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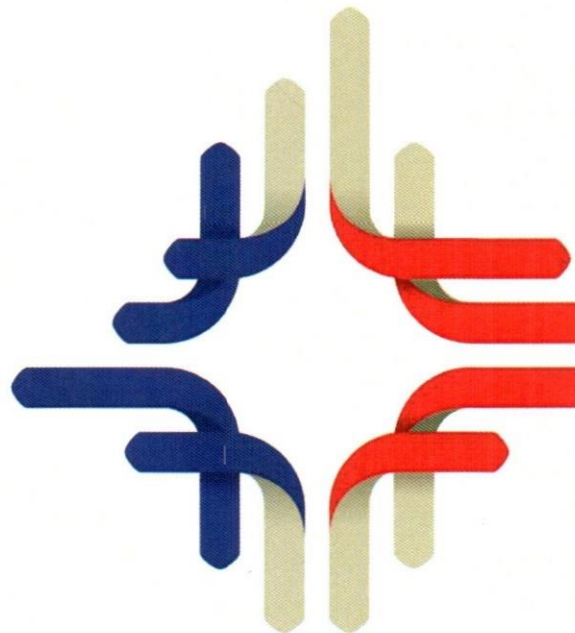
An instinct for growth™

Afghanistan International Bank

Audited Financial Statements For the year ended 31 December 2019

Grant Thornton Afghanistan
Chartered Accountants & Management Consultants
Member Firm of Grant Thornton International

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Independent Auditors' Report

To the shareholders of Afghanistan International Bank

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Opinion

We have audited the accompanying financial statements of Afghanistan International Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Afghanistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs issued by the International Accounting Standards Board (IASB), the requirements of the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

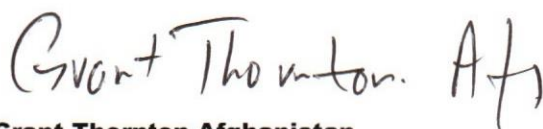


As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

The financial statements of the Bank for the year ended December 31, 2018, were audited by another auditor who expressed an unmodified opinion on those financial statements on March 16, 2019.



Grant Thornton Afghanistan
Chartered Accountants

Engagement Partner: Saqib Rehman Qureshi - FCA

Location: Kabul, Afghanistan

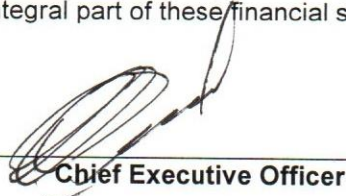
Date:

AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
ASSETS			
Cash and balances with Da Afghanistan Bank	5	13,859,017	15,965,500
Balances with other banks	6	7,237,771	10,095,978
Placements - net	7	15,085,047	19,858,325
Investments - net	8	18,915,749	18,423,705
Loan and advances to customers - net	9	3,417,810	2,897,616
Receivables from financial institutions	10	502,618	360,120
Operating fixed assets	11	3,450,342	3,059,571
Intangible assets	12	426,328	394,538
Deferred tax assets	13	-	95,104
Other assets	14	837,819	572,867
Total assets		63,732,501	71,723,324
LIABILITIES			
Customers' deposits	15	58,843,105	67,383,947
Deposits from bank	16	500,000	-
Deferred income		77,312	98,627
Lease liabilities	17	265,040	-
Deferred tax liabilities	13	34,299	-
Other liabilities	18	333,581	655,593
Total liabilities		60,053,337	68,138,167
EQUITY			
Share capital	19	1,465,071	1,465,071
Capital reserves	20	290,813	260,405
Retained earnings		1,859,291	1,946,530
Revaluation surplus/ (loss) on debt instruments at FVOCI		63,989	(86,849)
Total equity		3,679,164	3,585,157
Total liabilities and equity		63,732,501	71,723,324
Contingencies and commitments	21		

The annexed notes 1 to 36 form an integral part of these financial statements.


 Chairman


 Chief Executive Officer



 Chief Financial Officer

AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
Interest income	22	1,383,239	1,291,598
Interest expense	23	(36,968)	(51,141)
Net interest income		1,346,271	1,240,457
Fee and commission income	24	1,081,873	917,074
Fee and commission expense	25	(15,277)	(28,764)
Net fee and commission income		1,066,596	888,310
Income from dealing in foreign currencies		236,756	231,055
		2,649,623	2,359,822
Other income	26	46,414	64,750
Gain/ (loss) on sale of securities		105,221	(1,732)
Credit losses reversal / (expense)	27	(120,882)	38,114
Finance cost on lease liability		(5,351)	-
General and administrative expenses	28	(2,000,947)	(1,812,483)
PROFIT BEFORE INCOME TAX		674,078	648,471
Taxation	29	(65,909)	(170,306)
PROFIT FOR THE YEAR		608,169	478,165
OTHER COMPREHENSIVE INCOME			
<i>Items that may be classified to profit or loss subsequently</i>			
Surplus/ (Deficit) on debt instruments at fair value through other comprehensive income		188,547	(107,431)
Related deferred tax		(37,709)	21,486
Other comprehensive income/(loss) - net of tax		150,838	(85,945)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	21	759,007	392,220
Earnings per share (in AFN)		20.27	15.94

The annexed notes 1 to 36 form an integral part of these financial statements.


 Chairman


 Chief Executive Officer


 Chief Financial Officer

AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital AFN '000'	Capital reserves AFN '000'	Retained earnings AFN '000'	Revaluation surplus/ (loss) on debt instruments at FVOCI AFN '000'	Total AFN '000'
Balance as at 01 January 2018	1,465,071	236,497	2,145,383	3,548	3,850,499
Effect due to adoption of IFRS 9	-	-	(8,110)	-	(8,110)
Restated opening balance under IFRS 9	1,465,071	236,497	2,137,273	3,548	3,842,389
Profit for the year			478,165		478,165
Other comprehensive income, net of tax:					
Debt instruments at FVOCI					
Net change in fair value				(107,431)	(107,431)
Related tax				21,486	21,486
Reclassification adjustments relating to available for sale investments disposed-off during the year – net				(5,565)	(5,565)
Related tax on loss on disposal available for sale investments during the year				1,113	1,113
Total comprehensive income	-	-	478,165	(90,397)	387,768
Transferred to capital reserve		23,908	(23,908)		
Transactions with owners of the bank					
Dividend paid			(645,000)		(645,000)
Balance as at 31 December 2018	1,465,071	260,405	1,946,530	(86,849)	3,585,157
Balance as at 01 January 2019	1,465,071	260,405	1,946,530	(86,849)	3,585,157
Total comprehensive income					
Profit for the year			608,169		608,169
Other comprehensive income, net of tax:					
Debt instruments at FVOCI					
Net change in fair value				188,547	188,547
Related tax				(37,709)	(37,709)
Total comprehensive income	-	-	608,169	150,838	759,007
Transferred to capital reserve		30,408	(30,408)		
Transactions with owners of the bank					
Dividend paid			(665,000)		(665,000)
Balance as at 31 December 2019	1,465,071	290,813	1,859,291	63,989	3,679,164

The annexed notes 1 to 36 form an integral part of these financial statements.


Chairman


Chief Executive Officer


Chief Financial Officer

AFGHANISTAN INTERNATIONAL BANK
STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit Before Income Tax		674,078	648,471
Adjustments for:			
Depreciation	11.2	265,633	76,771
Amortization	12.1	78,119	84,856
Finance cost on lease liability	17	5,351	-
Credit losses (reversal) / expense	27	120,882	(38,114)
Property and equipment written-off	11.2	1,708	-
		1,145,771	771,984
Changes in operating assets and liabilities			
Receivable from financial institutions		(142,498)	227,414
Required reserve maintained with DAB		462,748	(824,255)
Cash margin held with other banks		6,743	19,927
Loans and advances to customers - net		(674,188)	338,455
Other assets		(248,991)	(47,272)
Deferred income on commercial letter of credit and guarantees		(21,315)	79,638
Customers' deposits		(8,540,842)	11,122,527
Deposits from banks		500,000	(500,000)
Other liabilities		(292,874)	342,289
		(7,805,446)	11,530,706
Income tax paid		(6,258)	(131,021)
Net cash flow (used in)/ from operating activities		(7,811,704)	11,399,685
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital work-in-progress	11.1.1	(429,370)	(579,423)
Acquisition of operating fixed assets	11.2	(715)	(9,255)
Acquisition of intangible assets	12.1	(9,255)	(24,700)
Placements (with maturity more than three months)		3,115,176	1,276,079
Investments		(293,373)	(2,485,619)
Net cash flow from/ (used in) investing activities		2,382,463	(1,822,918)
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease liability repaid	17	(60,769)	-
Finance cost paid	17	(8,223)	-
Dividend paid	19.3	(665,000)	(645,000)
Net cash used in financing activities		(733,992)	(645,000)
Net increase in cash and cash equivalents		(6,163,233)	8,931,767
Cash and cash equivalents at 1 January		34,537,651	25,605,884
Cash and cash equivalents at 31 December	31	28,374,418	34,537,651

The annexed notes 1 to 36 form an integral part of these financial statements.


 Chairman


 Chief Executive Officer


 Chief Financial Officer

AFGHANISTAN INTERNATIONAL BANK
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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 capital is divided into shares the status of the bank is changed from limited liability to Corporation under the Corporations and Limited Liability Companies Law, this status is effective from 04 May 2016. The principal business place of the Bank is at AIB Head Office, Airport Road, Kabul, Afghanistan.

The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The Bank has 35 branches and 2 cash outlets (2018: 37 branches and 2 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, the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank. 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 and other laws and regulations issued by Da Afghanistan Bank takes precedence.

These 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 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 and the amendments and interpretation of IFRSs which became effective for the current year:

Standard or Interpretation

- IFRS 16, "Leases"
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
- Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures (amendments to IAS 28)
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

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AFGHANISTAN INTERNATIONAL BANK
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

Annual Improvements to IFRS Standards 2015-2017 Cycle

- IFRS 3 Business combination - previously held interest in a joint operation
- IFRS 11 Joint Agreements- previously held interest in a joint operation
- IAS 12 Income Taxes- Income tax consequences on payments on financial instruments classified as equity
- IAS 23 Borrowing cost - Borrowing cost eligible for capitalization

The above standards and interpretations did not have a material impact on the financial statements except for the IFRS 16 Leases for which the impact is discussed as below.

2.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations with respect to the approved accounting standards would be effective from the dates mentioned there against:

Standard or Interpretation	Effective date (annual periods beginning)
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
IFRS 17 – Insurance Contracts	1 January 2022
IAS 1/ IAS 8 - Definition of Material (Amendments)	1 January 2020
Definition of business - Amendment to IFRS 3	1 January 2020
The Conceptual Framework of Financial Reporting	1 January 2020

The above standards, amendments and interpretations are not expected to have any material impact on the Bank's financial statements in the period of initial application.

3. Summary of significant accounting policies

The accounting policies adopted in preparation of this financial statements are consistent with those followed in the preparation of the annual financial statements of the Bank for the year ended 31 December 2018 other than as disclosed in note 3.1 below:

3.1 Adoption of IFRS 16 Leases

In these financial statements, the Bank has applied IFRS 16, effective for annual periods beginning on or after 1 January 2019, for the first time.

3.1.1 IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases- Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form

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AFGHANISTAN INTERNATIONAL BANK
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

of a Lease'). The adoption of this new Standard has resulted in recognition of a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach. There has been no impact on the opening equity upon adoption of IFRS 16. The comparative information for 2018 is reported under IAS 17 and is not comparable to the information presented for 2019. Right-of-use asset amounting to AFN 329,926 thousand has been recognized along with lease liability of AFN 317,856 thousand with remaining impact recognized in reversal of prepaid rent expense as of the date of adoption.

For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4. The Bank has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for prepaid/ accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16. On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. The Bank did not had any finance lease. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 1.9% per annum. The Bank has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

Following accounting policy change has been adopted by the Bank pursuant to IFRS 16:

3.1.2 Leased assets

The Bank as a Lessee

For any new contracts entered into on or after 1 January 2019, the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Bank assesses whether the contract meets three key evaluations which are whether:

- a) The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- b) The Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

AFGHANISTAN INTERNATIONAL BANK
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

- c) The Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment within operating fixed assets and lease liabilities have been disclosed on the face of the statement of financial position.

Extension options for leases

When the Bank has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

3.2 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.

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AFGHANISTAN INTERNATIONAL BANK
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

3.3 Financial instruments

3.3.1 Financial instruments – initial recognition

3.3.1.1 Date of recognition

Financial assets and liabilities, except for loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognize balances due to customers when funds are transferred to the Bank.

3.3.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments.

Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction

costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

3.3.1.3 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

3.3.1.4 Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost, as explained in note 3.3.2.1
- FVOCI, as explained in notes 3.3.2.3 and 3.3.2.4
- FVPL

The Bank classifies and measures its trading portfolio at FVPL as explained in Notes 3.3.2.2. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 3.3.2.6.

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AFGHANISTAN INTERNATIONAL BANK
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 3.3.2.6.

3.3.2 Financial assets and liabilities

3.3.2.1 Due from banks, Loans and advances to Customers, Financial investments at amortized cost

The Bank measures Due from banks, Loans and advances to customers and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below:

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.



AFGHANISTAN INTERNATIONAL BANK
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

The SPPI test

Second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

3.3.2.2 Financial assets or financial liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

3.3.2.3 Debt instruments at FVOCI

The Bank classifies debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost as explained in note 3.3.2.1. The ECL calculation for Debt instruments at FVOCI is explained in Note 33.2.2. Where the Bank holds more than one investment in the same security, they are deemed to

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be disposed of on a first-in first-out basis. On de recognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

3.3.2.4 Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by- instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

3.3.2.5 Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the effective interest rate (EIR). A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

3.3.2.6 Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; Or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; Or
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be

required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the

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Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

3.3.3 Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2019.

3.3.4 Impairment of financial assets

3.3.4.1 Overview of the ECL principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 3.3.4.2. The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 3.3.5.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 3.3.2.2

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- | | |
|---------|--|
| Stage 1 | When loans are first recognized, the Bank recognizes an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2. |
| Stage 2 | When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3. |
| Stage 3 | Loans considered credit-impaired (as noted below). The bank records an allowance for the LTECLs. |

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POCI Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de recognition of the financial asset.

3.3.4.2 The calculation of ECLs

The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de de-recognized and is still in the portfolio. The concept of PDs is further explained in note 33.2.2.
EAD	The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in note 33.2.2.
LGD	The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in note 33.2.2.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside, downside ('average base')). When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 3.3.4.4, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

The mechanics of the ECL method are summarized below:

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Stage 1	<p>The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date.</p> <p>These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.</p>
Stage 2	<p>When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.</p>
Stage 3	<p>For loans considered credit-impaired (as defined in note 33.2.2), the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.</p>
POCI	<p>POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR.</p>

Loan commitments and letters of credit

When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognized within provisions, as disclosed in note 18.2 to the financial statements.

Financial guarantee contracts

The Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognized within provisions, as disclosed in note 18.2 to the financial statements.

3.3.4.3 Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an

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accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon de recognition of the assets.

3.3.4.4 Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behavior, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is one year for corporate and 3 years for retail products.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 33.2.2 but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

3.3.4.5 Forward looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Consumer price indices

3.3.5 Impairment provision under local regulations

Loans and advances to customers

The outstanding principal of the advances are classified in accordance with the Asset Classification and Provisioning Regulation issued by DAB as follows:

- i) **Standard:** These are loans and advances, which are paying in a current manner or at most past due for the period of 1-30 days, fully secured and is supported by sound net worth, profitability, liquidity and cash flow of the obligor. Standard assets are sufficiently secured with respect to the repayment of both the principal amount and interest. An overdraft would be regarded as Standard if monthly interest payments and other charges are past due for 1-30 days, and there was regular activity on the account with

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no sign of a hard core of debt developing. A standard provision is maintained in the books of account @1% (31 December 2018: 1%) of value of such loans and advances.

- ii) **Watch:** These are loans and advances which are adequately protected but are potentially weak. Such an asset constitutes an unwarranted credit risk, but not to the point of requiring a classification of Substandard. The credit risk may be minor, and most instances, bank management can correct the noted deficiencies with increased attention. Further, all loans and advances which are past due by 31 to 60 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account not less than 5% of value of such loans and advances.
- iii) **Substandard:** These are loans and advances which show clear manifestations of credit weaknesses that jeopardize the liquidation of the debt. Substandard loans and advances include loans to borrowers whose cash flows are not sufficient to meet currently maturing debts, loans to borrowers which are significantly undercapitalized, and loans to borrowers lacking sufficient working capital to meet their operating needs.

Further, all loans and advances which are past due by 61 to 120 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account not less than 25% of value of such loans and advances.

- iv) **Doubtful:** These are loans and advances which display all the weaknesses inherent in loans and advances classified as Substandard but with the added characteristics that they are not well secured and the weaknesses make collection or liquidation in full, on the basis of currently available information, highly questionable and improbable. The possibility of loss is extremely high, but because of certain mitigating circumstances, which may work to the advantage and strengthening of the facility, its classification as an estimated loss is postponed until its more defined status is ascertained. Further all loans and advances which are past due by 121 to 480 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account not less than 50% of value of such loans and advances.
- v) **Loss:** These are loans and advances which are considered uncollectible and of such little value that their continuation as recoverable facilities is not defensible. This classification does not imply that the facility has absolutely no recoverable value, but rather it is not practical or desirable to defer making full provisions for the facility even though partial recover in future may not be

entirely ruled out. Loans and advances classified as Loss include those to bankrupt companies and insolvent firms with negative working capital and cash flow or those to judgment debtors with no means or foreclosable collateral to settle the debts. Further, all loans and advances which are past due over 481 days for principal and interest payments are classified as Loss. This category of loans shall be retained in bank balance sheet for the period of 6 month for recovery purposes and 100% loan loss provisioning should be made. After 6 months, they shall be immediately written off with the provisioning made.

The bank has also determined provision for expected credit losses under IFRS 9 which results higher than provision under Asset Classification Provisioning Regulation, accordingly higher provisions were in cooperated in the financial statements as disclosed in note 9.4 to the financial statements.

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Investments, placements and other assets

The bank has policy of maintaining general provision on placements and investments based on the credit rating, falling in category A (0%), B (0.50%) and C (1%), entity also determine provision for expected credit losses under IFRS 9, the financial statements are in cooperated with higher provision impact resulting from the mentioned methods, as disclosed in notes 7.2.2 & 8.5.2 to the financial statements.

Off-balance sheet item

General provision of 1% is maintained on bank guarantees and letter of credits on unsecured portion by cash margin as required in Asset Classification and Provisioning Regulation issued by DAB, however, entity also determine provision for expected credit losses on off-balance sheet items under IFRS 9, the financial statements are in cooperated with higher provision impact resulting from the mentioned methods, as disclosed in note 18.2 to the financial statements.

3.4 Financial liabilities

The Bank classifies its financial liabilities in following categories.

a) Financial liabilities at fair value through profit or loss

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

b) Other financial liabilities measured at amortized cost

These are non-derivatives financial liabilities with fixed or determinable payments that are not quoted in an active market. These are recognized initially at fair value,

net of transaction costs incurred and are subsequently stated at amortized cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement.

3.5 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.

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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.

3.6 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:

Building	20 years
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.

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3.7 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) Core Deposits

The Core Deposits is capitalized resulting from the acquisition of deposit base of Standard Chartered Bank (SCB) Afghanistan operations during 2012 which is amortized over the useful life of 15 years.

ii) 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.

iii) 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.

3.8 Impairment of non-financial assets

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

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

3.9 Taxation

Current

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

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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.

3.10 Revenue recognition

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

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

- b) Due but unpaid interest income is accrued on overdue advances for periods up to 90 days in compliance with the Banking regulations issued by DAB. After 90 days, overdue advances are classified as non-performing and further accrual of unpaid interest income ceases.
- c) Gains and losses on disposal of property and equipment are recognized in the period in which disposal is made.
- d) Fees and commission income and expense are recognized on an accrual basis when the service has been provided/received.
- e) Fee and commission income that are integral part to the effective interest rate on financial assets and liability are included in the measurement of effective interest rate. Other fee and commission expenses related mainly to the transactions are services fee, which are expensed as the services are received.

3.11 Foreign currency transactions and translation

a) Functional and presentation currency

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

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3.12 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 major currencies against AFN were:

	1 USD	1 Euro
As at 31 December 2019	77.46	86.18
As at 31 December 2018	75.31	86.01

3.13 Provisions

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

3.14 Offsetting of financial instruments

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

3.15 Dividend Distribution

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

3.16 Earnings per share

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

3.17 Employee benefits

Defined contribution plan

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

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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) Impairment losses on financial assets

The banks accounting framework considers both the provision prescribed under local regulations in Afghanistan and IFRS 9. Therefore, the Bank's level of provision for impairment against financial asset considers the requirements of both regimes.

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The Bank's internal credit grading model
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs to such models.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP growth
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

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.

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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) 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.

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	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
5			
Cash and balances with Da Afghanistan Bank			
Cash in hand		2,432,604	1,791,885
Cash in hand - Islamic banking division		180,747	115,728
Cash at Automated Teller Machines (ATMs)		648,553	725,223
		3,261,904	2,632,836
Balances with Da Afghanistan Bank:			
Local currency:			
- Deposit facility accounts	5.1	1,107,189	2,821,706
- Required reserve accounts	5.2	588,501	620,660
- Current accounts		496,894	1,221,241
		2,192,584	4,663,607
Foreign currency:			
- Required reserve accounts	5.2	5,337,790	5,768,379
- Current accounts		3,066,739	2,900,678
		13,859,017	15,965,500

5.1 This represents interest bearing account carrying interest @ 0.10% (31 December 2018: 0.10%) per annum.

5.2 Required reserves are maintained with DAB, denominated in respective currencies, to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. These balances are interest free.

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
6			
Balances with other banks			
Outside Afghanistan:			
With Standard Chartered Bank	6.1	-	4,216,826
With Commerzbank, Germany:			
- in nostro accounts	6.2	77,070	149,930
- as cash margins held	6.3	18,590	18,074
		95,660	168,004
With Crown Agents Bank:			
- in nostro accounts	6.4	2,893,292	1,615,896
- as cash margins held		-	7,259
		2,893,292	1,623,155
With other banks	6.5	4,248,819	4,087,993
		7,237,771	10,095,978

6.1 These represented balances with Standard Chartered Bank in Singapore, New York, Frankfurt, London and Dubai, in USD, EURO, GBP and AED currencies, which carried interest rates ranging from 0.05% to 0.80% p.a. These balances are available on demand basis.

6.2 These represent non-interest bearing balances available on demand basis.

6.3 This represents the amounts held against the counter guarantees issued by Commerzbank, Germany.

- 6.4 These represent interest bearing balances (2018: non-interest bearing) which carry interest of 1.50% p.a.
- 6.5 These represent non-interest bearing balances available with different banks for which details are included in note 33.2.5

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
7 Placements - net			
Placements with banks	7.1	15,106,058	19,889,268
Impairment allowances for losses	7.2	(21,011)	(30,943)
		15,085,047	19,858,325

- 7.1 These represent USD and Euro denominated fixed term placements with financial institutions outside Afghanistan up to a maximum period of one year (2018: one year) and carry interest at rates ranging from 1.40% to 3.50% (31 December 2018: 1.15% to 3.25%) per annum.

7.2 Impairment allowance for placements

7.2.1 The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2019 and 2018, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 32.2.2.

Rating	31 December 2019				31 December 2018
	Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Total AFN '000'	AFN '000'
Performing					
Investment Grade	13,809,990	774,600	-	14,584,590	19,889,268
Non-Investment Grade	-	521,468	-	521,468	-
Total	13,809,990	1,296,068	-	15,106,058	19,889,268
Provision for expected credit losses	(234)	(821)	-	(1,055)	(2,714)
Provision for impairment losses as per ACPR - (note 7.2.2)	-	-	-	(19,956)	(28,229)
Total	(234)	(821)	-	(21,011)	(30,943)
Net balance	13,809,756	1,295,247	-	15,085,047	19,858,325

- 7.2.2 The provision for expected credit losses on placements as per IFRS 9 amounted to AFN 1,055 thousand (31 December 2018: AFN 2,714 thousand) which is lower from the one resulting from Assets Classification and Provisioning Regulation requirements (ACPR). Accordingly, the Bank has maintained higher provision as required under ACPR.

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		31 December 2019	31 December 2018
		AFN '000	AFN '000
8 Investments - net	Note		
- Investment bonds	8.1	7,837,520	3,588,690
Debt instruments at amortised cost:			
- Capital notes with DAB	8.2	742,372	1,144,940
- Treasury bills	8.3	934,684	2,685,978
- Investment bonds	8.4	9,415,638	11,028,686
		11,092,694	14,859,604
		18,930,214	18,448,294
Allowance for ECL / impairment losses	8.5	(14,465)	(24,589)
		18,915,749	18,423,705

8.1 These represent investments in sovereign bonds having maturity ranging from January 2020 to April 2026 (31 December 2018: April 2019 to April 2025) and carrying interest rates ranging from 2.38% to 8.75% (31 December 2018: 2.38 % to 8.75%) per annum. These investments are managed by Julius Baer and Emirates NBD on behalf of the Bank.

8.2 These represent investments in Capital notes issued by DAB having maturity ranging from February to November 2020 (31 December 2018: three to six months) carrying yield ranging from 0.93% to 2.20% (31 December 2018: 0.50% to 0.91%) per annum receivable on maturity of respective notes.

8.3 This represents investment in United States of America - Treasury bills having maturing in January 2020 (31 December 2018: one month to three months), carrying yield of 1.53% (31 December 2018: 2.29% to 2.39%) per annum receivable on maturity.

8.4 These represent investments in sovereign bonds carrying interest rates ranging from 1.25% to 7.75% (31 December 2018: 1.25% to 7.75%) per annum. These investments have maturity ranging from January 2020 to August 2025 (31 December 2018: January 2019 to August 2025). These investments are managed by Julius Baer, Credit Suisse and Emirates NBD on behalf of the Bank.

8.5 Impairment allowance for investments

8.5.1 The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2019 and 2018, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 32.2.2.

Rating	31 December 2019				31 December 2018
	Stage 1	Stage 2	Stage 3	Total	
	Collective	Collective	Collective	AFN '000'	
	AFN '000'	AFN '000'	AFN '000'	AFN '000'	AFN '000'
Performing					
Investment Grade	12,739,685	5,282,575	-	18,022,260	16,177,079
Non-Investment Grade	-	817,373	-	817,373	2,163,782
Total	12,739,685	6,099,948	-	18,839,633	18,340,861
Provision for expected credit losses	-	(9,813)	-	(9,813)	(19,064)
Provision for Impairment losses as per ACPR - (note 8.5.2)	-	-	-	(4,652)	(5,524)
Total	-	(9,813)	-	(14,465)	(24,588)
Mark to market adjustment on debt instruments at fair value through OCI	-	-	-	90,581	107,432
Net balance	12,739,685	6,090,135	-	18,915,749	18,423,705

- 8.5.2 The provision for expected credit losses on investments as per IFRS 9 amount to AFN 9,813 thousand (31 December 2018: AFN 24,588 thousand) which is lower from Assets Classification and Provisioning Regulation requirements (ACPR). Accordingly, the Bank has maintained higher provision as required under ACPR.

9	Loan and advances to customers - net	Note	31 December	31 December
			2019	2018
			AFN '000	AFN '000
	Overdrafts	9.1	3,208,365	2,433,694
	Term loans	9.2	531,421	633,716
	Consumer loans	9.3	51,546	49,734
			3,791,332	3,117,144
	General provision	9.4	(154,920)	(150,620)
	Allowance for ECL / impairment losses	9.5	(218,602)	(68,908)
			3,417,810	2,897,616
Particulars of loans and advances - (gross)				
	Short term (for up to one year)		3,318,947	2,222,954
	Non-current (for over one year)		472,500	894,190
			3,791,447	3,117,144

- 9.1 These represent balances due from customers at various interest rates ranging from 7% to 14.5% (31 December 2018: 7% to 15%) per annum and are secured against mortgage of properties, personal guarantees and pledge of stocks. These include loans and advances to Small Medium Size Enterprises (SMEs) amounting to AFN 71,884 thousand (31 December 2018: AFN 138,845 thousand) which are also partially backed by Afghanistan Credit Guarantee Foundation (ACGF) guarantees to the extent defined in agreement with ACGF.
- 9.2 Term loans carry interest at various rates ranging from 5.5% to 21% p.a. (31 December 2018: 11% to 18% p.a.) and are secured against mortgage of properties, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. These include loans and advances to SMEs amounting to AFN 228,333 thousand (31 December 2018: AFN 587,070 thousand) which are also partially backed by Afghanistan Credit Guarantee Foundation (ACGF) guarantees to the extent defined in agreement with ACGF.
- 9.2.1 Term loans included Small Business loans amounted to AFN 32,819 thousand as of 31 December 2018 with interest rate ranging from 13% to 18% p.a. These loans were secured against deposit of original title deed, corporate guarantee by a registered company and hypothecation of movable fixed assets as collateral after registration from DAB.
- 9.3 These include payroll loans provided to individual payroll account holders and employees of corporate customers having payroll account with the Bank carrying interest rate of 18% (31 December 2018: 18%) p.a., loans provided to university and school teachers carrying interest rate of 15% (31 December 2018: 15%) and credit card loans carrying interest of 36% (31 December 2018: 36%) on annual basis on outstanding balances.
- 9.4 This represent additional general provision maintained by the bank which is duly approved by DAB.

9.5 Allowance for ECL / Impairment allowance for loans and advances to customers

9.5.1 The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2019 and 2018, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 32.2.2.

	31 December 2019				31 December 2018 AFN '000'
	Stage 1 AFN '000'	Stage 2 AFN '000'	Stage 3 AFN '000'	Total AFN '000'	
<i>Gross loan portfolio</i>					
Internal Rating Grade					
Performing					
High Grade	583,822	56,571	-	640,393	868,331
Standard Grade	1,614,068	1,194,418	-	2,808,486	2,193,506
Sub Standard Grade	3,920	10,819	-	14,739	44,379
Non-performing					
Total	2,201,810	1,261,808	327,714	3,791,332	3,117,144
<i>Allowance for ECL / impairment losses</i>					
Opening balance	26,011	33,945	8,952	68,908	93,739
Allowances for impairment made during the year	(15,175)	(5,200)	166,799	146,424	(5,293)
Amounts written off during the year - note 9.5.2	-	-	(12,374)	(12,374)	(15,490)
Exchange rate differences and other adjustments			15,644	15,644	(4,048)
Provision held for expected credit losses - note 9.5.3	10,836	28,745	179,021	218,602	68,908
Net balance	2,190,974	1,233,063	148,693	3,572,730	3,048,236

9.5.2 The Bank has filed suits for the recovery of loans and advances (principal due) against the defaulted borrowers amounting to AFN 1,029,119 thousand (31 December 2018: AFN 754,965 thousand) 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.

9.5.3 IFRS 9 expected credit loss amounts to AFN 218,601 thousand as at 31 December 2019. The provision of AFN 212,927 thousand (General provision: AFN 21,061 thousand and Specific provision: AFN 191,866 thousand) (31 December 2018: provision of AFN 63,867 comprising of General provision of AFN 28,668 thousand and Specific provision of AFN 35,199 thousand) made under Assets Classification and Provisioning Regulation is lower than IFRS 9 ECL, therefore, the Bank has maintained the higher provision under the requirements of IFRS 9.

10 Receivable from financial institutions

This represents non-interest bearing net receivable balance due from CSC Bank SAL (CSC). The Bank under the agreement with CSC provides the enablement platform for credit/ debit card transactions, under fee sharing arrangement, and transfers the cash in ATMs to CSC. Usage charges are payable by the Bank to CSC.

		<u>31 December 2019</u>	<u>31 December 2018</u>
	Note	AFN '000	AFN '000
11 Operating fixed assets			
Capital work-in-progress	11.1	339,623	79,949
Property and equipment	11.2	3,110,719	2,979,622
		<u>3,450,342</u>	<u>3,059,571</u>
11.1 Capital work-in-progress			
Advances to suppliers and contractors		85,570	79,949
Advances to related party		254,053	-
	11.1.1	<u>339,623</u>	<u>79,949</u>
11.1.1 Movement in capital work in progress			
Opening		79,949	2,264,025
Additions during the year		429,370	579,423
Transferred to operating fixed assets		(69,042)	(2,754,723)
Transferred to intangible assets		(100,654)	(8,776)
Closing		<u>339,623</u>	<u>79,949</u>



11.2 Property and equipment

	Land	Building	Leased buildings - Right of Use Assets	Leasehold improvements	Computers	Office equipment	Furniture & fittings	ATMs	Vehicles	Total
Cost										
Balance at 1 January 2018	177,568	-	-	81,810	115,751	175,100	19,204	136,935	97,651	804,019
Transfers from CWIP	-	2,568,578	-	15,882	45,823	13,462	49,692	61,286	-	2,754,723
Additions	-	-	-	658	11,610	4,349	98	2,694	82	19,491
Balance at 31 December 2018	177,568	2,568,578	-	98,350	173,184	192,911	68,994	200,915	97,733	3,578,233
Balance at 1 January 2019	177,568	2,568,578	-	98,350	173,184	192,911	68,994	200,915	97,733	3,578,233
Adjustment on transition to IFRS 16	-	-	329,926	-	-	-	-	-	-	329,926
Transfers from CWIP	-	1,416	-	8,122	31,408	17,945	1,466	8,685	-	69,042
Additions	-	-	-	-	-	-	-	-	715	715
Adjustments/ written-off	-	-	(1,245)	(9,972)	-	-	-	-	-	(11,217)
Balance at 31 December 2019	177,568	2,569,994	328,681	96,500	204,592	210,856	70,460	209,600	98,448	3,966,699
Depreciation										
Balance at 1 January 2018	-	-	-	75,447	87,093	165,010	17,055	93,539	83,695	521,839
Charge for the year	-	10,908	-	7,186	11,144	22,563	1,637	16,613	6,721	76,772
Balance at 31 December 2018	-	10,908	-	82,633	98,237	187,573	18,692	110,152	90,416	598,611
Balance at 1 January 2019	-	10,908	-	82,633	98,237	187,573	18,692	110,152	90,416	598,611
Charge for the year	-	128,580	63,916	6,698	35,476	7,151	2,702	17,088	4,022	265,633
Adjustments/ written-off	-	-	-	(8,264)	-	-	-	-	-	(8,264)
Balance at 31 December 2019	-	139,488	63,916	81,067	133,713	194,724	21,394	127,240	94,438	855,980
Carrying amounts										
Balance at 1 January 2018	177,568	-	-	6,363	28,658	10,090	2,149	43,396	13,956	282,180
Balance at 31 December 2018	177,568	2,557,670	-	15,717	74,947	5,338	50,302	90,763	7,317	2,979,622
Balance at 31 December 2019	177,568	2,430,506	264,765	15,433	70,879	16,132	49,066	82,360	4,010	3,110,719
Useful life		20 years	1 to 8 years	3 to 10 years	3 to 5 years	3 to 5 years	3 to 10 years	5 years	5 years	<i>8/10</i>

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
12 Intangible assets			
Computer software, licenses and core deposits	12.1	<u>426,328</u>	<u>394,538</u>
12.1 Computer software, licenses and core deposits			
		Computer software	License fee
		AFN '000	AFN '000
		Core deposits	Total
		AFN '000	AFN '000
Cost			
Balance at 01 January 2018		326,086	72,520
Transfers from CWIP		8,776	-
Additions		23,989	711
Balance at 31 December 2018		<u>358,851</u>	<u>73,231</u>
Balance at 01 January 2019		358,851	73,231
Transfers from CWIP		100,654	-
Additions		9,255	-
Balance at 31 December 2019		<u>468,760</u>	<u>73,231</u>
Amortization			
Balance at 01 January 2018		245,602	56,708
Charge for the year		39,403	7,722
Balance at 31 December 2018		<u>285,005</u>	<u>64,430</u>
Balance at 01 January 2019		285,005	64,430
Charge for the year		36,128	7,336
Balance at 31 December 2019		<u>321,133</u>	<u>71,766</u>
Carrying amounts			
Balance at 01 January 2018		113,249	16,523
Balance at 31 December 2018		<u>73,846</u>	<u>8,801</u>
Balance at 31 December 2019		<u>147,627</u>	<u>1,465</u>
Useful life		3 to 10 years	3 to 10 years
			15 years

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
13 Deferred tax			
Deferred tax assets / (liabilities) arising in respect of:			
Provision on investments, placements, loans and advances and other assets		7,096	40,756
Provision on guarantees and commercial letter of credits		14,376	15,048
Surplus on revaluation of investments		(17,110)	20,599
Carry forward taxable losses		189,383	139,597
Accelerated tax depreciation and amortization		(228,044)	(120,896)
	13.1	<u>(34,299)</u>	<u>95,104</u>

13.1 Movement in temporary differences during the year

	Balance at 01 January 2018 AFN '000	Recogniz ed in profit or loss AFN '000	Recogniz ed in equity AFN '000	Balance at 31 Decembe r 2018 AFN '000	Recogniz ed in profit or loss AFN '000	Recogniz ed in equity AFN '000	Balance at 31 Decembe r 2019 AFN '000
Deferred tax assets arising in respect of:							
Provision on investments placements and other assets	48,720	(7,963)	-	40,757	(33,661)	-	7,096
Provision on guarantees and commercial letter of credits	13,648	1,399	-	15,047	(671)	-	14,376
Carry forward taxable losses	-	139,597	-	139,597	49,786	-	189,383
	62,368	133,033	-	195,401	15,454	-	210,855
Deferred tax liabilities arising in respect of:							
Revaluation reserve on investments	(887)	-	21,486	20,599	-	(37,709)	(17,110)
Accelerated tax depreciation and amortization	12,124	(133,020)	-	(120,896)	(107,148)	-	(228,044)
	11,237	(133,020)	21,486	(100,297)	(107,148)	(37,709)	(245,154)
	73,605	13	21,486	95,104	(91,694)	(37,709)	(34,299)

		31 December 2019	31 December 2018
	Note	AFN '000'	AFN '000'
14 Other assets			
Advances to employees		49,561	37,851
Security deposits		8,821	8,805
Prepayments		206,222	153,237
Interest receivable		346,562	328,021
Advance income tax - net		30,050	23,792
Other receivable and advances		196,609	30,870
Receivable from DoJ	14.1	250,605	250,605
Less: Balance written off		(250,605)	(250,605)
		-	-
		837,825	582,576
Allowance for ECL / impairment losses	14.2	(6)	(9,709)
		837,819	572,867

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 million (equivalent to USD 10.1 million) 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 is in settlement discussion with the U.S. Government. However, on prudent basis, the Bank has made provision of AFN 250,605 thousand in its books of account.

14.2 This represents provision maintained on advances to staff as per Asset Classification and Provisioning Regulation issued by DAB (31 December 2018: provision for expected credit losses on advances to staff).

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	Note	31 December 2019 AFN '000'	31 December 2019 AFN '000'
15 Customers' deposits			
Current deposits		56,415,963	62,250,562
Saving deposits	15.1	244,037	224,981
Term deposits	15.2	-	3,012,400
Islamic deposits	15.3	1,335,000	881,714
Cash margin held against bank guarantees and letters of credit		848,105	1,014,290
		<u>58,843,105</u>	<u>67,383,947</u>

15.1 Saving deposits carry interest @ 3% p.a. (31 December 2018: 3% p.a.)

15.2 Term deposits carried interest rates ranging from 0.75% to 1.40% per annum.

15.3 Islamic deposits can be further analyzed as follows:

Current deposits	144,910	121,803
Saving deposits	1,146,235	733,067
Term deposits	43,855	26,845
	<u>1,335,000</u>	<u>881,715</u>

16 Deposits from bank

Represents term deposit of AFN 500,000 thousand (31 December 2018: Nil) from Pashtany Bank that carries interest of 1.87% per annum and maturing on 8 June 2020.

	Note	31 December 2019 AFN '000'	31 December 2019 AFN '000'
17 Lease liabilities			
Adjustment on transition to IFRS 16 - opening balance as of 1 January 2019		317,856	-
Additions during the year		-	-
Derecognized during the year		(1,113)	-
Principal repayment		(60,769)	-
Finance cost accrued		5,351	-
Finance cost paid		(8,223)	-
Adjustments for the movement in lease liability		11,938	-
	17.1	<u>265,040</u>	<u>-</u>

17.1 Lease liabilities represent the amounts payable relating to the right-of-use assets recognized on account of branches under operating leases. The maturity analysis of lease liabilities is presented in note 33.3.2.

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		31 December 2019	31 December 2019
	Note	AFN '000'	AFN '000'
18 Other liabilities			
Accruals and other payables		12,148	37,426
Amounts pending transfers to customers' accounts	18.1	46,222	337,651
Retention money payable		14,927	15,341
Payable from sale of collateral against loans and advances written off		64,924	34,098
Others		123,479	155,843
Provision on:			
Financial guarantees	18.2	71,582	75,234
Commercial letter of credits	18.2	299	-
		71,881	75,234
		333,581	655,593

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

18.2 This represents 1% provision on unsecured portion of bank guarantees, not backed by cash margin, as required in Asset Classification and Provisioning Regulation issued by DAB, however, IFRS 9 provision for expected credit loss computed on unfunded financing facilities amounts to AFN 47,074 thousands (31 December 2018: AFN 23,363 thousands). The provision under regulations issued by DAB is higher than IFRS 9 ECL therefore, the Bank has maintained the regulatory provision.

19 Share capital

		31 December 2019	31 December 2019
Authorized 30,000,000 (2018: 30,000,000) ordinary shares of USD 1 each	USD '000'	30,000	30,000
	AFN '000'	1,465,071	1,465,071
Issued, subscribed and paid-up - 30,000,000 (31 December 2018: 30,000,000) ordinary shares of USD 1 each fully paid in cash	AFN	1,465,071	1,465,071

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

19.2 Horizon Associates LLC and Wilton Holding Limited each hold 46.25% of issued, subscribed and paid up capital while remaining 7.5% is held by International Finance Corporation which is same as per previous year.

19.3 During the year, the Bank has paid cash dividend of AFN 22.17 per share (31 December 2018: AFN 21.5 per share) amounting to AFN 665 million (31 December 2018: AFN 645 million).

20 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 reach up to 25% of the Bank's capital. The Bank's capital reserves as at 31 December 2019 stood at AFN 290,813 thousand (31 December 2018: AFN 260,405 thousand).

	Note	31 December 2019 AFN '000'	31 December 2019 AFN '000'
21 Contingencies and commitments			
21.1 Contingencies			
Financial guarantees	21.1.1	<u>7,946,230</u>	<u>8,258,845</u>
21.2 Commitments			
(a) Undrawn loan and overdraft facilities		524,394	1,217,553
(b) Commercial letters of credit		<u>48,537</u>	<u>25,333</u>
		<u>572,931</u>	<u>1,242,886</u>

21.1.1 These represent bid bonds and performance-based guarantees issued by the Bank. These are 100% secured against the cash margin and counter guarantees.

	Note	31 December 2019 AFN '000'	31 December 2019 AFN '000'
22 Interest income			
Interest income on:			
Balances with DAB and other banks		25,801	17,919
Placements		494,077	417,418
Debt instruments at FVOCI		200,179	140,186
Debt instruments at amortized cost		283,565	276,172
Loans and advances to customers		<u>379,617</u>	<u>439,902</u>
		<u>1,383,239</u>	<u>1,291,598</u>
23 Interest expense			
Interest expense on:			
Customers' deposits		33,261	41,575
Deposits from bank		<u>3,707</u>	<u>9,566</u>
		<u>36,968</u>	<u>51,141</u>

24 Fee and commission income**Fee and commission income on:**

Loans and advances to customers	41,398	23,275
Trade finance products	51,254	52,599
Cash withdrawals / Cash transfers	512,184	469,339
Customers' account service charges	131,403	107,645
Income from ATMs	97,798	91,301
Income from guarantee arrangements	138,154	70,163
Payroll services	75,509	53,717
Others	34,173	49,035
	1,081,873	917,074

25 Fee and commission expense

Guarantee / letter of credit commission	13,078	22,390
Bank charges	2,199	6,374
	15,277	28,764

26 Other income

Loans and advances recovered previously written off	46,414	64,750
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27 Credit losses (reversal) / expense

The table below shows the ECL charges on financial instruments for the year recorded in the income statement:

		31 December 2019					31 December 2018
	Note	Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Regulatory AFN '000'	Total AFN '000'	AFN '000'
Placements	7.2	(733)	(926)	-	(8,273)	(9,932)	(81,322)
Investments	8.5		(9,251)	-	(873)	(10,124)	(100,997)
Loans and advances	9.5	(15,175)	(5,200)	170,069	-	149,694	(5,293)
General provision	9.4	-	-	-	4,300	4,300	138,540
Other assets	14.2	-	(9,703)	-	-	(9,703)	3,962
Financial guarantees	18.2	-	-	-	(3,652)	(3,652)	9,924
Letter of credit	18.2	-	-	-	299	299	(2,928)
Total (reversal)/ impairment loss for the year		(15,908)	(25,080)	170,069	(8,199)	120,882	(38,114)

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29.1 Owing to carry forward tax losses, no provision for taxation has been made during the year.

29.2 Relationship between tax expense and accounting profit

Accounting profit for the year	<u>674,078</u>	<u>648,471</u>
Tax at the applicable rate of 20%	134,816	129,694
Deductible expenses	(135,648)	(331,280)
Non-deductible expenses	832	61,989
Effect of temporary differences	21,354	(115)
Effect of carry forward taxable losses	70,340	139,597
Adjustment in respect of income tax of prior years	(25,785)	170,420
	<u>65,909</u>	<u>170,305</u>

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30 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:

Nature of transactions	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
	2019	2018	2019	2018
	AFN '000	AFN '000	AFN '000	AFN '000
(a) Loans and advances to related parties				
Loans outstanding at the beginning of the year	-	-	174,011	155,515
Loans issued during the year	1,908	-	169,316	171,995
Loans repayments during the year	-	-	(168,354)	(153,306)
Exchange gain	-	-	(193)	(193)
Loans outstanding at the end of the year	1,908	-	174,781	174,011
Interest income earned	57	-	11,544	14,812

During the year, an amount of AFN 254,053 thousand (31 December 2018: AFN 446,356 thousand) was paid to MADCC (related party) for the construction of head office building.

Provision for expected credit losses on outstanding balances of loans and advances to related parties amounts to AFN 1,748 thousand (31 December 2018: AFN 1,364 thousand).

The facilities provided to related parties carry mark-up of 7% p.a. (31 December 2018: 7% 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.

Nature of transactions	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
	2019	2018	2019	2018
	AFN '000	AFN '000	AFN '000	AFN '000
(b) Deposits from related parties				
Deposits at the beginning of the year	19,061	49,267	53,472	104,110
Deposits received during the year	440,748	464,349	4,203,122	2,679,656
Deposits repaid during the year	(402,726)	(498,441)	(4,190,581)	(2,751,110)
Exchange rate difference	226	3,886	1,401	20,815
Deposits at the end of the year	57,309	19,061	67,414	53,472
Interest expense on deposits	-	-	-	-

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These represent current account of related parties, which carry Nil interest rate (31 December 2018: Nil).

Nature of transactions	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
	2019	2018	2019	2018
	AFN '000	AFN '000	AFN '000	AFN '000
(c) Other related party transactions				
Fee and commission income	-	-	6,017	13,203
Directors' fee	30,038	22,264	-	-
Fee and commission expense	-	-	-	-
Rental expenses	-	-	54,301	52,989
Travelling expense	9,550	10,851	-	-
Capital work-in-progress	-	-	254,053	417,497
Guarantees issued by the Bank	-	-	-	333

30.1 This represents the payments made to Mohib Advance Design Construction Company (MADCC) and Marco Polo Gulf Trading FZE against certain construction and other works remaining after completion of head office.

	2019	2018
	AFN '000	AFN '000
(d) Key Management compensation		
Salaries and other short-term benefits	56,412	55,100
	56,412	55,100

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

	31 December 2019	31 December 2018
	AFN '000	AFN '000
31 Cash and cash equivalents		
Cash in hand and at ATM	3,261,904	2,632,836
Balances with DAB (other than minimum reserve requirement)	4,670,822	6,943,625
Balances with other banks	7,219,181	10,070,645
Placements (with maturity less than three months)	13,222,511	14,890,545
	28,374,418	34,537,651

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32 Earnings per share - Basic and diluted

	31 December 2019	31 December 2018
Profit after taxation (AFN '000)	608,169	478,165
Weighted average number of ordinary shares - (number in thousand)	30,000	30,000
Earnings per share - Basic and diluted (AFN)	<u>20.27</u>	<u>15.94</u>

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

33 Financial risk management

33.1 Financial Assets and Liabilities

31 December 2019	Financial assets (other than investments)- At amortized cost	Debt investments at amortized cost	Debt investments at fair value through OCI	Financial liabilities at amortized cost	Total
	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000
Financial assets					
Cash and balances with Da Afghanistan Bank	13,859,017	-	-	-	13,859,017
Balances with other banks	7,237,771	-	-	-	7,237,771
Placements - net	-	15,085,047	-	-	15,085,047
Investments - net	-	11,078,229	7,837,520	-	18,915,749
Loans and advances to customers - net	3,417,810	-	-	-	3,417,810
Receivables from financial institutions	502,618	-	-	-	502,618
Other assets	-	551,986	-	-	551,986
	<u>25,017,216</u>	<u>26,715,262</u>	<u>7,837,520</u>	<u>-</u>	<u>59,569,998</u>
Financial liabilities					
Customers' deposits	-	-	-	58,843,105	58,843,105
Deposit from banks	-	-	-	500,000	500,000
Lease liabilities	-	-	-	265,040	265,040
Other liabilities	-	-	-	261,700	261,700
	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,869,845</u>	<u>59,869,845</u>

31 December 2018	Financial assets (other than investments)- At amortized cost	Debt investments at amortized cost	Debt investments at fair value through OCI	Financial liabilities at amortized cost	Total
	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000
Financial assets					
Cash and balances with Da Afghanistan Bank	15,965,500	-	-	-	15,965,500
Balances with other banks	10,095,978	-	-	-	10,095,978
Placements - net	-	19,858,325	-	-	19,858,325
Investments - net	-	14,835,015	3,588,690	-	18,423,705
Loans and advances to customers - net	2,897,616	-	-	-	2,897,616
Receivables from financial institutions	360,120	-	-	-	360,120
Other assets	-	357,987	-	-	357,987
	29,319,214	35,051,327	3,588,690	-	67,959,231
Financial liabilities					
Customers' deposits	-	-	-	67,383,947	67,383,947
Deposit from banks	-	-	-	-	-
Other liabilities	-	-	-	580,359	580,359
	-	-	-	67,964,306	67,964,306

33.2 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.

33.2.1 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 and placements with other banks. Credit risk also arises in off-balance sheet financial instruments, such as Bank's contingencies and commitments. The credit risk management and control are centralized in credit risk management team of Bank and reported to the management team and head of each business unit regularly. Balances with DAB are not exposed to credit risk.

33.2.2 Credit risk measurement

Impairment assessment under IFRS 9

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 3 consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The bank is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2.

Credit ratings and PD estimation process

The Bank's Credit Risk Department operates its internal rating models. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior. PDs for rated portfolios are determined using migration of rating grades from one period to other within the PD observation period. Consumer lending comprises unsecured personal loans, credit cards and overdrafts. PDs models of these products are primarily driven by days past due.

Estimated historical realized default rates are adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate. For debt securities in the Treasury portfolio, external rating agency credit grades are used. The PDs associated with each grade are determined based on realized default rates as published by the rating agency.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

The EADs are determined based on the expected payment profile, which varies by product type. For amortizing products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over the 12 months and lifetime basis. This is also adjusted for any overpayments made by the borrower. For revolving products, the EAD is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default.

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To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

Loss given default

Bank calculates LGD rates and these LGD rates take into account the EAD for historical pool of non-performing loans in comparison to the amount recovered or realized against such loans. In determining LGDs, the Bank considers all eligible collateral provided the collateral can be legally enforced. Due to the complexities involved in the Afghanistan regarding collateral realization and lack of historical experience to demonstrate recoveries through realization of collaterals, the Bank restricts the expected recoveries (to be considered in LGD computations) based on its historical recovery experiences.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition. Significant increase in credit risk is measured by comparing the risk of default estimated at origination with the risk of default at reporting date. The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Measuring expected credit losses - ECL

PD, EAD and LGD are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in earlier year) on annual basis. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in ECL computation is the original effective interest rate or an approximation thereof.

Forward looking economic information is also included in determining the 12 month and lifetime ECL. The bank has performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecast of these economic variables (the "base economic scenario") are obtained from external sources on a quarterly basis.

In addition to the base economic scenario, the management also estimate other possible scenarios along with scenarios weighting. The scenario weighting are determined by an expert credit judgment. As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The bank considers these estimates of the possible outcomes. The bank has used base, upside and downside scenarios for its ECL estimation.

Impairment under local regulations

- (i) Overdue balances on loans to customers are segmented into four categories as described in note 3.3.5. The percentage of provision created on such overdue balances are as per guidelines issued by DAB and reflects the range of default probabilities defined for each category. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.
- (ii) Exposure at default is based on the amounts, the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

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

(a) 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 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.

33.2.3 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 and commercial 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.

33.2.4 Analysis of maximum exposure to credit risk and collateral and other credit enhancements

	Maximum exposure	
	2019 AFN '000	2018 AFN '000
Credit risk exposures relating to on-balance sheet items are as follows:		
Balances with other banks	7,237,771	10,095,978
Placements - net	15,085,047	19,858,324
Investments - net (excluding capital notes with DAB)	18,173,377	17,278,765
Loans and advances to customers - net	3,417,810	2,897,617
Receivable from other financial institutions	502,618	360,120
Other assets	551,986	357,987
	44,968,610	50,848,792
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	7,946,230	8,258,845
Undrawn loan and overdraft facilities	524,394	1,217,553
Commercial letters of credit	48,537	25,333
	8,519,161	9,501,731

The above table represents credit risk exposure to the Bank at 31 December 2019 and 31 December 2018, 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):

	31 December 2019	31 December 2018
Balances with other banks	16.10%	19.85%
Placements - net	33.55%	39.05%
Investments - net (excluding capital notes with DAB)	40.41%	33.98%
Loans and advances to customers - net	7.60%	5.70%

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33.2.5 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	31 December 2019	31 December 2018
			AFN '000	AFN '000
<i>Counter parties with external credit ratings:</i>				
Standard Chartered Bank	A1	Moody's	-	4,216,826
Commerzbank Germany	A1	Moody's	95,660	168,004
Crown Agents	BBB	Fitch	2,893,291	1,623,154
Emirates NBD	A3	Moody's	628,562	313,816
AkBank, Turkey	B3	Moody's	89,998	62,206
State commercial bank of Turkmenistan	Baa1	Moody's	961,094	626,023
Julius Baer International	Aa2	Moody's	56,308	311,033
Asaka Bank	B3	Moody's	746,858	1,234,334
Credit Suisse Singapore	A1	Moody's	41,294	5,432
Bank Centre Credit	Caa1	Moody's	793,486	1,377,708
Yes Bank, India	B2	Moody's	6,555	1,506
Transkapitalbank	B3	Moody's	910,801	-
Others			13,863	14,043

Placements	Credit rating	Credit rating agency	31 December 2019	31 December 2018
			AFN '000	AFN '000
Bank of Baroda Dubai	A1	Moody's	774,600	-
Commercial Bank International	A1	Moody's	795,019	1,506,200
Commercial Bank of Dubai PSC	BBB	Fitch	-	755,953
Dubai Islamic Bank	A3	Moody's	-	759,259
CSC Bank SAL	B3	Moody's	521,468	438,163
Emirates NBD	Baa1	Moody's	2,868,279	5,071,978
National Bank of Fujairah	Aa2	Moody's	-	753,100
Julius Baer	B3	Moody's	1,962,449	3,370,951
United Arab Bank	A1	Moody's	795,019	1,506,200
Crown Agents Bank	Caa1	Moody's	794,650	1,903,032
Citibank	B2	Moody's	3,993,303	3,824,432
Noor Bank	B3	Moody's	1,031,651	-
Ajman Bank	BBB+	Fitch	795,020	-
National Bank of Ras Al Khaimah	A3	Moody's	774,600	-

	31 December 2019	31 December 2018
	AFN '000	AFN '000
Investments - net	<u>17,162,576</u>	<u>18,448,294</u>

Investments held carries various credit rating including AAA, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3, Ba1, Ba2, Ba3, B1, B2 and B3. These investments are managed by the bank through Emirates NBD, Julius Baer and Credit Suisse under investment criteria defined by the Bank. The credit quality and the maximum exposure to credit risk for under expected credit losses model is based on the Bank's credit rating grades and year-end stage classification as at 31 December 2019 and 2018 as disclosed in note 8.5.1 to the financial statements.

Loans and advances to customers- net	<u>3,417,810</u>	<u>2,897,616</u>
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The credit quality and the maximum exposure to credit risk for IFRS 9 stage categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2019 and 2018 are disclosed in note 9.5.1 to the financial statements.

Receivables from financial institutions

Counter parties	<u>502,618</u>	<u>360,120</u>
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Other assets

Counter parties	<u>551,986</u>	<u>357,987</u>
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	31 December 2019	31 December 2018
	AFN '000	AFN '000
Note		

33.2.6 Loans and advances - net

Loans and advances are summarized as follows:

Neither past due nor impaired	2,110,969	2,869,987
Past due but not impaired	1,352,649	236,229
Non-performing- Stage 3	<u>327,714</u>	<u>10,928</u>
Gross outstanding	3,791,332	3,117,144
Less: Allowance for impairment		
General provision	9.4 (154,920)	(150,620)
Provision held for expected credit losses - note 9.5.1	(218,602)	(68,908)
	(373,522)	(219,528)
	<u>3,417,810</u>	<u>2,897,616</u>

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(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 IFRS 9.

	Commercial loans		SME loans	Consumer loans	Total AFN '000
	Overdraft	Term loans	Term loans	Term loans	
	AFN '000	AFN '000	AFN '000	AFN '000	
31 December 2019					
Regular loans	1,712,815	52,449	295,480	50,225	2,110,969
31 December 2018					
Regular loans	2,336,317	280,196	199,235	54,239	2,869,987

(b) Loans and advances past due but not impaired

31 December 2019					
Past due up to 30 days	1,351,691	-	-	958	1,352,649
Fair value of collateral	1,161,868	-	-	-	1,161,868
31 December 2018					
Past due up to 30 days	93,030	143,199	-	-	236,229
Fair value of collateral	140,023	240,234	-	-	380,257

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 327,829 thousand (31 December 2018: AFN 10,839 thousand).

	Commercial loans		SME loans	Consumer loans	Total
	Overdraft	Term loans	Term loans	Term loans	
	AFN '000	AFN '000	AFN '000	AFN '000	
31 December 2019					
Non-performing - Stage 3	143,859	102,596	80,896	363	327,714
Fair value of collateral	623,837	212,952	1,090,329		
31 December 2018					
Non-performing - Stage 3	4,348	6,580	-	-	10,928
Fair value of collateral	40,000	54,533	-	-	94,533

SA

(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 2019 were AFN 219,880 thousand (31 December 2018: AFN 105,541 thousand).

	31 December 2019		31 December 2019	
	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
Commercial loans and advances:				
Term loans	-	219,880	-	105,541
Overdraft	247,310	-	280,697	-
Total	247,310	219,880	280,697	105,541

33.2.7 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 2018. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

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2019

	On balance sheet:				Off balance sheet:			
	Balances with other banks AFN '000	Placements (Note 7.1) AFN '000	Investments (excluding capital notes) 8.1,8.3,8.4 AFN '000	Loans and advances to customers - net AFN '000	Receivable from financial institutions AFN '000	Other assets AFN '000	Contingencies and commitments AFN '000	Total AFN '000
Afghanistan	-	-	-	3,417,810	-	551,986	8,519,161	12,488,957
Lebanon	-	521,468	-	-	502,618	-	-	1,024,086
Singapore	41,294	-	-	-	-	-	-	41,294
Germany	95,660	-	-	-	-	-	-	95,660
UAE	628,562	7,059,588	1,037,444	-	-	-	-	8,725,594
USA	-	3,993,303	1,312,652	-	-	-	-	5,305,955
UK	2,893,291	794,650	-	-	-	-	-	3,687,941
Switzerland	56,308	1,962,449	-	-	-	-	-	2,018,757
Turkey	89,998	-	243,222	-	-	-	-	333,220
Russia	910,800	-	83,426	-	-	-	-	994,226
Uzbekistan	746,858	-	-	-	-	-	-	746,858
Kazakhstan	793,486	-	91,626	-	-	-	-	885,112
Turkmenistan	974,954	-	-	-	-	-	-	974,954
India	6,560	774,600	-	-	-	-	-	781,160
Korea	-	-	1,693,386	-	-	-	-	1,693,386
Italy	-	-	1,460,681	-	-	-	-	1,460,681
Mexico	-	-	1,343,334	-	-	-	-	1,343,334
Portugal	-	-	1,297,855	-	-	-	-	1,297,855
Poland	-	-	1,292,634	-	-	-	-	1,292,634
Hungary	-	-	1,223,285	-	-	-	-	1,223,285
Slovak Republic	-	-	844,261	-	-	-	-	844,261
Malaysia	-	-	661,167	-	-	-	-	661,167
Belgium	-	-	625,174	-	-	-	-	625,174
Oman	-	-	595,919	-	-	-	-	595,919
Saudi Arabia	-	-	524,998	-	-	-	-	524,998
Qatar	-	-	522,083	-	-	-	-	522,083
Sweden	-	-	393,768	-	-	-	-	393,768
Slovenia	-	-	348,972	-	-	-	-	348,972
Indonesia	-	-	344,520	-	-	-	-	344,520
Namibia	-	-	277,520	-	-	-	-	277,520
South Africa	-	-	275,883	-	-	-	-	275,883
Others (note below - amount in millions)	-	-	1,694,032	-	-	-	-	1,694,032
	7,237,771	15,106,058	18,187,842	3,417,810	502,618	551,986	8,519,161	53,523,246

Others include investments in sovereign bonds issued by Bermuda (AFN 162.951m), Croatia (AFN 86.078m), Brazil (AFN 90.046m), Panama (AFN 33.209m), Romania (AFN 148.906m), Trinidad and Tobago (AFN 57.733m), Colombia (AFN 118.526m), Kenya (AFN 33.197m), Ecuador (AFN 22.151m), Zambia (AFN 29.165m), Nigeria (AFN 78.306m), Guatemala (AFN 22.752m), Ghana (AFN 42.619m), Morocco (AFN 69.590m), Costa Rica (AFN 50.767m), Senegal (AFN 42.074m), Sri Lanka (AFN 39.309m), Vietnam (AFN 83.963m), Argentina (AFN 16.886m), Armenia (AFN 15.861m), Serbia (AFN 16.886m), Paraguay (AFN 32.815m), Egypt (AFN 31.340m), Iceland (AFN 144.083m), Lithuania (AFN 147.838m) and Latvia (AFN 77.461m).

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	On balance sheet:					Off balance sheet:		
	Balances with other banks	Placements - net	Investments - net (excluding capital notes)	Loans and advances to customers - net	Receivable from financial institutions	Other assets	Contingencies and commitments	Total
	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000
Afghanistan	-	-	-	-	-	-	-	12,757,334
Lebanon	-	438,172	-	-	360,120	357,987	-	798,292
Singapore	2,374,813	-	-	-	-	-	-	2,374,813
Germany	747,485	-	-	-	-	-	-	747,485
UAE	397,696	10,353,077	1,258,107	-	-	-	-	12,008,880
USA	1,146,068	3,824,573	302,206	-	-	-	-	5,272,847
UK	1,661,171	1,903,103	-	-	-	-	-	3,564,274
Switzerland	451,870	1,864,820	-	-	-	-	-	2,316,690
Turkey	76,244	-	237,564	-	-	-	-	313,808
Russia	-	-	-	-	-	-	-	-
Uzbekistan	-	-	-	-	-	-	-	-
Kazakhstan	-	-	-	-	-	-	-	-
Turkmenistan	-	-	-	-	-	-	-	-
India	2,566	753,128	-	-	-	-	-	755,694
Korea	-	-	1,411,045	-	-	-	-	1,411,045
Italy	-	-	-	-	-	-	-	-
Mexico	-	-	915,272	-	-	-	-	915,272
Portugal	-	-	-	-	-	-	-	-
Poland	-	-	-	-	-	-	-	-
Hungary	-	-	-	-	-	-	-	-
Slovak Republic	-	-	-	-	-	-	-	-
Malaysia	-	-	-	-	-	-	-	-
Belgium	-	-	-	-	-	-	-	-
Oman	-	-	1,160,831	-	-	-	-	1,160,831
Saudi Arabia	-	-	-	-	-	-	-	-
Qatar	-	-	-	-	-	-	-	-
Sweden	-	-	-	-	-	-	-	-
Slovenia	-	-	347,104	-	-	-	-	347,104
Indonesia	-	-	-	-	-	-	-	-
Namibia	-	-	-	-	-	-	-	-
South Africa	-	-	-	-	-	-	-	-
Others	3,238,065	721,452	11,646,634	-	-	-	-	15,606,151
	10,095,978	19,858,325	17,278,763	2,897,616	360,120	357,987	9,501,731	60,350,520

(b) Industry sectors

2019

	On balance sheet:						On balance sheet:		
	Investments (excluding capital notes)			Loans and advances to customers - net			Receivable from financial institutions		
	Balances with other banks AFN '000	Placements (Note 7.1) AFN '000	Note 8.1,8.3,8.4 AFN '000	AFN '000	AFN '000	AFN '000	Other assets AFN '000	Contingencies and commitments AFN '000	Total AFN '000
Government / Public sector	-	-	18,187,842	-	-	-	-	-	18,187,842
Manufacturing	-	-	-	1,046,298	-	-	-	17,918	1,064,216
Agriculture	-	-	-	-	-	-	-	2,058	251,650
Construction	-	-	-	192,829	-	-	-	3,618,853	3,811,682
Power	-	-	-	-	-	-	-	3,127,718	3,127,718
Telecommunication	-	-	-	-	-	-	-	5,151	5,151
Banks and financial institutions	7,237,771	15,106,058	-	-	-	502,618	-	-	22,846,447
Traders	-	-	-	926,987	-	-	-	72,661	999,648
Fuel suppliers	-	-	-	909,203	-	-	-	658,423	1,567,626
Others	-	-	-	340,286	-	-	551,986	1,016,379	1,661,266
	7,237,771	15,106,058	18,187,842	3,417,810	502,618	551,986	8,519,161	53,523,246	

2018

	On balance sheet:						On balance sheet:		
	Investments - net (excluding capital notes)			Loans and advances to customers - net			Receivable from financial institutions		
	Balances with other banks AFN '000	Placements - net AFN '000	AFN '000	AFN '000	AFN '000	AFN '000	Other assets AFN '000	Contingencies and commitments AFN '000	Total AFN '000
Government / Public sector	-	-	17,278,763	-	-	-	-	-	17,278,763
Manufacturing	-	-	-	473,007	-	-	-	323,438	796,445
Agriculture	-	-	-	5,676	-	-	-	-	5,676
Construction	-	-	-	94,103	-	-	-	6,828,235	6,922,338
Power	-	-	-	-	-	-	-	-	-
Telecommunication	-	-	-	-	-	-	-	480,612	480,612
Banks and financial institutions	10,095,978	19,858,325	-	-	-	360,120	-	-	30,314,423
Traders	-	-	-	682,938	-	-	-	280,714	963,652
Fuel suppliers	-	-	-	960,909	-	-	-	323,556	1,284,465
Others	-	-	-	680,983	-	-	357,987	1,265,176	2,304,146
	10,095,978	19,858,325	17,278,763	2,897,616	360,120	357,987	9,501,731	60,350,520	

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33.3 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.

33.3.1 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 2019 and 31 December 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

	AED	USD	EUR	GBP	INR	Converted to AFN '000		Total AFN '000
						AFN '000	AFN '000	
As at 31 December 2019								
Assets								
Cash and balances with Da Afghanistan Bank	-	10,041,139	461,568	-	-	-	3,356,310	13,859,017
Balances with other banks	46,114	6,876,624	193,875	120,795	363	-	-	7,237,771
Placements	-	14,584,590	521,468	-	-	-	-	15,106,058
Investments	-	18,187,842	-	-	-	-	742,372	18,930,214
Loans and advances to customers	-	1,292,269	-	-	-	-	2,499,063	3,791,332
Receivables from financial institutions	-	502,618	-	-	-	-	-	502,618
Other assets	-	540,328	-	-	-	-	11,658	502,618
Total financial assets	46,114	52,025,410	1,176,911	120,795	363	6,609,403	59,929,629	
Liabilities								
Customers' deposits	-	51,053,453	1,203,399	138,833	-	-	6,447,420	58,843,105
Deposits from bank	-	-	-	-	-	-	500,000	500,000
Lease liabilities	-	255,262	-	-	-	-	9,778	265,040
Other liabilities	-	28,374	-	-	-	-	233,326	261,700
Total financial liabilities	-	51,337,089	1,203,399	138,833	-	7,190,524	59,869,845	
On-balance sheet financial position - net	46,114	688,321	(26,488)	(18,038)	363	(581,121)	59,784	
As at 31 December 2018								
Total financial assets	56,668	58,373,974	1,447,918	189,508	1,059	8,932,667	69,001,794	
Total financial liabilities	-	58,093,622	1,483,601	-	-	8,253,193	67,830,416	
On-balance sheet financial position - net	56,668	280,352	(35,683)	189,508	1,059	679,474	1,171,378	

Sensitivity analysis:

If the functional currency, at the yearend date, strengthens/weakens by 5% against the other currencies, as disclosed above, with all other variables held constant, the impact on profit or loss for the period would be as given below mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

	AED	USD	EUR	GBP	INR
2019					
5% increase (AFN'000) - profit/ (loss)	(2,306)	(34,416)	1,324	902	(18)
5% decrease (AFN'000) - profit/ (loss)	2,306	34,416	(1,324)	(902)	18
2018					
5% increase (AFN'000) - profit/ (loss)	(2,833)	(14,018)	1,784	(9,475)	(53)
5% decrease (AFN'000) - profit/ (loss)	2,833	14,018	(1,784)	9,475	53

33.3.2 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 carry fixed coupon/ interest rates.

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.

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	Interest bearing					Total interest bearing	Non-interest bearing	Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000
As at 31 December 2019								
Assets								
Cash and balances with Da Afghanistan Bank	1,107,189	-	-	-	-	1,107,189	12,751,828	13,859,017
Balances with other banks	-	-	-	-	-	-	7,237,771	7,237,771
Placements	7,300,160	5,922,187	1,883,711	-	-	15,106,058	-	15,106,058
Investments	2,137,423	467,131	904,249	15,193,189	228,222	18,930,214	-	18,930,214
Loans and advances to customers	3,740,315	1,149	23,638	26,230	-	3,791,332	-	3,791,332
Receivables from financial institutions	-	-	-	-	-	-	502,618	502,618
Other assets	-	-	-	-	-	-	261,700	261,700
Total financial assets	14,285,087	6,390,467	2,811,598	15,219,419	228,222	38,934,793	20,753,917	59,688,710
Liabilities								
Customers' deposits	1,390,272	-	43,855	-	-	1,434,127	57,408,978	58,843,105
Deposits from bank	-	-	500,000	-	-	500,000	-	500,000
Lease liabilities	7,160	2,389	36,644	213,452	5,395	265,040	-	265,040
Other liabilities	-	-	-	-	-	-	261,700	261,700
Total financial liabilities	1,397,432	2,389	580,499	213,452	5,395	2,199,167	57,670,678	59,869,845
Total interest reprising gap	12,887,655	6,388,078	2,231,099	15,005,967	222,827	36,735,626	(36,916,760)	(181,135)
As at 31 December 2018								
Total financial assets	16,914,163	7,159,747	13,442,962	11,849,513	1,034,259	50,400,644	17,870,702	68,271,346
Total financial liabilities	2,467,671	37,353	642,402	2,257,875	-	5,405,301	63,481,051	68,886,352
Total interest reprising gap	14,446,492	7,122,394	12,800,560	9,591,638	1,034,259	44,995,343	(45,610,349)	(615,006)

If the interest increase / (decrease) by 100 bps, the profit or loss for the year would have been AFN 369,168 thousand (31 December 2018: AFN 456,103 thousand) higher/ lower respectively.

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33.4 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.

33.4.1 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.

33.4.2 Funding approach

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

Liquidity ratios

Advances to deposit ratios

	2019	2018
Year-end		
Maximum	5.81%	4.27%
Minimum	6.57%	5.60%
Average	5.62%	4.27%
	6.07%	6.31%

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33.4.3 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	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000
As at 31 December 2019						
Liabilities						
Customers' deposits	58,799,250	-	43,855	-	-	58,843,105
Deposits from bank	-	-	500,000	-	-	500,000
Lease liabilities	7,160	2,389	36,644	213,452	5,395	265,040
Other liabilities	261,700	-	-	-	-	261,700
Total financial liabilities (contractual maturity dates)	59,068,110	2,389	580,499	213,452	5,395	59,869,845
Total financial assets (contractual maturity dates)	35,039,004	6,390,467	2,811,598	15,219,419	228,222	59,688,710

As at 31 December 2018

Liabilities						
Customers' deposits	62,597,346	-	4,786,601	-	-	67,383,947
Other liabilities	580,359	-	-	-	-	580,359
Total financial liabilities (contractual maturity dates)	63,177,705	-	4,786,601	-	-	67,964,306
Total financial assets (contractual maturity dates)	32,804,554	2,796,316	6,904,321	14,514,727	730,460	57,750,378

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.

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33.4.4 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	1 to 5 years	Over 5 years	Total
	AFN '000	AFN '000	AFN '000	AFN '000
As at 31 December 2019				
Guarantees	4,830,444	3,115,786	-	7,946,230
Undrawn loans and overdraft facilities	203,420	320,974	-	524,394
Commercial letters of credit	48,537	-	-	48,537
Total	5,082,401	3,436,760	-	8,519,161
As at 31 December 2018				
Guarantees	2,304,121	5,954,724	-	8,258,845
Undrawn loans and overdraft facilities	850,618	366,935	-	1,217,553
Commercial letters of credit	25,333	-	-	25,333
Total	3,180,072	6,321,658	-	9,501,731

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33.5 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 - Fair value through OCI:			
As at 31 December 2019	-	7,837,520	-
As at 31 December 2018	-	3,588,690	-

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	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	AFN '000	AFN '000	AFN '000	AFN '000
Financial assets				
Cash and balances with Da Afghanistan Bank	13,859,017	15,965,500	13,859,017	15,965,500
Balances with other banks	7,237,771	10,095,978	7,237,771	10,095,978
Placements - net	15,085,047	19,858,325	15,085,047	19,858,325
Investments - net	11,078,229	10,586,185	11,078,229	10,586,185
Loans and advances to customers - net	3,417,810	2,897,616	3,417,810	2,897,616
Receivables from financial institutions	502,618	360,120	502,618	360,120
Security deposits and other receivables - net	261,700	357,987	261,700	357,987
Financial liabilities				
Customers' deposits	58,843,105	67,383,947	58,843,105	67,383,947
Deposits from bank	500,000	-	500,000	500,000
Other liabilities	261,700	580,359	261,700	580,359
Off-balance sheet financial instruments				
Bank's guarantees	7,946,230	8,258,845	7,946,230	8,258,845
Bank's commitments	572,931	1,242,886	572,931	1,242,886

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

(i) Investments:

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

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

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

(iii) Off-balance sheet financial instruments

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

33.6 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:



	31 December 2019 AFN '000	31 December 2018 AFN '000
Tier 1 (Core) Capital:		
Total equity capital	3,679,164	3,585,157
Less:		
Intangible assets	(426,328)	(394,538)
Net deferred tax assets	-	(95,104)
Revaluation reserve on debt instruments at OCI	(63,989)	86,849
Profit for the year	(608,169)	(478,165)
	2,580,678	2,704,199
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	176,030	191,237
Profit for the year	608,169	478,165
Revaluation reserve on bonds (45%)	28,795	-
	812,994	669,402
Tier 2 (Supplementary) Capital (restricted 100% of Tier 1 (Core) Capital)	812,994	669,402
Regulatory Capital = Tier 1 + Tier 2	3,393,672	3,373,601
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully convertible foreign currencies	3,261,904	2,632,836
Direct claims on DAB	11,339,485	14,477,604
Direct claims on other Governments	-	-
Others	5,331,137	5,409,346
Total	19,932,526	22,519,786
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Balances with other banks	22,846,448	30,314,423
Others	2,641,431	1,152,710
20% risk-weight total (above total x 20%)	5,097,576	6,293,427
50% risk weight:		
Others	2,780,447	-
50% risk-weight total (above total x 50%)	1,390,223	-
100% risk weight:		
All other assets	15,743,163	17,927,643
Less: intangible assets	(426,328)	(394,538)
Less: Deferred tax assets	-	(95,104)
All other assets - net	15,316,835	17,438,001
100% risk-weight total (above total x 100%)	15,316,835	17,438,001

Credit conversion factor**0% risk weight:**

Undrawn loan and overdraft facilities	524,394	1,217,553
Guarantees	617,410	968,176
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	48,537	25,333
Guarantees	7,324,947	7,815,895
20% credit conversion factor total (risk-weighted total x 20%)	9,707	5,067
20% credit conversion factor total (risk-weighted total x 20%)	1,466,930	1,438,192

100% risk weight:

Guarantees	3,873	104,773
100% credit conversion factor total (risk-weighted total x 100%)	3,873	104,773
100% risk-weight total (above total x 100%)	3,873	104,773

Total risk-weighted assets

23,275,437	25,274,393
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Tier 1 Capital Ratio

(Tier 1 capital as % of total risk-weighted assets)	11.09%	10.70%
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Regulatory Capital Ratio

(Regulatory capital as % of total risk-weighted assets)	14.58%	13.35%
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32 Islamic Banking

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

Qardul Hasana Current Account

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

Mudarabah Savings Account

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

Mudarabah Term Investment Deposit

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

Below are the figures relating to Islamic banking as at 31 December 2019:

	31 December 2019	31 December 2018
	AFN '000	AFN '000
ASSETS		
Cash and balances with Da Afghanistan Bank	750,697	546,245
Investments in sukuk securities	542,220	301,240
Loans and advances to customers	43,134	37,673
Operating fixed assets	1,283	2,345
Other assets	6,581	5,687
Total assets	1,343,915	893,190
LIABILITIES		
Deposit - current	144,910	121,803
Deposit - saving	1,146,234	733,067
Deposit - term deposit	43,855	26,845
Other liabilities	16,870	20,964
	1,351,869	902,679
EQUITY		
Share Capital	5,809	5,809
Accumulated losses reserve	(13,764)	(15,298)
Total equity	(7,955)	(9,489)
Total liabilities and equity	1,343,914	893,190
Total profit income	20,802	23,063
Total profit expense	(8,476)	(9,063)
Net Profit Income	12,327	14,000
Other non-profit income	3,242	970
Other non-profit expense	(14,750)	(12,885)
Net non-profit expense	(11,507)	(11,915)
Income from dealing in foreign currencies	(757)	(1,186)
TOTAL INCOME	63	899
Net provision for expected credit losses	1,472	(1,130)
NET INCOME/ (LOSS) FOR THE YEAR	1,535	(231)

35 **General**

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

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

36 **Date of authorization for issue**

These financial statements were authorized for issue by the Board of Supervisors of the Bank on

07th March, 2020

slw


Chairman


Chief Executive Officer


Chief Financial Officer