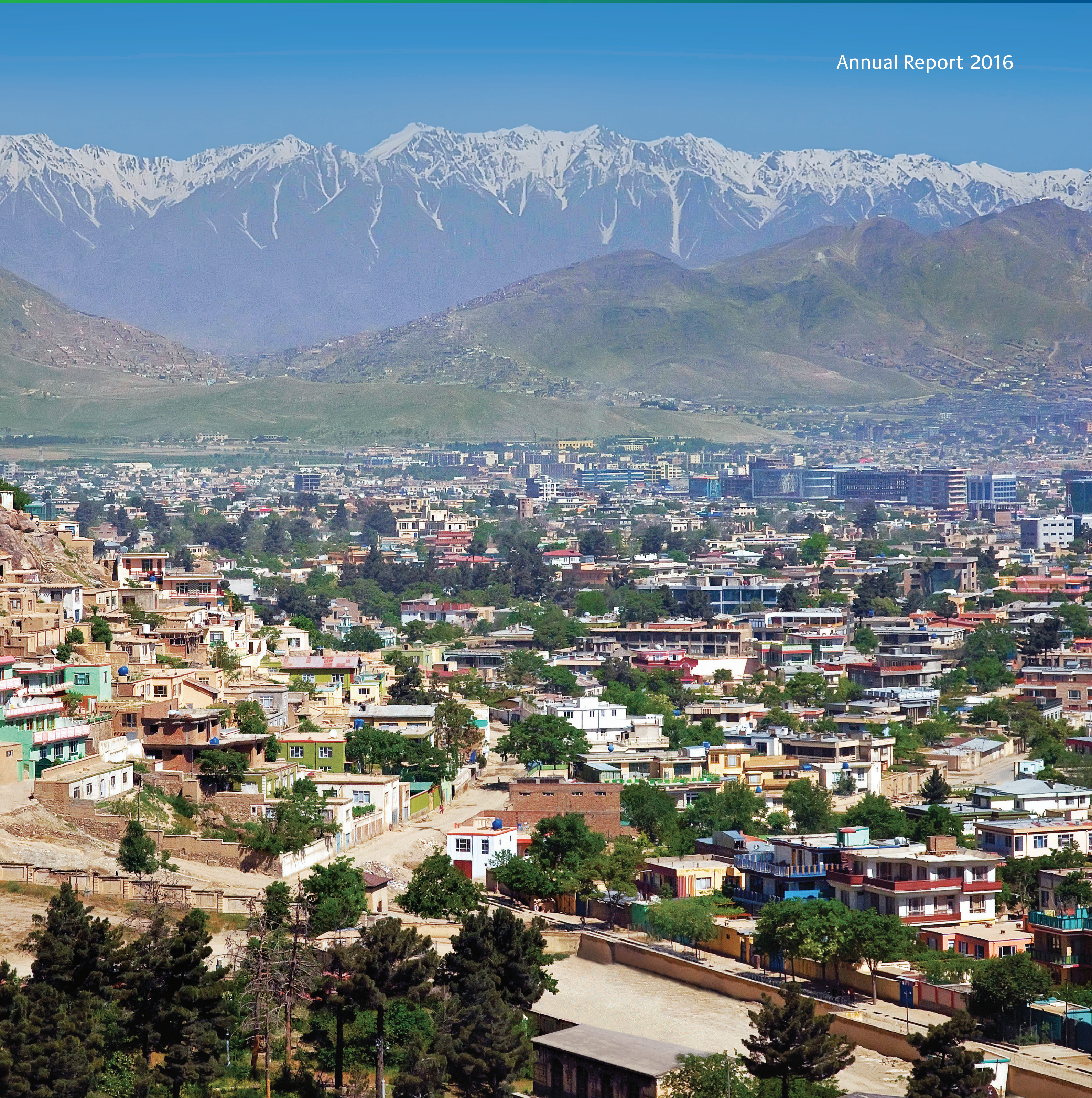
Best Corporate Governance
2014, 2015, 2016 and 2017
AFGHANISTAN

Bank of the Year
2012, 2013, 2014, 2015 and 2016
AFGHANISTAN

AIB
بانك بين المللى افغانستان
Afghanistan
International Bank

Your Partner for Growth

Annual Report 2016



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Our Vision

We aspire to remain the most reputable financial institution and bank of choice in Afghanistan.

Our Mission

Our mission is to foster economic development in Afghanistan, to be a catalyst for growth, and ultimately contribute to the prosperity of the country and its people.

We strive to adhere to international best practices in corporate governance, financial and risk management (including anti-money laundering and ‘know your customer’), customer service, operations, information technology, and internal controls. A major factor in our success is dedication to staff development and training within a culture of integrity and professionalism.

Our Future

Through our financial performance and the specific investments we have made in our people and infrastructure, AIB has become a positive emblem for achievement and transformation, despite its challenging environment.

In our second decade of operation, we remain committed to enabling a better future for Afghanistan and we are proud to play a role in shaping the opportunities that lie ahead.

Since being founded in 2004, Afghanistan International Bank has become established as an industry leader, and is now widely acknowledged to be the nation's most respected and trusted financial institution.

From inception, the Bank's major objective has been to assist in developing the Afghan economy and to conduct business in accordance with international stands of governance and integrity. Now, AIB has evolved as an enduring institution that combines international expertise with intimate local knowledge and a deep-rooted understanding of customer needs.

The many awards received from authoritative industry bodies is independent endorsement of AIB's success in achieving its goals.

Firstly, I congratulate the management and staff of AIB for their outstanding performance in another year of political, economic, and security challenges in the environment in which the Bank operates.

The security situation especially was a significant issue for the Bank, in Kabul and in several provincial capitals. Despite these challenges, AIB had a very successful 2016 (as detailed in the CEO's report). Unfortunately, we do not see major improvements in the overall situation going into 2017. Hence, the Bank will continue to maintain a conservative posture for the foreseeable future.

As I have stated in previous annual reports, AIB's success continues to be driven by its reputation for integrity, good governance, and attention to customer needs. Our position as the most respected financial institution and the bank of choice in Afghanistan has grown stronger.

We are the leader in deposits (more than 30 percent of all deposits in the banking system), profitability (most profitable bank by far), and return on equity (more than 13 percent, substantially above other Afghanistan banks and the world average for banks). The Board has declared a gross dividend of $5 million based on 2016 results, equal to AFN 11.17 per share.

The Board and management outlined six key strategic objectives for the Bank in 2016:

- Achieve world-class standards in anti-money laundering and compliance
- Complete the new head office building by the end of 2016
- Focus on organisation and human resource development
- Position for the future in under-served markets and product offerings: Shariah banking, small business banking, and electronic banking
- Maintain existing correspondent banking relationships and develop new relationships for US dollar clearing
- Maintain financial stability and satisfactory returns

These objectives are important to the Bank in maintaining its leadership and market positioning. I summarise our progress:

Achieve world-class standards in anti-money laundering and compliance

With the aid of an external consultant, management implemented new systems and procedures for AML. Staff training was completed and a reporting dashboard put in place. The Compliance Committee was also established and an upgraded filtering and transaction monitoring system went live. The Board will monitor performance quarterly.

Complete the new head office building by the end of 2016

Significant progress was made on the building during the year. However, delays in finalising the facade contract resulted in the occupation date being extended to mid 2017.

Focus on organisation and human resource development

This has become a key priority for the Bank, with the objective of developing the capabilities and competencies of senior Afghan staff to replace expatriate management over the next five to ten years and to generally build staff competencies. To this end, the Bank is implementing a customer-focused organisational structure and has promoted several Afghan staff to leadership positions. We are appointing a deputy CEO with a strong business development background to drive market initiatives. Human resource capabilities have been further strengthened in early 2017, by hiring a senior specialist executive to overhaul personnel processes and to put in place comprehensive succession planning.

Position for the future in under-served markets and product offerings: Shariah banking, small business banking, and electronic banking

The Bank initiated several new products and enhanced its electronic banking capabilities during 2016 to better serve small/medium size businesses and consumers. While these initiatives will have limited impact on the Bank's overall revenues in the near term, they will position AIB for future growth in emerging market segments. This is basically an investment in the future.

Maintain existing correspondent banking relationships and develop new relationships for US dollar clearing

AIB has for many years had US dollar clearing relationships with two international banks: Standard Chartered Bank and Commerzbank. In fact, AIB is the only Afghan bank with direct clearing correspondent relationships. In May we were notified by Commerzbank that they will only handle payments to Germany. This was a senior management policy decision that affects many banks across Asia. AIB's Board and management have been actively pursuing other correspondent relationships. However, in this era of sanctions and money-laundering penalties, there are few large international banks willing to take on clearing for emerging market institutions. At this point, we do not believe that our relationship with Standard Chartered Bank is cause for concern.

Maintain financial stability and satisfactory returns

The Board has established a target of at least 13.5 percent for minimum return on equity. Management has implemented a number of cost savings and is continuing to look for opportunities to improve staffing levels, staff efficiency, and business processes – including strengthening the credit process. To help achieve this, a new chief risk officer was hired during the year and we are considering hiring a chief credit officer during 2017.

The Board of Supervisors continued to provide oversight and strategic guidance to management during the year. The Board met 13 times in 2016: four in-person meetings and nine conference calls. In particular, the Board focused on the strategic agenda mentioned earlier, as well as closely monitoring the security situation in the country.

Other notable events during 2016 include:

- For the fifth consecutive year, *The Banker* magazine voted AIB 'Best Bank in Afghanistan'. We are proud of this honour, which reflects the professionalism of our Bank.

- For the fourth consecutive year, AIB was recipient of the prestigious 'Best Corporate Governance – Afghanistan' award from the London-based Capital Finance International organisation.

- In April, Mr Guy Mallett resigned as CEO due to personal considerations. Mr Mallett had been with AIB for four years in a variety of positions. The Board wishes him well in his future endeavours. Mr Anthony Barned, a long-time advisor to the Bank and also head of the Audit Committee, became CEO. Mr Said Arab Khan, who was a professional auditor partner with KPMG, has taken over as Audit Committee chair. AIB again took a stand at the SWIFT International Banking Operations Seminar, held this year in Geneva, Switzerland. Mr Barned and two of the Bank's Afghan staff met many banks there who expressed interest in working with AIB in a variety of ways.

- Due to a change in Central Bank regulations, a new Nominating Committee was formed to identify and vet candidates for Board and senior management positions. This committee was very active during the latter part of the year due to three significant senior management appointments, as well as seeking potential Board candidates. There are now six Board committees: Risk; Planning and Strategy; Remuneration, Nominating, Investment, and Audit. Committee activities are highlighted elsewhere in this report.

The Asian Development Bank (ADB) sold its remaining 7.5 percent stake to the other two shareholders, resulting in Horizon Associates and Wilton Holdings each holding 50 percent of AIB. With the planned exit of ADB, Mr Hasib Ahmed, ADB's shareholder representative since 2005, stepped down from the Board in February. He will be missed due to his knowledge and deep commitment to the success of AIB.

The final terms and conditions for the International Finance Corporation (IFC) to purchase a 15 percent stake in the Bank, once concluded, will be presented to the Afghanistan Central Bank for approval. Under the terms of the agreement, IFC will purchase 7.5 percent from the two existing shareholders and 7.5 percent through the issue of new shares. This investment will take place in two tranches over two years.

In 2012, AIB acquired 100 percent of the operation of Standard Chartered Bank in Afghanistan for $3 million. This amount has been on the Bank's books as goodwill. However, our current auditor, Ernst and Young, has determined that according to IFRS 3 on Business Combinations, the acquisition should have been carried at fair market value. The resulting revaluation requires AIB to restate our financial statements for 2015 and 2016. There is no material impact on the Bank's financial position.

As I noted earlier, it is unclear whether conditions in Afghanistan will improve in 2017. Each year I find myself stating the same cautious words about the political, security, and economic conditions in Afghanistan. However, that is the reality of the situation and the prospects for 2017 seem little different.

In closing, I again thank the staff of the Bank as well as my fellow Board members for their support and their dedication to the institution.

Ronald Stride

Ronald Stride
Chairman

AIB is maintaining its well-established status as Afghanistan's leading financial institution in terms of deposits, total assets, and profitability.

The Bank's 2016 results reflect its influence as a positive force within the domestic economy and its virtually exclusive role in providing the international services that are so vital to trade finance.

Despite the continuation of a depressed market environment, budget targets for the year were exceeded by 20 percent, even though loan recovery was negatively affected by the arduous and very lengthy process for foreclosure and obtaining vacant possession. Commercial lending was subdued at the beginning of the year but the last quarter saw an increase of 12.5 percent in outstanding credits.

Revenue increased by 5 percent to AFN 2.06 billion (2015: AFN 1.96 billion). Non-interest income accounted for 48 percent of total revenue, underlining the value of strong correspondent partnerships and sound regulatory compliance. Compound annual revenue growth since 2010 now stands at 13.2 percent.

With expenses being contained at forecast levels, the 25 percent net profit margin equates to earnings per share of AFN 17.30 (2015: AFN 16.26), and 13.31 percent return on equity.

Assets declined by 6 percent to AFN 58.19 billion (2015: AFN 61.92 billion), bringing compound annual asset growth since 2010 to 19.82 percent. Deposits also declined by 6.76 percent, from AFN 58.00 billion to AFN 54.00 billion. The decline in assets and deposits is largely attributable to the appreciation of the Afghani, resulting in a fall in dollar deposits in Afghani terms.

Total capital increased from AFN 3.6 billion to AFN 3.9 billion. Our capital adequacy ratio of 14.72 percent and 67.01 percent liquidity are very satisfactory by domestic and international standards. AIB believes it retains the highest score of all private sector Afghan banks in its 'CAMEL' rating – the acronym for five key components of a bank's health: capital adequacy, asset quality, management, earnings, and liquidity.

AIB recognises the importance of Islamic finance, both as a service to customers and as a contributor to the national economy. The Bank therefore continues to expand its activities in this sector, supporting core services with Islamic options. Four more Shariah-compliant windows were opened during 2016 – two in Kabul at Mirwais Maidan and Khairkhana branches, and one each in the cities of Jalalabad and Herat. Seminars to explain AIB Shariah banking products were conducted in Mazar, Jalalabad and Herat provinces. Expansion of the branch network was limited, opening new outlets at Sinafar in Mazar and Kandahar, bringing the total to 36.

AIB's commitment to support small and medium enterprises, clearly under-served by Afghanistan's banking sector as a whole, continues to gather momentum. Our drive into this market gives priority to servicing established businesses involved in strategic economic sectors – such as manufacturing and import substitution – and reinforces our role as a growth engine for national development.

During the year, we intensified efforts to increase our loans to small businesses borrowing between $50,000 and $600,000. We work with the Afghan Credit Guarantee Foundation, an initiative of the German Investment and Development Corporation, which guarantees up to 72 percent of credit facilities up to $600,000. Through TV advertising and the branch network, we have almost doubled the number of such loans from 26 to 46. The total outstanding grew by 60 percent from $5.38 million to $8.65 million. By virtue of rigorous cash flow-based analysis and close monitoring, arrears are virtually non-existent – also indicative of borrowers' appreciation of this much-valued service. A dedicated unit has been established to serve this market segment, effective from January, 2017.

As the only private commercial bank in Afghanistan to have major clearing banks as correspondents – Standard Chartered Bank and Commerzbank – AIB provides customers with much-needed safe and speedy international transfers, greatly facilitating trade finance.

Commerzbank now restricts payments to Germany, but the arrangement with Standard Chartered is unchanged. We have also opened an account with State Commercial Bank of Turkmenistan to ensure smooth and fast payments for oil imports. Again, at time of writing, AIB is the only Afghan bank to have an account with a Turkmenistan bank, a very significant asset as it enables fuel imports for Afghan and NATO military needs as well as United Nations agencies, NGOs, and general use.

Although we were unable to secure more correspondent arrangements in 2016, this remains a priority objective, supported by continuing efforts to ensure that our 'know your customer' and anti-money laundering procedures and processes comply with the highest international standards. We invested more than $1.25 million in 2016 to upgrade our compliance-related procedures, working with consultants to develop human resources and technical capabilities such as installation of Oracle's Financial Crime and Compliance Management.

We have set a high benchmark for this entire exercise to ensure that we are in line with the requirements of US banking regulators. Our correspondent banks recognise AIB as the only Afghan bank to achieve this, a crucially important factor that underpins their relationships with us. AIB engaged specialist international consultants to undertake quarterly reviews in 2016 and this will be repeated in 2017.

Such commitment to international standards enhances our role as a vital intermediary in enabling Afghanistan trade flows, stimulating the domestic economy, and in turn making a vital contribution to the Bank's substantial growth in foreign exchange business.

In developing our services for individual customers, several new card products were launched during 2016: pre-paid Youth and Haj cards and the Classic credit card. The Haj card is MasterCard branded and does not need an AIB account. It is designed for Haj pilgrims to Saudi Arabia. The Youth card is also MasterCard branded and is designed for users aged between 18 and 30. Both are secured by chip and PIN and can be used for ATM cash withdrawals and point-of-sale payments. The Classic card has a minimum limit and gives customers the benefits of credit card ownership. It is 3-D secure with PIN feature.

ATM functionality has been enhanced with the introduction of a talking machine that guides customers through their transactions, saving the need to call the helpline if they are unfamiliar with the process.

A new Teacher Loan targets school and university personnel, providing a welcome facility for buying home appliances or meeting other funding needs. The loan portfolio has already reached more than AFN 2.75 million.

Product bundling initiated in 2016 is designed for the sale of two or more products or services as a single offering, usually at a price advantage.

On the IT front, penetration testing by two external specialist firms found no weaknesses in the Bank's system. In addition to the domestic disaster recovery sites, an off-shore disaster recovery site has been established in Europe.

The Chief Operating Officer attended a SWIFT course in Europe and, by implementing recommendations made there, was able to ensure that AIB is compliant with SWIFT requirements. To further improve governance, we physically separated departmental functions and introduced one-time password logins for online transactions. Reconciliation of ATM transactions, now numbering more than 1.25 million a year, has been automated.

Ensuring that services to customers continue uninterrupted is a vitally important resource, so the Bank's Business Continuity Plan was again successfully tested twice and upgraded.

In human relations, and in line with the Bank's commitment to excellence and helping promising employees with further education, professional training was maintained at all levels and reached a record number of employees through courses ranging from basic banking induction to specialist areas such as accounting, electronic banking, risk management, information technology, and communications skills. We appointed a Head of Human Resources at the beginning of 2017 who brings extensive international experience to the training and development of Afghan staff for executive management positions.

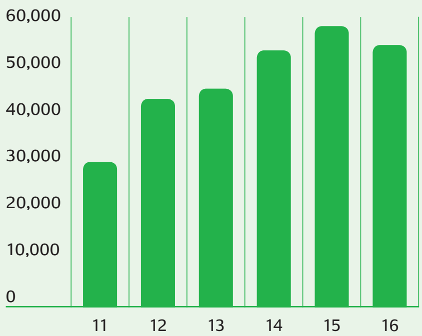
In keeping with the Bank's commitment to good corporate citizenship, AIB continued to support projects that have a beneficial impact on the communities where we operate. To benefit female students, we again contributed to the Women of Afghanistan Organisation and the American University of Afghanistan, as well as donating to Save the Children, Shamsa Orphanage, and Amiri Medical Complex.

In closing, I take this opportunity to express sincere thanks to our shareholders and Board for their continued confidence and support; to our loyal customers for their patronage; and to our management and employees for their dedication and hard work throughout 2016.

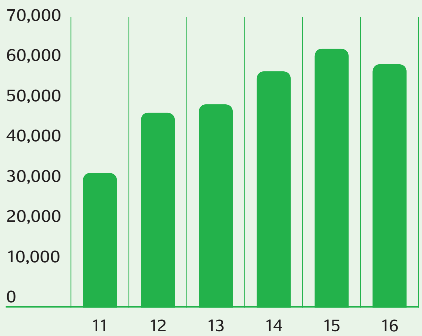
Anthony Barned
Chief Executive Officer

AIB's consistent performance is evident in key metrics for the past five years, particularly capital growth and earnings per share.

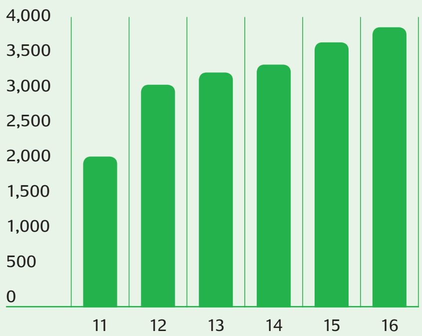
Deposits
(AFN millions)



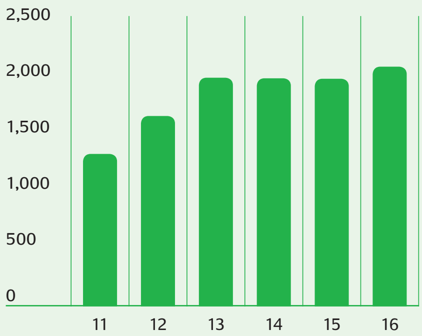
Total assets
(AFN millions)



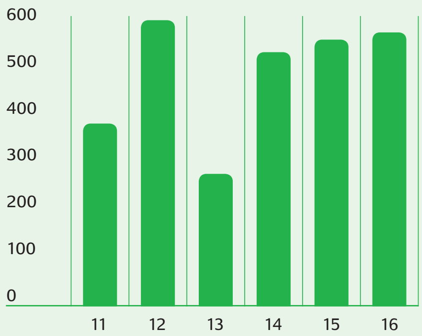
Capital growth
(AFN millions)



Revenues
(AFN millions)



Net Profit before tax
(AFN millions)



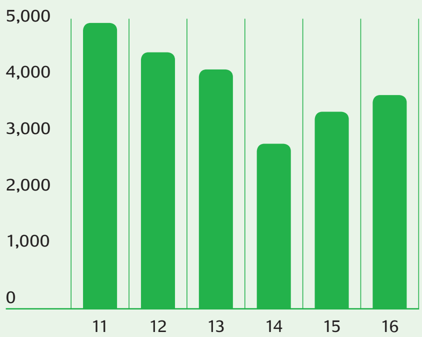
568mn

Net profit before tax

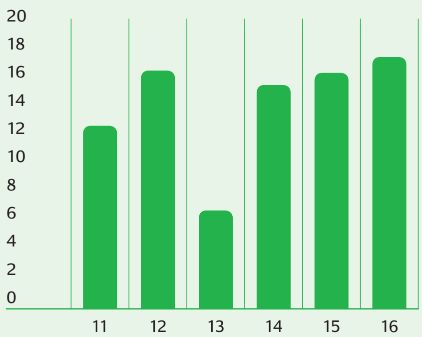
17.3

Earnings per share

Advances
(AFN millions)



Earnings per share
(AFN)



Several factors contributed to reduced economic activity in Afghanistan during 2016, but growth is expected to gradually pick up over the coming years.

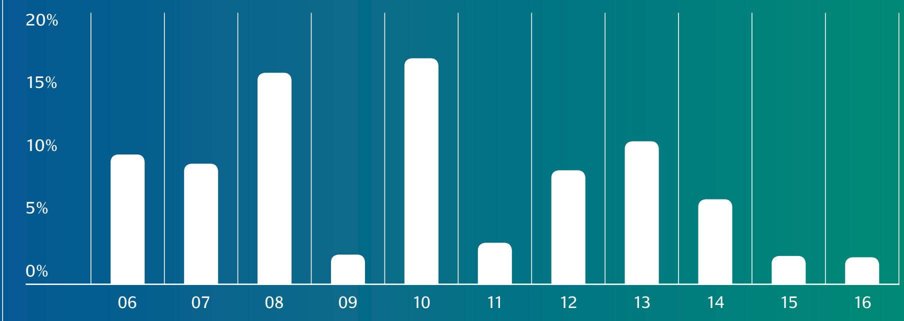
Afghanistan's economy faced significant challenges in 2016, due to low economic growth, limited access to finance, increased unemployment, lack of security, political instability, weak governance, and corruption – all of which hampered economic activity. The country still relies on foreign donor grants.

* GDP Annual Growth Rate in Afghanistan is reported by the Central Statistics Organization.

The gross domestic product (GDP) in Afghanistan grew 2.10 percent last year. Annual GDP growth averaged 11.12 percent from 2003 to 2015, reaching an all-time high of 28.60 percent in 2003 and a record low of 2.10 percent in 2015.*

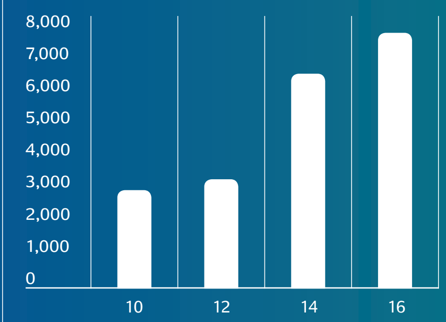
The inflation rate was 6.69 percent in October 2016. Average inflation was 4.12 percent between 2005 and 2016, reaching an all-time high of 13.97 percent in April 2011 and a record low of -18.39 percent in May 2009. Per capita income in 2016 was estimated at $623.90.

Afghanistan GDP Annual Growth Rate

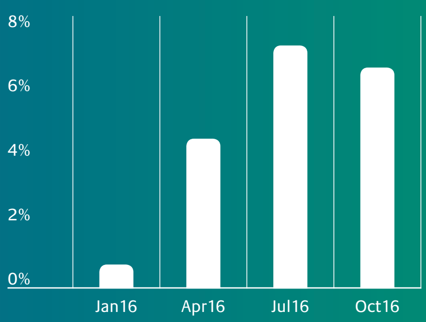


Source: World Bank, Central Statistics Organization of Afghanistan.

Afghanistan Imports 2010-2016
(USD millions)



Afghanistan Inflation Rate 2016



Banks' lending to the private sector continued to decline over the past three years. Total banking sector loans dropped slightly to $613 million in December 2016 compared to $747 million in 2015, and $818 million in 2014. Banking sector lending is not projected to rise much faster as banks tighten credit standards in the face of a deteriorating economy. Meanwhile, the banking sector's total deposits grew up to $3.82 billion compared to last year.

The exchange rate decreased in the first two quarters of the year by 3.8 percent and 0.3 percent respectively, followed by an increase of about 2.0 percent in the third quarter. Foreign exchange reserves declined throughout most of 2015, before increasing in the first half of 2016 to $7.4 billion (or around nine months of imports). This increase was largely due to the decline in imports, resulting from weakening demand.

Afghanistan secured its financial assistance for the next four to five years, with $3.5 billion per year pledged at the Brussels conference 2016. The government also received the same level of annual assistance from Tokyo ($3.9 billion per year) for Afghan economic reform, Afghan national development framework, rule of law public finance management and anti-corruption, regional efforts to support a political process towards peace, and cross-border economic cooperation with countries to enhance future relationships.

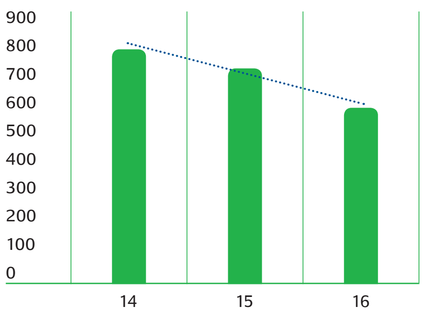
Afghanistan and Turkmenistan inaugurated the Lapis Lazuli railway in November 2016. This railway will improve freight links from Central Asia across the Caspian Sea to the Caucasus, Turkey, and Europe. The first freight train from China was welcomed into the northern rail port at Hairatan on 7 September 2016. The Afghan China Silk Road and internal train network are at tendering stage. This includes opening the Chahbahar port in Iran, making an excellent alternative trade route for Afghanistan trade and finance.

Along with the continuing deterioration of the security situation, the country is facing a humanitarian crisis. More than 5,000 displaced Afghans are returning from Pakistan every day, and in lower numbers from Iran and Europe, especially from Germany. Managing and protecting displaced populations is even harder in a country that lacks safety nets, and is also suffering from a severe economic crisis that has pushed at least 1.3 million additional Afghans into poverty.

Economic growth is expected to gradually pick up over the coming years, from 1.8 percent in 2017 to 3.6 percent in 2019. Stronger growth in future years is predicted with improvements in security, political stability, reform progress, and continued high levels of aid.

Sources:
1. World Bank database
2. Da Afghanistan Bank
3. IMF

Banks' lending to private sector
(USD millions)



Source: Da Afghanistan Bank

Ronald Stride

Independent Director, Chair of the Board of Supervisors, Chair of the Planning and Strategy Committee, Member of the Remuneration Committee, the Nominating Committee, the Risk Committee, and the Investment Committee

Mr Stride spent most of his career with Booz Allen & Hamilton, the management consulting firm, where he was a senior vice-president and managing partner for Asia. He also served on the firm's Board of Directors in the US. Mr Stride has been a member of AIB's Board since November, 2009. He is currently a member of several business boards as well as chairing a large Singapore-based charity – Food from the Heart. He was formerly president of the American Association of Singapore, a position he held for five years. Mr Stride received his BA degree from Providence College in the USA.

Lutfullah Rahmat

Shareholder-appointed Member of the Board of Supervisors, Member of the Planning and Strategy Committee, the Nominating Committee, and the Risk Committee

Mr Rahmat is past-chairman of AIB and has been a member of the Board since the Bank's inception in 2004. He is also managing director of the Rahmat Group, the Karachi-based company that has Star Textile Mills Ltd as its principal member; president of Rahmat Fruit Processing Corporation; and a partner in the sole agents for Samsung Electronics and Appliances in Afghanistan. He graduated with a BCom degree from Bombay University.

Veronica John

Independent Director, Chair of the Remuneration Committee and the Nominating Committee, Member of the Planning and Strategy Committee

Ms John has been a member of the AIB Board since 2004. She brings more than 30 years' experience in international finance, especially in emerging markets in Asia and the CIS, and specialises in private equity funds, diversified fund of funds management, and investment banking. She is a Senior Managing Director at Diamond Dragon Advisors, a private equity general partner advisory and fund placement business. She was also chief executive of IDFC Capital, an emerging markets private equity fund of funds business, and was a member of the Asian Development Bank team that founded AIB. Ms John holds a BA degree from Elmira College and an MBA from George Washington University.

Hamidullah A. Mohib

Shareholder-appointed Member of the Board of Supervisors, Member of the Remuneration Committee, the Nominating Committee, and the Risk Committee

Mr Mohib has been a member of the Board since 2005. He is an executive director at Mohib Holdings, responsible for strategic planning and treasury operations for the group's various activities in Central Asia and the Middle East. Mr Mohib was educated at King's University College at the University of Western Ontario.

Salman Shoaib

Independent Director, Chair of the Investment Committee, Member of the Remuneration Committee and Nominating Committee

Mr Shoaib joined the AIB Board in 2012. He is based in Singapore and is Managing Director of a funds management company, having spent 16 years with Crédit Suisse in New York, London, Hong Kong, and Singapore, holding positions that included head of asset management for Asia Pacific. He has a BA degree in Economics from Brown University and an MPhil degree in Finance from Cambridge University.

Aditya Srivastava

Independent Director, Chair of the Risk Committee, Member of the Planning and Strategy Committee and the Investment Committee

Mr Srivastava has been a Board member since August 2012. He is chief commercial officer of Wasl Asset Management Group, a Government of Dubai-owned corporation with interests in property, hospitality, and leisure. Before joining Wasl in 2008, he had a 20-year career in banking, the last 10 years with Société Générale where he was GCC head of project finance and corporate relationships. Mr Srivastava holds a Master's degree in economics from the Delhi School of Economics and is a member of the Institute of Chartered Accountants in England and Wales.

Good corporate governance is a key factor in the success of AIB, and has been a major contributor to establishing the Bank's reputation for integrity, high service standards, and financial performance.

Philosophy of governance

AIB endeavours to enhance shareholder value, to ensure compliance with international best practices for financial institutions, and to protect the interests of all stakeholders – whether shareholders, customers, employees, regulators, or the public at large. The Bank complies with all the legal and regulatory requirements of Afghanistan, but also formulates and adheres to strong corporate governance practices that exceed regulatory stipulations.

The adoption and implementation of corporate governance is the direct responsibility of the Board of Supervisors. In this role, the Board ensures that the management of the Bank meets the requirements and obligations of good governance.

Shareholders

The Bank has two shareholders, each with 50 percent ownership. The shareholders operate under a policy of non-interference in management decisions and the Bank's operations. The positive reputation and widespread business interests and relationships of the Bank's shareholders in Afghanistan have contributed significantly to the success of the institution. Each shareholder appoints one person to the Board of Supervisors.

Shareholder	Beneficial Shareholder	Type of Company	Incorporated	Board Members	Ownership %
Horizon Associates	Mohammed Abrahim Mohib	Holding Company	Delaware, USA	Lutfullah Rahmat	50.00
Wilton Holdings	Lutfullah Rahmat, Izzatullah Rahmat, Nasrullah Rahmat	Holding Company	Cayman Islands	Hamidullah A. Mohib	50.00

Board of Supervisors

The primary purpose of the Board of Supervisors is to formulate the overall strategic and financial objectives of the Bank, to monitor these objectives and ensure they are met, and to the greatest extent possible, oversee the management and mitigation of the risks associated with operating a financial institution in Afghanistan. Upholding good corporate governance is key to achieving the Bank's goals, and the Board ensures that best practices are maintained.

The Board comprises the Chairman, two shareholder representatives, and three independent directors. The Chairman is also an independent director, in compliance with Central Bank regulations.

Independent Board members are in the majority, again in line with regulations and international governance standards.

The single Board vacancy results from the resignation of Mr Hasib Ahmed, following the Asian Development Bank's selling of its final stake in AIB during 2016. This position will be filled at the annual general meeting of shareholders in early 2017. Brief biographical profiles of the six current directors are included in this annual review.

The Chairman is a non-executive director and is responsible for leadership of the Board and ensuring its effectiveness. The two shareholder representatives are appointed by the respective shareholders of the Bank and represent the interests of these shareholders.

The independent directors are expected to bring impartial judgement to the Board through their expertise in the financial world and their experience of good governance. Independent directors and directors who are shareholder representatives are appointed every four years.

The Board has six committees: the Remuneration Committee, the Risk Committee, the Investment Committee, the Nominating Committee, the Planning and Strategy Committee, and the Audit Committee. Each committee has a formal charter to guide its activities. The Board of Supervisors meets monthly: four times in person and the balance by conference call.

Committees meet four times a year in person and in conjunction with Board meetings, with occasional conference calls. Board committee meetings are attended by the Chief Executive Officer. Minutes of committee meetings are circulated to all Board members for their information. The role of these committees is explained in more detail in later sub-sections of this report.

In 2016 the Board met 13 times. During each meeting, the Board monitored the financial performance of the Bank as well as the status of non-performing loans and operational risks.

Each quarter, the Board reviewed the anti-money laundering/compliance dashboard to ensure the Bank's adherence to the policies and procedures established for this function by outside experts. The Bank has invested significant resources in compliance. This investment has resulted in very satisfactory implementation of these policies and procedures, although more needs to be done.

The Board also addressed the six major objectives for the year that were highlighted by the Chairman in his message:

- Achieve world-class standards in anti-money laundering and compliance
- Complete the new head office building by the end of 2016
- Focus on organisation and human resource development
- Position for the future in under-served markets and product offerings
- Maintain existing correspondent banking relationships and develop new relationships for US dollar clearing
- Maintain financial stability and satisfactory returns

Planning and Strategy Committee

The Planning and Strategy Committee is the committee of the Board of Supervisors responsible for AIB's strategic plans and annual business plans and budgets. Specifically, the committee provides:

1. Oversight of the strategic direction of the Bank and preparation of its three-year strategic plan

2. Development, adoption, and modification of the Bank's annual business and financial plan

3. Response to external developments and factors, such as changes in the economy, competition, security, and political situation, that impact the Bank's strategy

4. Examination and recommendation of acquisitions, joint ventures, and strategic alliances

5. Liaison with external experts and consultants as required

6. Development of early warning 'event and response' framework

7. Examination of such matters as the Board may from time to time determine.

During 2016 the committee met four times, with a primary focus on approving and monitoring the annual business plan and budget of the Bank. The committee also reviewed the impact of fee increases on the Bank's business; plans to reduce security and leasing costs; actions to increase cross-selling opportunities; and improvements in branch profitability. These initiatives increased revenue and reduced costs for the Bank.

The committee also reviewed the impact of the new Law of Banking in Afghanistan on the operations, policies, and procedures of the Bank to ensure compliance with the Law. Finally, the committee approved a contingent organisation structure in the event of a security emergency.

As the political, security, and business sentiment situation in Afghanistan is unlikely to improve substantially in the near term, the committee recommended a conservative approach to business plans and updating the Bank's strategic plan to reflect these conditions.

The committee's members are: Ronald Stride (Chairman and independent director), Aditya Srivastava (independent director), Veronica John (independent director), and Lutfullah Rahmat (shareholder-appointed director).

Risk Committee

The Board's committee to provide comprehensive oversight and best practices in risk governance and risk management comprises Aditya Srivastava (Chairman and independent member), Hamidullah A. Mohib, Lutfullah Rahmat, and one independent Board member – Ronald Stride.

The principal role of the committee is to review the Bank's risk exposure under different products. This encompasses foreign exchange positions, asset and liabilities, capital adequacy, credit and market risk, and sovereign risk. The committee also reviews performance of the classified and non-performing loan portfolio, and, most importantly, reviews and submits to the Board of Supervisors all the Bank's policies associated with risk management. Finally, the committee identifies unacceptable risk conditions to the full Board for consideration and action.

The Board and the shareholders of AIB place high priority on implementing, maintaining, and developing the highest standards in anti-money laundering (AML) and counter-terrorism financing (CTF). During the year, AIB completed a financial crime compliance/AML project with the assistance of a reputed external firm to ensure 'know your customer', AML, and CTF processes are best in class. The committee introduced a measure to ensure the early detection of borrowers who appear to be having problems in their business. The committee also oversaw other key initiatives during the year, including an external consultant completing a credit risk review of the Bank's loan portfolio, with recommendations currently being implemented, as well as refinements to the Bank's business continuity plan. A new chief risk officer has been appointed to further strengthen the risk function.

The committee was pleased to note that the external consultancy that conducted an IT penetration audit had commended AIB's IT architecture and provided assurance that the Bank would be able to withstand an external attack on its systems.

Due to uncertainties in the economic outlook for Afghanistan, the Risk Committee adopted a conservative approach for the Bank's risk profile. This approach will continue in 2017 to ensure that the balance between risk and return is maintained.

Investment Committee

The Investment Committee comprises three directors, all of whom are independent, including the Chairman, Salman Shoaib. The other members are Ronald Stride and Aditya Srivastava.

The committee's mandate covers allocation, investment, and oversight of a portfolio of fixed-income securities, and also management of liquidity including placements with other banks. Its principal role is to oversee the Bank's investment policy and to ensure this is modified and executed in the context of the Bank's risk and capital parameters. In this regard, the committee works with the Board and management to develop investment policies, oversee investment of the Bank's funds, and monitor the mandate and performance of independent asset managers hired by the Bank. The committee recently took an active role in reviewing placements.

The committee conducted ongoing reviews of the performance of the two asset managers against pre-set return on investment targets. The committee commented on the performance of the managers, and made recommendations to management on potential steps to enhance performance or achieve objectives, including adjusting risk parameters to improve yield and ensure that the Bank's fixed-income portfolio remained in compliance with regulations from the Central Bank.

Audit Committee

The Audit Committee was established under the Law of Banking in Afghanistan then in place. In 2016, the amended Law of Banking in Afghanistan was enacted, requiring the Audit Committee to become a committee of the Board of Supervisors. The Board of Supervisors is, however, allowed to appoint members to the Audit Committee who are not members of the Board of Supervisors. Any non-member of the Board of Supervisors is subject to the same fit and proper requirements as members of the Board of Supervisors. The committee has three members, all qualified and experienced in audit, accounting, or banking.

Dr Patrick Asea assumed the position of acting chairman following the resignation of Mr Anthony Barned on becoming CEO. Dr Asea resigned on leaving Afghanistan, and in August Mr Said Arab Khan, retired senior partner of KPMG, was appointed chairman.

The Audit Committee is responsible for overseeing financial reporting, compliance with risk management policies and procedures, internal controls, ethics, and management and functioning of internal audit. In 2016, the committee assessed and approved the annual internal audit plan, including budget and resources, and regularly monitored progress of the plan during the year. The committee also reviewed the Bank's annual budget and business plan and recommended the payment of an interim dividend to the Board of Supervisors.

The committee regularly monitors and assesses the role and effectiveness of the internal audit function.

The committee receives quarterly reports from major operational segments of the Bank, which are reviewed at every quarterly Audit Committee meeting. The reports include the key performance indicators of different segments and issues related to operational and financial controls.

At its quarterly meetings, the committee discussed control environment issues reported by the Internal Audit Department, their root causes and management responses, and remediation activities. Any significant audit issues were also brought to the committee's attention.

The committee is also responsible for relationships with the external auditors, and meets them on completion of the annual audit and quarterly reviews. On the recommendation of the Audit Committee, the Board of Supervisors approves the financial statements of the Bank. These meetings allow committee members to discuss matters relating to the external auditors' remit and issues arising from the audit.

During 2016, the committee regularly focused on the controls and issues related to anti-money laundering and counter-terrorism financing.

Remuneration Committee (formerly the Compensation Committee)

The committee comprises four directors, three of whom are independent, including the Chair, Veronica John. The other members are Ronald Stride, Salman Shoaib, and Hamidullah A Mohib.

The committee's remit was reviewed during the year, to ensure compliance with the amended Law of Banking in Afghanistan, as well as the revised Corporate Governance Regulations. This resulted in the creation of a separate Nominating Committee to oversee matters relating to the appointment of Board members and recruitment of executive management, while the Remuneration Committee adopted a slightly revised charter, with its role focused on two key areas:

- Establish the compensation philosophy and structure for the executive management, and oversee and evaluate their performance relative to the approved goals set in line with this structure
- Review and make recommendations regarding the compensation policy for members of the Board of Supervisors

In this role, the committee establishes guidelines for base salary, bonus, and fringe benefits for each executive, and recommends to the Board any changes to the compensation structure.

During 2016, the committee met four times in person and held one conference call.

The committee reviewed and recommended for Board approval the compensation packages for new executive appointments, in line with current policy. The committee also reviewed, and reported to the Board, the performance of senior management through a formal goal-setting and monitoring mechanism.

It also reviewed progress with the reorganisation of the HR function and recommended for Board approval a cost of living increase applicable to all staff effective from 2017. The committee will continue in 2017 to monitor the implementation of an updated HR policy, which will better conform to international practices, and oversee the review of the executive management compensation policy and guidelines.

Nominating Committee

The Nominating Committee was formed during the year in compliance with new regulations in Afghanistan, and comprises five directors, the majority of whom are independent, including the Chair, Veronica John. The other members are Ronald Stride, Salman Shoaib, Hamidullah A Mohib, and Lutfullah Rahmat. Two members of the committee are designated as representing employees and two as representing shareholders.

In 2016, the committee focused on the composition of the senior management team, overseeing the development and recruitment actions required to bring the team to a full complement with the optimal balance of skills and experience. In particular, the committee was involved in the selection process for a number of key appointments, not least the Bank's new CEO and DCEO. Focus continued on the development of several 'high flyer' Afghan staff identified as demonstrating the potential to grow into executive management within AIB, in line with the future vision for the Bank.

The committee received updates during the year on progress of initiatives to ensure the Bank's female staff have access to enhanced working opportunities and that there is satisfactory support for working mothers.

The committee also made recommendations on the composition of the Board's committees and considered succession planning for the Board of Supervisors, also overseeing the development of a checklist to better guide the future evaluation of candidates proposed for appointment.

Committee meetings and attendance records

Key: ⊙ Attended ○ Absent ⦸ was not a member during this period

Board	12 Jan 2016	9 Feb 2016	19 Mar 2016	12 Apr 2016	21 May 2016	30 June 2016	19 July 2016	2 Aug 2016	27 Aug 2016	20 Sept 2016	18 Oct 2016	19 Nov 2016	13 Dec 2016
Ronald Stride, Chairman	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Veronica John	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Lutfullah Rahmat	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	○
Salman Shoaib	⊙	○	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙	⊙
Aditya Srivastava	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Hasib Ahmed	○	⦸	⦸	⦸	⦸	⦸	⦸	⦸	⦸	⦸	⦸	⦸	⦸

Planning and Strategy Committee	18 Mar 2016	20 May 2016	26 Aug 2016	18 Nov 2016
Ronald Stride, Chairman	⊙	⊙	⊙	⊙
Veronica John	⊙	⊙	⊙	⊙
Lutfullah Rahmat	⊙	⊙	⊙	⊙
Aditya Srivastava	⊙	○	⊙	⊙

Risk Committee	18 Mar 2016	20 May 2016	26 Aug 2016	18 Nov 2016
Aditya Srivastava, Chairman	⊙	○	⊙	⊙
Ronald Stride	⊙	⊙	⊙	⊙
Lutfullah Rahmat	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	○	⊙	⊙	○

Investment Committee	18 Mar 2016	20 May 2016	26 Aug 2016	18 Nov 2016
Salman Shoaib, Chairman	⊙	⊙	⊙	⊙
Ronald Stride	⊙	⊙	⊙	⊙
Aditya Srivastava	⊙	○	⊙	⊙

Remuneration Committee (formerly the Compensation Committee)	25 Feb 2016	18 Mar 2016*	20 May 2016*	26 Aug 2016	18 Nov 2016
Veronica John, Chair	⊙	⊙	⊙	⊙	⊙
Ronald Stride	○	⊙	⊙	⊙	⊙
Salman Shoaib	⊙	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	○	⊙	⊙	○

Nominating Committee	18 Mar 2016*	20 May 2016*	26 Aug 2016	18 Nov 2016	6 Dec 2016
Veronica John, Chair	⊙	⊙	⊙	⊙	⊙
Ronald Stride	⊙	⊙	⊙	⊙	⊙
Salman Shoaib	⊙	⊙	⊙	⊙	○
Hamidullah A. Mohib	○	⊙	⊙	⊙	⊙
Lutfullah Rahmat	⦸	⦸	⊙	⊙	⊙

Audit Committee	29 Feb 2016	3 May 2016	21 Sept 2016	12 Nov 2016
Said Arab Khan, Chairman	⦸	⦸	⊙	⊙
Patrick Asea, Acting Chairman	⊙	⊙	⦸	⦸
Marion Day	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	⊙	⊙	⊙

* Denotes joint meeting of the Remuneration and Nominating Committee.

Anthony Barned
Chief Executive Officer,
Chairman of Management Board

Mr Barned assumed the CEO position in April 2016, having already worked with the Bank in an advisory role and as chairman of the Audit Committee for the previous seven years. He brings with him over 40 years of international commercial banking experience with the Barclays group and Bank of Ceylon, and as a consultant with Booz Allen & Hamilton. He is an Associate of the Chartered Institute of Bankers, London.

Lalit Kumar Jha
Chief Finance Officer,
Member of Management Board

Mr Jha holds a Bachelor's degree in commerce and is a qualified chartered accountant with more than 20 years' experience, mainly in the banking sector. He has been CFO at AIB since 2010, having previously been senior vice-president at Dresdner Bank, New Delhi, and head of accounts and taxation at Bank of Tokyo Mitsubishi UFJ, New Delhi.

Asadullah Fayzi
Chief Operating Officer,
Member of Management Board

Mr Fayzi holds the dual positions of CIO and COO, having joined AIB at its inception in 2004 as head of IT, and having previously been IT manager for Afghanistan Reconstruction Company. He was appointed to his current position during 2012. He holds an MSc in telecommunications from Istanbul Technical University, Turkey.

Omer Omery
Head of Retail Banking,
Member of Management Board

Mr Omery has more than 10 years of banking experience with AIB, from managing a regional branch to electronic banking, marketing, and retail banking. He also spent three years in a managerial position with the United Nations Organisation. He holds an MBA from the University of Liverpool, England.

Tamsil Rashid
Head of Commercial Banking,
Member of Management Board

Mr Rashid has close to 30 years' experience in commercial, development, and Islamic banking, having begun his career with Habib Bank and later joining the Bank of Khyber in Pakistan, where he rose to senior vice-president and divisional head of credit management. Mr Rashid holds an MPA degree, majoring in economics; a Diploma Associate from the Institute of Bankers Pakistan; and more recently obtained a Postgraduate Diploma in Islamic Banking & Finance from the Alhuda Institute in Lahore, Pakistan.

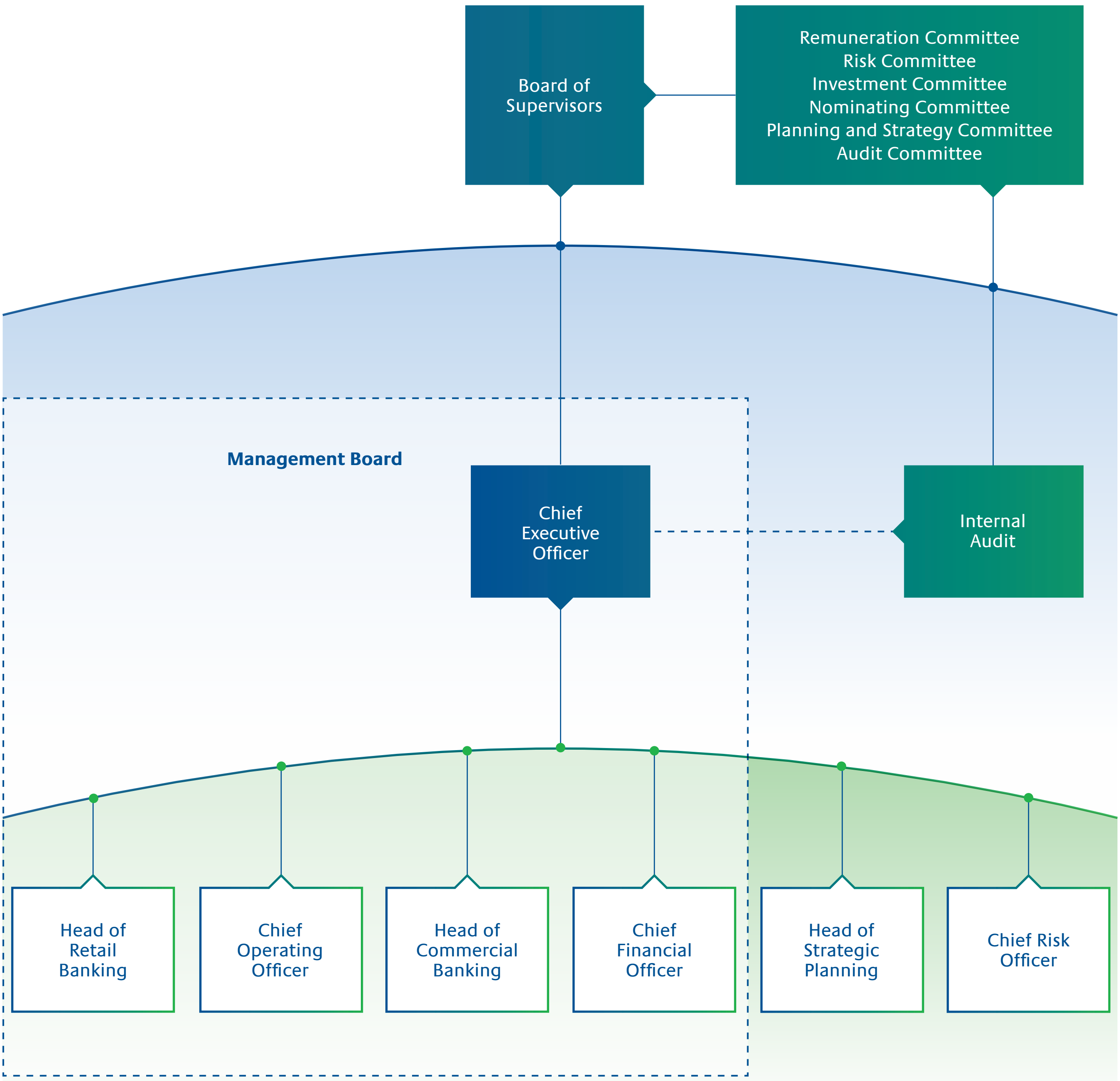
Mohammad Taofiq Mir
Head of Strategic Planning

Mr Mir began his banking career in 2006 with AIB. He managed electronic banking channels and was Head of Retail Banking before becoming Head of Strategic Planning in 2014. He holds a BSc in electrical engineering from Delft University of Technology, Netherlands.

Adil Razzak
Chief Risk Officer

Mr Razzak has 18 years' experience in the finance industry, mainly in the banking sector. He has served in risk, audit, and compliance positions in various banks in Pakistan including SCB, NIB, and JS Bank. He holds a Bachelor's degree in Administration and is a Public Finance Accountant. He is a certified FRM from GARP and a PRM holder from PRMIA.

Organisation



AIB has a well-established reputation for distinguished performance, maintained in 2016 by again recording a successful year despite difficult market conditions, and continuing its unbroken sequence of winning industry awards.

CFI.co 'Best Corporate Governance award

AIB wins the CFI.co *'Best Corporate Governance, Afghanistan'* award for the fourth consecutive year

Sibos (SWIFT International Banking Operations Seminar)

The Bank exhibited at Sibos for the second time

The Banker magazine

AIB wins Banker magazine's *'Bank of the Year Afghanistan'* award for the fifth consecutive year

2004
AIB signs a Management Services and Technical Assistance Agreement with ING Institutional and Government Advisory Services BV, the independent advisory unit of Netherlands-headquartered ING Wholesale Banking. This agreement expired in September 2007, ING having fulfilled its mandate.

Asian Development Bank's Board of Directors approves a $2.6 million equity investment in AIB.

ADB enters into an agreement with three other investors to form the shareholders group, each owning 25 percent equity.

2005
Opening of first branch outside Kabul.

2006
Khalilullah Sediq joins as Chief Executive Officer.

2007
AIB shows annual profit for the first time.

2008
Appointed bankers to the American forces in Afghanistan.

2010
AIB pays first dividend to shareholders, with total distribution of $10 million.

2011
Deposits exceed $500 million.

Site of 4,550 m² purchased for development of new head office, a 12-storey property with total built area of roughly 15,500 m².

2012
Deposits exceed $800 million.

AIB acquires Standard Chartered Bank's business in Afghanistan.

The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan.

2013
The Banker magazine again designates AIB as 'Bank of the Year' in Afghanistan.

2014
The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan for the third consecutive year.

AIB wins 'Best Corporate Governance, Afghanistan' in the 2014 CFI.co awards.

The Bank begins building its 15,500 m² 12-storey head office.

2015
Khalilullah Sediq retires as CEO to become Governor of Da Afghanistan Bank (Afghanistan's Central Bank).

AIB again wins the CFI.co 'Best Corporate Governance, Afghanistan' award and The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan for the fourth year running.

Construction of the Bank's new Head Office reaches the ninth floor.

The Bank exhibits at Sibos for the first time.

2016
AIB wins the CFI.co 'Best Corporate Governance, Afghanistan' award for the fourth consecutive year and The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan for the fifth year running.

The structural shell of the Bank's new Head Office is completed and fit-out begins.

The Bank exhibits at Sibos for the second time.

AIB Branch Network

Balkh branches: 4
Mazar-e-Sharif Main Branch
Mazar-e-Sharif Kefayat Branch
Mazar-e-Sharif Sinafar Branch
Hairatan Branch

Mazar-e-Sharif ATMs: 4

Kunduz branches: 1
Kunduz Branch

Baghlan branches: 1
Pol-e-Khumri Branch

Parwan branches: 1
Bagram Branch

Parwan ATMs: 1

Nangarhar branches: 1
Jalalabad Branch

Nangarhar ATMs: 2

Khost branches: 1
Khost City Branch

Kabul branches: 21
Shahr-e-Naw (Head Office)
Shahr-e-Naw Ansari Square Branch
Microrayan Branch
Sarai Shahzada Branch
Mirwais Maidan Branch
Khair Khana Branch
Kolola Pushta Branch
Taimani Branch
Kart-e-Naw Branch
Khair Khana Second Branch
Park ha-e-Sanati Branch
Jad-e-Maiwand Branch
Green Village
Pule Bagh-e-Omomi Branch
Dasht-e-Barchi Branch
Kart-e-Se Branch
Wazir Akbar Khan Branch
UNOCA Branch
Baraki Branch
AUAF Branch
US Embassy Branch

Kabul Cash Outlets: 2
ISAF HQ
KAIA

Kabul ATMs: 58

Kandahar branches: 2
Kandahar Main Branch
Kandahar Ayno Mina

Kandahar ATMs: 5

Helmand branches: 1
Lashkargah Branch

Helmand ATMs: 1

Herat branches: 2
Herat Main Branch
Herat Darb-e-Khosk Branch

Herat ATMs: 7

Nimroz branches: 1
Nimroz City Branch

Financial Statements

Building a better working world

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AFGHANISTAN INTERNATIONAL BANK

Opinion

We have audited the accompanying financial statements of Afghanistan International Bank (the Bank), which comprise the statement of financial position as at 31 December 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 give a true and fair view of the financial position of the Bank 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 the Bank for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 19 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.

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: 11 March 2017
Kabul, Afghanistan
Engagement Partner: Shabbir Yunus Khairullah

Statement of Financial Position

As at 31 December 2016

	Note	31 December 2016 AFN '000'	31 December 2015 Restated AFN '000'	01 January 2015 Restated AFN '000'
ASSETS				
Cash and balances with Da Afghanistan Bank	5	10,452,572	17,816,406	11,163,004
Balances with other banks	6	6,606,085	5,042,671	11,624,614
Placements – net	7	19,313,157	19,797,852	14,898,004
Investments – net	8	14,382,579	13,532,385	14,440,790
Loan and advances to customers – net	9	3,729,388	3,457,852	2,889,723
Receivables from financial institutions	10	522,484	172,482	103,017
Operating fixed assets	11	1,625,342	1,047,317	491,411
Intangible assets	12	527,457	572,948	559,094
Deferred tax assets	13	21,440	20,641	–
Other assets	14	1,007,100	459,885	365,529
Total assets		58,187,604	61,920,439	56,535,186
LIABILITIES				
Customers' deposits	15	54,077,642	57,997,526	52,908,347
Deferred income		15,824	27,110	8,531
Deferred tax liabilities		–	–	14,604
Other liabilities	16	193,068	207,565	222,837
Total liabilities		54,286,534	58,232,201	53,154,319
EQUITY				
Share capital	17	1,465,071	1,465,071	1,465,071
Capital reserves	18	218,600	192,646	168,262
Retained earnings		2,211,835	2,053,817	1,734,514
Surplus/(deficit) on revaluation on available for sale investments – net		5,564	(23,296)	13,020
Total equity		3,901,070	3,688,238	3,380,867
Total equity and liabilities		58,187,604	61,920,439	56,535,186
Contingencies and commitments	19			

Chief Executive Officer

Chief Financial Officer

Chairman

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

Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	31 December 2016 AFN '000'	31 December 2015 Restated AFN '000'
Interest income	20	1,071,271	1,080,742
Interest expense	21	(13,346)	(6,016)
Net interest income		1,057,925	1,074,726
Fee and commission income	22	788,349	679,548
Fee and commission expense	23	(31,492)	(16,672)
Net fee and commission income		756,857	662,876
Income from dealing in foreign currencies	24	144,023	193,633
		1,958,805	1,931,235
Other income/(expense)	25	55,717	(1,205)
(Loss)/gain on sale of securities		(477)	3,659
Provision on placements		(65,222)	(24,623)
Provision on investments		(1,788)	(13,555)
Provision against loan losses		(79,818)	(98,873)
General and administrative expenses	26	(1,299,302)	(1,243,500)
PROFIT BEFORE INCOME TAX		567,915	553,138
Taxation	27	(48,843)	(65,451)
PROFIT FOR THE YEAR		519,072	487,687
OTHER COMPREHENSIVE INCOME			
Items that may be classified to profit and loss subsequently			
Net changes in fair value of available for sale financial instruments		36,554	(45,395)
Related tax		(7,215)	9,079
Other comprehensive income/(loss), net of tax		29,339	(36,316)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		548,411	451,371
Earnings per share	30	17.30	16.26

Chief Executive Officer

Chief Financial Officer

Chairman

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

Statement of Cash Flows

For the year ended 31 December 2016

	Note	31 December 2016 AFN '000'	31 December 2015 Restated AFN '000'
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		519,072	487,687
Adjustments for:			
Provision against loans and advances		79,818	98,873
Depreciation		50,651	44,805
Amortization		99,056	73,508
Provision on investment		1,788	13,555
Provision on placements		65,222	24,623
Effect of exchange rate fluctuation on cash held		–	(2,687,947)
Net interest income		(1,057,925)	(1,074,726)
Income tax expense		48,843	65,451
		(193,475)	(2,954,171)
Changes in operating assets and liabilities			
Receivable from financial institutions		(350,004)	(69,465)
Required reserve maintained with DAB		244,839	(298,275)
Cash margin held with other banks		8,962	128,487
Loans and advances to customers – net		(351,353)	(667,003)
Other assets		(309,771)	5,061
Deferred income on commercial letter of credit and guarantees		(11,286)	18,579
Customers' deposits		(3,919,884)	5,089,179
Other liabilities		(14,497)	(15,271)
		(4,896,468)	1,237,121
Interest received		998,190	998,702
Interest paid		(13,346)	(6,016)
Income tax paid		(221,219)	(108,993)
Net cash (used in)/from operating activities		(4,132,843)	2,120,814
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital work-in-progress		(586,110)	(545,402)
Acquisition of operating fixed assets		(42,568)	(55,309)
Acquisition of intangible assets		(53,565)	(87,362)
Placements (with maturity more than three months)		(3,746,107)	(2,077,591)
Investments		(815,904)	849,455
Net cash used in investing activities		(5,244,254)	(1,916,209)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(335,100)	(144,000)
Net cash used in financing activities		(335,100)	(144,000)
Net (decrease)/increase in cash and cash equivalents		(9,712,197)	60,605
Cash and cash equivalents at 01 January		28,171,173	25,422,621
Effect of exchange rate fluctuation on cash held		–	2,687,947
Cash and cash equivalents at 31 December	29	18,458,976	28,171,173

Chief Executive Officer

Chief Financial Officer

Chairman

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

Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital AFN '000	(Deficit)/surplus on available for sale investments AFN '000	Capital reserve AFN '000	Retained earnings AFN '000	Total AFN '000
Balance as at 31 December 2014	1,465,071	13,020	168,262	1,431,185	3,077,538
Effect of restatement due to prior period errors (refer to note 33)	–	–	–	303,329	303,329
Balance as at 31 December 2014 Restated	1,465,071	13,020	168,262	1,734,514	3,380,867
Balance as at 01 January 2015	1,465,071	13,020	168,262	1,734,514	3,380,867
Profit for the year – restated	–	–	–	487,687	487,687
Other comprehensive income, net of tax:					
Fair value reserve (available-for-sale financial assets):					
Net change in fair value	–	(45,395)	–	–	(45,395)
Related tax	–	9,079	–	–	9,079
Total comprehensive income – restated					
Transferred to capital reserve	–	–	24,384	(24,384)	–
Transactions with owners of the bank					
Dividend paid	–	–	–	(144,000)	(144,000)
Balance as at 31 December 2015 – restated	1,465,071	(23,296)	192,646	2,053,817	3,688,238
Total comprehensive income					
Profit for the year	–	–	–	519,072	519,072
Other comprehensive income, net of tax:					
Fair value reserve (available-for-sale financial assets):					
Net change in fair value	–	36,554	–	–	36,554
Reclassification adjustments relating to available for sale investments disposed off during the year – net	–	(477)	–	–	(477)
Related tax on:					
Available for sale financial assets	–	(7,310)	–	–	(7,310)
Loss on disposal available for sale investments during the year	–	95	–	–	95
Total comprehensive income					
Transferred to capital reserve	–	–	25,954	(25,954)	–
Transactions with owners of the bank					
Interim dividend paid	–	–	–	(335,100)	(335,100)
	–	28,862	25,954	158,018	212,834
Balance as at 31 December 2016	1,465,071	5,564	218,600	2,211,835	3,901,072

Chief Executive Officer

Chief Financial Officer

Chairman

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

1. STATUS AND NATURE OF BUSINESS

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

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

The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The Bank has 35 branches and 4 cash outlets (2015: 33 branches and 4 cash outlets) in operation.

2. BASIS OF PREPARATION AND MEASUREMENT

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

These consolidated financial statements have been prepared under the historical cost convention except that certain investments, derivative financial instruments and forward foreign exchange contracts are stated at fair value.

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

The Bank classifies its expenses by the 'function of expense' method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

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
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IAS 7 Financial Instruments: Disclosures – Disclosure Initiative – (Amendment)	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 2018

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 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.

3.2 Financial instruments

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

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

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

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

3.3 Financial assets

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

a) Financial assets at fair value through profit or loss

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

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

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

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortized cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit or loss;
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify that cash flows, are designated at fair value through profit or loss; and
- Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss.

b) Loans and receivables

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

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

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

c) Held-to-maturity (HTM) financial assets

HTM 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.

HTM 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 (AFS) financial assets

AFS 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.

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

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

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

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

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

3.4 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, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.4 Impairment of financial assets continued

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

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

b) Loans and advances to customers

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

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

ii) **Watch:** These are loans and advances which are adequately protected by the collateral, if any, supporting it, but are potentially weak. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification to Substandard. Further, all loans and advances which are past due by 31 to 60 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account not less than 5% of value of such loans and advances.

iii) **Substandard:** These are loans and advances which are inadequately protected by current sound net worth and paying capacity of the borrower or by collateral, if any, supporting it. Further, all loans and advances which are past due by 61 to 90 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account not less than 25% of value of such loans and advances.

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

v) **Loss:** These are loans and advances which are not collectable 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 361 days for principal and interest payments are also classified as Loss. A provision is maintained in the books of account @100% of value of such loans and advances and then these loans are charged off and the reserve for losses is reduced immediately upon determination of Loss status.

c) Assets classified as available for sale

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

3.5 Financial liabilities

The Bank classifies its financial liabilities in following categories.

a) Financial liabilities at fair value through profit or loss

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

b) Other financial liabilities measured at amortized cost

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

3.6 Fair value measurement

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

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

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

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

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

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

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

3.7 Operating fixed assets

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

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

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

	Useful life
Leasehold improvements	3 to 10 years
Computers	3 to 5 years
Office equipment	3 to 5 years
Furniture and fittings	3 to 10 years
ATMs	5 years
Vehicles	5 years

Depreciation is charged on additions during the year from the month they become available for their intended use while no depreciation is charged in the month of disposal of assets. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each statement of financial position date.

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

3.8 Intangible assets

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

i) Computer software

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

ii) License fee

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

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

3.9 Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the equity interests issued by the Bank in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

3.10 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Please refer to note 12.2 for further details.

For the purposes of impairment testing, goodwill is allocated to each of the Bank's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.11 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.

3.12 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.

3.13 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.14 Foreign currency transactions and translation

a) Functional and presentation currency

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

b) Transactions and balances

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

The exchange rate for following currencies against AFN were:

	1 USD	1 Euro	1 AED
As at 31 December 2016	**66.82**	**70.01**	**18.19**
As at 31 December 2015	68.37	74.48	18.55

3.15 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.

3.16 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.

3.17 Dividend Distribution

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

3.18 Earnings per share

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

3.19 Employee benefits

Defined contribution plan

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

Short-term benefits

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

4. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

a) Provision for loan losses

The Bank reviews loans to customer balances quarterly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in note 9.3. The Bank maintains a general provision of 3% (2015: 1.38%) against outstanding loan and advances to customers as at the period end.

The Bank has revised its estimates of general provision against loans and advances to customers. Previously, general provision was maintained at 1.38% of standard loans and advances which has been increased to 3%. The general provision at previous and current rates amounts to AFN 41,623 thousands and AFN 109,588 thousands respectively.

b) Provision of income taxes

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

c) General provision on investments and placements

The management also maintains a provision of 0.5% on collective balance of investments (excluding those with DAB and investments in money market fund) and 1% on placements (excluding placements with maturity below 30 days) to cover the counter party risk.

d) Useful life of property and equipment and intangible assets

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

e) Held-to-maturity investments

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

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

	Note	2016 AFN '000	2015 AFN '000
Cash in hand		**1,357,027**	1,329,299
Cash in hand – Islamic banking division		**76,114**	66,979
Cash at Automated Teller Machines (ATMs)		**545,278**	328,414
		1,978,419	1,724,692
Balances with Da Afghanistan Bank:			
Local currency:			
- Deposit facility accounts	5.1	**1,050,902**	650,245
- Required reserve accounts	5.2	**4,185,981**	4,430,820
- Current accounts		**300,329**	1,404,871
		5,537,212	6,485,936
Foreign currency:			
- Current accounts		**2,936,941**	9,605,778
		8,474,153	16,091,714
		10,452,572	17,816,406

5.1 This represents interest bearing account carrying interest @ 0.80% (31 December 2015: 0.80%) per annum.

5.2 Required reserve account is being maintained with DAB which is denominated in AFN to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. Theses balances are interest free (2015: Interest free).

6. BALANCES WITH OTHER BANKS

	Note	2016 AFN '000	2015 AFN '000
Outside Afghanistan:			
With Standard Chartered Bank			
- in nostro accounts		2,375,329	1,825,059
- others	6.1	2,146,777	728,533
		4,522,106	2,553,592
With Commerzbank, Germany:			
- in nostro accounts	6.2	143,282	1,976,703
- in cash margin held	6.3	93,403	102,365
		236,685	2,079,068
With other banks:			
Emirates NBD		661,632	313,209
AkBank, Turkey		1,956	4,186
Julius Baer		513,653	92,494
State Commercial Bank of Turkmenistan		669,552	–
IDFC Bank		474	–
Yes Bank, India		27	122
	6.4	1,847,294	410,011
		6,606,085	5,042,671

6.1 These represent balances with Standard Chartered Bank, Singapore which carries interest @ 0.2% p.a. (2015: 0.2% to 0.3% p.a.) and are available on demand.

6.2 This represents interest bearing nostro accounts and carries interest @ LIBOR – 0.25% (31 December 2015: LIBOR – 0.25%).

6.3 It carries interest @ LIBOR – 0.25% (31 December 2015: LIBOR – 0.25%), held with Commerzbank, Germany against letters of credit issued on behalf of the Bank.

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

7. PLACEMENTS – NET

	Note	2016 AFN '000	2015 AFN '000
Placements with banks	7.1	19,477,866	19,897,339
		19,477,866	19,897,339
General provision held	7.2 & 7.3	(164,709)	(99,487)
		19,313,157	19,797,852

7.1 These represent overnight and fixed term placements with financial institutions outside Afghanistan up to a maximum period of one year (2015: one year) in USD carrying interest at rates ranging from 0.40% p.a. to 1.75% p.a. (2015: 0.65% p.a. to 1.35% p.a.).

7.2 General provision of 1% (31 December 2015: 0.5%) maintained on placements with maturity of more than 30 days is provided based on DAB requirement to cover the counter party and market risk.

7.3 Movement in provision during the year

	2016 AFN '000	2015 AFN '000
Balance at 01 January 2016	99,487	74,864
Provision made during the year	65,222	24,623
Balance at 31 December 2016	164,709	99,487

8. INVESTMENTS – NET

	Note	2016 AFN '000	2015 AFN '000
Available for sale investments:			
- Investment bonds	8.1	4,351,290	4,979,052
- Investment in money market fund	8.2	679,702	689,065
		5,030,993	5,668,117
Held-to-maturity investments:			
- Capital notes with DAB	8.3	1,520,054	1,705,404
- Investment bonds	8.4	7,892,752	6,218,296
		9,412,806	7,923,700
		14,443,799	13,591,817
General provision held	8.5	(61,220)	(59,432)
		14,382,579	13,532,385

8.1 These represent investments in bonds having maturity ranging from January 2017 to October 2023 and carrying coupon interest rates ranging from 1% to 11.63% (2015: 0.88% to 10.38%) per annum. These investments are managed by Julius Baer and Emirates NBD on behalf of the Bank.

8.2 These represent investments made in the Emirates Islamic money market funds, a Shariah compliant open ended fund carrying variable rate of returns. These investments are managed by Emirates NBD on behalf of the Bank.

8.3 These represent investments in capital notes issued by DAB up to a maximum period of one year (2015: one year) carrying yield at rates ranging from 3.53% to 6.68% p.a. (2015: 3.54% p.a. to 6.70% p.a.) receivable on maturity of respective notes.

8.4 These represent investments in bonds from various financial institutions and sovereign corporates carrying coupon interest rates ranging from 1.50% to 7.75% (2015: 1.50% to 7.75%). These investments have maturity ranging from January 2017 to October 2022. These investments are classified as "Held-to-maturity" because of the Bank's ability and intention to hold these investments up to maturity. These investments are managed by Julius Baer and Emirates NBD on behalf of the Bank.

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

9. LOANS AND ADVANCES TO CUSTOMERS – NET

	Note	2016 AFN '000	2015 AFN '000
Overdrafts	9.1	3,489,206	3,333,061
Term loans	9.2	343,016	277,955
Consumer loans	9.3	44,226	29,441
		3,876,448	3,640,457
Provision against loans and advances	9.4	(147,060)	(182,605)
		3,729,388	3,457,852
Particulars of loans and advances – (gross)			
Short term (for up to one year)		3,101,287	3,450,149
Non-current (for over one year)		775,161	190,308
		3,876,448	3,640,457

9.1 These represent balances due from customers at various interest rates ranging from 10% to 15% p.a. (2015: 11% to 15% p.a.) and are secured against mortgage of properties, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. The overdrafts are repayable on demand. These include loans and advances to customers amounting to AFN 440,702 thousands (2015: AFN 357,419 thousands) which are partially backed by Deutsche Investitions-und Entwicklungsgesellschaft mbh (ACGF) guarantees to the extent defined in agreement with ACGF.

9. LOANS AND ADVANCES TO CUSTOMERS – NET CONTINUED

9.2 Term loans carry interest at various rates ranging from 11% to 18% p.a. (2015: 13% to 18% p.a.) and are secured against mortgage of properties, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. These include loans and advances to customers amounting to AFN 137,594 thousands (2015: AFN 63,365 thousands) which are partially backed by DEG guarantee to the extent defined in the agreement with DEG. Term loans also include loans issued amounting to AFN nil thousands (2015: AFN 51,681 thousands) which are partially (50%) backed by Credit Development Authority of the U.S. Agency for International Development (USAID).

Term loans include Small Business loans amounting to AFN 17,320 thousands (2015: AFN 47,417 thousands) carrying interest rate ranging from 13% to 18% p.a. (2015: 13% to 18% p.a.). These loans are secured against deposit of original title deed, negative lien letter, corporate guarantee by a registered company and hypothecation of movable fixed assets as collateral after registration from DAB.

9.3 These represent consumer loans due from individual payroll account holders, employees of corporate customers having payroll account with the Bank carries interest up to @15% (2015: 15%) and credit card carries interest up to @36% (2015: 36%) on annual basis outstanding balances. General provision of 3% (2015: 2%) has been maintained on these balances.

9.4 Provision against loans and advances

		2016			2015		
	Note	Specific AFN '000	General AFN '000	Total AFN '000	Specific AFN '000	General AFN '000	Total AFN '000
Opening		140,982	41,623	182,605	82,016	57,571	139,587
Charge for the year		38,939	77,022	115,961	148,007	14,541	162,548
Reversal of provision		(28,198)	(7,945)	(36,143)	(23,399)	(40,276)	(63,675)
		10,741	69,077	79,818	124,608	(25,735)	98,873
Write off against provision	9.4.1	(111,055)	–	(111,055)	(79,769)	–	(79,769)
Exchange rate difference		(3,364)	(944)	(4,308)	14,127	9,787	23,914
Closing		37,304	109,756	147,060	140,982	41,623	182,605

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

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

9.5 Classification of loans and advances

		2016			
Classification	Note	*Provisioning rates AFN '000	Amount outstanding AFN '000	Provision required AFN '000	Provision held AFN '000
Standard	4 (a)	1%	3,677,294	36,773	109,588
Watch-list		5%	117,344	5,317	5,317
Substandard		25%	2,301	564	564
Doubtful	9.6 & 9.7	50%	79,509	24,507	31,590
Loss	9.8	100%	22	22	22
Write-offs			(22)	(22)	(22)
			–	–	–
Loans and advances and provision held – 31 December 2016			3,876,448	67,161	147,059

	2015			
Classification	*Provisioning rates AFN '000	Amount outstanding AFN '000	Provision required AFN '000	Provision held AFN '000
Standard	0%	3,006,806	–	41,623
Watch-list	5%	458,323	22,351	22,351
Substandard	25%	9,338	2,335	2,335
Doubtful	50%	165,990	46,085	116,296
Loss	100%	79,769	79,769	79,769
Write-offs		(79,769)	(79,769)	(79,769)
		–	–	–
Loans and advances and provision held – 31 December 2015		3,640,457	70,771	182,605

* Provisioning rates are as per DAB regulation.

9.6 The Bank has taken provision on outstanding amount of three (2015: four) parties included in doubtful category after deducting amount covered by USAID and ACGF guarantees.

9.7 The Bank has taken extra provision of 40% in addition to the required provision of 50% on one party (2015: 45% on two parties) outstanding balance included in doubtful category on subjective basis.

9.8 As per the DAB Regulation, Article three (part-B) (3.2.1), loan loss provision has been immediately charged off against the reserve for losses. The amount of these loans are AFN 22 thousands (2015: AFN 79,769 thousands).

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

9.10 The Bank has filed suits for the recovery of loans and advances principal due against the defaulted borrowers amounting to AFN 756,630 thousands (31 December 2015: AFN 777,926 thousands) as at the year end. These suits are pending decisions at various courts. The Bank's management is of the view that the aforementioned suits will be decided in its favor due to sound legal footings.

10. RECEIVABLE FROM FINANCIAL INSTITUTIONS

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

11. OPERATING FIXED ASSETS

	Note	2016 AFN '000	2015 AFN '000
Capital work in progress	11.1	1,362,167	799,377
Property and equipment	11.2	263,175	247,940
		1,625,342	1,047,317

11.1 Capital work in progress

	Note	2016 AFN '000	2015 AFN '000
Advances to suppliers and contractors		281,757	217,760
Advances to related party	11.1.2	1,080,410	581,617
	11.1.1	1,362,167	799,377

11.1.1 Movement in capital work-in-progress

	2016 AFN '000	2015 AFN '000
Opening	799,377	253,975
Additions during the year	586,110	545,402
Transferred to property and equipment	(23,320)	–
Closing	1,362,167	799,377

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

11.2 Property and equipment

	Land AFN '000	Leasehold improvements AFN '000	Computers AFN '000	Office equipment AFN '000	Furniture & fittings AFN '000	ATMs AFN '000	Vehicles AFN '000	Total AFN '000
Cost								
Balance at 1 January 2015	177,568	67,907	87,020	107,181	14,713	80,958	71,152	606,499
Additions	–	1,397	3,803	24,804	2,122	14,332	8,851	55,309
Balance at 31 December 2015	177,568	69,304	90,823	131,985	16,835	95,290	80,003	661,808
Balance at 1 January 2016	177,568	69,304	90,823	131,985	16,835	95,290	80,003	661,808
Transfers from CWIP	–	4,448	–	1,881	325	13,258	3,407	23,319
Additions	–	923	13,089	19,118	597	8,635	206	42,568
Balance at 31 December 2016	177,568	74,675	103,912	152,984	17,757	117,183	83,616	727,695
Depreciation								
Balance at 1 January 2015	–	65,665	67,055	93,448	14,662	63,402	64,831	369,063
Charge for the year	–	991	1,631	26,570	617	8,481	6,515	44,805
Balance at 31 December 2015	–	66,656	68,686	120,018	15,279	71,883	71,346	413,868
Balance at 1 January 2016	–	66,656	68,686	120,018	15,279	71,883	71,346	413,868
Charge for the year	–	3,682	8,141	21,537	788	10,748	5,756	50,652
Balance at 31 December 2016	–	70,338	76,827	141,555	16,067	82,631	77,102	464,520
Carrying amounts								
Balance at 1 January 2015	177,568	2,242	19,965	13,733	51	17,556	6,321	237,436
Balance at 31 December 2015	177,568	2,648	22,137	11,967	1,556	23,407	8,657	247,940
Balance at 31 December 2016	177,568	4,337	27,085	11,429	1,690	34,552	6,514	263,175
Useful life		3 to 10 years	3 to 5 years	3 to 5 years	3 to 10 years	5 years	5 years	

11.2.1 There were no capitalized borrowing costs related to the acquisition of property and equipment during the year (2015: nil).

12. INTANGIBLE ASSETS

	Note	2016 AFN '000	2015 Restated AFN '000
Computer software, licenses and Core deposits	12.1	527,457	572,948

12.1 Computer software, licenses and Core deposits

	Computer software AFN '000	License fee AFN '000	Core deposits AFN '000	Total AFN '000
Cost				
Balance at 1 January 2015	197,254	42,728	542,677	782,659
Additions	86,193	1,169	–	87,362
Balance at 31 December 2015	283,447	43,897	542,677	870,021
Balance at 1 January 2016	283,447	43,897	542,677	870,021
Additions	24,942	28,623	–	53,565
Balance at 31 December 2016	308,389	72,520	542,677	923,586
Amortization				
Balance at 1 January 2015	108,734	31,863	82,968	223,565
Charge for the year	31,576	5,754	36,178	73,508
Balance at 31 December 2015	140,310	37,617	119,146	297,073
Balance at 1 January 2016	140,310	37,617	119,146	297,073
Charge for the year	52,274	10,604	36,178	99,056
Balance at 31 December 2016	192,584	48,221	155,324	396,129
Carrying amounts				
Balance at 1 January 2015	88,520	10,865	459,709	559,094
Balance at 31 December 2015	143,137	6,280	423,531	572,948
Balance at 31 December 2016	115,805	24,299	387,353	527,457
Useful life	3 to 10 years	3 to 10 years	15 years	

13. DEFERRED TAX

	2016 AFN '000	2015 AFN '000
Deferred tax (assets)/liabilities arising in respect of:		
Provision on investments and placements	(45,186)	(31,784)
Surplus/(deficit) on revaluation of investments	1,391	(5,824)
Accelerated tax depreciation and amortization	22,355	16,967
	(21,440)	(20,641)

13. DEFERRED TAX CONTINUED

13.1 Movement in temporary differences during the year

	Balance as at 01 January 2015 AFN '000	Recognized in profit or loss AFN '000	Recognized in equity AFN '000	Balance as at 31 December 2015 AFN '000	Recognized in profit or loss AFN '000	Recognized in equity AFN '000	Balance as at 31 December 2016 AFN '000
Deferred tax assets arising in respect of:							
Provision on investments and placements	–	31,784	–	31,784	13,402	–	45,186
Revaluation reserve on investments	(3,255)	–	9,079	5,824	–	(7,215)	(1,391)
	(3,255)	31,784	9,079	37,608	–	(7,215)	43,795
Deferred tax liabilities arising in respect of:							
Accelerated tax depreciation and amortization	(11,349)	(5,618)	–	(16,967)	(5,388)	–	(22,355)
	(11,349)	(5,618)	–	(16,967)	(5,388)	–	(22,355)
	(14,604)	26,166	9,079	20,641	(5,388)	(7,215)	21,440

14. OTHER ASSETS

	Note	2016 AFN '000	2015 AFN '000
Advances to employees		15,734	17,104
Security deposits		8,859	8,288
Prepayments		88,525	112,157
Interest receivable		321,525	248,443
Advance income tax – net		181,739	17,377
Other receivable and advances		390,718	56,516
Money Gram International		–	–
Receivable from DoJ	14.1	250,605	250,605
Less: Balance written off		(250,605)	(250,605)
		–	–
		1,007,100	459,885

14.1 Receivable from DoJ

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

15. CUSTOMERS' DEPOSITS

	Note	2016 AFN '000	2015 AFN '000
Current deposits		51,180,050	55,862,674
Saving deposits	15.1	151,699	132,679
Term deposits	15.2	1,091,490	683,798
Islamic deposits	15.3	364,619	253,443
Cash margin held against bank guarantees and letters of credit		1,289,784	1,064,932
		54,077,642	57,997,526

15.1 Saving deposits carry interest @ 3% p.a. (2015: 3% p.a.).

15.2 Term deposits carry 0.25% to 0.75% interest rates per annum (2015: 0.75% p.a.).

15.3 Current and saving Islamic deposits stand at AFN 81,065 thousands (2015: AFN 38,338 thousands) and AFN 283,554 thousands (2015: AFN 215,130 thousands) respectively.

16. OTHER LIABILITIES

	Note	2016 AFN '000	2015 AFN '000
Accruals and other payables		53,899	45,917
Amounts pending transfers to customers' accounts	16.1	26,708	5,882
Provision for bonus to employees		15,238	33,240
Payable to Money Gram International		–	365
Retention money payable		67,467	67,807
Others		29,756	54,354
		193,068	207,565

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

17. SHARE CAPITAL

		2016	2015
30,000,000 (2015: 30,000,000) authorized ordinary shares of USD 1 each	USD '000	30,000	30,000
	AFN '000	1,465,071	1,465,071
Issued, subscribed and paid-up – 30,000,000 (31 December 2015: 30,000,000) ordinary shares of USD 1 each fully paid in cash	AFN '000	1,465,071	1,465,071

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

Issued, subscribed and paid up capital comprises 50% holding by Horizon Associates LLC and 50% holding by Wilton Holding Limited (31 December 2015: 7.5% holding by Asian Development bank (ADB), 46.25% holding by Horizon Associates LLC and 46.25% holding by Wilton Holdings Limited).

During the year ADB sold its 7.5% shareholding in the Bank to the remaining two shareholders (i.e. Horizon Associates LLC and Wilton Holdings Limited) in equal proportions.

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

18. 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 upto 25% of the Bank's capital. The Bank's capital reserves as at 31 December 2016 stood at AFN 218,600 thousands (31 December 2015: AFN 192,647 thousands).

19. CONTINGENCIES AND COMMITMENTS

19.1 Contingencies

	Note	2016 AFN '000	2015 AFN '000
Guarantees	19.1.1	3,404,690	2,286,697

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

19.1.2 The Bank is in various litigations with its customers and clients. However, the management believes that these litigations will not have material impact on the financial statements of the Bank.

19.1.3 Afghanistan tax legislation is subject to varying interpretations with changes occurring from time to time. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Bank may not coincide with the treatment used in the interim financial statements. As a result, transactions may be challenged by tax authorities and the Bank may be assessed additional taxes and penalties, which can be significant. The periods remain open to review by the tax authorities with respect to tax liabilities for five years.

19.2 Commitments

	2016 AFN '000	2015 AFN '000
(a) Undrawn loan and overdraft facilities	848,222	1,894,331
(b) Commercial letters of credit	149,945	311,043
	998,167	2,205,374

20. INTEREST INCOME

	2016 AFN '000	2015 AFN '000
Interest income on:		
Balances with DAB and other banks	13,776	52,516
Placements	221,658	152,931
Investments	392,848	377,102
Loans and advances to customers	442,989	498,193
	1,071,271	1,080,742

21. INTEREST EXPENSE

	2016 AFN '000	2015 AFN '000
Interest expense on customers' deposits	13,346	6,016

22. FEE AND COMMISSION INCOME

	2016 AFN '000	2015 AFN '000
Fee and commission income on:		
Loans and advances to customers	34,074	36,030
Trade finance products	9,670	18,797
Cash withdrawals/Cash transfers	448,070	428,091
Customers' account service charges	114,843	52,798
Income from ATMs	57,068	52,864
Income from guarantee arrangements	74,297	37,389
Payroll services	41,403	35,522
Others	8,924	18,057
	788,349	679,548

23. FEE AND COMMISSION EXPENSE

	2016 AFN '000	2015 AFN '000
Guarantee commission	11,046	9,606
Bank charges	20,446	7,066
	31,492	16,672

24. INCOME FROM DEALING IN FOREIGN CURRENCIES

	2016 AFN '000	2015 AFN '000
Forex income	144,023	193,633

25. OTHER INCOME/(EXPENSE)

	2016 AFN '000	2015 AFN '000
Loans and advances written off recovered	54,490	14,950
Cash balances lost in Kunduz branch due to insurgency event	–	(17,371)
Others	1,227	1,216
	55,717	(1,205)

26. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2016 AFN '000	2015 Restated AFN '000
Salaries and benefits		378,388	381,101
Rental, rates and taxes		98,019	79,409
Electricity, generator and fuel		32,961	35,380
Repairs and maintenance		65,551	64,138
Security cost		84,869	65,962
Depreciation	11.2	50,651	44,805
Amortization	12.1	99,056	73,508
Directors fee and their meeting expenses		20,103	20,010
Travelling and accommodation		39,223	37,888
Communication, swift and internet		53,461	51,352
Stationary and printing		30,385	40,294
Legal and professional charges		78,203	120,346
Investment management fee to investment advisors		22,661	24,532
Audit fee		4,823	5,562
Marketing and promotion		38,493	40,701
Money service providers charges		858	557
Insurance		135,492	111,496
Subscriptions and memberships		8,676	9,707
Other charges		47,609	30,122
Taxes and penalties		1,062	108
Corporate social responsibility		4,779	2,439
Others		3,979	4,083
		1,299,302	1,243,500

27. TAXATION

	2016 AFN '000	2015 Restated AFN '000
Current		
For the year	56,857	91,617
	56,857	91,617
Deferred		
For the year	(8,014)	(26,166)
	48,843	65,451

27.1 Relationship between tax expense and accounting profit

	2016 AFN '000	2015 Restated AFN '000
Accounting profit for the year	567,915	589,316
Applicable tax @ 20%	113,583	117,863
Effect of deferred tax asset previously not recognized on:		
- provision on placements	11,887	(14,973)
- provision on investments	–	(9,175)
- Effect of deferred tax (reversal)/charge	(8,014)	–
Effect of tax on dividend paid to shareholders	(67,019)	(28,800)
Others	(1,594)	536
	48,843	65,451

28. RELATED PARTY TRANSACTIONS

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

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	2016 AFN '000	2015 AFN '000	2016 AFN '000	2015 AFN '000
(a) Loans and advances to related parties				
Loans outstanding at the beginning of the year	–	–	213,750	483,280
Loans issued during the year	–	–	410,379	430,709
Loans repayments during the year	–	–	(454,565)	(751,995)
Exchange gain	–	–	7,995	51,756
Loans outstanding at the end of the year	–	–	177,559	213,750
Interest income earned	–	–	36,710	49,401

During the year, an amount of AFN 396,634 thousands (2015: 495,059 thousands) was paid to MADCC (related party) on account of contract awarded on arms length basis for the construction of head office building.

Provision on outstanding balances of loans and advances to related parties amounts to AFN 5,327 thousands (2015: AFN 4,275 thousands).

The facilities provided to related parties carries mark-up at interest rates 10% p.a. (2015: 12% to 10% p.a.) payable on monthly basis and are secured against mortgage of residential property and personal guarantees of directors and representative of shareholders of the Bank.

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	2016 AFN '000	2015 AFN '000	2016 AFN '000	2015 AFN '000
(b) Deposits from related parties				
Deposits at the beginning of the year	87,051	196,797	154,206	44,424
Deposits received during the year	411,590	413,378	1,509,946	1,491,958
Deposits repaid during the year	(439,765)	(542,545)	(1,553,423)	(1,400,146)
Exchange rate difference	(1,474)	19,421	(3,295)	17,970
Deposits at the end of the year	57,402	87,051	107,434	154,206
Interest expense of deposits	–	–	–	–

These represent current account of related parties, which carry Nil interest rate (31 December 2015: Nil).

		Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	Note	2016 AFN '000	2015 AFN '000	2016 AFN '000	2015 AFN '000
(c) Other related party transactions					
Fee and commission income		–	–	5,256	6,092
Directors' fee		14,351	11,198	–	–
Fee and commission expense		–	–	–	–
Rental expenses		–	–	7,892	4,088
Other expenses		8,780	8,519	–	–
Capital work-in-progress	28.1	–	–	409,170	–
Guarantees issued by the Bank		–	–	333	10,400
Commercial letters of credit issued including accepted bills and export bills purchased		–	–	84,423	207,764

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

	2016 AFN '000	2015 AFN '000
(d) Key Management compensation		
Salaries and other short-term benefits	63,012	86,216
	63,012	86,216

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

29. CASH AND CASH EQUIVALENTS

	2016 AFN '000	2015 Restated AFN '000
Cash in hand and at ATM	1,978,419	1,724,692
Balances with DAB (other than minimum reserve requirement)	4,288,172	11,660,895
Balances with other banks	6,512,681	4,940,306
Placements (with maturity less than three months)	5,679,704	9,845,280
	18,458,976	28,171,173

30. EARNINGS PER SHARE – BASIC AND DILUTED

	2016	2015
Profit after taxation (AFN '000)	519,072	487,687
Weighted average number of ordinary shares – (number in thousand)	30,000	30,000
Earnings per share – Basic and diluted (AFN per share)	17.30	16.26

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

31. FINANCIAL RISK MANAGEMENT

31.1 Financial assets and liabilities

31 December 2016	Loans and receivables AFN '000	Held-to-maturity AFN '000	Available-for-sale AFN '000	Other financial liabilities AFN '000	Total AFN '000
Financial assets					
Cash and balances with Da Afghanistan Bank	10,452,572	–	–	–	10,452,572
Balances with other banks	6,606,085	–	–	–	6,606,085
Placements – net	19,313,157	–	–	–	19,313,157
Investments – net	–	9,373,342	5,009,236	–	14,382,578
Loans and advances to customers – net	3,729,388	–	–	–	3,729,388
Receivables from financial institutions	522,484	–	–	–	522,484
Other assets	736,836	–	–	–	736,836
	41,360,522	9,373,342	5,009,236	–	55,743,100
Financial liabilities					
Customers' deposits	–	–	–	54,077,642	54,077,642
Other liabilities	–	–	–	148,074	148,074
	–	–	–	54,225,716	54,225,715

31 December 2015	Loans and receivables AFN '000	Held-to-maturity AFN '000	Available-for-sale AFN '000	Other financial liabilities AFN '000	Total AFN '000
Financial assets					
Cash and balances with Da Afghanistan Bank	17,816,406	–	–	–	17,816,406
Balances with other banks	5,042,671	–	–	–	5,042,671
Placements – net	19,797,852	–	–	–	19,797,852
Investments – net	–	5,639,776	7,892,609	–	13,532,385
Loans and advances to customers – net	3,457,852	–	–	–	3,457,852
Receivables from financial institutions	172,482	–	–	–	172,482
Other assets	330,352	–	–	–	330,352
	46,617,615	5,639,776	7,892,609	–	60,150,000
Financial liabilities					
Customers' deposits	–	–	–	57,997,526	57,997,526
Other liabilities	–	–	–	174,325	174,325
	–	–	–	58,171,851	58,171,851

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial risk factors

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

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

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

31.2.1 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, balances with banks and receivable from financial institution, participation purchased and placements with other banks. Credit risk also arises in off-balance sheet financial instruments, such as Bank's contingencies and commitments. The credit risk management and control are centralized in credit risk management team of Bank and reported to the management team and head of each business unit regularly.

31.2.2 Credit risk measurement

(a) Loans and advances

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

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

(i) Over due balances on loans to customers are segmented into four categories as described in note 3.4(b). The percentage of provision created on such over due balances are as per guidelines issued by DAB and reflects the range of default probabilities defined for each category. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

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

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

(b) Other than loans and advances

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

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

31.2.3 Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b) Credit-related commitments

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

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

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

	Maximum exposure	
	2016 AFN '000	2015 AFN '000
Credit risk exposures relating to on-balance sheet items are as follows:		
Balances with other banks	6,606,085	5,042,670
Placements – net	19,313,157	19,797,852
Investments – net (excluding capital notes with DAB)	12,862,525	11,826,982
Loans and advances to customers – net	3,729,388	3,457,852
Receivables from other financial institutions	522,484	172,482
Other assets	736,836	330,352
	43,770,474	40,628,190

	Maximum exposure	
	2016 AFN '000	2015 AFN '000
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	3,404,690	2,286,697
Undrawn loan and overdraft facilities	848,222	1,894,331
Commercial letters of credit	149,945	311,043
	4,402,857	4,492,071

The above table represents credit risk exposure to the Bank at 31 December 2016 and 31 December 2015, taking account of any collateral held or other enhancements attached. For on-balance-sheet assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

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

	2016 AFN '000	2015 AFN '000
Balances with other banks	15.09%	12.41%
Placements – net	44.12%	48.73%
Investments – net (excluding capital notes with DAB)	29.39%	29.11%
Loans and advances to customers – net	1.19%	8.51%

31.2.5 Credit quality of financial assets

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

Balances with other banks/FIs	Credit rating	Credit rating agency	2016 AFN '000	2015 AFN '000
Counter parties with external credit ratings:				
Standard Chartered Bank	Aa2	Moody's	4,522,106	2,553,592
Commerzbank Germany	Baa1	Moody's	236,685	2,079,068
Emirates NBD	Baa1	Moody's	661,632	313,209
AkBank, Turkey	Baa3	Moody's	1,956	4,185
State Commercial Bank of Turkmenistan	N.A	N.A	669,552	-
IDFC Bank	BBB-	Fitch	474	-
Julius Baer	A2	Moody's	513,653	92,494
Yes Bank, India	Baa3	Moody's	27	122

Placements	Credit rating	Credit rating agency	2016 AFN '000
Ahli Bank	Baa3	Moody's	1,002,300
Commercial Bank International	A1	Moody's	1,002,300
Commercial Bank of Dubai	Baa1	Moody's	668,200
CIMB Malaysia	A3	Moody's	1,002,300
Al Khaliji Bank	A3	Moody's	1,670,500
Bank of Baroda	Baa3	Moody's	668,200
HDFC	Baa3	Moody's	668,200
IDBI Bank, India	Baa3	Moody's	668,200
Julius Baer	Aa2	Moody's	1,336,400
Masraf Al Rayan	A1	Moody's	668,200
First Gulf Bank Dubai	A1	Moody's	668,200
Union National Bank	A1	Moody's	668,200
United Arab Bank	Baa2	Moody's	835,250
Doha Bank	A2	Moody's	1,002,300
Yes Bank, India	Baa3	Moody's	668,200
Noor Bank	Baa1	Moody's	668,200
National Bank of Fujairah	Baa1	Moody's	668,200
Qatar Islamic Bank	A2	Moody's	1,002,300
Qatar National Bank	Aa3	Moody's	1,002,300
Saudi Hollandi bank	A3	Moody's	668,200
Dubai Islamic Bank	Baa1	Moody's	668,200
Abu Dhabi Commercial Bank	A1	Moody's	1,002,300
Emirates NBD	Baa1	Moody's	704,508

	2016 AFN '000	2015 AFN '000
Receivables from financial institutions		
Counter parties	522,484	172,482
Loans and advances – net		
Counter parties	3,729,388	3,457,852
Other assets		
Counter parties	736,836	330,352

Investments

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

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial risk factors continued

31.2.6 Loans and advances – net

	Note	2016 AFN '000	2015 AFN '000
Loans and advances are summarized as follows:			
Neither past due nor impaired		3,676,076	2,278,573
Past due but not impaired		167	728,233
Impaired		200,205	633,652
Gross		3,876,448	3,640,457
Less: Allowance for impairment			
General		(109,756)	(41,623)
Specific		(37,304)	(140,982)
	9.4	(147,060)	(182,605)
		3,729,388	3,457,852

(a) Loans and advances neither past due nor impaired

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

	Commercial loans		SME loans	Consumer loans	
	Overdraft AFN '000	Term loans AFN '000	Term loans AFN '000	Term loans AFN '000	Total AFN '000
31 December 2016					
Regular loans	3,415,649	161,630	80,606	18,191	3,676,076
31 December 2015					
Regular loans	2,057,391	160,637	23,876	21,425	2,263,329
(b) Loans and advances past due but not impaired					
31 December 2016					
Past due up to 30 days	156,246	40,613	3,346	–	200,205
Fair value of collateral	9,005,693	3,150,469	200,918	–	12,357,080
31 December 2015					
Past due up to 30 days	699,518	40,613	3,346	–	743,477
Fair value of collateral	10,256,565	1,374,451	134,005	–	11,765,021

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

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AFN 189,865 thousands (2015: AFN 633,651 thousands).

	Commercial loans		
	Overdraft AFN '000	Term loans AFN '000	Total AFN '000
31 December 2016			
Watch	57,146	401,177	458,323
Substandard	9,338	–	9,338
Doubtful	34,114	131,876	165,990
Loss	–	–	–
Total	100,598	533,053	633,651
Fair value of collateral	253,448	568,277	821,725
31 December 2015			
Watch	454,733	3,590	458,323
Substandard	–	9,338	9,338
Doubtful	129,867	36,123	165,990
Loss	–	–	–
Total	584,600	49,051	633,651
Fair value of collateral	12,251,163	1,541,720	13,792,882

(d) Loans and advances restructured/rescheduled

Restructuring activities include extended payment arrangements and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired at 31 December 2016 were AFN nil (2015: Nil).

	2016		2015	
Commercial loans and advances:	Loan amount at the time of rescheduling AFN '000	At year-end AFN '000	Loan amount at the time of rescheduling AFN '000	At year-end AFN '000
- Term loans	–	–	79,210	49,259
- Overdraft	3,144,475	409,948	96,464	61,210
Total	3,144,475	409,948	175,674	110,469

31.2.7 Concentration of risk of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2016. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

2016	Afghanistan AFN '000	Lebanon AFN '000	Singapore AFN '000	Germany AFN '000	Mexico AFN '000	Turkey AFN '000	Switzerland AFN '000	UAE AFN '000	India AFN '000	Qatar AFN '000	Korea AFN '000	Slovenia AFN '000	England AFN '000	Pakistan AFN '000	USA AFN '000	*Others AFN '000	Total AFN '000
On balance sheet:																	
Balances with other banks	–	–	2,146,777	236,685	–	1,956	513,653	661,632	501	–	–	–	60,593	–	2,314,736	669,552	6,606,085
Placements – net	–	–	–	–	–	–	1,336,400	8,221,758	2,004,600	–	–	–	–	–	–	8,018,400	19,581,158
Investments – net (excluding capital notes)	–	14,289	33,701	–	545,070	515,174	–	2,540,902	–	1,245,652	715,030	697,968	64,551	545,599	228,434	5,716,154	12,862,524
Loans and advances to customers – net	3,729,388	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,729,388
Receivable from financial institutions	–	522,484	–	–	–	–	–	–	–	–	–	–	–	–	–	–	522,484
Other assets	736,836	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	736,836
	4,466,224	536,773	2,180,478	236,685	545,070	517,130	1,850,053	11,424,292	2,005,101	1,245,652	715,030	697,968	125,144	545,599	2,543,170	14,404,106	44,038,475
Off balance sheet:																	
Contingencies and commitments	4,402,857	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,402,857
	8,869,081	536,773	2,180,478	236,685	545,070	517,130	1,850,053	11,424,292	2,005,101	1,245,652	715,030	697,968	125,144	545,599	2,543,170	14,404,106	48,441,332

2015	Afghanistan AFN '000	Lebanon AFN '000	Singapore AFN '000	Germany AFN '000	Mexico AFN '000	Turkey AFN '000	Switzerland AFN '000	UAE AFN '000	India AFN '000	Qatar AFN '000	Korea AFN '000	Slovenia AFN '000	England AFN '000	Pakistan AFN '000	USA AFN '000	*Others AFN '000	Total AFN '000
On balance sheet:																	
Balances with other banks	–	–	728,533	2,085,154	–	4,185	92,494	313,905	122	–	–	–	1,601	–	1,816,676	–	5,042,670
Placements – net	–	–	–	–	–	–	–	10,129,357	2,040,845	–	–	–	–	–	–	7,142,955	19,313,157
Investments – net (excluding capital notes)	–	–	34,317	–	452,112	233,607	–	3,089,931	282,787	825,387	928,128	120,264	165,467	–	501,895	4,563,454	11,197,348
Loans and advances to customers – net	3,457,852	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,457,852
Receivable from financial institutions	–	172,482	–	–	–	–	–	–	–	–	–	–	–	–	–	–	172,482
Other assets	330,351	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	330,351
	3,788,203	172,482	762,850	2,085,154	452,112	237,792	92,494	13,533,193	2,323,754	825,387	928,128	120,264	167,068	–	2,318,571	11,706,409	39,513,860
Off balance sheet:																	
Contingencies and commitments	4,492,071	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	4,492,071
	8,280,274	172,482	762,850	2,085,154	452,112	237,792	92,494	13,533,193	2,323,754	825,387	928,128	120,264	167,068	–	2,318,571	11,706,409	44,005,931

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial risk factors continued

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

(b) Industry sectors

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

	Government/ Public sector AFN '000	Manu-facturing AFN '000	Agriculture AFN '000	Construction AFN '000	Telecommu-nication AFN '000	Banks and financial institutions AFN '000	Traders AFN '000	Fuel suppliers AFN '000	Others AFN '000	Total AFN '000
2016										
On balance sheet:										
Balances with other banks	–	–	–	–	–	6,606,085	–	–	–	6,606,085
Placements – net	–	–	–	–	–	19,313,157	–	–	–	19,313,157
Investments – net (excluding capital notes)	10,145,337	100,158	–	–	166,175	2,037,660	–	–	413,198	12,862,528
Loans and advances to customers – net	–	463,767	49,175	134,340	–	–	1,318,370	938,826	824,910	3,729,388
Receivable from financial institutions	–	–	–	–	–	522,484	–	–	–	522,484
Other assets	–	–	–	–	–	–	–	–	736,836	736,836
	10,145,337	563,925	49,175	134,340	166,175	28,479,386	1,318,370	938,826	1,974,944	43,770,478
Off balance sheet:										
Contingencies and commitments	–	74	–	614,847	71,902	–	401,233	225,246	3,089,555	4,402,857
Total	10,145,337	563,999	49,175	749,187	238,077	28,479,386	1,719,603	1,164,072	5,064,499	48,173,335
2015										
On balance sheet:										
Balances with other banks	–	–	–	–	–	5,042,670	–	–	–	5,042,670
Placements – net	–	–	–	–	–	19,797,852	–	–	–	19,797,852
Investments – net (excluding capital notes)	5,879,291	33,944	–	–	201,437	3,613,278	–	–	2,099,032	11,826,982
Loans and advances to customers – net	–	592,073	–	34,644	141,667	–	1,604,213	926,500	158,615	3,457,712
Receivable from financial institutions	–	–	–	–	–	172,482	–	–	–	172,482
Other assets	–	–	–	–	–	–	–	–	330,351	330,351
	5,879,291	626,017	–	34,644	343,104	28,626,282	1,604,213	926,500	2,587,998	40,628,049
Off balance sheet:										
Contingencies and commitments	–	–	–	–	37,246	–	580,781	1,528,091	2,345,953	4,492,071
	5,879,291	626,017	–	34,644	380,350	28,626,282	2,184,994	2,454,591	4,933,951	45,120,120

31.3 Market risk

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

31.3.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2016 and 31 December 2015. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

	AED	USD	EURO	GBP	INR		Total
	Converted to AFN '000					AFN '000	AFN '000
As at 31 December 2016							
Assets							
Cash and balances with Da Afghanistan Bank	–	4,079,571	565,512	465	–	5,807,024	10,452,572
Balances with other banks	90,938	5,451,899	1,000,222	62,526	500	–	6,606,085
Placements – net	–	19,313,157	–	–	–	–	19,313,157
Investments – net	–	12,862,524	–	–	–	1,520,055	14,382,579
Loans and advances to customers – net	–	2,796,380	–	–	–	933,008	3,729,388
Receivables from financial institutions	–	496,103	2,941	–	–	23,440	522,484
Other assets	–	277,662	6,444	–	–	722,994	1,007,100
Total financial assets	90,938	45,277,296	1,575,119	62,991	500	9,006,520	56,013,365
Liabilities							
Customers' deposits	–	45,201,627	1,475,133	82,939	–	7,317,943	54,077,642
Other liabilities	–	63,395	105,806	–	–	23,867	193,068
Total financial liabilities	–	45,265,022	1,580,939	82,939	–	7,341,810	54,270,710
On-balance sheet financial position – net	90,938	12,274	(5,820)	(19,948)	500	1,664,710	1,742,655
As at 31 December 2015							
Total financial assets	715,566	49,189,555	1,287,960	16,623	122	9,044,042	60,253,868
Total financial liabilities	–	49,103,044	1,234,961	29,908	–	7,803,938	58,171,851
On-balance sheet financial position – net	715,566	86,511	52,999	(13,285)	122	1,240,104	2,082,017

If the functional currency, at the year end date, strengthens/weakens by 10% against the USD with all other variables held constant, the impact on profit or loss for the period would have been AFN 31,231 thousands higher/lower (2015: AFN 8,651 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the year end date, strengthens/weakens by 10% against the EURO with all other variables held constant, the impact on profit or loss for the period would have been AFN 582 thousands lower/higher (2015: AFN 5,299 thousands lower/higher) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the year end date, strengthens/weakens by 10% against the AED with all other variables held constant, the impact on profit or loss for the period would have been AFN 9,094 thousands higher/lower (2015: AFN 71,557 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

31.3.2 Interest rate risk

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

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

	Interest bearing							
	Up to 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total interest bearing AFN '000	Non-interest bearing AFN '000	Total AFN '000
As at 31 December 2016								
Assets								
Cash and balances with Da Afghanistan Bank	5,236,883	–	–	–	–	5,236,883	5,215,689	10,452,572
Balances with other banks	2,146,777	–	–	–	–	2,146,777	4,459,308	6,606,085
Placements – net	3,006,900	2,646,072	13,660,184	–	–	19,313,156	–	19,313,156
Investments – net	2,034,229	1,096,534	1,173,737	9,854,915	223,164	14,382,579	–	14,382,579
Loans and advances to customers – net	406,266	969,558	1,898,353	455,211	–	3,729,388	–	3,729,388
Receivables from financial institutions	–	–	–	–	–	–	522,484	522,484
Other assets	–	–	–	–	–	–	736,836	736,836
Total financial assets	12,831,055	4,712,164	16,732,275	10,310,126	223,164	44,808,783	10,934,317	55,743,100
Liabilities								
Customers' deposits	516,319	33,410	386,074	668,200	–	1,604,003	52,473,639	54,077,642
Other liabilities	–	–	–	–	–	–	148,074	148,074
Total financial liabilities	516,319	33,410	386,074	668,200	–	1,604,003	52,621,713	54,225,716
Total interest reprising gap	12,314,736	4,678,754	16,346,201	9,641,926	223,164	43,204,780	(41,687,396)	1,517,384
As at 31 December 2015								
Total financial assets	15,165,460	6,903,472	9,929,732	8,014,934	1,205,311	41,218,909	18,931,090	60,149,999
Total financial liabilities	816,477	–	–	–	–	816,477	56,290,442	57,106,919
Total interest reprising gap	14,348,983	6,903,472	9,929,732	8,014,934	1,205,311	40,402,432	(37,359,352)	3,043,080

If the interest increase/(decrease) by 100 bps, the impact on profit or loss for the year would have been AFN 396,401 thousands (2015: AFN 404,024 thousands) lower/higher respectively.

31.4 Liquidity risk

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

31.4.1 Liquidity risk management process

The Bank's liquidity management process, includes:

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

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

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

31.4.2 Funding approach

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

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.4 Liquidity risk continued

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

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

	Up to 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at 31 December 2016						
Liabilities						
Customers' deposits	52,989,958	33,410	386,074	668,200	–	54,077,642
Other liabilities	193,068	–	–	–	–	193,068
Total financial liabilities (contractual maturity dates)	53,183,026	33,410	386,074	668,200	–	54,270,710
Total financial assets (contractual maturity dates)	23,765,371	4,712,164	16,732,275	10,310,126	223,164	55,743,100
As at 31 December 2015						
Liabilities						
Customers' deposits	57,313,728	683,798	–	–	–	57,997,526
Other liabilities	174,325	–	–	–	–	174,325
Total financial liabilities (contractual maturity dates)	57,488,053	683,798	–	–	–	58,171,851
Total financial assets (contractual maturity dates)	34,096,550	6,903,472	9,929,732	8,014,934	1,205,311	60,149,999

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

31.4.4 Off-balance sheet items

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

	Not later than 1 year AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at 31 December 2016				
Guarantees	2,147,457	1,257,233	–	3,404,690
Undrawn loans and overdraft facilities	848,222	252,880	–	1,101,102
Commercial letters of credit	149,945	–	–	149,945
Total	3,145,624	1,510,113	–	4,655,737
As at 31 December 2015				
Guarantees	1,326,591	1,076,615	–	2,403,206
Undrawn loans and overdraft facilities	1,894,331	–	–	1,894,331
Commercial letters of credit	311,043	–	–	311,043
Total	3,531,965	1,076,615	–	4,608,580

31.5 Fair value of financial assets and financial liabilities

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

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

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

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

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

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

	Level 1 AFN '000	Level 2 AFN '000	Level 3 AFN '000
Investments in bonds – available for sale investments	–	5,015,701	–
As at 31 December 2016	–	5,015,701	–
As at 31 December 2015	–	5,639,776	–

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

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

(b) Financial instruments not measured at fair value

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

	Carrying Value		Fair Value	
	2016 AFN '000	2015 AFN '000	2016 AFN '000	2015 AFN '000
Financial assets				
Cash and balances with Da Afghanistan Bank	10,452,572	17,816,406	10,452,572	17,816,406
Balances with other banks	6,606,085	5,042,670	6,606,085	5,042,670
Placements – net	19,313,157	19,797,852	19,313,157	19,797,852
Investments – net	14,382,579	8,523,864	14,382,579	8,523,864
Loans and advances to customers – net	3,729,388	3,457,852	3,729,388	3,457,852
Receivables from financial institutions	522,484	172,482	522,484	172,482
Advance to staff, Security deposits and other receivables – net	736,836	330,351	736,836	330,351
Financial liabilities				
Customers' deposits	54,077,642	57,997,526	54,077,642	57,997,526
Other liabilities	193,068	174,325	193,068	174,325
Off-balance sheet financial instruments				
Bank's guarantees	3,404,690	2,286,697	3,404,690	2,286,697
Bank's commitments	998,167	2,205,374	998,167	2,205,374

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

(b) Financial instruments not measured at fair value continued

(i) Investments:

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

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

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

(iii) Off-balance sheet financial instruments

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

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

(i) to comply with the capital requirements set by the DAB;

(ii) to safeguard the Bank's ability to continue as a going concern so that it can continue to be self-sustainable; and

(iii) to maintain a strong capital base to support the development of its business.

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

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

	2016 AFN '000	2015 AFN '000
Tier 1 (Core) Capital:		
Total equity capital	3,901,070	3,421,087
Less: Intangible assets	527,457	305,802
Net deferred tax assets	21,440	20,641
Profit for the year	519,072	523,865
	2,833,102	2,570,779
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	109,756	41,623
Profit for the year	519,072	523,865
	628,828	565,488
Tier 2 (Supplementary) Capital (restricted 100% of Tier 1 (Core) Capital)	628,828	565,488
Regulatory Capital = Tier 1 + Tier 2	3,461,930	3,136,267

Risk-weight categories

	2016 AFN '000	2015 AFN '000
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	1,978,419	1,724,692
Direct claims on DAB	9,994,207	17,797,117
Direct claims on other Governments	773,442	–
Others	578,314	–
Total	13,324,382	19,521,809
0% risk-weight total (above total x 0%)	–	–
20% risk weight:		
Balances with other banks	26,441,726	25,013,005
20% risk-weight total (above total x 20%)	5,288,345	5,002,601
100% risk weight:		
All other assets	18,757,182	17,160,097
Less: Intangible assets	(527,457)	(305,802)
Deferred tax assets	(21,440)	(20,641)
All other assets – net	18,208,285	16,833,654
100% risk-weight total (above total x 100%)	18,208,285	16,833,654

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.4 Liquidity risk continued

Credit conversion factor

	2016 AFN '000	2015 AFN '000
0% risk weight:		
Undrawn loan and overdraft facilities	848,222	1,894,331
Guarantees	3,391,190	–
0% credit conversion factor total (risk-weighted total x 0%)	–	–
0% risk-weight total (above total x 0%)	–	–
20% risk weight:		
Commercial letters of credit	149,945	311,043
20% credit conversion factor total (risk-weighted total x 20%)	29,989	62,209
20% risk-weight total (above total x 20%)	5,998	12,442
100% risk weight:		
Guarantees	13,500	1,221,765
100% credit conversion factor total (risk-weighted total x 100%)	13,500	1,221,765
100% risk-weight total (above total x 100%)	13,500	1,221,765
Total risk-weighted assets	23,516,128	23,070,461
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	12.05%	11.14%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	14.72%	13.59%

32. ISLAMIC BANKING

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

Qardul Hasana Current Account

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

Mudarabah Savings Account

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

Mudarabah Term Investment Deposit

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

Below are the figures relating to Islamic banking

	2016 AFN '000	2015 AFN '000
Assets		
Cash and balances with banks	202,158	178,840
Receivable – Head Office	148,445	65,152
	350,603	243,992
Liabilities		
Payable to Head Office	–	–
Deposit – Current	81,065	38,338
Deposit – Saving	246,962	145,345
Deposit – Term Deposit	36,592	69,785
Others	–	–
	364,619	253,468
Accumulated losses	(14,017)	(9,476)
	350,602	243,992
General and administrative expenses net off	(14,017)	(10,781)

33. PRIOR PERIOD ADJUSTMENT

"During the year, the Bank has carried out an exercise to value the core deposits acquired as a result of acquisition of Standard Chartered Branch Afghanistan operations in 2012. The core deposits have now been recognized as a definite life intangible asset (see note 12). Previously, in 2012, the management recognized the difference between the consideration paid and fair value of net asset acquired as goodwill while no separate intangible assets were identified, valued and accounted for in the financial statements of the Bank.

The above adjustment has been accounted for in accordance with the requirement of International Accounting Standard – IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and consequently, comparative figures in the statement of financial position and the statement of comprehensive income have been restated. The financial impact of the restatement on these financial statements is as follows:"

	As originally reported AFN '000	Prior year AFN '000	Restated AFN '000
Balances as of 01 January 2015			
Statement of financial position			
Intangible assets	255,770	303,324	559,094
For the year ended 31 December 2015			
Statement of comprehensive income			
General and administrative expenses	1,207,322	36,178	1,243,500
Balances as of 01 January 2016			
Statement of financial position			
Intangible assets	305,802	267,146	572,948

34. GENERAL

The figures in this financial information have been rounded off to the nearest in thousands in AFN.

35. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Supervisors of the Bank on 11 March 2017.

Chief Executive Officer | Chief Financial Officer | Chairman

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