-	990,190
Loans and advances to customers	8	Libor + 4%	-	-	113,584	-	-	-	113,584
Other assets	11		-	-	-	-	-	119,633	119,633
			841,364	**28,826**	**2,150,167**	**1,298,080**	**1,385,074**	**4,344,769**	**10,048,280**
Liabilities									
Deposits from banks			-	-	-	-	-	364,609	364,609
Deposits from customers	12	0.25% to 0.55%	793,329	34,225	-	-	-	11,875,285	12,702,839
Other liabilities	13		-	-	-	-	-	84,617	84,617
			793,329	**34,225**	**-**	**-**	**-**	**12,324,511**	**13,152,065**
On balance sheet interest sensitivity gap			**48,035**	**(5,399)**	**2,150,167**	**1,298,080**	**1,385,074**	**(7,979,742)**	**(3,103,785)**

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

Variable rate instruments

Financial assets and liabilities at variable interest rates	**2016**	**2015**
	----------- Afs '000' -----------	
Investments	668,988	1,028,516
Loans and advances to banks	120,000	120,000
Loans and advances to customers	-	112,394
	788,988	**1,260,910**

Cash flow sensitivity analysis for variable rate instruments

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

Fixed rate instruments	**2016**	**2015**
	----------- Afs '000' -----------	
Financial assets and liabilities at fixed interest rates		
Investments	7,748,861	3,196,831
Loans and advances to banks	421,029	870,189
Loans and advances to customers	1,490	1,190
Deposits from customers	(2,932,349)	(827,554)
	5,239,031	**3,240,656**

Fair value sensitivity analysis for fixed rate instruments

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

24.5 Currency risk

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

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

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

	Afs	**USD**	**Euro**	**GBP**	**Total**
31 December 2016	**------------------- Afs '000' -------------------**				
Financial assets					
Cash and cash equivalents	1,345,955	4,447,817	56,898	12,047	5,862,717
Investments	1,546,427	6,659,149	212,273	-	8,417,849
Loans and advances to banks	120,000	421,029	-	-	541,029
Loans and advances to customers	-	1,490	-	-	1,490
Other assets	7,595	84,797	2,985	-	95,377
	3,019,977	**11,614,282**	**272,156**	**12,047**	**14,918,462**

	Afs	USD	Euro	GBP	Total
Financial liabilities					
Deposits from banks	233,757	9,038	-	-	242,795
Deposits from customers	2,372,397	11,616,455	170,564	10,726	14,170,142
Other liabilities	34,415	49,700	-	-	84,115
	2,640,569	**11,675,193**	**170,564**	**10,726**	**14,497,052**
Net foreign currency exposure	**379,408**	**(60,911)**	**101,592**	**1,321**	**421,410**

31 December 2015

	Afs	USD	Euro	GBP	Total
Financial assets					
Cash and cash equivalents	1,065,817	6,651,004	39,251	21,938	7,778,010
Investments	839,479	3,209,288	176,580	-	4,225,347
Loans and advances to banks	120,000	831,487	38,701	-	990,188
Loans and advances to customers	-	113,584	-	-	113,584
Other assets	5,038	111,960	2,635	-	119,633
	2,030,334	**10,917,323**	**257,167**	**21,938**	**13,226,762**
Financial liabilities					
Deposits from banks	364,609	-	-	-	364,609
Deposits from customers	1,348,609	11,069,376	263,813	21,041	12,702,839
Other liabilities	52,337	32,280	-	-	84,617
	1,765,555	**11,101,656**	**263,813**	**21,041**	**13,152,065**
Net foreign currency exposure	**264,779**	**(184,333)**	**(6,646)**	**897**	**74,697**

24.5.1 Sensitivity analysis on foreign currency financial assets and liabilities

A 1% strengthening of the Afghani, as indicated below, against the USD, GBP, Euro at 31 December 2016 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	USD	Euro	GBP	Total
31-Dec-16				
Effect of 1% increase in exchange rate				
Financial assets				
Cash and cash equivalents	(44,478)	(569)	(120)	(45,167)
Investments	(66,591)	(2,123)	-	(68,714)
Loans and advances to banks	(4,210)	-	-	(4,210)
Loans and advances to customers	(15)	-	-	(15)
Other assets	(848)	(30)	-	(878)
Losses from financial assets	**(116,142)**	**(2,722)**	**(120)**	**(118,984)**
Financial liabilities				
Deposits from banks	90	-	-	90
Deposits from customers	116,165	1,706	107	117,978
Other liabilities	497	-	-	497
Gains from financial liabilities	**116,752**	**1,706**	**107**	**118,565**
Net-unrealised gains/(losses) on foreign currency	**610**	**(1,016)**	**(13)**	**(419)**

31 December 2015	USD	Euro	GBP	Total
Effect of 1% increase in exchange rate				
Financial assets				
Cash and cash equivalents	(66,510)	(393)	(219)	(67,122)
Investments	(32,093)	(1,766)	-	(33,859)
Loans and advances to banks	(8,315)	(387)	-	(8,702)
Loans and advances to customers	(1,136)	-	-	(1,136)
Other assets	(1,120)	(26)	-	(1,146)
Losses from financial assets	**(109,173)**	**(2,572)**	**(219)**	**(111,965)**
Financial liabilities				
Deposits from banks	-	-	-	-
Deposits from customers	110,694	2,638	210	113,543
Other liabilities	323	-	-	323
Gains from financial liabilities	**111,017**	**2,638**	**210**	**113,866**
Net-unrealised gains/(losses) on foreign currency	**1,844**	**66**	**(9)**	**1,901**

25. Related parties

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

25.1 Transactions with other related parties

Name of group companies	Nature of transactions	2016	2015
		----------- Afs '000' -----------	
Bank Alfalah Limited Bahrain	Placements made	3,809,310	3,986,425
	Placements matured	4,277,120	3,798,975
	Income earned on placements	5,125	4,707
	Interest expense on Borrowing	506	-
	Interest income on Interest Rate Swap	7,973	3,103
	Interest receivable on Interest Rate Swap	1,324	-
	Interest expense on Interest Rate Swap	26,097	23,763
	Interest payable on Interest Rate Swap	5,361	5,605
Bank Alfalah Limited - Pakistan	Profit remitted to Head Office	102,975	210,000
	Reimbursement of insurance premium paid to Alfalah Insurance Company Limited	7,281	5,106

25.2 Balances with related parties

	2016	2015
Bank Alfalah Limited Bahrain	-	479,150
ADCB finance cayman Ltd.	668,300	685,335

25.3 Transactions with key management personnel

	2016	2015
Salaries and benefits	**32,382**	**31,764**

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

26. Capital Management

Regulatory Capital

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

(i) to comply with the capital requirements set by the DAB;
(ii) to safeguard the Bank's ability to continue as a going concern so that it can continue to be
(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:

	2016	2015
	----------- Afs '000'	-----------
Tier 1 (Core) Capital:		
Total equity capital	1,358,546	1,151,811
Less:		
Net deferred tax assets	12,409	59,382
Revaluation surplus/ Deficit	10,971	(57,338)
Profit for the year	241,401	149,678
	1,093,765	**1,000,089**
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	-	1,712
Reserve Sulplus/Deficit in Revaluation	10,971	(57,338)
Profit for the year	241,401	149,677
	252,372	**94,051**
Tier 2 (Supplementary) Capital (restricted 100% of Tier 1 (Core) Capital)	**252,372**	**94,051**
Regulatory Capital = Tier 1 + Tier 2	**1,346,137**	**1,094,140**
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	159,153	379,279
Direct claims on DAB	4,416,831	4,221,437
Total	**4,575,984**	**4,600,716**
0% risk-weight total (above total x 0%)	**-**	**-**
20% risk weight:		
Balances with other banks	4,169,823	5,814,653
20% risk-weight total (above total x 20%)	**833,965**	**1,162,931**
50% risk weight:		
Other assets	6,871,422	3,385,869
50% risk-weight total (above total x 20%)	**3,435,711**	**1,692,935**
100% risk weight:		
All other assets	524,659	555,802
Less: Deferred tax assets	(12,409)	(59,382)
All other assets - net	**512,250**	**496,420**
100% risk-weight total (above total x 100%)	**512,250**	**496,420**

Credit conversion factor

0% risk weight:		
Other off-balance sheet	938,126	1,172,658
0% credit conversion factor total (risk-weighted total x 0%)	-	-
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Commercial letters of credit	-	-
20% credit conversion factor total (risk-weighted total x 20%)	-	-
20% risk-weight total (above total x 20%)	-	-
50% risk weight:		
Other (off balance sheet)	1,331,229	1,163,650
50% credit conversion factor total (risk-weighted total x 50%)	665,615	581,825
50% risk-weight total (above total x 50%)	665,615	581,825
100% risk weight:		
Guarantees	-	-
100% credit conversion factor total (risk-weighted total x 100%)	-	-
100% risk-weight total (above total x 100%)	-	-
Total risk-weighted assets	**5,452,911**	**3,934,110**
Tier 1 Capital Ratio (Tier 1 capital as % of total risk-weighted assets)	**20.10%**	**25.42%**
Regulatory Capital Ratio (Regulatory capital as % of total risk-weighted assets)	**24.77%**	**27.81%**

27. Date of authorization of financial statements

These financial statements were authorized for issue by the Country Finance Manager and Country Manger of the Bank on 26 FEBRUARY 2017.

Country Finance Manager

Country Manager