The First MicroFinanceBank
اولین بانک قرضه های کوچک

2019
ANNUAL REPORT

Global Alliance for Banking on Values

Proud member

About The First MicroFinanceBank-Afghanistan (FMFB-A)

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The First MicroFinanceBank – Afghanistan (FMFB-A) started operations in 2004 and is part of the Aga Khan Agency for Microfinance (AKAM), which has invested in leveraging and inclusive financial institutions in 10 countries throughout the developing world. Aga Khan Agency for Microfinance (AKAM) is also a sponsor shareholder of The First MicroFinanceBank – Afghanistan (FMFB-A) alongside Aga Khan Foundation U.S.A (AKF USA), Kreditanstalt Fur Wiederaufbau (KfW), and International Finance Corporation (IFC). It is affiliated with the Aga Khan Development Network (AKDN), which works in over 30 countries around the world, operating through over 1,000 programs and affiliated institutions, and employing nearly 100,000 people directly in the areas of economic and privet sector development, health, education, agriculture, and food security, culture, environment and climate, community, and infrastructure development.

Our primary objective in Afghanistan is to support sustainable and equitable economic development through the provision of a full-spectrum banking and financial services, with a focus on rural and low-income households, microentrepreneurs, and small and medium enterprises. Since 2016, we are a member of the Global Alliance for Banking on Values (GABV) – an independent network of banks using finance to deliver sustainable economic, social, and environmental development. Our values-based banking agenda focuses on providing affordable financial services that promote entrepreneurship, agriculture, incremental housing, and clean energy in Afghanistan.

The First MicroFinanceBank – Afghanistan aims to consolidate its position as Afghanistan's leading retail and microfinance banking institution and largest microfinance institution in Afghanistan in terms of outstanding portfolio size with US$ 54 million in microfinance loans and US$ 15.8 million in small and medium enterprise (SME) loans as of December 2019. The bank has 204,136 active clients including borrowers and individual depositors who save to both to build assets and also to smooth consumptions when a family's income is irregular.

The First MicroFinanceBank – Afghanistan's shareholders are advocates for the financial inclusion agenda across emerging markets and the institution continues to attract renowned global investors with a shared vision for poverty alleviation.

Mandate

The First MicroFinanceBank – Afghanistan's primary mandate is to support the financial inclusion of millions of underprivileged and financially excluded households, thereby enabling broader poverty reduction and impacting the social and economic wellbeing of the society in Afghanistan.

The bank strives to secure the future of many of its clients through targeted financial and multi-sectoral products and services structured according to the evolving needs of the target market.

Area of Work

The First MicroFinanceBank – Afghanistan is operating in 14 provinces through 38 branches and 9 loan processing offices covering 80 districts.

Market Focus, Products and Services

The bank's overarching product strategy is to affect demonstrable, measurable, and lasting improvements in the quality of life (QoL) of its clients by delivering appropriate financial services to help alleviate economic and social exclusion. The bank also endeavors to develop and market products that cater to conventional customers and to generate revenue from high-income groups.

Our current suite of products/services include deposits (CA, SA, and TD) and loans (micro-enterprise, small business, agriculture/livestock, personal consumption, incremental housing, SME financing), corporate loans along with commercial banking services including domestic fund transfers, international remittances, foreign currency exchange, Online Banking, and bulk payroll processing. However, based on FMFB-A's Sustainable Banking Framework Policy, the bank pursues appropriate product design and delivery mechanisms including loans targeting women, financing of energy-efficient seismic-resistant incremental housing, and soon to introduce loans to promote the use of renewable energy systems/products.

FMFB-A continued to align the organizational structure based on business needs - successfully developed the strategy to segregate business divisions into three distinct units – Microfinance, SME/Corporate, and Consumer - with the goals of strengthening the businesses of each, enhancing client coverage, improving market share and driving efficiencies and growth.

The First MicroFinanceBank – Afghanistan has established sound technology platforms and will continue to make the right investments in innovation and technology over the next 5 years. We are in the process of driving digitalization to create a market-leading presence in Afghanistan, driving greater efficiency through scale. We are progressing well in the preparation of the DFS offerings, such as phone banking, MasterCard debit and Credit cards, Online banking and SME banking.

VISION

To be recognized as the leading microfinance services provider in Afghanistan contributing to poverty alleviation and economic development through the provision of sustainable financial services primarily targeting at the micro and small businesses and households.

MISSION

To reduce poverty, diminish the vulnerability of poor populations and alleviate economic and social exclusion. It aims to help people become self-reliant and eventually gain the skills needed to graduate into the main-stream financial markets. At the same time the Bank has to remain financially sustainable.

Outreach

Our priority is to maximize financial outreach to low-income and vulnerable populations across both urban and rural areas of Afghanistan, with a particular focus on women.

Sustainability

We strive to achieve consistent operational and financial sustainability and moderate profits in order to finance expansion of our service offering, geographic coverage and build our customer base.

Excellence

We continuously seek to develop, implement and improve policies, procedures and systems, drawing from international best practices, sector expertise and the experience of our management team.

Synergy

We actively collaborate and share knowledge with other AKAM-affiliated entities in order to achieve regional and global consistency in the delivery of financial services.

Responsibility

We meet international environmental and safety standards and social obligations, including avoiding the funding of child and bonded labor, preventing the use of our services for money laundering, terrorism and drug trade.

OUR PRINCIPLES

FMFB-A is a proud member of the Global Alliance for Banking on Values (GABV), an independent network of banks using finance to deliver sustainable social, environmental and economic development. The Alliance's 6 Principles of Sustainable Banking define the fundamental pillars of Values Based Banking lying at the heart of our business model and strategy.

Grounded in Communities

We serve the communities in which we work. We meet the financial needs of our geographic and sector-based communities by financing sustainable enterprise in productive economies.

Long-term Relationships with Clients

We establish strong, long term relationships with our clients and are directly involved in understanding and analyzing their economic activities and assisting them to become more sustainable themselves.

Resilience

We adopt a long-term perspective to make sure we can maintain our operations and be resilient in the face of external disruptions.

Transparency

We maintain a high degree of transparency and inclusiveness in governance and reporting.

Values-based Culture

We seek to embed these principles in our culture so that they are routinely used in decision-making at all levels.

OUR VALUES

We Are Innovative

We are forward thinking and blaze trail by embracing ideas that challenge conventional views and provide our people the chance to turn ideas into reality.

We Always Do the "Right" Thing

We are honest and accountable in everything we do, maintain the highest possible ethical standards and foster trust through transparency, open communication and feedback.

We Are Client-Centric

At FMFB-A, the client comes first. We strive to exceed customer expectations and contribute to a better 'quality of life' by understanding and serving their needs in the best possible way.

We Value Meritocracy

All aspects of FMFB-A employment including our decisions to hire, promote, discipline, or discharge, are purely based on merit, competence, and performance.

We Have a Social Mission

We believe that our responsibility extends beyond our core business and are committed to delivering financial solutions that enable positive social impact.

BOARD OF SUPERVISORS

Jeffrey Brampton Mundy, Chairman

Brampton Mundy is the former CEO of FMFB-Tajikistan and has more than 30 years of experience in various divisions of HSBC Bank in Europe, Asia and the Middle East, including as Chairman of the Management Board of HSBC Bank in Kazakhstan, and as Regional Director of HSBC Bank in Eastern India. He has also served on the boards of banks in Kazakhstan and Kyrgyzstan and as a Trustee of several UK-based charities. Brampton holds a Bachelor of Law Degree from Oxford University and a Masters of International Law from the University of London.

Jesse Culain Fripp, Member

Jesse Fripp is the General Manager of the Aga Khan Agency for Microfinance, a member agency of the Aga Khan Development Network. He provides strategic and governance leadership to an inclusive finance investment portfolio of three fully regulated commercial banks, seven nonbank finance companies, and a regional financial holding company. He also serves on the Boards of Supervisors for The First MicroFinanceBank institutions in Afghanistan, Pakistan and Tajikistan, the Board of Directors of the First MicroFinance Foundation Egypt, as well as the Executive Committees for the Aga Khan Agency for Habitat and the Aga Khan Health Services. Jesse's prior experience includes executive and senior roles with Enclude Ltd, ShoreBank International, Bearing Point Emerging Markets, and Global Communities/Vitas Finance. He has also taught as an Adjunct Professor at the George Washington University. Jesse holds a Masters in Public Management from the University of Maryland and a BA from Warren Wilson College.

Olaf Zymelka, Member

Olaf Zymelka joined KfW in 2001 and has held several positions with KfW Entwicklungsbank. Since early 2017 he has been the Director for Eastern Europe, Caucasus and Central Asia. He is responsible for KfW's development and promotional activities in this region, managing financial cooperation programs and projects in the sectors energy and energy efficiency, financial sector development, municipal infrastructure, environment protection and health sector development. Prior to this position, he was Director for Afghanistan and Pakistan (2014-17) and Deputy Director for the MENA Region (2013-14). From 2004 to 2012 he was engaged in several positions for Western Balkans, Turkey and Eastern Europe.

George David Woods, Member

David has extensive experience in financial and non-financial boards. He is a director of NZ Green Investment Finance and of Whai Rawa Fund Ltd, a trustee of The Gift Trust, former Chair of the Impact Enterprise Fund, and Deputy Chair of the NZ National Advisory Board on Impact Investing. He also sits on two overseas boards for the Aga Khan Foundation as an independent director, The First MicrofinanceBank - Afghanistan, and First Microfinance Company Egypt.

Sughra Amiry, Secretary to the Board of Supervisors

Sughra Amiry is a graduate from Asian University for Women and has an MBA from American University of Afghanistan. She started her career with FMFB-A as Executive Assistant in 2017 and was later promoted as Secretary to the Board of Supervisors in November 2018. She has completed a fellowship program with a governmental organization and she was once a part time university lecturer.


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BOARD OF MANAGEMENT MEMBERS

Faburama Ceesay, CEO

Faburama Ceesay joined FMFB-A as Chief Financial Officer (CFO) in October 2014. After five year with FMFB-A as CFO, he now fills the position of Chief Executive Officer effective February 2020. He holds a Bachelor's degree in International Development Studies from St. Mary's University in Halifax, Canada. He is also a Chartered Certified Accountant and a member of the Association of Chartered Certified Accountants in UK since 2006. He has a rich experience of over eighteen years in Corporate Relationship management, Financial and Treasury management. Prior to joining FMFB-A as CFO, he has worked in Standard Chartered Bank Gambia Ltd as Financial Controller and Standard Chartered Bank, Kabul as Chief Financial Officer from 2010 to 2012. He has also worked in Guaranty Trust Bank Gambia Ltd as Head of Finance and Risk Management from 2004 to 2005.

Ziauddin Haidari, Chief Operations Officer

Ziauddin Haidari is a banking professional with over 12 years of banking experience in various management positions in Treasury and Banking Operations. He has been with The First MicroFinanceBank - Afghanistan since Oct,2010 and before joining FMFB-A he has also worked with FMFB-Pakistan for few years. He holds a Master Degree in Accounting and Finance from The University of Lahore and a Bachelor from University of Punjab Pakistan with various international certifications in banking and treasury.

Naqibullah Aman, CFO

Naqibullah Aman has been with FMFB-A since August 2011. He holds a Master Degree in Business Administration from Kardan University, Kabul. He is pursuing his professional studies of the Association of Chartered Certified Accountants in American University of Afghanistan since 2016. He has diversified experience of over eight years in financial reporting and management and is one of the integral part of finance department during this time with FMFB-A. Prior to joining FMFB-A, he has worked with ACF (French NGO) as a financial analyst, based in Kabul who were working for the eradication of poverty in under developed countries.

Rahim Dad Dehpoor, Acting Chief Credit Officer

Rahim Dad joined FMFB-A in October 2016 as Manager Internal audit. Rahim Dad worked as Acting Chief Internal Audit until December 2017. He now fills the position of Deputy Chief Credit Officer & acting CCO effective July 2019. Mr Dehpoor has obtained his Master Degree in Business Administration and has extensive experience in Microfinance Field Operation, Risk Management, Financial Statement Analysis, Product Development, Portfolio Management and quota carrier administration. Prior to joining FMFB-A, he has worked with FINCA as Deputy CFO, MUTAHID DFI as Head Of Risk Management, with FMFB-A as risk & Compliance Manager from 2009 to 2016. He has also worked with Afghanistan Rural Microcredit Program (AKDN) the precursor to FMFB-A in the capacity of Deputy National Program Coordinator to extend the outreach of the institution and used to manage twenty-four Microcredit Branches with having $36M loan portfolio.

Nilawaty Bahar, Chief Human Capital Officer

Nilawaty Bahar has more than fifteen years of experience in human resources strategic management, including crafting talent acquisition and succession strategy, facilitating change management process, designing localization capacity building initiatives and build a streamlined, efficient HR system in post-conflict disaster-affected countries. She had been working in Afghanistan with Aga Khan Foundation as Human Resources Director and Human Resources Manager with CARE International in Sudan and Indonesia. She gained technical competencies in human resource management when she worked for the United Nations Mission in Nepal and KPMG International as an HR Consultant. Ms. Bahar studied Master of Science in Humanitarian Logistics and Management at Università della Svizzera italiana – Switzerland. She has a great interest in math, data science and has a bachelor degree in mathematics and computer science from the University of Indonesia. She is a certified green belt in Lean Six Sigma Process Management, Project Management, Learning and Development.

OTHER SENIOR MANAGEMENT MEMBERS

Saduddin Haziq, Chief Compliance Officer

Mr. Saduddin Haziq, an Afghan national, has extensive experience in the legal and compliance field and worked with various Government and Non-Government organizations both of International and National repute. He has performed several key roles while holding important positions in the Legal and Compliance departments of these organizations. Currently Mr. Haziq is employed as Chief Compliance Officer with The First MicroFinanceBank - Afghanistan, a leading microfinance bank of the country. His past experiences include Chief Compliance Officer with Afghan United Bank, Legal Advisor and Compliance Officer with Afghanistan International Bank (The largest commercial bank of the country), Director of Law with the Afghanistan Ministry of Finance and Legal Officer with USAID on the Afghanistan Government Economic Project. Mr. Haziq holds an MBA degree in Public Administration and a Bachelor of Law with honors from International Islamic University. Mr. Haziq is a Certified Anti-Money laundering Specialist (CAMS) and active member of the ACAMS.

Wissam Jarkassi, Chief Risk Officer

Mr. Jarkassi has extensive experience in the fields of Credit, Finance, and Risk Management with more than 18 years of banking experience locally and abroad. Jarkassi is an accredited consultant by the European Bank for Reconstruction & Development to provide consulting to small and medium enterprises. He held numerous key positions in Lebanese and international banks in which he gained valuable and extensive experience in key business and monitoring functions. He worked on many consulting projects with corporates and SMEs in the fields of financial advice, business analysis, process redesign, business and process risk management issues, and credit restructuring for financially distressed entities. Mr. Jarkassi has a diversified academic background and holds prestigious professional certifications as well. Including: Diploma in Islamic Studies, Specialized Diploma in Banking and Capital Markets, Diploma in Business and Finance, Bachelor in Accounting, Certified Financial Risk Manager and the Member of the Global Association of Risk Professionals. Currently Mr. Jarkassi is working on a Master's thesis in Sharia Compliance Risk in Sukuk.

Hamid Nooryar, Acting Chief Internal Auditor

Hamid Nooryar has joined FMFB-A as Deputy Chief Internal Auditor, he is also Acting the role of Chief Internal Auditor. Hamid is a member of the Association of Chartered Certified Accountants (ACCA) of UK since 2018. He has also obtained several professional qualifications such as Certified Information Systems Auditor (CISA), Certified Internal Auditor (CIA), and Certified Fraud Examiner (CFE). He holds his BSc degree from Oxford Brookes University of London, and an Advanced Diploma in Accounting and Business. Hamid has a diversified experience of over 14 years in various international organizations with global businesses and adopted a broad and progressive role of Internal Audit.

Hashmatullah Mustamand, Acting Chief Information Officer

Mr.Hashmatullah Mustamand has been with FMFB-A since August 2016. He has a Master Degree in Management and Information Technology from Kardan University. He has been working in Afghanistan banking industry since 2008. Mr.Mustamand has started his professional career with Afghanistan International Bank (AIB) in the capacity of In-charge Advances MIS & Accounting and Branch Manager till 2012, He joined Afghan United Bank in Core Banking Solutions department until 2016. Mr.Mustamand has led Islamic banking implementation and multiple core banking upgrade projects and has the experience of core banking migration and multiple banking application solutions. He recently worked as Senior Application Manager with The First MicroFinanceBank - Afghanistan. He holds multiple IT Service and Infrastructure Certifictions from globally recognized bodies.

Homayoun Nikseyar, Head of Business Strategy and Marketing

Homayoun Nikseyar joined FMFB-A in January 2006 as Branch Manager in Herat. He was then promoted to Marketing Manager position in Head Office and since then worked in different positions within the same department as Product Development Manager and Sr. Manager Business Strategy and Marketing. He has a B.S. degree in Business Administration from KARDAN University-Kabul, B.A. degree of English Language from Herat University. He is Certified in Digital Money from the Fletcher School at Tufts University in the U.S. and attended the Expert in Microfinance certificate training program of Frankfurt School of Business Management. His experiences span across different business segments in terms of Products Development, Research, Marketing and Sale. He has hands-on experience in the development of Small business, Group, Agriculture, Housing, Consumption, and deposits` products. Managed promotional communication of all new products and services across FMFB-A`s footprint. Liaised with donors for funding applications and provided results-based, high standard, timely donor reporting, worked actively in the development of a cashless branch model using mobile money technology and involved in several other client-focused innovations.

Maiwand Lemar, Acting Head of The Security and Safety Department

Mr. Maiwand Lemar is an Afghan national who has over 16 years of experience in the respective fields of Security and Safety from different Governmental and Non-Governmental Organizations holding both National and International reputations. He has performed and executed several key roles while occupying important and essential positions in the Security and Safety Units of various organizations. Currently Mr. Lemar is employed as the Security Operation Manager with The First MicroFinanceBank - Afghanistan, a leading Commercial bank in the country. Mr. Lemar's past professional experiences include Security in-charge positions with the respective governors of Paktia, Kunar and Helmand provinces furthermore, he has also served as the Security Operating Officer with G4S International Security Company and as the Deputy Security Manager with the Safi Landmark Hotel. In addition, Mr. Lemar is a Certified Security Specialist.

Zia Qasemi Head of Professional Services

Mr. Zia Qasemi, an Afghan national, has over 15 years of administrative, procurement and human resource management experience in various international companies and agencies. He has worked in different key positions and played a significant role in developing policies and procedures throughout his carrier. Currently, Mr. Zia Qasemi is employed as Head of Professional Services with The First MicroFinanceBank - Afghanistan. Mr. Zia holds a master's degree in Operations and Supply Chain Management from Universetta Della Swizzera, Lugano, Switzerland and a Bachelor in Business Administration from Kardan University, Kabul Afghanistan. Prior to working with FMFB-A he worked in Aga Khan Foundation and prior to that Task Force Innovation International and lead a team of administrative, logistics, transport, inventory, IT, security and Procurement for nearly 16 years.


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Corporate Information

Board of Supervisors

Jeffrey Brampton Mundy	Chairman
Jesse Culain Fripp	Member
Olaf Zymelka	Member
George David Woods	Member
Sughra Amiry	Secretary to the Board of Supervisor

Board of Management Members

Faburama Ceesay	CEO
Naqibullah Aman	CFO
Rahim Dad Dehpoor	Acting Chief Credit Officer
Ziauddin Haidari	Chief Operating Officer
Nilawaty Bahar	Chief Human Capital Officer

Audit Committee

Mr. Nawroz Mohammed Ali	AC Chairman
Mr. Akbar Ladak (AK)	Member AC
Ms. Gulzar Khoja (GK)	Member AC
Mr. Xavier Lucas	Member AC

Share Registar

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Chairman's Message

The year behind us was the Bank achieving the objective of continuing to develop the microfinance and small business sectors in Afghanistan. The Bank remains committed to the country's development, despite contending with many headwinds, and our main target, of consolidating our business and outreach, was achieved.

2019 was marked by challenging economic conditions worsened by political uncertainty and security challenges. It was a year of slack performance for the entire microfinance sector, with little or no growth for nearly all MFIs.

Despite all the challenges, we grew our active client-base by nearly 10% from 185,000 in 2018 to 204,000 in 2019. However, our Gross Loan Portfolio saw a 14% decline, and active borrowers fell by 11% from the previous year - mainly because of the effects of the security situation in the country.

Our digital innovations define the future outlook of FMFB-A. FMFB-A continues to invest in technology-driven compliance and customer management tools. From the several milestones achieved this year, the successful launch of FMFB-A's Retail Online Banking service and implementation of Oracle FCCM Solution are worth mentioning and the credit goes to our dedicated staff who are willing to make the vision of the Bank sustainable for the years ahead. Furthermore, we moved to a new headquarters – housing all departments under one roof, thus enhancing our employees' productivity and improving the customer experience.

The launch of our new product 'Startups Finance' supports small and medium-sized businesses in the country by providing them working capital or asset-backed loans. Similarly, the launch of MasterCard debit cards will widen the range of our products for retail customers and enhance our ability to grow our deposit base in the future.

Our approach is based on the conviction that the most important ingredient of long-term success in banking is to enjoy the constant trust of our stakeholders, the most important of whom are our customers. We aim to do this by expanding our range of product offerings and improving our service proposition, which in turn requires significant investment in innovation and transformation, but, more than that, we recognize the overriding need for us to embed in our culture an ongoing commitment to service quality and fairness, as well as prudent risk management and compliance with local and international norms and regulations.

FMFB-A has also cooperated with the Afghan Credit Guarantee Fund (ACGF) to measure the feasibility of a credit-scoring model for the SME clients considering the substantial opportunities presented by this sector. The project would pave the way to strengthen capacity building and assist in gradual growth in selected sectors of the SME market.

I am confident, our achievements in 2019 will start to bear fruit with uptake in transactional volumes through our digital channels in the years to come.
With the youngest population in the world, Afghanistan needs considerable investment in the development of its human resources. Our employees are our most valued assets, and this is why we remain wholeheartedly committed to ongoing investment in their capacity development to meet the digital banking transformation challenges proactively through conventional and e-learning training programs. It is they who have been the force behind the many achievements of the Bank. They have been quick to identify and adapt to customers' needs in this rapidly changing environment. Therefore, I extend our thanks to all employees for their contribution and commitment to the Bank. I am deeply grateful to our more than 200,000 customers for entrusting us with their business, the Bank's shareholders for their faith in us, and the government of the Islamic Republic of Afghanistan, and other regulatory bodies for their guidance and support.

Brampton Mandy
Chairman

CEO'S Message

The year 2019 had been a very challenging year for the bank owing to security and socio-political issues. Despite all the challenges, the bank closed the year with after tax profit of AFN 39,664 M, up 25.4% above last year's profit. The bank closed the year with a balance sheet value of AFN 11,772,723 M, down by about 5.8% in comparison to that of the previous year. The main reason for the reduction in balance size was due to contraction in loan portfolio in 2019 largely due to security situation in some areas of the country. As a result, the gross loan portfolio dropped by 14% and deposit liability also increased by a similar percentage. Despite challenging market and security situation, the bank recorded a net financial revenue of AFN 1,470,803 M, up by 3% on previous year's numbers.

Notwithstanding the challenges, the bank maintains its dominant status in provision of microfinance activities in the country closing the year with 56% and 42% respectively of all loan portfolio and customers in the micro finance industry in the country.

The stable financial performance in 2019 despite a challenging first half of the year was as a result of determined efforts on the side of management, Board and staff members to maintain the core activities of the bank and continue serving our clients, customers and other stakeholders to the best of our ability.

Since its inception, First Micro Finance Bank Afghanistan (FMFB-A) has used a microfinance business model to grow into the leading inclusive financial service provider in country.

In the recent past the institution has diversified and expanded its product/service offering to include deposits, loans and limited commercial banking services. The microfinance model entailed building the business with the integration of the entire credit sanctioning function within one department; largely this conceded prudency to controls facilitated by process and paperwork. Nonetheless, future growth on this model will compromise compliance as well as nimble operations. Therefore, for continued prudent, profitable as well as agile expansion of banking services this microfinance business model is been refined into an inclusive finance-banking model.

In the business re-alignment process this year, the bank was able to consolidate both microfinance, SME and Corporate businesses into one single Credit Department. This makes it easy to coordinate and monitor business performance from a single department rather than multiple department as was the case previously. We were also able to completely segregate business activities from operations, hence enabling the credit department to solely focus on quality business growth whilst operations department takes care of operational issues throughout the bank. Another area of business re-alignment which is completed is the centralization of account opening and credit administration process in the bank. All account opening and credit administration process throughout the branch network have now been centralized at Head Office level. The concentration of these activities is intended to ensure quality control in account opening and credit administration process to ensure we improve quality in the documentation, enhance internal controls and improve compliance in customer onboarding.

The bank continuous to enhance and strengthen its compliance functions in the bank. During the year, we have successfully centralized the compliance function activities at the Head Office. This was possible with the implementation of Compliance software named Financial Crime and Compliance Management (FCCM) of Oracle. This software enables the compliance department to efficiently detect, investigate and report suspected activities of customers-to comply with current and future regulations and guidelines. FCCM empowers compliance department, to monitor customers' transactions daily, using customer historical information and account and peer profiles to provide a holistic view of all customers' transactions and activities. The bank also upgraded its screening software (Accuity) for screening customers and transactions. All these helped the bank to improve compliance with local laws, regulations and International standards, as far as Know Your Customer (KYC) and AML/CTF are concerned.

The bank continues to invest in IT infrastructure and other delivery channels to provide alternatives to customers so as to enhance customer experience. The first step in this process was the upgrading of FMFB-A's legacy Core Banking System (CBS) to Oracle FLEXCUBE, which was completed in 2017. This CBS provides considerable banking functionality in terms of controls, reporting as well as opportunity to diversify product/service offerings. To leverage this investment, meet market demand, diversify and grow profitable business, the bank continues to invest in IT solutions to meet customer expectations. In November 2019, the bank was able to roll out its internet banking services to its retail customers. This platform enables customers to access banking services such as balance transfer, viewing account statements, interbank local currency transfer among other things.

In continuation of the digital transformation, the bank rolled out internet banking services to its corporate customers in May 2020. This rollout completed full-fledged internet banking experience to both corporate and retail customers of the bank including phone banking services. The bank is also in the process of acquiring ATMs, debit, and credit cards as a means of providing alternative delivery channels to customers. These channels will be up and running and be available to our customers in the fourth quarter of this year.

Finally, I want to take this opportunity to extend my sincere appreciation to management and staff of the bank. Without support and dedication of our staff, we would not be able to record this performance. I appreciate that the bank does not have any assets better than its staff. I would also extend my gratitude to the entire Board, more so to the Chairman of Board for his continued support and strategic guidance during this challenging year. The banks also appreciate the continued support of our customers throughout our branch network who continued to trust us to deliver banking experience to them. To all our shareholders especially the regulators, I say a big thank you for having the confidence in FMFB-A. The bank will continue to drive business performance, financial inclusion and customer experience in order to enhance stakeholder value.

Faburama Ceesay
CEO

Afghanistan's Economic Outlook

Afghanistan experienced a slight economic growth despite uncertainties.

Amid insecurity and uncertainty, the economy grew by 2.9 percent, mainly driven by strong growth recovery in agriculture, unlike private confidence and investment, which have been diminished.

Inflation

Inflation accelerated slightly in 2019. As of November 2019, average annual inflation was 2.1 percent, compared to 1.2 percent over the last year. Headline inflation was calculated at 4.9 percent in May. The slight increase was mainly driven by the rise in the global price of grain crops, despite a strong sign of recovery in domestic production. Non-food prices, as well as clothing prices, also peaked in May, reaching 1.7 percent during Jan-Nov and averaging around five percent over 2019, respectively. However, housing and fuel prices declined by 4.1 and 2.5 percent, mirroring lower costs of energy in the international market through 2019.

Average annual inflation remained around 2.3 percent till the end of the year, for low international energy prices offset high food and utility prices during winter.

Poverty

Based on household survey data, 55 percent of the population still lives under the basic needs poverty line. Despite higher precipitation in 2018-2019 winter having favorable impacts on rural livelihoods and allowing some internally displaced people to return to their communities, agricultural growth had uneven effects on household incomes and expenditures.

Agriculture sector

The agriculture sector remains as a vital driver of the economy, with 7.5 percent growth, accounting for 1.37 percent of overall growth in 2019. Production of cereals (16.6 percent growth), increased rainfed wheat cultivation, as well as accelerated growth in fruit (5 percent growth) and industrial crop production due to higher precipitation, played central roles in agricultural extension.

However, vegetables and other industrial crops balanced around five percent, compared to considerable growth of 32 percent in 2018.

Banking sector

For the year 2018, the net profit of the banking sector was AF 2.4 billion as compared to AF 1.93 billion in the preceding year. As a result of increased profit, the return on asset (ROA) increased by 0.81 percent compared to the figure in the same period in 2017. Likewise, banking sector profitability improved slightly, with the ROA rising from 0.55 percent in December 2018 to 0.62 percent in October 2019. Da Afghanistan Bank's gross international reserves have been increasing through 2019, reaching US$ 8,553 million in October.

Private sector credit

Weak business confidence reflecting a high level of uncertainty has resulted in the contraction of private sector credit of the banking system by four percent in November. The decrease was mainly driven by a 13.9 percent drop in foreign-currency-denominated loans. Since the Kabul Bank crisis in 2011, when a significant portion of loans was written off, foreign currency loans have been falling regularly.

As the financial intermediary function of banks remains extremely weak, total bank loans to non-financial private sector constitute 14.21 percent of bank assets and only 3.17 percent of GDP. Excess liquidity of banks was massive, comprising 67.75 percent of bank assets in September 2019.

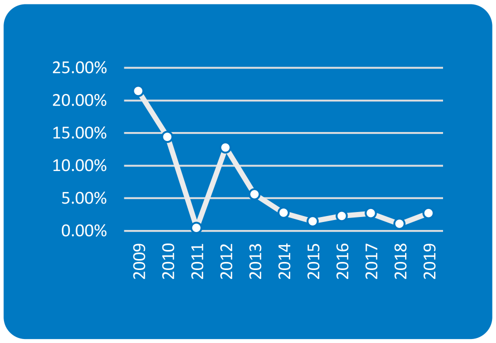
Import/Export

The trade deficit has narrowed to a small degree, constituting 31.4 percent of GDP in 2019 compared to 32.7 percent of GDP in 2018, despite slowing export growth. Imports dropped by 8.2 percent due to a reduction in domestic demand and higher agricultural output during the first three quarters of 2019. Also, exports experienced a 5.4 percent decline compared with the same period in 2018. The decline in exports was mainly driven by a large drop in vegetable and mineral exports. The current account balance remained close to the 2018 level, with around three percent surplus of GDP in 2019. Both workers' remittance and trade deficit contributed to the current account. Notable aid flows continued to redeem the large gap.

Growth outlook

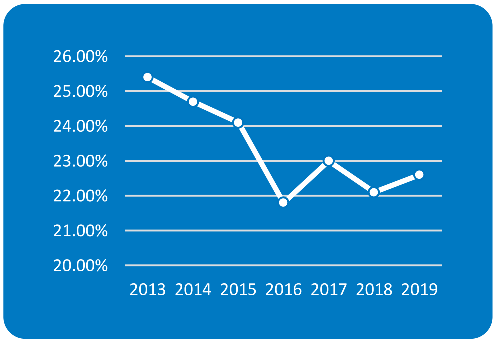
In 2020, growth is expected to reach 3.3 percent, for subside of drought impacts, and recovery in private sector confidence following the presidential election. Over the medium term, growth is expected to accelerate around four percent as given political stability improves, the security situation remains constant, and international grants decline gradually. Along with growth betterment, inflation expected at 3.5 percent and 5 percent in 2020 and over the medium term, respectively.

Afghanistan GDP Growth (Annual %)



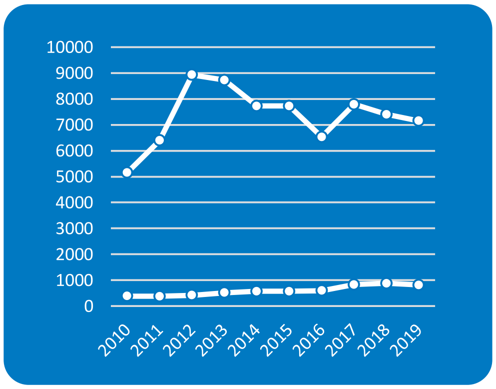
Source: Da Afghanistan Bank

Agriculture Contribution as % of GDP



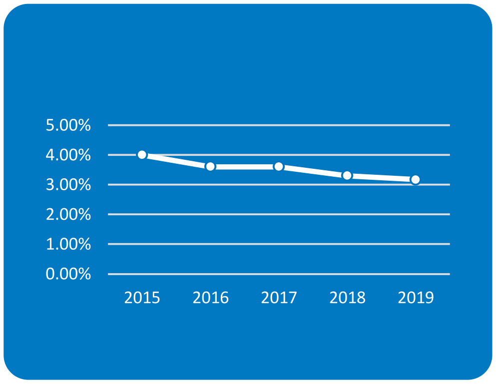
Source: Da Afghanistan Bank

Afghanistan Exports/Imports 2010-2019 (in US$ millions)



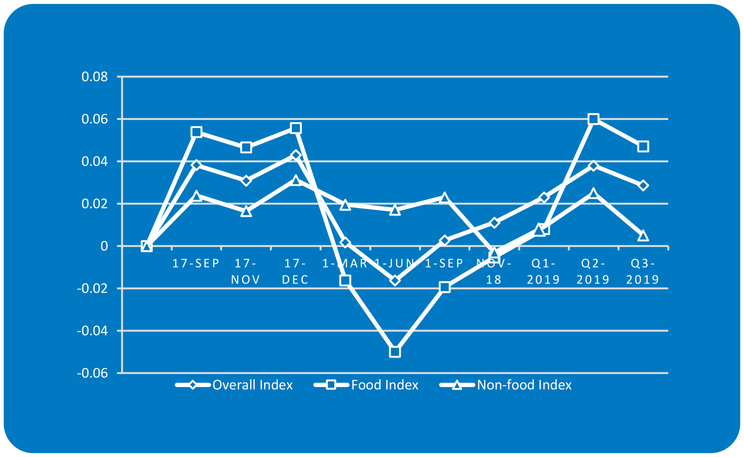
Source: Da Afghanistan Bank

Bank's' Credit to Private Sector in % of GDP



Source: Da Afghanistan Bank

Afghanistan Inflation Rate 2017-2019 Q3



Source: Da Afghanistan Bank

Key Achievements 2019

FMFB-A launched Online Banking Service for its retail customers

Automation of reporting by the creation of various reports including LCTR, and implementation of Compliance Management solution for AML/CFT and KYC (Oracle FCCM solution).

At the last quarter of 2019, the bank launched 'Startups Finance' product: SME Startup financing will avail a host of term loan (working capital or asset-backed loans) for the Small, Medium Businesses which are at the earliest stage of their business life-cycle.

Centralization of account opening and Compliance Function: The bank has established a centralized account opening department and compliance software has already been implemented, therefore, for better control and segregation of duties, the compliance function was centralized.

Establishment of Credit Department: SME and MF merged to form a unified credit department.

Establishment of a Complaint Management Unit

Centralizing account opening process to improve controls on KYC and AML deficiencies.

Establishment of Recovery and Specialized Asset Management (SAM) unit.

Development of FMFB-A's AML/CFT Policies and Procedures.

Values Based Banking (VBB)

In February 2016, FMFB-A joined the Global Alliance for Banking on Values (GABV), an independent network of banks using finance to deliver sustainable social, environmental and economic development. Basic requirements for membership were:

- Being a regulated Financial Institution
- Having a Mission which incorporated Sustainability criteria
- T ransparency in governance and reporting

Upon joining, FMFB-A committed to the GABV set of 6 Principles of Sustainable Banking which define the fundamental pillars of Values-Based Banking and set the parameters whereby Financial Institutions which follow this business model are identified and defined.

Our Vision is to become the first Sustainable Bank in Central Asia – a role model for other Banks in Afghanistan and the wider region.

Our Mission is embodied in the Sustainable Banking Principles ("the Principles") which lie at the heart of our belief system and business strategy. Individually, each principle is equally important and taken as a whole; they form the FMFB-A's collective conscience and DNA.

FMFB-A's Sustainable Banking Framework Policy guides how the Principles will be embedded in our business model, our strategic objectives and decision making, our culture and our day-to-day operations.

Our Guiding Principles, aligned with the GABV Sustainable Banking Principles and are as follows:

Principle 1: Triple Bottom Line (TBL) approach at the heart of the business model

Our focus is simultaneously on people, planet and prosperity. Our strategic initiatives, products and services are designed and developed to meet the needs of people and safeguard the environment; generating reasonable profit is recognized as an essential requirement of sustainable banking but is not a stand-alone objective. Importantly, we embrace an intentional approach to triple-bottom-line business – we don't just avoid harming, we actively use finance to do good.

Principle 2: Grounded in communities, serving the real economy and enabling new business models to meet the needs of both

We serve the communities in which we work. We meet the financial needs of our geographic and sector-based communities by financing sustainable enterprise in productive economies.

Principle 3: Long-term relationships with clients and a direct understanding of their economic activities and the risks involved

We establish strong relationships with our clients and are directly involved in understanding and analyzing their economic activities and assisting them to become more sustainable themselves.
Proper risk analysis is used at product origination so that indirect risk management tools are neither adopted as a substitute for fundamental analysis nor traded for their own sake.

Principle 4: Long-term, self-sustaining, and resilient to outside disruptions

We adopt a long-term perspective to make sure we can maintain our operations and be resilient in the face of external disruptions. At the same time, we recognize that no bank or its clients are entirely immune to such disruptions.

Principle 5: Transparent and inclusive governance

We maintain a high degree of transparency and inclusiveness in governance and reporting. In this context, inclusiveness means an active relationship with a bank's extended stakeholder community, and not only its shareholders or management.

Principle 6: All of these principles embedded in the culture of the bank

We seek to embed these principles in our culture so that they are routinely used in decision-making at all levels. Recognizing that the process of embedding these values requires deliberate effort, and our human resources policies will reflect our values-based approach (including innovative incentive and evaluation systems for staff), and develop stakeholder-oriented practices to encourage sustainable business models. FMFB-A will also have specific reporting frameworks to demonstrate their financial and non-financial impact.

The bank is actively pursuing an approach where we focus simultaneously on People (quality of life changes), Planet (protecting the environment) and Prosperity (economic resilience), commonly referred to as the -Triple Bottom Line.

The management is working towards improving the systems that will help better to measure the institution's social impact on our clients. The following strategy is envisioned, which will strengthen the bank's social performance:

- Clearly defining the social Mission, goals and objectives of the institution.
- Understanding client needs and linking the feedback to the product development cycle.
- Monitoring and analyzing client dropouts and linking the feedback to the product development cycle.
- Understanding the social impact of the institution's products and services on the client and family.
- Configuring management information systems enabling tracking of key social indicators.
- Developing and communicating SMART social targets for staff and monitoring progress.
- Undergoing social audits and rating – appraisals.

The bank's overarching product strategy is to affect demonstrable, measurable and lasting improvements in the lives of its clients by delivering appropriate financial services to help alleviate environment, economic, and social exclusion. The bank also endeavors to develop and market products that cater to conventional customers and to generate revenue from high-income groups.

Our current suite of products/services includes deposits (CASA and TD) and loans (micro-enterprise, small business, agriculture/livestock, personal consumption, incremental housing, SME financing), corporate loans along with commercial banking services including domestic fund transfers, international remittances, foreign currency exchange, and bulk payroll processing. However, based on FMFB-A's Sustainable Banking Framework Policy, the bank pursues appropriate product design and delivery mechanisms including loans targeting women, financing for energy-efficient, seismic-resistant incremental housing, and soon to introduce loans to promote the use of renewable energy systems/products.

Alternative Delivery Channels

In the continuously changing world of today, where the old ways of doing things are no longer valid, notably the way financial institutions perform their transactions. FMFB-A has adapted to these changes and embraced newer ways of branchless banking or alternative delivery channels.

Alternative Delivery Channels (ADC) introduced by FMFB-A includes ATMs, Online Banking, International Debit/Credit Cards, Mobile Banking, Phone Banking, POS, and other channels. These channels expand the reach of services beyond the traditional bank branch channel, serve the Bank's customers' needs at their convenience, assist as an alternative to complement the existing delivery channels. Though it cannot be considered as a replacement to the existing structured delivery channels, the ADC has manifested its ability to meet customers' expectations by ensuring accuracy, convenience, and timeliness in service 24/7.

To look after its ADCs, FMFB-A established the Alternative Delivery Channel Unit back at the end of 2019. With the core delivery channel (branch footprint) restructured to incorporate functional ATMs, additional channels and associated products/services will be piloted and expanded off this backbone. All these channels would strengthen the e-money ecosystem. Further partnerships with merchant services and Roshan products/services targeted at SMEs will expand revenue streams as well as diversify the client base.

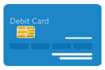
The primary purposes of the ADC are to meet organizational objectives, reduce the cost of operation, smooth day-to-day operations as well as enabling paperless banking by satisfying the customers more effectively and efficiently as the traditional branch services have been converted into electronic.

Online Banking

FMFB-A's online banking facility caters to its customers' banking needs 24/7 from the comfort of their homes or offices. As running a business means being fast, flexible, and available at all times, the Bank's online banking service provides its customers with a fast, easy and secure way via Internet Browser and Mobile Apps to manage their accounts and transactions remotely without visiting the Bank branch.

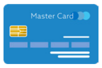
ATMs

FMFB-A plans to have a network of 30 ATMs all across Afghanistan within the next five years. Like most ATMs, customers will be able to withdraw cash, transfer money between bank accounts, generate mini-statements, etc. at any time of the day from FMFB-A's ATMs.



Debit Card

FMFB-A plans to launch and introduce its Debit Card service in the year 2020. The cards will be empowered by Mastercard, which will allow the Bank's customers to access their accounts' available funds all around the world via any ATM, POS, and/or Internet for online purchases.



Credit Card

FMFB-A also plans to launch and introduce its Credit Card service (empowered by Mastercard) in the year 2020.

Human Resource Development

Human resource development is one of the most significant aspects of any organization. The focus of all aspects of Human Resource Development (HRD) is on developing the most superior workforce so that the Bank and individual employees can accomplish their work goals in service to customers. The Bank needs to enhance the HRD Framework for hiring talented and assisting existing employees, develop employees' personal and organizational skills, knowledge, and abilities.

Progress 2019

FMFB-A set four main objectives to strengthen Human Capital function and developed a superior workforce during 2019.

Talent Acquisition

Reduce vacancy rate by 5% fill 90% of management vacant positions

1) Intelligent/innovative recruitment strategy.
2) Build a Competitive Compensation & Benefit.
3) Create talent pool and internal promotion.

System and Compliance

Strengthen control on human capital risks

1) Establish human capital policies in compliance with core values and regulatory requirement
2) Establish lean HR processes
3) Leverage use of technology (HRMIS)

System and Compliance

Strengthen HR capacity through learning & development

1) Initiate leadership & management development program
2) Develop advance level technical competencies
3) Create learning culture

Housing Loan - Tameer

Increase employee productivity

1) Develop modes of internal communication
2) Improve working condition
3) Open for feedback from employee and resolve conflict

2019 Human Capital Department Priorities

At the end of Q4 2019, the FMFB-A has made significant progress.

Talent Acquisition

1. Reduced vacancies rate at management level from 30% to 5% and localized four senior management positions.
2. Reviewed and improved employee benefit and salary scale system to ensure transparency and equality.
3. Conducted a talent review for the first and second-tier managers and created a baseline for the talent pool, succession plan, and strengthened internal promotion system.

System & Compliance

1. Completed Human Capital Policies Manual review in compliance with the regulatory requirement.
2. Increased efficiency and transparency of human capital management and processes.
3. Completed rectification and implementation of audit recommendation & corrective action plan.

Learning & Development

1. Completed organization training needs assessment and clarified long-term capacity building objectives, developed, and implemented a training plan for 2019.
2. Introduced a 70/20/20 learning approach; an employee-centric learning model to encourage employees to take charge of their learning and focus on a long-term career path.
3. Facilitated advanced workshops for managers, including technical knowledge in finance, risk management, SME finance, and digital financial services.

Employee Engagement

1. Completed HRIS implementation (Phase I) and digitalization of attendance and leave documentation, and payroll management.
2. Strengthening internal communication, employee grievances, disciplinary and whistleblowing policies, and handling procedures.
3. Established employee newsletter, and conducted an employee engagement survey.

Way Forward 2020-2023

The following objectives will be implemented to accomplish and develop a superior workforce by the year 2020:

Talent Acquisition (2020)

The year 2020 will mark the origination of a talent pool, succession plan of management and critical positions, and review of Compensation & Benefits policies to ensure competitiveness and comply with regulations. To be competitive and acquire talent through aggressive recruitment and succession planning, the following strategies are undertaken by the Human Capital department:

Recruitment:
To apply human capital expertise more assertively to support the business divisions to find the right person for the right job and deliver results, identify innovative ways to attract qualified Afghan candidates to join the bank through an aggressive recruitment campaign, talent hunting, internship program, and competitive compensation and benefits package.

Succession Planning:
To create a talent pool for critical management position preventing key positions being vacant for an extended period by engaging the bank leadership to identify critical management positions and critical competencies and skill required to achieve business goals, identify potential employees, inspire and prepare them to take essential management positions in the future through management development program, coaching, mentoring and exposure to challenging assignments.

Going live with the HRIS (2020)

By the end of 2020, The Bank will go live with the Human Resource Information system (HRIS) in the head office as well as across all the branches of FMFB-A which is basically an intersection of human resources and information technology. This allows HR activities and processes to occur electronically.

Employee Capacity Building (2020)

In the last quarter of 2019, the Bank conducted an organizational capacity gap analysis to define talent development goals and priorities. Hopefully, by the end of 2020, the Bank will execute a comprehensive, integrated training and development program that supports the HR development strategy. Talent development programs will build the capabilities and skills of both managers and employees through:

- Leadership and Management Development – Enhance managers' skills, competencies, and knowledge to improve both individual and organizational performance.
- Academic Qualification and Professional Certification Program - Technical competencies alignment – Identify and build professional competencies required to achieve business goals which include achieving adegree and professional certification required for professional bankers such as ACCA, CIA, CAMS, MBA, CIPD, and etc.
- Innovation - Effective use of technology to facilitate responsive and reflective learning opportunities.
- Create an environment that promotes learning and innovation.

Compliance and Risk Management Framework

Compliance Framework

In today's highly regulated environment, the pressure to comply with regulatory requirements is rapidly increasing, especially within the financial services industry. Compliance to regulatory, internal guidelines and international standards is one of the key objectives of The First MicroFinanceBank – Afghanistan. The Bank's Board and senior management are committed to sticking to the highest standards of regulatory and internal guidelines. This ensures that the Bank's operations are conducted within the range of legality and the broader standards of integrity and ethical conduct.

Enforcing strict compliance allows FMFB-A to detect and stop violation of laws, regulation and internal policies, protect its shareholders' and employees' integrity, treat customers fairly, earn trust & credibility, and save itself from unnecessary regulatory penalties.

The compliance department of FMFB-A, in accordance with the Bank's policies, oversees compliance aspects and management of compliance risks faced by the Bank. Additionally, The Compliance department monitors the implementation of Know-Your-Customer (KYC), Anti Money Laundering (AML), combating terrorist financing, reporting of suspicious transactions guidelines in the Bank. Compliance department regularly reports on updates and improvements in the compliance field to the Board and Senior Management.
During 2019, Compliance department followed the Board's guidelines to ensure sound compliance related to central bank prudential regulations, applicable existing laws and regulations, directions for KYC, AML, CFT, accurate data/returns submission to regulator, and monitoring and reporting of suspicious transactions/activities.

For better compliance, during 2019, FMFB-A has taken the following steps:

1. Drafted comprehensive policies and procedure that are approved by board and central bank.
2. Acquired and implemented efficient profiling and transaction monitoring system (Oracle FCCM solutions for AML/CFT and KYC) which is competent to automatically assess customers' risk and alert the pre-defined risk-based scenarios.
3. Automated the regulatory reporting (Large Cash Transaction Reporting (LCTR)). Developed bank-wide Money laundering and terrorist financing risk assessment. Developed processes to identify, assess, monitor, manage and mitigate money laundering and terrorism financing risks.
4. Launched comprehensive training program across the Bank, covering central bank prudential regulations, internal policies and procedures related to KYC/AML and CFT, code of conduct, fraud and forgery.

Risk Management Framework

At FMFB-A, we practice "Risk Management Framework", providing a coherent foundation for such effective risk management, in which, an overarching methodology and guideline outlined for governing the key risks that FMFB-A faces. The Framework facilitates oversight of and accountability for key risks, including credit risk, market risk and operational risk at all levels of the entity. The Board of Supervisors exercises oversight and guides effective risk management to various committees, consist of experienced committee members. The committees are responsible for execution and supervision of risk management activities under the approved policies and procedures.

Credit Risk

In 2019 to further strengthen the credit risk function, Credit Department was established; SME and MF merged to form a unified credit department under the leadership of Chief Credit Officer. The Credit Department has helped to make improved and client-centric decisions. Furthermore, the process segregated to sales and credit administration, so that sales team shall concentrate on quality underwriting, and on the other hand centralized credit administration ensures quality control in account opening and maintain high-quality documentation, enhance internal control and improve compliance in customer onboarding.

Liquidity Risk

In 2019 to further strengthen the liquidity risk management framework, FMFB-A developed required policies to ensure the Bank's fund sufficiency to support growth. And in pursuit of this goal, stress tests related to liquidity management are conducted by RMD. Also, monitoring of market risk process has been strengthened.

Operational Risk

As per the Bank's policy, to manage operational risk, we use Operational Risk Management practices which enables us to determine our operational risk profile, identify operational risk themes and concentrations, and define risk-mitigating measures.

To cover the broad range of operational risk types, we use several operational risk management tools, such as Risk Control Self-Assessment (RCSA), Risk Registers, Operational Loss Data Management and Key Risk Indicators. The tools help us to identify, assess and mitigate operational risks.

Business Continuity and Disaster Recovery

FMFB-A reviewed its Business Continuity Plans (BCPs) and introduced comprehensive BCP programs comprised of Master BCP, InfoTech Disaster Recovery, Cyber Incident Response Plan and Emergency Response Plan.

The BCP restores the critical business processes of the Bank in a timely and orderly manner, provides the basis of interim operation as well as ensures that all essential business functions continue in the case of disaster. The BCP teams will use the Business Continuity Plan, and all concerned staff as an action guide in the event of a disruption will respond to a disaster event.

Implementation of Business Continuity Management in true spirit can only be achieved through continuous awareness, training sessions and most importantly, hands-on training about Business Continuity Management. Therefore, the Operational Risk Management Unit of Risk Management Department delivered the training to Senior Management, HO departments and Branch Management staff. FMFB-A formed its Disaster Management Committee (DCM), and at both HO and branch level, members of the response team are assigned where every member is backed-up with alternate resources.

Internal Control Environment

An internal control system is a collection of policies, procedures, and processes designed and implemented by the Bank's management to safeguard bank assets, limit or control risk, and achieve the Bank's objectives. An effective internal control system might prevent or detect mistakes as well as potential fraud or noncompliance with bank policies.

An adequate system of internal controls to seek effectiveness and efficiency in operations while sticking with laws and regulations has been formulated, implemented, and maintained by the management of the Bank as though the system requires continuous improvement due to changes in the environment and needs of the business.

Bank's Management plans, organizes and directs the performances of sufficient processes to provide reasonable assurance that objectives and goals to be achieved in alignment with the Internal Control Framework defined by the Committee of Sponsoring Organizations (COSO) in the following areas:

i. Effectiveness and efficiency of operations
ii. Reliability of financial reporting
iii. Compliance with applicable laws and regulations
iv. Safeguarding of the organization's assets

While business control is a process, its effectiveness is a state or condition of the process at one or more points in time. Internal control consists of five interrelated components. These are derived from the way Management runs the business and are integrated with the management processes.

Various levels of monitoring activities are practiced in the internal control structure of the Bank. The Bank has adopted the 3LOQ Model, in which the first line is made of front-office, customer-facing and enabling functions, the second line is Compliance and Risk Management functions, and the third line is Internal Audit function.

As we expect a growth in deposit and loan portfolio, to avoid various types of risks associated with the growth, a series of preventative measures have been taken to enhance the internal control environment. The automate Loan Origination System (LOS) replaced manual loan processing which significantly diminished the chance of human error and manual override controls. The account opening process was centralized to improve controls on KYC and decrease AML deficiencies. A comprehensive Transaction Monitoring System (TMS) was deployed to monitor transactions on a real-time basis and identify suspicious transactions for further investigation. In the first quarter of 2019, the Bank proactively reviewed and assured Governance, Risk Management and Controls of the Bank by embarking on an internal audit transformation program.

The results of reviews show that the Banks' existing system of internal controls, including Internal Control over Financial Reporting is satisfactory with practical implementation and monitoring while the management seeks to improve these controls furthermore. The Board of Directors has duly endorsed management's evaluation of internal controls.

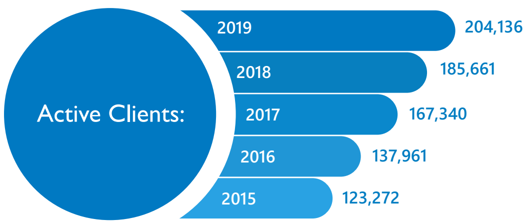
Record Management

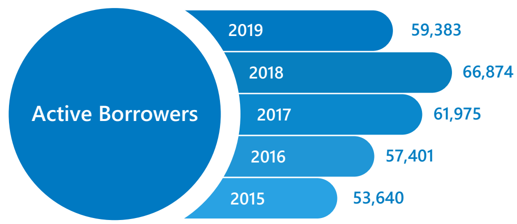
As per legal and regulatory requirements, the Bank's stores its records to ensure compliance and sustained business operations. The files are archived in a secured manner as follows:

- Stores data at a secure location with protection against physical deterioration, fires, natural disasters.
- The Bank has a disaster recovery site to provide the immediate backup of all primary data, in line with the business continuity practices.
- Record management ensures that valuable records evidencing an organization's activities that have legal, financial, administrative, or historical value are protected and accessible.

Financial Highlights 2019

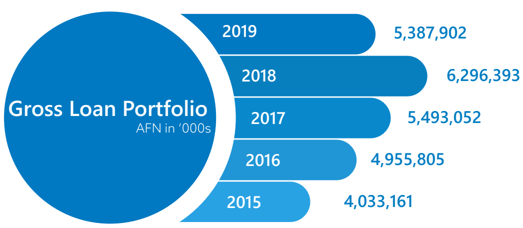
Active Clients: 204, 136

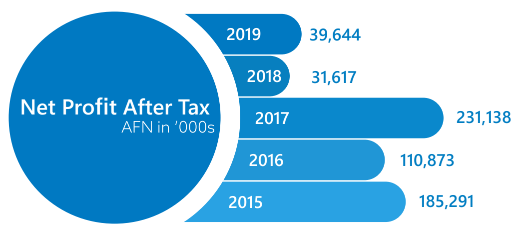




Gross Loan Portfolio: 5,387,902

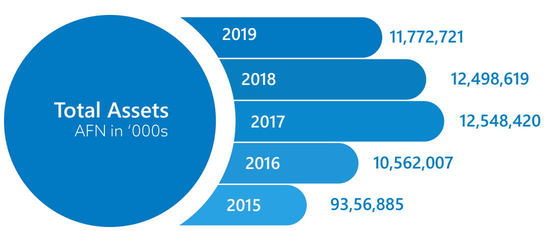
AFN in '000s

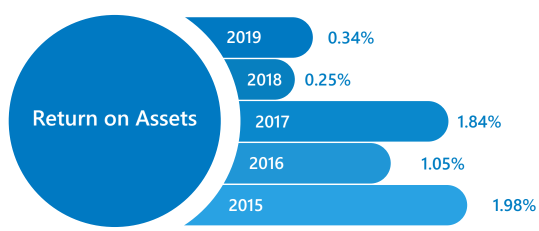




Net Profit After Tax: 39,644

AFN in '000s






2019
Performance
Review
Total Clients
204,136
Total
Depositors
206,374
Number
of Branches
38
Total
outstanding
portfolio
5,387,902
Number
of Savers
80,363
Total
Number of
Female Staff
133
Total Number
of Trainings
40
Capital
Adequacy
Ratio (CAR)
33.8%
Profit after
Taxation
39,644
Profit Before
Taxation
50,293
Women
Borrower
13,499
Total
Employee
1,196
Number
of Borrowers
59,383

Shareholders

Our shareholders play a vital role to contribute towards our mission of uplifting the underprivileged segments of the society in Afghanistan. Our shareholders include Agha Khan Development Network (AKDN), Kreditanstalt Fur Wiederaufbau (KfW), International Finance Corporation (IFC) and Agha Khan Foundaiton U.S.A (AKF USA), which collaborate with FMFB-A to improve the life of the people with various products and services offered.

Shareholding Structure

The shareholding structure of the bank as at 31st March 2019 is as below:

No	Name of Shareholder	Percentage of Shareholding
1	Aga Khan Agency for Microfinance (AKAM)	39.4%
2	Kreditanstalt Für Wiederaufbau (KfW)	31.9%
3	International Finance Corporation (IFC)	16.8%
4	Aga Khan Foundation USA (AKF USA)	11.9%

Shareholder Profiles

Aga Khan Agency for Microfinance (AKAM)

For more than 60 years, various agencies of the Aga Khan Development Network (AKDN) have offered microfinance services through integrated development programmes and self-standing microfinance institutions. Savings groups and revolving housing loans were offered by AKDN institutions as early as the 1950s. Later, the Aga Khan Rural Support Programmes (AKRSP) in India and Pakistan made savings groups a cornerstone of their integrated approach to development. These programmes, as well as others, helped start businesses, create jobs, build homes and finance house improvements, purchase seed and livestock, smooth over the impact of unforeseen health costs and make higher education possible. Today, these programmes have been brought together under the Aga Khan Agency for Microfinance (AKAM). The underlying objectives of AKAM are to reduce poverty, diminish the vulnerability of poor populations and alleviate economic and social exclusion. AKAM aims to improve the quality of life of people by helping them to improve their incomes, become self-reliant and gain the skills needed to graduate into the mainstream financial markets.
For more information, visit www.akdn.org/akam.asp

Kreditanstalt Für Wiederaufbau (KfW)

The KfW is a German government-owned development bank, based in Frankfurt. KfW provides economic impulses for the economy, society and ecology in Germany, Europe, and the world over. It supports change, promotes promising ideas and finances investments and accompanying consulting services in developing countries. It carries out its work and its development mandate on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

International Finance Corporation (IFC)

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries. Established in 1956, IFC is owned by 184 member countries, a group that collectively determines our policies. Our work in more than 100 developing countries allows companies and financial institutions in emerging markets to create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities. IFC's vision is that people should have the opportunity to escape poverty and improve their lives. As the largest global development institution focused on the private sector, IFC works closely with businesses in developing countries to help them succeed in ways that promote prosperity for all. The IFC's stated aim is to create opportunities for people to escape poverty and achieve better living standards by mobilizing financial resources for private enterprise, promoting accessible and competitive markets, supporting businesses and other private sector entities, and creating jobs and delivering necessary services to those who are poverty-stricken or otherwise vulnerable. Since 2009, the IFC has focused on a set of development goals that its projects are expected to target. Its goals are to increase sustainable agriculture opportunities, improve health and education, increase access to financing for microfinance and business clients, advance infrastructure, help small businesses grow revenues, and invest in climate health.

Aga Khan Foundation U.S.A. (AKF)

Aga Khan Foundation U.S.A. (AKF USA), established in 1981 in Washington DC, is a private, non-denominational, not-for-profit international organization committed to the struggle against poverty, hunger, illiteracy and poor health, primarily in Africa and Asia. The Foundation works to address the root causes of poverty by supporting and sharing innovative solutions in the areas of health, education, rural development, civil society and the environment. Using community-based approaches to meet basic human needs, the Foundation builds the capacity of community and non-governmental organizations to have a lasting impact on reducing poverty. Aga Khan Foundation has branches and affiliates in 20 countries with its headquarters in Geneva, Switzerland since 1967. AKF USA is an agency of the Aga Khan Development Network (AKDN). AKF USA's role within the Network includes mobilizing resources and strategic partnerships with a variety of U.S.-based institutional partners including government agencies, policy institutes, corporations, foundations, NGOs, universities, associations and professional networks. AKF USA serves as a learning institution for program enhancement, policy dialogue and disseminating best practices and knowledge resources. It collaborates in providing technical, financial and capacity-building support to other AKDN agencies and programs worldwide. In facilitating and representing AKDN interests in the US, AKF USA organizes outreach campaigns, manages volunteer resources and conducts development education among US constituencies.

Our Products and Services

As Afghanistan's largest microfinance bank, we are firmly committed to provide financial services to the country's low-income population in order to promote entrepreneurship and improve their standard of living. We aspire to empower our clients through efficient delivery of financial products and services suited to their goals and help them pursue their ambitions. Our product suite includes a host of offerings catering to a wide spectrum of clients ranging from "Bottom-of-the-Pyramid" segment to high net-worth SME businesses.

Loans

Agriculture Loan – Zara'at & Zaare

Flexible term loan designed to meet the financing needs of smallholder farmers/livestock owners for horticulture, irrigation, dairy, poultry and allied agriculture activities across the entire agro-value chain from farm to fork.

Small Enterprise Loan – Karobar

Individual term loan designed for entrepreneurs (artisans, craftsmen, and small traders/service providers) engaged in income generating activities to facilitate expansion/upgrade of business, asset purchase, replenishment of stock (raw material, inventory) etc.

SME Loan

Term financing for SME customers to meet their genuine long-term financing needs for business such as capex, upgrading factory/ office construction, purchase of property or fixed asset acquisitions or boost permanent working capital.

SME Over Draft

Flexible form of borrowing intended for SMEs to finance day-to-day cash flow requirements generated by normal business activity and utilize funds as and when required without a fixed repayment schedule.

Housing Loan - Tameer

Incremental housing loan for low-income earners for renovations and/or expansion of house structures, connection to domestic utilities like water and electricity; septic tanks/wells; construction of boundary walls, windows, kitchen, toilets, tube well etc.

Personal Loan - Shakhsi

Loans for employees of approved panel organizations seeking financing for consumption purposes.

Women Loan Individual (Khodkefa)

Individual loan with preferential rates designed for female entrepreneurs engaging in income generating activities.

Awdat Loan

The product is designed to empower Afghan returnees repatriated from Pakistan of Iran in the last 1 to 10 years. The objective is to promote income-generating activities among Afghan returnees in order to enable them to become self-sufficient.

Women Loan (Group)

Group loan with preferential rates designed for female entrepreneurs engaging in income generating activities.

Accounts

Current Account

Non-remunerative current account with free SMS alerts offered in AFN/ USD and EUR - making everyday banking easier.

Basic Banking Current Account

A no-frills basic current account with no minimum balance requirement.

Savings Account – Mahfooz

Savings account in AFN, USD and EUR - powered with all the features of a transactional account with monthly profit payout to grow savings.

High Yield Savings Account

Available in AFN and USD - offers a higher profit rate paid out quarterly calculated on monthly average balances maintained.

Women Savings Account

Savings scheme for women to meet their financial needs offering a higher profit rate paid out monthly - empowering Afghan women with financial independence and simplified banking.

Term Deposit Account

Offer a higher rate of return on investments starting from as little as AFN/ USD/EUR/AFN 25,000 or USD 500 AFN 25,000 or USD 500 On Maturity 1 Month 3 Months 6 Months 1 Year 2 Years 3 Years

Other Products and Services

Employee Banking

Bulk payroll processing facility for Employers.

Online Banking

A method of banking in which transactions are conducted electronically over the Internet.

Agent Banking

Loan disbursements and repayments at M-Paisa agents through partnership with Roshan Telecom.

Women-only Branch

In keeping with the social fabric of contemporary Afghan culture, the unique women-only branch is aimed at providing women with a viable alternative to address their banking needs - offers concessional loan schemes for female entrepreneurs.

SMS Notifications

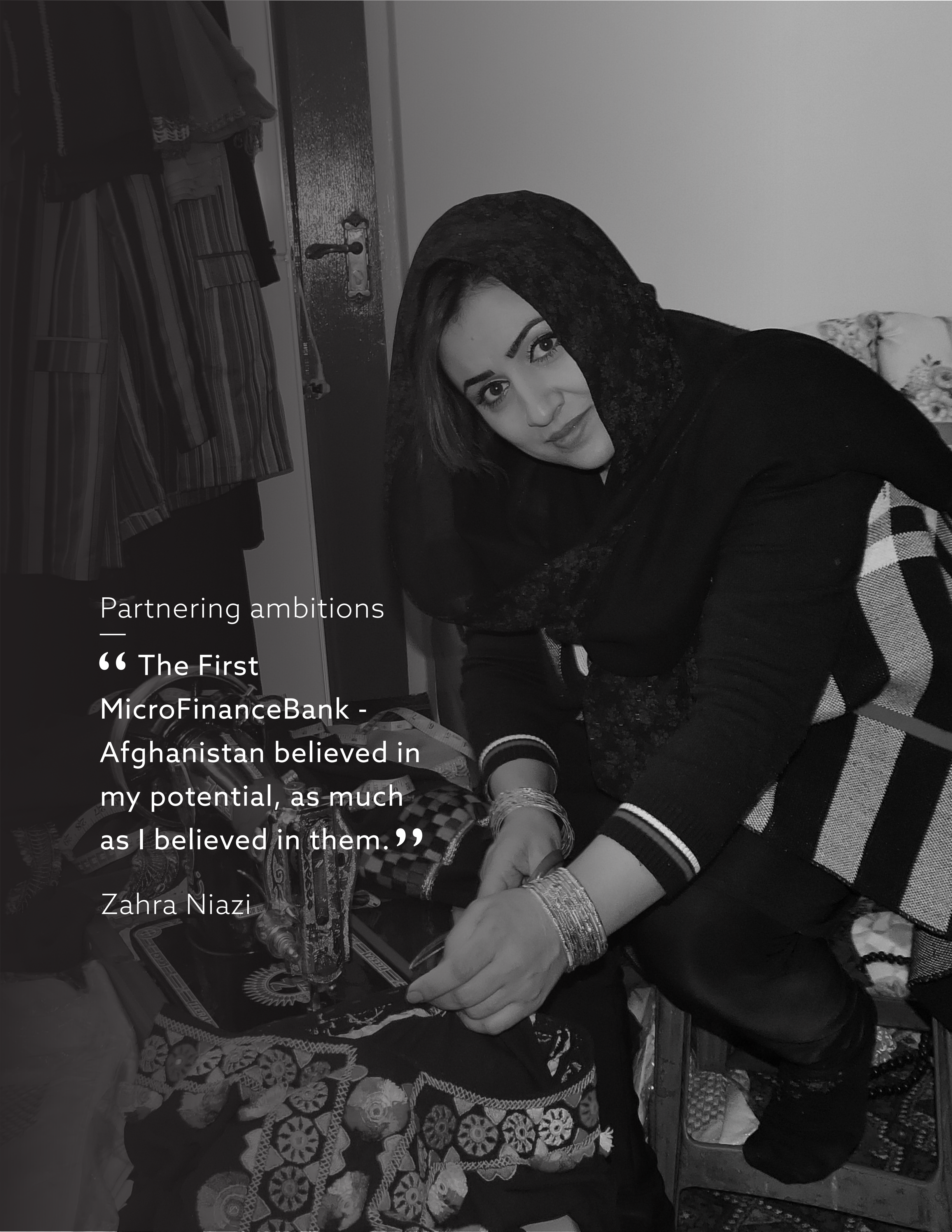
Real-time transaction alerts for Deposit account holders.

Money Exchange

Foreign currency exchange payments at branch counters (USD, EUR).

OTC

The Bank's customers loan repayment technique through M-Paisa account of the Roshan Telecom on phones.



Partnering ambitions

“The First MicroFinanceBank - Afghanistan believed in my potential, as much as I believed in them.”

Zahra Niazi

Zahra Niazi

Zahra Niazi is a 32-year old married woman living with her husband and three children in Kabul province. Her husband is a doctor and two of her children are school-aged.

Zahra has been a tailor for the last 13 years. She wanted to expand her business but she did not have enough capital to invest so she was looking for financial assistance. She applied for a loan from The First MicroFinance-Bank - Afghanistan and got approved for AFN 150,000 credit.

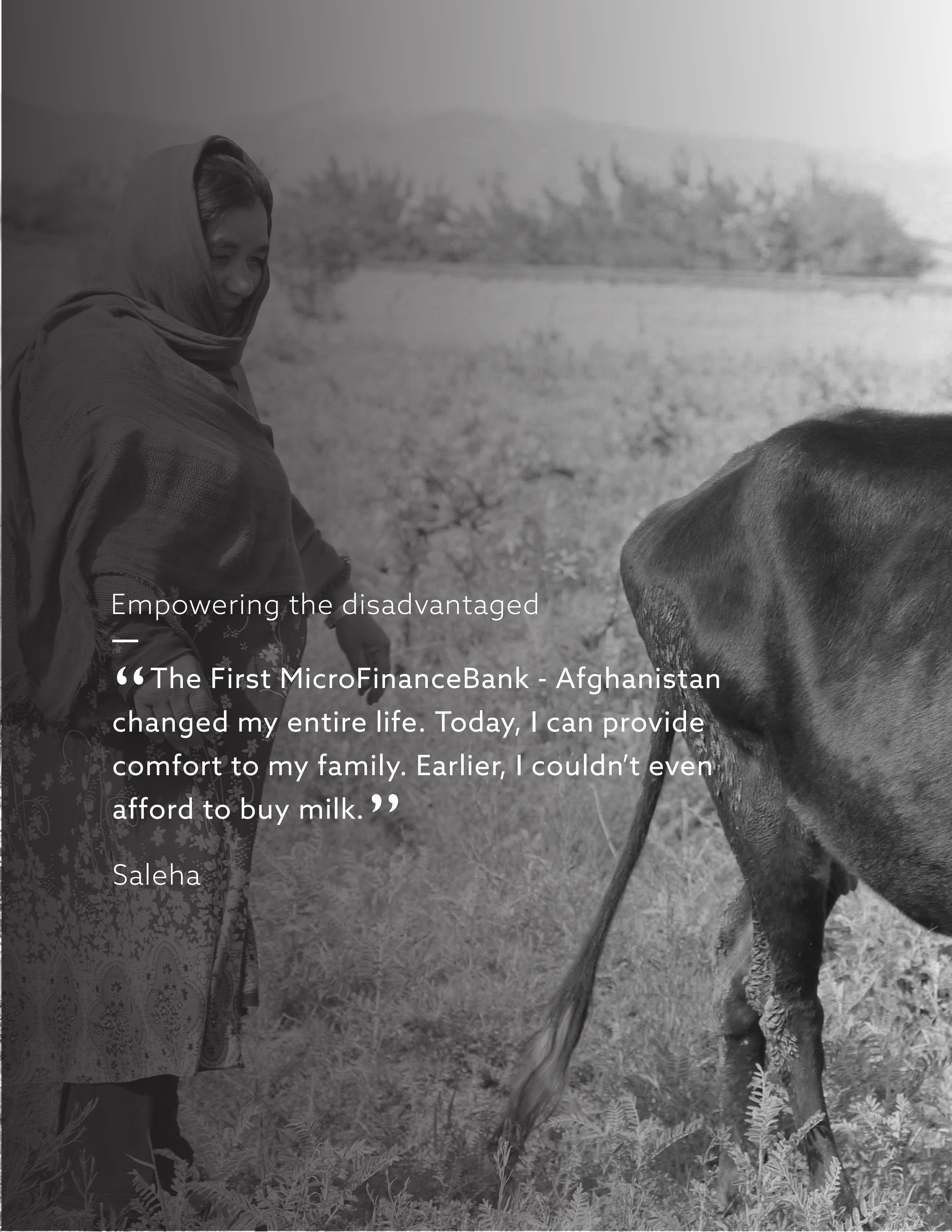
She used the money to purchase necessary raw materials, such as silk fabric, and machinery and started designing new handmade dresses that she later on sold at a good price. When her business grew, Zahra trained and hired 11 women to keep up with the demand and expansion.

She has now been a client of FMFB-A for the past three years. She received three loan cycles of AFN 150,000, AFN 250,000, and AFN 500,000 in succession. The first two loans were invested in expanding the business through purchasing tailoring machines and raw materials, and the third loan was used to fulfill orders from an Indian company.

Zahra has three handicraft and clothes shops in different areas in Kabul. She has a contract with an Indian company to design and export her Afghan-designed products.
Before receiving her loans, Zahra had been earning around AFN 15,000 monthly. Now, after the expansion she was able to undertake with the loans, her monthly income increased to AFN 45,000. Their household expenses doubled from AFN 10,000 to AFN 21,000. At her current income level, she is able to cover household expenses as well as invest in her children's education. In addition, she is able to save AFN 13,000 every month. Zahra's successful business has had a positive impact on her neighbors and friends.
She is planning to open two more shops in Kabul and Kandahar provinces. She will hire four more employees and expand her business beyond Kabul.

In recognition of her business acumen and her inspiring story, Zahra received an award from the Afghanistan Microfinance Association (AMA) in April 2018.

Published by Afghanistan Microfinance Association (AMA)



Empowering the disadvantaged

—

“The First MicroFinanceBank - Afghanistan changed my entire life. Today, I can provide comfort to my family. Earlier, I couldn’t even afford to buy milk.”

Saleha

Saleha

With eight children, Saleha, 34, and her husband were struggling to make ends meet with his meager daily wage income. “My husband worked as a farmhand, and his income was simply not enough; we couldn’t even afford to buy milk,” said Saleha.

Saleha, whose family was assessed to be among the poorest households in her village in the QaraBagh district of Kabul province, was selected to participate in the Targeting the Ultra-Poor (TUP) project in mid-2017. TUP is a grant-based, two-year intervention that grants beneficiaries a holistic and comprehensive package of inputs, including productive livestock, a monthly stipend for daily consumption, skills training, such as financial literacy and livestock rearing, and market linkages.

Saleha was provided with a cow and a calf but the cow had to be replaced soon after distribution due to its low capacity to produce milk. Although the replacement cow could fulfill the requirements of the project, Saleha was not satisfied. So, Saleha decided to sell the second cow intending to buy a hybrid cow except for the earnings from the sale of the cow was not enough. This prompted Saleha to apply for a loan of AFN 17,000 from The First MicrofinanceBank - Afghanistan. With the loan, she was able to buy the hybrid cow estimated to be able to produce five liters of milk per day.

Saleha’s returns from selling milk, combined with the monthly stipend she is receiving through TUP have enabled her to start repaying her loan from FMFB-A. At the same time, she is able to save a portion of her earnings.
Just a few months after the purchase of the hybrid cow, Saleha managed to buy a pregnant goat. The goat now produces three liters of milk. With the milk her animals produce, Saleha’s husband and children not only benefit from consuming fresh milk daily, but also from the additional household income of AFN 200 per day.
Saleha is committed to further expanding her livestock asset and has started saving to buy a second cow. Her husband appreciates what the TUP intervention and the FMFB-A loan both have done to their lives and is not taking things for granted. “I help take care of this livestock and get busy with them all day long,” said Saleha’s husband. “I am thankful for having them, and I am sure they will help change our lives.”

The objective of the TUP intervention came early for Saleha and her family. She is already linked up as an active borrower with a financial institution and is already saving. This has only encouraged her to dream bigger.

The house that Saleha and her family currently occupy is owned by her sister, who is living in Iran. With her business expansion plans, Saleha is confident that someday, she will be able to afford to rent, if not own, a place of their own, especially if her sister decides to return to Afghanistan and reclaim her house.

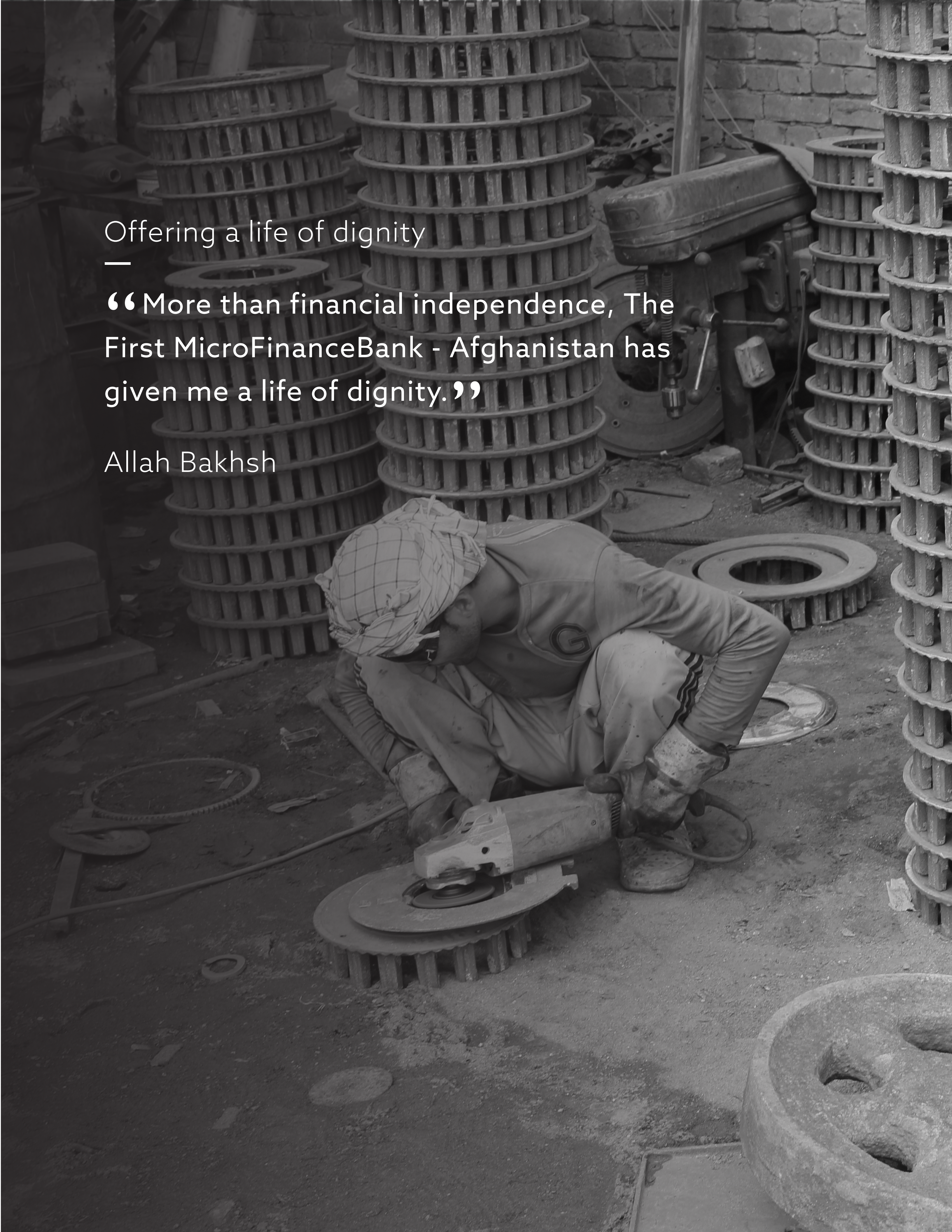
“At last, I am no longer concerned about where to get our next food,” Saleha said. “Now it feels good… it’s a dream come true: that I have already bought new clothes for my kids before the coming Eid celebrations; I have new pillows and mattresses for our home for the big day.”

Published by Afghanistan Microfinance Association (AMA)

Offering a life of dignity

“More than financial independence, The First MicroFinanceBank - Afghanistan has given me a life of dignity.”

Allah Bakhsh



Allah Bakhsh

Allah Bakhsh is 47 years old, married, and living in District 13 of Kabul city. He has two daughters and four sons. He is supporting his family through his own income.

A few years ago, Allah Bakhsh was living in Bamyan province and due to economic issues, he migrated to Iran and stayed there for almost five years. After the fall of the Taliban regime, he returned to his country and resided in Kabul. He started working as a car mechanic for five years and then changed his occupation to cast iron tools production, which has been his business for ten years now.

When he changed his occupation, so he felt that he needs capital to purchase some machinery for his business and thus he was looking for financial support. He heard about loan facility of The First MicrofinanceBank - Afghanistan from one of his friends and applied for his first loan of USD 700. With this amount, he could purchase the required machinery for his business.

In total, he got three loan cycles from FMFB-A that helped him expand his small enterprise. When he started the business, he had only three employees and as his business grew, he hired another three.
Allah Bakhsh's monthly income increased from AFN 12,000 to AFN 100,000. His family expenses also increased from AFN 10,000 to AFN 25,000 monthly. With his income now, he is able to put away savings for a more secured future for his children.

"I am now more respected than before and people are looking at me as a successful business person," said Allah Bakhsh. "People ask me about the secret of my success and my response to them is to take a loan, utilize it for business, either for a startup or business expansion".

In the future, Allah Bakhsh wants to further expand his business and invest on producing cables and other tools needed to build electrical junction boxes.

Allah Bakhsh received an award from Afghanistan Microfinance Association (AMA) in May 2017 for his inspiring story and business acumen.

Published by Afghanistan Microfinance Association (AMA)

Independent Auditors' Report

To the shareholders of The First MicroFinanceBank - Afghanistan

Opinion

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

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

Basis for Opinion

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. 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.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. 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.
5. 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.
6. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

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

Grant Thornton Afghanistan
Chartered Accountants

Grant Thornton Afg.

Engagement Partner: Saqib Rehman Qureshi - FCA
Location: Kabul, Afghanistan
Date:

Grant Thornton GTA Afghanistan

Statement of Financial Position

For the year ended 31 December 2019

	Note	31 December 2019	31 December 2018
		--------- (AFN in '000) ---------	
Assets			
Cash and cash equivalents	6	4,709,883	4,589,836
Placements - net	7	603,353	843,840
Loans and advances to customers - net	8	4,931,284	5,868,698
Operating fixed assets	9	595,797	98,625
Intangible assets	10	78,830	100,672
Other assets	11	853,576	996,948
Total Assets		11,772,723	12,498,619
Liabilities			
Deposits from customers	12	6,602,025	7,669,494
Loans and borrowings	13	2,588,977	2,586,799
Income tax payable - net		11,432	15,519
Deferred tax liabilities - net	14	27,270	22,440
Other liabilities	15	481,189	182,181
Total Liabilities		9,710,893	10,476,433
Equity			
Share capital	16	796,008	796,008
Share premium		206,038	206,038
Retained earnings		1,059,784	1,020,140
Total equity		2,061,830	2,022,186
Total equity and liabilities		11,772,723	12,498,619
Contingencies and commitments	17		

The annexed notes 1 to 33 form an integral part of these financial statements.

Chief Financial Officer   Chief Executive Officer   Chairman

Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	2019	2018
		--------- (AFN in '000)	---------
Interest income	18	1,419,295	1,414,304
Interest expense	19	(165,093)	(195,079)
Net interest income		1,254,202	1,219,225
Fee and commission income	20	78,758	90,347
Fee and commission expense	21	(11,659)	(11,752)
Net fee and commission income		67,099	78,595
Income from dealing in foreign currencies		149,502	130,121
Revenue		1,470,803	1,427,941
Other income	22	48,625	49,333
Impairment loss on loans and advances to customers	8.2	(105,961)	(128,203)
Impairment loss on placements	6 & 7	4,355	(2,693)
General provision on:			
Other assets	11	148	3,700
Personnel expenses	23	(675,716)	(634,054)
Depreciation and amortisation	9 & 10	(129,906)	(59,598)
Finance cost on lease liabilties	15.1	(14,215)	-
Penalties		(8,345)	(9,875)
Other expenses	24	(532,464)	(529,314)
Net operating income		57,324	117,237
Non-operating revenue and expenses:			
Development grant income	15	1,328	1,450
Operating grant income		5,701	12,374
Expenditure against grants	25	(7,029)	(13,824)
		-	-
Profit before tax		57,324	117,237
Income tax expense	26	(17,680)	(85,620)
Profit for the year		39,644	31,617
Other comprehensive income		-	-
Total comprehensive income		39,644	31,617
Earnings per share	27	449	358

The annexed notes 1 to 33 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive Officer

Chairman

Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital	Share premium	Retained earnings	Total
	----------------------- (AFN in '000)			--------------------------
Balance at 01 January 2018	796,008	206,038	988,523	1,990,569
Profit for the year	-	-	31,617	31,617
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	31,617	31,617
Balance at 31 December 2018	796,008	206,038	1,020,140	2,022,186
Profit for the year	-	-	39,644	39,644
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	39,644	39,644
Balance at 31 December 2019	796,008	206,038	1,059,784	2,061,830

The annexed notes 1 to 33 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive Officer

Chairman

Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019	2018
		--------- (AFN in '000) ---------	
Cash flows from operating activities			
Profit before tax		57,324	117,237
Adjustments for:			
Depreciation and amortisation	9 & 10	129,906	61,048
Impairment loss on loans and advances to customers	8.2	105,961	128,203
Impairment loss on placements	6 & 7	(4,355)	2,693
General provision on			
Other assets	11	(148)	(3,700)
Loss on disposal of property and equipment	22	93	(278)
Finance cost on lease liabitlies	15.1	14,215	-
Grant income	25	(7,029)	(13,824)
		295,967	291,379
Changes in:			
Increase in loans and advances to customers		831,453	(805,617)
Increase in other assets		105,955	(29,341)
Increase in deposits from customers		(1,067,469)	92,413
Increase in other liabilities		(20,234)	42,240
		145,672	(408,926)
Income tax paid		(16,937)	(96,907)
Grant received		4,856	13,824
Net cash flows (used in) / from operating activities		133,591	(492,009)
Cash flows from investing activities			
Purchase of property and equipment		(188,349)	(65,563)
Proceeds from disposal of property and equipment		177	675
Net investment in placements		244,842	(446,665)
Net cash flows (used in) / from investing activities		56,670	(511,553)
Cash flows from financing activities			
Repayment of lease liabilities	15.1	(72,393)	-
Proceeds from loans and borrowings		581,991	264,598
Repayment of loans and borrowings		(579,813)	(469,385)
Net cash flows (used in) / from financing activities		(70,215)	(204,787)
Net (decrease) / increase in cash and cash equivalents		120,047	(1,208,349)
Cash and cash equivalents at beginning of the year		4,589,836	5,798,185
Cash and cash equivalents at end of the year	6	4,709,883	4,589,836

The annexed notes 1 to 33 form an integral part of these financial statements.

Chief Financial Officer | Chief Executive Officer | Chairman

Notes to the Financial Statements

For the year ended 31 December 2019

1. STATUS AND NATURE OF OPERATIONS

The First MicroFinanceBank - Afghanistan ("the Bank") was registered with Afghanistan Investment Support Agency (AISA) in December 2003 as a limited liability company and received formal banking license from Da Afghanistan Bank ("DAB"), the central bank of Afghanistan, on 18 March 2004 to operate nationwide. The license of the Bank was renewed by the Ministry of Industries and Commerce on 1 May 2017 till 29 April 2020. Since commencement of operations on 1 May 2004, the Bank has been operating as the leading microfinance service provider in Afghanistan contributing to poverty alleviation and economic development, through provision of sustainable financial services primarily targeted at the micro and small businesses and households.

The registered office of the Bank is situated in Kabul, Afghanistan. The Bank has 38 (2018: 38) branches in operation including 17 (2018: 17) urban branches and 21 (2018: 21) rural / peri urban branches in operation at the year end and employed 1,196 (2018: 1,137) staff.

The financial statements for the year ended December 31, 2019 (including comparatives) have been approved and authorized for issue by the Board of Supervisors on ________________________.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standard Board (IASB), the Banking Law of Afghanistan and other laws and regulations issued by the DAB. In case requirements differ, the provisions of the Banking Law of Afghanistan shall prevail.

2.1 Basis of preparation

These financial statements have been prepared on the historical cost basis except as otherwise disclosed in accounting policies.

These financial statements comprise of 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.

2.2 Use of significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

The judgements, estimates and assumptions applied in the financial statements, including key sources of estimation uncertainty, were same as those applied in the Bank's last annual financial statements for the year ended 31 December 2018 except for newly applied IFRS, IFRS 16.

Areas with higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.3 Standards, amendments and interpretations to published accounting standards that became effective in the current year

Following accounting standards and amendments became applicable in the current year.

- IFRS 16, "Leases"

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

- Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures (amendments to IAS 28)

- Amendments to IFRS 9: Prepayment Features with Negative Compensation

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

Annual Improvements to IFRS Standards 2015-2017 Cycle

- IFRS 3 Business combination - previously held interest in a joint operation

- IFRS 11 Joint Agreements- previously held interest in a joint operation

- IAS 12 Income Taxes- Income tax consequences on payments on financial instruments classified as equity

- IAS 23 Borrowing cost - Borrowing cost eligible for capitalization

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

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

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

Standards, Interpretations and Amendments	Effective date (accounting periods beginning on or after)
IFRS 10 - Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IFRS 17 – Insurance Contracts	1 January 2022
IAS 1/ IAS 8 - Definition of Material (Amendments)	1 January 2020
Definition of business - Amendment to IFRS 3	1 January 2020
The Conceptual Framework of Financial Reporting	1 January 2020

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

3 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Afghani ('AFN'), which is the Bank's functional currency, except as otherwise stated. All financial information presented in AFN has been rounded to the nearest thousand.

4 USE OF ESTIMATES AND JUDGMENTS

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

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

4.1 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.

4.2 Useful life of property and equipment and intangible assets

The Bank reviews the useful life, depreciation method and residual value of property and equipment (note 5.10) and intangible assets (note 5.11) 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.

4.3 Impairment losses on financial instruments

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 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 formulae and the choice of inputs to such models;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP growth; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive The economic inputs into the ECL models.

The Bank maintains a general provision of 4.98% on standard loans (microfinance and SME) and 1% on standard overdraft loans in line with bank's own provisioning policy which is relatively higher than regulatory requirement.

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in preparation of these financial statements are consistent with those followed in the preparation of the annual financial statements of the Bank for the year ended 31 December 2018 other than as disclosed in note 5.1 below:

5.1 Adoption of IFRS 16 Leases

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

5.1.1 IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form 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 and the Bank has not restated comparative information for 2018, therefore, the comparative information for 2018 is reported under IAS 17 'Leases' and is not comparable to the information presented for 2019. Right-of-use asset amounting to AFN 417,733 thousands has been recognized along with lease liability of amounting to AFN 382,485 thousands with remaining impact relating to the prepaid lease rent.

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

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16. On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. The Bank did not had any finance lease. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 4.75% 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:

5.1.2 Leased assets

The Bank as a Lessee

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

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

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

c) The Bank has the right to direct the use of the identified asset throughout the period of use. The Bank 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 operating fixed assets and lease liabilities have been included as part of other liabilities.

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.

5.2 Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rate at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation is recognized in profit or loss.

5.3 Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and financial liabilities measured at amortized cost calculated on an effective interest basis.

In accordance with the Asset Classification and Provisioning Regulation (ACPR) issued by DAB, all interest accrual is suspended on all interest-earning assets where the asset is classified as doubtful or loss as per the regulation. However such assets are secured by collateral and personal guarantees and in process of collection. When an asset is placed on non-accrual status, all accrued unpaid interest is reversed.

5.4 Fees and commission

Fees and commission income includes commission income on bank guarantees, account servicing fees, funds transfer fee and placement fee are recognized as the related services are performed.

Fee and commission expenses relates mainly to the transactions services fee, which are expensed as the services are received.

5.5 Income tax

Income tax expense comprises current and deferred tax. It is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

5.5.1 Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

5.5.2 Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

5.5.3 Tax exposures

In determining the amount of current and deferred tax, the Bank considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such as changes to tax liabilities would impact tax expense in the period in which such a determination is made.

5.6 Financial instruments

5.6.1 Financial instruments – initial recognition

5.6.1.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances 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.

5.6.1.2 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.

5.6.1.3 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.

5.6.1.4 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 5.6.2.1; and
- FVPL.

The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in note 5.6.2.3.

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 5.6.2.3.

5.6.2 Financial assets and liabilities

5.6.2.1 Loans and advances to Customers and placements at amortized cost

The Bank only measures Loans and advances to customers and other financial investments at amortized

5.6.2 Financial assets and liabilities

5.6.2.1 Loans and advances to Customers and placements at amortized cost

The Bank only measures 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 assets / liabilities 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.

5.6.2.2 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.

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

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

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- The liabilities are part of a group of financial liabilities (or financial assets), 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.

5.6.3 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.

5.6.4 Impairment of financial assets

5.6.4.1 Overview of the ECL principles

The Bank's loan loss impairment is based on the forward-looking ECL approach. Equity instruments are not subject to impairment.

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 5.6.4.2). The Bank's policies for determining if there has been a significant increase in credit risk are set out in note 30.1.1.

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

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

The Bank has established a policy to perform an assessment at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 30.1.1.

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. 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.

5.6.4.2 The calculation of ECLs

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

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

- PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de recognized and is still in the portfolio. The concept of PDs is further explained in note 30.1.1.

- EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on

  committed facilities, and accrued interest from missed payments. The EAD is further explained in note 30.1.1.

- LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in note 30.1.1.

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.

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 Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de recognized and is still in the portfolio. The concept of PDs is further explained in note 30.1.1

  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 three scenarios, as explained above.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- Stage 3: For loans considered credit-impaired (as defined in note 30.1.1), 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

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 revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments the ECL is recognized within provisions as included in other liabilities.

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 included in other liabilities.

5.6.4.3 Revolving facilities

For revolving facilities, 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.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products.

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

5.6.4.4 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

5.6.5 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 and are supported by sound net worth and paying capability of the borrower. In terms of policy of the Bank for more prudent approach, a general risk based provision is maintained in the books of accounts at the rate of 4.98% (2018: 4.98%) of value of such loans and advances (microfinance and SMEs) and 1% (2018: 1%) on overdraft loans. However, as per Asset Classification and Provisioning Regulation (ACPR) issued by the DAB, 1% optional provision can be maintained of value of such loans and advances.

ii) Watch: These are loans and advances which are adequately protected, but are potentially weak. All loans and advances where principal or interest payments are past due by 31 to 60 days are classified as watch-list. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification to Substandard. A provision is maintained in the books of account @ 5% (2018: 5%) of value of such loans and advances as required under ACPR issued by the DAB.

iii) Substandard: These are loans and advances which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral, if any, supporting it. Further, all microfinance loans and advances which are past due by 61 to 90 days and other loans past due by 61 to 120 days in case of for principal or interest payments are classified as "Substandard". A provision is maintained in the books of account @ 25% (2018: 25%) of value of such loans and advances as per ACPR issued by the DAB.

iv) Doubtful: These are loans and advances which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. Further, all microfinance loans and advances which are past due by 91 to 180 days and other loans past due by 121 to 480 days for principal or interest payments are required to be classified as "Doubtful" as per the ACPR issued by DAB. A provision is maintained in the books of account @ 50% (2018: 50%) of value of such loans and advances as per Bank's risk based approach.

v) Loss: These are loans and advances which are not collectible and or such little value that their continuance as a bankable asset is not warranted. Further, all microfinance loans and advances which are past due over 180 days and other loans which are past due over 480 days for principal or interest payments are required to be classified as "Loss" as per the ACPR issued by DAB. Bank can maintain loss assets in the books for a period of 12 months after which the loans should be immediately written off against provisions made.

vi) Rescheduled: Rescheduled loans and advances are fully provided as per provisioning policy of the bank and funding covenant requirements.

Placements and other assets

The Bank has a policy of maintaining general provision on placements based on the review of the portfolio, Bank also determine provision for expected credit losses under IFRS 9, the financial statements are incorporated with higher provision impact resulting from the mentioned methods, as disclosed in note 6.3.3 and note 7.3 to the financial statements.

Off-balance sheet item

The Bank has a policy of maintaining general provision on off-balance sheet items based on the review of the portfolio, Bank also determine provision for expected credit losses under IFRS 9 the financial statements are incorporated with higher provision impact resulting from the mentioned methods, as included in other liabilities.

5.7 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.

5.8 Fair value measurement

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 minimizes the use of unobservable input of all 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.

5.9 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the DAB and highly liquid financial assets with original maturities of 3 months or less from the date of acquisition that are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

5.10 Property and equipment

5.10.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss of disposal of an item of property and equipment is recognized within other income in profit or loss.

5.10.2 Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

5.10.3 Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognized in profit or loss. Leased assets are depreciated over the shorter of the lease terms and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. The estimated useful lives of significant items of property and equipment are as follows:

	2019	2018
Leasehold improvements	5 years	5 years
Furniture and fittings	5 years	5 years
Vehicles	5 years	5 years
Office equipments	4 years	4 years
Computer equipments	3 years	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

5.11 Intangible assets

5.11.1 Software

Software acquired by the Bank is measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Software is amortized on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is five years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

5.12 Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of the Bank's non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

The 'recoverable amount' of an asset is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

5.13 Deposits and borrowings

Deposits and borrowings are the Bank's sourcing of loan financing. Deposits and borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Bank designates liabilities at fair value through profit or loss.

5.14 Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

5.15 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

5.16 Earnings per share (EPS)

The Bank presents basic EPS data for its ordinary shares. EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

5.17 Grants

Grants are recognized at their fair value where there is reasonable assurance that the grant will be received and the Bank will comply with all the required conditions.

5.17.1 Revenue grants

Grants relating to costs are recognized as income over the period necessary to match these grants with the related costs that they are intended to compensate. Fixed obligation grants are recognized when the right to receive the grant has been established on achievement of certain milestones as stated in the grant agreement.

5.17.2 Capital grants

Grants for property and equipment are recorded as deferred grants in the statement of financial position and recognized as non-operating income on a systematic basis over the useful life of assets acquired from the grant.

6 CASH AND CASH EQUIVALENTS

	Note	31 December 2019	31 December 2018
		--------- (AFN in '000) ---------	
Cash on hand		325,431	336,842
Unrestricted balances with Da Afghanistan Bank	6.1	504,368	1,189,926
Balances with other banks	6.2	499,311	638,172
Short term placements with banks	6.3	3,380,773	2,424,896
		4,709,883	4,589,836

6.1 Unrestricted balances with Da Afghanistan Bank

	Note	2019	2018
Local currency			
Current accounts		242,668	166,248
Overnight deposit account	6.1.1	113,451	665,682
		356,119	831,930
Foreign currency			
Current accounts	6.1.2	148,249	357,996
		504,368	1,189,926

6.1.1 This represents interest bearing account carrying interest at 0.10% (2018: 0.10%) per annum.

6.1.2 These represent current accounts with Da Afghanistan Bank (DAB) in USD and Euro currencies.

6.2 Balances with other banks

	Note	2019	2018
Transkapital - Russia		24,925	-
Bank Alfalah Limited, Kabul		-	24
BMCE Bank International, Spain		446,506	620,480
AKTIF Bank, Turkey		24,022	17,668
CSCBank SAL		3,858	-
	6.2.1	499,311	638,172

6.2.1 These balances are interest free. (2018: Nil).

6.3 Short term placements with banks

	Note	2019	2018
Capital notes	6.3.1	799,571	349,931
Time deposits with other banks - net	6.3.2	2,581,202	2,074,965
		3,380,773	2,424,896

6.3.1 These represent capital notes issued by Da Afghanistan Bank having maturity of 7 to 28 days (2018: 7 to 28 days). These capital notes carry interest rates ranging from 0.081% to 0.85% (2018: 0.151% to 0.340%) per annum.

6.3.2 Time deposits with other banks - net

	Note	31 December 2019	31 December 2018
		--------- (AFN in '000) ---------	
Diamond Trust Bank, Kenya	6.3.2.1	1,122,336	1,068,115
Habib Bank Limited, Brussels	6.3.2.2	462,900	338,490
BMCE Bank International, Spain	6.3.2.3	944,500	451,320
Habibsons Bank Limited, UK	6.3.2.4	-	229,225
AKTIF Bank, Turkey	6.3.2.5	61,720	-
Less: General provision held	6.3.3	(10,255)	(12,185)
		2,581,202	2,074,965

6.3.2.1 These deposits have maturity ranging from 28 to 43 days (2018: 27 to 35 days) and carry interest rate ranging from 2.45% (2018: 2.50%) per annum. These time deposits are placed with a related party.

6.3.2.2 These deposits, held with the related party, have maturity ranging from 10 to 57 days (2018: 28 to 86 days) and carry interest rate ranging from 1.7% to 2.15% (2018: 2.20% to 2.4%) per annum.

6.3.2.3 These deposits have maturity of 8 to 39 days (2018: 19 to 40 days) and carry interest rate of 0.05% to 1.5% (2018: 1.95% to 2.4%) per annum.

6.3.2.4 This deposit has maturity Nil (2018: 37 days) and carries interest rate Nil (2018: 1.7%) per annum. This time deposits is placed with a related party.

6.3.2.5 This deposit has maturity of 28 days (2018: Nil) and carries interest rate 1.65% (2018: Nil) per annum.

6.3.3 Impairment on short-term placements

6.3.3.1 IFRS 9 expected credit loss computed on above placements amounts to AFN 2,337 thousand (2018: AFN 44 thousand). The bank has maintained a provision of AFN 10,255 thousand (2018: AFN 12,185 thousand) based on Bank's provisioning policy and Assets Classification and Provisioning Regulation (ACPR) issued by DAB which is higher than the ECL of IFRS 9.

6.3.3.2 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 2019 and 2018, respectively. The amounts presented are gross of impairment allowances.

	31 December 2019				31 December 2018
	(AFN in '000)				
Internal Rating Grade	Stage 1	Stage 2	Stage 3	Total	Total
Performing					
Investment Grade	462,900	2,128,556	-	2,591,456	2,207,856
Non - Investment Grade			-	-	229,225
Non - performing	-	-	-	-	-
Total	462,900	2,128,556	-	2,591,456	2,437,081
ECL Impact	(2)	(2,335)	-	(2,337)	(44)
Additional regulatory provision held	-	-	-	- (7,917)	(12,141)
	(2)	(2,335)	-	(10,255)	(12,185)
Carrying amount	462,898	2,126,221	-	2,581,202	2,424,896

7. PLACEMENTS - NET

	Note	31 December 2019	31 December 2018
		(AFN in '000)	
Capital notes issued by DAB	7.1	448,718	449,160
Time deposits with other banks - net	7.2	154,635	394,680
		603,353	843,840

7.1 These represent capital notes issued by DAB for maturity period ranging from 91 to 182 days (2018: 91 to 184 days). These capital notes carry interest rates ranging from 0.799% to 1.06% (2018: 0.499% to 0.910%) per annum.

7.2 Time deposits with other banks - net

	Note	31 December 2019	31 December 2018
		(AFN in '000)	
AKTIF Bank, Turkey	7.2.1	-	248,227
Habib Bank Limited, Brussels	7.2.2	-	150,440
Habibsons Bank Limited, UK	7.2.3	156,197	-
Less: General provision held	7.3	(1,562)	(3,987)
		154,635	394,680

7.2.1 The deposit had a maturity of 92 days and carried interest rate of 3.95% per annum.

7.2.2 The deposit, held with the related party, had a maturity of 91 to 180 days and carried interest rate ranging from 2.40% to 2.50% per annum.

7.2.3 These deposits, held with the related party, have maturity of 92 days (2018: Nil) and carry interest rate of 1.8% (2018: Nil) per annum.

7.3 General provision of 1% (2018: 1%) held on placements above 30 days (2018: above 30 days), in accordance with revised "Asset Classification and Provisioning Regulation (ACPR)" issued by DAB.

7.4 Impairment on placements

7.4.1 IFRS 9 expected credit loss computed on above placements amounts to AFN 3 thousand (2018: AFN 11 thousand). The bank has maintained a provision of AFN 1,562 thousand (2018: AFN 3,987 thousand) based on Bank's provisioning policy and Assets Classification and Provisioning Regulation (ACPR) issued by DAB which is higher than the ECL of IFRS 9.

7.4.2 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 2019 and 2018, respectively. The amounts presented are gross of impairment allowances.

	31 December 2019				31 December 2018
	-- (AFN in '000) --				
Internal Rating Grade	Stage 1	Stage 2	Stage 3	Total	Total
Performing					
Investment grade	156,197	-	-	156,197	398,667
Non - Investment Grade	-	-	-	-	-
Non - performing	-	-	-	-	-
Total	156,197	-	-	156,197	398,667
ECL Impact	(3)	-	-	(3)	(11)
Additional regulatory provision held	-	-	-	(1,559)	(3,976)
	(3)	-	-	(1,562)	(3,987)
Net Total	156,194	-	-	154,635	394,680

21,376,724
21,376,725

8. LOANS AND ADVANCES TO CUSTOMERS - NET

	Note	31 December 2019	31 December 2018
		--------- (AFN in '000) ---------	
Loans and advances to customers	8.1	5,387,903	6,296,394
Less: Allowance for impairment loss on loans and advances to customers	8.2	(456,619)	(427,696)
		4,931,284	5,868,698

8.1 Loans and advances to customers

		31 December 2019			31 December 2018		
	Note	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		-- (AFN in '000) --					
			2,627,036,975				
Microfinance loans	8.1.1	4,166,256	(334,756)	3,831,500	4,930,469	(339,736)	4,590,733
Loans to small and medium size enterprises (SME)	8.1.2	1,045,120	(106,393)	938,727	1,126,768	(82,668)	1,044,100
Overdraft financing	8.1.3	176,527	(15,470)	161,057	239,157	(5,292)	233,865
		5,387,903	(456,619)	4,931,284	6,296,394	(427,696)	5,868,698

8.1.1 Microfinance loans carry interest at rates ranging from 9% to 27% (2018: 9% to 27%) per annum. These loans are secured by various kind of properties and personal guarantees.

8.1.2 Interest on loans to small and medium size enterprises (SMEs) is charged at the rates ranging from 6.6% to 23% (2018: 6.6% to 23%) per annum. These loans are secured by various kind of properties and personal guarantees.

8.1.3 Overdraft financing carry interest rates ranging from 8.5% to 17% (2018: 13% to 18%) per annum. These loans are secured by various kind of properties and personal guarantees. Overdraft is issued to Telecom Development Company Afghanistan Limited (TDCA), a related party and 10 other customers.

8.1.4 The provision for expected credit losses on Loans and Advances as per IFRS 9 amounted to AFN 426,058 thousand (2018: AFN 338,113 thousand) While the bank maintained an actual provision of AFN 456,619 thousand (2018: AFN 427,696 thousand) based on it's provision policy. The provision under Assets Classification and Provisioning Regulation (ACPR) issued by DAB is higher than ECL calculated under IFRS 9, therefore, the Bank has maintained the higher provision.

8.2 Allowance for impairment loss on loans and advances to customers

	Note	31 December 2019			31 December 2018		
		Specific	General	Total	Specific	General	Total
		(AFN in '000)					
Opening		133,546	294,150	427,696	36,819	264,949	301,768
Charge for the year:							
Microfinance loans		101,915	(39,221)	62,694	90,958	13,784	104,742
Loans to small and medium size enterprises and overdrafts		49,128	(5,861)	43,267	8,044	15,417	23,461
		151,043	(45,082)	105,961	99,002	29,201	128,203
Written off against impairment allowance:							
Microfinance loans		(67,674)	-	(67,674)	(716)	-	(716)
Loans to small and medium size enterprises and overdrafts		(9,364)	-	(9,364)	(1,559)	-	(1,559)
		-	-	-	-	-	-
	8.2.1	(77,038)	-	(77,038)	(2,275)	-	(2,275)
Closing		207,551	249,068	456,619	133,546	294,150	427,696
						190,631	190,631

8.2.1 These represent 'loss' category loans which have been written off in accordance with the Asset Classification and Provisioning Regulation (ACPR) issued by DAB. However, the write-off does not affect the Bank's right to recover the debt due from customers and does not eliminate the borrowers' responsibility to repay the loan.

8.3 Allowance for impairment allowance for loans and advances to customers

8.3.1 IFRS 9 expected credit loss computed on Loans and Advances to Customers amounts to AFN 426,058 thousand (2018: AFN 338,113 thousand). Meanwhile, the bank has maintained a provision amount of AFN 456,619 thousand (2018: AFN 427,696 thousand) based on its provision policy. The provision under Assets Classification and Provisioning Regulation (ACPR) issued by DAB is AFN 258,779 (2018: AFN 194,416) therefore, the Bank has maintained the higher provision as per bank's internal provisioning policy which is higher than both ECL under IFRS 9 and DAB ACPR.

The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2019 and 2018, respectively.

Internal Rating Grade	31 December 2019				31 December 2018
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Total	Total
	(AFN in '000)				
Performing					
Not yet due	5,065,067	1,363	-	5,066,430	6,045,117
Past due but not impaired		89,665	340	90,005	93,516
Non-performing	-	-	231,468	231,468	157,761
Total	5,065,067	91,028	231,808	5,387,903	6,296,394
ECL Impact	(159,070)	(35,181)	(231,808)	(426,059)	(338,113)
Additional Provision held as per Bank's provisioning policy	-	-	-	(30,560)	(89,583)
Net Total	4,905,997	55,847	-	4,931,284	5,868,698

8.4 Classification of loans and advances for the purpose of allowance for impairment in accordance with the Bank's provisioning policy and the DAB Asset Classification and Provisioning Regulation is as follows:

31 December 2019 Classification - Microfinance Loans	Amount outstanding	Impairment allowance required as per ACPR		Impairment allowance held		Number of customers
	(AFN in '000)	Rate	(AFN in '000)	Rate	(AFN in '000)	
Standard	3,997,038	1%	39,970	4.98%	199,052	56,692
Overdue:						
Watch-List	13,105	5%	655	5%	655	190
Substandard	9,984	25%	2,496	25%	2,497	156
Doubtful	27,154	50%	13,577	50%	13,577	372
Loss	118,808	100%	118,808	100%	118,808	1,479
Rescheduled	167	100%	167	100%	167	1
	4,166,256		175,673		334,756	58,890

Classification - Overdraft and SME Loans						
Standard - SME Loans	973,786	1%	9,738	4.98%	48,495	441
Standard - Overdraft financing	152,139	1%	1,521	1%	1,521	8
Overdue:						
Watch-List - SME loans	7,056	5%	353	5%	353	1
Watch-List - Overdraft financing	-	5%	-	5%	-	-
Substandard - SME loans	1,965	25%	491	25%	491	3
Substandard - Overdraft financing	-	25%	-	25%	-	-
Doubtful - SME loans	10,519	50%	5,259	50%	5,259	8
Doubtful - Overdraft financing	20,878	50%	10,439	50%	10,439	2
Loss - SME loans	47,563	100%	47,563	100%	47,563	26
Loss - Overdraft financing	3,510	100%	3,510	100%	3,510	1
Rescheduled - SME loans	4,232	100%	4,232	100%	4,232	3
	1,221,647		83,106		121,863	493

	Amount outstanding	Impairment allowance required as per ACPR		Impairment allowance held		
	(AFN in '000)	Rate	(AFN in '000)	Rate	(AFN in '000)	Number of customers
31 December 2018						
Classification - Microfinance Loans						
Standard	4,784,605	1%	47,846	4.98%	238,273	64,519
Overdue:						
Watch-List	16,956	5%	848	5%	848	209
Substandard	15,105	25%	3,776	25%	3,777	172
Doubtful	33,930	50%	16,965	50%	16,965	410
Loss	79,308	100%	79,308	100%	79,308	967
Rescheduled	565	100%	565	100%	565	7
	4,930,469		149,308		339,736	66,284
Classification - Overdraft and SME Loans						
Standard - SME Loans	1,076,694	1%	10,767	4.98%	53,620	532
Standard - Overdraft financing	225,803	1%	2,258	1.00%	2,257	19
Overdue:						
Watch-List - SME loans	3,864	5%	193	5%	193	3
Watch-List - Overdraft financing	8,095	5%	405	5%	405	1
Substandard - SME loans	5,747	25%	1,437	25%	1,437	3
Substandard - Overdraft financing	-	25%	-	25%	-	-
Doubtful - SME loans	26,090	50%	13,045	50%	13,045	12
Doubtful - Overdraft financing	5,258	50%	2,629	50%	2,629	1
Loss - SME loans	7,241	100%	7,241	100%	7,241	12
Rescheduled - SME loans	7,133	100%	7,133	100%	7,133	7
	1,365,925		45,108		87,960	590

9. OPERATING FIXED ASSETS

	Note	31 December 2019	31 December 2018
		--------- (AFN in '000) ---------	
Capital work-in-progress	9.1	145,052	21,503
Property and equipment	9.2	91,602	77,122
Right-of-use assets - Bank's branches	9.3	359,143	-
		595,797	98,625

9.1 Capital work-in-progress

	Note	31 December 2019	31 December 2018
Opening balance		21,503	3,913
Advances made during the year	9.1.1	131,424	17,590
Transfer to intangible assets		(7,875)	-
Closing balance		145,052	21,503

9.1.1 These include advances amounting to AFN 35,637 thousand for the implementation of OBDX (reporting module), FCCM module of FCUBS and document management software which will be transferred to intangibles upon completion.

9.2 Property and equipment

	Leasehold improvements	Furniture and fittings	Vehicles	Office equipments	Computer equipments	Total
	------------------------	------------------------	------------------------ (AFN in '000)	------------------------	------------------------	------------------------
Cost						
Balance at 01 January 2018	48,879	34,518	24,168	86,632	82,951	277,148
Additions	7,230	7,725	24	15,626	6,492	37,097
Transfer from CWIP	-	-	-	-	-	-
Disposals	(342)	(885)	-	(6,424)	(6,509)	(14,160)
Balance at 31 December 2018	55,767	41,358	24,192	95,834	82,934	300,085
Balance at 01 January 2019	55,767	41,358	24,192	95,834	82,934	300,085
Additions	1,815	1,259	-	21,984	31,867	56,925
Disposals	(300)	(735)	-	(585)	(526)	(2,146)
Balance at 31 December 2019	57,282	41,882	24,192	117,234	114,274	354,865
Depreciation						
Balance at 01 January 2018	39,639	27,757	15,910	62,727	57,872	203,905
Charge for the year	3,602	2,893	2,915	11,739	11,674	32,823
Disposals	(342)	(875)	-	(6,041)	(6,507)	(13,765)
Balance at 31 December 2018	42,899	29,775	18,825	68,425	63,039	222,963
Balance at 1 January 2019	42,899	29,775	18,825	68,425	63,039	222,963
Charge for the year	3,961	3,244	2,880	14,726	17,363	42,175
Disposals	(278)	(725)	-	(533)	(338)	(1,875)
Balance at 31 December 2019	46,582	32,294	21,705	82,618	80,064	263,263
Carrying amounts						
Balance at 31 December 2018	12,868	11,583	5,367	27,409	19,895	77,122
Balance at 31 December 2019	10,701	9,588	2,487	34,616	34,210	91,602
Depreciation rate	20%	20%	20%	25%	33.33%	

9.3 Right-of-use assets - Bank's branches

	31 December 2019	31 December 2018
	------ (AFN in '000)	------
Cost:		
Balance as of 1 January 2019 upon adoption of IFRS 16	417,733	-
Additions during the year	752	-
Balance as at 31 December 2019	418,485	-
Accumulated depreciation:		
Balance as of January 1, 2019 upon adoption of IFRS 16	-	-
Depreciation expense for the year	59,342	-
Balance as at December 31, 2019	59,342	-
Carry amount as of December 31, 2019	359,143	-

9.4 Allocation of depreciation

	Note	31 December 2019	31 December 2018
Depreciation charge on property and equipment		42,175	32,823
Depreciation charge on right-of-use assets		59,342	-
Less: Amount classified under grant expense	25	(1,328)	(1,450)
		100,189	31,373

10. INTANGIBLE ASSETS

	Note	2019	2018
		------ (AFN in '000)	------
Cost			
Opening		164,629	153,753
Transfer from CWIP		7,875	-
Additions CBS		-	10,876
Closing		172,504	164,629
Amortisation			
Opening		(63,957)	(35,732)
Charge for the year CBS		(29,717)	(28,225)
Closing		(93,674)	(63,957)
Carrying amounts at 31 December		78,830	100,672

11. OTHER ASSETS

	Note	2019	2018
Restricted deposits with DAB	11.1	535,100	606,118
Interest receivable		256,512	271,182
Prepayments		19,250	53,671
Receivable from Roshan against M-Paisa payments		26,668	56,852
Advances to staff	11.2	6,114	5,915
Grant receivable		-	2,317
Others		10,179	1,288
		853,823	997,343
Less: Allowance for impairment losses	11.3	(247)	(395)
		853,576	996,948

11.1 Restricted deposits with DAB

	Note	2019	2018
In local currency		139,460	187,882
In foreign currency		395,640	418,236
	11.1.1	535,100	606,118

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

11.2 These include advance given to staff against salary, business travelling and others. These advances are not secured.

11.3 The provision for expected credit losses as per IFRS 9 amounted to AFN 3 thousands, which is lower from the one resulting from the requirements of Assets Classification and Provisioning Regulation (ACPR) issued by DAB and Bank's provisioning policy. Accordingly, the Bank has maintained the higher provision.

12. DEPOSITS FROM CUSTOMERS

	Note	31 December 2019	31 December 2018
		--------- (AFN in '000) ---------	
Retail customers			
Term deposits	12.1	39,592	52,959
Current deposits		779,512	660,512
Saving deposits	12.2	2,611,815	2,412,419
		3,430,919	3,125,890
Corporate customers			
Term deposits	12.3	542,875	1,240,000
Current deposits		2,447,265	3,093,759
Saving deposits	12.4	140,464	166,961
		3,130,604	4,500,720
Cash Margin		40,367	42,771
Dormant deposits		135	113
	12.5	6,602,025	7,669,494

12.1 The rate of interest on term deposits from retail customers ranges from 0.75% to 4% (2018: 0.50% to 4.5%) per annum.

12.2 The rate of interest on saving deposits other than those in Euro from retail customers is up to 0.5% (2018: upto 0.5%) per annum. Saving deposits in Euro are interest free.

12.3 The rate of interest on term deposits with corporate customers ranges from 1.5% to 4.5% (2018: 0.60% to 5%) per annum.

12.4 The rate of interest on saving deposits other than those in Euros from corporate customers is 0.5% (2018: 0.5%) per annum. Saving deposits in Euro are interest free.

12.5 Deposits include AFN 1,141,364 thousands (2018: AFN 1,439,044 thousands) from related parties.

	Note	31 December 2019	31 December 2018
		------ (AFN in '000) ------	
13. LOANS AND BORROWINGS			
Loans and borrowings from:			
Ministry of Finance, Government of Afghanistan	13.1	194,135	242,806
Microfinance Investment Support Facility for Afghanistan Limited	13.2	1,208,401	1,598,401
Nederlandse Financierings-Maatschappij Voor	13.3	562,649	341,708
Agricultural Development Fund	13.4	83,571	139,286
International Fund for Agricultural Development	13.5	540,221	264,598
		2,588,977	2,586,799

13.1 Ministry of Finance, Government of Afghanistan

	Note	31 December 2019	31 December 2018
FMFB-A Credit Line	13.1.1	22,223	44,446
FMFB-A Credit Line II	13.1.2	171,912	198,360
		194,135	242,806

13.1.1 On 17th November 2005, the Bank entered into a financing and project agreement (FMFB-A Credit Line), for 15 years with 5 years grace period for principal repayment, with Kreditanstalt fur Wiederaufbau, Frankfurt am Main (KfW) and the Ministry of Finance of the Islamic Republic of Afghanistan (MOF). The purpose of the credit line is to support the development of the Bank through the expansion of its lending business. The total principle of the facility agreed was Euro 3,500 thousand (equivalent AFN 222,000 thousands) which was disbursed in 3 tranches amounting to Euro 2,000 thousands, Euro 1,300 thousands and Euro 200 thousands carrying financial charges at the rate of 3.54% per annum, 3.53% per annum and 3.53% per annum, respectively. The tranche of Euro 2,000 thousands was prematurely repaid on 28 December 2016. The above rates were revised during 2018 to 0.35% per annum for Euro 1,300 thousands tranche and 0.34% for Euro 200 thousands tranche per annum based on the change in the weighted average rate for the 5 latest 28 days capital notes as auctioned by DAB. The loan is repayable through 20 bi-annual installments, starting from 17th November 2010.

13.1.2 On 29th October 2008, the Bank entered into another financing and project agreement (FMFB-ACredit Line II), for 15 years with 5 years grace period for principal repayment, between the above parties. The purpose of the credit line is to support the development of the Bank through the expansion of its lending business. The total principal of the facility agreed was Euro 4,000 thousands (equivalent AFN 264,480 thousands) at an annual interest rate of 5% per annum payable in arrears which was revised to 6% in 2017. This loan is repayable through 20 bi-annual installments, starting from June 2016.

	Note	31 December 2019	31 December 2018
		------ (AFN in '000) ------	
13.2 Microfinance Investment Support Facility for Afghanistan Limited			
MISFA I	13.2.1	95,000	285,000
MISFA II	13.2.2	325,000	345,000
MISFA III	13.2.3	245,000	425,000
MISFA/KfW IV	13.2.4	244,194	244,194
MISFA/KfW V	13.2.4	299,207	299,207
	13.2.5	1,208,401	1,598,401

13.2.1 The Bank entered into a novation and loan agreement (MISFA I) via agreement No. M8902 dated 3rd October 2010 with Microfinance Investment Support Facility for Afghanistan Limited (MISFA) under which MISFA consolidated all the loans provided to the Bank to an aggregate amount of AFN 950,000 thousands for a period of 10 years with 5 years grace period for principal repayment. The purpose of the loan is to support and grow the Bank's SME and Microfinance portfolio and activities. This loan agreement carries interest at the rate of 5% per annum effective from 1st July 2010. Loan is repayable through 20 quarterly installments, starting from 1st September 2015.

13.2.2 The Bank signed a further loan agreement (MISFA II) via agreement No. M9102 dated 17th June 2012 with MISFA for an amount of AFN 500,000 thousands for a period of 10 years with 5 years grace period for principal repayment. The total facility was disbursed in four tranches as per the terms of the aforementioned agreement of AFN 212,000 thousand, AFN 38,000 thousand, AFN 100,000 thousand and AFN 150,000 thousand on 19th June 2012, 29th June 2013, 9th August 2012 and 25th November 2012, respectively. The purpose of the loan is to grow the microfinance and SME loan portfolio of Bank. This loan agreement carries interest rate of 6% per annum effective from 30th June 2012. The loan is repayable as per agreed upon repayment schedule with MISFA with the first installment starting from 30th June 2017, and was fully drawn on 25th November 2012.

13.2.3 The Bank signed a further loan agreement (MISFA III) via agreement No. M9105 dated 20th March 2013 with MISFA for an amount of AFN 500,000 thousands for a period of 10 years with 5 years grace period for principal repayment. The total facility was disbursed in four tranches as per the terms of the aforementioned agreement of AFN 120,000 thousand, AFN 130,000 thousand, AFN 130,000 thousand and AFN 120,000 thousand on 2nd April 2012, 4th May 2013, 29th June 2013 and 5th August 2013, respectively. The purpose of the loan is to grow the microfinance and SME loan portfolio of Bank. This loan agreement carries interest rate of 6% per annum effective from 30th June 2013. The loan is repayable as per agreed upon repayment schedule with MISFA with the first installment starting from 30th June 2017, and was fully drawn on 5th August 2013.

13.2.4 The Bank entered into a financing and project agreement for a period of 10 years with 5 years grace period for principal repayment amounting for Euro 7,750 thousand dated 19th December 2013 with Kreditanstalt fur Wiederaufbau, Frankfurt am Main (KfW), the Islamic Republic of Afghanistan (IROA) represented by the Ministry of Finance (MOF) and Microfinance Investment Support Facility for Afghanistan Limited (MISFA). The loan was disbursed in 2 tranches, as agreed in a separate agreement dated 15th July 2014 between the Bank and KfW, on 17th March 2015 and 28th October 2017 of Euro 4,000 thousand (equivalent AFN 244 thousand) (MISFA/KfW IV) and 3,750 thousand (equivalent AFN 299 thousand) (MISFA/KfW V), respectively, carrying financial charges at the rate of 6% per annum effective from 31st March 2015. Both tranches are repayable as per agreed upon schedule with MISFA starting from 31st March 2020 and 31st December 2022, respectively.

13.2.5 The total outstanding loan facilities from MISFA of AFN 1,208,401 thousands are supported by promissory notes issued by the Bank to MISFA. As a security for these promissory notes the Bank has assigned all rights and interests in the whole or such portion of the Bank's loan portfolio as MISFA may select in its sole discretion up to the amount of the loans outstanding under the loan agreements.

		Note	31 December 2019	31 December 2018
			------ (AFN in '000) ------	
13.3	Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)			
	FMO I	13.3.1	256,281	341,708
	FMO II	13.3.2	306,368	-
			562,649	341,708

13.3.1 On 25 July 2017, the Bank signed a term loan agreement for an amount of USD 5,000 thousand (equivalent to AFN 341,708 thousand) with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) for a period of 5 years with 1 year grace period for principal repayment. The purpose of the loan is to extend SME and microfinance loans to eligible borrowers. The said loan was disbursed on 1st November 2017 having interest rate 4% + the weighted average rate for the last five 28 days capital notes as auctioned by Da Afghanistan Bank. The loan is repayable in eight installments starting from 15th January 2019 and ending on 15th July 2022. This loan is not secured.

13.3.2 On 22 July 2019, the Bank signed a term loan agreement for an amount of EUR 3,500 thousand (equivalent to AFN 306,368 thousand) with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) for a period of 5 years with 1 year grace period for principal repayment. The purpose of the loan is to extend SME and microfinance loans to eligible borrowers. The said loan was disbursed on 12th August 2019 having interest rate of 4% + LIBOR. The loan is repayable in eight installments starting from 15th January 2021 and ending on 15th July 2024. This loan is not secured.

13.4 A 5-year credit line of AFN 195,000 thousands was obtained from Agricultural Development Fund (ADF) through Ministry of Agricultural, Irrigation and Livestock of Afghanistan (MAIL) under an agreement signed on 2nd March 2016. The purpose of the facility is to fund agri-lending and provide access to credit for clientele in agricultural value chain. The credit line carries an interest rate of 5% per annum. The loan is repayable through 6 bi-annual installments and the principal repayment has two years grace period with 1st installment due on 6th April 2018. As a security for the loan, the Bank has assigned a valid second priority right in favor of Agriculture Development Fund in respect of Bank's loan portfolio up to the amount of the loans outstanding under the loan agreement.

13.5 In September 2017, a 10 year term loan with 6 years grace period for principal repayment of USD 7,000 thousand disbursable in tranches, the Bank entered into a subsidiary loan agreement by Islamic Republic of Afghanistan with Ministry of Finance (MOF) through Ministry of Agricultural, Irrigation and Livestock of Afghanistan (MAIL). The first tranche of the loan of USD 3,500 thousand (equivalent to AFN 264,598 thousand) was disbursed on 2nd October 2018 carrying financial charges at the rate of 0.5% per annum. While the second tranche of the loan USD 3,500 thousand (equivalent to AFN 275,623 was disbursed on 9th of August. The loan is repayable through 8 bi-annual installments with 1st installment due on 17th April 2019. The loan is secured through a demand promissory note and loan portfolio up to the principal of the loan.

13.6 The Bank has not had any default of principal or interest with respect to its loans and borrowings during the year ended 31 December 2019.

14. DEFERRED TAX LIABILITIES - NET

14.1 Movement in deferred tax balances

2019	Net balance at 01 January	Recognised in profit or loss	Deferred tax liability	Deferred tax asset	Net balance at 31 December
	(AFN in '000)				
Property and equipment	(7,817)	(70)	(7,887)	-	(7,887)
Right-of-use assets	-	(71,829)	(71,829)	-	(71,829)
Intangibles	(17,936)	2,958	(14,978)	-	(14,978)
Impairment loss on placements	3,234	(871)	-	2,363	2,363
General provision held on					
Other assets	79	(30)	-	49	49
Off-balance sheet items	-	-	-	-	-
Lease liabilities	-	65,012	-	65,012	65,012
	(22,440)	(4,830)	(94,694)	67,424	(27,270)
2018					
Property and equipment	(7,758)	(59)	(7,817)	-	(7,817)
Intangibles	(9,218)	(8,718)	(17,936)	-	(17,936)
Impairment loss on placements	-	3,234	-	3,234	3,234
General provision held on					
Other assets	664	(585)	-	79	79
Off-balance sheet items	155	(155)	-	-	-
	(16,157)	(6,283)	(25,753)	3,313	(22,440)

14.2 Reconciliation of effective tax rate

	31 December 2019		31 December 2018	
	Rate	AFN in '000	Rate	AFN in '000
Profit before tax		57,324		117,237
Applicable tax at 20%	20.00%	11,465	20.00%	23,447
Inadmissible expenses	2.91%	1,669	11.63%	13,638
Depreciation and loss on disposal of fixed assets and general provision	-	-	-17.63%	(20,674)
Effect of previously unrecognised tax	-0.50%	(284)	53.67%	62,926
Deferred tax effect	8.43%	4,830	5.36%	6,283
	30.84%	17,680	73.03%	85,620

15. OTHER LIABILITIES

	Note	31 December 2019	31 December 2018
		(AFN in '000)	
Accrued expenses		94,407	63,806
Interest payable		49,155	78,810
Lease liabilities	15.1	325,059	-
Performance bonus payable		-	21,876
Deferred grants	15.2	2,390	8,207
Withholding taxes payable		8,519	7,641
Other		1,659	1,841
		481,189	182,181

15.1 Lease liabilities

Opening balance as of 1 January 2019 upon adoption of IFRS 16	382,485	-
Additions during the year	752	-
Accrued finance cost	14,215	-
Principal repayment and interest payments	(72,393)	-
	325,059	-

15.2 Deferred grants

	Note	MISFA	AKF - USA	KfW	Total
		------------------------ (AFN in '000)			------------------
		15.1.1	15.1.2	15.1.3	
2019					
Balance at 01 January 2019		-	4,489	3,718	8,207
Grants received during the year		5,701	-	-	5,701
Grant refunded during the year			(4,489)		(4,489)
Grant amortized during the year		(5,701)	-	(1,328)	(7,029)
Balance at 31 December 2019		-	-	2,390	2,390
2018					
Balance at 01 January 2018		1,644	4,489	3,357	9,490
Grants received during the year		-	-	167	167
Grant amortized during the year		(1,644)	-	194	(1,450)
Balance at 31 December 2018		-	4,489	3,718	8,207

15.2.1 This represents grant received from Microfinance Investment Support Facility for Afghanistan Limited (MISFA) under an agreement signed dated 16 August 2011 to strengthen the Bank's capacity in rural and agricultural financial products and services.

15.2.2 This included grant received from Aga Khan Foundation (AKF) under an agreement signed dated 21 July 2014 to Strengthen Afghan Government and Alternative Livelihood (SAGAL) through promoting alternative crops to poppy cultivation and development of value chain financing in agriculture sector. The unutilized portion of grant was returned to AKF during the year.

15.2.3 This represents grant received from Kreditanstalt fur Wiederaufbau (KfW) under an agreement signed dated 26 October 2016 for establishment of "Women - only" branch in Kabul.

16. SHARE CAPITAL

	31 December 2019	31 December 2018
	------ (AFN in '000)	------
Authorized		
88,800 ordinary shares of US $ 177 each (2018: 88,800 of US $ 177)	800,624	800,624
Paid up		
88,288 ordinary shares of US $ 177 each (2018; 88,288 of US $ 177)	796,008	796,008

16.1 The capital is contributed by the shareholders as follows:

	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	---- Number of shares ----		------ (AFN in '000) ------	
Aga Khan Agency for Microfinance (AKAM)	34,784	34,784	310,646	310,646
Kreditanstalt fur Wiederaufbau (KfW)	28,200	28,200	254,811	254,811
International Finance Corporation (IFC)	14,800	14,800	133,974	133,974
Aga Khan Foundation USA (AKF USA)	10,504	10,504	96,577	96,577
	88,288	88,288	796,008	796,008

16.2 The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Bank.

17. CONTINGENCIES AND COMMITMENTS

	Note	31 December 2019	31 December 2018
		------ (AFN in '000)	------
17.1 Contingencies			
Outstanding bank guarantees		12,564	19,150
17.2 Commitments			
Undrawn loan and overdraft facilities		28,659	46,876

		Note	2019	2018
			------ (AFN in '000) ------	
18.	**INTEREST INCOME**			
	Cash and cash equivalents		42,922	30,205
	Placements		15,540	23,745
	Loans and advances to customers			
	Loans to small and medium size enterprises		204,868	214,197
	Microfinance loans		1,127,647	1,125,518
	Interest on overdraft facility		28,317	20,639
			1,360,832	1,360,354
			1,419,295	1,414,304
19.	**INTEREST EXPENSE**			
	Deposits from customers		39,579	51,243
	Loans and borrowings		125,514	143,836
			165,093	195,079
20.	**FEE AND COMMISSION INCOME**			
	Loan processing fee		54,209	69,850
	Bank charges relating to foreign remittances and other services		24,549	20,497
			78,758	90,347
21.	**FEE AND COMMISSION EXPENSE**			
	Bank charges		11,659	11,752
	Others		-	-
			11,659	11,752
22.	**OTHER INCOME**			
	Unrealised exchange (loss)/ gain		(2,397)	11,415
	Receipts against claims with ACGF		31,545	19,788
	Recovery of loans and advances written-off		10,540	17,852
	(Loss)/ gain on disposal of property and equipment		(93)	278
	Others		9,030	-
			48,625	49,333
23.	**PERSONNEL EXPENSES**			
	Local staff	23.1	614,639	564,677
	Expat staff	23.2	66,142	77,504
			680,781	642,181
	Less: Grant related salaries and benefits	25	(5,065)	(8,127)
			675,716	634,054
23.1	**Local staff**			
	Basic salary		451,582	398,673
	Other benefits		163,057	166,004
			614,639	564,677

		Note	31 December 2019	31 December 2018
			------ (AFN in '000) ------	
23.2	Expat staff			
	Basic salary		50,276	54,289
	Other benefits		15,866	23,215
			66,142	77,504
24.	OTHER EXPENSES			
	Consultancy fee		5,474	4,202
	Office rent		10,014	64,027
	Communication		66,946	53,145
	IT maintenance and support costs		24,032	19,634
	Generator fuel and maintenance		34,796	22,654
	Insurance		75,315	50,498
	Legal, professional and statutory fee		14,334	17,886
	Auditors' remuneration	24.1	2,330	2,828
	Office security		144,488	137,221
	Office stationery and supplies		31,819	36,158
	Other operating expenses		10,872	8,993
	Repairs and maintenance		10,065	4,178
	Travel and transportation		48,448	56,627
	Director's expense		18,714	11,418
	Trainings		8,178	14,259
	Utilities		12,138	10,847
	Marketing and promotional expenses		14,501	11,035
	Miscellaneous		-	3,704
			532,464	529,314
24.1	Auditors' remuneration			
	Annual audit fee		1,636	2,123
	Interim review fee		694	705
			2,330	2,828
25.	EXPENDITURE AGAINST GRANTS			
	Salaries and benefits	23	5,065	8,127
	Office supplies		-	-
	Security		-	1,569
	Branding		-	-
	Consultancy fee		-	1,556
	Marketing		615	1,100
	Depreciation and amortization	9.4	1,328	1,450
	Perdiem		22	22
			7,029	13,824
26.	INCOME TAX EXPENSE			
	Current tax			
	For the year		12,850	16,411
	Prior year		-	62,926
			12,850	79,337
	Deferred tax expense	14	4,830	6,283
			17,680	85,620
27.	EARNINGS PER SHARE			
	Basic earnings per share			
	Profit for the year attributable to ordinary shareholders (AFN in '000)		39,644	31,617
	Weighted-average number of ordinary shares (numbers)		88,288	88,288
	Basic earnings per share		449	358

28. RELATED PARTIES

Related parties of the Bank comprise of associates (including entities having directors in common with the Bank), major share holders, directors and key management personnel.

28.1 Parent and ultimate controlling entity

Pattern of shareholding in the Bank is disclosed in note 16.1. Aga Khan Development Network entities collectively own 51% (2018: 51%) of the Bank's capital.

28.2 Transactions with key management personnel

28.2.1 Key management personnel compensation

	Note	2019	2018
		------ (AFN in '000) ------	
Short term employee benefits	28.2.1.1	91,941	71,268

28.2.1 Compensation of the Bank's key management personnel includes salaries and benefits.

28.2.2 Related party transactions

Balances with related parties	Directors and other key management personnel (and close family members)		Shareholders and their associated companies	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	---------------------- (AFN in '000) ----------------------			
Balances with banks	-	-	-	-
Time deposits with banks	-	-	1,741,433	1,786,270
Advances	1,078	846	-	-
Deposits from customers	10,405	3,219	1,141,364	1,435,855
Cash Margin against guarantees issued	-	-	149	3,189
Loan to Telecom Development Company Afghanistan Limited (TDCA)	-	-	92,066	89,465
Receivable from Roshan against M-Paisa payments	-	-	26,668	56,852

Transactions with related parties	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
	2019	2018	2019	2018
	---------------------- (AFN in '000) ----------------------			
Interest income	-	-	44,401	34,971
Fee and commission income	-	-	4,225	7,277
Fee and commission expense	-	-	7,807	5,622
Interest expense on deposits from customers	-	-	3,089	7,008
Directors' fee and other expenses	18,714	11,418	-	-

28.2.2 No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the reporting date. These balances are not secured and no guarantees have been obtained.

29. FINANCIAL ASSETS AND LIABLITIES

Accounting classification of financial assets and financial liabilities and fair values

Fair value as 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.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the statement of financial position date. The estimated fair value of all other financial assets and liabilities is considered not significantly different from book value.

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values.

	Note	Debt investments at amortized cost	Other amortised cost	Total carrying amount	Fair value
		------------------------------ (AFN in '000) ------------------------------			
31 December 2019					
Financial assets					
Cash and cash equivalents	6	4,709,883	-	4,709,883	4,709,883
Placements	7	603,353	-	603,353	603,353
Loans and advances to customers	8	4,931,284	-	4,931,284	4,931,284
Other assets	11	-	828,212	828,212	828,212
		10,244,520	828,212	11,072,732	11,072,732
Financial liabilities					
Deposits from customers	12	-	6,602,025	6,602,025	6,602,025
Loans and borrowings	13	-	2,588,977	2,588,977	2,588,977
Other liabilities	15	-	470,280	470,280	470,280
		-	9,661,282	9,661,282	9,661,282
31 December 2018					
Financial assets					
Cash and cash equivalents	6	4,589,836	-	4,589,836	4,589,836
Placements	7	843,840	-	843,840	843,840
Loans and advances to customers	8	5,868,698	-	5,868,698	5,868,698
Other assets	11	-	936,074	936,074	936,074
		11,302,374	936,074	12,238,448	12,238,448
Financial liabilities					
Deposits from customers	12	-	7,669,494	7,669,494	7,669,494
Loans and borrowings	13	-	2,586,799	2,586,799	2,586,799
Other liabilities	15	-	150,257	150,257	150,257
		-	10,406,550	10,406,550	10,406,550

The carrying amounts approximate fair values as most of the assets and liabilities have short maturities and are expected to be recovered / settled at their carrying amounts.

30. FINANCIAL RISK MANAGEMENT

This note presents information about the Bank's exposure to financial risks, Bank's financial risk management and the Bank's management of capital. The Bank has exposure to the following risks from financial instruments:

a) Credit risk
b) Liquidity risk
c) Market risks
d) Operational and business risk

Risk management framework

The Bank's Board of Supervisors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Supervisors has established the Bank's Asset and Liability Committee (ALCO), which is responsible for developing and monitoring Bank's risk management policies.

The Bank's Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures.

30.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

30.1.1 Credit risk measurement

Impairment assessment under IFRS 9

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate 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 profile, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Group 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

PDs models of lending products are primarily driven by days past due. Estimated historical realized default rates are adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenarios as appropriate. For debt instruments in the treasury portfolio, external rating agency credit grades are used. The PDs associated with each grade are determined based on realized default rates as published by the rating agency.

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

Exposure at default

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

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

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

Loss given default

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

Significant increase in credit risk

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

Measuring 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 Group 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 Group considers these estimates of the possible outcomes. The Group has used base, upside and downside scenarios for its ECL estimation.

Management of credit risk

The Bank manages credit risk by limiting and controlling concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups. 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 counterparty. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. 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.

Regular audits of business units and Bank's credit processes are undertaken by Internal Audit.

Credit quality analysis

The table below set out information about the credit quality of the Bank's loans and advances to customers and the allowance for impairment/loss held by the Bank against those assets. The maximum exposure to credit risk in respect of other financial assets and guarantees are equivalent to their carrying amounts as disclosed in the respective notes.

	Note	31 December 2019	31 December 2018
		------ (AFN in '000) ------	
Maximum exposure to credit risk			
Carrying amount	8	4,931,284	5,868,698
At amortised cost			
Standard		5,122,963	6,087,102
Watch-list		20,161	28,915
Substandard		11,949	20,852
Doubtful		58,550	65,278
Loss		169,881	86,549
Rescheduled		4,399	7,698
Total gross amount		5,387,903	6,296,394
Allowance for impairment (individual and collective)		(456,619)	(427,696)
Net carrying amount		4,931,284	5,868,698
Loans with renegotiated terms			
Gross carrying amount		4,399	7,698
Impaired amount		4,399	7,698
Allowance for impairment		(4,399)	(7,698)
Net carrying amount		-	-
Neither past due nor impaired			
Standard (low fair risk)		5,054,392	6,045,116
		5,054,392	6,045,116
Individually impaired			
Watch-list		20,161	28,915
Substandard		11,949	20,852
Doubtful		58,550	65,278
Loss and rescheduled		174,280	94,247
		264,940	209,292
Allowance for impairment			
Specific		207,551	133,546
General		249,068	294,150
Total allowance for impairment		456,619	427,696

Impaired loans and advances

See accounting policy - note 5.6.4.

The Bank regards a loan and advance as impaired in the following circumstances:

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.

- A loan is overdue for 30 days or more.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicator of impairment.

Loans and advances that are past due but not impaired

Loans and advances 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amount owed to the Bank.

Balances with other banks

The Bank holds balances with central bank and other financial institutions amounting to AFN 5,522,905 thousands at 31 December 2019 (2018: AFN 5,702,952 thousands).

Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
	31 December 2019	31 December 2018	
Type of credit exposure			
Loans and advances to customers			
Microfinance loans	69.65	73.90	Property
Microfinance loans	8.05	4.32	Personal guarantee
Microfinance loans - Group loans	-	-	None
Over draft	3.27	3.98	Property
Loans to small and medium size enterprises (SME)	19.04	17.79	Property

Offsetting financial assets and financial liabilities

No financial assets and financial liabilities have been set off during the year (2018: none).

30.1.2 Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and geographic location.

Geographic sector

The following table breaks down the Bank's main credit exposure at their gross/ carrying amount, as categorised by geographical region as of 31 December 2019. For this table, the Bank has allocated exposures to the regions based on the country of domicile of counterparties.

	Cash and cash equivalents	Placements		Loans and advances to customers	Other assets	Total (on-balance sheet)	Contingencies and commitments	Total
	(AFN in '000)							
31 December 2019								
Afghanistan	-	-		4,931,284	293,112	5,224,396	41,223	5,265,619
United Kingdom	-	156,197		-	-	156,197	-	156,197
Belgium	462,900	-		-	-	462,900	-	462,900
Kenya	1,122,336	-		-	-	1,122,336	-	1,122,336
Turkey	85,742	-		-	-	85,742	-	85,742
Spain	1,391,006	-		-	-	1,391,006	-	1,391,006
Russia	24,925	-		-	-	24,925	-	24,925
Lebanon	3,858	-		-	-	3,858	-	3,858
	3,090,767	156,197	-	4,931,284	293,112	8,471,360	41,223	8,512,583
31 December 2018								
Afghanistan	24	-		5,868,698	324,169	6,192,891	19,150	6,212,041
United Kingdom	226,931	-		-	390	227,321	-	227,321
Belgium	336,986	148,936		-	1,853	487,775	-	487,775
Kenya	1,061,985	-		-	1,388	1,063,373	-	1,063,373
Turkey	17,668	245,744		-	1,907	265,319	-	265,319
Spain	1,069,543	-		-	249	1,069,792	-	1,069,792
	2,713,137	394,680		5,868,698	329,956	9,306,471	19,150	9,325,621

Industry sector

The following table breaks down the Bank's main credit exposure at their carrying amount, as categorised by industry sector as of 31 December 2019.

	Note	Banks	Agriculture	Telecom	Trade	Others	Total
		(AFN in '000)					
31 December 2019							
Cash and cash equivalents	6	3,080,513	-	-	-	-	3,080,513
Placements	7	154,635	-	-	-	-	154,635
Loans and advances to customers	8	-	1,246,157	84,264	2,573,441	1,027,423	4,931,285
Other assets	11	-	-	26,668	-	266,444	293,112
Contingencies and commitments	17	-	-	149	-	41,074	41,223
		3,235,148	1,246,157	111,081	2,573,441	1,334,941	8,500,768
31 December 2018							
Cash and cash equivalents	6	2,713,137	-	-	-	-	2,713,137
Placements	7	394,680	-	-	-	-	394,680
Loans and advances	8	-	1,490,752	83,388	3,485,887	808,671	5,868,698
Other assets	11	-	-	56,852	-	273,104	329,956
Contingencies and commitments	17	-	-	3,189	-	15,961	19,150
		3,107,817	1,490,752	143,429	3,485,887	1,097,736	9,325,621

30.1.2. Impaired loans and advances

For details of impairment allowance for loans and advances to customers, see note 8.

30.2 Liquidity risk

Liquidity risk' is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

30.2.1 Management of liquidity risk

The Bank's Board of Supervisors sets the Bank's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. The key elements of the Bank's liquidity strategy are as follows:

- Day-to-day funding, managed by monitoring future cash flows by currency and business segment to ensure that requirements can be met, expressed through a maturity mismatch approach within different time bands on a maturity ladder.

- Maintaining a portfolio of highly marketable assets and/or standby credit lines that can easily be liquidated/drawn as protection against any unforeseen interruption to cash flow.

- Monitoring balance sheet liquidity ratios against internal and regulatory requirements.

- Managing the concentration and profile of deposit and debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections by currency and business segment for the next day, week and month respectively, using the maturity mismatch approach outlined above, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. The Bank also monitors unmatched medium-term assets, the level and type of un-drawn lending commitments. Sources of liquidity are regularly reviewed by the ALCO to maintain a wide diversification by currency, provider, product and term.

30.2.2 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, 'net liquid assets' includes cash and cash equivalents less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	31 December 2019	31 December 2018
At 31 December	63.47%	58.67%
Average for the period	57.45%	60.35%
Maximum for the period	63.47%	79.61%
Minimum for the period	52.46%	54.72%

30.2.3 Maturity analysis for financial liabilities

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

	Gross nominal inflow/ (outflow)	Less than 1 month		1-3 months	3 months to 1 year	1-5 years	More than 5 years	Carrying amount
	---------- (AFN in '000) ----------							
31 December 2019								
Financial liabilities								
Deposits from customers	(6,602,026)	(6,040,677)	-	(10,699)	(357,774)	(192,875)	-	6,602,025
Loans and borrowings	(2,588,977)	(73,549)	-	(103,210)	(370,116)	(1,318,552)	(723,551)	2,588,977
Other liabilities	(470,280)	(89,206)		(57,068)	(580)	(43,554)	(279,872)	470,280
Contingencies and commitments	(12,564)	(149)	-	(64)	(12,352)	-	-	19,150
	(9,673,847)	(6,203,581)		(171,040)	(740,822)	(1,554,981)	(1,003,422)	9,680,432
31 December 2018								
Financial liabilities								
Deposits from customers	(7,669,494)	(6,581,856)		(505,813)	(580,301)	(1,524)	-	7,669,494
Loans and borrowings	(2,586,799)	(97,500)		(192,406)	(303,131)	(1,403,024)	(590,738)	2,586,799
Other liabilities	(150,257)	(71,447)		(78,810)	-	-	-	150,257
Contingencies and commitments	(19,150)	(14,899)		(910)	(1,817)	(1,524)	-	19,150
	(10,425,700)	(6,765,702)		(777,939)	(885,249)	(1,406,072)	(590,738)	10,425,700

The amounts in the table above have been compiled as follows:

Type of financial instrument	Basis on which amount are compiled
Non-derivative financial liabilities	
Issued financial guarantee contracts and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The table below sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

	Note	31 December 2019	31 December 2018
		------ (AFN in '000) ------	
Financial assets			
Loans and advances to customers	8	2,803,475	3,669,134
Financial liabilities			
Loans and borrowings	13	2,042,103	1,993,762

30.3 Market risk

Market risk is the risk that changes in market prices - such as interest rates and foreign exchange rates - will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimizing the return on risk.

30.3.1 Management of market risks

To manage and control market risk a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. Overall authority for market risk is vested in Management Board of the Bank. The Management Board is responsible for the development of detailed risk management policies and day to day review of their implementation.

30.3.2 Exposure to interest rate risk

The following table is a summary of the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amount, categorised by the earlier of contractual reprising or maturity dates.

	Note	Interest rates (p.a)	Interest bearing					Not interest bearing	Carrying amount
			3-6 months	6-12 months	1-5 years	More than 5 years	Total		
			(AFN in '000)						
31 December 2019									
Financial assets									
Cash and cash equivalents	6	0.05% to 2.45%	-	-	-	-	3,080,513	1,215,659	4,296,172
Placements	7	1.8%	603,353	-	-	-	603,353	-	603,353
Loans and advances to customers	8	6.6% to 27%	311,239	1,292,567	2,799,841	3,634	4,931,284	-	4,931,284
Other assets	11		-	-	-	-	-	828,212	828,212
Total financial assets			914,592	1,292,567	2,799,841	3,634	8,615,150	2,043,871	10,659,021
Financial liabilities									
Deposits from customers	12	0.5% to 4.5%	21,367	357,774	195,000	-	3,334,746	3,267,279	6,602,025
Loans and borrowings	13	0.5% to 6%	161,902	208,214	1,318,552	723,551	2,588,977	-	2,588,977
Other liabilities	15		1,205	428	43,554	279,872	325,059	145,221	470,280
Total financial liabilities			184,474	566,417	1,557,106	1,003,422	6,248,782	3,412,500	9,661,282
Total interest rate gap			730,118	726,150	1,242,735	(999,788)	2,366,367	(1,368,629)	997,738

	Note	Interest rates (p.a)	Interest bearing					Not interest bearing	Carrying amount
			3-6 months	6-12 months	1-5 years	More than 5 years	Total		
			(AFN in '000)						
31 December 2018									
Financial assets									
Cash and cash equivalents	6	0.10% to 2.50%	-	-	-	-	3,090,578	1,499,258	4,589,836
Placement	7	0.499% to 3.95%	769,184	74,656	-	-	843,840	-	843,840
Loans and advances to customers	8	6.6% to 27%	434,042	1,557,924	3,664,140	4,994	5,868,698	-	5,868,698
Other assets	11		-	-	-	-	-	936,074	936,074
Total financial assets			1,203,226	1,632,580	3,664,140	4,994	9,803,116	2,435,332	12,238,448
Financial liabilities									
Deposits from customers	12	0.5% to 5%	71,367	506,979	-	-	3,872,339	3,797,155	7,669,494
Loans and borrowings	13	0.34% to 6%	192,406	303,131	1,403,024	590,738	2,586,799	-	2,586,799
Other liabilities	15		-	-	-	-	-	150,257	150,257
Total financial liabilities			263,773	810,110	1,403,024	590,738	6,459,138	3,947,412	10,406,550
Total interest rate gap			939,453	822,470	2,261,116	(585,744)	3,343,978	(1,512,080)	1,831,898

If the interest rate increases / (decreases) by 100 bps, the impact on profit or loss for the year would have been AFN.33,440 thousands (2017: AFN.27,996 thousands) lower/higher respectively.

30.3.3 Exposure to currency risk

The table below summarizes the Bank's exposure to foreign currency exchange rate risk. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

31 December 2019	Note	AFN	USD	EUR	Total	Others	Carrying amount
		(AFN in '000)					
Financial assets							
Cash and cash equivalents	6	1,369,950	2,955,800	384,132	4,709,882	-	4,709,882
Placements	7	448,718	154,635	-	603,353	-	603,353
Loans and advances to customer	8	4,601,644	329,640	-	4,931,284	-	4,931,284
Other assets	11	418,525	357,855	51,832	828,212	-	828,212
Total financial assets		6,838,837	3,797,930	435,964	11,072,731	-	11,072,731
Financial liabilities							
Deposits from customers	12	2,329,278	3,836,057	436,690	6,602,026	-	6,602,026
Loans and borrowings	13	2,588,977	-	-	2,588,977	-	2,588,977
Other liabilities	15	95,734	374,262	285	470,280	-	470,280
Total financial liabilities		5,013,989	4,210,319	436,975	9,661,283	-	9,661,283
Net position		1,824,848	(412,389)	(1,011)	1,411,448	-	1,411,448

31 December 2018	Note	AFN	USD	EUR	Total	Others	Carrying amount
		(AFN in '000)					
Financial assets							
Cash and cash equivalents	6	1,424,759	2,500,854	664,223	4,589,836	-	4,589,836
Placements	7	449,160	394,680	-	843,840	-	843,840
Loans and advances to customer	8	5,441,085	427,613	-	5,868,698	-	5,868,698
Other assets	11	501,820	367,092	67,162	936,074	-	936,074
Total financial assets		7,816,824	3,690,239	731,385	12,238,448	-	12,238,448
Financial liabilities							
Deposits from customers	12	3,247,907	3,687,773	733,814	7,669,494	-	7,669,494
Loans and borrowings	13	2,586,799	-	-	2,586,799	-	2,586,799
Other liabilities	15	126,206	24,017	34	150,257	-	150,257
Total financial liabilities		5,960,912	3,711,790	733,848	10,406,550	-	10,406,550
Net position		1,855,912	(21,551)	(2,463)	1,831,898	-	1,831,898

Sensitivity analysis

A 10% strengthening of the Afghani, against the USD and Euro at 31 December 2019 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2019		2018	
	Equity	Profit or loss	Equity	Profit or loss
	(AFN in '000)			
USD	32,991	41,239	1,724	2,155
Euro	81	101	197	(246)

A 10% weakening of the Afghani against the above currencies at 31 December 2019 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

30.4 Operational and business risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

30.5 Capital management

Regulatory capital

The Bank's regulator DAB sets and monitors capital requirements for the Bank. The capital adequacy of the Bank is assessed in two tiers as per regulations of the DAB. As of reporting date, DAB requires the Bank to maintain financial capital of not less than AFN 1 billion, the Bank complies with this requirement keeping in view its share capital and share premium, and regulatory capital to risk-weighted asset ratio of not less than 12 percent and a core (Tier 1) capital to risk-weighted asset ratio of not less than 6 percent.

- Tier 1 or core capital, consisting of the highest quality capital elements that fully meet all the essential characteristics of capital; to be 6% of risk weighted assets.

- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank as a going concern.

- Regulatory capital is the sum of Tier 1 and Tier 2 capital and Tier 2 capital cannot exceed the amount of Tier 1 capital.

The Bank's regulatory capital position at 31 December 2019 was as follows:

Regulatory Capital	31 December 2019	31 December 2018
	------ (AFN in '000) ------	
Tier 1 capital		
Total equity capital	2,061,830	2,022,186
Less: Intangible assets	(78,830)	(100,672)
Less: Profit for the year	(39,644)	(31,617)
Total tier 1 (core) capital	1,943,356	1,889,897
Tier 2 (Supplementary) Capital:		
General loss reserves on credits as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposures	76,046	91,406
Add: Profit for the year	39,644	31,617
Total tier 2 (supplementary) capital	115,690	123,023
Total Regulatory capital = Tier 1 + Tier 2	2,059,046	2,012,920
Risk-weighted assets		
On-balance sheet		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	325,431	336,842
Direct claims on DAB	2,287,757	2,595,135
Total	2,613,188	2,931,977
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Balances with banks operating in category A countries	2,010,103	2,055,872
Direct claims in non-category A countries	1,236,860	-
Loans guaranteed by development institutions	1,085,809	1,192,252
Total	4,332,771	3,248,124
20% risk-weight total (above total x 20%)	866,554	649,625
100% risk weight:		
All other assets	5,295,446	6,762,781
Less: intangible assets	(78,830)	(100,672)
All other assets - net	5,216,616	6,662,109
100% risk-weight total (above total x 100%)	5,216,616	6,662,109

	31 December 2019	31 December 2018
	------ (AFN in '000) ------	
Off-balance sheet		
0% risk weight:		
Guarantees issued	-	-
Undrawn loan and overdraft facilities	28,659	46,876
0% credit conversion factor total (risk-weighted total x 0%)	-	-
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Guarantees issued	12,564	19,150
20% credit conversion factor total (risk-weighted total x 20%)	2,513	3,830
20% risk-weight total (above total x 20%)	503	766
100% risk weight:		
Guarantees	-	-
100% credit conversion factor total (risk-weighted total x 100%)	-	-
100% risk-weight total (above total x 100%)	-	-
Total risk-weighted assets	6,083,673	7,312,500
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	31.9%	25.8%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	33.8%	27.5%

31. CORRESPONDING FIGURES

Corresponding figures have been re-arranged and re-classified, where necessary, for more appropriate presentation.

32. DATE OF AUTHORISATION FOR ISSUE

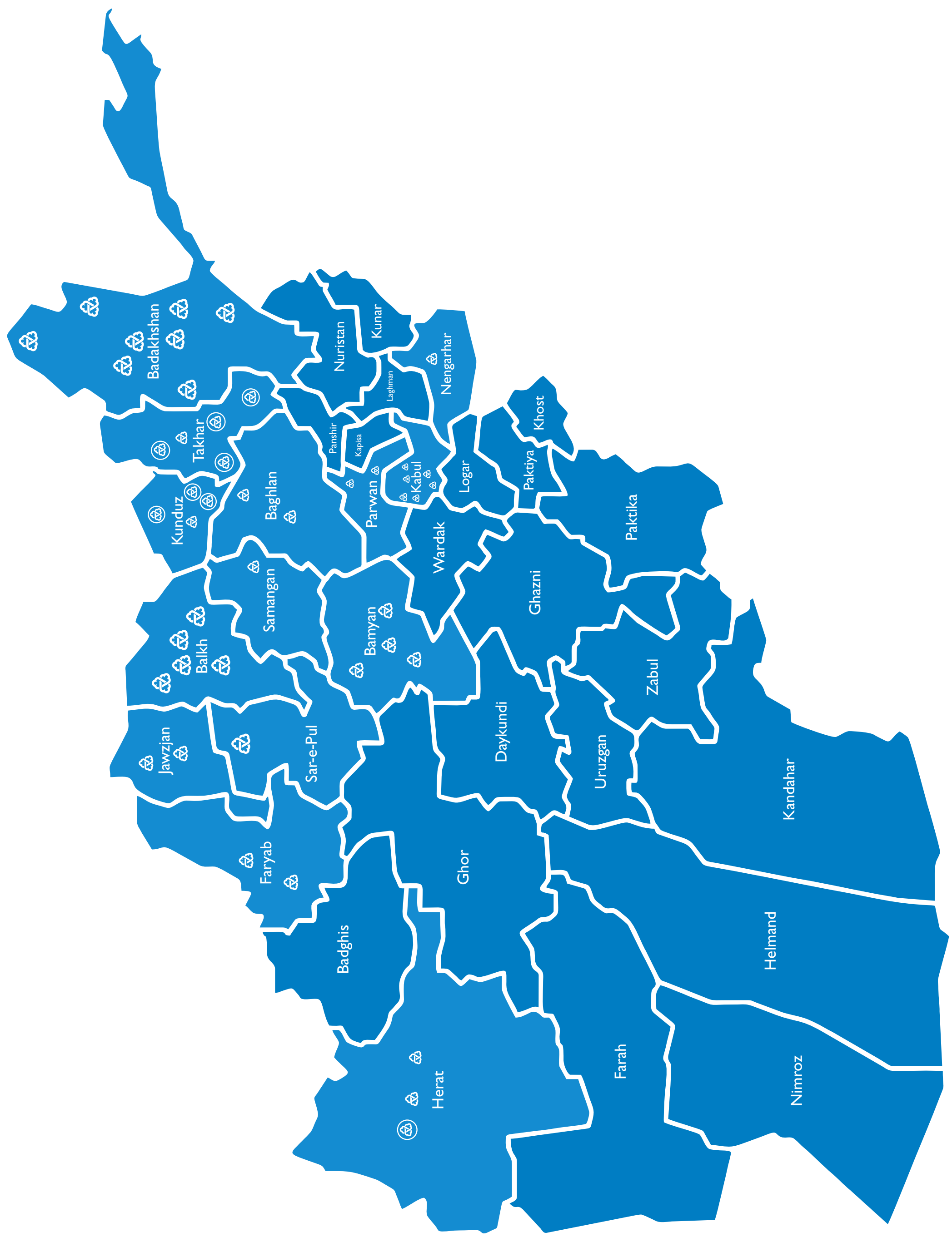
These financial statements were authorized for issue on ______________________ by the Board of Supervisors of the Bank.

33. GENERAL

Figures have been rounded off to the nearest thousand.

Chief Financial Officer　　　　Chief Executive Officer　　　　Chairman

Our Branch Network



38 Branches
8 loan Processing Offices
14 Provinces, 80 Districts

Kabul Region

Main Branch
Shahr-e-Naw, Ansari Square, Opposite Mar Mar Hotel, Zone 4, Kabul
Tell: 079 92 26 60 6

Taimani Branch
1st Street, Taimani Project, Adjacent Kabul City Hospital, Kabul
Tell: 079 83 63 20 0

Kot-e-Sangi Branch
3rd floor, Shirzad Market, Silo Street, Near Kot-e-Sangi Bridge, Kabul
Tell: 079 83 63 20 1

Mandawi Branch
4th floor, Tota Khail Plaza, Jada-e-Maiwand, Cinema Pamir, Kabul
Tell: 079 83 63 20 2

Khair Khana Branch
2nd floor, Classic Building, First Part of Khair Khana Street, Kabul
Tell: 079 83 63 20 3

Jalalabad Branch
2nd Floor, Haji Tora Baz Market, Opposite Hajj-o-Awqaf Directorate, Zone 1, Jalalabad City, Nangarhar
Tell: 072 99 07 69 7

Charikar Branch
3rd Floor, Gulghundi Hall, Kabul to Parwan Main Road, Charikar City, Parwan
Tell: 079 83 63 20 4

Jabal Saraj Branch
2nd Floor, Haji Ghulam Sakhi Building, Main Street, Jabal Saraj District, Parwan
Tell 072 99 07 65 2

Dasht-e-Barchi Branch
2nd Floor, Ahmadyaan Brothers Market, Golayee Dawakhana, Dasht-e-Barchi,
Kabul
Tell: 079 57 67 46 8

Mazar-E-Sharif Region

Mazar 1 Branch
2nd Floor, Ibrahim Gran Market, Masood Road, East of Blue Masjid (Rawza-e-Sharif), Mazar-e-Sharif, Balkh
Tell: 079 83 63 20 7

Mazar 2 Branch
2nd Floor, Bilal Sahebzada Market, Darwaza-e-Balkh, Mazar-e-Sharif, Balkh
Tell: 079 83 63 20 8

Balkh Branch
Mosafer khan Building, Bandar-e-Kleft, Balkh District, Balkh
Tell: 079 83 63 21 8

Khulm Branch
1st Floor, Municipality Hotel, Infront of Khulm Hospital, Khulm District, Balkh
Tell: 079 94 93 1 10

Sholgara Branch
Infront of New Clinic, Main Bazar Road, Sholgara, Balkh
Tell: 079 62 92 83 0

Sheberghan Region

Maimana Branch
2nd Floor, Sayad Plaza, Maimana Municipality Park South, Zone 3, Maimana, Faryab
Tell: 079 84 00 93 0

Sheberghan Branch
2nd Floor, Habib Roman Market, Bandar-e-Aqcha, Sheberghan, Jawzjan
Tell: 079 83 63 20 9

Sar-e-Pul Branch
15th Street, Shahr-e-Naw, Next to Azizi Bank, Zone 1, Sar-e-Pul City, Sar-e-Pul
Tell: 079 33 27 05 0

Andkhoy Branch
2nd Floor, Andkhoy Cinema Building, Street 1, Brishna Street, Main Road of Andkhoy, Faryab
Tell: 079 45 44 45 5

Aqcha Branch
Qasim sons' Market, Rasta Jangal Iriq, Aqcha city, Aqcha District, Jawzjan
Tell: 079 82 89 69 7

Kundoz Region

Kundoz Branch
4th Floor, Haji Qadir Market, Near Kunduz Square, Rang Foroshi Street, Kundoz
Tell: 079 83 63 21 1

Doshi Branch
Doshi Bazaar, Infront of Ahangaran Street, Doshi, Baghlan
Tell: 079 88 55 40 6

Pul-e-Khomri Branch
2nd Floor, Zikerya Parwani Market, Pul-e-Khomri Square, Baghlan
Tell: 079 83 63 20 5

Takhar Branch
2nd Floor, Malik Shahan Market, Sarak-e-Hamam Hafiz Bay, Taloqan, Takhar
Tell: 079 83 63 21 2

Samangan Branch
Haji Homayoun House, Next to Radio TV Station, Park-e-Wolayat Corner, Aybak, Samangan
Tell: 079 83 63 20 6

Dashti Qala Office
Block-e-Mamor Hassan, Aai Khanom Street, Dashit e Qala District, Takhar
Tell: 079 83 63 21 2

Khoja Ghar Office
Rasta-e-Najari, Khoja Ghar City East, Takhar
Tell: 079 83 63 21 2

Farkhar Office
South West of Chawk-e-Farkhar, Farkhar district, Takhar
Tell: 079 83 63 21 2

Warsaj Office
Street of Dari Hawali, South of Khanaqa Town, Warsaj district, Takhar
Tell: 079 83 63 21 2

Bangi Office
Rastai Chaplaq Froshi, East of Afaqi Town, Bangi district, Takhar
Tell: 079 83 63 21 2

Imam Sahib Office
2nd Floor, Sadaat Market, Near Aimaq Market, Imam Sahib District, Kundoz
Tell: 079 83 63 21 1

Ali Abad Office
Markaz Shahr, Mutasil-e-Sarai Zeghir Froshi, Opposite of Ali Abad Health Clinic, Ali Abad City, Kudoz
Tell: 079 83 63 21 1

Badakhshan Region

Faizabad Branch
2nd and 3rd Floor, Bahruddin Building, Adjacent to Badakhshan Commercial Center Building, Shahr-e-Naw, Faizabad, Badakhshan
Tell: 079 83 63 21 3

Kishim Branch
House No.3, First Street, Bandar-e-Tagaab, Kishim, Badakhshan
Tell: 079 83 63 22 9

Baharak Branch
Mir Abdul Wahid House, Rasta-e-Wardooj, New city, Baharak, Badakhshan
Tell: 079 63 49 08 6

Jurm Branch
Abdul Matin House, Guzar-e-Madrasa, Near Jurm City, Center of Jurm District, Badakhshan
Tell: 079 23 00 30 6

Ishkashim Branch
Qazdah village, Infront of Border Police, Ishkashim District, Ishkashim, Badakhshan
Tell: 079 97 62 47 2

Shughnan Branch
Naya-e-Senorg, De Murghan village, Shughnan District, Badakhshan
Tell: 072 86 37 82 0

Darwaz Branch
Near Nusai Baazar, Nawabad Village, Darwaz, Badakhshan
Tell: 0099 29 05 99 01 68

Zebak Branch
Mirza Mohammad House, Zebak Bazar, Zebak, Badakhshan
Tell: 0799762472

Herat Region

Herat 1 Branch
Wolayat Street, Infront of Herat Hospital, After Jada Mukhaberat, Zone 3, Herat
079 83 63 21 4

Herat 2 Branch
1st Floor, Nabizada Building, Northwest edge Zaman Jan, Main Square, Herat
079 83 63 21 5

Jabrail Office
Charda Metree, Istiqlal Street 19 Corner, Jabrail, Heart
079 83 63 21 4

Bamyan Region

Bamyan Branch
Mustafa Plaza, Bamyan Bazaar, First Part, Bamyan
079 83 63 21 9

Waras Branch
Bazaar Waras, Waras District Center, Waras, Bamyan
077 85 51 56 7

Panjab Branch
Dasht-e-Ghujur, Near AKF Office, Panjab, Bamyan
079 88 96 80 7

Yakawalang Branch
Bazar-e- Nayak, Yakawlang, Bamyan
0799302987