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The First MicroFinance Bank

Financial statements and audit report for the year 2020

Grant Thornton Afghanistan

Chartered Accountants and management consultants

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Independent auditors' report

Grant Thornton Afghanistan
House # 116, Street # 12
Quall e Fatehullah, Kabul,
Afghanistan
T: +93 202 202 475
M: +93 789 314 616,
www.grantthornton.af

To the Shareholders of The First MicroFinance Bank

Opinion

We have audited the financial statements of The First MicroFinance Bank (the Bank), which comprise the statement of financial position as of December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board of Accountants' *Code of Ethics of Professional Accountants (IESBA Code)* together 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 and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, 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.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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Chartered Accountants

Grant Thornton GTA Afghanistan

Engagement Partner: Saqib Rehman Qureshi - FCA
Location: Kabul, Afghanistan
Date: 28 - Mar - 2021

The First MicroFinance Bank
Statement of Financial Position
As at 31 December 2020

	Note	31 December 2020	31 December 2019
		--------- (AFN in '000)	---------
Assets			
Cash and cash equivalents	6	**5,175,723**	4,709,883
Placements - net	7	**1,542,287**	603,353
Loans and advances to customers - net	8	**4,246,383**	4,931,284
Operating fixed assets	9	**410,131**	595,797
Intangible assets	10	**97,632**	78,830
Other assets	11	**967,823**	853,576
Total Assets		**12,439,979**	11,772,723
Liabilities			
Deposits from customers	12	**7,682,441**	6,602,025
Loans and borrowings	13	**2,238,614**	2,588,977
Income tax payable - net		**8,060**	11,432
Deferred tax liabilities - net	14	**29,711**	27,270
Other liabilities	15	**369,820**	481,189
Total Liabilities		**10,328,646**	9,710,893
Equity			
Share capital	16	**796,008**	796,008
Share premium		**206,038**	206,038
Retained earnings		**1,109,287**	1,059,784
Total equity		**2,111,333**	2,061,830
Total equity and liabilities		**12,439,979**	11,772,723
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**

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The First MicroFinance Bank
Statement of Comprehensive Income
For the year ended 31 December 2020

	Note	31 December 2020	31 December 2019
		--------- (AFN in '000) ---------	
Interest income	18	**1,229,215**	1,419,295
Interest expense	19	**(153,309)**	(165,093)
Net interest income		**1,075,906**	1,254,202
Fee and commission income	20	**68,288**	78,758
Fee and commission expense	21	**(9,063)**	(11,659)
Net fee and commission income		**59,225**	67,099
Income from dealing in foreign currencies		**165,952**	149,502
Revenue		**1,301,083**	1,470,803
Other income	22	**42,130**	48,625
Impairment loss on loans and advances to customers	8.2	**(48,370)**	(105,961)
Impairment loss on placements	6 & 7	**1,942**	4,355
General provision on other assets	11	**(52)**	148
Personnel expenses	23	**(697,348)**	(675,716)
Depreciation and amortisation	9 & 10	**(139,111)**	(129,906)
Finance cost on lease liabilties	15.1	**(8,277)**	(14,215)
Penalties		**(125)**	(8,345)
Other expenses	24	**(389,545)**	(532,464)
Net operating income		**62,327**	57,324
Non-operating revenue and expenses:			
Development grant income	15	**1,147**	1,328
Operating grant income		**9,266**	5,701
Expenditure against grants	25	**(10,413)**	(7,029)
		-	-
Profit before tax		**62,327**	57,324
Income tax expense	26	**(12,824)**	(17,680)
Profit for the year		**49,503**	39,644
Other comprehensive income		**-**	-
Total comprehensive income		**49,503**	39,644
Earnings per share	27	**561**	449

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

Chief Financial Officer	Chief Executive Officer	Chairman

The First MicroFinance Bank
Statement of Changes in Equity
For the year ended 31 December 2020

	Share capital	Share premium	Retained earnings	Total
	(AFN in '000)			
Balance at 01 January 2019	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**
Profit for the year	-	-	49,503	49,503
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	**49,503**	**49,503**
Balance at 31 December 2020	**796,008**	**206,038**	**1,109,287**	**2,111,333**

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

Chief Financial Officer	Chief Executive Officer	Chairman

The First MicroFinance Bank
Statement of Cash Flows
For the year ended 31 December 2020

	Note	31-Dec-2020	31-Dec-2019
		--------- (AFN in '000) ---------	
Cash flows from operating activities			
Profit before tax		**62,327**	57,324
Adjustments for:			
Depreciation and amortisation	9 & 10	**139,111**	129,906
Impairment loss on loans and advances to customers	8.2	**48,370**	105,961
Impairment loss on placements	6 & 7	**(1,942)**	(4,355)
General provision on			
Other assets	11	**52**	(148)
Loss on disposal of property and equipment	22	**(245)**	93
Finance cost on lease liabitlies	15.1	**8,277**	14,215
Grant income	25	**(10,413)**	(7,029)
		245,537	295,967
Changes in:			
Increase in loans and advances to customers		**636,531**	831,453
Increase in other assets		**(114,299)**	105,955
Increase in deposits from customers		**1,080,416**	(1,067,469)
Increase in other liabilities		**16,082**	(20,234)
		1,864,267	145,672
Income tax paid		**(13,755)**	(16,937)
Grant received		**10,413**	4,856
Net cash flows (used in) / from operating activities		**1,860,925**	133,591
Cash flows from investing activities			
Purchase of property and equipment		**(32,702)**	(188,349)
Proceeds from disposal of property and equipment		**292**	177
Net investment in placements		**(936,992)**	244,842
Net cash flows (used in) / from investing activities		**(969,402)**	56,670
Cash flows from financing activities			
Repayment of lease liabilities	15.1	**(75,320)**	(72,393)
Proceeds from loans and borrowings		**460,166**	581,991
Repayment of loans and borrowings		**(810,529)**	(579,813)
Net cash flows (used in) / from financing activities		**(425,683)**	(70,215)
Net (decrease) / increase in cash and cash equivalents		**465,840**	120,047
Cash and cash equivalents at beginning of the year		**4,709,883**	4,589,836
Cash and cash equivalents at end of the year	6	**5,175,723**	4,709,883

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

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

1. STATUS AND NATURE OF OPERATIONS

The First MicroFinance Bank - 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. 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 (2019: 38) branches in operation including 17 urban branches (2019: 17) and 21 rural / peri urban branches (2019: 21) in operation at the year end and employed 1,470 staff (2019: 1,196).

The financial statements for the year ended December 31, 2020 (including comparatives) have been approved and authorized for issue by the Board of Supervisors on 25 -Mar- 2021

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 Laws and Regulations in Afghanistan and directives issued by the DAB. In case if the regulatory requirements differ with the requirements of IFRS, the provisions of applicable laws shall prevail.

Da Afghanistan Bank (DAB) vide its circular no. E-02 dated April 9, 2020 deferred the applicability of IFRS 9 "Financial Instruments" till July 2021. Accordingly, the requirementsof these standards have not been considered in the preparationof these financial statements.

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 2019.

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.

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Amendments to References to the Conceptual Framework (Various Standards)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

2. STATEMENT OF COMPLIANCE (Continued---)

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)**
- Interest Rate Bechmark Reform: Phase 2 - Amendments to IAS 39, IFRS 7, IFRS 4, IFRS 16, IFRS 9.	January 01, 2021
- References to the Conceptual Framework	January 01, 2022
- Proceeds before Intended Use (Amendments to IAS 16)	January 01, 2022
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	January 01, 2022
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41)	January 01, 2022
- Classification of Liabilities as Current or Non-current -Amendment to IAS 1	January 01, 2023

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 management estimates of the expected credit loss.

The Bank maintains a general provision of 4.98% on standard loans in Microfinance and SME portfolio and 1% on standard Overdraft and Corporate loans in line with bank's own provisioning policy which is relatively higher than the regulatory requirements.

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

Change in management estimates

During the year, management has re-estimated the percentages of loan loss provisioning on re-structured loans and advances under SME and Overdraft loans portfolio. In the past, the bank was providing 100% provisions for any reschedule loans regardless of their outstanding status while based on the new procedure such loans will be provided for as per their current status during the restructuring which is inline with DAB ACPR as well. This change in management estimate has resulted in less provisioning against re-scheduled loans by AFN 24.1 million in the current year.

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 2020.

5.1 IFRS 16 Leases

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 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, accrued 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 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 asset is reviewed at each reporting date and is reduced to the extent it is no longer probable that a 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

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is de-recognized when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets and financial liabilities

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

1. Designation at fair value through profit or loss (FVTPL)
2. Held for trading
3. Loans and receivables
4. Held to maturity
5. Available for sale

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

a) Classification, recognition and subsequent measurement of financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. The Bank's cash and cash equivalents, investments (other than held for trading), loans and receivables and other assets fall into this category of financial instruments.

The Bank determines allowance for impairment loans and advances in accordance with "Asset Classifications and Provisioning Regulation" issued by DAB.

At each reporting date, the Bank assesses whether there is objective evidence that financial assets which are not carried at fair value through profit or loss are impaired or not. Financial assets or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the assets that can be estimated reliably.

The criteria that Bank uses to determine that there is objective evidence that there is an indication to impairment loss includes 1) default or delinquency by a borrower 2) restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider 3) indication that a borrower or issuer will enter bankruptcy 4) disappearance of an active for a security 5) other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

The Bank considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate (if any). Losses are recognized in statement of comprehensive income and reflected in an allowance account against financial assets. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through statement of comprehensive income. The Bank writes off certain loans and advances when they are determined to be uncollectable.

b) Classification and subsequent measurement of financial liabilities

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognized in statement of comprehensive income. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

5.6.1 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% (2019: 1%) on overdraft and corporate 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 @ 5% (2019: 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% (2019: 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% (2019: 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 provided as per provisioning policy of the bank which is aligned with the DAB regulations.

vii) **Secured loans:** Bank has a blanket agreement with Afghanistan Credit Guarantee Foundation (ACGF) for securing the SME and Overdraft loans portfolio partially, as defined in the agreement, up to a maximum of 72% of the loan amount. As per DAB guidelines, Bank records provisioning against these loans to the extent of unsecured portion. Bank claim the loss from ACGF upon charging-off of the loan.

Placements and other assets

The Bank has a policy of maintaining general provision on placements based on the review of the portfolio as allowed under DAB regulations.

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 as allowed under DAB regulations.

Disclosure under IFRS 9

Impairments on financial assets, specifically on, loans and advances, investments and non-funded facilities, is carried out using the DAB regulations and above stated Bank's policy. However, additional notes and information on the assets impairmnt under IFRS 9 ECL model are also included in these financial statements as suplimentary information for comparison.

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:

	2020	2019
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.

	Note	31-Dec-2020	31-Dec-2019
		--------- (AFN in '000) ---------	
6 CASH AND CASH EQUIVALENTS			
Cash on hand		**339,385**	325,431
Unrestricted balances with Da Afghanistan Bank	6.1	**807,207**	504,368
Balances with other banks	6.2	**654,999**	499,311
Short term placements with banks	6.3	**3,374,132**	3,380,773
		5,175,723	4,709,883
6.1 Unrestricted balances with Da Afghanistan Bank			
Local currency			
Current accounts		**175,625**	242,668
Overnight deposit account	6.1.1	**226,266**	113,451
		401,891	356,119
Foreign currency			
Current accounts	6.1.2	**405,316**	148,249
		807,207	504,368

6.1.1 This represents interest bearing account carrying interest at 0.10% (2019: 0.10%) per annum.

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

	Note	31-Dec-2020	31-Dec-2019
6.2 Balances with other banks			
Transkapital - Russia		**113,633**	24,925
Islamic Bank of Afghanistan		**231,150**	-
BMCE Bank International, Spain		**261,186**	446,506
AKTIF Bank, Turkey		**41,119**	24,022
CSCBank SAL		**7,911**	3,858
	6.2.1	**654,999**	**499,311**

6.2.1 These balances are interest free. (2019: Nil).

	Note	31-Dec-2020	31-Dec-2019
6.3 Short term placements with banks			
Capital notes	6.3.1	**872,857**	799,571
Time deposits with other banks - net	6.3.2	**2,501,275**	2,581,202
		3,374,132	**3,380,773**

6.3.1 These represent capital notes issued by Da Afghanistan Bank having maturity of 7 to 91 days (2019: 7 to 28 days). These capital notes carry interest rates ranging from 0.085% to 1.51% (2019: 0.81% to 0.85%) per

	Note	31-Dec-2020	31-Dec-2019
		--------- (AFN in '000) ---------	
6.3.2 Time deposits with other banks - net			
Diamond Trust Bank, Kenya	6.3.2.1	**1,867,011**	1,122,336
Habib Bank Limited, Brussels	6.3.2.2	**308,200**	462,900
BMCE Bank International, Spain	6.3.2.3	**269,675**	944,500
AKTIF Bank, Turkey	6.3.2.4	**61,640**	61,720
Less: General provision held	6.3.3	**(5,251)**	(10,255)
		2,501,275	**2,581,202**

6.3.2.1 These deposits have maturity ranging from 24 to 77 days (2019: 28 to 43 days) and carry interest rate of 1.5% (2019: 2.45%) per annum. These time deposits are placed with a related party.

6.3.2.2 These deposits, held with the related party, have maturity of 28 days (2019: 10 to 57 days) and carry interest rates of 0.9% (2019: 1.7% to 2.15%) per annum.

6.3.2.3 These deposits have maturity of 6 to 14 days (2019: 8 to 39 days) and carry interest rate ranging from 0.05% to 0.1% (2019: 0.05% to 1.5%) per annum.

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6.3.2.4 This deposit has maturity of 91 days (2019: 28) and carries interest rate of 1.2% (2019: 1.65%) per annum.

6.3.3 Impairment on short-term placements

6.3.3.1 The bank has maintained a provision of AFN 5,251 thousand (2019: AFN 10,255 thousand) based on Bank's provisioning policy and Assets Classification and Provisioning Regulation (ACPR) issued by DAB which is higher than the provisioning calculated by IFRS 9 ECL.

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 2020 and 2019, respectively. The amounts presented are gross of impairment allowances.

	31 December 2020				31 December 2019
	(AFN in '000)				
Internal Rating Grade	**Stage 1**	**Stage 2**	**Stage 3**	Total	Total
Performing					
Investment Grade	2,236,851	269,675	-	2,506,526	2,591,456
Non - Investment Grade			-	-	-
Non - performing	-	-	-	-	-
Total	**2,236,851**	**269,675**	**-**	**2,506,526**	**2,591,456**
Impairment as per bank's policy				**(5,251)**	**(10,255)**
Carrying amount				**2,501,275**	**2,581,202**

7. PLACEMENTS - NET

	Note	31-Dec-2020	31-Dec-2019
		(AFN in '000)	
Capital notes issued by DAB	7.1	1,084,610	448,718
Time deposits with other banks - net	7.2	457,677	154,635
		1,542,287	**603,353**

7.1 These represent capital notes issued by DAB for maturity period ranging from 182 to 364 days (2019: 91 to 182 days). These capital notes carry interest rates ranging from 1.75% to 3.8% (2019: 0.799% to 1.06%) per annum.

7.2 Time deposits with other banks - net

	Note	31-Dec-2020	31-Dec-2019
		(AFN in '000)	
Habib Bank Limited, Brussels	7.2.1	462,300	-
Habibsons Bank Limited, UK	7.2.2	-	156,197
Less: General provision held	7.3	(4,623)	(1,562)
		457,677	**154,635**

7.2.1 The deposit, held with the related party, had a maturity of 94 to 182 days (2019: Nil) and carried interest rate ranging from 1.55% to 2.10% (2019: Nil) per annum.

7.2.2 These deposits, held with the related party, have maturity of 92 days (2020: Nil) and carry interest rate of 1.8% (2020: Nil) per annum.

7.3 General provision of 1% (2019: 1%) held on placements above 30 days (2019: above 30 days), in accordance with revised "Asset Classification and Provisioning Regulation (ACPR)" issued by DAB.

7.4 Impairment on placements

The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2020 and 2019, respectively. The amounts presented are gross of impairment allowances.

	31 December 2020				31 December 2019
	(AFN in '000)				
Internal Rating Grade	Stage 1	Stage 2	Stage 3	Total	Total
Performing					
Investment grade	462,300	-	-	**462,300**	**156,197**
Non - Investment Grade	-	-	-	-	-
Non - performing	-	-	-	-	-
Total	**462,300**	-	-	**462,300**	**156,197**
Impairment as per bank's policy				**(4,623)**	**(1,562)**
Net Total				**457,677**	**154,635**

8. LOANS AND ADVANCES TO CUSTOMERS - NET

	Note	31-Dec-2020	31-Dec-2019
		(AFN in '000)	
Loans and advances to customers	8.1	4,584,887	5,387,903
Less: Allowance for impairment loss on loans and advances to customers	8.2	(338,504)	(456,619)
		4,246,383	4,931,284

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8.1 Loans and advances to customers

	Note	31 December 2020 Gross amount	31 December 2020 Impairment allowance	31 December 2020 Carrying amount	31 December 2019 Gross amount	31 December 2019 Impairment allowance	31 December 2019 Carrying amount
		(AFN in '000)					
Microfinance loans	8.1.1	3,568,735	(301,824)	3,266,911	4,166,256	(334,756)	3,831,500
Loans to small and medium size enterprises (SME)	8.1.2	871,788	(35,531)	836,257	1,045,120	(106,393)	938,727
Overdraft financing	8.1.3	144,364	(1,149)	143,215	176,527	(15,470)	161,057
		4,584,887	**(338,504)**	**4,246,383**	**5,387,903**	**(456,619)**	**4,931,284**

8.1.1 Microfinance loans carry interest at rates ranging from 9% to 27% (2019: 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% (2019: 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 10% to 12% (2019: 8.5% to 17%) per annum. These loans are secured by different types of collaterals and personal guarantees. Overdrafts include a facility issued to Telecom Development Company Afghanistan Limited (TDCA), a related party.

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8.2 Allowance for impairment loss on loans and advances to customers

	Note	31 December 2020 Specific	31 December 2020 General	31 December 2020 Total	31 December 2019 Specific	31 December 2019 General	31 December 2019 Total
		(AFN in '000)					
Opening		207,551	249,068	456,619	133,546	294,150	427,696
Charge for the year:							
Microfinance loans		106,709	(30,152)	76,557	101,915	(39,221)	62,694
Loans to small and medium size enterprises and overdrafts		8,918	(37,103)	(28,185)	49,128	(5,861)	43,267
		115,627	**(67,255)**	**48,372**	**151,043**	**(45,082)**	**105,961**
Written off against impairment allowance:							
Microfinance loans		(109,489)	-	(109,489)	(67,674)	-	(67,674)
Loans to small and medium		(56,998)	-	(56,998)	(9,364)	-	(9,364)
size enterprises and overdrafts		-	-	-	-	-	-
	8.2.1	**(166,487)**	**-**	**(166,487)**	**(77,038)**	**-**	**(77,038)**
Closing		**156,691**	**181,813**	**338,504**	**207,551**	**249,068**	**456,619**

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.

8.2.2 As per the IFRS 9 ECL model, the expected credit losses on Loans and Advances amount to AFN 552,543 thousand (2019: AFN 426,058 thousand).

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

	Amount outstanding	Impairment allowance required as per ACPR		Impairment allowance held		
31 December 2020	(AFN in '000)	Rate	(AFN in '000)	Rate	(AFN in '000)	Number of customers
Classification - Microfinance Loans						
Standard	3,391,570	1%	33,916	4.98%	168,900	46,723
Overdue:						
Watch-List	17,750	5%	887	5%	887	338
Substandard	11,290	25%	2,823	25%	2,823	196
Doubtful	37,822	50%	18,911	50%	18,911	771
Loss	109,325	100%	109,325	100%	109,325	1,728
Rescheduled	978	100%	978	100%	978	7
	3,568,735		**166,840**		**301,824**	**49,763**
Classification - Overdraft and SME Loans						
Standard - SME Loans	727,234	1%	7,272	4.98%	12,446	329
Standard - Overdraft financing	139,958	1%	1,049	1%	1,049	5
Overdue:						
Watch-List - SME loans	5,357	5%	75	5%	75	5
Watch-List - Overdraft financing	-	5%	-	5%	-	-
Substandard - SME loans	25,116	25%	1,794	25%	1,794	8
Substandard - Overdraft financing	-	25%	-	25%	-	-
Doubtful - SME loans	81,823	50%	11,474	50%	11,474	12
Doubtful - Overdraft financing	-	50%	-	50%	-	-
Loss - SME loans	29,071	100%	7,716	100%	7,716	22
Loss - Overdraft financing	7,593	100%	2,126	100%	2,126	1
	1,016,152		**31,506**		**36,680**	**382**
Total	**4,584,887**		**198,346**		**338,504**	**50,145**
31 December 2019						
Classification - Microfinance Loans						
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%	48,494	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%	5,260	50%	5,260	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
	1,221,648		**83,107**		**121,863**	**493**
Total	**5,387,904**		**258,780**		**456,619**	**59,383**

	Note	31-Dec-2020	31-Dec-2019
		--------- (AFN in '000) ---------	
9. OPERATING FIXED ASSETS			
Capital work-in-progress	9.1	**24,614**	145,052
Property and equipment	9.2	**145,265**	91,602
Right-of-use assets - Bank's branches	9.3	**240,252**	359,143
		410,131	**595,797**

9.1 Capital work-in-progress

	Note	31-Dec-2020	31-Dec-2019
Opening balance		**145,052**	21,503
Advances made during the year	9.1.1	**24,510**	131,424
Transfer to assets		**(144,948)**	(7,875)
Closing balance		**24,614**	**145,052**

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9.1.1 This includes mainly the ATM Machines and other equipments 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 2019	55,767	41,358	24,192	95,834	82,934	**300,085**
Additions	1,815	1,259	-	21,984	31,867	**56,925**
Transfer from CWIP	-	-	-	-	-	**-**
Disposals	(300)	(735)	-	(585)	(526)	**(2,146)**
Balance at 31 December 2019	**57,282**	**41,882**	**24,192**	**117,233**	**114,275**	**354,864**
Balance at 01 January 2020	57,282	41,882	24,192	117,233	114,275	**354,864**
Additions	52,548	2,035	-	45,135	3,180	**102,898**
Disposals	(137)	(647)	-	(1,086)	(1,102)	**(2,972)**
Balance at 31 December 2020	**109,693**	**43,270**	**24,192**	**161,282**	**116,353**	**454,790**
Depreciation						
Balance at 01 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**
Balance at 1 January 2020	46,582	32,294	21,705	82,618	80,064	**263,263**
Charge for the year	8,814	3,374	1,754	17,529	17,716	**49,187**
Disposals	(137)	(641)	-	(1,056)	(1,092)	**(2,925)**
Balance at 31 December 2020	**55,259**	**35,027**	**23,459**	**99,091**	**96,688**	**309,525**
Carrying amounts						
Balance at 31 December 2019	10,701	9,588	2,487	34,615	34,211	91,601
Balance at 31 December 2020	**54,434**	**8,243**	**733**	**62,191**	**19,665**	**145,265**
Depreciation rate	**20%**	**20%**	**20%**	**25%**	**33.33%**	

		31-Dec-2020	31-Dec-2019
		------ (AFN in '000) ------	
9.3	**Right-of-use assets - Bank's branches**		
	Cost:		
	Opening balance	**418,485**	417,733
	Additions during the year	**-**	752
	Adjustment for lease modification	**(96,445)**	-
	Closing balance as on 31 December	**322,040**	418,485
	Accumulated depreciation:		
	Balance as of January 1, 2020 upon adoption of IFRS 16	**59,342**	-
	Depreciation expense for the year	**59,631**	59,342
	Adjustment for lease modification	**(37,185)**	-
	Balance as at December 31, 2020	**81,788**	59,342
	Carrying amount	**240,252**	359,143

		Note	31-Dec-2020	31-Dec-2019
9.4	**Allocation of depreciation**			
	Depreciation charge on property and equipment		**49,187**	42,175
	Depreciation charge on right-of-use assets		**59,631**	59,342
	Less: Amount classified under grant expense	25	**(1,147)**	(1,328)
			107,671	**100,189**

	Note	31-Dec-2020	31-Dec-2019
		------ (AFN in '000) ------	
10. INTANGIBLE ASSETS			
Cost			
Opening		172,504	164,629
Transfer from CWIP		50,242	7,875
Additions CBS		-	-
Closing		222,746	172,504
Amortisation			
Opening		(93,674)	(63,957)
Charge for the year CBS		(31,440)	(29,717)
Closing		(125,114)	(93,674)
Carrying amounts at 31 December		97,632	78,830

11. OTHER ASSETS

	Note	31-Dec-2020	31-Dec-2019
Restricted deposits with DAB	11.1	574,586	535,100
Interest receivable		220,892	256,512
Prepayments		58,063	19,250
Receivable from Roshan against M-Paisa payments		13,981	26,668
Advances to staff	11.2	12,326	6,114
Grant receivable		85,991	-
Others		2,283	10,179
		968,122	853,823
Less: Allowance for impairment losses		(299)	(247)
		967,823	853,576

11.1 Restricted deposits with DAB

	Note	31-Dec-2020	31-Dec-2019
In local currency		163,224	139,460
In foreign currency		411,363	395,640
	11.1.1	574,586	535,100

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

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

12. DEPOSITS FROM CUSTOMERS

	Note	31-Dec-2020	31-Dec-2019
		--------- (AFN in '000) ---------	
Retail customers			
Term deposits	12.1	**44,191**	39,592
Current deposits		**724,486**	779,512
Saving deposits	12.2	**2,742,575**	2,611,815
		3,511,251	**3,430,919**
Corporate customers			
Term deposits	12.3	**692,625**	542,875
Current deposits		**2,832,997**	2,447,265
Saving deposits	12.4	**480,713**	140,464
		4,006,335	**3,130,604**
Cash Margin		**32,193**	40,367
Dormant deposits		**132,662**	135
	12.5	**7,682,441**	**6,602,025**

12.1 The rate of interest on term deposits from retail customers ranges from 0.65% to 5% (2019: 0.75% to 4%) per annum.

12.2 The rate of interest on saving deposits other than those in Euro from retail customers is up to 0.5% (2019: 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 5% (2019: 1.5% to 4.5%) per annum.

12.4 The rate of interest on saving deposits other than those in Euros from corporate customers is 0.5% (2019: 0.5%) per annum. Saving deposits in Euro are interest free.

12.5 Deposits include AFN 1,232,389 thousands (2019: AFN 1,141,364 thousands) from related parties.

13. LOANS AND BORROWINGS

	Note	31-Dec-2020	31-Dec-2019
		------ (AFN in '000) ------	
Loans and borrowings from:			
Ministry of Finance, Government of Afghanistan	13.1	**132,240**	194,135
Microfinance Investment Support Facility for Afghanistan	13.2	**864,562**	1,208,401
Nede	13.3	**519,936**	562,649
Agricultural Development Fund	13.4	**27,857**	83,571
International Fund for Agricultural Development	13.5	**694,019**	540,221
		2,238,614	**2,588,977**

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			31-Dec-2020	31-Dec-2019
			------ (AFN in '000) ------	
13.1	**Ministry of Finance, Government of Afghanistan**			
	FMFB Credit Line II	13.1.1	**132,240**	194,135
			132,240	**194,135**

13.1.1 On 29th October 2008, the Bank entered into another financing and project agreement (FMFB Credit 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-Dec-2020	31-Dec-2019
			------ (AFN in '000) ------	
13.2	**Microfinance Investment Support Facility for Afghanistan**			
	MISFA I	13.2.1	-	95,000
	MISFA II	13.2.1	**225,000**	325,000
	MISFA III	13.2.2	**145,000**	245,000
	MISFA/KfW IV	13.2.3	**195,355**	244,194
	MISFA/KfW V	13.2.3	**299,207**	299,207
		13.2.5	**864,562**	**1,208,401**

13.2.1 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.

13.2.2 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 term schedule with MISFA; the first installment starting from 30th June 2017, and was fully drawn on 5th August 2013.

13.2.3 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.

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13. LOANS AND BORROWINGS (Continued---)

13.2.5 The total outstanding loan facilities from MISFA of AFN 864,562 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-Dec-2020	31-Dec-2019
		------ (AFN in '000) ------	
13.3 Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)			
FMO I	13.3.1	213,568	256,281
FMO II	13.3.2	306,368	306,368
		519,936	562,649

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 2020.

14. DEFERRED TAX LIABILITIES - NET

14.1 Movement in deferred tax balances

	Net balance at 01 January	Recognised in profit or loss	Deferred tax liability	Deferred tax asset	Net balance at 31 December
2020	(AFN in '000)				
Property and equipment	(7,887)	(3,444)	(11,331)	-	**(11,331)**
Right-of-use assets	(71,829)	23,779	(48,050)	-	**(48,050)**
Intangibles	(14,978)	2,864	(12,114)	-	**(12,114)**
Impairment loss on placements	2,363	(388)	-	1,975	**1,975**
General provision held on					
Other assets	49	11	-	60	**60**
Off-balance sheet items	-	-	-	-	**-**
Lease liabilities	65,012	(25,263)	-	39,749	**39,749**
	(27,270)	(2,441)	(71,495)	41,784	**(29,711)**
2019					
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 liability	-	65,012	-	65,012	65,012
	(22,440)	**(4,830)**	**(94,694)**	**67,424**	**(27,270)**

15. OTHER LIABILITIES

	Note	31-Dec-2020	31-Dec-2019
		(AFN in '000)	
Accrued expenses		**103,668**	94,407
Interest payable		**50,857**	49,155
Lease liabilities	15.1	**198,744**	325,059
Deferred grants	15.2	**1,242**	2,390
Withholding taxes payable		**12,066**	8,519
Other		**3,243**	1,659
		369,820	**481,189**

15.1 Lease liabilities

	31-Dec-2020	31-Dec-2019
Opening balance as of 1 January 2019 upon adoption of IFRS 16	**325,059**	382,485
Additions during the year	**-**	752
Accrued finance cost	**8,277**	14,215
Principal repayment and interest payments	**(75,320)**	(72,393)
Adjustment for lease modification	**(59,272)**	-
	198,744	**325,059**

15.2 Deferred grants - KfW

	(AFN '000)
2020	
Balance at 01 January 2020	2,390
Grants received during the year	-
Grant amortized during the year	(1,148)
Balance at 31 December 2020	1,242
2019	
Balance at 01 January 2019	3,718
Grants received during the year	-
Grant amortized during the year	(1,328)
Balance at 31 December 2019	2,390

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-Dec-2020	31-Dec-2019
	------ (AFN in '000) ------	
Authorized		
88,800 ordinary shares of AFN 9,016 each (2018: 88,800 of AFN 9,016)	800,624	800,624
Paid up		
88,288 ordinary shares of AFN 9,016 each (2018; 88,288 of AFN 9,016)	796,008	796,008

16.1 The capital is contributed by the shareholders as follows:

	31-Dec-2020	31-Dec-2019	31-Dec-2020	31-Dec-2019
	---- 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 (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 general meetings of the Bank.

17. CONTINGENCIES AND COMMITMENTS

	31-Dec-2020	31-Dec-2019
	------ (AFN in '000) ------	
17.1 Contingencies		
Outstanding bank guarantees	7,485	12,564
17.2 Commitments		
Undrawn loan and overdraft facilities	151,404	28,659

		Note	31-Dec-2020	31-Dec-2019
			------ (AFN in '000) ------	
18.	**INTEREST INCOME**			
	Cash and cash equivalents		**56,768**	42,922
	Placements		**6,462**	15,540
	Loans and advances to customers			
	Loans to small and medium size enterprises		**150,752**	204,868
	Microfinance loans		**982,491**	1,127,647
	Interest on overdraft facility		**32,742**	28,317
			1,165,985	**1,360,832**
			1,229,215	**1,419,295**
19.	**INTEREST EXPENSE**			
	Deposits from customers		**42,328**	39,579
	Loans and borrowings		**110,981**	125,514
			153,309	**165,093**
20.	**FEE AND COMMISSION INCOME**			
	Loan processing fee		**43,671**	54,209
	Bank charges relating to foreign remittances and other services		**24,617**	24,549
			68,288	**78,758**
21.	**FEE AND COMMISSION EXPENSE**			
	Bank charges		**9,063**	**11,659**
22.	**OTHER INCOME**			
	Unrealised exchange (loss)/ gain		**(12,542)**	(2,397)
	Receipts against claims with ACGF		**30,305**	31,545
	Recovery of loans and advances written-off		**23,437**	10,540
	(Loss)/ gain on disposal of property and equipment		**245**	(93)
	Others		**685**	9,030
			42,130	**48,625**
23.	**PERSONNEL EXPENSES**			
	Local staff	23.1	**652,616**	614,639
	Expat staff	23.2	**45,405**	66,142
			698,021	**680,781**
	Less: Grant related salaries and benefits	25	**(674)**	(5,065)
			697,348	**675,716**
23.1	**Local staff**			
	Basic salary		**499,003**	451,582
	Other benefits		**153,613**	163,057
			652,616	**614,639**

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		Note	31-Dec-2020	31-Dec-2019
			------ (AFN in '000) ------	
23.2	**Expat staff**			
	Basic salary		36,281	50,276
	Other benefits		9,124	15,866
			45,405	**66,142**
24.	**OTHER EXPENSES**			
	Consultancy fee		793	5,474
	Office rent		6,573	10,014
	Communication		64,883	66,946
	IT maintenance and support costs		44,380	24,032
	Generator fuel and maintenance		36,238	34,796
	Insurance		61,487	75,315
	Legal, professional and statutory fee		8,955	14,334
	Auditors' remuneration	24.1	2,301	2,330
	Office security		50,582	144,488
	Office stationery and supplies		22,207	31,819
	Other operating expenses		11,360	10,872
	Repairs and maintenance		3,915	10,065
	Travel and transportation		41,526	48,448
	Director's expense		8,605	18,714
	Trainings		5,217	8,178
	Utilities		18,534	12,138
	Marketing and promotional expenses		1,990	14,501
			389,545	**532,464**
24.1	**Auditors' remuneration**			
	Annual audit fee		1,607	1,636
	Interim review fee		694	694
			2,301	**2,330**
25.	**EXPENDITURE AGAINST GRANTS**			
	Salaries and benefits	23	-	5,065
	Consultancy fee		3,954	-
	Marketing		4,637	615
	Depreciation and amortization	9.4	1,147	1,328
	Perdiem		674	22
			10,413	**7,029**
26.	**INCOME TAX EXPENSE**			
	Current tax			
	For the year		10,383	12,850
	Prior year		-	-
			10,383	**12,850**
	Deferred tax expense	14	2,441	4,830
			12,824	**17,680**

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27. EARNINGS PER SHARE

	31-Dec-2020	31-Dec-2019
	------ (AFN in '000) ------	
Basic earnings per share		
Profit for the year attributable to ordinary shareholders (AFN '000)	**49,503**	39,644
Weighted-average number of ordinary shares	**88,288**	88,288
Basic earnings per share (AFN)	**561**	449

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.

	Note	31-Dec-2020	31-Dec-2019
		------ (AFN in '000) ------	
28.2 Transactions with key management personnel			
28.2.1 Key management personnel compensation			
Short term employee benefits	28.2.1.1	52,969	91,941

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

28.2.2 Related party transactions

	Directors and other key management personnel (and close family members)		Shareholders and their associated companies	
	31-Dec-2020	31-Dec-2019	31-Dec-2020	31-Dec-2019
Balances with related parties	------ (AFN in '000) ------			
Balances with banks	-	-	-	-
Time deposits with banks	-	-	2,637,511	1,741,433
Advances	1,558	1,078	-	-
Deposits from customers	11,252	10,405	1,232,389	1,141,364
Cash Margin against guarantees issued	-	-	-	149
Loan to Telecom Development Company Afghanistan Limited (TDCA)	-	-	91,198	92,066
Receivable from Roshan against M-Paisa payments	-	-	13,981	26,668

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
	31-Dec-2020	31-Dec-2019	31-Dec-2020	31-Dec-2019
Transactions with related parties	(AFN in '000)			
Interest income	-	-	40,468	44,401
Fee and commission income	-	-	3,120,761	4,225
Fee and commission expense	-	-	6,127	7,807
Interest expense on deposits from customer	-	-	1,944	3,089
Directors' fee and other reimbursements	8,605	18,714	-	-

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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 LIABILITIES

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

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

	Note	Debt investments at amortized cost	Other amortised cost	Total carrying amount	Fair value
		(AFN in '000)			
31 December 2020					
Financial assets					
Cash and cash equivalents	6	5,175,723	-	5,175,723	5,175,723
Placements	7	1,542,287	-	1,542,287	1,542,287
Loans and advances to customers	8	4,246,383	-	4,246,383	4,246,383
Other assets	11	-	897,434	897,434	897,434
		10,964,393	**897,434**	**11,861,827**	**11,861,827**
Financial liabilities					
Deposits from customers	12	-	7,682,441	7,682,441	7,682,441
Loans and borrowings	13	-	2,238,614	2,238,614	2,238,614
Other liabilities	15	-	356,512	356,512	356,512
		-	**10,277,567**	**10,277,567**	**10,277,567**
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**

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

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-Dec-2020	31-Dec-2019
		------ (AFN in '000) ------	
Maximum exposure to credit risk			
Carrying amount	8	4,246,383	4,931,284
At amortised cost			
Standard		4,258,763	5,122,963
Watch-list		23,106	20,161
Substandard		36,406	11,949
Doubtful		119,644	58,550
Loss		145,990	169,881
Rescheduled		111,426	4,399
Total gross amount		**4,695,336**	**5,387,903**
Allowance for impairment (individual and collective)		(338,504)	(456,619)
Net carrying amount		**4,356,832**	**4,931,284**
Loans with renegotiated terms			
Gross carrying amount		111,426	4,399
Allowance for impairment		(6,500)	(4,399)
Net carrying amount		104,926	-
Neither past due nor impaired			
Standard (low fair risk)		4,259,344	5,054,392
		4,259,344	**5,054,392**
Individually impaired			
Watch-list		23,106	20,161
Substandard		36,406	11,949
Doubtful		119,644	58,550
Loss and rescheduled		257,417	174,280
		436,573	**264,940**
Allowance for impairment			
Specific		156,691	207,551
General		181,813	249,068
Total allowance for impairment		**338,504**	**456,619**

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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 6,953,211 thousands at 31 December 2020 (2019: AFN 5,522,905 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-Dec-2020	31-Dec-2019	
Type of credit exposure			
Loans and advances to customers			
Microfinance loans	76.93	77.70	Property
Microfinance loans - Group loans	-	-	None
Over draft	3.37	3.27	Property
Loans to small and medium size enterprises (SME)	19.69	19.04	Property

Offsetting financial assets and financial liabilities

No financial assets and financial liabilities have been set off during the year (2019: 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. 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 2020							
Afghanistan	231,150	-	4,246,383	322,848	**4,800,381**	158,889	**4,959,270**
United Kingdom	-	-	-	-	**-**	-	**-**
Belgium	308,200	457,677	-	-	**765,877**	-	**765,877**
Kenya	1,867,011	-	-	-	**1,867,011**	-	**1,867,011**
Turkey	102,759	-	-	-	**102,759**	-	**102,759**
Spain	530,861	-	-	-	**530,861**	-	**530,861**
Russia	113,633	-	-	-	**113,633**	-	**113,633**
Lebanon	7,911	-	-	-	**7,911**	-	**7,911**
	3,161,525	**457,677**	**4,246,383**	**322,848**	**8,188,433**	**158,889**	**8,347,322**
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

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 2020.

30.1.2 Concentration of credit risk (Continued---)

	Note	Banks	Agriculture	Telecom	Trade	Others	Total
		(AFN in '000)					
31 December 2020							
Cash and cash equivalents	6	3,156,274	-	-	-	-	**3,156,274**
Placements	7	457,677	-	-	-	-	**457,677**
Loans and advances to customers	8	-	1,093,021	84,465	2,189,834	879,063	**4,246,383**
Other assets	11	-	-	13,981	-	308,867	**322,848**
Contingencies and commitments	17	-	-	-	-	158,889	**158,889**
		3,613,951	**1,093,021**	**98,446**	**2,189,834**	**1,346,819**	**8,342,071**
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**

GTA

30.1.2.1 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-Dec-2020	31-Dec-2019
At 31 December	72.45%	63.47%
Average for the period	67.51%	57.45%
Maximum for the period	72.45%	63.47%
Minimum for the period	60.54%	52.46%

30.2.3 Maturity analysis for financial liabilities

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

	Note	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 2020								
Financial liabilities								
Deposits from customers	12	(7,682,441)	(6,956,478)	(261,386)	(459,758)	(4,819)	-	7,682,441
Loans and borrowings	13	(2,238,615)	(136,223)	(49,710)	(321,944)	(1,044,818)	(685,921)	2,238,614
Other liabilities	15	(356,512)	(106,911)	(50,857)	(19,874)	(178,870)		356,512
		(10,277,569)	**(7,199,612)**	**(361,953)**	**(801,576)**	**(1,228,506)**	**(685,921)**	**10,277,567**
31 December 2019								
Financial liabilities								
Deposits from customers	12	(6,602,026)	(6,040,677)	(10,699)	(357,774)	(192,875)	-	6,602,025
Loans and borrowings	13	(2,588,977)	(73,549)	(103,210)	(370,116)	(1,318,552)	(723,551)	2,588,977
Other liabilities	15	(470,280)	(89,206)	(57,068)	(580)	(43,554)	(279,872)	470,280
		(9,661,283)	**(6,203,432)**	**(170,976)**	**(728,471)**	**(1,554,981)**	**(1,003,422)**	**9,661,282**

30.2.3 Maturity analysis for financial liabilities (Continued---)

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

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities	Undiscounted cash flows, which include estimated interest payments
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-Dec-2020	31-Dec-2019
		------ (AFN in '000) ------	
Financial assets			
Loans and advances to customers	8	2,621,158	2,803,475
Financial liabilities			
Loans and borrowings	13	1,730,738	2,042,103

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 repricing or maturity dates.

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	Note	Interest rates (p.a)	Interest bearing: Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total	Not interest bearing	Carrying amount
			(AFN in '000)							
31 December 2020										
Financial assets										
Cash and cash equivalents	6	0.05% to 2.45%	3,600,398	-	-	-	-	3,600,398	1,575,325	5,175,723
Placements	7	1.8%	-	1,542,287	-	-	-	1,542,287	-	1,542,287
Loans and advances to customers	8	6.6% to 27%	134,647	249,564	1,241,014	2,619,514	1,644	4,246,383	-	4,246,383
Other assets	11		-	-	-	-	-	-	897,434	897,434
Total financial assets			3,735,045	1,791,851	1,241,014	2,619,514	1,644	9,389,068	2,472,759	11,861,827
Financial liabilities										
Deposits from customers	12	0.5% to 4.5%	3,292,163	279,463	180,295	4,819	-	3,756,740	3,925,701	7,682,441
Loans and borrowings	13	0.5% to 6%	185,933	103,291	218,653	1,044,817	685,921	2,238,614	-	2,238,614
Other liabilities	15							-	356,512	356,512
Total financial liabilities			3,478,096	382,754	398,948	1,049,636	685,921	5,995,354	4,282,213	10,277,567
Total interest rate gap			256,949	1,409,097	842,066	1,569,878	(684,277)	3,393,714	(1,809,454)	1,584,260

	Note	Interest rates (p.a)	Interest bearing: Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total	Not interest bearing	Carrying amount
			(AFN in '000)							
31 December 2019										
Financial assets										
Cash and cash equivalents	6	0.05% to 2.45%	3,080,513	-	-	-	-	3,080,513	1,215,659	4,296,172
Placement	7	1.8%	-	603,353	-	-	-	603,353	-	603,353
Loans and advances to customers	8	6.6% to 27%	524,002	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			3,604,515	914,592	1,292,567	2,799,841	3,634	8,615,150	2,043,871	10,659,021

30.3.2 Exposure to interest rate risk (Continued---)

	Note	Interest rates	Interest bearing						Not interest bearing	Carrying amount
			Less than 3	3-6 months	6-12 months	1-5 years	More than 5	Total		
			(AFN in '000)							
Financial liabilities										
Deposits from customers	12	0.5% to 4.5%	2,760,604	21,367	357,774	195,000	-	**3,334,746**	3,267,279	**6,602,025**
Loans and borrowings	13	0.5% to 6%	176,759	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			**2,937,363**	**184,474**	**566,417**	**1,557,106**	**1,003,422**	**6,248,782**	**3,412,500**	**9,661,282**
Total interest rate gap			667,152	730,118	726,150	1,242,735	(999,788)	2,366,367	(1,368,629)	997,738

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.

	Note	AFN	USD	EUR	Total	Others	Carrying amount
31 December 2020		(AFN in '000)					
Financial assets							
Cash and cash equivalents	6	1,506,543	3,252,179	417,001	**5,175,723**	-	**5,175,723**
Placements	7	1,084,610	457,677	-	**1,542,287**	-	**1,542,287**
Loans and advances to customers	8	3,963,174	283,209	-	**4,246,383**	-	**4,246,383**
Other assets	11	452,152	399,150	46,131	**897,433**	-	**897,433**
Total financial assets		**7,006,480**	**4,392,215**	**463,132**	**11,861,826**	-	**11,861,826**
Financial liabilities			**4,373,832**	**-**			
Deposits from customers	12	3,081,878	4,128,973	471,591	**7,682,442**	-	**7,682,442**
Loans and borrowings	13	2,238,614	-	-	**2,238,614**	-	**2,238,614**
Other liabilities	15	110,394	244,859	1,260	**356,512**	-	**356,512**
Total financial liabilities		**5,430,885**	**4,373,832**	**472,850**	**10,277,568**	-	**10,277,568**
Net position		1,575,594	18,383	(9,718)	1,584,258	-	1,584,258

30.3.3 **Exposure to currency risk (Continued---)**

		AFN	USD	EUR	Total	Others	Carrying amount
31 December 2019		(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 customers	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**

Sensitivity analysis

A 10% strengthening of the Afghani, against the USD and Euro at 31 December 2020 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.

	2020		2019	
	Equity	Profit or loss	Equity	Profit or loss
	(AFN in '000)			
USD	**(1,471)**	**(1,838)**	32,991	41,239
Euro	**777**	**972**	81	101

A 10% weakening of the Afghani against the above currencies at 31 December 2020 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; Tier 2 capital cannot exceed the amount of Tier 1 capital.

The Bank's regulatory capital position at 31 December 2020 was as follows:

	31-Dec-2020	31-Dec-2019
Regulatory Capital	------ (AFN in '000) ------	
Tier 1 capital		
Total equity capital	2,111,333	2,061,830
Less: Intangible assets	(97,632)	(78,830)
Less: Profit for the year	(49,503)	(39,644)
Total tier 1 (core) capital	**1,964,198**	**1,943,356**
Tier 2 (Supplementary) Capital:		
General loss reserves on credits as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposures	68,784	76,046
Add: Profit for the year	49,503	39,644
Total tier 2 (supplementary) capital	**118,287**	**115,690**
Total Regulatory capital = Tier 1 + Tier 2	**2,082,485**	**2,059,046**
Risk-weighted assets		
On-balance sheet		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	339,385	325,431
Direct claims on DAB	3,339,260	2,287,757
Loans guaranteed by development institutions	612,105	-
Total	**4,290,750**	**2,613,188**
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Balances with banks operating in category A countries	1,301,361	2,010,103
Direct claims in non-category A countries	2,322,465	1,236,860
Loans guaranteed by development institutions		1,085,809
Total	**3,623,826**	**4,332,771**
20% risk-weight total (above total x 20%)	**724,765**	**866,554**
100% risk weight:		
All other assets	4,874,080	5,295,446
Less: intangible assets	(97,632)	(78,830)
All other assets - net	**4,776,448**	**5,216,616**
100% risk-weight total (above total x 100%)	**4,776,448**	**5,216,616**

	31-Dec-2020	31-Dec-2019
	------ (AFN in '000) ------	
Off-balance sheet		
0% risk weight:		
Guarantees issued	-	-
Undrawn loan and overdraft facilities	151,404	28,659
0% credit conversion factor total (risk-weighted total x 0%)	-	-
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Guarantees issued	7,485	12,564
20% credit conversion factor total (risk-weighted total x 20%)	1,497	2,513
20% risk-weight total (above total x 20%)	**1,497**	**503**
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	**5,502,710**	**6,083,673**
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	35.7%	31.9%
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	37.8%	33.8%

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 25-Mar-2021 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