Best Corporate Governance
2014, 2015, 2016, 2017 and 2018
AFGHANISTAN

Bank of the Year
2012, 2013, 2014, 2015, 2016, 2017 and 2018
AFGHANISTAN

AIB
بانک بین المللی افغانستان
Afghanistan International Bank

Your Partner for Growth

Annual Report 2018

Our Vision

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

Our Mission

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

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

Our Future

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

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

Contents

From inception in 2004, Afghanistan International Bank's major objective has been to assist in developing the Afghan economy and to conduct business in accordance with international standards of governance and integrity. The many awards received from authoritative industry bodies is independent endorsement of AIB's success in achieving its goals, notably being named *The Banker* magazine's 'Bank of the Year, Afghanistan' for seven consecutive years from 2012 to 2018.

AIB is now well-established as an industry leader, and widely acknowledged to be the nation's most respected and trusted financial institution. Its growth as an enduring institution combines international expertise with intimate local knowledge and a deep-rooted understanding of customer needs.

AIB's success continues to be driven by its reputation for integrity, good governance and attention to customer needs. Our market position in Afghanistan remains strong, underpinned by our status as the most respected financial institution and the bank of choice. Based on these principles, in 2018 the Board and management continued to pursue the strategic agenda developed over the past few years.

We foresee that the Bank will continue to be the leader in deposits (more than 40 percent of all deposits in the banking system), profitability (most profitable bank by far), and return on equity (more than 14 pecent). Our capital adequacy ratio is above regulatory requirements, significantly above most Afghanistan banks, and exceeds norms for banks worldwide.

However, reflecting the current economic realities, our loan book is below $50 million and about the same as the previous year. Customers are not borrowing and their overall sentiment is low. I do not see this changing very much over the next two years. Hence, the Bank will maintain a conservative posture, seeking business opportunities as they present themselves. Overall, AIB performed very well in 2018, despite these strong headwinds from a stagnant economy and continued political and security strife. And, more importantly, the Bank is well-positioned for the future.

Following is a summary of the progress the Bank has made during 2018 against strategic objectives:

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

In 2017, with the assistance of an external consultant, management continued to improve implementation of policies and procedures involving these compliance functions. Staff training continued during the year, as well as monitoring to ensure that procedures are followed. The Board received quarterly reports on key indicators regarding this programme from both outside experts and management.

The project team will continue into 2019 as there is more work to be done. As one can imagine, implementing world-class procedures in AML and FCC impacts not only AIB's staff but also our customers.

In 2019 management will bolster the Compliance Department's capabilities to act as a second line of defence for this important function. We will also concentrate on educating our customers on the need to comply with the information requirements of the compliance programme.

Complete the new head office building

The new head office building was completed in November and staff moved in during December. This achievement is a major milestone in the Bank's development as the new head office will reflect the important position AIB holds in the banking system in Afghanistan.

Focus on organisation and human resource development

This initiative continues to be a key long-term priority for the Bank, with the objective of developing the capabilities and competencies of senior Afghan staff to replace expatriate management over the next five to 10 years and to generally build staff competencies across the Bank. To this end, senior Afghan staff have been placed in executive positions with increased responsibilities. Unfortunately, this development programme suffered a setback when one of our senior staff sought political asylum overseas.

During the year, we completed the programme to overhaul personnel administration, job descriptions and job grading, and to put in place comprehensive succession planning. To reinforce training and development, all senior managers had specific objectives in these areas added to their annual targets.

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

This initiative is intended to position AIB in the small business and consumer segments over the long term. There has been uplift in business in these segments as a result of actions taken by management over the past year, which has seen an uptick in Afghani currency deposits but less so in Shariah loans. A lending programme for small businesses met with moderate success, mainly due to the reluctance of businesses to borrow. In the consumer segment, we plan to expand credit cards, deposit instruments, electronic branches, and eventually consumer loans. This is fundamentally an investment in the future, assuming that customers in these market segments will become increasingly bankable.

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

AIB continued its correspondent banking relationship with Standard Chartered Bank for US dollar clearing. During 2018, the Bank opened a US dollar clearing account with Crown Agent Bank in the UK, and we are in discussions with another international bank to provide US dollar clearing services. Management has also opened three direct payment accounts with banks in major trading partner countries in the region to serve customers' payment needs. Management has done an outstanding job in expanding our correspondent relationships, which are such a strategic advantage for AIB.

Maintain financial stability and satisfactory returns

AIB had a successful financial year and our forecast for the next two years shows slightly higher profitability, mainly stemming from our very strong fee-based business and foreign exchange activities, which generate 48 percent of revenues. We see profit margins remaining static, but we believe the Bank will be able to achieve above 15 percent return on equity before payment of dividends over this period. As an example of managing expenses, a branch rationalisation study has been undertaken to identify ways to reduce network costs.

During 2018, the Board and its committees had several changes in composition and membership.

- Mansoor Tirmzi joined the Board of Supervisors. He has had a distinguished career at Citibank and Hong Kong Shanghai Bank in senior financial positions. Mr Tirmzi has joined the Planning and Strategy Committee and the Remuneration Committee.
- The Afghanistan Central Bank issued a regulation that Board members cannot serve on the Audit Committee, effective from 2019. Accordingly, we are searching for Afghans who are qualified to sit on the Audit Committee.
- Entering 2019, the Board will have seven members and five committees: Risk, Remuneration, Nominating, Planning and Strategy, and Audit. The 2018 activities of these committees are highlighted elsewhere in this report.

The Board met 12 times in 2018: four in person and eight by conference call. In particular, the Board focused on the strategic agenda mentioned above, as well as closely monitoring the financial condition of the Bank and the security situation in the country.

Other highlights of 2018 include:

- For the seventh consecutive year *The Banker* magazine voted AIB 'Best Bank in Afghanistan'. We are proud of this honour which reflects the professionalism of the Bank.
- For the fifth consecutive year AIB was recipient of the prestigious 'Best Corporate Governance – Afghanistan' award from the London-based Capital Finance International organisation.
- For the fourth year, AIB took a stand at the SWIFT International Banking Operations Seminar (SIBOS) held in Sydney, Australia. Two of the Bank's Afghan staff, in addition to CEO Tony Barned, attended the conference where several international banks expressed interest in working with AIB in a variety of ways.

During the early part of 2018 our long-time director Veronica John passed away after a brief illness. Ms John was one of the original organisers of AIB in 2004 while she was with the Asian Development Bank. We will remember her with affection and for her many contributions to the Bank.

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

Ronald Stride
Chairman

Afghanistan International Bank responded to the many uncertainties in the economic environment during 2018, remaining strong and sustainable. I am pleased to report that the Bank was able to expand in a number of areas during the year.

Assets increased by 17.70 percent to AFN 71.72 billion (2017: AFN 60.93 billion), bringing compound annual asset growth since 2011 to 12.11 percent. The increase was led by a significant growth in deposits, up by 19.77 percent from AFN 56.26 billion to AFN 67.38 billion, underlining the continued confidence in the strength and integrity of the Bank. However, commercial lending was again subdued throughout the year.

Revenue increased by 10.13 percent to AFN 2.50 billion (2017: AFN 2.27 billion). Compound annual revenue growth since 2011 now stands at 11.37 percent. Non-interest income – accounting for 48 percent of total revenue – was a major factor in this growth, as was the 37 percent increase in interest income from the bond portfolio and placements, helped by the increase in US dollar interest rates.

Total guarantees related to contracts with the Afghan government, issued on behalf of customers of international banks, reflected a 40 percent increase – from 25 percent in 2017 to 34 percent (2017: AFN 3.21 billion) in 2018. Together, these transactions underline the value of strong correspondent partnerships and sound regulatory compliance. Total revenue was also assisted by the liquidation of real estate collateral for just under AFN 65 million, although loan recovery still remains negatively affected by the arduous and very lengthy process for foreclosure and obtaining vacant possession.

Operating expenses increased by 14.21 percent, driven by three primary factors: higher costs relating to compliance and professional advisors (46 percent – AFN 43 million); higher security costs (4 percent – AFN 4 million); and increased IT and annual maintenance costs (60 percent – AFN 32.33 million).

In addition to the above, we also incurred expenditure of AFN 48 million with Deloitte to upgrade AML and FCC procedures and systems, offset by the added confidence of our correspondent banks in our compliance standards. Adherence to IFRS 9, the new international accounting standard that became effective from the beginning of the year, resulted in an additional provision of AFN 9 million.

Pre-tax profit showed a marginal increase to AFN 648 million (2017: AFN 646 million), mainly due to the central bank reducing the average interest rate on capital notes from 3.5 percent to 0.4 percent over the space of a single month at the beginning of the year.

Despite this, net profit increased by 34 percent to AFN 478 million (2017: 357 million) as a result of tax benefit from accelerated depreciation of our new head office building and fitting-out costs. Tax was also on the higher side in 2017 due to a one-off tax payment relating to financial years 2013-2015.

Subject to approval by the Annual General Meeting, total distribution to shareholders for the year will be AFN 645 million, equating to a dividend per share of AFN 21.50.

Our capital adequacy ratio of 13.35 percent and 61.01 percent liquidity are very satisfactory by domestic and international standards.

Business initiatives

A primary focus for 2018 was to ensure our AML/FCC systems and procedures met best international practices. In this regard, we engaged Deloitte's specialist AML/FCC team from Singapore to do a 360-degree review of our procedures and systems, which was then provided to our primary US$ clearing banks. I am pleased to report that AIB was found to have a high level of compliance with the Bank Secrecy Act (BSA) – a US law requiring financial institutions to assist US government agencies in detecting and preventing money laundering.

Meeting BSA and our US$ clearing banks' requirements means that AIB has more comprehensive customer on-boarding and payment screening than our local competitors, in turn affecting perceptions of our customer service. However, as AIB transacts payments for about $2.5 billion of imports, the Bank is required to assist Afghanistan trading companies.

In 2018, AIB also upgraded its AML/FCC software systems to meet best international practice. We will continue to upgrade in 2019 and take advantage of any improvements introduced by the vendors.

Corporate and Institutional Banking

Despite a quiet year for generating new loans in corporate and institutional banking, we were able to participate in nearly double the number of development projects, providing guarantees and related support to international construction companies. These totalled AFN 3.21 billion, involving 34 projects including roads, railways and telecommunications.

In an initiative to assist exports, AIB took part in the second annual India-Afghanistan International Trade and Investment Show in Mumbai, organised by the US Agency for International Development (USAID) and the governments of India and Afghanistan. The show provided an excellent opportunity for AIB to interact with 400 contractors who signed many deals – ranging from dried fruit to mining, healthcare to energy and information technology.

To help our customers with their international trade transactions, we significantly increased our correspondent bank network. As well as maintaining our long-standing relationships with with major international banks – Standard Chartered Bank and Commerzbank – and with major regional banks such as State Commercial Bank of Turkmenistan and Aska Bank in Uzbekistan, we have now added Crown Agent Bank in the UK, Bank CenterCredit in Kazakhstan, and TransCapital Bank in Russia. The latter will enable AIB to remit payments to virtually all Commonwealth of Independent States (CIS) countries.

Final steps are also being taken towards AIB becoming a member of Citi Worldlink, making us Citibank's partner in Afghanistan. The agreement was nearing completion at year-end.

Business and Community Banking

We were the first bank in the Afghan market to reduce the interest rate for SME borrowing to 7.5 percent annually, extending the offer in 2019 to support local manufacturer and empower domestic producers. The facility is available only in the AFN currency and has significantly stimulated the creation of new jobs. Since its launch, we have approved AFN 172 million in new loans, of which AFN 100 million has been disbursed with the balance in process.

Having the Afghan Credit Guarantee Foundation (ACGF) back the lending has eased collateral requirements and lowered interest rates for our customers. We signed a new contract for 2019 with ACGF, which is operated by the German government, USAID, and the World Bank. ACGF guarantees range from 36 percent to 72 percent of SME loans, reducing the need for collateral. We have a similar agreement with USAID's Development Credit Authority for partial guarantees that provide 60 to 65 percent loan coverage.

AIB believes in the importance of women in stimulating economic growth and reducing poverty in local communities and society as a whole. To this end, the Bank sponsors the Afghanistan Women Chamber of Commerce and Industry (AWCCI) to support 850 women entrepreneurs.

We also plan to create opportunities for women, and work to eliminate gender discrimination within the banking sector. AIB is also an active member of the International Chamber of Commerce of Afghanistan, and a member of the International Chamber of Commerce's Banking Commission for Afghanistan.

Consumer Banking

We have upgraded our internet banking to the latest version. OBDX (Oracle Banking Digital Experience) has several advantageous functionalities, such as understanding the user device and adjusting the platform view accordingly. This makes the system view more attractive and easy to use.

The system also has a corporate module that enables customers to have more than one user under the same account. Full transfer modules enable customers to transfer funds locally and internationally. All transfers within AIB are processed in real time, so that transactions are simultaneously credited to the beneficiary account.

The payroll module gives customers the ability to process their payrolls within AIB or any domestic bank, using a file upload function. This has capacity to process 1,000 transactions within a single file.

Using the enquiry module, customers can review all their account details, backed by Android and iPhone apps that can be downloaded for fully-functional mobile banking. Security is reinforced by finger-print and iris-recognition for log in.

Smart Branches

In response to increasing customer demand for digital banking, and to give prompt and special service, Smart Branches will be placed in shopping malls. These will have advanced technology features, saving customers the need to visit banking halls and eliminating waiting time. The electronic portals at Smart Branches will handle all cash and transfer activities through interactive teller machines.

A cashback scheme encourages customers to switch from counters and tellers to online banking, with a small percentage of the value of total online transactions reimbursed every quarter.

Training and customer service

All customer-facing employees are being trained by an outsourced company in how best to facilitate customer needs. Training is followed by regular reviews, designed to maintain consistent improvement in service at branches.

Debit and credit card applications are now available online as is opening individual, payroll accounts. Upgrading cards to contactless functionality will be available soon. The launch of premium debit cards enables customers to make whatever transactions they need – at ATMs, with point-of-sale machines, or online.

IT initiatives

The information technology focus for the year was based on an expectation of more stringent regulatory requirements for financial crimes compliance and on the increasing sophistication of cyber-criminals. On the business side, we responded to the increased demand for services through mobile and web applications and for financial inclusion.

Major initiatives achieved include the upgrade of the IT backbone and data centre, enhancement of critical financial crimes compliance applications, business facilitating applications, and electronic banking. Redundancy and resilience in our operations have improved – particularly in security – and we have prepared for future business requirements. Consequently, the Bank is in a strong position to meet the ever-increasing demands of its clients and consolidate its market leadership.

We also recognise that data is a critical asset, and that how it is used and protected has a significant impact on service delivery and client confidence. We improved our cyber security capabilities to provide swift detection and remediation of threats as well as strengthening the protective mechanisms. Being aware that the human element is the weakest link in cyber security, we introduced a more comprehensive awareness programme for all employees, resulting in increased understanding of acceptable behaviour and the use of IT resources.

Community involvement

The Bank participated in a number of domestic and international exhibitions and seminars.

Domestically, we organised the Bibi Khadija Award Ceremony in partnership with the Afghanistan Women Chamber of Commerce and Industry. Five successful businesswomen were honoured in five categories. Wider community involvement extended to participating in conferences such as the ePayment Exhibition and the Domestic Product Exhibition.

Internationally, we supported and sponsored the Afghanistan Women Chamber of Commerce and Industry's top 10 members to participate in the Halal International Business Summit exhibition in Istanbul. AIB was again represented at SIBOS, the annual conference, exhibition, and networking event organized by SWIFT for the financial industry. Held in Sydney, the event was an excellent opportunity to renew existing relationships and establish new ones.

AIB delegations also participated in USAID's Passage 2 Prosperity event held in Mumbai, supporting Afghan traders to present their products and helping their entry to international trade.

In keeping with AIB's commitment to good corporate citizenship, we continued to support projects that have a beneficial impact on the communities where we operate. We again contributed to Women for Afghan Women; funded construction of a gymnasium and sunshade for Maryam High School in Kabul; donated medical equipment to Abdul Hadi Dawee High School; and sponsored young people to attend the business forum run by AIESEC, the world's largest youth-run organisation.

I take this opportunity to express sincere thanks to our shareholders and Board for their continued confidence and support, and to our loyal customers for their patronage. To our management and our employees, I offer special thanks for their dedication and hard work throughout 2018 and the performance achieved in a very testing environment.

Anthony Barned
Chief Executive Officer

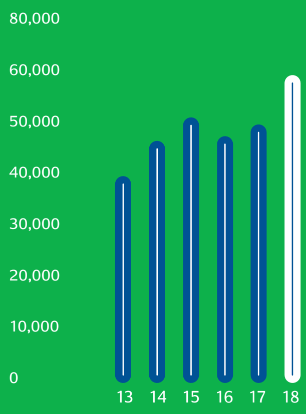
Growth in key metrics sustains upward performance trend.

↗ 17.7%
71.72bn
Assets

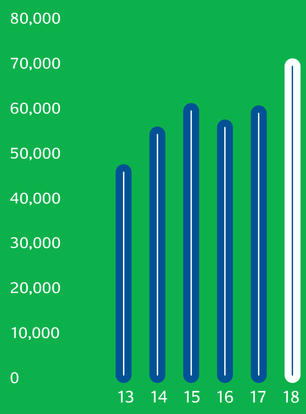
↗ 10.13%
2.50bn
Revenue

↗ 34%
478mn
Net profit before tax

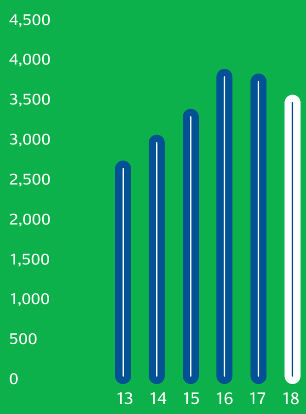
Deposits
(AFN millions)



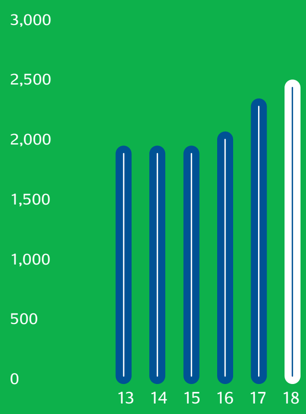
Total assets
(AFN millions)



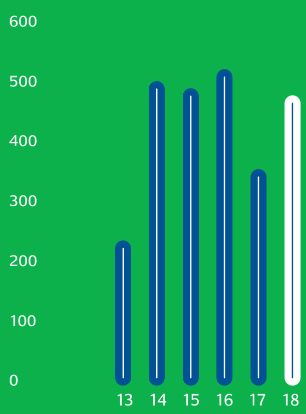
Capital growth
(AFN millions)



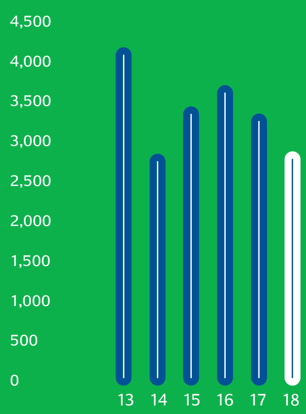
Revenues
(AFN millions)



Net profit before tax
(AFN millions)



Advances
(AFN millions)



Significant export boosts from the agriculture sector and far-reaching structural reforms are beginning to stimulate the Afghanistan economy, with real GDP growth showing an upward trend.

GDP

Afghanistan has experienced sluggish GDP growth since 2014 with an average annual rate of 2.7 percent. A number of factors have contributed to this including the withdrawal of US and international security forces, the deteriorating security situation over the past few years, reductions in international grants, and ongoing political uncertainty.

Set against these negative trends, the economy is benefitting from the implementation of economic reforms and there are modest signs of growing confidence and momentum. From a low of 1.5 percent in 2015, real GDP growth has accelerated to 2.9 percent in 2018 and continues to show an upward trend with real growth for 2019 projected at 3.1 percent.

Some important risks surround this projection, particularly around the upcoming presidential elections. However, these risks are balanced by significant upside potential if current peace talks with the Taliban can achieve success, thereby greatly improving the security and economic outlook. In aggregate, we expect real GDP to remain soft at between 3 percent and 5 percent over the next three years supported in particular by strengthening export volumes in agricultural and industrial sectors. Employment growth peaked at 2.9 percent in 2016, and is expected to remain flat at around 1 percent for the next three years.

Inflation

Inflation sat at 1.1 percent in December 2018, compared to an average inflation rate of 2.65 percent over the past three years. There has been some volatility in these figures, with a high of 7.37 percent in July 2016 and a low of 0.7 percent in January 2016. Between March and July 2018, deflationary conditions existed at a peak of -1.6 percent. Per capita income in 2018 was estimated at $620 per annum.

Agricultural sector

The agricultural sector continues to be a key driver of the economy, representing 23.7 percent of GDP and growing by 21.4 percent between 2016 and 2017. This was a result of improvements in production techniques and facilities, as well as favourable weather conditions. With the majority of the population either directly or indirectly dependent on the sector, and as a fast-growing export category, the upward trend is a strong fillip for Afghanistan's wider economy. Whilst government data on the growth rate for 2018 is not yet available, the observable sub-components indicate growth over the past 12 months has been even higher than in 2017.

Exports

The country's exports in 2017/18 grew significantly to $784 million annually, compared to $571 million in 2015/16. Available data from Q1 2018 corroborates this growth, rising almost 50 percent against Q1 2017. Underlying improvements in infrastructure, such as the establishment of new air corridors to India, continue to drive exports and we expect further export growth.

The Kabul-New Delhi air corridor began in June 2017, followed by second air corridor (Kabul-Mumbai) in December 2018 through which over 100 flights have already been conducted between the two countries transporting 2,500 metric tons of goods. In the last three years, Kabul has exported about 10,200 metric tons of goods to India and trade between India-Afghanistan is predicted to reach $2 billion by 2020.

Pakistan remains the primary export destination for Afghan goods with 48 percent of exports, India (19 percent) and Russia (9 percent) are growing quickly, as are exports to Afghanistan's regional neighbours and to China, Japan, Indonesia, and Malaysia.

Overall, exports currently account for around 20 percent of GDP. The primary categories are: carpets and rugs (45 percent); fresh and dried fruits (31 percent); and medicinal plants (12 percent).

Whilst continued growth is expected, a note of caution should be raised for 2019 given the upcoming presidential elections, as the previous presidential election in 2013/14 saw some disruption to export volumes.

Imports

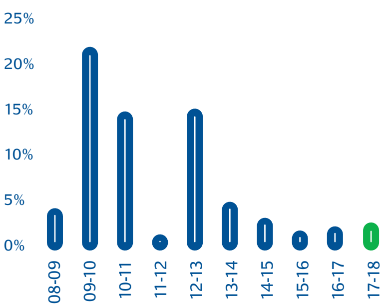
2017/18 imports rose to $7,440 million from $6,534 million in 2016/17. However, indicators point towards import volumes dropping slightly in 2018, with Q1-Q3 imports totaling $5,282 million, indicating a likely reduction for the calendar year.

The country's major imports are: petroleum (33 percent of total imports); machinery and equipment (15 percent), food items (14 percent) and base metals and related articles (9 percent).

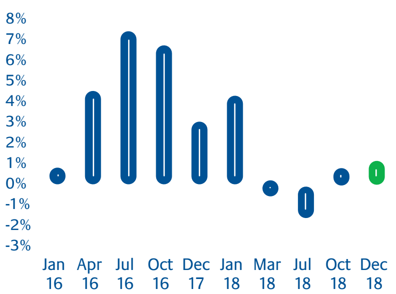
The largest single source of imports is Pakistan, with 14 percent of total imports. Pakistan's share of imports is however decreasing, with imports in the second half of 2018 falling to $608.533 million compared to $739.233 million for the same period in 2017. Year-on-year imports for December from Pakistan fell by 36.55 percent.

GDP annual growth rate in Afghanistan is reported by Da Afghanistan Bank

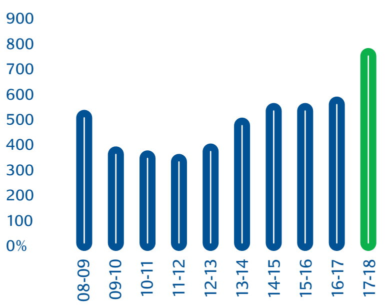
Afghanistan GDP annual growth rate (% pa)



Afghanistan inflation rate 2016 to 2018



Afghanistan exports 2009-2018 (US$ millions)



Source: Da Afghanistan Bank

Lending

Bank lending to the private sector has been declining over the past five years. Lending for the first nine months of 2018 reached $572 million compared to $582 million for the 12 months of 2017.

That said, a significant rise in lending is not imminent as banks tighten credit standards ahead of presidential elections and the outcome of talks with the Taliban. Total bank deposits were $3.88 billion in December 2017, decreasing slightly to $3.62 billion in December 2018. Central bank reserves reserves increased from $8.11 billion at the end of 2017 to $8.24 billion in 2018.

Business reform

The process of business reform has been a significant success for the country in 2018 with the World Bank highlighting the "extraordinary advancement" being made by Afghanistan.

There have been significant reforms around: ease of starting a business; access to credit; taxation and collection; resolving insolvency; and protecting minority investors. In addition, the government departments responsible for all business licensing have now been gathered under a single umbrella, and indeed operate in the same building.

These steps have seen a remarkable boost for Afghanistan's ranking in the World Bank's Starting a Business Indicator — moving from 107th at the start of 2018 (below Djibouti) to 47th in January 2019 (above the USA).

A similarly strong performance in World Bank's Resolving Insolvency rankings moved the country from 161st in 2018 to 74th at the start of 2019. The new insolvency framework should have a significant beneficial effect on the economy, with creditors more willing to enter the market. The framework puts in place a robust regime allowing reorganisations and liquidation; improving the continuation of the debtor's business during insolvency proceedings; and improving the legal and institutional foundations for obtaining credit.

The country saw the corresponding Access to Credit ranking rise more modestly from 105th to 99th, but we would expect this to increase as creditors gain comfort with the new systems.

Further improvements to the investment climate would be welcome, with the attraction of foreign investment and promotion of domestic enterprise essential for the ongoing health of the economy.

Political outlook

The upcoming presidential election will be held in July 2019. A total of 18 candidates are registered including the current president Ashraf Ghani and his power-sharing CEO Abdullah Abdullah. Talks between the US and the Taliban have gathered momentum, despite the deterioration of the security situation in the country, with the new chief negotiator for the Taliban currently discussing a potential ceasefire with the US in Qatar. The proposed peace talks between the US and the Taliban are reportedly close to establishing a mechanism to bring conflict to an end. This would be a significant boost to the overall economic outlook.

Infrastructure

Due to a longstanding lack of dams, Afghanistan loses a significant proportion of its water resource to neighbouring countries, and severe droughts are a common occurrence for the majority of the country's provinces. This causes problems for the important agricultural sector, which in turn creates food shortages and displacement of population.

President Ashraf Ghani guaranteed in his early days as president to build 26 dams to conserve water. Construction has commenced on most of these dams, which will safeguard water requirements for agriculture as well as help satisfy domestic electricity needs. The potential inclusion of Afghanistan in CPEC and Asian Development Bank grants in the energy sector will provide further impetus for this development.

President Ghani inaugurated the Lapis Lazuli Corridor Accord at the end of 2018, providing Afghanistan with a direct transport link for Europe via road, rail and sea. Goods will be transported through Turkmenistan, across the Caspian Sea to Azerbaijan and Georgia, then across the Black Sea and through Turkey to the Mediterranean and Europe.

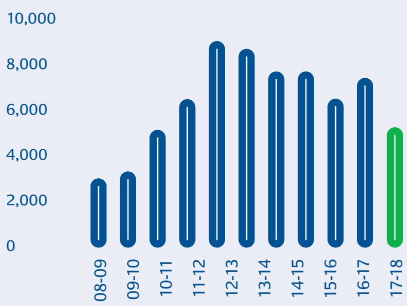
Looking east, Afghanistan has many trade gates opening toward central Asia and its international markets. Both Indian and Chinese companies are playing an increasing role in Afghanistan, with China actively investing in the country to foster commercial ties. This is especially evident in the construction of railways, dams, roads and housing, and through imports of Afghan hygiene products. The Sino-Afghan Special Railway Transportation project connects Afghanistan to China's 'One Belt, One Road' trade corridor with Uzbekistan, Kazakhstan and Iran.

Development support

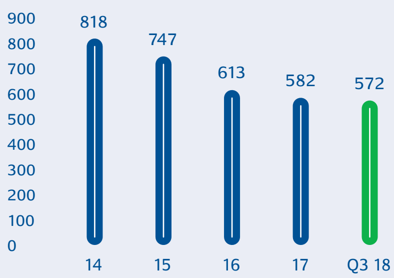
The Asian Development Bank and the World Bank continue to support the country's national development projects in a wide range of sectors including: health; empowerment of women; transport; energy; natural resources; and economic management. To date, the World Bank has committed more than $4.1 billion to these development projects. The World Bank-administered Afghanistan Reconstruction Trust Fund has raised more than $10.6 billion, and the country has secured financial commitment from the international donor communities for the next five years, with $3.5 billion per year pledged at the Brussels conference 2016. The government also receives a similar level of annual assistance from Tokyo ($3.9 billion per year). These international partners reconfirmed their long-term support for the country at a NATO summit in 2018.

Agriculture growth rate 2013-2017

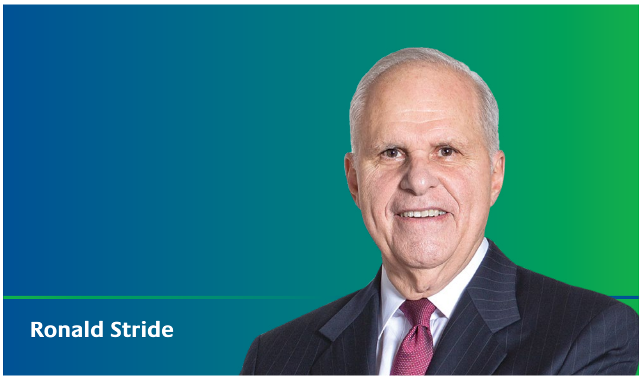
Afghanistan imports 2009-2018
(US$ millions)



Banks' lending to private sector
(US$ millions)



Source: Da Afghanistan Bank



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

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

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

Mr Tirmzi is a qualified Chartered Accountant (1981, Institute of Chartered Accountants, England & Wales), and has 34 years of international banking experience in the Middle East and Asia Pacific with Citibank and HSBC. Key roles as chief financial officer included in Saudi Arabia, Philippines, Indonesia, Hong Kong, and Singapore – as well as three regional CFO roles in Asia Pacific. He was also director of audit and risk review with Citibank Asia Pacific. He is currently a financial consultant based in Singapore, focused on assignments in the Middle East and Asia Pacific.

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

Mr Sidiqi joined the Board in 2017. He is currently the CEO of Abu Dhabi-listed RAK Properties, a leading UAE developer. Previously he was CEO of Kuwait-listed NREC, and prior to that worked with Agility Logistics in Europe, America, Asia, and the Middle East. He began his career at Bain & Company advising Fortune 500 clients on strategy. Mr Sidiqi has an MBA from the Wharton School and an MA from the Lauder Institute, both of the University of Pennsylvania. He has a Bachelor of Economics and a Bachelor of Political Science from Massachusetts Institute of Technology.

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

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

Independent Director, Member of the Audit Committee

Mr Minderhoud joined the Board in December 2017. He is based in Tashkent, Uzbekistan, where he is senior advisor to Ipak Yuli Bank Uzbekistan. He has worked in various capacities in Central Asia and the former Soviet Union since 1994, at first with ABN AMRO Bank, Netherlands, and since 2006 as independent financial advisor and board member of various banks and companies in the region.

He holds a law degree from Leiden University in the Netherlands.

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

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

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

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

As a matter of principle and good business practice, AIB conducts its banking business in an ethical, prudent, and professional manner, in accordance with international standards of governance.

Philosophy of governance

AIB endeavours to enhance shareholder value; protect the interests of all stakeholders including shareholders, customers, employees, regulators and the public at large; and to ensure compliance with international best practices for financial institutions. The Bank complies with all legal and regulatory requirements of Afghanistan – but also formulates and adheres to strong corporate governance practices beyond what is mandated by Afghanistan regulators. In fact, 'international' in our name reflects the standard of performance we strive to achieve.

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

Shareholders

The Bank has three shareholders, each with an ownership percentage as shown in the table below. The shareholders operate under a policy of non-interference in management decisions and the Bank's operations. The positive reputation and widespread business interests and relationships of the Bank's shareholders in Afghanistan have contributed significantly to the success of the institution. Each shareholder has the right to appoint one individual to the Board of Supervisors.

Shareholder	Beneficial Shareholder	Type of Company	Incorporated	Board Members	Ownership %
International Finance Corporation (IFC)	Not applicable	Global development institution	Washington, District of Columbia, USA	No one appointed	7.50
Horizon Associates	Mohammed Abrahim Mohib	Holding Company	Delaware, USA	Lutfullah Rahmat	46.25
Wilton Holdings	Lutfullah Rahmat, Izzatullah Rahmat, Nasrullah Rahmat	Holding Company	Cayman Islands	Hamidullah A. Mohib	46.25

Board of Supervisors

The major purpose of the Board of Supervisors is to formulate the overall strategic and financial objectives of the Bank; to monitor these objectives to ensure they are met by management; and to ensure that the risks associated with operating a financial institution in Afghanistan are managed and mitigated as far as possible. Ensuring the upholding of good corporate governance is key to the Bank achieving its goals, and the Board ensures that best practices are maintained.

The Board is composed of the Chairman, shareholder-appointed directors and independent directors. The Chairman is an independent director, which complies with central bank regulations. Independent Board members are in the majority, in line with regulations and international governance standards. According to the Articles of Association, each shareholder has the right to appoint one shareholder-designated director. The shareholders have agreed to a Board of Supervisors consisting of seven individuals. There are currently seven Board members: five independent and two shareholder-appointed. Brief biographical profiles of the directors are included in this annual report.

The Chairman is a non-executive director and is responsible for leadership of the Board and ensuring its effectiveness. Shareholder-nominated directors are appointed by the respective shareholders and represent their interests. There are currently two shareholder-appointed directors.

Independent directors are expected to bring impartial judgement to the Board through their expertise in the financial world, as well as governance experience through having served on other boards. Independent directors and directors who are shareholder representatives are elected/appointed for terms of four years, but must stand for reappointment each year.

The Board has five committees: Remuneration; Nominating; Risk; Planning and Strategy, and Audit. Each committee has a Chairman and a formal charter to guide its activities. The Board Chairman, with advice and consent of the full Board, selects committee members and committee chairs annually.

The Board of Supervisors meets monthly: four times in person and the balance by conference call. The committees of the Board meet four times a year in person and in conjunction with Board meetings, with occasional conference calls. Board committee meetings are attended by the Chief Executive Officer. Minutes of committee meetings are circulated to all Board members for their information. The role of these committees is explained in more detail in the following subsections.

In 2018, the Board met 12 times. During each meeting, the Board monitored the financial performance of the Bank as well as the status of non-performing loans and operational risks. Each quarter, the Board reviewed the anti-money laundering/compliance dashboard to ensure the Bank's adherence to the policies and procedures established for this function by outside experts. The Bank has invested significant resources into compliance, resulting in very satisfactory implementation of these policies and procedures, although more needs to be done.

The Board was intimately involved and actively drove compliance changes and oversaw the expansion of our correspondent relationship network, resulting in a new US$ Nostro account with UK, Kazakhstan and Uzbekistan banks. We look forward to the continued expansion of our network of correspondent banks in 2019 to include Russia and other countries.

The Board and shareholders had planned to have the Bank's new headquarters building completed in 2016, but unfortunately due to delays primarily caused by security issues, occupation only took place in the last quarter of 2018. We are proud to finally have our own headquarters and the Board looks forward to holding Board meetings there.

Planning and Strategy Committee

The Planning and Strategy Committee is responsible for AIB's strategic plan, annual business plan and budget, and for monitoring the Bank's investment portfolio.

In 2018, the committee met four times in person. Specific accomplishments during the year were:

- Reviewed and approved the business and financial plan for 2019; the plan shows an increase of 14 percent in pre-tax net profit and return on equity of 17 percent before dividend payment.
- Monitored management initiatives to improve customer service in branches. These initiatives involve technology and process improvements and have resulted in better service delivery to customers.
- Refined planning by business unit/segment:
  - Developed plans for each business unit: corporate and institutional, business banking, community banking, and consumer banking.
  - Developed profit and loss statements and balance sheets for each business unit
  - Established a method of monitoring of each unit's plan.
- Monitored the investment portfolio and approved allocation of funds across a number of investment instruments and asset managers. The investment portfolio yielded over 3 percent in interest income – more than $6.3 million – and accounted for 20 percent of total revenue.
- Approved a shift to placements as opposed to bonds due to higher interest rate environment.
- Approved model branch cost/benefit analysis to include branch staffing and organisation, physical layout, cost structure. service standards and performance measures.
- Approved a branch rationalisation programme to reduce costs in the branch network in light of a stagnant business environment.
- Approved a revised organisation structure for the Bank.

As a part of its on-going responsibilities, the committee monitored progress of the 2018 business plan and budget each quarter. As the political, security and economic conditions in Afghanistan are not likely to improve in 2019, the committee has taken a conservative approach to planning the Bank's activities and finances.

Risk Committee

The committee provides comprehensive oversight and best practices in risk governance and risk management.

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

The Board and the shareholders of AIB continued to place high priority on implementing, maintaining and developing the highest standards in anti-money laundering (AML) and counter-terrorism financing (CTF). During the year, AIB implemented a financial crime compliance/AML project with the assistance of a reputed external firm to ensure 'know your customer', AML and CTF processes are best in class. AIB also engaged the services of another prominent consulting firm, which works closely with several financial institutions, to ensure that AIB's AML and CTF processes were working satisfactorily. The findings were positive.

The Bank retained the services of an external consultant who completed a credit risk review of the Bank's loan portfolio, with recommendations being implemented as well as refinements to the Bank's business continuity plan.

The Bank is also in the process of implementing an enterprise risk management system that will further strengthen its risk culture.

Due to uncertainties in the economic outlook for Afghanistan, the Risk Committee adopted a conservative approach for the Bank's risk profile. This approach will continue in 2019 to ensure that the balance between risk and return is maintained.

Audit Committee

The Audit Committee is responsible for overseeing financial reporting; compliance with risk management policies and procedures; internal controls; ethical behaviour; and management and functioning of the Internal Audit Department.

The committee currently has three members, all qualified and experienced in audit, accounting, business or banking. The Board of Supervisors appoints members to the committee, the majority of whom consist of independent members of the Board of Supervisors, or any other qualified person, subject to the approval of Da Afghanistan Bank (the central bank), and that at least one of the committee members has sufficient experience in banking, accounting, or financial management. Any individual who is proposed to join the Audit Committee is subject to the same 'fit and proper' requirements as any other member of the Board of Supervisors. The committee currently has one non-Board member and two members of the Board of Supervisors.

The Audit Committee is responsible for the relationship with the external auditor, and meets them on completion of the annual audit and quarterly reviews. On the committee's recommendation, the Board of Supervisors approves the annual financial statements and three quarterly reviews of condensed financial information. These meetings enable committee members to discuss matters relating to the external auditor's remit and issues arising from the audit.

Consistent with previous years, in 2018 the Audit Commitee assessed and approved the annual internal audit plan, including budget and resources, and regularly monitored progress of the plan. The committee discusses control environment issues reported by the Internal Audit Department, their root causes and management responses, and remediation activities including any significant audit issues that were brought to the committees attention. The committee regularly monitors and assesses the role and effectiveness of the internal audit function.

The Audit Commitee also reviews the Bank's annual budget and business plan, and recommends to the Board of Supervisors the payment of dividends.

The committee receives quarterly reports from major operational segments such as non-performing loans, operational loss, and financial reports of the Bank, reviewed at every quarterly committee meeting. The reports include the key performance indicators of these segments and issues related to operational and financial controls.

During 2018, the committee regularly focused on the status of internal controls and issues relating to money laundering and countering financial terrorism.

Da Afghanistan Bank issued a regulation that from the first quarter of 2019 Board members cannot serve as members of the Audit Committee. Accordingly, we are searching for Afghans who are qualified to sit on the committee.

Remuneration Committee

The Remuneration Committee has five major responsibilities:

- Establish compensation policies for the Bank's senior management, including base salary, fringe benefits and bonus scheme.
- Establish performance goals for each member of senior management and monitor performance against these goals.
- Establish and review development and succession plans for senior management.
- Recommend to the full Board for final decision matters relating to senior management compensation and bonus actions.
- Review and approve the Bank's human resource policies.

The Committee has four members, three of whom are independent directors including the Chairperson. The Committee met four times in person in during 2018. Key issues addressed included:

- Reviewed, approved, and monitored senior management goal statements.
- Reviewed and approved 2017 bonus and salary actions for senior management.
- Reviewed and approved an amended human resources policy.
- Reviewed and revised executive and senior management bonus scheme.
- Reviewed succession planning progress report and rotation plans.

It is critical for AIB to be clear in its commitment towards staff and in the credibility of its plans to keep talented employees and attract new ones from a pool of talented people who might otherwise consider employment abroad. The Committee thinks AIB has largely been successful in this by maintaining a professional and committed team.

Nominating Committee

The Nominating Committee works as a preparatory committee for the Board of Supervisors with respect to nomination and appointment of candidates to the Board of Supervisors, the Management Board, and other key senior managers as determined by the committee.

The committee comprises five members of the Board of Supervisors, including the Chairman; two members representing employees; and two members representing shareholders. A majority of the members are independent. At least one-third of the independent directors are committee members.

In 2018, the Committee met four times in person, in conjunction with Board meetings, and held conference calls to interview Board candidates. The Committee's major activities for 2018 were:

- Interviewing candidates to fill one open Board position: two candidates were interviewed by the Board, and one was nominated for approval to the full Board, and subsequently to the shareholders and the central bank.
- Review and revision of its charter.
- Approving the appointment of a Shariah Board member.
- Running a selection process for a preferred search firm.
- Submitting existing Board members for re-appointment at the Annual General Meeting of shareholders.

The Committee focused on strategically thinking about how to support the sustainability of the Bank through proper selection and succession planning.

Committee meetings and attendance records

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

Board	23 Jan 2018	27 Feb 2018	10 Mar 2018	17 Apr 2018	8 May 2018	30 June 2018	24 July 2018	7 Aug 2018	8 Sept 2018	16 Oct 2018	17 Nov 2018	18 Dec 2018
Ronald Stride, Chairman	⊙	⊙	⊙	⊙	⊙	○	○	○	○	⊙	⊙	⊙
Hugo Minderhoud	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	○
Lutfullah Rahmat	○	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Aditya Srivastava	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Samuel Sidiqi	⊙	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙	⊙
Mansoor Tirmzi*	⦸	⦸	⦸	⦸	⦸	⊙	⊙	⊙	⊙	⊙	⊙	⊙

* DAB appointment letter 25 June

Planning & Strategy Committee	9 Mar 2018	29 Jun 2018	7 Sept 2018	16 Nov 2018
Ronald Stride, Chairman	⊙	○	○	⊙
Aditya Srivastava	⊙	⊙	⊙	⊙
Lutfullah Rahmat	⊙	⊙	⊙	⊙
Samuel Sidiqi	⊙	⊙	⊙	⊙
Mansoor Tirmzi*	⦸	⊙	⊙	⊙

* BoS appointed 10 March/DAB appointment letter 25 June as Director

Risk Committee	9 Mar 2018	29 Jun 2018	7 Sept 2018	16 Nov 2018
Aditya Srivastava	⊙	⊙	⊙	⊙
Ronald Stride, Chairman	⊙	○	○	⊙
Hamidullah A. Mohib	⊙	⊙	⊙	⊙
Hugo Minderhoud*	⦸	⊙	⊙	⊙
Lutfullah Rahmat	⊙	⊙	⊙	⊙

* Appointed 10 March

Remuneration Committee	9 Mar 2018	29 Jun 2018	7 Sept 2018	16 Nov 2018
Ronald Stride, Chairman	⊙	○	○	⊙
Samuel Sidiqi	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	⊙	⊙	⊙
Mansoor Tirmzi*	⦸	⊙	⊙	⊙

* BoS appointed 10 March/DAB appointment letter 25 June as Director

Nominating Committee	8 Feb 2018	15 Feb 2018	10 Mar 2018	29 Jun 2018	7 Sept 2018	16 Nov 2018
Ronald Stride, Chairman	⊙	⊙	⊙	○	○	⊙
Samuel Sidiqi	⊙	⊙	⊙	⊙	⊙	⊙
Hugo Minderhoud*	⦸	⦸	⦸	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	⊙	⊙	⊙	⊙	⊙
Lutfullah Rahmat	⊙	○	⊙	⊙	⊙	⊙

* Appointed 10 March

Audit Committee	8 Mar 2018	7 May 2018	28 Jun 2018	5 Aug 2018	6 Sep 2018	15 Nov 2018
Said Arab Khan, Chairman	⊙	⊙	⊙	⊙	⊙	⊙
Hamidullah A. Mohib	⊙	⊙	⊙	⊙	⊙	⊙
Hugo Minderhoud	⊙	⊙	⊙	⊙	⊙	⊙

Management Profiles

Anthony Barned

Chief Executive Officer,
Chairman of Management Board

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

Lalit Kumar Jha

Chief Finance Officer,
Member of Management Board

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

Asadullah Fayzi

Chief Operating Officer,
Member of Management Board

Mr Fayzi holds the position of COO, having joined AIB at its inception in 2004 as head of IT and subsequently CIO. Previously he was IT manager for Afghanistan Reconstruction Company. He was appointed to his current position during 2012. He holds a Master of Science (Telecommunications) from Istanbul Technical University.

Mohammad Taofiq Mir

Head of Strategic Planning

Mr Mir began his banking career in 2006 with AIB. He managed electronic banking channels and was head of retail banking before becoming head of strategic planning in 2014. He also leads the Bank's programme to enhance financial crime compliance. Mr Mir holds a Bachelor of Science (Electrical Engineering) from Delft University of Technology in the Netherlands.

Bishwajit Mazumder

Head of Internal Audit

Mr Mazumder, is a qualified chartered accountant, certified internal auditor, and certified information systems auditor. He also holds a law degree from India and is a USA-certified fraud examiner. He has more than 30 years' experience in banking in various institutions in different geographies and cultures, including more than a decade of heading internal audit.

Zulfiqar Ali Khan

Chief Risk Officer

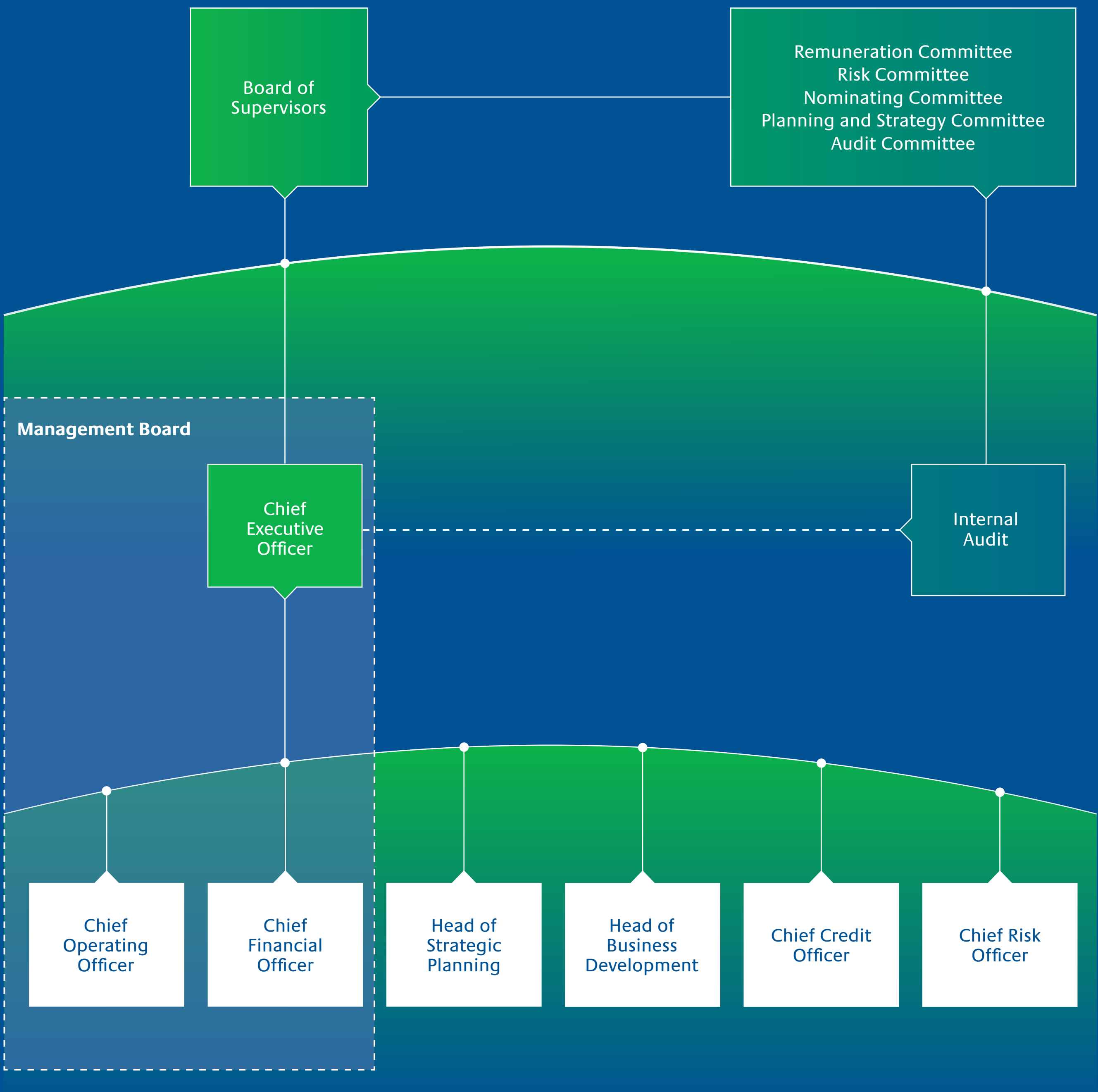
Mr Khan has over 10 years of experience as a central and commercial banker. He joined AIB in 2014 as of Head of Islamic Banking and has also managed banking for small business, trade finance, and business and commercial banking. Mr Khan is a candidate for a PhD in Islamic finance and already holds a Master of Science (Banking and Finance) and a Bachelor of Economics.

Curtis Faulkner

Acting Chief Credit Officer

Mr Faulkner retired with 30 years' experience as a regulator with the Tennessee Department of Financial Institutions. He has since worked as a consultant on banking projects with the FDIC, IMF, ADB, and USAID, including three years as a consultant for Da Afghanistan Bank. Since 2015, he has worked for AIB in various consulting roles and was appointed to the Acting CCO position in August, 2018.

Organisation



History and Performance of AIB

AIB’s reputation for excellence is founded on consistent improvements in performance, a commitment to business integrity and strong corporate governance, and independent recognition of its achievements.

2004

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

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

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

2005

Opening of first branch outside Kabul.

2006

Khalilullah Sediq joins as Chief Executive Officer.

2007

AIB shows annual profit for the first time.

2008

Appointed bankers to the American forces in Afghanistan.

2010

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

2011

Deposits exceed $500 million.

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

2012

Deposits exceed $800 million.

AIB acquires Standard Chartered Bank’s business in Afghanistan.

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

2013

The Banker magazine again designates AIB as ‘Bank of the Year’ in Afghanistan.

2014

After being nominated by the World Bank, AIB wins ‘Best Corporate Governance, Afghanistan’ in the 2014 CFI.co awards.

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

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

2015

Khalilullah Sediq retires as CEO to become Governor of Da Afghanistan Bank (Afghanistan’s central bank).

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

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

The Bank exhibits for the first time at SIBOS, the annual conference, exhibition and networking event organised by SWIFT for the financial industry.

2016

AIB wins the CFI.co ‘Best Corporate Governance, Afghanistan’ award for the third consecutive year and *The Banker* magazine designates AIB as ‘Bank of the Year’ in Afghanistan for the fifth year running.

Construction of the Bank’s new Head Office completes and fit-out begins.

The Bank exhibits at SIBOS for the second time.

2017

AIB wins the CFI.co ‘Best Corporate Governance, Afghanistan’ award for the fourth consecutive year and *The Banker* magazine designates AIB as ‘Bank of the Year’ in Afghanistan for the sixth year running.

Construction of the Bank’s new Head Office nears completion with occupancy commencing in the first quarter of 2018.

The Bank exhibits at SIBOS for the third time.

2018

‘Best Bank’ award

The Banker magazine has named AIB ‘Bank of the Year, Afghanistan’ for seven consecutive years from 2012 to 2018.

Original HQ

The original HQ served AIB very well but the Bank has now outgrown the premises.

New HQ

AIB moves into its new headquarters in central Kabul, reflecting the Bank’s prominent position within Afghanistan’s banking system.

Best governance

AIB wins CFI.co’s 2018 ‘Best Corporate Governance, Afghanistan’ award, the fifth successive year it has achieved this distinction.

World stage

AIB takes a stand at the 2018 SIBOS held in Sydney, Australia, the fourth time it has participated.

AIB Branch Network

37 Branches | **107** ATMs | **2** Cash outlets

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

Herat ATMs: 8

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

Mazar-e-Sharif ATMs: 7

Kunduz branches: 1
Kunduz Branch

Baghlan branches: 1
Pol-e-Khumri Branch

Nangarhar branches: 1
Jalalabad Branch

Nangarhar ATMs: 4

Khost branches: 1
Khost Branch

Kabul branches: 23
Shahr-e-Naw Haji Yaqoob Square Branch
Shahr-e-Naw Ansari Square Branch
Microrayan Branch
Sarai Shahzada Branch
Mirwais Maidan Branch
Khair Khana Branch
Kolola Pushta Branch
Taimani Branch
Kart-e-Naw Branch
Khair Khana Second Branch
Pole Charkhi Branch
Jad-e-Maiwand Branch
Green Village Branch
Pule Bagh-e-Omomi Branch
Dasht-e-Barchi Branch
Kart-e-Se Branch
Wazir Akbar Khan Branch
UNOCA Branch
Baraki Branch
AUAF Branch
US Embassy Branch
Ahmadshah Baba Mina Branch
Smart Branch – Gulbahar Business Center

Kabul Cash Outlets: 2
ISAF HQ
KAIA

Kabul ATMs: 81

Nimroz branches: 1
Nimroz Branch

Helmand branches: 1
Lashkargah Branch

Helmand ATMs: 1

Kandahar branches: 2
Kandahar Main Branch
Kandahar Ayno Mina

Kandahar ATMs: 6

Financial Statements

Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AFGHANISTAN INTERNATIONAL BANK

Opinion

We have audited the accompanying financial statements of Afghanistan International Bank (the Bank), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the accounting framework as stated in note 2 to the financial statements.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting framework as stated in note 2 to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Ford Rhodes Sidat Hyder

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Date: 16 March 2019
Kabul, Afghanistan
Audit Engagement Partner: Shabbir Yunus

Statement of Financial Position

As at 31 December 2018

	Note	31 December 2018 AFN '000'	31 December 2017 AFN '000'
ASSETS			
Cash and balances with Da Afghanistan Bank	5	15,965,500	13,765,061
Balances with other banks	6	10,095,978	10,174,148
Placements – net	7	19,858,325	13,439,256
Investments – net	8	18,423,705	15,966,565
Loan and advances to customers – net	9	2,897,616	3,369,970
Receivables from financial institutions	10	360,120	587,534
Operating fixed assets	11	3,059,571	2,546,205
Intangible assets	12	394,538	445,918
Deferred tax assets	13	95,104	73,605
Other assets	14	572,867	568,956
Total assets		71,723,324	60,937,216
LIABILITIES			
Customers' deposits	15	67,383,947	56,261,420
Deposits from bank		–	500,000
Deferred income		98,627	18,989
Other liabilities	16	655,593	306,308
Total liabilities		68,138,167	57,086,717
EQUITY			
Share capital	17	1,465,071	1,465,071
Capital reserves	18	260,405	236,417
Retained earnings		1,946,530	2,145,383
Revaluation loss on debt instruments at fair value through other comprehensive (income)/surplus on revaluation of available for sale investments		(86,849)	3,548
Total equity		3,585,157	3,844,934
Total equity and liabilities		71,723,324	60,937,216
Contingencies and commitments	19		

Chief Executive Officer

Chief Financial Officer

Chairman

The annexed notes 1 to 34 form an integral part of these financial statements.

Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	31 December 2018 AFN '000'	31 December 2017 AFN '000'
Interest income	20	1,291,598	1,141,357
Interest expense	21	(51,141)	(60,009)
Net interest income		1,240,456	1,081,349
Fee and commission income	22	917,074	940,467
Fee and commission expense	23	(28,764)	(16,601)
Net fee and commission income		888,311	923,866
Income from dealing in foreign currencies		231,055	172,609
		2,359,822	2,177,824
Other income	24	64,750	55,964
Gain (loss)/on sale of securities		(1,732)	36,472
Credit losses reversal/(expense)	25	38,114	(37,816)
General and administrative expenses	26	(1,812,483)	(1,586,985)
PROFIT BEFORE INCOME TAX		648,470	645,458
Taxation	27	(170,305)	(287,513)
PROFIT FOR THE YEAR		478,165	357,945
OTHER COMPREHENSIVE INCOME			
Items that may be classified to profit and loss subsequently			
Debt instruments at fair value through other comprehensive income:			
Deficit on financial investments at fair value through other comprehensive income:		(107,431)	–
Related deferred tax		21,486	–
Other comprehensive loss, net of tax		(85,945)	–
Available-for-sale financial assets:			
Deficit on revaluation of available for sale investments		–	(15,382)
Related deferred tax		–	13,366
Other comprehensive loss, net of tax		–	(2,016)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		392,220	355,929
Earnings per share		15.94	11.93

Chief Executive Officer

Chief Financial Officer

Chairman

The annexed notes 1 to 34 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital AFN '000'	Surplus on available for sale on investments AFN '000'	Capital reserve AFN '000'	Retained earnings AFN '000'	Total AFN '000'
Balance as at 01 January 2017	1,465,071	5,564	218,600	2,211,835	3,901,070
Profit for the year	–	–	–	357,945	357,945
Other comprehensive income, net of tax:					
Fair value reserve (available-for-sale financial assets):					
Net change in fair value	–	(15,382)	–	–	(15,382)
Related tax on available for sale financial assets	–	3,076	–	–	3,076
Reclassification adjustments relating to available for sale investments disposed off during the year – net	–	12,862	–	–	12,862
Related tax on loss on disposal of available for sale investments during the year	–	(2,572)	–	–	(2,572)
Total comprehensive income					
Transferred to capital reserve	–	–	17,897	(17,897)	–
Transactions with owners of the bank					
Dividend paid	–	–	–	(406,500)	(406,500)
Balance as at 31 December 2017	1,465,071	3,548	236,497	2,145,383	3,850,499

	Share capital AFN '000'	Revaluation loss on debt instruments at fair value through other comprehensive income AFN '000'	Capital reserve AFN '000'	Retained earnings AFN '000'	Total AFN '000'
Balance as at 01 January 2018	1,465,071	3,548	236,497	2,145,383	3,850,499
Effect due to adoption of IFRS 9	–	–	–	(8,110)	(8,110)
Restated opening balance under IFRS 9	1,465,071	3,548	236,497	2,137,273	3,842,389
Profit for the year	–	–	–	478,165	478,165
Other comprehensive income, net of tax:					
Fair value reserve (available-for-sale financial assets):					
Net change in fair value	–	(107,431)	–	–	(107,431)
Related tax on available for sale financial assets	–	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 of available for sale investments during the year	–	1,113	–	–	1,113
Total comprehensive income					
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	(90,397)	23,908	(190,743)	(257,232)
Total comprehensive income					
Balance as at 31 December 2018	1,465,071	(86,849)	260,405	1,946,530	3,585,157

Chief Executive Officer

Chief Financial Officer

Chairman

The annexed notes 1 to 34 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2018

	Note	31 December 2018 AFN '000'	31 December 2017 AFN '000'
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		478,165	357,945
Adjustments for:			
Depreciation	11.2	76,771	57,319
Amortization	12.1	84,856	99,236
Credit losses (reversal)/expense	7.3	(38,114)	37,816
Net interest income		(1,240,456)	(1,081,349)
Income tax expense	27	170,305	287,513
		(468,475)	(241,519)
Changes in operating assets and liabilities			
Receivable from financial institutions		227,414	(65,050)
Required reserve maintained with DAB		(824,255)	(1,378,803)
Cash margin held with other banks		19,927	(48,143)
Loans and advances to customers – net		330,997	311,327
Other assets		(14,763)	287,837
Deferred income on commercial letter of credit and guarantees		79,637	(3,165)
Customers' deposits		11,122,527	2,183,778
Deposits from banks		(500,000)	500,000
Other liabilities		342,289	44,183
		10,315,401	1,686,730
Interest received		1,259,089	1,167,371
Interest paid		(51,141)	(60,009)
Income tax paid		(131,021)	(118,548)
Net cash (used in)/from operating activities		11,392,328	2,675,544
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital work-in-progress	11.1.1	(579,421)	(941,868)
Acquisition of operating fixed assets	11.2	(19,491)	(36,314)
Acquisition of intangible assets	12.1	(24,700)	(17,697)
Placements (with maturity more than three months)		1,276,077	7,523,366
Investments		(2,468,025)	(1,649,623)
Net cash (used in)/from investing activities		(1,815,560)	4,877,864
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid	18	(645,000)	(406,500)
Net cash used in financing activities		(645,000)	(406,500)
Net increase in cash and cash equivalents		8,931,768	7,146,908
Cash and cash equivalents at 01 January		25,605,884	18,458,976
Cash and cash equivalents at 31 December	28	34,537,652	25,605,884

Chief Executive Officer

Chief Financial Officer

Chairman

The annexed notes 1 to 34 form an integral part of these financial statements.

Notes to the Financial Statements
For the year ended 31 December 2018

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 37 branches and 2 cash outlets (2017: 37 branches and 4 cash outlets) in operation.

2. BASIS OF PREPARATION AND MEASUREMENT
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board, 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 2 – Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)
- IFRS 4 – Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)
- IFRS 9 – Financial Instruments: Classification and Measurement
- IFRS 15 – Revenue from Contracts with Customers
- IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration

Improvements to Accounting Standards Issued by the IASB in December 2016
- IAS 28 – Investments in Associates and Joint Ventures: Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements except IFRS 9 as disclosed in note 3.1 to the financial statements.

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 3 – Definition of a Business (Amendments)	January 01, 2020
IFRS 9 – Prepayment Features with Negative Compensation – (Amendments)	January 01, 2019
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 16 – Leases	January 01,2019
IFRS 17 – Insurance Contracts	January 01,2021
IFRIC 23 – Uncertainty over Income Tax Treatments	January 01,2019
IAS 1/IAS 8 – Definition of Material (Amendments)	January 01,2020
IAS 19 – Plan Amendment, Curtailment or Settlement (Amendments)	January 01,2019
IAS 28 – Long-term Interests in Associates and Joint Ventures (Amendments)	January 01,2019

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 except IFRS 16 for which the Bank is in the process of estimating the impact on its financial statements.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB in December 2017. Such improvements are generally effective for accounting periods beginning on or after 01 January 2019. The Bank expects that such improvements to the standards will not have any impact on the Bank's financial statements in the period of initial application.

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 2017 other than as disclosed in note 3.1 below:

3.1 Adoption of IFRS 9 Financial Instruments
In these financial statements, the Bank has applied IFRS 9 and IFRS 7R, effective for annual periods beginning on or after 01 January 2018, for the first time.

3.1.1 IFRS 9 Financial Instruments
IFRS 9 replaces IAS 39 for annual periods on or after 01 January 2018 upon adoption of IFRS 9 Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences of AFN 8,110 thousands arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 01 January 2018.

	AFN '000'
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	2,145,383
Recognition of IFRS 9 ECLs (note 9.5)	(8,110)
Opening balance under IFRS 9 (01 January 2018)	2,137,273

3.1.1.1 Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortized cost) have been replaced by:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on de recognition
- Equity instruments at FVOCI, with no recycling of gains or losses o profit or loss on de recognition
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Bank's classification of its financial assets and liabilities is explained in notes 3.3.1.4 and 3.3.2.

Under IFRS 9, the classification is based on two criteria: the Bank's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). The new classification and measurement of the Bank's debt financial assets is "Debt instruments at amortized cost" for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.

The assessment of the Bank's business models was made as of the date of initial application, 01 January 2018, and then applied retrospectively to those financial assets that were not derecognized before 01 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

As of 01 January 2018, the Bank did not have any debt instruments that did not meet the SPPI criterion within its available-for-sale and held-to-maturity portfolio. As a result of business modal assessment the Bank concluded that the debt instruments currently classified as HTM are held within the business model of collecting cash flows and not selling such instruments, therefore, it elected to classify all of these instruments as debt instruments measured at amortized cost. For AFS debt instruments, the Bank concluded that these are held within the business model of collecting cash flows from holding and selling such instruments for liquidity purpose and to obtain benefit from favorable market price, therefore, these are classified as debt instruments measured at fair value through OCI.

The Bank did not voluntarily designate any loans previously measured at amortized cost as financial assets measured at FVPL. Loan and advances to customers that were classified as Loans and Receivables and measured at amortized cost under IAS 39 are also measured at amortized cost under IFRS 9.

3.1.1.2 Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 3.3.4. The quantitative impact of applying IFRS 9 as at 01 January 2018 is disclosed in Note 3.1.3.

3.1.2 IFRS 7R

To reflect the differences between IFRS 9, IAS 39 and IFRS 7 Financial Instruments:

Disclosures were updated and the Bank has adopted it, together with IFRS 9, for the year beginning 01 January 2018. Changes include transition disclosures as shown in Note 3.1.3 below, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 30.2.2.

3.1.3 A reconciliation between the carrying amount under local regulations to the balances reported under IFRS 9 as of 01 January 2018 is as follows:

	Local regulations classification/IAS 39		Re-measurement	IFRS 9	
Financial Assets	Category	Amount in ('000)	ECL over and above local regulations	Amount in ('000)	Category
Cash and balances with Da Afghanistan Bank	Cash and balances with Da Afghanistan Bank	13,765,061	–	13,765,061	Amortized cost
Balances with other banks	Balances with other banks	10,174,148	–	10,174,148	Amortized cost
Placements – net	Placements – net	13,439,256	–	13,439,256	Amortized cost
Investments – net		15,966,565	–	15,966,565	
Available-for-sale debt investments	Available-for-sale debt investments	4,540,276	–	4,540,276	Debt investment at fair value through OCI
Held-to-maturity	Held-to-maturity	11,426,289	–	11,426,289	Debt investment at amortized cost
Loan and advances to customers – net		3,369,970	8,110	3,361,860	Amortized cost
Receivables from financial institutions	Held for Trading	587,534	–	587,534	Amortized cost
Other assets	Available for sale	568,956	–	568,956	Amortized cost
		–	**8,110**	**–**	

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

3.3 Financial instruments

3.3.1 Financial instruments – initial recognition

3.3.1.1 Date of recognition

Financial assets and liabilities, with the exception of 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 market place. 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

From 01 January 2018, 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.

Before 01 January 2018, the Bank classified its financial assets as loans and receivables (amortized cost), FVPL, available-for-sale or held-to-maturity (amortized cost), as explained in Notes 3.3.2.1, 3.3.2.7 and 3.3.2.7.

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

Before 01 January 2018, Due from bank and Loans and advances to customers, included non–derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 01 January 2018, the Bank only 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.

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 (Policy applicable from 01 January 2018)

The Bank applies the new category under IFRS 9 of 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

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under IAS 39.

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. The ECL calculation for Debt instruments at FVOCI is explained in Note 2.6.3.Where the Bank holds more than one investment in the same security, they are deemed to 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 (Policy applicablefrom1 January 2018)

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 32Financial 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 (and assets until 01 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), 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 (and assets until 01 January 2018 under IAS 39) 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 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 as explained in Note 2.1.2. 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.

3.3.2.7 Available-for-sale financial investments (Policy applicable before 01 January 2018)

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

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

Available-for-sale financial assets and financial assets carried at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired.

3.3.2.8 Held-to-maturity financial investments (Policy applicable before 01 January 2018)

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.3 Financial instruments continued

3.3.3 Reclassification of financial assets and liabilities

From 01 January 2018, 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 2017.

3.3.4 Impairment of financial assets (Policy applicable from 01 January 2018)

3.3.4.1 Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. Equity instruments are not subject to impairment under IFRS 9.

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 30.2.2

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 outlined in Note12.3.3.1). The bank records an allowance for the LTECLs.

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 a four 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 recognized and is still in the portfolio. The concept of PDs is further explained in note 30.2.2.

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 30.2.2.

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 30.2.2.

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 2.6.5, 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:

Stage 1: 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.

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.

Stage 2: 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.

Stage 3: For loans considered credit-impaired (as defined in note 30.2.2), 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%.

POCI: 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.

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 16.2 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 16.2 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 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 Note30.2.2 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 no sign of a hard core of debt developing. A standard provision is maintained in the books of account @1% (31 December 2017: 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 determine 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.3 Financial instruments continued

3.3.5 Impairment provision under local regulations continued

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 & 8.5.1 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 16.2 to the financial statements.

3.3.6 Impairment of financial assets (Policy applicable before 01 January 2018)

Loans and advances

The policy for making provision against loan and advances was similar to one disclosed in note 3.3.5 above.

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

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

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

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

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

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

b) Assets classified as available for sale

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

3.4 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.

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

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

	Useful life
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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

3.10 Revenue recognition continued

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

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 currencies against AFN were:

	1 USD	1 Euro	1 AED
As at 31 December 2018	**75.31**	**86.01**	20.47
As at 31 December 2017	**69.72**	**83.27**	18.89

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.

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 both under IFRS 9 and IAS 39 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.

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.

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

	Note	2018 AFN '000	2017 AFN '000
Cash in hand		1,791,885	1,759,928
Cash in hand – Islamic banking division		115,728	118,804
Cash at Automated Teller Machines (ATMs)		725,223	605,922
		2,632,836	2,484,654
Balances with Da Afghanistan Bank:			
Local currency:			
- Deposit facility accounts	5.1	2,821,705	2,490,242
- Required reserve accounts	5.2	620,660	649,217
- Current accounts		1,221,241	687,403
		4,663,607	3,826,862
Foreign currency:			
- Required reserve accounts	5.2	5,768,379	4,915,567
- Current accounts		2,900,678	2,537,978
		13,332,665	11,280,407
		15,965,500	13,765,061

5.1 This represents interest bearing account carrying interest @ 0.10% (31 December 2017: 0.10%) per annum.

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

6. BALANCES WITH OTHER BANKS

	Note	2018 AFN '000	2017 AFN '000
Outside Afghanistan:			
With Standard Chartered Bank	6.1	4,216,826	6,589,343
With Commerzbank, Germany:			
- in nostro accounts	6.2	149,930	66,916
- others	6.3	18,074	45,260
		168,004	112,176
With Crown Agents Bank:			
- in nostro accounts		1,615,896	–
- in cash margin held		7,259	–
	6.4	1,623,154	–
With other banks	6.5	4,087,993	3,472,629
		10,095,978	10,174,148

6.1 These represent balances with Standard Chartered Bank in Singapore, New York, Frankfort, London and Dubai, in USD, EURO, GBP and AED currencies, which carry interest rates ranging from 0.05% to 0.80% p.a. (2017: 0.2% to 0.3% p.a.). These balances are available on demand basis.

6.2 This represents interest bearing nostro accounts and carries interest 0.25% (31 December 2017: 0.25%) per annum.

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

6.4 These are non-interest bearing and nostro balances are available demand basis with Crown Agent Bank, in USD, EURO and GBP, currencies.

6.5 This includes accounts balances in asset managers banks and nostro accounts balances in other banks. These balances are non-interest bearing and available on demand.

7. PLACEMENTS – NET

	Note	2018 AFN '000	2017 AFN '000
Placements with banks	7.1	19,889,268	13,551,521
		19,889,268	13,551,521
General provision held	7.2 & 7.3	(30,943)	(112,265)
		19,858,325	13,439,256

7.1 These represent fixed term placements with financial institutions outside Afghanistan up to a maximum period of one year (2017: one year) in USD carrying interest at rates ranging from 1.15% to 3.25% per annum (31 December 2017: 0.75% p.a. to 2.10%) 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 2018 and 2017, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 30.2.5.

	2018				2017
Internal Rating Grade	Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Total AFN '000'	AFN '000'
Performing					
Investment Grade	16,795,597	3,093,671	–	19,889,268	13,551,521
Non-Investment Grade	–	–	–	–	–
Non-performing	–	–	–	–	–
Total	16,795,597	3,093,671	–	19,889,268	13,551,521
Provision for expected credit losses	(967)	(1,747)	–	(2,714)	(4,086)
Provision for impairment losses as per ACPR – (note 7.2.2)	–	–	–	(28,229)	(108,179)
Total	(967)	(1,747)	–	(30,943)	(112,265)
Net balance	16,794,630	3,091,924	–	19,858,325	13,439,256

7.2.2 The provision for expected credit losses on placements as per IFRS 9 amounted to AFN 2,714 thousands (31 December 2017: AFN 4,086 thousands) 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.

8. INVESTMENTS – NET

	Note	2018 AFN '000	2017 AFN '000
Debt instruments at fair value through other comprehensive income:			
- Investment bonds	8.1	3,588,690	–
Debt instruments at amortized cost:			
- Capital notes with DAB	8.2	1,144,940	–
- Treasury bills	8.3	2,685,978	–
- Investment bonds	8.4	11,028,686	–
		14,859,604	–
Available for sale investments:			
- Investment bonds		–	4,586,137
Held-to-maturity investments:			
- Capital notes with DAB		–	3,533,535
- Investment bonds		–	7,972,479
		–	11,506,014
		18,448,294	16,092,151
Allowance for ECL/impairment losses	8.5	(24,589)	(125,586)
		18,423,705	15,966,565

8. INVESTMENTS – NET CONTINUED

8.1 These represent investments in bonds having maturity ranging from April 2019 to April 2025 (31 December 2017: January 2018 to April 2025) and carrying coupon interest rates ranging from 2.38 % to 8.75% (31 December 2017: 1% to 9.38%) 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 period from three to six months (31 December 2017: one year) carrying yield at rates ranging from 0.50% to 0.91% p.a. (31 December 2017: 0.40% to 4.2 p.a.) receivable on maturity of respective notes.

8.3 These represent investments in United States of America – Treasury bills having maturity period ranging from one month to three months (31 December 2017: Nil), carrying yield at rates ranging from 2.29% to 2.39% p.a. (31 December 2017: Nil) recoverable on maturity.

8.4 These represent investments in sovereign bonds carrying coupon interest rates ranging from 1.25% to 7.75% (31 December 2017: 1.30% to 7.75%). These investments have maturity ranging from January 2019 to August 2025 (31 December 2017: January 2018 to October 2022). These investments are classified as "Debt Instrument at amortized cost" because of the Bank's ability and intention to hold these investments up to maturity. 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 2018 and 2017, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 30.2.5.

	2018				2017
Internal Rating Grade	Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Total AFN '000'	AFN '000'
Performing					
Investment Grade	16,284,511	–	–	16,284,511	16,092,151
Non-Investment Grade	–	2,163,782	–	2,163,782	–
Non-performing	–	–	–	–	–
Total	16,284,511	2,163,782	–	18,448,293	16,092,151
Provision for expected credit losses	–	(19,064)	–	(19,064)	(26,946)
Provision for Impairment losses as per ACPR – (note 8.4.2)	–	–	–	(5,524)	(98,639)
Total	–	(19,064)	–	(24,588)	(125,585)
Net balance	16,283,511	2,144,718	–	18,423,705	15,966,566

8.5.2 The provision for expected credit losses on placements as per IFRS 9 amount to AFN 2,714 thousands (31 December: AFN 4,085 thousands) which is lower from Assets Classification and Provisioning Regulation requirements (ACPR). Accordingly, the Bank has maintained higher provision as required under ACPR.

9. LOANS AND ADVANCES TO CUSTOMERS – NET

	Note	2018 AFN '000	2017 AFN '000
Overdrafts	9.1	2,433,694	2,751,975
Term loans	9.2	633,716	654,135
Consumer loans	9.3	49,734	49,489
		3,117,144	3,455,599
General provision	9.4	(150,620)	–
Allowance for ECL/impairment losses	9.5	(68,908)	(85,629)
		2,897,616	3,369,970
Particulars of loans and advances – (gross)			
Short term (for up to one year)		2,222,954	2,760,106
Non-current (for over one year)		894,190	695,493
		3,117,144	3,455,599

9.1 These represent balances due from customers at various interest rates ranging from 7 % to 15% p.a. (31 December 2017: 10% to 15% p.a.) and are secured against mortgage of properties, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. The overdrafts are repayable on demand. These include loans and advances to Small Medium Size Enterprises (SME) loan amounting to AFN 138,845 thousands (31 December 2017: AFN 427,567 thousands) which are 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 11% to 18% p.a. (31 December 2017: 11% to 18% p.a.) and are secured against mortgage of properties, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. These include loans and advances to customers amounting to AFN 587,070 thousands (31 December 2017: AFN 125,738 thousands) which are partially backed by DEG guarantee to the extent defined in the agreement with DEG.

9.2.1 Term loans include Small Business loans amounting to AFN 46,646 thousands (31 December 2017: AFN 32,819 thousands) carrying interest rate ranging from 13% to 18% p.a. (31 December 2017: 13% to 18% p.a.). These loans are 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 represent consumer loans due from individual payroll account holders and employees of corporate customers having payroll account with the Bank carrying interest rate ranging from 15% to 22% (31 December 2017: 15% to 22%) and credit card loans carrying interest up to 36% (31 December 2017: 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 2018 and 2017, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 30.2.5.

Internal Rating Grade	2018 Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Total AFN '000'	2017 AFN '000'
Performing					
High Grade	449,649	418,681	–	868,330	624,831
Standard Grade	2,048,498	145,008	–	2,193,506	2,557,296
Sub Standard Grade	44,379	–	44,379	189,556	
Non-performing	–	–	10,929	10,929	83,916
Total	2,542,526	563,689	10,929	3,117,144	3,455,599
Opening balance	–	–	–	85,629	85,629
Effect due to adoption of IFRS 9	–	–	–	8,110	–
Restated opening balance under IFRS 9 – note 9.5.3	26,970	24,683	42,086	93,739	85,629
Allowances for impairment made during the year	(3,079)	7,322	(9,536)	(5,293)	–
Amounts written off during the year – note 9.5.2	–	–	(15,490)	(15,490)	–
Exchange rate differences and other adjustments	2,120	1,940	(8,108)	(4,048)	–
Provision held for expected credit losses – note 9.5.3	26,011	33,945	8,952	68,908	85,629
Net balance	2,516,515	529,744	1,977	3,048,236	3,369,970

9.5.2 The Bank has filed suits for the recovery of loans and advances (principal due) against the defaulted borrowers amounting to AFN 754,965 thousands (31 December 2017: AFN 683,168 thousands) as at the year end. These suits are pending decisions at various courts. The Bank's management is of the view that the aforementioned suits will be decided in its favor due to sound legal footings.

9.5.3 IFRS 9 expected credit loss amounts to AFN 68,908 thousands as at 31 December 2018. The provision of AFN 63,867 thousands (General provision: AFN 28,668 and Specific provision: AFN 35,199 thousands) (31 December 2017: The provision of AFN 85,629 (General provision: AFN 52,521 and Specific provision: AFN 33108) 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 receivable balance due from CSCBank SAL (CSC). The Bank has entered into an agreement with CSC whereby credit card/debit card holders of various financial institutions can use ATM machines of the Bank and the amount withdrawn including bank charges will be paid by CSC to the Bank.

11. OPERATING FIXED ASSETS

	Note	2018 AFN '000	2017 AFN '000
Capital work in progress	11.1	79,948	2,264,025
Property and equipment	11.2	2,979,623	282,180
		3,059,571	2,546,205

11.1 Capital work in progress

	Note	2018 AFN '000	2017 AFN '000
Advances to suppliers and contractors		79,949	766,118
Advances to related party		–	1,497,907
	11.1.1	79,949	2,264,025

11.1.1 Movement in capital work-in-progress

	2018 AFN '000	2017 AFN '000
Opening	2,264,025	1,362,167
Additions during the year	579,423	941,868
Transferred to operating fixed assets	(2,754,723)	(40,010)
Transferred to intangible assets	(8,776)	–
Closing	79,949	2,264,025

11.2 Property and equipment

	Land AFN '000	Building AFN '000	Leasehold improvements AFN '000	Computers AFN '000	Office equipment AFN '000	Furniture & fittings AFN '000	ATMs AFN '000	Vehicles AFN '000	Total AFN '000
Cost									
Balance at 01 January 2017	177,568	–	74,675	103,912	152,984	17,757	117,183	83,616	727,695
Transfers from CWIP	–	–	6,638	–	8,494	1,380	10,452	13,046	40,010
Additions	–	–	497	11,839	13,622	67	9,300	989	36,314
Balance at 31 December 2017	177,568	–	81,810	115,751	175,100	19,204	136,935	97,651	804,019
Balance at 01 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	–	2,574,723
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 01 January 2017	–	–	70,338	76,827	141,555	16,067	82,631	77,102	464,520
Charge for the year	–	–	5,109	10,266	23,455	988	10,908	6,593	57,319
Balance at 31 December 2017	–	–	75,447	87,093	165,010	17,055	93,539	83,695	521,839
Balance at 01 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	598,610
Carrying amounts									
Balance at 01 January 2017	177,568	–	4,337	27,085	11,429	1,690	34,552	6,514	263,175
Balance at 31 December 2017	177,568	–	6,363	28,658	10,090	2,149	43,396	13,956	282,180
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
Useful life		20 years	3 to 10 years	3 to 5 years	3 to 5 years	3 to 10 years	5 years	5 years	

12. INTANGIBLE ASSETS

	Note	2018 AFN '000	2017 AFN '000
Computer software, licenses and core deposits	12.1	394,538	445,918

12.1 Computer software, licenses and core deposits

	Computer software AFN '000	License fee AFN '000	Core deposits AFN '000	Total AFN '000
Cost				
Balance at 01 January 2017	308,389	72,520	542,677	923,586
Additions	17,197	–	–	17,197
Balance at 31 December 2017	326,086	72,520	542,677	941,283
Balance at 01 January 2018	**326,086**	**72,520**	**542,677**	**941,283**
Transfers from CWIP	**8,776**	**–**	**–**	**8,776**
Additions	**23,989**	**711**	**–**	**24,700**
Balance at 31 December 2018	**358,851**	**73,231**	**542,677**	**974,759**
Amortization				
Balance at 01 January 2017	192,584	48,221	155,324	396,129
Charge for the year	53,018	8,487	37,731	99,236
Balance at 31 December 2017	245,602	56,708	193,055	495,365
Balance at 01 January 2018	**245,602**	**56,708**	**193,055**	**495,365**
Charge for the year	**39,403**	**7,722**	**37,731**	**84,856**
Balance at 31 December 2018	**285,005**	**64,430**	**230,786**	**580,221**
Carrying amounts				
Balance at 01 January 2017	133,502	24,299	387,353	545,154
Balance at 31 December 2017	80,484	15,812	349,622	445,418
Balance at 31 December 2018	**73,846**	**8,801**	**311,891**	**394,538**
Useful life	3 to 10 years	3 to 10 years	15 years	

13. DEFERRED TAX ASSETS

	2018 AFN '000	2017 AFN '000
Deferred tax (assets)/liabilities arising in respect of:		
Provision on investments, placements and other assets	40,756	48,720
Provision on guarantees and commercial letter of credits	15,048	13,648
Deficit on revaluation of investments	20,599	(887)
Carry forward taxable losses	139,597	–
Accelerated tax depreciation and amortization	(120,896)	12,122
	95,104	73,603

13.1 Movement in temporary differences during the year

	Balance as at 01 January 2017 AFN '000	Recognized in profit or loss AFN '000	Recognized in equity AFN '000	Balance as at 31 December 2017 AFN '000	Recognized in profit or loss AFN '000	Recognized in equity AFN '000	Balance as at 31 December 2018 AFN '000
Deferred tax assets arising in respect of:							
Provision on investments and placements	45,186	3,534	–	48,720	**(7,963)**	**–**	**40,757**
Provision on guarantees and commercial letter of credits	–	13,648	–	13,648	**1,399**	**–**	**15,047**
Revaluation reserve on investments	(1,391)	–	504	(887)	**–**	**21,486**	**20,599**
Carry forward taxable losses	–	–	–	–	**139,597**	**–**	**139,597**
	43,795	17,182	504	61,481	**133,033**	**21,486**	**216,000**
Deferred tax liabilities arising in respect of:							
Accelerated tax depreciation and amortization	(22,355)	34,377	–	12,124	**(132,918)**	**–**	**(120,896)**
	(22,355)	34,377	–	12,124	**(132,918)**	**–**	**(120,896)**
	21,440	51,559	504	73,605	**115**	**21,486**	**95,104**

14. OTHER ASSETS

	Note	2018 AFN '000	2017 AFN '000
Advances to employees		37,851	60,756
Security deposits		8,805	10,029
Prepayments		153,237	59,144
Interest receivable		328,021	295,513
Advance income tax – net		23,792	63,191
Other receivable and advances		30,870	86,070
Receivable from DoJ	14.1	250,605	250,605
Less: Balance written off		(250,605)	(250,605)
		–	–
		582,576	574,703
Allowance for ECL/impairment losses	14.2	(9,709)	(5,747)
		572,867	568,956

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

14.2 This represents provision for expected credit losses on advances to staff (31 December 2017: 1% on other assets is maintained as per Asset Classification and Provisioning Regulation issued by DAB). Classification and Provisioning Regulations issued by DAB.

15. CUSTOMERS' DEPOSITS

	Note	2018 AFN '000	2017 AFN '000
Current deposits		62,250,562	53,505,342
Saving deposits	15.1	224,981	203,752
Term deposits	15.2	3,012,400	697,200
Islamic deposits	15.3	881,714	640,199
Cash margin held against bank guarantees and letters of credit		1,014,290	1,214,927
		67,383,947	56,261,420

15.1 Saving deposits carry interest @ 3% p.a. (31 December 2017: 3% p.a.).

15.2 Term deposits carry 0.75% to 1.40% interest rates per annum (31 December 2017: 0.25% to 6.67% interest rates).

15.3 Current, term and saving Islamic deposits stand at AFN 121,803, 733,067, and AFN 26,845 thousands, respectively (31 December 2017: Current, term and saving deposits: AFN 94,520 thousands, 495,818 thousands and 49,861 thousands, respectively).

16. OTHER LIABILITIES

	Note	2018 AFN '000	2017 AFN '000
Accruals and other payables		37,426	40,888
Amounts pending transfers to customers' accounts	16.1	337,651	88,461
Provision for bonus to employees		34,370	16,176
Retention money payable		15,341	61,815
Payable from sale of collateral against loans and advances written off		34,098	28,405
Provision on:			
Financial guarantees	16.2	75,234	65,310
Commercial letter of credits		–	2,928
Others		121,473	36,294
		655,593	306,308

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

16.2 This represents 1% provision on unsecured portion by cash margin of bank guarantees 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 23,363 as at 31 December 2018. The provision under regulations issued by DAB is higher than IFRS 9 ECL therefore, the Bank has maintained the regulatory provision.

17. SHARE CAPITAL

		2018	2017
Authorized 30,000,000 (2017: 30,000,000) ordinary shares of USD 1 each	USD '000'	30,000	30,000
	AFN '000'	1,465,071	1,465,071
Issued, subscribed and paid-up – 30,000,000 (31 December 2016: 30,000,000) ordinary shares of USD 1 each fully paid in cash	AFN	1,465,071	1,465,071

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

17.2 Issued, subscribed and paid up capital comprises 46.25% holding by Horizon Associates LLC and 46.25% holding by Wilton Holding Limited, 7.5% by International Finance Corporation. (31 December 2017: 46.25% holding by Horizon Associates LLC and 46.25% holding by Wilton Holding Limited and 7.5% by International Finance Corporation).

17.3 During the year, the Bank has paid cash dividend of AFN 21.5 per share (31 December 2017: AFN 13.55 per share) amounting to AFN 645 million (31 December 2017: AFN 406.5 million).

18. CAPITAL RESERVES

'Article 93 "Reserve Capital" of Corporations and Limited Liability Companies Law of Afghanistan, requires that Bank should transfer 5% of its profit to Capital Reserve to compensate for future possible losses to the extent such capital reserves reach upto 25% of the Bank's capital. The Bank's capital reserves as at 31 December 2018 stood at AFN 260,405 thousands (31 December 2017: AFN 236,497 thousands).

19. CONTINGENCIES AND COMMITMENTS

19.1 Contingencies

	Note	2018 AFN '000	2017 AFN '000
Guarantees	19.1.1	8,258,845	6,463,038

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

19.2 Commitments

	2018 AFN '000	2017 AFN '000
(a) Undrawn loan and overdraft facilities	1,217,553	1,265,872
(b) Commercial letters of credit	25,333	134,575
	1,242,886	1,400,447

20. INTEREST INCOME

	2018 AFN '000	2017 AFN '000
Interest income on:		
Balances with DAB and other banks	17,919	20,838
Placements	417,418	275,778
Investments:	–	–
Debt instruments at fair value through other comprehensive income	140,186	119,252
Debt instruments at amortized cost	276,172	278,497
Loans and advances to customers	439,903	446,992
	1,291,598	1,141,357

21. INTEREST EXPENSE

	2018 AFN '000	2017 AFN '000
Interest expense on:		
Customers' deposits	41,575	33,354
Deposits from bank	9,566	26,655
	51,141	60,009

22. FEE AND COMMISSION INCOME

	2018 AFN '000	2017 AFN '000
Fee and commission income on:		
Loans and advances to customers	23,275	32,561
Trade finance products	52,599	41,810
Cash withdrawals/Cash transfers	469,339	539,551
Customers' account service charges	107,645	144,152
Income from ATMs	91,301	73,822
Income from guarantee arrangements	70,163	39,168
Payroll services	53,717	44,921
Others	49,035	24,482
	917,074	940,467

23. FEE AND COMMISSION EXPENSE

	2018 AFN '000	2017 AFN '000
Guarantee/letter of credit commission	22,390	9,532
Bank charges	6,374	7,069
	28,764	16,601

24. OTHER INCOME

	2018 AFN '000	2017 AFN '000
Loans and advances recovered previously written off	64,750	55,964
	64,750	55,964

25. CREDIT LOSSES REVERSAL/(EXPENSE)

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

		2018					
	Note	Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Regulatory AFN '000'	Total AFN '000'	2017 AFN '000'
Placements	7.2	942	430	–	79,950	81,322	52,444
Investments	8.5	26,946	(19,064)	–	93,115	100,997	(64,366)
Loans and advances	9.5	3,079	(7,322)	9,536	–	5,293	48,091
General provision	9.4	–	–	–	(138,540)	(138,540)	–
Other assets	14.2	–	(3,962)	–	–	(3,962)	(5,747)
Financial guarantees	16.2	–	–	–	(9,924)	(9,924)	(65,310)
Letter of credit	16.2	–	–	–	2,928	2,928	(2,928)
Total reversal on impairment/(loss) for the year		30,967	(29,918)	9,536	27,529	38,114	(37,816)

26. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2018 AFN '000	2017 AFN '000
Salaries and benefits		574,445	544,573
Rental, rates and taxes		105,917	95,200
Electricity, generator and fuel		57,794	48,215
Repairs and maintenance		25,516	22,923
Information technology cost		85,733	53,402
Security cost		112,260	108,167
Depreciation	11.2	76,771	57,319
Amortization	12.1	84,856	99,236
Directors fee and their meeting expenses		34,349	32,935
Travelling and accommodation		64,146	43,765
Communication, swift and internet		53,125	50,207
Stationary and printing		55,580	42,917
Legal and professional charges		155,188	97,142
Investment management fee to investment advisors		41,942	28,261
Auditors' remuneration	26.1	8,370	12,690
Marketing and promotion		34,837	33,477
Money service providers charges		8,747	1,873
Insurance		144,496	137,276
Subscriptions and memberships		10,674	8,732
Other charges		52,540	56,127
Taxes and penalties		1,750	768
Corporate social responsibility		3,403	3,899
Others		20,044	7,882
		1,812,483	1,586,985

26.1 Auditors' remuneration

	2018 AFN '000	2017 AFN '000
Audit fee	8,370	6,552
Other professional services	–	6,138
	8,370	12,690

27. TAXATION

	2018 AFN '000	2017 AFN '000
Current		
For the year	–	65,455
Prior periods	170,420	273,716
Deferred		
For the year	(115)	(51,658)
	170,305	287,513

27.1 Relationship between tax expense and accounting profit

	2018 AFN '000	2017 AFN '000
Accounting profit for the year	648,470	645,458
Applicable tax @ 20%	129,694	129,092
Deductible expenses	(331,280)	(123,571)
Non-deductible expenses	61,989	59,934
Effect of deferred tax charge for the year	(115)	(51,658)
Effect of carry forward taxable losses	139,597	–
Adjustment in respect of current income tax of prior years	170,420	273,716
Others	–	–
	170,305	287,513

28. RELATED PARTY TRANSACTIONS

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

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	2018 AFN '000	2017 AFN '000	2018 AFN '000	2017 AFN '000
(a) Loans and advances to related parties				
Loans outstanding at the beginning of the year	–	–	155,515	177,559
Loans issued during the year	–	–	153,216	232,266
Loans repayments during the year	–	–	(153,306)	(255,031)
Exchange gain	–	–	(193)	721
Loans outstanding at the end of the year	–	–	155,232	155,515
Interest income earned	–	–	14,812	24,759

During the year, an amount of AFN 446,356 thousands (31 December 2017: 417,497 thousands) 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 1,364 thousands (31 December 2017: AFN 3,174 thousands).

The facilities provided to related parties carry mark-up at interest rates 7% p.a. (31 December 2017: 10% p.a.) payable on monthly basis and are secured against mortgage of residential property and personal guarantees of directors and representative of shareholders of the Bank.

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	2018 AFN '000	2017 AFN '000	2018 AFN '000	2017 AFN '000
(b) Deposits from related parties				
Deposits at the beginning of the year	49,267	57,402	104,110	107,434
Deposits received during the year	464,349	290,454	3,008,059	1,499,544
Deposits repaid during the year	(498,441)	(299,629)	(2,751,110)	(1,509,173)
Exchange rate difference	3,202	1,040	20,815	6,305
Deposits at the end of the year	18,377	49,267	381,874	104,110
Interest expense of deposits	–	–	–	–

		Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	Note	2018 AFN '000	2017 AFN '000	2018 AFN '000	2017 AFN '000
(c) Other related party transactions					
Fee and commission income		–	–	22,990	13,203
Directors' fee		14,775	22,922	–	–
Fee and commission expense		–	–	–	–
Rental expenses		–	–	52,989	136,197
Other expenses		9,055	10,851	–	–
Capital work-in-progress	28.1	–	–	446,356	589,509
Guarantees issued by the Bank		–	–	–	333
Commercial letters of credit issued including accepted bills and export bills purchased		–	–	87,651	84,423

28. RELATED PARTY TRANSACTIONS CONTINUED

28.1 This represents the payment made against the construction of new head office building to Mohib Advance Design Construction Company (MADCC), related party of the bank, the construction work of the building was completed on 15 December 2018.

	2018 AFN '000	2017 AFN '000
(d) Key Management compensation		
Salaries and other short-term benefits	112,188	99,596
	112,188	99,596

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

29. CASH AND CASH EQUIVALENTS

	2018 AFN '000	2017 AFN '000
Cash in hand and at ATM	2,632,836	2,484,654
Balances with DAB (other than minimum reserve requirement)	6,943,625	5,715,623
Balances with other banks	10,070,644	10,128,888
Placements (with maturity less than three months)	14,890,545	7,276,719
	34,537,650	25,605,884

30. EARNINGS PER SHARE – BASIC AND DILUTED

	2018 AFN '000	2017 AFN '000
Profit after taxation (AFN '000)	478,165	357,945
Weighted average number of ordinary shares (number in thousand)	30,000	30,000
Earnings per share – Basic and diluted (AFN per share)	15.94	11.93

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

31. FINANCIAL RISK MANAGEMENT

31.1 Financial assets and liabilities

	Financial assets (other than investments) – At amortized cost AFN '000	Debt investments at amortized cost AFN '000	Debt investments at fair value through OCI AFN '000	Financial liabilities at amortized cost AFN '000	Total AFN '000
31 December 2018					
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	–	419,631	–	–	419,631
	49,177,539	15,260,677	3,588,690	–	68,020,875
Financial liabilities					
Customers' deposits	–	–	–	67,383,947	67,383,947
Other liabilities	–	–	–	655,593	655,593
	–	–	–	68,039,540	68,039,540
31 December 2017					
Financial assets					
Cash and balances with					
Da Afghanistan Bank	13,765,061	–	–	–	13,765,061
Balances with other banks	10,174,148	–	–	–	10,174,148
Placements – net	13,439,256	–	–	–	13,439,256
Investments – net	–	11,426,289	4,540,276	–	15,966,565
Loans and advances to customers – net	3,369,970	–	–	–	3,369,970
Receivables from financial institutions	587,534	–	–	–	587,534
Other assets	–	–	–	447,844	447,844
	41,335,969	11,426,289	4,540,276	447,844	57,750,378
Financial liabilities					
Customers' deposits	–	–	–	56,261,420	56,261,420
Deposits from banks	–	–	–	500,000	500,000
Other liabilities	–	–	–	191,164	191,164
	–	–	–	56,255,384	56,952,584

31.2 Financial risk factors

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

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

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

31.2.1 Credit Risk

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

31.2.2 Credit risk measurement

Impairment assessment under IFRS 9 (Policy applicable from 01 January 2018)

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 unlikeliness 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 scenarios 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.

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 historicla pool of non-performing loans in comparison to the amount recovered or realised against such loans. In determing 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.

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial risk factors continued

31.2.2 Credit risk measurement continued

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

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

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

(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.

31.2.3 Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b) Credit-related commitments

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

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

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

	Maximum exposure 2018 AFN '000	2017 AFN '000
Credit risk exposures relating to on-balance sheet items are as follows:		
Balances with other banks	**10,095,978**	10,174,148
Placements – net	**19,858,325**	13,439,256
Investments – net (excluding capital notes with DAB)	**17,278,765**	12,433,030
Loans and advances to customers – net	**2,897,617**	3,369,970
Receivables from other financial institutions	**360,120**	587,534
Other assets	**419,631**	447,844
	50,910,436	37,081,812
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	**8,258,845**	6,463,038
Undrawn loan and overdraft facilities	**1,217,553**	1,265,872
Commercial letters of credit	**25,333**	134,575
	9,501,731	7,863,485

The above table represents credit risk exposure to the Bank at 31 December 2018 and 31 December 2017, 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):

	2018	2017
Balances with other banks	**19.83%**	25.15%
Placements – net	**39.00%**	33.22%
Investments – net (excluding capital notes with DAB)	**33.94%**	30.74%
Loans and advances to customers – net	**5.69%**	8.33%

31.2.5 Credit quality of financial assets

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

Balances with other banks/FIs	Credit rating	Credit rating agency	2018 AFN '000	2017 AFN '000
Counter parties with external credit ratings:				
Standard Chartered Bank	Aa2	Moody's	**4,216,826**	6,589,343
Commerzbank Germany	Baa1	Moody's	**168,004**	112,176
Crown agents	BB	Fitch	**1,623,154**	–
Emirates NBD	Baa1	Moody's	**313,816**	399,620
AkBank, Turkey	Baa3	Moody's	**62,206**	12,958
State commercial bank of Turkmenistan	N.A	N.A	**626,023**	1,647,969
IDFC Bank	BBB-	Fitch	**5**	1,380
Julius Baer	A2	Moody's	**311,033**	1,160,916
Aktif Bank	B2	Moody's	**14,038**	13,871
Asaka Bank	BBB-	Eurasia	**1,234,334**	235,634
Credit Suiss Singapore	A-1	S&P	**5,432**	–
Bank Centre Credit	B2	Moody's	**1,377,708**	–
Yes Bank, India	Baa3	Moody's	**1,506**	281

Placements	Credit rating	Credit rating agency	2018 AFN '000	2017 AFN '000
Abu Dhabi Commercial bank	A1	Moody's	**–**	348,600
Al Hilal Bank	A1	Moody's	**–**	1,394,400
Al Khalij Commercial Bank	A2	Moody's	**–**	348,600
Bank of Baroda Dubai	Baa2	Moody's	**–**	697,200
CIMB Malaysia	A3	Moody's	**–**	697,200
Commercial Bank International	A	Moody's	**1,506,200**	697,200
Commercial Bank of Dubai	A3	Moody's	**755,953**	697,200
Dubai Islamic Bank	A2	Moody's	**759,259**	697,200
IDBI DXB	Ba2	Moody's	**–**	697,200
IDFC Bank	Aa3	Moody's	**–**	697,200
Julius Baer	A1	Moody's	**–**	1,351,871
National bank of Oman	Baa3	Moody's	**–**	697,200
Qatar Islamic Bank	Aa3	Moody's	**–**	697,200
Qatar National Bank	Aa3	Moody's	**–**	1,045,800
Union National Bank	Aa3	Moody's	**–**	697,200
Yes Bank India	Baa3	Moody's	**–**	697,200
CSC Bank SAL	Ba2	Moody's	**438,163**	416,350
Emirates NBD	A3	Moody's	**5,071,978**	864,448
National Bank of Fujairah	A3	Moody's	**753,100**	–
Julius Baer	A1	Moody's	**753,100**	–
United Arab Bank	BAA2	Moody's	**1,506,200**	–
Crown Agents Bank	BB	Fitch	**1,903,032**	–
Citi Bank New York	A1	Moody's	**3,824,431**	–
Julius Baer	A1	Moody's	**1,864,751**	–

	2018 AFN '000	2017 AFN '000
Investments – net	**18,448,294**	16,092,151

Investments held carries various credit rating and ranges from A & AAA to B1& BBB+ to These investments are managed by the bank through Emirates NBD, Julius Baer and Credit Suiss 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 2018 and 2017 as disclosed in note 8.5 to the financial statements.

	2018 AFN '000	2017 AFN '000
Loans and advances to customers – net		
Counter parties	**2,897,616**	3,369,970

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 2018 and 2017 are disclosed in note 9.5 to the financial statements.

	2018 AFN '000	2017 AFN '000
Receivables from financial institutions		
Counter parties	**360,120**	587,534
Other assets		
Counter parties	**1,125,490**	568,956

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial risk factors continued

31.2.6 Loans and advances – net

Loans and advances are summarized as follows:

	Note	2018 AFN '000	2017 AFN '000
Neither past due nor impaired		2,869,987	3,310,708
Past due but not impaired		236,229	–
Non-performing – Stage 3 - IFRS 9 (2017: ACPR)		10,928	144,891
Gross outstanding		3,117,144	3,455,599
Less: Allowance for impairment			
General provision	9.4	(150,620)	(33,108)
Provision held for expected			
credit losses – note 9.5.2	9.5	(68,908)	(52,521)
		(219,528)	(85,629)
		2,897,616	3,369,970

(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	
	Overdraft AFN '000	Term loans AFN '000	Term loans AFN '000	Term loans AFN '000	Total AFN '000
31 December 2018	2,336,317	280,196	199,235	54,239	2,869,987
Regular loans					
31 December 2017					
Regular loans	2,694,235	528,384	41,215	46,874	3,310,708
(b) Loans and advances past due but not impaired					
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
31 December 2017					
Past due up to 30 days	–	–	–	–	–
Fair value of collateral	–	–	–	–	–

(a) Loans and advances neither past due nor impaired continued

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 10,839 thousands, under IFRS 9 (31 December 2017: AFN 144,891 thousands, under ACPR).

	Commercial loans		
	Overdraft AFN '000	Term loans AFN '000	Total AFN '000
31 December 2018			
Non-performing – Stage 3	4,348	6,491	10,839
Total	4,348	6,491	10,839
Fair value of collateral	40,000	54,533	465,094
31 December 2017			
Watch	16,770	–	16,770
Substandard	–	41,724	41,724
Doubtful	–	86,397	86,397
Loss	–	–	–
Total	16,770	128,121	144,891
Fair value of collateral	31,993	433,101	465,094

(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 2018 were AFN 105,541 (31 December 2017: Nil).

	2018		2017	
	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	–	105,541	–	–
- Overdraft	280,697	–	55,776	51,909
Total	280,697	105,541	55,776	51,909

31.2.7 Concentration of risk of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2018. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

	Afghanistan AFN '000	Lebanon AFN '000	Singapore AFN '000	Germany AFN '000	Mexico AFN '000	Turkey AFN '000	Switzerland AFN '000	UAE AFN '000	India AFN '000	Qatar AFN '000	Korea AFN '000	Slovenia AFN '000	England AFN '000	Pakistan AFN '000	USA AFN '000	*Others AFN '000	Total AFN '000
31 December 2018																	
On balance sheet:																	
Balances with other banks	–	–	2,374,813	747,485	–	76,244	451,870	397,696	2,566	–	–	–	1,661,171	–	1,146,068	3,238,065	10,095,978
Placements – net	–	438,172	–	–	–	–	1,864,820	10,353,077	753,128	–	–	–	1,903,103	–	3,824,573	721,452	19,858,325
Investments – net (excluding capital notes)	–	–	–	–	915,272	237,564	–	1,258,107	–	1,160,831	1,411,045	347,104	–	429,859	302,206	11,216,775	17,278,763
Loans and advances to customers – net	2,897,616	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,897,616
Receivable from financial institutions	–	360,120	–	–	–	–	–	–	–	–	–	–	–	–	–	–	360,120
Other assets	419,631	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	419,631
	3,317,247	798,292	2,374,813	747,485	915,272	313,808	2,316,690	12,008,880	755,694	1,160,831	1,411,045	347,104	3,564,274	429,859	5,272,847	15,176,292	50,910,433
Off balance sheet:																	
Contingencies and commitments	9,564,049	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	9,564,049
	12,881,296	798,292	2,374,813	747,485	915,272	313,808	2,316,690	12,008,870	755,694	1,160,831	1,411,045	347,104	3,564,274	429,859	5,272,847	15,176,292	60,474,482

	Afghanistan AFN '000	Lebanon AFN '000	Singapore AFN '000	Germany AFN '000	Mexico AFN '000	Turkey AFN '000	Switzerland AFN '000	UAE AFN '000	India AFN '000	Qatar AFN '000	Korea AFN '000	Slovenia AFN '000	England AFN '000	Pakistan AFN '000	USA AFN '000	*Others AFN '000	Total AFN '000
31 December 2017																	
On balance sheet:																	
Balances with other banks	–	–	3,563,784	112,176	–	26,829	1,160,916	399,620	1,661	–	–	–	57,495	–	2,968,064	1,883,603	10,174,148
Placements – net	–	416,350	–	–	–	–	1,351,871	6,093,448	1,394,400	2,788,800	–	–	–	–	–	1,394,387	13,439,269
Investments – net (excluding capital notes)	–	–	–	–	400,241	388,376	–	1,308,467	–	1,222,350	1,333,919	301,420	–	407,894	–	7,263,757	12,433,031
Loans and advances to customers – net	3,369,970	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,369,970
Receivable from																	
financial institutions	–	587,534	–	–	–	–	–	–	–	–	–	–	–	–	–	–	587,534
Other assets	447,844	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	447,844
	3,817,814	1,003,884	3,563,784	112,176	400,241	415,205	2,512,787	7,715,418	1,396,061	3,903,874	1,333,919	301,420	57,495	407,894	2,968,064	10,541,747	40,451,783
Off balance sheet:																	
Contingencies and commitments	7,863,485	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	7,863,485
	11,681,299	1,003,884	3,563,784	112,176	404,241	415,205	2,512,787	7,715,418	1,396,061	3,903,874	1,333,919	301,420	57,495	407,894	2,968,064	10,541,747	48,315,268

'* It includes exposure with China, Brazil, Malaysia, Sweden, France and some other countries as at 31 December 2017.

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.2 Financial risk factors continued

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

(b) Industry sectors

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

	Government/ Public sector AFN '000	Manu-facturing AFN '000	Agriculture AFN '000	Construction AFN '000	Telecommu-nication AFN '000	Banks and financial institutions AFN '000	Traders AFN '000	Fuel suppliers AFN '000	Others AFN '000	Total AFN '000
31 December 2018										
On balance sheet:										
Balances with other banks	–	–	–	–	–	10,095,978	–	–	–	10,095,978
Placements – net	–	–	–	–	–	19,858,325	–	–	–	19,858,325
Investments – net (excluding capital notes)	17,278,765	–	–	–	–	–	–	–	–	17,278,765
Loans and advances to customers – net	–	473,007	5,676	94,103	–	–	682,938	960,909	900,511	3,117,144
Receivable from financial institutions	–	–	–	–	–	360,120	–	–	–	360,120
Other assets	–	–	–	–	–	–	–	–	419,631	419,631
	17,278,765	473,007	5,676	94,103	–	30,314,423	682,938	960,909	1,320,142	51,129,963
Off balance sheet:										
Contingencies and commitments	–	323,438	–	6,828,235	480,612	–	280,714	323,556	1,326,555	9,563,110
Total	17,278,765	796,445	5,676	6,922,338	480,612	30,314,422	963,652	1,284,465	2,646,697	60,693,073
31 December 2017										
On balance sheet:										
Balances with other banks	–	–	–	–	–	10,174,148	–	–	–	10,174,148
Placements – net	–	–	–	–	–	13,439,256	–	–	–	13,439,256
Investments – net (excluding capital notes)	12,397,030	–	–	–	–	36,001	–	–	–	12,433,031
Loans and advances to customers – net	–	505,873	–	78,384	–	–	1,739,513	943,347	102,853	3,369,970
Receivable from financial institutions	–	–	–	–	–	587,534	–	–	–	587,534
Other assets	–	–	–	–	–	–	–	–	447,844	447,844
	12,397,030	504,873	–	78,384	–	24,236,939	1,739,513	943,347	550,697	40,451,783
Off balance sheet:										
Contingencies and commitments	–	85	–	886,110	379,762	–	333,340	1,292,608	4,971,580	7,863,485
Total	12,397,030	505,958	–	964,494	379,762	24,236,939	2,072,853	2,235,955	5,526,801	48,315,268

31.3 Market risk

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

31.3.1 Foreign exchange risk

'The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2018 and 31 December 2017. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

	AED	USD	EURO	GBP	INR		Total
			Converted to AFN '000			AFN '000	AFN '000
As at 31 December 2018							
Assets							
Cash and balances with Da Afghanistan Bank	–	10,149,866	233,356	331	–	5,581,947	15,965,500
Balances with other banks	56,668	9,072,675	776,399	189,177	1,059	–	10,095,978
Placements – net	–	19,451,105	438,163	–	–	–	19,889,267
Investments – net	–	17,303,354	–	–	–	1,144,940	18,448,294
Loans and advances to customers – net	–	1,519,553	–	–	–	1,597,591	3,117,144
Receivables from financial institutions	–	360,120	–	–	–	–	360,120
Other assets	–	517,301	–	–	–	608,189	1,024,727
Total financial assets	56,668	58,373,974	1,447,918	189,508	1,059	8,932,667	68,901,032
Liabilities							
Customers' deposits	–	57,525,806	1,467,653	196,580	–	8,193,908	67,383,947
Other liabilities	–	567,816	15,948	–	–	59,285	655,593
Total financial liabilities	–	58,093,622	1,483,601	–	8,253,193	68,039,540	
On-balance sheet financial position – net	56,668	280,352	(35,683)	189,508	1,059	679,474	861,491
As at 31 December 2017							
Total financial assets	44,426	45,380,184	1,521,660	57,495	1,661	10,866,064	57,871,490
Total financial liabilities	–	46,748,721	1,389,288	51,778	–	8,883,506	57,073,293
On-balance sheet financial position – net	44,426	(1,368,537)	132,372	5,717	1,661	1,982,559	798,197

If the functional currency, at the year end date, strengthens/weakens by 10% against the USD with all other variables held constant, the impact on profit or loss for the period would be AFN 280 thousands higher/lower (31 December 2017: AFN 136,854 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the year end date, strengthens/weakens by 10% against the EURO with all other variables held constant, the impact on profit or loss for the period would be AFN 35 thousands lower/higher (31 December 2017: AFN 13,237 thousands lower/higher) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the year end date, strengthens/weakens by 10% against the AED with all other variables held constant, the impact on profit or loss for the period would be AFN 5,667 thousands higher/lower (2017: AFN 4,443 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the year end date, strengthens/weakens by 10% against the GBP with all other variables held constant, the impact on profit or loss for the period would be AFN (707) thousands higher/lower (2017: AFN 572 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

If the functional currency, at the year end date, strengthens/weakens by 10% against the INR with all other variables held constant, the impact on profit or loss for the period would be AFN 106 thousands higher/lower (2017: AFN 166 thousands higher/lower) respectively mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

31.3.2 Interest rate risk

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

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

	Interest bearing					Total interest bearing AFN '000	Non-interest bearing AFN '000	Total AFN '000
	Up to 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000			
As at 31 December 2018								
Assets								
Cash and balances with Da Afghanistan Bank	2,821,705	–	–	–	–	2,821,705	13,143,795	15,965,500
Balances with other banks	6,148,822	–	–	–	–	6,148,822	3,947,155	10,095,978
Placements – net	5,879,800	3,450,684	10,558,781	–	–	19,858,325	–	19,858,325
Investments – net	1,370,841	2,685,978	2,065,854	11,266,773	1,034,259	18,423,705	–	18,423,705
Loans and advances to customers – net	692,994	1,023,085	818,325	582,740	–	3,117,144	–	3,117,144
Receivables from financial institutions	–	–	–	–	–	–	360,120	360,120
Other assets	–	–	–	–	–	–	419,631	419,631
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
Liabilities								
Customers' deposits	2,467,671	142,402	142,402	2,257,875	–	5,010,349	62,825,458	67,835,807
Deposits from bank	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	–	655,593	655,593
Total financial liabilities	2,467,671	142,402	642,402	2,257,875	–	5,510,349	63,481,051	68,491,400
Total interest repricing gap	14,446,492	7,017,346	12,800,560	9,591,637	1,034,259	45,390,294	(45,610,348)	(220,055)
As at 31 December 2017								
Total financial assets	17,021,728	2,796,316	6,904,321	14,514,727	730,460	41,967,552	15,782,826	57,750,378
Total financial liabilities	510,738	37,353	537,353	455,707	–	1,541,151	55,411,433	56,952,585
Total interest repricing gap	16,510,990	2,758,963	6,366,968	14,059,020	730,460	40,426,401	(39,628,607)	797,793

If the interest increase / (decrease) by 100 bps, the impact on profit or loss for the year would have been AFN 448,859 thousands (31 December 2017: AFN 404,264 thousands) lower / higher respectively.

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.4 Liquidity risk

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

31.4.1 Liquidity risk management process

The Bank's liquidity management process, includes:

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

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

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

31.4.2 Funding approach

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

Liquidity Ratios

Advance to deposit ratios

	2018	2017
Year-end	**4.27%**	6.09%
Maximum	**5.60%**	6.90%
Minimum	**4.27%**	5.57%
Average	**5.29%**	6.31%

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

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

	Up to 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at 31 December 2018						
Liabilities						
Customers' deposits	**62,597,346**	**–**	**4,786,601**	**–**	**–**	**67,383,947**
Other liabilities	**655,593**	**–**	**–**	**–**	**–**	**655,593**
Total financial liabilities (contractual maturity dates)	**63,252,939**	**–**	**4,786,601**	**–**	**–**	**68,039,540**
Total financial assets (contractual maturity dates)	**16,914,163**	**7,159,747**	**13,442,962**	**11,849,513**	**1,034,259**	**50,400,644**
As at 31 December 2017						
Liabilities						
Customers' deposits	55,731,007	37,353	537,353	455,707	–	56,261,420
Deposits from bank	–	500,000	–	–	–	500,000
Other liabilities	191,164	–	–	–	–	191,164
Total financial liabilities (contractual maturity dates)	55,922,171	37,353	537,353	455,707	–	56,952,584
Total financial assets (contractual maturity dates)	32,804,554	2,796,316	6,904,321	14,514,727	730,460	57,750,378

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

31.4.4 Off-balance sheet items

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

	Not later than 1 year AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at 31 December 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**	**6,321,659**	**–**	9,501,731
As at 31 December 2017				
Guarantees	**2,321,104**	**4,141,935**	**–**	6,463,038
Undrawn loans and overdraft facilities	**850,618**	**415,254**	**–**	1,265,872
Commercial letters of credit	**134,575**	**–**	**–**	134,575
Total	**3,306,297**	**4,557,189**	**–**	7,863,485

31.5 Fair value of financial assets and financial liabilities

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

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

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

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

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

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

	Level 1 AFN '000	Level 2 AFN '000	Level 3 AFN '000
Debt investments at fair value through OCI	–	**3,588,690**	–
As at 31 December 2018	–	**3,588,690**	–
As at 31 December 2017	–	4,586,137	–

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	
	2018 AFN '000	2017 AFN '000	2018 AFN '000	2017 AFN '000
Financial assets				
Cash and balances with				
Da Afghanistan Bank	**15,965,500**	13,765,061	**15,965,500**	13,765,061
Balances with other banks	**10,095,978**	10,174,148	**10,095,978**	10,174,148
Placements – net	**19,858,325**	13,439,256	**19,858,324**	13,439,256
Investments – net	**18,510,553**	15,963,017	**18,423,705**	15,966,565
Loans and advances to customers – net	**2,897,617**	3,369,970	**2,897,617**	3,369,970
Receivables from financial institutions	**360,120**	587,534	**360,120**	587,534
Advance to staff, security deposits and other receivables – net	**425,662**	447,844	**425,662**	447,844
Financial liabilities				
Customers' deposits	**67,383,947**	56,761,420	**67,383,947**	56,761,420
Deposits from bank	**–**	500,000	**–**	500,000
Other liabilities	**655,593**	311,873	**655,593**	311,873
Off-balance sheet financial instruments				
Bank's guarantees	**8,258,845**	6,463,038	**8,258,845**	6,463,038
Bank's commitments	**1,305,204**	1,400,447	**1,305,204**	1,400,447

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

(i) Investments:

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

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

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

(iii) Off-balance sheet financial instruments

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

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

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

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

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

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

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

	2018 AFN '000	2017 AFN '000
Tier 1 (Core) Capital:		
Total equity capital	**3,585,157**	3,850,499
Less:		
Intangible assets	**(394,538)**	(445,918)
Net deferred tax assets	**(95,104)**	(73,603)
Revaluation loss on debt instruments at fair value	**86,849**	–
Profit for the year	**(478,165)**	(357,944)
	2,704,199	2,973,034
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	**191,237**	33,107
Profit for the year	**478,165**	357,944
Revaluation reserve on bonds (45%)	**–**	1,597
	669,402	392,648
Tier 2 (Supplementary) Capital (restricted 100% of Tier 1 (Core) Capital)	**669,402**	392,648
Regulatory Capital = Tier 1 + Tier 2	**3,373,601**	3,365,682
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	**2,632,836**	2,484,655
Direct claims on DAB	**14,477,604**	14,814,639
Direct claims on other Governments	**5,409,346**	1,268,129
Total	**22,519,786**	18,567,423
0% risk-weight total (above total x 0%)	**–**	–

31. FINANCIAL RISK MANAGEMENT CONTINUED

31.5 Fair value of financial assets and financial liabilities continued

	2018 AFN '000	2017 AFN '000
20% risk weight:		
Balances with other banks	30,314,423	24,313,203
Others	1,152,710	201,646
20% risk-weight total (above total x 20%)	6,293,427	4,902,970
100% risk weight:		
All other assets	17,927,643	18,131,650
Less: intangible assets	(394,538)	(445,918)
Less: Deferred tax assets	(95,104)	(73,603)
All other assets – net	17,438,001	17,612,129
100% risk-weight total (above total x 100%)	17,438,001	17,612,129
Credit conversion factor		
0% risk weight:		
Undrawn loan and overdraft facilities	1,217,553	1,265,872
Guarantees	968,176	1,395,648
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	25,333	134,575
Guarantees	7,185,895	4,799,135
20% credit conversion factor total (risk-weighted total x 20%)	5,067	986,742
20% risk-weight total (above total x 20%)	1,438,192	197,348
100% risk weight:		
Guarantees	104,773	268,255
100% credit conversion factor total (risk-weighted total x 100%)	104,773	268,255
100% risk-weight total (above total x 100%)	104,773	268,255
Total risk-weighted assets	25,274,393	22,980,702
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	10.70%	12.93%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	13.35%	14.65%

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 2018

	2018 AFN '000	2017 AFN '000
Assets		
Cash and balances with banks	546,245	290,887
Investments in sukuk securities	301,240	–
Loans and advances	37,673	42,279
Operating fixed assets	2,345	3,745
Other assets	5,687	6,855
Receivable – head Office	–	299,600
	893,190	643,366
Liabilities		
Deposit – current	121,803	94,520
Deposit – saving	26,485	495,818
Deposit – term Deposit	733,427	49,861
Other liabilities	20,964	12,419
	902,679	652,618
Equity		
Share Capital	5,809	5,809
Accumulated losses	(15,298)	(15,063)
Total equity	(9,489)	(9,254)
	893,190	643,364
Total profit income	23,063	9,041
Total profit expense	(9,063)	(3,163)
Net Profit Income	14,000	5,878
Other non profit income	970	379
Other non profit expense	(12,885)	(13,006)
Net non profit expense	(11,915)	(12,627)
Income from dealing in foreign currencies	(1,186)	430
Total income	899	(6,319)
Net provision for expected credit losses	(1,130)	(959)
Net loss for the year	(231)	(7,278)

33. GENERAL

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

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

34. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue by the Board of Supervisors of the Bank on 16 March 2019.

Chief Executive Officer | Chief Financial Officer | Chairman

Shariah Board's Statement

For the year ended 31 December 2018

In the Name of Allah, the Most Beneficent, the Most Merciful

ALL PRAISE BE TO ALLAH, THE LORD OF ALL THE WORLDS AND BLESSINGS ON PROPHET MUHAMMAD AND ALL HIS HOUSEHOLD AND ALL HIS COMPANIONS.

By the Grace of Almighty Allah, the year under review was the fourth year of Islamic Banking being operated by Afghanistan International Bank.

During the year, the Shariah Board (SB) held 14 meetings to review various products, policies, standard operating procedures, transactions, processes and their Shariah-compliance.

The Shariah Board appreciates the cooperation of ISB department and management for the expansion and implementation of Islamic Banking best practices and products according to Shariah rules, regulations, and resolutions issued by the Shariah Board of the Bank.

We are of the view that:

1 In our opinion, the affairs of the Islamic Banking Window have been carried out in accordance with the rules and principles of Shariah, in the light of Rulings, Fatwa, and the Guidelines issued by the Shariah Board.

2 During review, any matters requiring corrective measures have been noted and were resolved by the management or ensured to be rectified in future. Subject to the foregoing, in our opinion, the affairs of the Islamic Banking Window have been carried out in accordance with the rules and principles of Shariah, regulations and guidelines of Da Afghanistan Bank (DAB) related to Shariah compliance.

3 The Bank has a comprehensive mechanism in place to ensure Shariah compliance in its overall operations.

4 The allocation of funds, profit and loss distribution, and pool management are in accordance with Shariah principles.

5 The Shariah Board has been provided with resources enabling it to discharge its duties.

And Allah Subhana-hu-wa Taala knows the Best

Dated: February 24, 2019 | Hoot 05, 1397 HS

Abdul Qadir Ulfat
Shariah Board Member

Rahmanullah Shahab
Shariah Board Member

Mufti Shamsurahman Frotan
Shariah Advisor

Designed and produced by Group Origin

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