AIB
بانک بین المللی افغانستان
Afghanistan International Bank

Annual Report 2020
Your partner for growth.

Committed to the prosperity and future of Afghanistan

Bank of the Year
Afghanistan
2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019 and 2020

Best Corporate Governance
Afghanistan
2014, 2015, 2016, 2017, 2018, 2019, and 2020

Euromoney Best Bank
Afghanistan
2020

01 Introduction
02 Chairman's Statement
04 CEO's Management Review
07 Financial Highlights
08 Afghanistan Economic Outlook
12 Governance Report & AIB Committees
16 Board of Supervisors
18 Record of Attendance
19 Organisation & Management Profiles
20 History & Performance of AIB
22 Financial Statements
68 Shariah Board's Statement

Our Story

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 nine consecutive years from 2012 to 2020, and Euromoney's bank of the year in 2020.

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.

Our Vision

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

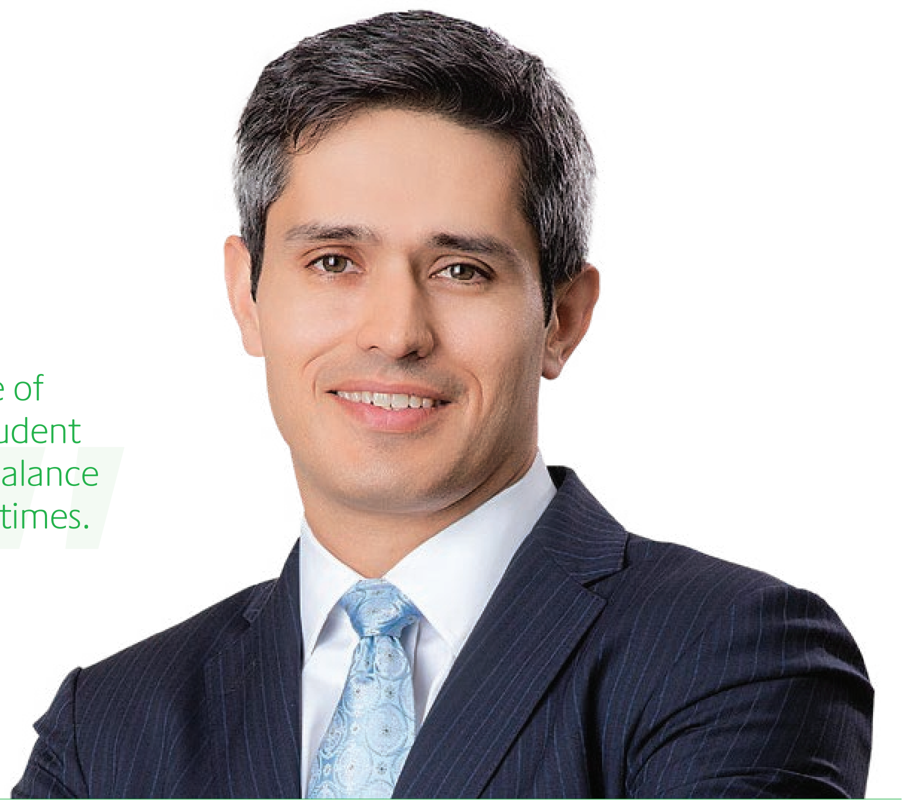
Our Mission

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

Chairman's Statement



A year like 2020 shows the value of partnering with a strong and prudent bank such as AIB with a strong balance sheet, built to weather difficult times.

Samuel Sidiqi
Chairman

"One of the major developments this year has been a change in CEO: Anthony Barned, who has been CEO since 2016, and active with the Bank for much longer, is stepping down. Mr. Barned did a fantastic job, growing AIB as an institution while showing profitable financial results and building a strong balance sheet. "

2020 has been a difficult year for the world and particularly for Afghanistan, which was not only hit by the global pandemic but also had to navigate an election and the start of an uncertain peace process. AIB had to face this difficult environment, and, while it certainly felt the effects of these massive changes, it succeeded in navigating through a problematic year whilst taking steps to further advance as Afghanistan's leading bank. A year like 2020 shows the value of partnering with a strong and prudent bank such as AIB with a strong balance sheet, built to weather difficult times.

The COVID-19 pandemic was not a scenario the board predicted for 2020 and the disease caused a level of death and suffering not seen since the Spanish flu a century before. Afghanistan did not have the medical tools to manage the pandemic and the poorer segments of the economy could ill afford the type of shutdowns that could slow the spread of the virus. The main asset Afghanistan had in its fight against the disease was its young population, leaving a smaller percentage of vulnerable people than most countries in the world. At AIB we took steps to address the situation within the Bank but could not change the effect of COVID-19 on the larger economy in Afghanistan and globally.

2020 also saw a presidential election in Afghanistan. As a young democracy, the outcome of the election created a lot of uncertainty. Similarly, the current peace process does not have a clear outcome. The Bank has found that most businesses delay major investments in times of uncertainty, so it becomes more difficult to find good loans to underwrite. That was certainly the case in 2020 and the Bank saw a slowdown versus its plan to increase lending.

Despite these negative effects, AIB continued to run a profitable and stable business. AIB clearly benefited from its strong risk management and underwriting process. The majority of AIB's loans have been to strong companies that responded to the environment, ran their businesses well and continued to service their debt. Similarly, AIB's conservative investments continued to yield positive returns despite the large decrease in interest rates. AIB's fee income also continued to be a strong pillar for the Bank.

Leadership Changes

One of the major developments this year has been a change in CEO: Anthony Barned, who has been CEO since 2016, and active with the Bank for much longer, is stepping down. Mr. Barned did a fantastic job, growing AIB as an institution while showing profitable financial results and building a strong balance sheet. Some of the Bank's accomplishments under his leadership were the opening of the first Sharia window, obtaining a new US dollar clearing bank, completing the construction of a new and prestigious head office building, developing the Bank's digital offering, obtaining the license to issue Visa credit cards and completing the sale of shares to bring IFC on board as a new investor.

During his tenure the Bank received numerous accolades; AIB won Banker's Magazine bank of the year award every year and won the CFI Best Corporate Governance award every year of his tenure. In 2020 AIB also won the Euromoney Best Bank Award. AIB has had a phenomenal run under Mr. Barned's leadership, the Bank is better for it, and I would like to thank him for his efforts.

Stepping into the shoes of CEO is Mr. Joseph Carasso Jr. This was a planned transition: the board has spent some time searching for a suitable replacement, and Mr. Carasso joined more than a year before taking the role of CEO. Over the past year Mr. Carasso served first as head of Business Development and later as Deputy CEO. During this time, he has been deeply involved with all aspects of the Bank. Mr. Carasso joined AIB with a strong track record at Citibank, most recently as CEO of Citibank Tanzania. Prior to that, Mr. Carasso lead the Financial Institutions, Foreign Correspondent Bank (FCB) and Non Presence Countries Unit for Citibank across Africa and had other experiences across Africa and Brazil also with Citibank. Mr. Carasso is a leader of people and is the right person to take AIB forward as the leading financial institution in Afghanistan.

The board also saw some changes, and joining the board is Michael Pearce. Mr. Pearce has a strong set of experiences across Europe Middle East and Africa (EMEA). Most recently he was Managing Director Citibank EMEA with a focus on improving productivity. Michael Pearce served as a Director in Citibank's Subsidiaries' Boards in Switzerland, South Africa, Morocco, Cameroon, Gabon and the Democratic Republic of Congo. Before that he served as the CFO for Citibank Africa and prior to that held a number of leadership finance roles across EMEA at both Citibank and NatWest. Mr. Pearce is an independent director and is chairing the Risk Committee.

Focus of the Bank

Due to the strength of the Bank, there is no need for AIB to step backwards or retrench. Rather, AIB will continue to grow as an institution with deliberate and prudent steps. Customers are the reason our business exists, and AIB will advance initiatives in 2021 that enhance its delivery capabilities and address points of customer dissatisfaction. The future of banking is in electronic delivery channels and efficient back end systems. AIB is at the forefront of this for Afghanistan, and it will continue to invest to keep its leadership position in electronic banking. Further, AIB will continue to invest in its compliance including FCC, KYC and DAB regulations – this strong governance is a key basis for AIB to keep its US dollar clearing capabilities that are so vital to Afghanistan's economy. All of these initiatives will be delivered by the AIB team, and the board will support management in its efforts to train, reward and develop the AIB team.

The AIB board is confident in the new CEO and the entire AIB management team's ability to deliver this plan and continue developing AIB as the leading financial institution for Afghanistan.

Samuel Sidiqi
Chairman

CEO's Management Review

I am delighted to welcome you to AIB's Annual report for 2020, and pleased to announce that the Bank has successfully navigated all of the challenges of the past 12 months to again deliver a profit, alongside a comfortable capital adequacy ratio.

In a personal capacity, I am proud to be taking over stewardship of this exceptional and essential institution, and am excited about what we can achieve with our customers and partners, driving prosperity for Afghanistan and its people.

Joseph Carasso
Chief Executive Officer

Afghanistan's efforts to extract itself from a decade of armed conflict and establish a stable political and economic environment continue, but a solution will probably take time. In addition to this difficult backdrop, 2020 brought other challenges for AIB as it did for many banks, with COVID-19, and the resulting reduction in US dollars interest rates presenting significant unforeseen upheaval. Nonetheless, I am pleased to say the Bank navigated all of these challenges successfully and was profitable in 2020. AIB finished the year with a capital adequacy ratio of 15.43%, 3.4% above the central bank's regulatory requirement.

Total revenue remains at the same level at AFN 2.84 billion (2019: AFN 2.83 billion), boosted by Department of Justice withdrawing its longstanding legal action and returning US$4.18 million to the Bank. However, reduction in US dollars interest rates and Eurobond Yields decreased interest earned on placement and bonds by US$ 3.7 million. This reduction is likely to continue until the FED increases US$ rates. Interest income from the bond portfolio will not feel the full effect in the short term as the bond portfolio's maturity is spread over the next four years. Any reduction in interest rates automatically increases the value of

"In response to COVID-19 AIB developed a system to talk to each borrowing customer weekly, which helped to identify problems early."

AIB's bonds so there has been an opportunity to realize capital gains, which we have very selectively taken advantage of. As such, In 2020, active management of the Bank's bond portfolio generated revenues of AFN 0.17 billion.

Non-interest income accounted for 64% of total revenue; growth was led by the 4.20% increase in outward international transfers to AFN 181 billion from AFN 175 billion in [2019]. The volume of outward transfers grew to 25,473 transactions, while AIB also received 33,374 inward transfers totalling AFN 138 billion. Together, these transactions underline the value of strong correspondent partnerships, enabled by sound regulatory compliance. The liquidation of real estate collateral for AFN 5.7 million also boosted revenues, even though loan recovery was negatively affected by the lengthy foreclosure process and obtaining vacant possession.

Operating expenses increased by 1.13%, as was anticipated when preparing the budget. The main contributor was depreciation of the new Head Office building. During the latter half of the year, the Bank suffered an apparent operating fraud of significant scale, and as any eventual loss from the event could not be quantified at year end, a substantial provision was made. Continuing the Bank's practice of accounting fully for potential losses, provision was increased to nearly 100% in first quarter of 2021. The Bank was able to achieve this using previously unallocated provision and by realising capital gains from the sale of bonds, causing no reduction in first quarter 2021 earnings and no deterioration in the capital adequacy ratio.

Meeting all these challenges, the Bank returned an after tax profit of of AFN 310 million. AIB's deposits at year end increased by 5.72% to AFN 62.2 (2019: AFN 58.8 billion). This performance underscores public and customer confidence in AIB as a bank to be trusted in difficult times.

Business Initiatives

The Bank's resilience capabilities were put to test in 2020 as Covid-19 restrictions mandated social distancing and working from home to help limit the spread of the disease. We activated our Business Continuity plan by enabling an additional three Business Continuity sites with computer facilities and network connectivity to decentralize work locations. This decentralization was continued for four months until restrictions were lifted by the authorities.

We also recognized that remote working could expose the Bank to cyberattacks, and we conducted detailed risk assessments to identify, and prioritize risks to our assets, operations, and employees. Well-being of our staff remained a priority, and all the Bank's employees received their normal compensation during the pandemic.

We have continued to pursue and execute in our core business and client franchise strategy. In 2020 we have increased our use of alternative channels by 87% moving customers from the branches and had a growth of 8% in transactions compared to last year. We also grew our Credit Card business by 26.6%, We expanded and modernized our 131-strong ATM network, and continued to take full advantage of our ability to issue VISA and Mastercard cards.

In addition the Bank introduced our E-commerce gateway, the first domestic gateway in the country, that has the capacity to accept MasterCard and Visa cards. We on-boarded five large customers into the platform, including a major airline.

Corporate and Institutional Banking

The COVID-19 pandemic and its impact on the wider economy has placed unprecedented pressure on businesses across the country. We took a forward-looking approach to risk mitigation, successfully implementing a regular stress testing mechanism over the loan portfolio to identify and quantify risk and to assist clients in these difficult times. While our corporate customers weathered the pandemic relatively successfully, loan demand was subdued until the last quarter of the year, at which point we saw a small number of customers increase their borrowing by US$4million in total.

2020 saw the government continue placing an emphasis on infrastructure development. Whilst the funding is normally from donors with AIB's resources too small to participate, we are able to provide performance guarantees backed by inward letters of credit from international banks. The strength of AIB's balance sheet and its capitalization makes it bank of choice for most international banks and their customers. These totalled AFN 2.3 billion relating to 46 projects in addition to the AFN 7.8 billion we have provided in previous years.

We continue to be the primary bank used by importers making US$ payments worldwide and are able to make payments to most countries not subject to international sanctions. Our correspondent bank network includes Crown Agent Bank in London, Transkapital Bank in Russia, State Commercial Bank of Turkmenistan, Aska Bank in Uzbekistan and CenterCredit Bank in Kazakhstan. Our relationship with Transkapital Bank, with its wide network of correspondent banks in the ex-Russian Federation countries and China, has grown substantially. We continue working to expand this network and are optimistic that we will add a new European bank and a US bank in 2021. These prospect relationship banks appear to be comfortable with AIB risk but need to grow more comfortable with the risk for Afghanistan as a whole.

To be able to provide these services to exporters, we have strict anti-money laundering procedures and stringent onboarding requirements, comfortably the most robust in Afghanistan and indeed higher than in neighbouring countries. We appreciate the patience of our customers in adhering to these procedures. Providing the US$ clearing requires a major investment in human resources and IT systems, totalling annually around 5% of the Bank's revenue

Our initiatives to encourage exports from Afghanistan and investment in Afghanistan continue but the global lockdown placed limits in terms of in person events and seminars. The annual SIBOS networking event organized by SWIFT and the US-Afghanistan Business Matchmaking Conference & Investment Summit organized by Afghan American Chamber of Commerce and the Afghan Embassy in London were both cancelled in 2020.

Business and Community Banking

While this remains a difficult segment, few new delinquencies arose during the lockdowns. AIB developed a system to talk to each customer weekly, which helped to identify problems early. A number of loans required restructuring but overall, AIB's customers weathered the storm. Credit backing from the Afghan Credit Guarantee Foundation (ACGF) was undoubtedly important in AIB's ability to provide finance to this sector. We look forward to working with ACGF to expanding our SME loans in 2021.

Islamic Banking

Islamic products - and staff trained to explain them - are now available in all AIB's branches. In line with the wider bank our Islamic unit increased US$ deposits from $15 million to $21 million and AFN deposits from 96 million to 135 million.

Consumer Banking

Our branches were the Bank's front line during the pandemic. We are proud of the shift system we introduced across our network, which enabled us to remain open throughout the municipal lockdowns, with the government rightly deeming banks to be essential services.

- Strict protocols were introduced to protect both our staff and customers
- Facemasks were compulsory for both bank employees and customers
- Social distancing was enforced between customers, and between customers and branch staff
- All surfaces and equipment were disinfected several times each day

"Our branches were the Bank's front line during the pandemic. We are proud of the shift system we introduced across our network, which enabled us to remain open throughout the municipal lockdowns, with the government rightly deeming banks to be essential services."

- We enforced handwashing and hand sanitizer use after each transaction

To help customers unable to return to Afghanistan and international organizations locked down, we modified our requirements for using internet banking and introduced a system to deliver cash to their locations.

Providing secure electronic access to money for internet and in-store purchases during the pandemic was another priority for the Bank. For the first time in Afghanistan, AIB launched Visa Credit Cards, allowing credit card purchase both in Afghanistan and with overseas merchants. We also introduced talking ATM machines with braille keyboards, enabling the visually impaired to use the machines independently and to help those customers who have not previously used ATMs.

AIB's Ombudsman was the first service of its kind in Afghanistan, introduced in April 2019. The service continues to help us improve customer service. The unit handled 200 cases in 2020 varying from six a month during the COVID-19 lockdowns to 26 in the busiest month. On average, cases are resolved within six days. During the year seven cases were reported to the central bank's Financial Dispute Resolution Committee. The Bank was not found to be a fault in any of the cases.

Information Technology

In line with our "Digital at the core" initiative, we started the next phase of our core and online banking system upgrade, forging ahead with our digital transformation efforts. Leveraging our Oracle Flexcube 14.4 technology platform and the Oracle Banking Digital Experience OBDX 20.1, updated core and online banking platforms will enable the Bank to offer new and improved financial services focusing on digital payments and operational efficiency. By the end of 2021, the Bank will have upgraded to the latest Oracle technologies and be in a strong position to consolidate its market leadership. We also plan to upgrade the Financial Crimes Compliance software for AML transactions monitoring, and Customer Screening. This will enhance our capabilities in detection and response while meeting regulatory and correspondent bank compliance requirements.

During the year, the Bureau Veritas Certification Holding audited the Information Security Management System and found it compliant with the requirements of the ISO/IEC 27001:2013 standard. The Scope of Certification was the provision of an Information Security Management System related to the Information Technology Department and Data Centre location. We are proud to be the first and only institution in Afghanistan to attain this certification. It will further solidify our market leadership position and reputation for operational excellence. In the same vein, we successfully re-certified to the requirements of SWIFT Customer Security Controls Framework Version 2019.

Social Responsibility

As would be expected, both AIB's conventional and Sharia units substantially expanded their community activities during the COVID-19 crisis. We supported over 1,000 families in need with essential food item packages (including flour and cooking oil). Additionally, in conjunction with the Women for Afghan Women and Enabled Children Initiative we supported a myriad of families with similar essential packages, plus hygiene items and access to fresh water. Our branches also distributed fresh meat to people in their local neighbourhoods.

Empowering women in Afghanistan and protecting vulnerable children is an ongoing priority for the Bank. We are taking opportunities to empower small businesses owned by women, in conjunction with AWCCI (Afghanistan Women Chamber of Commerce and Industry). Together we organized the Bibi Khadija Award ceremony, now in its fourth consecutive year. Forty successful female entrepreneurs, from different categories chosen by AWCCI, AIB, Ministry of Commerce and Industry and Ministry of Women Affairs, received awards from AIB.

AIB also supports various charitable local community groups. This includes Women for Afghan Women, which provides education for women in remote areas. The Enabled Children Initiative runs Window of HOPE. "Window of Hope" is private centre in Kabul, which provides care to abandoned or orphaned Afghan children and youths with disabilities from around the country.

Unfortunately, we have not been able to participate in international exhibitions and conferences as initially planned due to the lockdowns, but domestically we have participated in a number of events aimed at promoting local products and showcasing the importance of digital banking and technology.

AIB believes women have an important role in the process of economic growth and poverty reduction in the local community and society. The Bank has continued to prioritise women both as customers and members of staff. Our diversity efforts are vital to us as a business: our head office allows wheelchair access to any part of the building and we continue offering employment to the physically challenged and visually impaired.

I would like to thank my predecessor, Anthony Barned, who has stewarded the Bank for the past five years through a range of difficult obstacles and a generally challenging environment for banking. As an institution, we are undoubtedly stronger for his leadership and have continued to reinforce our position as the Bank of choice in Afghanistan, both for customers, and international partners. Moreover, the Bank continues to serve as a beacon for good-governance in the country, regardless of sector. I am confident in our ability to continue along this trajectory.

Finally, I would like to thank all of our stakeholders, including DAB, our shareholders, our depositors and clients, and our directors and staffed, who have all themselves endured a challenging 12 months. I look forward to speaking with all of them soon in what we hope will be an easier year than the last.

Joseph Carasso
Chief Executive Officer

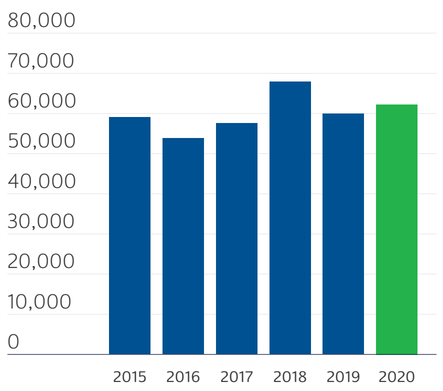
Financial Highlights

2.85bn
Revenue
— 0%

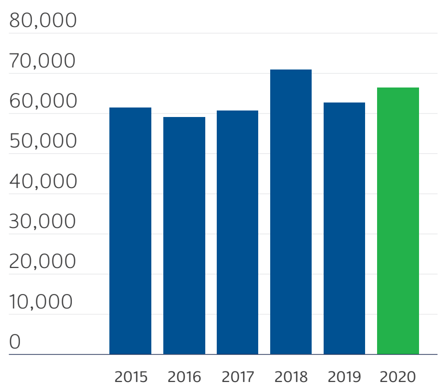
66,605mn
Total Assets
↗ 5%

63mn
Capital Growth
↗ 2%

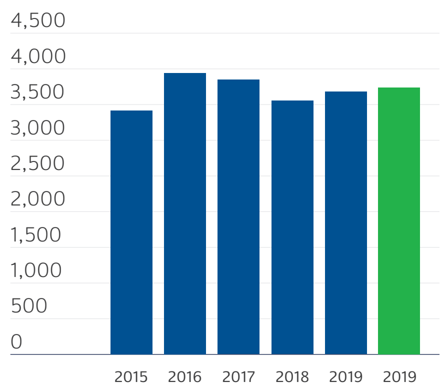
Deposits
(AFN) Millions



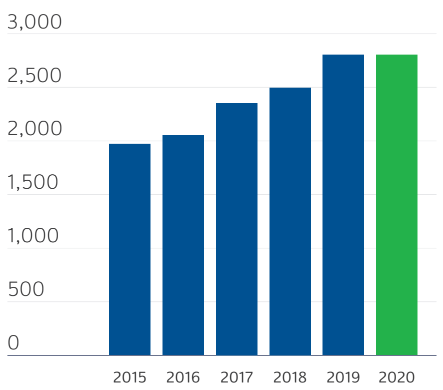
Total Assets
(AFN) Millions



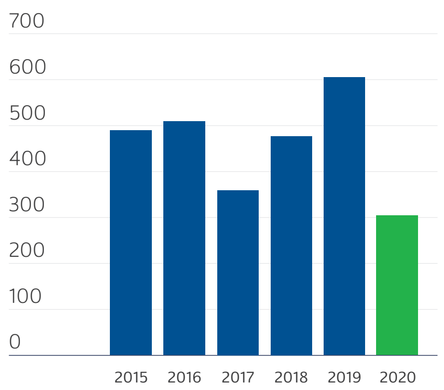
Capital
(AFN) Millions



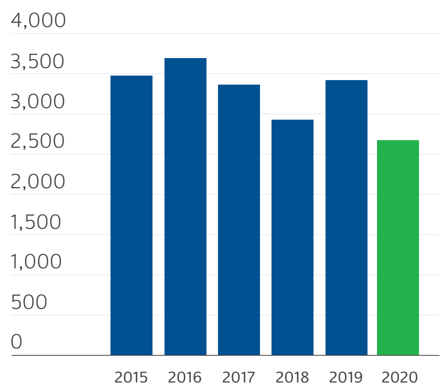
Revenues
(AFN) Millions



Net Profit
(AFN) Millions

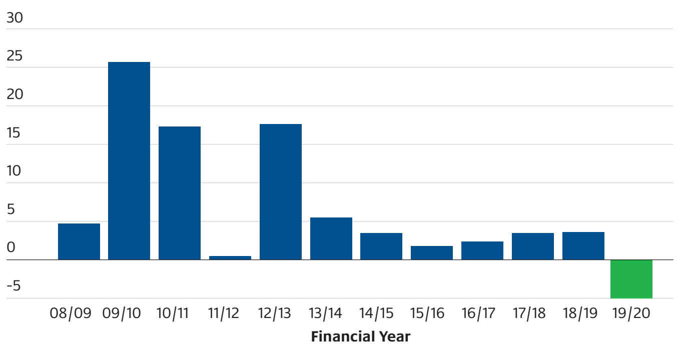


Advances
(AFN) Millions

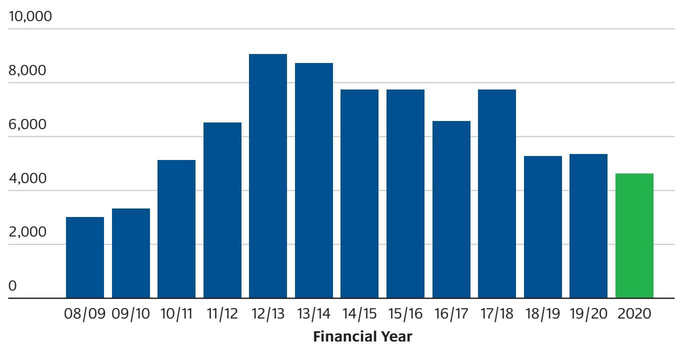


Afghanistan Economic Outlook

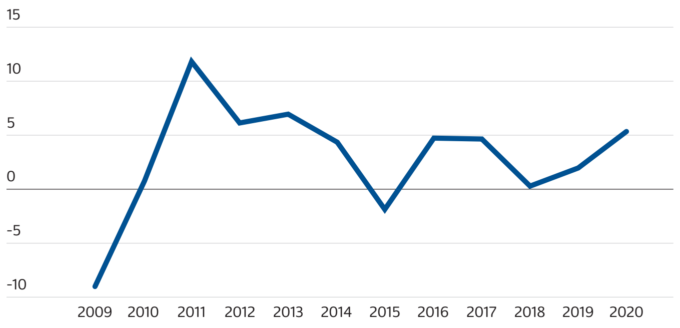
Annual GDP Growth* (%)



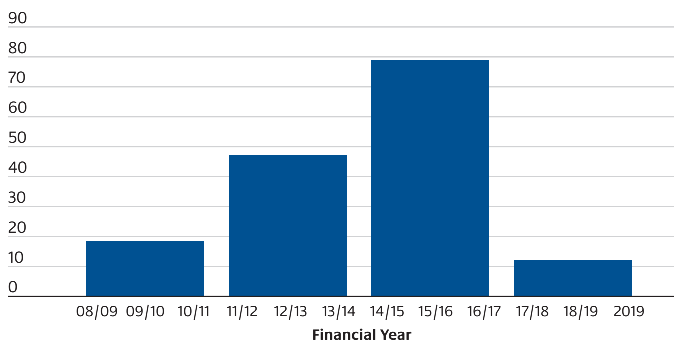
Afghanistan Import (Millions US$)



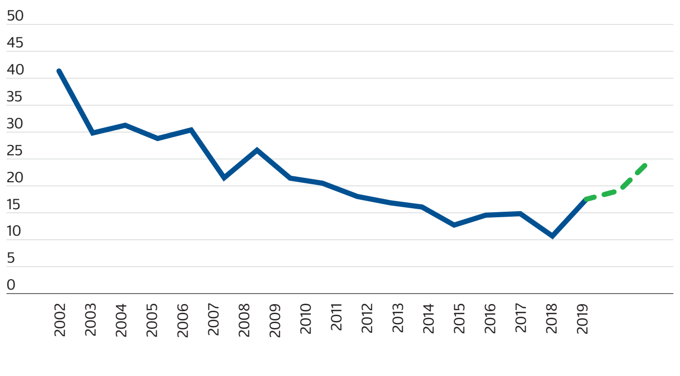
Inflation Rate – Yearly** (%)



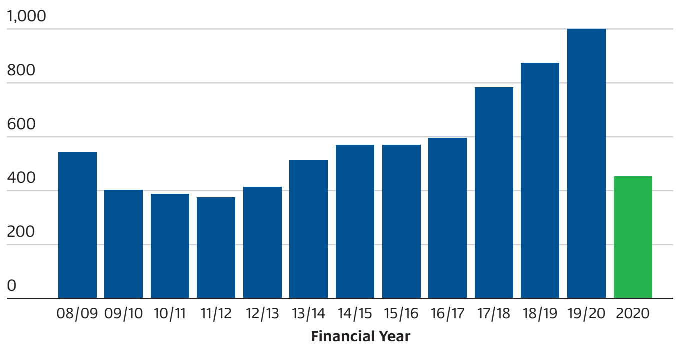
Top Four Exporting Items* (Million US$)



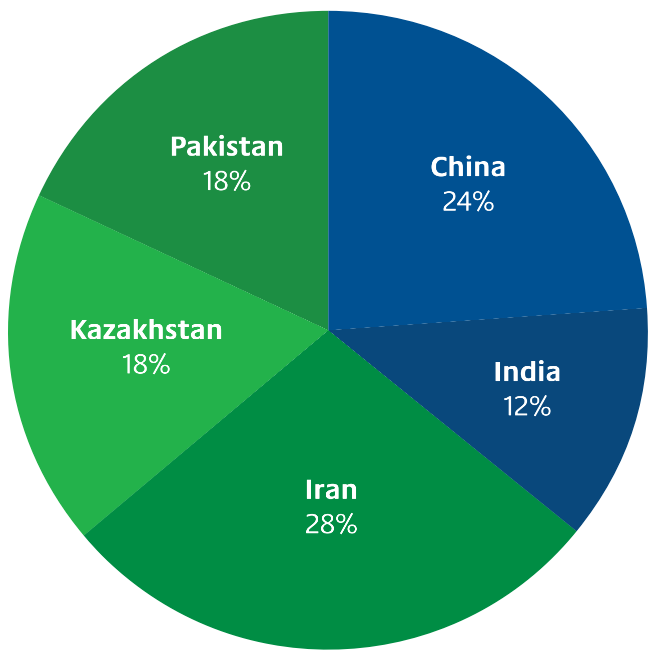
Afghanistan GDP - Share of Agriculture** (Millions US$)



Afghanistan Export* (Million US$)



Top Five Import Partners of Afghanistan



Sources:
* Da Afghanistan Bank and NSIA
** National Statistics and Information Authority (NSIA)

Overview of COVID-19

The first COVID-19 case in Afghanistan was identified on February 22, 2020 in the cities bordering Iran. The government swiftly announced a state of emergency and subsequently introduced lockdown measures throughout the country. Of note, it implemented new working hours for government and non-government organizations to reduce crowd density, and a presidential decree was issued to release 24,000 prisoners as 47 positive COVID-19 cases were found in prisons. In May, the government started a national program to fight hunger, distributing over 100 million units of bread through local bakeries across the country.

The virus has since spread, with over 50,667 positive cases and 2,110 deaths recorded to date, with a recovery rate of 77.3% and a 4.2% fatality rate as at the end of 2020. Afghanistan policymakers accordingly proposed measures to tackle risks in the healthcare sector and socio-economic challenges. In response, the donor community has pledged half a billion dollars of aid, including US$240 million from the Afghanistan Reconstruction Trust Fund (a pool of 34 donors), US$160 million from the World Bank's International Development Association, US$18 million from the US Government, and US$115 million from the European Union. (Source:CIC)

Gross Domestic Product (GDP)

The Afghanistan economy has stagnated in 2020, with GDP contracting by -5% in 2020. The fiscal deficit is estimated to have increased to around 4% of GDP, following an expected 17% decline in corporate tax revenue and 18% decline in personal income tax revenue. UNICEF data suggests that around 12 million Afghans could be pushed into food security deprivation, which may lead multi-dimensional poverty to rise from 51.7% to 61.4%. Afghanistan ranked 180th among the 185 countries in the acute food insecurity index (WFP).

In the near term, Afghanistan's GDP is projected to rebound by 3% in 2021 (IMF Forecast). The growth is largely attributable to the reopening of the economy and the US$1.1 billion stimulus package approved by H.E president Ghani. Meanwhile, the provision of US$220 million concessional financial assistance by the IMF under the Rapid Credit Facility and the approval of US$300 million assistance by the World Bank should stimulate growth in the short term.

The pandemic continues to threaten lives and livelihoods, with a second wave of the virus expected to arrive by early 2021. In a nation where 90% of the economy is informal and operated by medium and small enterprises, further economic shutdowns could be very significant and impact the economy for a number of years. (Source: UNDP)

In response to COVID-19, the government has had to adjust revenue estimates downwards from AFN 209 billion (US$2.71 billion) to AFN 144 billion (US$1.87 billion) during the mid-year budget review in 2019. However, the end of the year figures shows the collection of AFN 174 billion (US$2.2 billion), a AFN 30 billion (US$400 million) increase on the adjusted target (Source: MoF). The decline in overall revenue is mainly due to an average 17% reduction in tax revenues in 2020 (Source: World Bank).

Despite all these challenges, the November 2020 Afghanistan Conference in Geneva was an important milestone in fostering sustainable development, prosperity, and peace in Afghanistan, with the international community pledging a relief package to restart the economy and ensure the financial stability of the Afghan Government, totalling US$13 billion from 2021 to 2024. (Source: MoF).

Inflation

In line with other economic indicators, the pandemic affected the inflation rate, and annual inflation hit 5.7% (NSIA) in 2020, compared to 2.27% in 2019. The rise was due to a surge in public demand for food items, with panic over food shortages in a number of cities.

Meanwhile, the government increased its spending on the healthcare sector and relief packages which also contributed to the sharp increase in inflation in 2020. The speedy response of Afghanistan's international partners, providing grants of almost US$1.1 billion, has also helped push up prices. Projections suggest that the inflation rate will remain around 4.5% for 2021 if similar trends continue.

Agriculture

2020 was a strong year for agriculture and farming in Afghanistan. The country enjoyed a considerable amount of rain throughout the year, and these favourable weather conditions mitigated the negative impact of the pandemic and helped the country combat hunger and poverty.

Rice planting and yields increased by 15% in 2020 compared to 2019. Rice yields were 383,000 metric tons a year earlier, but this increased to 440,000 metric tons in 2020. Meanwhile, the wheat yields in 2020 reached 5.1 million metric tons compared to 4.9 million metric tons in 2019 due to the good weather conditions and an increase in the productivity of grain farms. (Source: MAIL & NSIA)

The Ministry of Agriculture, Irrigation, and Livestock responded well to the COVID-19 outbreak, implementing the Agricultural Export Production Management Program. This was a project to avoid agricultural product wastage by constructing emergency raisin storage units and refrigerating rooms, while also buying fruit and vegetables drying machines and signing contracts with the farmers to supply vegetables and fruits direct to government organizations. The project cost US$177 million and built 4,332 raisin storage units, each with a capacity of 16 tons. In addition, 14,633 zero-energy cold storages were constructed with a storage capacity of 5 to 10 tons each. The project created 60,309 permanent and 191,670 temporary jobs in Afghanistan.

Export

The economy was hit hard by border closures and lockdowns in the major cities, which disrupted trade and transportation, undermining industry and services in the country. In 2020, Afghanistan registered around US$434 million in exports. Recent data indicates that exports declined 28% in the first half of 2020 compared to the same period last year. (Source: NSIA, 3Q)

Prior to the pandemic, exports had been strong, climbing 10% in the first quarter of 2020 compared to the same period in 2019 - from US$182.57 million to US$203.64 million. After the lockdown measures and global supply chain disruption, exports fell in the second quarter to US$32 million compared to US$143.28 million in the same quarter of 2019. After easing trade restrictions and opening of ports in the third quarter, Afghanistan exports bounced back to US$198.42 million (NSIA, 3Q). According to the Ministry of Industry and Commerce, exports through air corridors increased by 29% in terms of volume and 17% in terms of value. (MOIC)

Regiment and regiments seeds (heeng) were the leading exports from Afghanistan in 2020 with roughly one million kilograms exported at a monetary value of US$78.87 million. Raisin exports were worth US$47.36 million, while green caraway exports were US$18.62 million (NISA, 3Q).

Import

The value and volume of imported goods and services trended downwards in 2020. Imports fell by 23% in the first six months of 2020. Lower imports reflected weaker economy-wide demand amid political uncertainty and the onset of the COVID-19 crisis (MOIC, WB). For 2020 as a whole, Afghanistan imported around US$4.5 billion worth of goods and services. (Source: NSIA, 3rd Q)

Imports from five countries account for around half of the imported value of goods and services. Iran is the country's biggest supplier, accounting for US$782 million in the value of goods and services (NSIA, 3rd Q). This is followed by China and Pakistan with shares of US$668 million and US$482 million respectively. Kazakhstan and India are positioned in fourth and fifth places.

Afghanistan Economic Outlook
continued

Infrastructure

1.1 Energy

Electricity demand is growing rapidly in Afghanistan and is essential for the country's economic growth. Afghanistan relies on energy imports from neighbouring countries to meet its domestic demand. Despite significant progress since 2002, only about 34% of the population has access to grid-connected electricity (Source: ADB). To expand access, the government has 30 renewable energy projects open for investment in 20 provinces with an aggregate capacity of 100,000 (KW). (Source: AISA)

Meanwhile, in response to ongoing electricity shortages, ADB approved a US$110 million grant in 2020 to enhance the power supply in Afghanistan. The project will provide 500,000 new connections for households, commercial entities, and industrial customers. In September 2020, the Afghan Government signed another USAID-funded Independent Power Producers (IPPs) agreement; these projects will add 110 megawatts of power and serve over a million Afghans. (Source: USAID)

1.2 Education

The National Education Plan (NESP) III 2017-2021 has made significant progress since 2001 in expanding girls' access to education. Since 2001, the number of children enrolled in General Education (grades 1-12) has risen by almost nine times, from 0.9 million, almost none of them girls, to 9.2 million with 39% girls. The number of schools has also increased from 3,400 to 16,400 across Afghanistan (Source: UNICEF). The number of schoolteachers grew to 241,797 in 2019 from 231,949 in 2018, a 4.25% increase. (NSIA) Meanwhile, according to MoHE as of Dec 2020, there are 39 governmental and 127 private higher education institutions in Afghanistan.

The MoE and MoHE launched alternative learning solutions during COVID-19 to respond to lockdowns and social distancing measures. Schoolbooks are available online, while National TV has broadcast lectures and the MoHE has introduced HELMS – the first national online learning management solution.

1.3 Health Sector

Afghanistan's health system has been steadily progressing over the last 20 years, with increasing coverage throughout the country. The government assigned 4% of the total 2019 budget to the Ministry of Public Health, of which 80% was funded by donors (Source: WHO). The World Health Organization (WHO) reported in 2018 that 3,135 healthcare facilities were in operation, providing healthcare to approximately 87% of the population within a two-hour distance.

The Ministry of Public Health responded to COVID-19 by establishing 11 testing laboratories with a capacity of 2500 tests per day, alongside specific areas for quarantine. It also assigned health teams to screen passengers at airports and other border entry points. It launched a nationwide awareness campaign as part of its broader response.

Afghanistan Human Development Index

The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable, and having a decent standard of living.

Despite the huge challenges and decades of protracted conflict, Afghanistan has made a great deal of progress since 2002. Afghanistan scored 0.511 out of 1 in HDI of 2019 compared to 0.496 in 2018 and 0.498 in 2017. Afghanistan ranked 169 with an annual growth rate of 0.89%. The growth rate suggests an optimistic outlook for Afghanistan, where more Afghans enrol in school, live longer, and eat healthily (Source: UNDP).

Political Outlook

Increasingly there is hope that Afghanistan can sustain long-lasting peace. After years of war and violent conflict, 2019 saw the beginning of negotiations between the US and the Taliban on the withdrawal of international troops and ongoing security arrangements. An agreement between the two sides was signed in February 2020 in Qatar and was designed to lead to Intra Afghan Peace Negotiations.

After long delays, the peace negotiations between a government delegation and a delegation of the Taliban began on September 12, 2020, in Doha, Qatar. Talks were halted due to conflicts of interest and a lack of agreement on priorities. The Afghan government and the Taliban have now agreed on framework rules for peace talks after more than two months of discussions, finally allowing negotiations on ending a near-20 year long civil war.

The difficult journey to peace is ongoing: some steps have been taken, but there is some way to go: the release of 5,000 Taliban prisoners was a welcome sign by the Afghan Government, while a three-day Consultative Peace held in Kabul from 7-9 August by Loya Jirga has opened the way for the Afghan government to release a final 400 Taliban prisoners from government jails. On September 2020, the High Council for National Reconciliation (HCNR) was established and the first meeting of the Leadership Committee of the HCNR was held on 5th December 2020. This is designed to speed up the process and involve community members in decision- making. However, violence needs to be reduced and a nationwide cease-fire implemented by both sides.

Banking Sector

In 2020, the Central bank of Afghanistan developed the National Financial Inclusion Strategy (2020-2024) to reduce financial exclusion in the country by 10%. NFIS analysis suggests 85% of adults in Afghanistan do not have a bank account while the share of outstanding SME loans was 0.17% of GDP in 2018, the lowest of all similar economies. The strategy is designed to help the economy in terms of financial access for individuals and MSMEs, along with agriculture financing, consumer protection and financial capability, plus payment and digital financial services.

In the first quarter of 2020, total banking assets fell by 9% from US$4.118 billion in 2019 to US$3.712 billion, as deposits were withdrawn in response to the COVID-19 outbreak. However, banking assets recovered and reached to US$4.146 billion by the 3rd quarter of 2020. The Banking sector registered an additional 375,338 new accounts, which increased the total banking accounts number by 8.9% compared to the same period in 2019. (Source: ABA, 3rd Q)

Meanwhile, the Banking sector issued US$512 million in loans, a 7.1% drop compared to same period in 2019. The decrease in private sector loans was largely as a result of financial institutions deciding not to extend loan commitments as credit risk increased among borrowers. Non-Performing loans doubled from 3rd quarter of 2019.

To ensure the stability of the financial sector in the face of COVID-related shocks, Da Afghanistan Bank (DAB - the Central Bank) has intensified monitoring of weaker banks and taken measures to reduce their operating costs. Other measures include the suspension of administrative penalties and fees, postponement of the IFRS-9 implementation, and relaxation of mandated loan re-classification.

2.1 Islamic Banking

Afghanistan's banking sector is small, but Islamic finance has the potential to draw more people into the formal economy. The country is now home to a full Islamic bank and several Islamic windows in conventional banks. The bulk of Islamic financing in the country is offered via two types of sharia-compliant structures, a cost-plus-profit arrangement known as Murabaha and a leasing-based contract known as Ijara. There was US$418 million of deposits held in Islamic banking arrangements at the end of the fourth quarter of this year, 12% of total banking sector deposits.

"Meanwhile, in response to ongoing electricity shortages, ADB approved a $110 million grant in 2020 to enhance the power supply in Afghanistan. The project will provide 500,000 new connections for households, commercial entities, and industrial customers."

Joseph Carasso
Chief Executive Officer

Governance Report & AIB Committee

As a matter of principle and good business practice, AIB has conducted its banking business in an ethical, prudent, and professional manner, according to 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 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.

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 six Board members: four independent and two shareholder-appointed. Two vacancies occurred during the year with resignation of Mr Aditya Srivastava and the

retirement of the Chairman Mr. Ronald Stride, Mr. Michael Pearce joined the Board and Mr Samuel Sidiqi was elected as chairman. We expect the remaining vacancy to be filled at the next Annual General Meeting in March 2021. At the very end of the year Mr. Mansoor Tirmzi resigned from the board for personal reasons and a search for a new director will commence shortly. 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 are elected/appointed for terms of four years but must stand for re-election 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: normally four times in person and the balance by conference call. This year the board met once in person and thereafter by zoom conference call due to the COVID-19 pandemic. The committees of the Board met once in person in conjunction with the in-person Board meeting, and at least three times by zoom 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 2020, the Board met 15 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.

One of the key factors in the success of AIB is our correspondent banking relationships that permits the Bank to do direct clearing of US$ and other currencies. The Board were intimately involved in retaining our correspondent relationship network, the expansion of which was curtailed by the COVID-19 pandemic. However, we look forward to concluding relationships with two additional banks placed on hold due to the pandemic. US$ nostro accounts are maintained with UK, Kazakhstan, Russian, and Uzbekistan banks.

Another key success for 2020 was AIB response to the COVID-19 pandemic. The Bank responded quickly and effectively by modifying work practices, implementing additional safety precautions and preventive measures to ensure the safety of our customers and staff.

Planning and Strategy Committee
This committee reports directly to the Board, is responsible for the development of the Bank's Strategic and Annual Operating Plans, and for monitoring their timely achievement; it reviews business performance on a quarterly basis and escalates any issues identified to the Board for remedial action.

The committee has closely monitored business performance during a very challenging 2020 ensuring that the Bank remains as agile and effective as possible towards achieving its performance targets.

During 2020, this Committee has worked closely with the Risk Committee to mitigate the impact of USD interest rate reduction on income from the bond and placement portfolios.

Major initiatives undertaken during the year include the approval of a comprehensive and balanced set of predictive Key Performance Indicators (KPIs) – these include financial metrics, as well as qualitative targets for controls, process efficiency and service levels. Further refinements for measuring and maximising customer and product profitability are also in progress.

The findings from a positive customer survey conducted during the year have been analysed to improve service levels further. A review is also under consideration to evolve and align AIB's optimal organisation structure, and distribution network for the future.

The Operating Plan for 2021 has been finalised taking into account the business environment expected as a result of the ongoing COVID-19 pandemic, as well as national eco-political developments. The committee will continue to closely monitor business performance to ensure that AIB pursues the optimum path for balanced and sustainable growth in support of the Afghan economy.

Risk Committee
The Risk Committee reports directly to the Board of Directors and its principal responsibility is to ensure a robust framework is in place for effective governance and risk management.

The committee reviews 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 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.

AIB considers effective compliance with global standards for anti-money laundering (AML) and counter-terrorism financing (CTF) a foremost priority -- and continues to make further progress via a close partnership with a leading consulting firm to ensure these standards are firmly embedded in AIB's risk framework.

Ensuring robust cyber-security remains another key priority, and the Bank undertakes regular reviews and further investment to ensure that the Bank's IT architecture, network and systems remain robust and secure against cyber breaches and threats.

Shareholder	Beneficial Shareholder	Type of Company	Incorporated	Board Members	Ownership (%)
International Finance Corporation (IFC)	Not applicable	Global development institution	Washington, District of Columbia	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

Governance Report & AIB Committee
continued

During 2020, the COVID-19 pandemic required AIB to respond quickly and effectively by modifying work practices, implementing additional safety precautions and preventive measures to ensure the safety of our customers and staff.

A challenging risk to mitigate during 2020 was the sharp decline in USD interest rates, and the resulting impact on the income streams from the bond and placement portfolios. The Risk Committee undertook a comprehensive review of these portfolios restructuring these portfolios towards the most optimal mix of issuers/counter parties, credit ratings, maturity tenors, and yields.

The Risk Committee will continue to monitor domestic and international developments to ensure that AIB remains vigilant and prepared to take timely and effective action to manage any emerging risks.

Audit Committee

The Audit Committee (AC) 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, from qualified person, who are not members of the Board of Supervisors subject to the approval of Da Afghanistan Bank (the central bank), Any individual, who is proposed to join the committee, is subject to the same 'fit and proper' requirements as any other member of the Board of Supervisors. The committee at the end of 2020 had two non-Board member and one member of the Board of Supervisors.

The committee is responsible for relationships with the external auditors and meets them on completion of the annual audit and quarterly reviews. On the committees's recommendation, the Board of Supervisors approves the annual audited financial statements and three quarterly reviewed interim financial statements. 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 2020 the committee 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 The committee regularly monitors and assesses the role and effectiveness of the internal audit function.

The committee 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 on major operational issues such as non-performing loans, operational losses, and financial reports of the Bank, at every quarterly meeting.

During 2020, the committee continuously focused on the status of overall internal controls of the Bank and issues relating to money laundering and countering financing of terrorism.

During the year the Charter of Audit Committee amended to be in line with central bank's new regulation on composition of Audit 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 three members, two of whom are independent directors including the Chairperson. The Committee met three times during 2020. Key issues addressed included:

- Reviewed, approved, and monitored senior management goal achievements
- Reviewed and approved 2020 bonus scheme adjustment and approved 2021 bonus pool
- Reviewed and approved the implementation of the mandatory pension scheme for the staff as outlined in the Labor Law
- Reviewed and approved remuneration and contract for the new CEO of the Bank
- Reviewed and approved tri-annual (3 years) review of the staff salaries

Good staff retention and attraction remains the primary goal of the management and the committee. In the uncertain Afghan political and economic environment, the committee believes that they succeeded in this direction.

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.

During 2020 met five times in person and virtually. Further, the Committee interviewed candidates for the board and for management positions. The Committee's major activities were ensuring board level and management succession:

Board Level

- Following the retirement of two independent board members, submitted remaining board members and audit committee members for reappointment at the Annual General Meeting
- Commencing a review of candidates to replace two independent board members who retired. The committee interviewed a number of candidates and subsequently submitted two to Da Afghanistan Bank (DAB) for confirmation, DAB confirmed one candidate and one confirmation is still awaited.
- Complying with DAB's regulation that independent board members should not serve on the Audit Committee, commenced reviewing candidates for the Audit Committee and subsequently submitted two to DAB for confirmation. DAB confirmed one candidate and one confirmation is still awaited.

Management

- In order to ensure the smooth succession of the CEO, the committee recommended the Head of Business development become Deputy CEO and subsequently CEO. DAB approved the Deputy CEO appointment, and the confirmation of CEO was received early in January
- Recommending the appointment of Afghan as Head of Internal Audit, furthering the Bank's goal of Afghanization. DAB has subsequently confirmed this appointment.
- Recommending the appointment of a new Chief Credit Officer pending DAB confirmation.

The committee will continue to spend time on both board and management succession and ensure training and recruitment plans are in place to support Afghanization.

Board of Supervisors

Committee positions are those held as at Dec 31st, 2020

Samuel Sidiqi

Independent Director, Chair of the Board of Supervisors, Chair of Nomination Committee, and member of Remuneration Committee

Mr. Sidiqi joined the Board in 2017 he is currently the Chairman and Co-Founder of Silk Road Mining, the first company to receive a large-scale exploration mining license in Afghanistan. Previously he was CEO of two of the largest real estate companies in the Middle East: Abu Dhabi listed RAK Properties, and Kuwait listed NREC, both with assets of more than USD 1.5 billion. Prior to that Mr. Sidiqi worked for Agility Logistics across the Middle East, North America, Europe and South Asia. He began his career with Bain and Company where he advised Fortune 500 companies on strategy. He received his MBA from Wharton and his MA from the University of Pennsylvania. He has degrees in economics and political science from MIT.

Mansoor Tirmzi

Independent Director, Chair of the Strategy & Planning Committee, and member of the Risk 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 include 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.

Hugo Minderhoud

Independent Director, Chair Of the Remuneration Committee, and Member of the Risk and 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.

Michael Pearce

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

Mr. Pearce joined the board in 2020. He is based in London, UK, where he is the Managing Director of Pearce Hillman Limited, a Financial Institution Advisory and Consulting company. As a Managing Director at Citibank between 2000 and 2019, he worked in various senior finance roles, including Citi Africa Division CFO, and Citi Private Bank EMEA CFO. Whilst at Citibank, he was an executive board member and Audit & Risk Committee Chair for a number of Citibank subsidiaries. Previously he was with NatWest Bank and TSB Bank

He is a fellow member of the Chartered Institute of Management Accountants and holds a Bachelor of Science degree in Chemistry & Business Administration from Kingston University in the UK

Hamidullah A. Mohib

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

Lutfullah Rahmat

Shareholder appointed Member of the Board of Supervisors, Member of the Strategy and Planning, and the Risk Committees

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, that has Star Textile Mills Ltd as its principal member; president of Rahmat Fruit Processing Corporation; and a partner in the sole agents for Samsung Electronics and Appliances in Afghanistan. He graduated with a BCom from Bombay University.

Record of Attendance

Record of attendance of Board meetings

	Call 21 Jan 20	Call 25 Feb 20	Live 07 Mar 20	Call 18 Apr 20	Call 21 Apr 20	Call 12 May 20	Call 24 Jun 20	Call 28 Jul 20	Live 27 Aug 20	Call 29 Sep 20	Call 27 Oct 20	Call 17 Nov 20	Live 24 Nov 20	Call 15 Dec 20	Call 28 Dec 20
Samuel Sidiqi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Hamidullah A. Mohib	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Hugo Minderhoud	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Lutfullah Rahmat	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mansoor Tirmzi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	–	–	✓	✓	✓
Michael Pearce (appoint vacancy 1 Oct)	–	–	–	–	–	–	–	–	–	✓	✓	✓	✓	✓	✓
Ronald Stride (exits 8 Mar)	✓	✓	✓	–	–	–	–	–	–	–	–	–	–	–	–
Aditya Srivastava (exits 7 Mar)	✓	✓	✓	–	–	–	–	–	–	–	–	–	–	–	–

Record of attendance of Committee meetings

Nominating

	(Special) Call 21 Jan '20	Live 06 Mar '20	(Special) Call 26 Jun '20	Live 26 Aug '20	(Zoom) Live 23 Nov '20
Samuel Sidiqi	✓	✓	✓	✓	✓
Hamidullah A. Mohib	✓	✓	✓	✓	✓
Hugo Minderhoud (appoint 27 Oct)	–	–	–	–	✓
Mansoor Tirmzi (exit 27 Oct)	✓	✓	✓	✓	–
Lutfullah Rahmat (exit 27 Jul)	✗	✓	✓	–	–
Ronald Stride (exit 8 Mar)	✓	✓	–	–	–

Remuneration

	Live 06 Mar '20	Live 26 Aug '20	Live 23 Nov '20
Hugo Minderhoud	✓	✓	✓
Hamidullah A. Mohib	✓	✓	✓
Samuel Sidiqi	✓	✓	✓
Ronald Stride (exit 8 Mar)	✓	–	–

Risk

	Live 06 Mar '20	Call 21 Apr '20	Call 06 Jul '20	Live 26 Aug '20	Live 23 Nov '20
Michael Pearce (appoint 27 Oct)	–	–	–	–	✓
Mansoor Tirmzi (appoint 7 Mar)	–	✓	✓	✓	✓
Hugo Minderhoud	✓	✓	✓	✓	✓
Lutfullah Rahmat	✓	✓	✓	✓	✓
Hamidullah A. Mohib (exits 28 Jul)	✓	✓	✓	–	–
Ronald Stride (exit 8 Mar)	✓	–	–	–	–
Aditya Srivastava (exit 7 Mar)	✓	–	–	–	–

Planning & Strategy

	Live 15 Mar '19	Live 28 Jun '19	Live 30 Aug '19
Mansoor Tirmzi	✓	✓	✓
Lutfullah Rahmat	✓	✓	✓
Samuel Sidiqi	✓	✓	✓
Hugo Minderhoud (appoint 7 Mar / exit 27 Oct)	–	✓	–
Ronald Stride (exit 8 Mar)	✓	–	–
Aditya Srivastava (exit 7 Mar)	✓	–	–

Audit

	(Special) Call 15 Feb '20	(Special) Call 24 Feb '20	Live 05 Mar '20	(Special) Call 08 Apr '20	(Special) Call 21 Apr '20	(Special) Call 10 May '20	(Special) Call 09 Aug '20	(Zoom) Live 20 Aug '20	(Special) Call 09 Nov '20	(Zoom) Live 19 Nov '20
Said Arab Khan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Hamidullah A. Mohib	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Hugo Minderhoud	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Organisation & Management Profiles

Board of Supervisors

Remuneration Committee
Risk Committee
Nominating Committee
Planning and Strategy Committee
Audit Committee

Management Board

Chief Executive Officer

Joseph Carasso Junior
Chairman of Management Board
Mr Carasso joined AIB in September 2019 as Head of Business Development, bringing 25 years of experience in the Banking sector. Mr Carasso worked for 22 years in Citibank in many senior positions, including Head of Non-Presence Countries, Financial Institutions and Foreign Correspondent Banking for Africa, CEO for Tanzania, Ghana and Head of Corporate and Investment Bank for Uganda. Mr. Carasso is Brazilian, and holds an undergraduate degree in Business Administration and an MBA in Finance.

Chief Finance Officer

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

Chief Operating Officer

Asadullah Fayzi
Member of Management Board
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. He manages IT,HR, General Services and Operations. Previously he had been IT manager for Afghanistan Reconstruction Company. He was appointed to his current position during 2012. He holds an MSc in Electronics telecommunications from Istanbul Technical University, Turkey.)

Head of Internal Audit

Mahmood Painda
Mr Painda has fourteen years' experience with AIB, from electronic banking, to branch management, retail banking, credit and internal audit. Mr. Painda holds a bachelor's degree in business administration. He is a member of the Institute of Internal Auditors and, the Association of Certified Fraud Examiners and is pursuing CIA certification.

Chief Risk Officer

Zulfiqar Ali Khan
Dr. Khan has over 13 years of experience as a central and commercial banker. He joined AIB in 2014 as Head of Islamic Banking, and also managed banking for small business, trade finance, and commercial banking. Dr. Khan holds a Phd in Islamic finance, and an (MSc) in banking & finance. He is pursuing his Executive (MBA) from the University of Oxford. Dr. Khan also holds many professional certificates and executive education courses certified in Achieving Leadership Excellence from London School of Economics (LSE).

Head of Strategic Planning

Mohammad Taofiq Mir
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. Since 2015, he also leads the Bank's programme to enhance Financial Crime Compliance. Mr Mir holds a BSc in electrical engineering from Delft University of Technology, Netherlands and a Master of International Business Economics and Management from KU Leuven University, Belgium.

Chief Credit Officer

Curtis Faulkner
Mr Faulkner retired with 30 years' experience as a regulator with the Tennessee Department of Financial Institutions. He has since worked as 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.

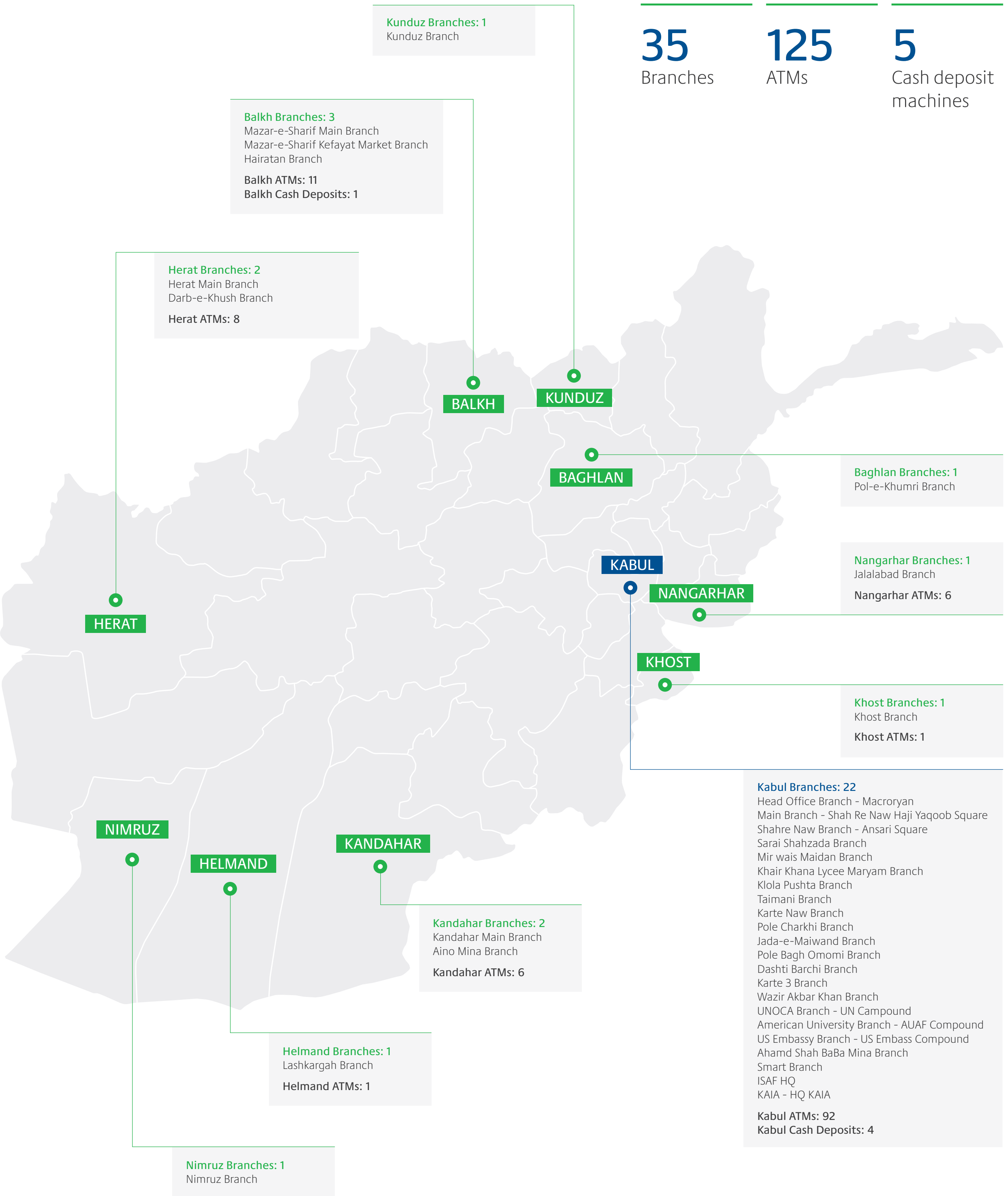
History & Performance of AIB

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.

35 Branches

125 ATMs

5 Cash deposit machines



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 (ADB) Board of Directors approves a US$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 US$500 million. Site of 4,550m^2 purchased for development of new head office, a 12-storey property with total built area of roughly 15,500m^2.

2012
Deposits exceed US$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 5,500m^2 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
The Banker magazine has named AIB 'Bank of the Year, Afghanistan'. 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.

2019
AIB was again awarded 'Best Corporate Governance, Afghanistan' by CFI.co, and named 'Bank of the Year' in Afghanistan by The Banker magazine. AIB receives license to issue and acquire Visa cards for the first time. AIB accelerates its deployment of digital services and mobile banking.

2020
AIB again wins The Banker magazine's 'Bank of the Year, Afghanistan', CFI.co's 'Best Corporate Governance, Afghanistan', and Euromoney's 'Best Bank, Afghanistan'. Following a long career with the Bank including five years as CEO, Anthony Barned steps down, with Joseph Carasso taking over leadership of the organization. Also as announced in last year's Annual Report, Ronald Stride retired as Chairman of the Bank.

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 December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended , and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2020, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank.

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Grant Thornton Afg.

Grant Thornton Afghanistan
Chartered Accountants

Engagement Partner: Saqib Rehman Qureshi – FCA
Location: Kabul, Afghanistan
Date: 24th March 2021

Statement of Financial Position

As at 31 December 2020

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Assets			
Cash and balances with Da Afghanistan Bank	5	12,508,824	13,859,017
Balances with other banks	6	11,958,105	7,237,771
Placements – net	7	17,463,070	15,085,047
Investments – net	8	17,066,968	18,915,749
Loans and advances to customers – net	9	2,670,139	3,417,810
Receivables from financial institutions	10	266,315	502,618
Property and equipment	11	3,583,391	3,450,342
Intangible assets	12	364,322	426,328
Deferred tax assets	13	87,543	-
Other assets	14	636,037	837,820
Total assets		**66,604,714**	**63,732,502**
Liabilities			
Customers' deposits	15	62,211,331	58,843,106
Deposits from bank	16	-	500,000
Deferred income		26,192	77,312
Lease liabilities	17	469,641	265,040
Deferred tax	13	-	34,299
Other liabilities	18	155,857	333,581
Total liabilities		**62,863,021**	**60,053,338**
Equity			
Share capital	19	1,465,071	1,465,071
Capital reserves	20	306,319	290,813
Retained earnings		1,827,911	1,859,291
Revaluation surplus on debt instruments at FVOCI		142,391	63,989
Total equity		**3,741,693**	**3,679,164**
Total liabilities and equity		**66,604,714**	**63,732,502**
Contingencies and commitments	21		

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

Chairman **Chief Executive Officer** **Chief Financial Officer**

Statement of Comprehensive Income
For the year ended 31 December 2020

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Interest income	22	1,031,899	1,383,239
Interest expense	23	(19,402)	(36,968)
Net interest income		**1,012,497**	**1,346,271**
Fee and commission income	24	997,168	1,081,873
Fee and commission expense	25	(7,509)	(15,277)
Net fee and commission income		**989,660**	**1,066,596**
Income from dealing in foreign currencies		319,774	236,756
		2,321,930	**2,649,623**
Other income	26	331,151	46,414
Gain on sale of securities		168,827	105,221
Credit losses expense	27	(620,221)	(120,882)
Finance cost on lease liabilities		(9,479)	(5,351)
General and administrative expenses	28	(2,023,522)	(2,000,948)
Profit before income tax		**168,686**	**674,077**
Income tax asset/ (expense)	29	141,443	(65,909)
Profit for the year		**310,129**	**608,168**
Other comprehensive income			
Items that may be classified to profit or loss subsequently			
Surplus on debt instruments at FVOCI		98,003	188,547
Related tax		(19,601)	(37,709)
Other comprehensive income net of tax		78,402	150,838
Total comprehensive income for the year		**388,531**	**759,006**
Earnings per share - Basic and diluted (AFN)	32	10.34	20.27

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

Chairman **Chief Executive Officer** **Chief Financial Officer**

Statement of Cash Flows
For the year ended 31 December 2020

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Cash Flows from Operating Activities			
Profit before Income Tax		168,686	674,077
Adjustments for:			
Depreciation	11.2	246,586	265,633
Amortization	12	87,201	78,119
Finance cost on lease liabilities	17	9,479	5,351
Exchange (gain) / Loss	17	(4,434)	-
Credit losses (reversal) / expense	27	620,221	120,882
Property and equipment written-off	11	20,562	1,708
		1,148,300	1,145,770
Changes in operating assets and liabilities			
Receivable from financial institutions		236,303	(142,498)
Required reserve maintained with DAB		(141,696)	462,748
Cash margin held with other banks		(26,542)	6,743
Loans and advances to customers - net		75,411	(674,188)
Other assets		201,456	(248,991)
Deferred income on commercial letter of credit and guarantees		(8,679)	(21,315)
Customers' deposits		3,368,225	(8,540,842)
Deposits from banks		(500,000)	500,000
Other liabilities		(177,724)	(292,874)
		4,175,056	(7,805,447)
Income tax paid		19,601	(6,258)
Net cash flow generated from/ (used in) operating activities		4,194,656	(7,811,705)
Cash Flows from Investing Activities			
Acquisition of capital work-in-progress		(123,997)	(429,370)
Acquisition of property and equipment		(6,291)	(715)
Acquisition of intangible assets		-	(9,255)
Placements - net (with maturity more than three months)		(4,975,537)	3,115,177
Investments - net		1,923,420	(293,373)
Net cash flow (used in)/ generated from investing activities		(3,182,405)	2,382,464
Cash Flows from Financing Activities			
Lease liability repaid		(86,070)	(60,769)
Finance cost paid		(9,479)	(8,223)
Dividend paid		(326,000)	(665,000)
Net cash used in financing activities		(421,548)	(733,992)
Net increase in cash and cash equivalents		**590,703**	**(6,163,233)**
Cash and cash equivalents at 1 January		28,374,417	34,537,651
Cash and cash equivalents at 31 December	31	**28,965,120**	**28,374,418**

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

Chairman **Chief Executive Officer** **Chief Financial Officer**

Statement of Changes In Equity
For the year ended 31 December 2020

	Share capital AFN '000'	Revaluation surplus on debt instruments at FVOCI AFN '000'	Capital reserves AFN '000'	Retained earnings AFN '000'	Total AFN '000'
Balance as at 01 January 2019	**1,465,071**	**(86,849)**	**260,405**	**1,946,531**	**3,585,158**
Total comprehensive income					
Profit for the year	-	-	-	608,168	608,168
Other comprehensive income, net of tax:	-	-	-	-	-
Debt instruments at FVOCI	-	-	-	-	-
Net change in fair value	-	188,547	-	-	188,547
Related tax	-	(37,709)	-	-	(37,709)
Total comprehensive income	**-**	**150,838**	**-**	**608,168**	**759,006**
Transferred to capital reserve	-	-	30,408	(30,408)	
Transactions with owners of the bank					
Dividend paid	-	-		(665,000)	(665,000)
Balance as at 31 December 2019	**1,465,071**	**63,989**	**290,813**	**1,859,291**	**3,679,164**
Balance as at 01 January 2020	**1,465,071**	**63,989**	**290,813**	**1,859,291**	**3,679,164**
Total comprehensive income					
Profit for the year	-	-	-	310,129	310,129
Other comprehensive income, net of tax:	-	-	-	-	-
Fair value reserve (debt instruments at FVOCI	-	-	-	-	-
Net change in fair value	-	98,003	-	-	98,003
Related tax	-	(19,601)	-	-	(19,601)
Total comprehensive income	**-**	**78,402**	**-**	**310,129**	**388,531**
Transferred to capital reserve	-	-	15,506	(15,506)	-
Transactions with owners of the bank					
Dividend paid	-	-	–	(326,000)	(326,000)
Balance as at 31 December 2020	**1,465,071**	**142,391**	**306,319**	**1,827,914**	**3,741,695**

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

Chairman **Chief Executive Officer** **Chief Financial Officer**

Notes to the Financial Statements
For the Year Ended 31 December 2020

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 providers in Afghanistan. The Bank has 35 branches and 2 cash outlets (2019: 35 branches and 2 cash outlets) in operation.

2. Basis of preparation and measurement
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board, the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank. Whenever the requirement of the Law of Banking in Afghanistan differs with the requirements of the IFRS, the requirement of the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank takes precedence.

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

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

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

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

Standard or Interpretation
- IFRS 16, "Leases"
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
- Investment in Associates and Joint Ventures – Long-term interests in Associates and Joint Ventures (Amendments to IAS 28)
- Amendments to IFRS 9: Prepayment features with Negative Compensation
- Amendments to IAS 19: Plan Amendment, Curtailment or settlement.

Annual Improvements to IFRS Standards 2015-2017 Cycle
- IFRS 3 Business Combination – Previously held interest in a joint operation.
- IFRS 11 Joint Agreements – previously held interest in a joint operation.
- IAS 12 Income Taxes – Income tax consequences on payments on financial instruments classified as equity
- IAS 23 Borrowing cost – Borrowing cost eligible for capitalization

The above standards and interpretations did not have a material impact on the financial statements.

2.2. Standards, interpretations and amendments to published approved accounting standards that are not yet effective
The following standards, amendments and interpretations with respect to the approved accounting standards would be effective from the dates mentioned there against:

Standard or Interpretation	Effective date (annual periods beginning)
IFRS 10 - Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IFRS 17 – Insurance Contracts	1 January 2021
IAS 1 / IAS 8 – Definition of Material (Amendments)	1 January 2020
Definition of Business – Amendments to IFRS 3	1 January 2020
The Conceptual Framework of Financial Reporting	1 January 2020

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

3. Summary of significant accounting policies
The accounting policies adopted in preparation of this financial statements are consistent with those followed in the preparation of the annual financial statements of the Bank for the year ended 31 December 2019.

3.1. IFRS 16 Leases
IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The adoption of this new Standard has resulted in recognition of a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

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

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

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

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

under IFRS 16 was 1.9% per annum. The Bank has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

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

3.1.1. Leased assets

The Bank as a Lessee

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

a) The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

b) The Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

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

Measurement and recognition of leases as a lessee

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

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

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

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

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

Extension options for leases

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

3.2. Cash and cash equivalents

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

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

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

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.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are

held for trading and derivative instruments or the fair value designation is applied, as explained in Note 3.3.2.6.

3.3.2. Financial assets and liabilities

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

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

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

The details of these conditions are outlined below:

Business model assessment

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

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

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

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

The SPPI test

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

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

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

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

3.3.2.2. Financial assets or financial liabilities held for trading

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

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

3.3.2.3. Debt instruments at FVOCI

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

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

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost as explained in note. The ECL calculation for Debt instruments at FVOCI is explained in Note 33.2.3. 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

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

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

3.3.2.5. Debt issued and other borrowed funds

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

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

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

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; Or
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; Or
- The liabilities containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

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

3.3.3. Reclassification of financial assets and liabilities

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

3.3.4. Impairment of financial assets

3.3.4.1. Overview of the ECL principles

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

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

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

The Bank has established a policy to perform an assessment at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 33.2.2

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

Stage 1	When loans are first recognized, the Bank recognizes an allowance based on 12mECLs.Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3	Loans considered credit-impaired (as noted below). The bank records an allowance for the LTECLs.
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 33.2.2.
EAD	The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in note 33.2.2.
LGD	The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in note 33.2.2.

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

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 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 33.2.2), the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
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 18.2 to the financial statements.

Financial guarantee contracts

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

3.3.4.3. Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon de recognition of the assets.

3.3.4.4. Credit cards and other revolving facilities

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

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

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

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

3.3.4.5. Forward looking information

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

- GDP growth
- Unemployment rates
- Consumer price indices

3.3.5. Impairment provision under local regulations

Loans and advances to customers

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

i) Standard: These are loans and advances, which are paying in a current manner or at most past due for the period of 1-30 days, fully secured and is supported by sound net worth, profitability, liquidity and cash flow of the obligor. Standard assets are sufficiently secured with respect to the repayment of both the principal amount and interest. An overdraft would be regarded as Standard if monthly interest payments and other charges are past due for 1- 30 days, and there was regular activity on the account with no sign of a hard core of debt developing. A standard provision is maintained in the books of account @1% (31 December 2018: 1%) of value of such loans and advances.

ii) Watch: These are loans and advances which are adequately protected, but are potentially weak. Such an asset constitutes an unwarranted credit risk, but not to the point of requiring a classification of Substandard. The credit risk may be minor, and most instances, bank management can correct the noted deficiencies with increased attention. Further, all loans and advances which are past due by 31 to 60 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account not less than 5% of value of such loans and advances.

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

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.

Investments, placements and other assets

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

Off-balance sheet item

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

3.4. Financial liabilities

The Bank classifies its financial liabilities in following categories.

a) Financial liabilities at fair value through profit or loss

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

b) Other financial liabilities measured at amortized cost

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

3.5. Fair value measurement

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

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

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

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:

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 banking system

The core banking system 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.

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.

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

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
As at 31 December 2020	77.10	94.03
As at 31 December 2019	77.46	86.01

3.13. Provisions

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

3.14. Offsetting of financial instruments

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

3.15. Dividend Distribution

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

3.16. Earnings per share

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

3.17. Employee benefits Defined contribution plan

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

Short-term benefits

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

4. Use of critical accounting estimates and judgments

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

a) Impairment losses on financial assets

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

The measurement of impairment losses under IFRS 9across 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

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Cash in hand		2,690,150	2,432,604
Cash in hand – Islamic banking division		271,234	180,747
Cash at Automated Teller Machines (ATMs)		633,057	648,553
		3,594,441	3,261,904
Balances with Da Afghanistan Bank:			
Local currency:			
– Deposit facility accounts	5.1	374,657	1,107,189
– Required reserve accounts	5.2	637,031	588,501
– Current accounts		922,316	496,894
		1,934,004	2,192,584
Foreign currency:			
– Required reserve accounts	5.2	5,430,956	5,337,790
– Current accounts		1,549,423	3,066,739
		6,980,379	8,404,529
		12,508,824	**13,859,017**

5.1. This represents interest bearing account carrying interest @ 0.10% (31 December, 2019: 0.10%) per annum.

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

6. Balances with other banks

	Notes	31 December, 2020 AFN '000'	31 December, 2019 (Audited) AFN '000'
With Crown Agents Bank:			
– in nostro accounts		7,422,008	2,893,292
With other banks	6.1	4,536,096	4,344,479
		11,958,104	**7,237,771**

6.1. These represent non–interesting bearing balances available on demand basis.

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

7. Placements – net

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Placements with banks	7.1	17,470,395	15,106,058
Impairment allowances for losses	7.2	(7,325)	(21,011)
		17,463,070	**15,085,047**

7.1. These represent USD and Euro denominated fixed term placements with financial institutions outside Afghanistan up to a maximum period of one year (2019: one year) and carry interest at rates ranging from 0.15% to 1.80% (31 December, 2019: 1.40% to 3.50%) per annum.

7.2. 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 2020 and 2019, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 33.2.2.

	31 December, 2020				31 December, 2019
	Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Total AFN '000'	AFN '000'
Rating					
Performing					
Investment Grade	17,470,395	-		**17,470,395**	14,584,590
Non-Investment Grade	-	-		**-**	521,468
Total	**17,470,395**	**-**	**-**	**17,470,395**	15,106,058
Provision for expected					
credit losses	(982)	-	-	**(982)**	(1,055)
Provision for impairment losses					
as per ACPR – (note 7.2.2)	(6,342)	-	-	**(6,343)**	(19,956)
Total	**(7,325)**	**-**	**-**	**(7,325)**	**(21,011)**
Net balance	**17,463,070**	**-**	**-**	**17,463,070**	**15,085,047**

7.3. The provision for expected credit losses on placements as per IFRS 9 amounted to AFN 982 thousands (31 December, 2019: AFN 1,055 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

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Debt instruments at fair value through OCI:			
– Investment bonds	8.1	9,331,990	7,837,520
Debt instruments at amortised cost:			
– Capital notes with DAB	8.2	1,784,443	742,372
– Treasury bills	8.3	-	934,684
– Investment bonds	8.4	5,968,764	9,415,638
		7,753,207	11,092,694
		17,085,197	18,930,214
Allowance for ECL / impairment losses	8.5	(18,228)	(14,465)
		17,066,969	**18,915,749**

8.1. These represent investments in sovereign bonds having maturity ranging from January 2021 to July 2030 (31 December, 2019: January 2020 to April 2026) and carrying interest rates ranging from 0.13% to 8.75% (31 December, 2019: 2.38% to 8.75%) per annum. These investments are managed by Julius Baer, Credit Suisse and Emirates NBD on behalf of the Bank.

8.2. These represent investments in Capital notes issued by DAB having maturity ranging upto October 2021 (31 December, 2019: February 2020 to November 2020) carrying yield ranging from 0.85% to 3.00% (31 December, 2019: 0.93% to 2.20%) per annum receivable on maturity of respective notes.

8.3. This represents investment in United States of America - Treasury bills which matured in January 2020, carried yield of 1.53% (31 December, 2019: 1.53%) per annum receivable on maturity.

8.4. These represent investments in sovereign bonds carrying interest rates ranging from 1.25% to 6.88% (31 December, 2019: 1.25% to 7.75%) per annum. These investments have maturity ranging from January 2021 to April 2025 (31 December, 2019: January 2020 to August 2025). These investments are managed by Julius Baer, Credit Suisse and Emirates NBD on behalf of the Bank.

8.5. Impairment allowance for investments

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 2020 and 2019, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 32.2.2.

	31 December, 2020				31 December, 2019
	Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Total AFN '000'	AFN '000'
Rating					
Performing					
Investment Grade	13,327,485	1,443,768	-	14,771,253	18,022,260
Non-Investment Grade	1,982,348	189,204	-	2,171,552	817,373
Total	**15,309,833**	**1,632,971**	**-**	**16,942,805**	**18,839,633**
Provision for expected credit losses	(14,169)	(4,059)	-	(18,228)	(9,813)
Provision for impairment losses as per ACPR – (note 8.5.2)	–	–	-	(0)	(4,652)
Total	(14,169)	**(4,059)**	**-**	**(18,228)**	**(14,465)**
Mark to market adjustment on debt instruments at fair value through OCI	142,391	-	-	142,391	90,581
Net balance	**15,438,056**	**1,628,913**	**-**	**17,066,968**	**18,915,749**

The provision for expected credit losses on investments as per IFRS 9 amount to AFN 18,228 thousands (31 December, 2019: AFN 9,813 thousands) which is higher than the Asset Classification and Provisioning Regulation (ACPR). Accordingly, the Bank has maintained higher provision as required as per IFRS 9.

9. Loan and advances to customers – net

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Overdrafts	9.1	2,283,417	3,208,365
Term loans	9.2	1,189,781	531,421
Consumer loans	9.3	40,588	51,546
		3,513,786	3,791,332
General provision	9.4	(154,200)	(154,920)
Allowance for ECL / impairment losses	9.5	(689,447)	(218,602)
		2,670,139	**3,417,810**
Particulars of loans and advances – (gross)			
Short term (for up to one year)		1,190,499	3,318,947
Non-current (for over one year)		2,323,287	472,500
		3,513,786	**3,791,447**

Notes to the Financial Statements continued
For the Year Ended 31 December 2020

9.1. These represent balances due from customers at various interest rates ranging from 7.00% to 14.50% p.a. (31 December, 2019: 7.00% to 15.00%) per annum and are secured against mortgage of properties, personal guarantees and pledge of stocks. These include loans and advances to Small Medium Size Enterprises (SMEs) amounting to AFN 2,283 (31 December, 2019: AFN 71,884 thousand) which are also partially backed by Afghanistan Credit Guarantee Foundation (ACGF) guarantees to the extent defined in agreement with ACGF.

9.2. Term loans carry interest at various rates ranging from 5.50% to 18.00% p.a. (31 December, 2019: 5.50% to 21.00% p.a.) and are secured against mortgage of properties, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. These include loans and advances to SMEs amounting to AFN 210,862 thousands (31 December, 2019: AFN 228,333 thousand) which are also partially backed by Afghanistan Credit Guarantee Foundation (ACGF) guarantees to the extent defined in agreement with ACGF.

Term loans included Small Business loans amounted to AFN 32,819 thousands as of 31 December 2018 with interest rate ranging from 13% to 18% p.a. These loans were secured against deposit of original title deed, corporate guarantee by a registered company and hypothecation of movable fixed assets as collateral after registration from DAB.

9.3. These include payroll loans provided to individual payroll account holders and employees of corporate customers having payroll account with the Bank carrying interest rate of 13% to 18% (31 December, 2019: 18%) p.a., loans provided to university and school teachers carrying interest rate of 13% to 15% (31 December, 2019: 15%) and credit card loans carrying interest of 36% (31 December, 2019: 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

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 2020 and 2019, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 32.2.2.

	31 December, 2020				31 December, 2019
	Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Total AFN '000'	AFN '000'
Gross loan portfolio					
Internal Rating Grade Performing					
High Grade	171,349	3,847	–	175,196	640,393
Standard Grade	2,055,529	262,910	-	2,318,438	2,808,486
Sub Standard Grade	13,222	16,297	-	29,519	14,739
Non-performing	-	-	990,633	990,633	327,714
Total	2,240,100	283,054	990,633	3,513,786	3,791,332
Allowance for ECL / impairment losses					
Opening balance	10,836	28,745	179,021	218,602	68,908
Allowances for impairment made during the year	34,253	(9,191)	697,752	722,814	146,424
Amounts written off during the year	-	-	(236,892)	(236,892)	(12,374)
Exchange rate differences and other adjustments	–	–	–	(15,077)	15,644
Provision held for expected credit losses	45,089	19,554	639,881	689,447	218,602
Net balance	**2,195,010**	**263,499**	**350,752**	**2,824,339**	**3,572,730**

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

IFRS 9 expected credit loss amounts to AFN 680,428 thousands as at 31 December 2020. The provision of AFN 689,447 thousand (General provision: AFN 24,859 and Specific provision: AFN 675,665 thousands) (31 December, 2019: provision of AFN 218,602 comprising of General provision of AFN 21,061 and Specific provision of AFN 197,541 thousands) made under Assets Classification and Provisioning Regulation (ACPR) is higher than IFRS 9 ECL, therefore, the Bank has maintained the higher provision under the requirements of ACPR.

10. Receivable from financial institutions

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

11. Property and equipment

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Capital work-in-progress	11.1	48,078	339,623
Property and equipment	11.2	3,535,313	3,110,719
		3,583,391	**3,450,342**

11.1. Capital work-in-progress

Advances to suppliers and contractors	48,078	85,570
Advances to related party	-	254,053
	48,078	339,623

Movement in capital work in progress

Opening	339,623	79,949
Additions during the year	123,997	429,370
Transferred to operating fixed assets	(372,523)	(69,042)
Transferred to intangible assets	(25,195)	(100,654)
Adjustments/write-offs	(17,824)	-
Closing	48,078	339,623

Notes to the Financial Statements continued
For the Year Ended 31 December 2020

11.2. Property and equipment

	Land AFN '000'	Building AFN '000'	Leased buildings – Right of Use Assets AFN '000'	Leasehold improvements AFN '000'	Computers AFN '000'	Office equipment AFN '000'	Furniture & fittings AFN '000'	ATMs AFN '000'	Vehicles AFN '000'	Total AFN '000'
Cost										
Balance at 1 January 2019	177,568	2,568,578	-	98,350	173,184	192,911	68,994	200,915	97,733	3,578,233
Adjustment on transition to IFRS 16	-	-	329,926	-	-	-	-	-	-	329,926
Transfers from CWIP	-	1,416	-	8,122	31,408	17,945	1,466	8,685	-	69,042
Additions	-	-	-	-	-	-	-	-	715	715
Adjustments/ written-off	-	-	(1,245)	(9,972)	-	-	-	-	-	(11,217)
Balance at 31 December 2019	177,568	2,569,994	328,681	96,500	204,592	210,856	70,460	209,600	98,448	3,966,699
Balance at 1 January 2020	177,568	2,569,994	328,681	96,500	204,592	210,856	70,460	209,600	98,448	3,966,699
Transfers from CWIP	-	266,762	-	-	40,488	27,928	7,229	28,766	1,351	372,523
Additions	-	-	306,076	688	2,290	2,909	404	-	-	312,367
Derecognized	-	-	(10,972)	-	-	-	-	-	-	(10,972)
Adjustments/ written-off	-	-	-	(46,473)	(33,259)	(58,889)	(10,098)	(4,771)	(446)	(153,936)
Balance at 31 December 2020	177,568	2,836,756	623,786	50,715	214,111	182,804	67,995	233,595	99,352	4,486,681
Depreciation										
Balance at 1 January 2019	-	10,908	-	82,633	98,237	187,573	18,692	110,152	90,416	598,611
Charge for the year	-	128,580	63,916	6,698	35,476	7,151	2,702	17,088	4,022	265,633
Adjustments/ written-off	-	-	-	(8,264)	-	-	-	-	-	(8,264)
Balance at 31 December 2019	-	139,488	63,916	81,067	133,713	194,724	21,394	127,240	94,438	855,980
Balance at 1 January 2020	-	139,488	63,916	81,067	133,713	194,724	21,394	127,240	94,438	855,980
Charge for the year	-	129,307	70,644	9,863	12,595	5,857	2,057	16,225	37	246,586
Adjustments/ written-off	-	-	-	(58,432)	(34,851)	(54,901)	(2,071)	1,229	(2,172)	(151,198)
Balance at 31 December 2020	-	268,795	134,560	32,497	111,457	145,680	21,380	144,694	92,303	951,368
Carrying amounts										
Balance at 1 January 2019	177,568	2,557,670	-	15,717	74,947	5,338	50,302	90,763	7,317	2,979,622
Balance at 31 December 2019	177,568	2,430,506	264,765	15,433	70,879	16,132	49,066	82,360	4,010	3,110,719
Balance at 31 December 2020	**177,568**	**2,567,961**	**489,225**	**18,217**	**102,653**	**37,124**	**46,615**	**88,900**	**7,049**	**3,535,313**
Useful life		20 years	1 to 8 years	3 to 10 years	3 to 5 years	3 to 5 years	3 to 10 years	5 years	5 years	

12. Intangible assets

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Computer software, licenses and core banking system	12.1	**364,322**	**426,328**

12.1. Computer software, licenses and core banking system

	Computer software AFN '000'	License fee AFN '000'	Core Banking System AFN '000'	Total AFN '000'
Cost				
Balance at 01 January 2019	358,851	73,231	542,677	974,759
Transfers from CWIP	100,654	–	–	100,654
Additions	9,255	–	–	9,255
Balance at 31 December 2019	**468,760**	**73,231**	**542,677**	**1,084,668**
Balance at 01 January 2020	468,760	73,231	542,677	1,084,668
Transfers from CWIP	7,662	17,533	–	25,195
Additions	–	–	–	–
Balance at 31 December 2020	**476,422**	**90,764**	**542,677**	**1,109,863**
Amortization				
Balance at 01 January 2019	285,005	64,430	230,786	580,221
Charge for the year	36,128	7,336	34,655	78,119
Balance at 31 December 2019	321,133	71,766	265,441	658,340
Balance at 01 January 2020	321,133	71,766	265,441	658,340
Charge for the year	35,385	15,619	36,197	87,201
Balance at 31 December 2020	**356,518**	**87,385**	**301,638**	**745,541**
Carrying amounts				
Balance at 01 January 2019	73,846	8,801	311,891	394,538
Balance at 31 December 2019	147,627	1,465	277,236	426,328
Balance at 31 December 2020	**119,904**	**3,380**	**241,039**	**364,323**
Useful life	3 to 10 years	3 to 10 years	15 years	

13. Deferred tax

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Deferred tax assets / (liabilities) arising in respect of:			
Provision on investments, placements, loans and advances and other assets		5,177	7,096
Provision on guarantees and commercial letter of credits		5,888	14,376
Surplus on revaluation of investments		(36,711)	(17,110)
Carry forward taxable losses		414,339	189,383
Accelerated tax depreciation and amortization		(301,150)	(228,044)
	13.1	**87,543**	**(34,299)**

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

13.1. Movement in temporary differences during the year

	Balance as at 01 January 2019 AFN '000'	Recognized in profit or loss AFN '000'	Recognized in equity AFN '000'	Balance as at 31 December 2019 AFN '000'	Recognized in profit or loss AFN '000'	Recognized in equity AFN '000'	Balance as at 31 December 2020 AFN '000'
Deferred tax assets arising in respect of:							
Provision on investments placements and other assets	40,757	(33,661)	–	7,096	(1,919)	–	**5,177**
Provision on guarantees and commercial letter of credits	15,047	(671)	–	14,376	(8,488)	–	**5,888**
Carry forward taxable losses	139,597	49,786	–	189,383	224,956	–	**414,339**
	195,401	15,454	–	210,855	214,549	–	**425,404**
Deferred tax liabilities arising in respect of:							
Revaluation reserve on investments	20,599	–	(37,709)	(17,110)	–	(19,601)	**(36,711)**
Accelerated tax depreciation and amortization	(120,896)	(107,148)	–	(228,044)	(73,106)	–	**(301,150)**
	(100,297)	(107,148)	(37,709)	(245,154)	(73,106)	(19,601)	**(337,861)**
	95,104	**(91,694)**	**(37,709)**	**(34,299)**	**141,443**	**(19,601)**	**87,543**

14. Other assets

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Advances to employees		62,380	49,561
Security deposits		9,494	8,821
Prepayments		262,115	206,222
Interest receivable		208,024	346,563
Advance income tax – net		21,014	30,050
Other receivable and advances		73,341	196,609
Receivable from DoJ	14.1	–	250,605
Less: Balance written off		–	(250,605)
		–	–
		636,368	837,826
Allowance for ECL / impairment losses	14.2	(332)	(6)
		636,036	**837,820**

14.1. Receivable from DoJ

This represents receivables from the United States Government department, Department of Justice (the "DoJ"). 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 amounting to AFN 565.701 million (equivalent to USD 10.1 million) from the Bank's correspondent account in the United States, however, the United States has not alleged any wrongdoing against the Bank. In September 2013, the United States returned to the Bank approximately USD 5.770 million, plus accrued interest, of the seized funds. In September 2015, the court ruled that AIB lacked standing to claim the funds amounting to USD 147,938.59 of the remaining USD 4.330 million. During the year, upon notice of the voluntary dismissal by the United States in April 2020, the remaining seized funds amounting to USD 4.182 million plus accrued interest have been returned to the Bank.

14.2. This represents provision maintained on advances to staff as per Asset Classification and Provisioning Regulation issued by DAB (31 December 2019: provision for expected credit losses on advances to staff).

15. Customers' deposits

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Current deposits		59,380,041	56,415,963
Saving deposits	15.1	249,460	244,037
Term deposits		–	–
Islamic deposits	15.2	1,771,814	1,335,001
Cash margin held against bank guarantees and letters of credit		810,016	848,105
		62,211,331	**58,843,106**

15.1. Saving deposits carry interest @ 3% p.a. (31 December, 2019: 3% p.a.)

15.2. Islamic deposits can be further analyzed as follows:

Current deposits	223,103	144,910
Saving deposits	1,523,139	1,146,234
Term deposits	25,572	43,855
	1,771,814	**1,334,999**

16. Deposits from bank

Represents term deposit of AFN Nil (31 December 2019: AFN 500,000 thousands) from Pashtany Bank that carries interest of 1.87 % per annum and maturing on 8 June 2020.

17. Lease liabilities

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Opening balance		265,040	317,856
Additions during the year		306,076	–
Derecognized during the year		(10,972)	(1,113)
Lease rentals paid		(95,549)	(68,992)
Finance cost for the year		9,479	5,351
Exchange (gain) / loss		(4,434)	11,938
	17.1	**469,641**	**265,040**

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

18. Other liabilities

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Accruals and other payables		12,671	12,148
Amounts pending transfers to customers' accounts	18.1	50,324	46,222
Retention money payable		979	14,927
Payable from sale of collateral against loans and advances written off		4,028	64,924
Others		58,415	123,479
Provision on			
Financial guarantees	18.2	28,753	71,582
Commercial letter of credits	18.2	687	299
		29,440	71,881
		155,857	**333,581**

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

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

18.2. This represents 1% provision on unsecured portion of bank guarantees, not backed by cash margin, as required in Asset Classification and Provisioning Regulation issued by DAB, however, IFRS 9 provision for expected credit loss computed on unfunded financing facilities amounts to AFN 29,440 thousand (31 December, 2019: AFN 47,074 thousand). The provision under regulations issued by DAB is lower than IFRS 9 ECL, therefore, the Bank has maintained the IFRS 9 ECL provision.

19. Share capital

		31 December, 2020	31 December, 2019
Authorized 30,000,000 (2019: 30,000,000) ordinary shares	AFN '000'	1,465,071	1,465,071
Issued, subscribed and paid-up - 30,000,000 (31 December 2019: 30,000,000)	AFN '000'	1,465,071	1,465,071

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

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

19.3. During the year, the Bank has paid cash dividend of AFN 10.87 per share (31 December, 2019: AFN 22.17 per share) amounting to AFN 326 million (31 December, 2019: AFN 665 million).

20. Capital reserves

Article 93 Reserve Capital of Corporations and Limited Liability Companies Law of Afghanistan, requires that Bank should transfer 5% of its profit to Capital Reserve to compensate for future possible losses to the extent such capital reserves reach up to 25% of the Bank's capital. The Bank's capital reserves as at 31 December, 2020 stood at AFN 306,319 thousands (31 December, 2019: AFN 290,813 thousands

21. Contingencies and commitments

Contingencies

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Financial guarantees	21.1.1	**7,158,183**	7,946,230

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

21.2. The Bank is also facing certain litigations on which no provision is required as per the opinion of legal advisor.

Commitments

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
(a) Undrawn loan and overdraft facilities		1,071,813	524,394
(b) Commercial letters of credit		662,409	48,537
		1,734,222	**572,931**

22. Interest income

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Balances with DAB and other banks		16,118	25,801
Placements		217,490	494,077
Debt instruments at FVOCI		261,831	200,179
Debt instruments at amortized cost		211,330	283,565
Loans and advances to customers		325,129	379,617
		1,031,898	**1,383,239**

23. Interest expense

Customers' deposits		15,246	33,261
Deposits from bank		4,156	3,707
		19,402	**36,968**

24. Fee and commission income

Loans and advances to customers		45,498	41,398
Trade finance products		37,375	51,254
Cash withdrawals / Cash transfers		494,465	512,184
Customers' account service charges		104,101	131,403
Income from ATMs		93,043	97,798
Income from guarantee arrangements		120,473	138,154
Payroll services		72,809	75,509
Others		29,404	34,173
		997,168	**1,081,873**

25. Fee and commission expense

Guarantee / letter of credit commission		5,828	13,078
Bank charges		1,680	2,199
		7,508	**15,277**

26. Other income

Loans and advances recovered previously written off		5,702	46,414
Amounts received from DoJ	14.1	322,166	-
Others		3,282	-
		331,151	**46,414**

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

27. Credit losses (reversal) / expense

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

	Note	31 December, 2020 Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Regulatory AFN '000'	Total AFN '000'	31 December, 2019 AFN '000'
Placements	7.2	748	(821)	-	(13,614)	(13,687)	(9,932)
Investments	8.5	14,523	3,695	-	(14,455)	3,763	(10,124)
Loans and advances	9.5	34,253	(9,191)	460,860	187,058	672,980	149,694
General Provision	9.4	-	-	-	(720)	(720)	4,300
Other assets	14.2	-	-	-	326	326	(9,703)
Financial guarantees	18.2	-	-	-	(42,829)	(42,829)	(3,652)
Letter of credit	18.2	-	-	-	388	388	299
Total (reversal) on impairment / loss for the year		**49,525**	**(6,317)**	**460,860**	**116,155**	**620,221**	**120,882**

28. General and administrative expenses

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Salaries and benefits		624,958	613,301
Rental, rates and taxes	28.1	30,352	34,540
Electricity, generator and fuel		72,396	89,743
Repairs and maintenance		16,126	20,766
Information technology cost		148,756	94,374
Security cost		124,351	122,368
Depreciation	11.2	246,586	265,633
Amortization	12.1	87,201	78,119
Directors fee and their meeting expenses		27,101	39,588
Travelling and accommodation		36,926	61,105
Communication, swift and internet		58,505	56,241
Stationery and printing		34,302	53,768
Legal and professional charges		77,889	94,971
Asset management fee to investment advisors		67,643	54,662
Auditors' remuneration		14,553	10,093
Marketing and promotion		11,984	28,305
Money service providers charges		2,444	4,174
Insurance		173,658	155,302
Subscriptions and memberships		7,148	9,126
Other charges		115,981	82,401
Taxes and penalties		620	4,028
Corporate social responsibility		12,116	7,148
Corona virus costs		12,926	-
Others		19,001	21,192
		2,023,522	**2,000,948**

28.1. This includes AFN 16,500 thousands (31 December, 2019: AFN 19,541 thousands) on account of short term lease (less than 12 months) which have not been accounted for in the lease model of IFRS 16 and recognized in expense on straight line basis.

29. Taxation

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Current:			
For the year	29.1	–	–
Prior periods		–	(25,785)
Deferred:			
For the year		(141,443)	91,694
		(141,443)	**65,909**

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

29.2. Relationship between tax expense and accounting profit

Accounting profit for the year	168,686	674,077
Tax at the applicable rate of 20%	33,737	134,816
Deductible expenses	(140,937)	(135,648)
Non-deductible expenses	167	832
Effect of temporary differences	71,421	21,354
Effect of carry forward taxable losses	177,055	70,340
Adjustment in respect of income tax of prior years	–	(25,785)
	141,443	**65,909**

30. Related party transactions

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

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	31 December, 2020 AFN '000	31 December, 2019 AFN '000	31 December, 2020 AFN '000	31 December, 2019 AFN '000
(a) Loans and advances to related parties				
Loans outstanding at the beginning of the year	1,908	-	174,781	174,011
Loans issued during the year	1,540	1,908	167,338	169,316
Loans repayments during the year	(770)	-	(169,184)	(168,354)
Exchange gain	-	-	-	(193)
Loans outstanding at the end of the year	2,678	1,908	172,934	174,781
Interest income earned	**964**	**57**	**11,918**	**11,544**

During the year, an amount of AFN 112,825 thousand (31 December, 2019: AFN 254,053 thousand) was paid to Mohib Advance Design Construction Company (MADCC) (related party) against certain construction and other works remaining after completion of head office and renovation work at Mazar branch.

Provision for expected credit losses on outstanding balances of loans and advances to related parties amounts to AFN 8,647 thousand (31 December 2019: AFN 1,748 thousand).

The facilities provided to related parties carry mark-up of 7% p.a. (31 December, 2019: 7% p.a.) payable on monthly basis and are secured against mortgage of property and personal guarantees of directors and representative of shareholders of the Bank.

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	31 December, 2020 AFN '000	31 December, 2019 AFN '000	31 December, 2020 AFN '000	31 December, 2019 AFN '000
(b) Deposits from related parties				
Deposits at the beginning of the year	57,309	19,061	67,414	53,472
Deposits received during the year	338,400	440,748	2,764,480	4,203,122
Deposits repaid during the year	(338,694)	(402,726)	(2,767,738)	(4,190,581)
Exchange rate difference	(274)	226	319	1,401
Deposits at the end of the year	56,741	57,309	64,474	67,414
Interest expense on deposits	**–**	**–**	**–**	**–**

These represent current account of related parties, which do not carry interest (31 December 2019: Nil).

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	31 December, 2020 AFN '000	31 December, 2019 AFN '000	31 December, 2020 AFN '000	31 December, 2019 AFN '000
(c) Other related party transactions				
Fee and commission income	–	–	5,962	6,017
Directors' fee	20,615	30,038	–	–
Rental expenses	–	–	24,939	54,301
Travelling expense	6,486	9,550	–	–

	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
(d) Key Management compensation		
Salaries and other short-term benefits	74,911	63,545
	74,911	**63,545**

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

31. Cash and cash equivalents

	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Cash in hand and at ATM	3,594,441	3,261,904
Balances with DAB (other than minimum reserve requirement)	2,846,397	4,670,822
Balances with other banks (other than held as a cash margin)	11,912,973	7,219,181
Placements (with maturity less than three months)	10,611,310	13,222,511
	28,965,121	**28,374,418**

32. Earnings per share – Basic and diluted

Profit after taxation (AFN '000)	310,129	608,168
Weighted average number of ordinary shares – (number in thousand)	30,000	30,000
Earnings per share – Basic and diluted (AFN)	**10.34**	**20.27**

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

33. Financial risk management

33.1. Financial Assets and Liabilities

31 December, 2020	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
Financial assets					
Cash and balances with					
Da Afghanistan Bank	12,508,824	-	-	-	12,508,824
Balances with other banks	11,958,104	-	-	-	11,958,104
Placements – net	-	17,463,070	-	-	17,463,070
Investments – net	-	7,734,979	9,331,990	-	17,066,969
Loans and advances to customers – net	2,670,139	-	-	-	2,670,139
Receivables from financial institutions	266,315	-	-	-	266,315
Other assets	-	290,527	-	-	290,527
	27,403,383	**25,488,577**	**9,331,990**	**-**	**62,223,949**
Financial liabilities					
Customers' deposits	-	-	-	62,211,331	62,211,331
Lease liabilities	-	-	-	469,641	469,641
Other liabilities	-	-	-	126,417	126,417
	-	**-**	**-**	**62,807,389**	**62,807,389**

31 December, 2019	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
Financial assets					
Cash and balances with					
Da Afghanistan Bank	13,859,017	-	-	-	13,859,017
Balances with other banks	7,237,771	-	-	-	7,237,771
Placements - net	-	15,085,047	-	-	15,085,047
Investments - net	-	11,078,229	7,837,520	-	18,915,749
Loans and advances to customers - net	3,417,810	-	-	-	3,417,810
Receivables from financial institutions	502,618	-	-	-	502,618
Other assets	-	551,987	-	-	551,987
	25,017,216	**26,715,263**	**7,837,520**	**-**	**59,569,999**
Financial liabilities					
Customers' deposits	-	-	-	58,843,106	58,843,106
Deposit from banks	-	-	-	500,000	500,000
Lease liabilities	-	-	-	265,040	265,040
Other liabilities	-	-	-	261,700	261,700
	-	**-**	**-**	**59,869,846**	**59,869,846**

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

33.2. Financial Risk factors

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

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

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

33.2.1. Credit Risk

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

33.2.2. Credit risk

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 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 12m ECL. 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 Loss Given Default (LGD) rates and these LGD rates take into account the EAD for historical pool of non-performing loans in comparison to the amount recovered or realized against such loans. In determine LGDs, the Bank considers all eligible collateral provided the collateral can be legally enforced. Due to the complexities involved in the Afghanistan regarding collateral realization and lack of historical experience to demonstrate recoveries through realization of collaterals, the Bank restricts the expected recoveries (to be considered in LGD computations) based on its historical recovery experiences.

Significant increase in credit risk

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

Measuring expected credit losses - ECL

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

Forward looking economic information is also included in determining the 12 month and lifetime ECL. The bank has performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Expert judgement 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 judgement. 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) Over due balances on loans to customers are segmented into four categories as described in note 4.4(b). The percentage of provision created on such over due balances are as per guidelines issued by DAB and reflects the range of default probabilities defined for each category. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

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

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

(b) Other than loans and advances

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

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

33.2.3. Risk limit control and mitigation policies

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

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

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

- Mortgages over residential 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.

Notes to the Financial Statements continued
For the Year Ended 31 December 2020

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

	Maximum exposure	
	2020 AFN '000	2019 AFN '000
Credit risk exposures relating to on-balance sheet items are as follows:		
Balances with other banks	11,958,104	7,237,771
Placements - net	17,463,070	15,085,047
Investments - net (excluding capital notes with DAB)	15,282,525	18,173,377
Loans and advances to customers - net	2,670,139	3,417,810
Receivable from other financial institutions	266,315	502,618
Other assets	290,527	551,987
	47,930,682	**44,968,610**

	Maximum exposure	
	2020 AFN '000	2019 AFN '000
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	7,158,183	7,946,230
Undrawn loan and overdraft facilities	1,071,813	524,394
Commercial letters of credit	662,409	48,537
	8,892,405	**8,519,161**

The above table represents credit risk exposure to the Bank at 31 December 2020 and 31 December 2019, taking account of any collateral held or other enhancements attached. For on-balance-sheet assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

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

	31 December, 2020	31 December, 2019
Balances with other banks	24.95%	16.10%
Placements - net	36.43%	33.55%
Investments - net (excluding capital notes with DAB)	31.88%	40.41%
Loans and advances to customers - net	5.57%	7.60%

33.2.5. Credit quality of financial assets

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

Balances with other banks/FIs	Credit rating	Credit rating agency	31 December, 2020 AFN '000	31 December, 2019 AFN '000
Counter parties with external credit ratings:				
Standard Chartered Bank	A1	Moody's	-	-
Commerzbank Germany	A1	Moody's	392,873	95,660
Crown agents	BBB	Fitch	7,422,009	2,893,291
Emirates NBD	A3	Moody's	309,953	628,562
AkBank, Turkey	B3	Moody's	134,614	89,998
State commercial bank of Turkmenistan	Baa1	Moody's	218,271	961,094
Julius Baer International	Aa2	Moody's	1,371,970	56,308
Asaka Bank	B3	Moody's	214,845	746,858
Credit Suisse Singapore	A1	Moody's	22,331	41,294
Bank Centre Credit	Caa1	Moody's	409,237	793,486
Yes Bank, India	B2	Moody's	10	6,555
Transkapitalbank	B3	Moody's	780,045	910,801
Others			941	13,863

Placements	Credit rating	Credit rating agency	31 December, 2020 AFN '000	31 December, 2019 AFN '000
Bank of Baroda Dubai	Baa3	Moody's	-	774,600
Commercial Bank International	A3	Moody's	-	795,019
Commercial Bank of Dubai PSC	A-	Moody's	231,300	-
Dubai Islamic Bank	A3	Moody's	1,244,625	-
CSC Bank SAL	Ba3	Moody's	-	521,468
Emirates NBD	A3	Moody's	3,777,900	2,868,279
National Bank of Fujairah	Baa1	Moody's	1,927,500	-
Julius Baer	Aa2	Moody's	2,621,400	1,962,449
United Arab Bank	Baa1	Moody's	-	795,019
Crown Agents Bank	BBB	Fitch	3,846,987	794,650
Citibank	A3	Moody's	2,355,783	3,993,303
Noor Bank	A3	Moody's	-	1,031,651
Ajman Bank	BBB+	Fitch	308,400	795,020
National Bank Of Ras Al Khaimah	A3	Moody's	1,156,500	774,600

Investments held carries various credit rating including AAA, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3, Ba1, Ba2, Ba3, B1, B2 and B3. These investments are managed by the bank through Emirates NBD, Julius Baer and Credit Suisse under investment criteria defined by the Bank. The credit quality and the maximum exposure to credit risk for under expected credit losses model is based on the Bank's credit rating grades and year-end stage classification as at 31 December 2020 and 2019 as disclosed in note 8.5.1 to the financial statements.

Loans and advances to customers- net	**2,670,139**	**3,417,810**

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 2020 and 2019 are disclosed in note 9.5.1 to the financial statements.

Receivables from financial institutions		
Counter parties	**266,315**	**502,618**

Other assets		
Counter parties	**290,527**	**551,987**

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

33.2.6. Loans and advances – net

	Notes	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Loans and advances are summarized as follows:			
Neither past due nor impaired		1,722,505	2,110,969
Past due but not impaired		800,392	1,352,649
Non-performing- Stage 3		990,889	327,714
Gross outstanding		3,513,786	3,791,332
Less: Allowance for impairment			
General provision	9.4	(154,200)	(154,920)
Provision held for expected credit losses	9.5	(689,447)	(218,602)
		(843,647)	(373,522)
		2,670,139	**3,417,810**

(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, 2020					
Regular loans	608,597	85,216	988,502	40,190	1,722,505
31 December, 2019					
Regular loans	1,712,815	52,449	295,480	50,225	2,110,969
(b) Loans and advances past due but not impaired					
31 December, 2020					
Past due up to 30 days	512,983	–	287,330	80	800,392
Fair value of collateral	243,926	–	7,581	–	251,507
31 December, 2019					
Past due up to 30 days	1,351,691	–	–	958	1,352,649
Fair value of collateral	1,161,868	–	–	–	1,161,868

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 217,535 thousands (31 December, 2019: AFN 327,829 thousands).

	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, 2020					
Non-performing – Stage 3	874,174	56,004	60,058	398	990,633
Fair value of collateral	2,180,529	107,990	240,498	–	
31 December, 2019					
Non-performing – Stage 3	143,859	102,596	80,896	363	327,714
Fair value of collateral	623,837	212,952	1,090,329	–	1,927,118

(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 2020 were AFN 236,456 thousands (31 December, 2019: AFN 219,880 thousands).

	31 December, 2020		31 December, 2019	
	Loan amount at the time of rescheduling AFN '000	At year-end AFN '000	Loan amount at the time of rescheduling AFN '000	At year-end AFN '000
Commercial loans and advances:				
Term loans	77,735	34,578	–	219,880
Overdraft	243,756	201,878	247,310	–
Total	**321,491**	**236,456**	**247,310**	**219,880**

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

33.2.7. Concentration of risk of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2020. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

2020

	On balance sheet:						Off balance sheet:	
	Balances with other banks AFN '000	Placements (Note 7.1) AFN '000	Investments (excluding capital notes) Note 8.1,8.3,8.4 AFN '000	Loans and advances to customers – net AFN '000	Receivable from financial institutions AFN '000	Other assets AFN '000	Contingencies and commitments AFN '000'	Total AFN '000'
Afghanistan	–	–	–	2,670,139	–	639,648	8,892,405	12,202,192
Lebanon	–	–	–	–	266,315	–	–	266,315
Singapore	22,331	–	–	–	–	–	–	22,331
Germany	299,912	–	–	–	–	–	–	299,912
UAE	309,953	8,646,225	1,438,042	–	–	–	–	10,394,219
USA	–	2,355,783	380,279	–	–	–	–	2,736,062
UK	7,514,969	–	–	–	–	–	–	7,514,969
Switzerland	1,371,969	6,468,387	–	–	–	–	–	7,840,356
Turkey	134,614	–	240,412	–	–	–	–	375,026
Russia	780,044	–	111,277	–	–	–	–	891,321
Uzbekistan	214,845	–	–	–	–	–	–	214,845
Kazakhstan	409,237	–	–	–	–	–	–	409,237
Turkmenistan	218,271	–	–	–	–	–	–	218,271
India	951	–	–	–	–	–	–	951
Korea	–	–	1,048,270	–	–	–	–	1,048,270
Italy	–	–	608,693	–	–	–	–	608,693
Mexico	–	–	662,681	–	–	–	–	662,681
Portugal	–	–	48,017	–	–	–	–	48,017
Poland	–	–	1,257,454	–	–	–	–	1,257,454
Hungary	–	–	1,254,477	–	–	–	–	1,254,477
Slovak Republic	–	–	818,913	–	–	–	–	818,913
Malaysia	–	–	714,029	–	–	–	–	714,029
Belgium	–	–	1,405,904	–	–	–	–	1,405,904
Oman	–	–	598,404	–	–	–	–	598,404
Saudi Arabia	–	–	1,056,206	–	–	–	–	1,056,206
Qatar	–	–	836,110	–	–	–	–	836,110
Sweden	–	–	394,961	–	–	–	–	394,961
Slovenia	–	–	339,201	–	–	–	–	339,201
Indonesia	–	–	259,556	–	–	–	–	259,556
China	–	–	394,803	–	–	–	–	394,803
Namibia	–	–	271,970	–	–	–	–	271,970
South Africa	–	–	–	–	–	–	–	–
Others	–	–	1,161,095	–	–	–	–	1,161,095
	11,277,097	**17,470,395**	**15,300,753**	**2,670,139**	**266,315**	**639,648**	**8,892,405**	**56,516,752**

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2020. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

2019

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

Notes to the Financial Statements continued
For the Year Ended 31 December 2020

(b) Industry sectors

2020

	On balance sheet:						Off balance sheet:	
	Balances with other banks AFN '000	Placements (Note 7.1) AFN '000	Investments (excluding capital notes) Note 8.1,8.3,8.4 AFN '000	Loans and advances to customers – net AFN '000	Receivable from financial institutions AFN '000	Other assets AFN '000	Contingencies and commitments AFN '000'	Total AFN '000'
Government / Public sector	–	–	15,300,753	–	–	–	–	15,300,753
Manufacturing	–	–	–	556,170	–	–	36,297	592,466
Agriculture	–	–	–	–	–	–	–	–
Construction	–	–	–	6,551	–	–	5,581,652	5,588,204
Power	–	–	–	–	–	–	88,581	88,581
Telecommunication	–	–	–	380,015	–	–	22,359	402,374
Banks and financial institutions	11,277,097	17,470,395	–	–	266,315	–	–	29,013,807
Traders	–	–	–	219,641	–	–	243,508	463,150
Fuel suppliers	–	–	–	1,090,049	–	–	1,079,473	2,169,522
Others	–	–	–	417,712	–	639,648	1,840,535	2,897,895
	11,277,097	**17,470,395**	**15,300,753**	**2,670,139**	**266,315**	**639,648**	**8,892,405**	**56,516,752**

2019

	On balance sheet:						Off balance sheet:	
	Balances with other banks AFN '000	Placements - net AFN '000	Investments - net (excluding capital notes) AFN '000	Loans and advances to customers – net AFN '000	Receivable from financial institutions AFN '000	Other assets AFN '000	Contingencies and commitments AFN '000'	Total AFN '000'
Government / Public sector	–	–	18,187,842	–	–	–	–	18,187,842
Manufacturing	–	–	–	1,046,298	–	–	17,918	1,064,216
Agriculture	–	–	–	249,592	–	–	2,058	251,650
Construction	–	–	–	192,829	–	–	3,618,853	3,811,682
Power	–	–	–	–	–	–	3,127,718	3,127,718
Telecommunication	–	–	–	–	–	–	5,151	5,151
Banks and financial institutions	7,237,771	15,106,058	–	–	502,618	–	–	22,846,447
Traders	–	–	–	926,987	–	–	72,661	999,648
Fuel suppliers	–	–	–	909,203	–	–	658,423	1,567,626
Others	–	–	–	92,901	–	551,986	1,016,379	1,661,266
	7,237,771	**15,106,058**	**18,187,842**	**3,417,810**	**502,618**	**551,986**	**8,519,161**	**53,523,246**

33.3. Market risk

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

33.3.1. Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2020 and 31 December 2019. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

	AED	USD	EUR	GBP	INR		Total
	Converted to AFN '000					AFN '000'	AFN '000'
As at 31 December, 2020							
Cash and balances with Da Afghanistan Bank	-	9,665,009	246,520	-	-	2,597,296	12,508,824
Balances with other banks	6,018	9,466,193	900,442	248,146	951	-	10,621,749
Placements	193,504	17,276,891	-	-	-	-	17,470,395
Investments	-	15,300,753	-	-	-	1,784,443	17,085,196
Loans and advances to customers	-	919,158	-	-	-	2,594,628	3,513,786
Receivables from financial institutions	-	198,501	44,352	-	-	49,117	291,970
Other assets	-	364,722	9,253	-	-	266,006	639,981
Total financial assets	199,521	53,191,225	1,200,567	248,146	951	7,291,491	62,131,903
Liabilities							
Customers' deposits	-	53,459,571	1,134,537	235,881	-	7,381,342	62,211,331
Deposits from bank	-	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	469,641	469,641
Other liabilities	-	-	-	-	-	114,419	114,419
Total financial liabilities	-	53,459,571	1,134,537	235,881	-	7,965,402	62,795,391
On-balance sheet financial position – net	**199,521**	**(268,345)**	**66,030**	**12,265**	**951**	**(673,912)**	**(663,488)**
As at 31 December, 2019							
Total financial assets	46,114	52,025,410	1,176,911	120,795	363	6,609,403	59,978,996
Total financial liabilities	-	51,337,089	1,203,399	138,833	-	7,190,524	59,869,845
On-balance sheet financial position – net	**46,114**	**688,321**	**(26,488)**	**(18,038)**	**363**	**(581,121)**	**109,151**

Sensitivity analysis:

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

	AED	USD	EUR	GBP	INR
2020					
5% increase (AFN'000) – profit/ (loss)	(9,976)	13,417	(3,301)	(613)	(48)
5% decrease (AFN'000) – profit/ (loss)	9,976	(13,417)	3,301	613	48
2019					
5% increase (AFN'000) – profit/ (loss)	(2,306)	(34,416)	1,324	902	(18)
5% decrease (AFN'000) – profit/ (loss)	2,306	34,416	(1,324)	(902)	18

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

33.3.2. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. Bank's investments, loans and advances carry fixed coupon/ interest rates. The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amount, categorized by the earlier of contractual repricing or maturity dates.

	Interest bearing					Total interest bearing	Non- interest bearing	Total
	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	Other assets AFN '000	AFN '000'	AFN '000'
As at 31 December, 2020								
Assets								
Cash and balances with Da Afghanistan Bank	374,657	–	–	–	–	374,657	12,134,167	12,508,824
Balances with other banks	–	–	–	–	–	–	–	–
Placements	5,170,687	4,926,387	7,373,321	–	–	17,470,395	–	17,470,395
Investments	–	2,309,103	3,018,605	9,164,933	2,592,555	17,085,196	–	17,085,196
Loans and advances to customers	1,195,364	349,082	838,657	1,130,682	–	3,513,786	–	3,513,786
Receivables from financial institutions	266,315	–	–	–	–	266,315	–	266,315
Other assets	–	–	–	–	–	–	639,981	639,981
Total financial assets	**7,007,024**	**7,584,572**	**11,230,583**	**10,295,616**	**2,592,555**	**38,710,350**	**12,774,148**	**51,484,497**
Liabilities								
Customers' deposits	2,805,719	–	25,572	–	–	2,831,291	60,413,160	63,244,451
Deposits from bank	–	–	–	–	–	–	–	–
Lease liabilities	23,482	234,820	46,964	117,410	46,964	469,641	–	469,641
Other liabilities	–	–	–	–	–	–	126,417	126,417
Total financial liabilities	**2,829,201**	**234,820**	**72,536**	**117,410**	**46,964**	**3,300,932**	**60,539,577**	**63,840,508**
Total interest reprising gap	**4,177,823**	**7,349,752**	**11,158,048**	**10,178,205**	**2,545,591**	**35,409,418**	**(47,765,428)**	**(12,356,011)**
As at 31 December, 2019								
Total financial assets	16,914,163	7,159,747	13,442,962	11,849,513	1,034,259	50,400,644	17,870,702	68,271,346
Total financial liabilities	2,467,671	37,353	642,402	2,257,875	–	5,547,503	63,481,051	69,028,554
Total interest reprising gap	**14,446,492**	**7,122,394**	**12,800,560**	**9,591,638**	**1,034,259**	**44,853,141**	**(45,610,349)**	**(757,208)**

If the interest increase / (decrease) by 100 bps, the profit or loss for the year would have been AFN 354,447 thousands (31 December, 2019: AFN 369,168 thousands) higher/ lower respectively.

33.4. Liquidity risk

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

33.4.1. Liquidity risk management process

The Bank's liquidity management process, includes:

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

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

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

33.4.2. Funding approach

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

Liquidity ratios

Advances to deposit ratios

	2020	2019
Year-end	4.29%	5.81%
Maximum	6.74%	6.57%
Minimum	4.50%	5.62%
Average	5.44%	6.07%

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

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

	Up to 1 month 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, 2020						
Liabilities						
Customers' deposits	63,218,879	–	25,572	–	–	63,244,451
Deposits from bank	–	–	–	–	–	–
Lease liabilities	23,482	234,820	46,964	117,410	46,964	469,641
Other liabilities	–	–	–	–	–	–
Total financial liabilities (contractual maturity dates)	**63,242,361**	**234,820**	**72,536**	**117,410**	**46,964**	**63,714,092**
Total financial assets (contractual maturity dates)	**19,781,171**	**7,584,572**	**11,230,583**	**10,295,616**	**2,592,555**	**51,484,497**
As at 31 December, 2019						
Liabilities						
Customers' deposits	58,799,250	–	43,855	–	–	58,843,105
Deposits from bank	–	–	500,000	–	–	500,000
Lease liabilities	7,160	2,389	36,644	213,452	5,395	265,040
Other liabilities	261,700	–	–	–	–	261,700
Total financial liabilities (contractual maturity dates)	**59,068,110**	**2,389**	**580,499**	**213,452**	**5,395**	**59,869,845**
Total financial assets (contractual maturity dates)	**34,784,865**	**7,159,747**	**13,442,962**	**11,849,513**	**1,034,259**	**68,271,346**

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.

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

33.4.4. Off-balance sheet items

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

	Not later than 1 year AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at 31 December, 2020				
Guarantees	2,574,751	4,583,431	-	7,158,183
Undrawn loans and overdraft facilities	1,039,161	32,652	-	1,071,813
Commercial letters of credit	87,243	575,166	-	662,409
Total	**3,701,155**	**5,191,249**	**-**	**8,892,405**
As at 31 December, 2019				
Guarantees	4,830,444	3,115,786	-	7,946,230
Undrawn loans and overdraft facilities	203,420	320,974	-	524,394
Commercial letters of credit	48,537	-	-	48,537
Total	**5,082,401**	**3,436,760**	**-**	**8,519,161**

33.5. Fair value of financial assets and financial liabilities

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

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

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

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 AFN '000	Level 2 AFN '000	Level 3 AFN '000
Investments in bonds - Fair value through OCI			
As at 31 December, 2020	**–**	**9,331,990**	–
As at 31 December, 2019	**–**	**7,837,520**	**–**

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

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

(b) Financial instruments not measured at fair value

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

	Carrying Value		Fair Value	
	31 December, 2020 AFN '000	31 December, 2019 AFN '000	31 December, 2020 AFN '000	31 December, 2019 AFN '000
Financial assets				
Cash and balances with Da Afghanistan Bank	12,508,824	13,859,017	12,508,824	13,859,017
Balances with other banks	11,958,105	7,237,771	11,958,105	7,237,771
Placements - net	17,463,070	15,085,047	17,463,070	15,085,047
Investments - net	7,734,978	11,078,229	7,734,978	11,078,229
Loans and advances to customers - net	2,670,139	3,417,810	2,670,139	3,417,810
Receivables from financial institutions	266,315	502,618	266,315	502,618
Security deposits and other receivables - net	639,981	551,987	639,981	551,987
Financial liabilities				
Customers' deposits	62,211,331	58,843,106	62,211,331	58,843,106
Deposits from bank	–	500,000	–	500,000
Other liabilities	–	261,700	–	261,700
Off-balance sheet financial instruments				
Bank's guarantees	7,158,183	7,946,230	7,158,183	7,946,230
Bank's commitments	1,734,222	572,931	1,734,222	572,931

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 amortised cost. The fair value of these investments is equal to the carrying amount.

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

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

(iii) Off-balance sheet financial instruments

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

33.6. Capital Management

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.

Notes to the Financial Statements continued
For the Year Ended 31 December 2020

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

	31 December, 2020 AFN '000	31 December, 2019 AFN '000
Tier 1 (Core) Capital:		
Total equity capital	3,741,693	3,679,164
Less:		
Intangible assets	(364,322)	(426,328)
Net deferred tax assets	(87,543)	–
Revaluation reserve on debt instruments at OCI	(142,391)	(63,989)
Profit for the year	(310,129)	(608,168)
	2,837,308	**2,580,679**
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	168,224	176,030
Profit for the year	310,129	608,168
Revaluation reserve on bonds (45%)	64,076	28,795
	542,429	812,993
Tier 2 (Supplementary) Capital (restricted 100% of Tier 1 (Core) Capital)	542,429	812,993
	3,379,737	**3,393,672**
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	3,594,441	3,261,904
Direct claims on DAB	10,698,827	11,339,485
Others	4,511,613	5,348,296
Total	18,804,881	19,949,685
0% risk-weight total (above total x 0%)	**–**	**–**
20% risk weight:		
Balances with other banks	18,876,281	22,846,448
Others	943,063	2,641,431
20% risk-weight total (above total x 20%)	**3,963,869**	**5,097,576**
50% risk weight:		
Others	664,147	2,780,447
50% risk-weight total (above total x 50%)	**332,074**	**1,390,223**
100% risk weight:		
All other assets	16,691,920	15,743,163
Less: intangible assets	(364,323)	(426,328)
Less: Deferred tax assets	(87,543)	-
All other assets – net	16,240,054	15,316,835
100% risk-weight total (above total x 100%)	**16,240,054**	**15,316,835**

Credit conversion factor		
0% risk weight:		
Undrawn loan and overdraft facilities	1,071,813	524,394
Guarantees	482,583	617,410
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	662,409	48,537
Guarantees	6,671,745	7,324,947
20% credit conversion factor total (risk-weighted total x 20%)	132,482	9,707
20% credit conversion factor total (risk-weighted total x 20%)	**1,360,845**	**1,466,930**
100% risk weight:		
Guarantees	3,855	3,873
100% credit conversion factor total (risk-weighted total x 100%)	3,855	3,873
100% risk-weight total (above total x 100%)	**3,855**	**3,873**
Total risk-weighted assets	**21,900,697**	**23,275,437**
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk- weighted assets)	**12.96%**	**11.09%**
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	**15.43%**	**14.58%**

34. Islamic banking
The Bank started Islamic banking operation in November 2015 with 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 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.

Notes to the Financial Statements continued

For the Year Ended 31 December 2020

Below are the figures relating to Islamic banking as at 31 December, 2020

	31 December, 2020 AFN '000'	31 December, 2019 AFN '000'
Assets		
Cash and balances with Da Afghanistan Bank	945,854	750,697
Investments in sukuk securities	771,000	542,220
Loans and advances to customers	46,850	43,134
Property and equipment	1,313	1,283
Other assets	8,095	6,581
Total assets	**1,773,112**	**1,343,915**
Liabilities		
Deposit - current	223,103	144,910
Deposit - saving	1,523,139	1,146,234
Deposit - term deposit	25,572	43,855
Other liabilities	18,691	16,870
	1,790,506	**1,351,869**
Equity		
Share Capital	5,809	5,809
Accumulated losses reserve	(23,203)	(13,764)
Total equity	(17,394)	(7,955)
Total liabilities and equity	**1,773,112**	**1,343,914**
Total profit income	16,476	20,802
Total profit expense	(6,583)	(8,476)
Net Profit Income	9,893	12,327
Other non profit income	2,855	3,242
Other non profit expense	(14,655)	(14,750)
Net non profit expense	(11,800)	(11,507)
Income from dealing in foreign currencies	(607)	(757)
Total Income	(2,514)	63
Net provision for expected credit losses	(6,926)	1,472
Net Profit/ (Loss) For The Year	**(9,439)**	**1,535**

35. General

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

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

36. Date of authorization for issue

These financial statements were authorized for issue by the Board of Supervisors of the Bank on 24th March 2021

Chairman **Chief Executive Officer** **Chief Financial Officer**

Shariah Board's Statement

بانك بين المللى افغانستان
Afghanistan International Bank
بانکداری اسلامی Islamic Banking اسلامي بانكداري

SHARIAH BOARD'S STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2020

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 Mohammad and his household and his companions.

By the Grace of Almighty Allah, the year under review was the 6th year of Islamic Banking Window being operated in Afghanistan International Bank (AIB).

Throughout the financial year, the Shariah board (SB) held 10 meetings to review numerous products, policies, standard operating procedures, transactions, processes and their Shariah-compliance.

The Shariah board appreciates the support of AIB Islamic Banking department and management for the development and execution of Islamic Banking best practice and products according to Shariah rules and regulations and resolutions issued by the Shariah board of the bank from time to time.

We are of the view that:

- 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 and Da Afghanistan Bank (DAB).
- During review, any matters requiring corrective measures have been noted and were resolved by the management or ensured to be rectified in future.
- The Islamic Banking Department has a comprehensive mechanism in place to ensure Shariah compliance in their overall operations.
- The allocation of funds, profit and loss distribution and pool management are in accordance with Shariah principles.
- The late payment charges has been used for charitable purposes as approved by Shariah board.
- The Shariah board has been provided resources enabling it to discharge its duties.

We pray that Allah may grant all of us further success and prosperity.
Dated: January 27, 2021| Dalwa 08, 1399 H.S.

Mr. Rahmanullah Shahab, Chairman of Shariah Board

Dr.Najibullah Saleh, Shariah Board Member

Mr. Abdul Fattah Basirat, Shariah Board Member

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بانک بین المللی افغانستان
Afghanistan International Bank

Annual Report 2020

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