

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF SUPERVISORS

Opinion

We have audited the financial statements of **The First MicroFinance Bank** (the Bank), which comprise the statement of financial position as at **31 December 2018** and statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

EY

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

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

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

Ernst & Young for Kaban Gist Holdings

Chartered Accountants

Audit Engagement Partner: Shabbir Yunus

Date: 28 March 2019

Kabul, Afghanistan

THE FIRST MICROFINANCE BANK
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

		31 December 2018	31 December 2017
	Note	----- (Afn in '000) -----	-----
Assets			
Cash and cash equivalents	6	4,589,836	5,798,185
Placements - net	7	843,840	399,867
Loans and advances to customers - net	8	5,868,698	5,191,284
Operating fixed assets	9	98,625	77,156
Intangible assets	10	100,672	118,021
Other assets	11	996,948	963,907
Total Assets		<u>12,498,619</u>	<u>12,548,420</u>
Liabilities			
Deposits from customers	12	7,669,494	7,577,081
Loans and borrowings	13	2,586,799	2,791,586
Income tax payable		15,519	33,086
Deferred tax liabilities - net	14	22,440	16,157
Other liabilities	15	182,181	139,941
Total Liabilities		<u>10,476,433</u>	<u>10,557,851</u>
Equity			
Share capital	16	796,008	796,008
Share premium		206,038	206,038
Retained earnings		1,020,140	988,523
Total equity		<u>2,022,186</u>	<u>1,990,569</u>
Total equity and liabilities		<u>12,498,619</u>	<u>12,548,420</u>
Contingencies and commitments	17		

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

btz



Acting Chief Financial Officer



Acting Chief Executive Officer



Chairman

THE FIRST MICROFINANCE BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 ----- (Afn in '000) -----	2017 -----
Interest income	18	1,414,304	1,427,469
Interest expense	19	(195,079)	(164,023)
Net interest income		1,219,225	1,263,446
Fee and commission income	20	90,347	91,538
Fee and commission expense	21	(11,752)	(10,508)
Net fee and commission income		78,595	81,030
Income from dealing in foreign currencies		130,121	110,420
Revenue		1,427,941	1,454,896
Other income	22	49,333	25,337
Impairment loss on loans and advances to customers	8.2	(128,203)	(68,824)
Impairment loss on placements	6 & 7	(2,693)	(14)
General provision on:			
Other assets	11	3,700	(3,318)
Off-balance sheet items	15	-	(777)
Personnel expenses	23	(634,054)	(594,227)
Depreciation and amortisation	9 & 10	(59,598)	(41,540)
Penalties		(9,875)	(1,187)
Other expenses	24	(529,314)	(481,838)
Net operating income		117,237	288,508
Non-operating revenue and expenses:			
Development grant income	15	1,450	10,346
Operating grant income		12,374	-
Expenditure against grants	25	(13,824)	(10,346)
Profit before tax		117,237	288,508
Income tax expense	26	(85,620)	(57,370)
Net profit		31,617	231,138
Other comprehensive income		-	-
Total comprehensive income		31,617	231,138
Earnings per share	27	0.36	2.62

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




 Acting Chief Financial Officer


 Acting Chief Executive Officer


 Chairman

THE FIRST MICROFINANCE BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Share premium	Retained earnings	Total
	(Afn in '000)			
Balance at 01 January 2017	796,008	206,038	757,385	1,759,431
Total comprehensive income	-	-	231,138	231,138
Balance at 31 December 2017	796,008	206,038	988,523	1,990,569
Effect due to adoption of IFRS 9	-	-	-	-
Restated opening balance under IFRS 9	796,008	206,038	988,523	1,990,569
Total comprehensive income	-	-	31,617	31,617
Balance at 31 December 2018	796,008	206,038	1,020,140	2,022,186

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





Acting Chief Financial Officer



Acting Chief Executive Officer




Chairman

THE FIRST MICROFINANCE BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 ----- (Afn in '000) -----	2017 -----
Cash flows from operating activities			
Profit before tax		117,237	288,508
Adjustments for:			
Depreciation and amortisation	9 & 10	61,048	43,890
Impairment loss on loans and advances to customers	8.2	128,203	68,824
Impairment loss on placements	6 & 7	2,693	14
General provision on			
Other assets	11	(3,700)	3,318
Off-balance sheet items	15	-	777
Gain on disposal of property and equipment	22	(278)	(142)
Grant income	25	(13,824)	(10,346)
		<u>291,379</u>	<u>394,843</u>
Changes in:			
Increase in loans and advances to customers		(805,617)	(598,562)
Increase in other assets		(29,341)	(239,623)
Increase in deposits from customers		92,413	1,386,418
Increase in other liabilities		<u>42,240</u>	<u>10,342</u>
		<u>(408,926)</u>	<u>953,418</u>
Income tax paid		(96,907)	(10,967)
Grant received		<u>13,824</u>	<u>10,346</u>
Net cash flows (used in) / from operating activities		<u>(492,009)</u>	<u>952,797</u>
Cash flows from investing activities			
Purchase of property and equipment		(65,563)	(76,853)
Proceeds from disposal of property and equipment		675	165
Net investment in placements		<u>(446,665)</u>	<u>859,055</u>
Net cash flows (used in) / from investing activities		<u>(511,553)</u>	<u>782,367</u>
Cash flows from financing activities			
Proceeds from loans and borrowings		264,598	640,915
Repayment of loans and borrowings		<u>(469,385)</u>	<u>(315,095)</u>
Net cash flows (used in) / from financing activities		<u>(204,787)</u>	<u>325,820</u>
Net (decrease) / increase in cash and cash equivalents		(1,208,349)	2,060,984
Cash and cash equivalents at beginning of the year		<u>5,798,185</u>	<u>3,737,201</u>
Cash and cash equivalents at end of the year		<u><u>4,589,836</u></u>	<u><u>5,798,185</u></u>

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


 Acting Chief Financial Officer


 Acting Chief Executive Officer


 Chairman

**THE FIRST MICROFINANCE BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. STATUS AND NATURE OF OPERATIONS

The First MicroFinance Bank (the Bank) was registered with Afghanistan Investment Support Agency (AISA) in December 2003 and received formal banking license from Da Afghanistan Bank (DAB), the central bank of Afghanistan, on 18 March 2004 to operate nationwide. The license of the Bank was renewed by Ministry of Commerce and Industries on 01 May 2017 till 29 April 2020. The Bank is a limited liability company and is incorporated and domiciled in Afghanistan. Since commencement of operations on 01 May 2004, the Bank has been operating as the leading financial services 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 (2017: 38) branches in operation including 17 (2017: 17) urban branches and 21 (2017: 21) rural / peri urban branches in operation at the year end and employed 1,137 (2017: 1,113) staff.

2. BASIS OF PREPARATION AND MEASUREMENT

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

These financial statements have been prepared using accrual basis of accounting under the historical cost convention.

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

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

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

Standard or Interpretation

- IFRS 2 - Share-based Payments – Classification and Measurement of Share-based Payments Transactions (Amendments)
- IFRS 4 - Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – (Amendments)
- IFRS 9 - Financial Instruments: Classification and Measurement
- IFRS 15 - Revenue from Contracts with Customers
- IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration

Improvements to Accounting Standards issued by the IASB in December 2016

- IAS 28 - Investments in Associates and Joint Ventures: Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice



The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements except IFRS 9 as disclosed in note 5.1 to the financial statements.

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

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

Standards, Interpretations and Amendments	Effective date (accounting periods beginning on or after)
- IFRS 3 - Definition of a Business (Amendments)	January 01, 2020
- IFRS 9 - Prepayment Features with Negative Compensation (Amendments)	January 01, 2019
- IFRS 10 - Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
- IFRS 16 - Leases	January 01, 2019
- IFRS 17 - Insurance Contracts	January 01, 2021
- IFRIC 23 - Uncertainty over Income Tax Treatments	January 01, 2019
- IAS 1/ IAS 8 - Definition of Material (Amendments)	January 01, 2020
- IAS 19 - Plan Amendment, Curtailment or Settlement (Amendments)	January 01, 2019
- IAS 28 - Long-term Interests in Associates and Joint Ventures (Amendments)	January 01, 2019

The above standards, amendments and interpretations are not expected to have any material impact on the Bank's financial statements in the period of initial application except IFRS 16 for which the Bank is in the process of estimating the impact on its financial statements.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB in December 2017. Such improvements are generally effective for accounting periods beginning on or after 01 January 2019. The Bank expects that such improvements to the standards will not have any 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. All amounts have been rounded to the nearest thousand unless otherwise stated.

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 5.12) and intangible assets (note 5.13) at each statement of financial position date. Any change in estimates may affect the carrying amounts of the respective items of property and equipment and intangible assets with a corresponding effect on the depreciation / amortization charge.

4.3 Impairment losses on financial instruments

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

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in preparation of this financial statements are consistent with those followed in the preparation of the annual financial statements of the Bank for the year ended 31 December 2017 other than as disclosed in note 5.1 below;

5.1 Adoption of IFRS 9 Financial Instruments

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

5.1.1 IFRS 9 - Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 01 January 2018 and upon adoption of IFRS 9 Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9, therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018.

5.1.1.1 Changes to classification and measurement

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



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

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

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

The Bank's classification of its financial assets and liabilities is explained in notes 5.6.1.4 and 5.6.2.

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

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

As of 01 January 2018, the Bank did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. As a result of business model assessment the Bank concluded that the debt instruments currently classified as HTM are held within the business model of collecting cash flows and not selling such instruments, therefore, it elected to classify all of these instruments as debt instruments measured at amortized cost.

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

5.1.1.2 Changes to the impairment calculation

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

Details of the Bank's impairment method are disclosed in note 5.6.4.

Upon adoption of IFRS 9, the equity of the Bank has not been affected as the provision held under local regulations was higher than the provision determined under IFRS 9.

5.1.2 IFRS 7R

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

Disclosures were updated and the Bank has adopted it, together with IFRS 9, for the year beginning 01 January 2018. Detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 30.1.1.

5.2 Foreign currency

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

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

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

5.3 Interest

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

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

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

5.4 Fees and commission

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

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

5.5 Income tax

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

5.5.1 Current tax

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

5.5.2 Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

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

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

5.5.3 Tax exposures

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

5.6 Financial instruments

5.6.1 Financial instruments – initial recognition

5.6.1.1 Date of recognition

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

5.6.1.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

5.6.1.3 Day 1 profit or loss

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

5.6.1.4 Measurement categories of financial assets and liabilities

From 01 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost, as explained in note 5.6.2.1; and
- FVPL.

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

Before 01 January 2018, the Bank classified its financial assets as loans and receivables (amortized cost), held-to-maturity (amortized cost), as explained in note 5.6.2.1.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in note 5.6.2.3.

5.6.2 Financial assets and liabilities

5.6.2.1 Loans and advances to Customers and placements at amortized cost

Before 01 January 2018 and Loans and advances to customers, included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market.

From 01 January 2018, the Bank only measures Loans and advances to customers and other financial investments at amortized cost if both of the following conditions are met:

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

The details of these conditions are outlined below:

Business model assessment

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

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

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

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

The SPPI test

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

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

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

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

5.6.2.2 Debt issued and other borrowed funds

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

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

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

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities (and assets until 01 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The liabilities (and assets until 01 January 2018 under IAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Bank's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate.

5.6.3 Reclassification of financial assets and liabilities

From 01 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2017.

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

5.6.4.1 Overview of the ECL principles

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in note 5.6.4.2. The Bank's policies for determining if there has been a significant increase in credit risk are set out in note 5.6.5.

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

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

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

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

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

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

5.6.4.2 The calculation of ECLs

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

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

- PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de-recognized and is still in the portfolio. The concept of PDs is further explained in note 30.1.1.
- EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in note 30.1.1.
- LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in note 30.1.1.

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

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Loan commitments

When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments the ECL is recognized within provisions, as disclosed in note 15.2 to the financial statements.

Financial guarantee contracts

The Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognized within provisions, as disclosed in note 15.2 to the financial statements.

5.6.4.3 Revolving facilities

For revolving facilities, the Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behavior, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is one year.

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

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

5.6.4.4 Forward looking information

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

- GDP growth
- Unemployment rates
- Consumer price indices

5.6.5 Impairment provision under local regulations

Loans and advances to customers

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

- i) **Standard:** These are loans and advances, which are paying in a current manner and are supported by sound net worth and paying capability of the borrower. In terms of policy of the Bank for more prudent approach, a general risk based provision is maintained in the books of accounts at the rate of 4.98% (2017: 4.98%) of value of such loans and advances. However, as per Asset Classification and Provisioning Regulation (ACPR) issued by DAB, 1% optional provision can be maintained of value of such loans and advances.
- ii) **Watch:** These are loans and advances which are adequately protected, but are potentially weak. All loans and advances where principal or interest payments are past due by 31 to 60 days are classified as watch-list. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification to Substandard. A provision is maintained in the books of account @ 5% (2017: 5%) of value of such loans and advances as required under ACPR issued by 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% of value of such loans and advances as per ACPR issued by 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% of value of such loans and advances as per Bank's risk based approach.
- v) **Loss:** These are loans and advances which are not collectible and or such little value that their continuance as a bankable asset is not warranted. Further, all microfinance loans and advances which are past due over 180 days and other loans which are past due over 480 days for principal or interest payments are required to be classified as "Loss" as per the ACPR issued by DAB. Bank can maintain loss assets in the books for a period of 12 months after which the loans should be immediately written off against provisions made.
- vi) **Rescheduled:** Rescheduled loans and advances are fully provided as per provisioning policy of the bank and funding covenant requirements.

Placements and other assets

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

Off-balance sheet item

The Bank has a policy of maintaining general provision on off-balance sheet items based on the review of the portfolio. Bank also determine provision for expected credit losses under IFRS 9 the financial statements are incorporated with higher provision impact resulting from the mentioned methods, as disclosed in note 15.2 to the financial statements.

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

Loans and advances

The policy for making provision against loan and advances was similar to one disclosed in note 5.6.5 above.

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

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

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

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

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

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

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 central bank 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.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

5.10 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances to customers are classified as loans and receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

5.11 Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available-for-sale.

5.11.1 Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold till maturity, and which are not designated at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the classification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

↳

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- sales or reclassifications that is attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

5.12 Property and equipment

5.12.1 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.

5.12.2 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.

5.12.3 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:

	2018	2017
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.

5.13 Intangible assets

5.13.1 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.

5.14 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.

5.15 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.

5.16 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.

5.17 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.

5.18 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.

5.19 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.

5.19.1 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.

5.19.2 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.

		31 December 2018	31 December 2017
	Note	----- (Afn in '000) -----	
6. CASH AND CASH EQUIVALENTS			
Cash on hand		336,842	326,292
Unrestricted balances with Da Afghanistan Bank	6.1	1,189,926	1,851,463
Balances with other banks	6.2	638,172	1,559,050
Short term placements with banks	6.3	2,424,896	2,061,380
		<u>4,589,836</u>	<u>5,798,185</u>

6.1 Unrestricted balances with Da Afghanistan Bank

Local currency			
Current accounts		166,248	279,430
Overnight deposit account	6.1.1	<u>665,682</u>	<u>1,048,579</u>
		831,930	1,328,009
Foreign currency			
Current accounts	6.1.2	357,996	523,454
		<u>1,189,926</u>	<u>1,851,463</u>

6.1.1 This represents interest bearing account carrying interest at 0.10% (2017: 0.10%) per annum.

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

6.2 Balances with other banks

Balances with:			
Habib Bank Limited, Brussels		-	462,926
Bank Alfalah Limited, Kabul		24	22,808
BMCE Bank International, Spain		620,480	318,076
AKTIF Bank, Turkey		17,668	755,240
	6.2.1	<u>638,172</u>	<u>1,559,050</u>

6.2.1 These balances are interest free. The balances held with related parties amounted to Nil (2017: Afn 462,926 thousands).

		31 December 2018	31 December 2017
		----- (Afn in '000) -----	
6.3 Short term placements with banks			
Capital notes	6.3.1	349,931	399,989
Time deposits with other banks - net	6.3.2	<u>2,074,965</u>	<u>1,661,391</u>
		<u>2,424,896</u>	<u>2,061,380</u>

6.3.1 These represent capital notes issued by Da Afghanistan Bank having maturity of 07 to 28 days (2017: 07 days). These capital notes carry interest rates ranging from 0.151% to 0.340% (2017: 0.140%) per annum.

		31 December 2018	31 December 2017
		----- (Afn in '000) -----	
6.3.2 Time deposits with other banks - net			
Diamond Trust Bank, Kenya	6.3.2.1	1,068,115	1,044,900
Habib Bank Limited, Brussels	6.3.2.2	338,490	-
BMCE Bank International, Spain	6.3.2.3	451,320	-
Habibsons Bank Limited, UK	6.3.2.4	229,225	417,960
AKTIF Bank, Turkey		-	208,980
Less: General provision held	6.3.3	<u>(12,185)</u>	<u>(10,449)</u>
		<u>2,074,965</u>	<u>1,661,391</u>

6.3.2.1 These deposits have maturity ranging from 27 to 35 days (2017: 19 to 39 days) and carry interest rate of 2.50% (2017: 2.45%) per annum. These time deposits are placed with a related party.

6.3.2.2 These deposits have maturity ranging from 28 to 86 days (2017: Nil) and carry interest rate ranging from 2.20% to 2.40% (2017: Nil) per annum. These time deposits are placed with a related party.

62

6.3.2.3 These deposits have maturity of 19 to 40 days (2017: Nil) and carry interest rate of 1.95% to 2.40% (2017: Nil) per annum.

6.3.2.4 This deposit has maturity of 37 days (2017: 34 to 55 days) and carries interest rate of 1.70% (2017: 1.28% to 1.38% Nil) per annum. This time deposits is placed with a related party.

6.3.3 The provision for expected credit losses on placements as per IFRS 9 amounted to Afn.44 thousands, which is lower than the one resulting from the requirements of Assets Classification and Provisioning Regulation (ACPR) issued by DAB and Bank's provisioning policy. Accordingly, the Bank has maintained higher provision.

6.3.4 Impairment on short-term placements

6.3.4.1 IFRS 9 expected credit loss computed on above placements amounts to Afn.43,542 thousand as at 31 December 2018. The provision under Assets Classification and Provisioning Regulation (ACPR) issued by DAB and Bank's provisioning policy is higher than IFRS 9 ECL, therefore, the Bank has maintained the higher provision.

6.3.4.2 The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2018 and 2017, respectively. The amounts presented are gross of impairment allowances.

Internal Rating Grade	31 December 2018			31 December 2017	
	Stage 1	Stage 2	Stage 3	Total	Total
(Afn in '000)					
Performing					
Investment Grade	2,207,856	-	-	2,207,856	1,553,869
Non - Investment Grade	-	229,225	-	229,225	417,960
Non - performing	-	-	-	-	-
Total	2,207,856	229,225	-	2,437,081	2,071,829
ECL Impact	(14)	(30)	-	(44)	(969)
Additional regulatory provision held	-	-	-	(12,141)	(9,480)
	(14)	(30)	-	(12,185)	(10,449)
Net Total	2,207,842	229,195	-	2,424,896	2,061,380

7. PLACEMENTS - NET

	Note	31 December 2018	31 December 2017
(Afn in '000)			
Capital notes issued by DAB	7.1	449,160	99,876
Time deposits with other banks - net	7.2	394,680	299,991
		843,840	399,867

7.1 These represent capital notes issued by DAB for maturity period ranging from 91 to 184 days (2017: 91 days). These capital notes carry interest rate ranging from 0.499% to 0.910% (2017: 0.49%) per annum.

	Note	31 December 2018	31 December 2017
(Afn in '000)			
7.2 Time deposits with other banks - net			
AKTIF Bank, Turkey	7.2.1	248,227	-
Habib Bank Limited, Brussels	7.2.2	150,440	303,021
Less: General provision held	7.3	(3,987)	(3,030)
		394,680	299,991

7.2.1 This deposit has maturity of 92 days (2017: Nil) and carry interest rate of 3.95% (2017: Nil) per annum.

7.2.2 These deposits have maturity of 91 to 180 days (2017: 91 to 182 days) and carry interest rate ranging from 2.40% to 2.50% (2017: 1.50% to 1.55%) per annum. These time deposits are placed with a related party.

7.3 General provision of 1% (2017: 1%) held on placements above 30 days (2017: above 30 days), in accordance with revised "Asset Classification and Provisioning Regulation (ACPR)" issued by DAB.

7.4 Impairment on placements

7.4.1 IFRS 9 expected credit loss computed on above placements amounts to Afn 11,341 thousand as at 31 December 2018. The provision under Assets Classification and Provisioning Regulation (ACPR) issued by DAB and Bank's provisioning policy is higher than IFRS 9 ECL, therefore, the Bank has maintained the higher provision.

7.4.2 The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2018 and 2017, respectively. The amounts presented are gross of impairment allowances.

Internal Rating Grade	31 December 2018				31 December 2017
	(Afn in '000)				
	Stage 1	Stage 2	Stage 3	Total	Total
Performing					
Not yet due	150,440	248,227	-	398,667	303,021
Non - performing	-	-	-	-	-
Total	150,440	248,227	-	398,667	303,021
ECL Impact	-	(11)	-	(11)	-
Additional regulatory provision held	-	-	-	(3,975)	(3,030)
	-	(11)	-	(3,987)	(3,030)
Net Total	150,440	248,216	-	394,680	299,991

8. LOANS AND ADVANCES TO CUSTOMERS - NET

	Note	31 December 2018 (Afn in '000)	31 December 2017 (Afn in '000)
Loans and advances to customers	8.1	6,296,394	5,493,052
Less: Allowance for impairment loss on loans and advances to customers	8.2	(427,696)	(301,768)
		5,868,698	5,191,284

8.1 Loans and advances to customers

		31 December 2018			31 December 2017		
	Note	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		(Afn in '000)					
Microfinance loans	8.1.1	4,930,469	(339,736)	4,590,733	4,539,924	(235,595)	4,304,329
Loans to small and medium size enterprises (SME)	8.1.2	1,126,768	(82,668)	1,044,100	826,252	(62,088)	764,164
Overdraft financing	8.1.3	239,157	(5,292)	233,865	126,876	(4,065)	122,791
		6,296,394	(427,696)	5,868,698	5,493,052	(301,768)	5,191,284

8.1.1 Microfinance loans carry interest at rates ranging from 9% to 27% (2017: 12% 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% (2017: 16.2% 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 13% to 18% (2017: 9.25% to 20%) per annum. These loans are secured by various kind of properties and personal guarantees. Overdraft is issued to Telecom Development Company Afghanistan Limited (TDCA), a related party and 21 other customers.

8.1.4 The provision for expected credit losses on Loans and Advances as per IFRS 9 amounted to Afn 338,113,455 thousands, which is lower from the one resulting from the requirements of Assets Classification and Provisioning Regulation (ACPR) issued by DAB and Bank's provisioning policy. Accordingly, the Bank has maintained higher provision.

8.2 Allowance for impairment loss on loans and advances to customers

Note	31 December 2018			31 December 2017		
	Specific	General	Total	Specific	General	Total
	(Afn in '000)					
Opening	36,819	264,949	301,768	57,711	236,549	294,260
Charge for the year:						
Microfinance loans	90,958	13,784	104,742	41,205	32,502	73,707
Loans to small and medium size enterprises	8,044	15,417	23,461	(4,386)	(497)	(4,883)
	99,002	29,201	128,203	36,819	32,005	68,824
Written off against impairment allowance:						
Microfinance loans	(716)	-	(716)	(38,788)	(3,605)	(42,391)
Loans to small and medium size enterprises	(1,559)	-	(1,559)	-	-	-
	-	-	-	(18,925)	-	(18,925)
	(2,275)	-	(2,275)	(57,711)	(3,605)	(61,316)
Closing	133,546	294,150	427,696	36,819	264,949	301,768

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

8.3 Allowance for impairment allowance for loans and advances to customers

8.3.1 IFRS 9 expected credit loss computed on above Loans and Advances to Customers amounts to Afn 338,113,455 as at 31 December 2018. The provision under Assets Classification and Provisioning Regulation (ACPR) issued by DAB and Bank's provisioning policy is higher than IFRS 9 ECL, therefore, the Bank has maintained the higher provision.

The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2018 and 2017, respectively.

Internal Rating Grade	31 December 2018			31 December 2017	
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Total	Total
	(Afn in '000)				
Performing					
Not yet due	6,043,515	1,602	-	6,045,117	5,277,231
Past due but not impaired	2,947	90,569	-	93,516	54,892
Non-performing	-	-	157,761	157,761	160,929
Total	6,046,462	92,171	157,761	6,296,394	5,493,052
ECL Impact	(156,217)	(24,135)	(157,761)	(338,113)	(197,086)
Additional Provision held as per Bank's provisioning policy	-	-	-	(89,583)	(104,682)
Net Total	5,890,245	68,036	-	5,958,281	5,191,284

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

	Amount outstanding (Afn in '000)	Impairment allowance required as per ACPR Rate	Impairment allowance required as per ACPR (Afn in '000)	Impairment allowance held Rate	Impairment allowance held (Afn in '000)	Number of customers
31 December 2018						
Classification - Microfinance Loans						
Standard	4,784,805	1%	47,846	4.98%	238,273	64,519
Overdue:						
Watch-List	16,956	5%	848	5%	848	209
Substandard	15,105	25%	3,776	25%	3,777	172
Doubtful	33,930	50%	16,965	50%	16,965	410
Loss	79,308	100%	79,308	100%	79,308	967
Rescheduled	565	100%	565	100%	565	7
	4,930,469		149,308		339,736	66,284
Classification - Overdraft and SME Loans						
Standard - SME Loans	1,076,694	1%	10,767	4.98%	53,620	532
Standard - Overdraft financing	225,803	1%	2,258	1.00%	2,257	19
Overdue:						
Watch-List - SME loans	3,864	5%	193	5%	193	3
Watch-List - Overdraft financing	8,095	5%	405	5%	405	1
Substandard - SME loans	5,747	25%	1,437	25%	1,437	3
Substandard - Overdraft financing	-	25%	-	25%	-	-
Doubtful - SME loans	26,090	50%	13,045	50%	13,045	12
Doubtful - Overdraft financing	5,258	50%	2,629	50%	2,629	1
Loss - SME loans	7,241	100%	7,241	100%	7,241	12
Rescheduled - SME loans	7,133	100%	7,133	100%	7,133	7
	1,365,925		45,108		87,960	95
31 December 2017						
Classification - Microfinance Loans						
Standard	4,505,480	1%	45,055	4.98%	224,373	60,851
Overdue:						
Watch-List	10,814	5%	541	5%	540	170
Substandard	6,912	25%	1,728	25%	1,728	94
Doubtful	15,529	50%	7,765	50%	7,765	198
Rescheduled	1,189	100%	1,189	100%	1,189	25
	4,539,924		56,278		235,595	61,338
Classification - Overdraft and SME Loans						
Standard - SME Loans	793,876	1%	7,939	4.98%	39,536	582
Standard - Overdraft financing	103,959	1%	1,040	1.00%	1,040	1
Overdue:						
Watch-List - SME loans	30	5%	2	5%	3	-
Watch-List - Overdraft financing	13,417	5%	671	5%	671	-
Substandard - SME loans	8,972	25%	2,243	25%	2,243	-
Substandard - Overdraft financing	9,500	25%	2,375	25%	2,375	-
Doubtful - SME loans	6,132	50%	3,066	50%	3,063	1
Rescheduled - SME loans	17,242	100%	17,242	100%	17,242	21

	Note	31 December 2018 ----- (Afn in '000) -----	31 December 2017 ----- (Afn in '000) -----				
9. OPERATING FIXED ASSETS							
Capital work-in-progress - (computer software)	9.1	21,503	3,913				
Property and equipment	9.2	77,122	73,243				
		<u>98,625</u>	<u>77,156</u>				
9.1 Capital work-in-progress - (computer software)							
		(Afn in '000)					
Balance as at 31 December 2016			102,599				
Advances made during the year			24,914				
Transfer to intangible assets			(123,600)				
Balance as at 31 December 2017			3,913				
Advances made during the year			17,590				
Transfer to intangible assets			-				
Balance as at 31 December 2018			<u>21,503</u>				
9.2 Property and equipment							
		Leasehold improvements	Furniture and fittings	Vehicles	Office equipments	Computer equipments	Total
		----- (Afn in '000) -----					
Cost							
Balance at 01 January 2017		44,416	31,787	22,002	80,287	59,361	237,853
Additions		4,500	3,808	2,166	7,281	25,230	42,785
Disposals		(37)	(877)	-	(936)	(1,640)	(3,490)
Balance at 31 December 2017		<u>48,879</u>	<u>34,518</u>	<u>24,168</u>	<u>86,632</u>	<u>82,951</u>	<u>277,148</u>
Balance at 01 January 2018		48,879	34,518	24,168	86,632	82,951	277,148
Additions		7,230	7,725	24	15,626	6,492	37,097
Disposals		(342)	(885)	-	(6,424)	(6,509)	(14,160)
Balance at 31 December 2018		<u>55,767</u>	<u>41,358</u>	<u>24,192</u>	<u>95,834</u>	<u>82,934</u>	<u>300,085</u>
Depreciation							
Balance at 01 January 2017		36,211	25,913	13,287	51,918	51,268	178,597
Charge for the year		3,464	2,707	2,623	11,737	8,244	28,775
Disposals		(36)	(863)	-	(928)	(1,640)	(3,467)
Balance at 31 December 2017		<u>39,639</u>	<u>27,757</u>	<u>15,910</u>	<u>62,727</u>	<u>57,872</u>	<u>203,905</u>
Balance at 1 January 2018		39,639	27,757	15,910	62,727	57,872	203,905
Charge for the year		3,502	2,893	2,915	11,739	11,674	32,823
Disposals		(342)	(875)	-	(6,041)	(6,507)	(13,765)
Balance at 31 December 2018		<u>42,899</u>	<u>29,775</u>	<u>18,825</u>	<u>68,425</u>	<u>63,039</u>	<u>222,963</u>
Carrying amounts							
Balance at 31 December 2017		<u>9,240</u>	<u>6,761</u>	<u>8,258</u>	<u>23,905</u>	<u>25,079</u>	<u>73,243</u>
Balance at 31 December 2018		<u>12,868</u>	<u>11,583</u>	<u>5,367</u>	<u>27,409</u>	<u>19,895</u>	<u>77,122</u>
Depreciation rate		20%	20%	20%	25%	33.33%	
9.3 Allocation of depreciation						31 December 2018 ----- (Afn in '000) -----	31 December 2017 ----- (Afn in '000) -----
Depreciation charged for the year						32,823	28,775
Less: Amount classified under grant expense	25					<u>(1,450)</u>	<u>(2,350)</u>
						<u>31,373</u>	<u>26,425</u>
10. INTANGIBLE ASSETS							
Computer software:							
Cost							
Opening						153,753	20,999
Acquisitions software						-	343
Transfer from CWIP						-	123,600
Additions CBS						10,876	8,811
Closing						<u>164,629</u>	<u>153,753</u>
Amortisation							
Opening						(35,732)	(20,617)
Charge for the year software						(188)	(186)
Charge for the year CBS						<u>(28,037)</u>	<u>(14,929)</u>
Closing						<u>(63,957)</u>	<u>(35,732)</u>
Carrying amounts at 31 December						<u>100,672</u>	<u>118,021</u>

		31 December 2018	31 December 2017
	Note	----- (Afn in '000) -----	-----
11. OTHER ASSETS			
Restricted deposits with DAB	11.1	606,118	635,459
Interest receivable		271,182	263,382
Prepayments		53,671	24,962
Receivable from Roshan against M-Paisa payments		56,852	33,070
Advances to staff	11.2	5,915	3,902
Grant receivable		2,317	-
Others		1,288	6,450
		<u>997,343</u>	<u>967,225</u>
Less: Allowance for impairment losses	11.3	(395)	(3,318)
		<u>996,948</u>	<u>963,907</u>

11.1 Restricted deposits with DAB

In local currency		187,882	179,252
In foreign currency		418,236	456,207
	11.1.1	<u>606,118</u>	<u>635,459</u>

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

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

11.3 The provision for expected credit losses as per IFRS 9 amounted to Afn.3.54 thousands, which is lower from the one resulting from the requirements of Assets Classification and Provisioning Regulation (ACPR) issued by DAB and Bank's provisioning policy. Accordingly, the Bank has maintained higher provision.

		31 December 2018	31 December 2017
	Note	----- (Afn in '000) -----	-----
12. DEPOSITS FROM CUSTOMERS			
Retail customers			
Term deposits	12.1	52,959	16,031
Current deposits		660,512	675,675
Saving deposits	12.2	2,412,419	2,211,172
Corporate customers			
Term deposits	12.3	1,240,000	545,691
Current deposits		3,093,759	3,689,426
Saving deposits	12.4	166,961	337,023
Cash Margin		42,771	94,232
Dormant deposits		113	7,831
	12.5	<u>7,669,494</u>	<u>7,577,081</u>

12.1 The rate of interest on term deposits from retail customers ranges from 0.50% to 5% (2017: 0.50% to 4.5%) per annum.

12.2 The rate of interest on saving deposits other than those in Euro from retail customers is upto 0.5% (2017: 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 0.60% to 5% (2017: 0.60% 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% (2017: 0.5%) per annum. Saving deposits in Euro are interest free.

12.5 Deposits include Afn.1,439,044 thousands (2017: Afn.1,831,402 thousands) from related parties.

		31 December 2018	31 December 2017
	Note	----- (Afn in '000) -----	
13. LOANS AND BORROWINGS			
Loans and borrowings from:			
Ministry of Finance, Government of Afghanistan	13.1	242,806	291,477
Microfinance Investment Support Facility for Afghanistan Limited	13.2	1,598,401	1,963,401
Nederlandse Financierings-Maatschappij Voor	13.3	341,708	341,708
Agricultural Development Fund	13.4	139,286	195,000
International Fund for Agricultural Development	13.5	264,598	-
		<u>2,586,799</u>	<u>2,791,586</u>

		31 December 2018	31 December 2017
	Note	----- (Afn in '000) -----	
13.1 Ministry of Finance, Government of Afghanistan			
FMFB Credit Line	13.1.1	44,446	66,669
FMFB Credit Line II	13.1.2	198,360	224,808
		<u>242,806</u>	<u>291,477</u>

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

13.1.2 On 29th October 2008, the Bank entered into another financing and project agreement (FMFB 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%. This loan is repayable through 20 bi-annual installments, starting from June 2016.

		31 December 2018	31 December 2017
	Note	----- (Afn in '000) -----	
13.2 Microfinance Investment Support Facility for Afghanistan Limited			
MISFA I	13.2.1	285,000	475,000
MISFA II	13.2.2	345,000	445,000
MISFA III	13.2.3	425,000	500,000
MISFA/KfW IV	13.2.4	244,194	244,194
MISFA/KfW V	13.2.4	299,207	299,207
	13.2.5	<u>1,598,401</u>	<u>1,963,401</u>

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

5

- 13.2.2** The Bank signed a further loan agreement (MISFA II) via agreement No. M9102 dated 17th June 2012 with MISFA for an amount of Afn.500,000 thousands for a period of 10 years with 5 years grace period for principal repayment. The total facility was disbursed in four tranches as per the terms of the aforementioned agreement of Afn.212,000 thousand, Afn.38,000 thousand, Afn.100,000 thousand and Afn.150,000 thousand on 19th June 2012, 29th June 2013, 9th August 2012 and 25th November 2012, respectively. The purpose of the loan is to grow the microfinance and SME loan portfolio of Bank. This loan agreement carries interest rate of 6% per annum effective from 30th June 2012. The loan is repayable through 20 quarterly installments, starting from 30th June 2017, and was fully drawn on 25th November 2012.
- 13.2.3** The Bank signed a further loan agreement (MISFA III) via agreement No. M9105 dated 20th March 2013 with MISFA for an amount of Afn.500,000 thousands for a period of 10 years with 5 years grace period for principal repayment. The total facility was disbursed in four tranches as per the terms of the aforementioned agreement of Afn.120,000 thousand, Afn.130,000 thousand, Afn.130,000 thousand and Afn.120,000 thousand on 2nd April 2012, 4th May 2013, 29th June 2013 and 5th August 2013, respectively. The purpose of the loan is to grow the microfinance and SME loan portfolio of Bank. This loan agreement carries interest rate of 6% per annum effective from 30th June 2013. The loan is repayable through 20 quarterly installments, starting from 30th June 2017, and was fully drawn on 5th August 2013.
- 13.2.4** The Bank entered into a financing and project agreement for a period of 10 years with 5 years grace period for principal repayment amounting for Euro 7,750 thousand dated 19th December 2013 with Kreditanstalt für 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 (MISFA/KfW IV) and 3,750 thousand (MISFA/KfW V), respectively, carrying financial charges at the rate of 6% per annum effective from 31st March 2015. Both tranches are repayable through 20 bi-annual installments, starting from 31st March 2020 and 31st December 2022, respectively.
- 13.2.5** The total outstanding loan facilities from MISFA of Afn.1,598,401 thousands are supported by promissory notes issued by the Bank to MISFA. As a security for these promissory notes the Bank has assigned all rights and interests in the whole or such portion of the Bank's loan portfolio as MISFA may select in its sole discretion up to the amount of the loans outstanding under the loan agreements.
- 13.3** 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. 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. The loan is repayable through 8 bi-annual installments with 1st installment due on 15th 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 2018.

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 (Afn in '000)	Deferred tax asset	Net balance at 31 December
2018					
Property and equipment	(7,758)	(59)	(7,817)	-	(7,817)
Intangibles	(9,218)	(8,718)	(17,936)	-	(17,936)
Impairment loss on placements	-	3,234	-	3,234	3,234
General provision held on					
Other assets	664	(585)	-	79	79
Off-balance sheet items	155	(155)	-	-	-
	<u>(16,157)</u>	<u>(6,283)</u>	<u>(25,753)</u>	<u>3,313</u>	<u>(22,440)</u>
2017					
Property and equipment	(6,298)	(1,460)	(7,758)	-	(7,758)
Intangibles	(58)	(9,160)	(9,218)	-	(9,218)
General provision held on					
Other assets	-	664	-	664	664
Off-balance sheet items	-	155	-	155	155
	<u>(6,356)</u>	<u>(9,801)</u>	<u>(16,976)</u>	<u>819</u>	<u>(16,157)</u>

14.2 Reconciliation of effective tax rate

	31 December 2018		31 December 2017	
	Rate	Afn in '000	Rate	Afn in '000
Profit before tax		117,237		288,507
Applicable tax at 20%	20.00%	23,447	20.00%	57,701
Inadmissible expenses	11.63%	13,638	3.15%	9,099
Depreciation and loss on disposal of fixed assets and general provision	-17.63%	(20,674)	-6.67%	(19,231)
Effect of previously unrecognised tax	53.67%	62,926	3.69%	-
Deferred tax effect	5.36%	6,283	3.40%	9,801
	<u>73.03%</u>	<u>85,620</u>	<u>19.89%</u>	<u>57,370</u>

	Note	31 December 2018 ----- (Afn in '000) -----	31 December 2017 ----- (Afn in '000) -----
15. OTHER LIABILITIES			
Accrued expenses		63,806	44,271
Interest payable		78,810	52,904
Performance bonus payable		21,876	22,369
Deferred grants	15.1	8,207	9,490
Withholding taxes payable		7,641	5,433
Other		1,841	4,697
General provision held against off-balance sheet items	15.2	-	777
		<u>182,181</u>	<u>139,941</u>

15.1. Deferred grants

	MISFA	AKF - USA	KfW	Total
	(Afn in '000)			
Note	15.1.1	15.1.2	15.1.3	
2018				
Balance at 01 January 2018	1,644	4,489	3,357	9,490
Grants received during the year	-	-	167	167
Grant amortized during the year	(1,644)	-	194	(1,450)
Balance at 31 December 2018	<u>-</u>	<u>4,489</u>	<u>3,718</u>	<u>8,207</u>
2017				
Balance at 01 January 2017	2,170	5,598	3,529	11,297
Grants received during the year	-	-	8,539	8,539
Grant amortized during the year	(526)	(1,109)	(8,711)	(10,346)
Balance at 31 December 2017	<u>1,644</u>	<u>4,489</u>	<u>3,357</u>	<u>9,490</u>

- 15.1.1 This represents grant received from Microfinance Investment Support Facility for Afghanistan Limited (MISFA) under an agreement signed dated 16 August 2011 to strengthen the Bank's capacity in rural and agricultural financial products and services.
- 15.1.2 This includes grant received from Aga Khan Foundation (AKF) under an agreement signed dated 21 July 2014 to Strengthen Afghan Government and Alternative Livelihood (SAGAL) through promoting alternative crops to poppy cultivation and development of value chain financing in agriculture sector.
- 15.1.3 This represents grant received from Kreditanstalt für Wiederaufbau (KfW) under an agreement signed dated 26 October 2016 for establishment of "Women - only" branch in Kabul.
- 15.2 Represents Nil (2017: 1%) provision as required under Asset Classification and Provisioning Regulation issued by DAB.

	31 December 2018	31 December 2017
	----- (Afn in '000) -----	-----
16. SHARE CAPITAL		
Authorized		
88,800 ordinary shares of US \$ 177 each (2017: 88,800 of US \$ 177)	<u>800,624</u>	<u>800,624</u>
Paid up		
88,288 ordinary shares of US \$ 177 each (2017: 88,288 of US \$ 177)	<u>796,008</u>	<u>796,008</u>

- 16.1 The capital is contributed by the shareholders as follows:

	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	---- Number of shares ----		----- (Afn in '000) -----	-----
Aga Khan Agency for Microfinance (AKAM)	34,784	34,784	310,646	310,646
Kreditanstalt für Wiederaufbau (KfW)	28,200	28,200	254,811	254,811
International Finance Corporation (IFC)	14,800	14,800	133,974	133,974
Aga Khan Foundation USA (AKF USA)	10,504	10,504	96,577	96,577
	<u>88,288</u>	<u>88,288</u>	<u>796,008</u>	<u>796,008</u>

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

	Note	31 December 2018	31 December 2017
		----- (Afn in '000) -----	-----
17. CONTINGENCIES AND COMMITMENTS			
17.1 Contingencies			
Outstanding bank guarantees		<u>19,150</u>	<u>66,757</u>
17.2 Commitments			
Undrawn loan and overdraft facilities		<u>46,876</u>	<u>10,903</u>

52

		31 December 2018	31 December 2017
	Note	----- (Afn in '000) -----	
18. INTEREST INCOME			
Cash and cash equivalents		30,205	46,578
Placements		23,745	24,262
Loans and advances to customers			
Loans to small and medium size enterprises		214,197	203,750
Microfinance loans		1,125,518	1,141,086
Interest on overdraft facility		20,639	10,618
		1,360,354	1,355,454
Others		-	1,175
		<u>1,414,304</u>	<u>1,427,469</u>
19. INTEREST EXPENSE			
Deposits from customers		51,243	25,179
Loans and borrowings		143,836	138,844
		<u>195,079</u>	<u>164,023</u>
20. FEE AND COMMISSION INCOME			
Loan processing fee		69,850	61,038
Bank charges relating to foreign remittances and other services		20,497	30,500
		<u>90,347</u>	<u>91,538</u>
21. FEE AND COMMISSION EXPENSE			
Bank charges		11,752	9,139
Others		-	1,369
		<u>11,752</u>	<u>10,508</u>
22. OTHER INCOME			
Unrealised exchange gain		11,415	7,067
Receipts against claims		19,788	-
Loans and advances written off recovered		17,852	17,288
Gain on disposal of property and equipment		278	142
Others		-	840
		<u>49,333</u>	<u>25,337</u>
23. PERSONNEL EXPENSES			
Local staff	23.1	564,677	522,747
Expat staff	23.2	77,504	74,412
		642,181	597,159
Less: Grant related salaries and benefits	25	(8,127)	(2,932)
		<u>634,054</u>	<u>594,227</u>
23.1 Local staff			
Basic salary		398,673	372,119
Other benefits		166,004	150,628
		<u>564,677</u>	<u>522,747</u>

			31 December 2018 ----- (Afn in '000) -----	31 December 2017 -----
	Note			
23.2	Expat staff			
			54,289	52,843
	Basic salary		23,215	21,569
	Other benefits		<u>77,504</u>	<u>74,412</u>
24.	OTHER EXPENSES			
	Consultancy fee		4,202	16,447
	Office rent		64,027	44,367
	Communication		53,145	55,013
	System maintenance		19,634	16,823
	Generator fuel and maintenance		22,654	22,175
	Insurance		50,498	38,427
	Legal, professional and statutory fee		17,886	20,850
	Auditors' remuneration	24.1	2,828	2,675
	Office security		137,221	132,072
	Office stationery and supplies		36,158	29,817
	Other operating expenses		8,993	7,596
	Repairs and maintenance		4,178	5,304
	Travel and transportation		56,627	57,057
	Director's expense		11,418	4,441
	Trainings		14,259	10,253
	Utilities		10,847	9,975
	Marketing and promotional expenses		11,035	8,542
	Miscellaneous		3,704	4
			<u>529,314</u>	<u>481,838</u>
24.1	Auditors' remuneration			
	Annual audit fee		2,123	2,110
	Interim review fee		705	565
			<u>2,828</u>	<u>2,675</u>
25.	EXPENDITURE AGAINST GRANTS			
	Salaries and benefits	23	8,127	2,932
	Office supplies		-	899
	Security		1,569	1,433
	Branding		-	954
	Consultancy fee		1,556	724
	Marketing		1,100	1,054
	Depreciation and amortization	9.3	1,450	2,350
	Perdiem		22	-
			<u>13,824</u>	<u>10,346</u>
26.	INCOME TAX EXPENSE			
	Current tax			
	For the year		16,411	47,569
	Prior year		62,926	-
			<u>79,337</u>	<u>47,569</u>
	Deferred tax expense	14	6,283	9,801
			<u>85,620</u>	<u>57,370</u>
27.	EARNINGS PER SHARE			
	Basic earnings per share			
	Profit for the year attributable to ordinary shareholders (Afn in '000)		31,617	231,138
	Weighted-average number of ordinary shares (numbers)		88,288	88,288
	Basic earnings per share (Afn in '000)		<u>0.36</u>	<u>2.62</u>

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 owns 51% (2017: 51%) of the Bank's capital.

	Note	2018 ----- (Afn in '000) -----	2017 -----
28.2 Transactions with key management personnel			
28.2.1 Key management personnel compensation			
Short term employee benefits	28.2.1.1	<u>71,268</u>	<u>65,879</u>

28.2.1.1 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 its associated companies	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Balances with related parties	----- (Afn in '000) -----			
Balances with banks	-	-	-	462,926
Time deposits with banks	-	-	<u>1,786,270</u>	<u>1,765,881</u>
Advances	<u>846</u>	<u>209</u>	-	-
Deposits from customers	<u>3,219</u>	<u>1,316</u>	<u>1,435,855</u>	<u>1,790,981</u>
Cash Margin against guarantees issued	-	-	<u>3,189</u>	<u>40,421</u>
Loan to Telecom Development Company Afghanistan Limited (TDCA)	-	-	<u>89,465</u>	<u>83,138</u>
Receivable from Roshan against M-Paisa payments	-	-	<u>56,852</u>	<u>33,070</u>

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
	2018	2017	2018	2017
Transactions with related parties	----- (Afn in '000) -----			
Interest income	-	-	<u>34,971</u>	<u>44,172</u>
Fee and commission income	-	-	<u>7,277</u>	<u>6,254</u>
Fee and commission expense	-	-	<u>5,622</u>	<u>2,129</u>
Interest expense on deposits from customers	-	-	<u>7,008</u>	<u>8,955</u>
Directors' fee and other expenses	<u>11,418</u>	<u>4,441</u>	-	-

28.2.2.1 The transactions were made on similar terms that would be applied in arm's length transaction. 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 considered not significantly different from book value.

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

	Note	Debt investments at amortized cost	Other amortised cost	Total carrying amount	Fair value
		(Afn in '000)			
31 December 2018					
Financial assets					
Cash and cash equivalents	6	4,589,836	-	4,589,836	4,589,836
Placements	7	843,840	-	843,840	843,840
Loans and advances to customers	8	5,868,698	-	5,868,698	5,868,698
Other assets	11	-	936,074	936,074	936,074
		<u>11,302,374</u>	<u>936,074</u>	<u>12,238,448</u>	<u>12,238,448</u>
Financial liabilities					
Deposits from customers	12	-	7,669,494	7,669,494	7,669,494
Loans and borrowings	13	-	2,586,799	2,586,799	2,586,799
Other liabilities	15	-	150,257	150,257	150,257
		<u>-</u>	<u>10,406,550</u>	<u>10,406,550</u>	<u>10,406,550</u>
31 December 2017					
Financial assets					
Cash and cash equivalents	6	5,798,185	-	5,798,185	5,798,185
Placements	7	399,867	-	399,867	399,867
Loans and advances to customers	8	5,191,284	-	5,191,284	5,191,284
Other assets	11	-	928,593	928,593	928,593
		<u>11,389,336</u>	<u>928,593</u>	<u>12,317,929</u>	<u>12,317,929</u>
Financial liabilities					
Deposits from customers	12	-	7,577,081	7,577,081	7,577,081
Loans and borrowings	13	-	2,791,586	2,791,586	2,791,586
Other liabilities	15	-	102,608	102,608	102,608
		<u>-</u>	<u>10,471,275</u>	<u>10,471,275</u>	<u>10,471,275</u>

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

30. FINANCIAL RISK MANAGEMENT

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

- a) credit risk
- b) liquidity risk
- c) market risks
- d) operational and business risk

Risk management framework

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

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

30.1 Credit risk

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

30.1.1 Credit risk measurement

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

Definition of default and cure

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

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

Credit ratings and PD estimation process

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



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

Exposure at default

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

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

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

Loss given default

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

Significant increase in credit risk

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

Measuring ECL

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

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

62

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

Management of credit risk

The Bank manages credit risk by limiting and controlling concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or counterparty. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Exposure to credit risk is also managed through analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations at the time of loan appraisal for initial and subsequent loans.

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

Credit quality analysis

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

		31 December 2018	31 December 2017
	Note	----- (Afn in '000) -----	-----
Maximum exposure to credit risk			
Carrying amount	8	5,868,698	5,191,284
At amortised cost			
Standard		6,087,102	5,403,315
Watch-list		28,915	24,261
Substandard		20,852	25,384
Doubtful		65,278	21,661
Loss		86,549	-
Rescheduled		7,698	18,431
Total gross amount		6,296,394	5,493,052
Allowance for impairment (individual and collective)		(427,696)	(301,768)
Net carrying amount		5,868,698	5,191,284
Loans with renegotiated terms			
Gross carrying amount		7,698	18,431
Impaired amount		7,698	18,431
Allowance for impairment		(7,698)	(18,431)
Net carrying amount		-	-
Neither past due nor impaired			
Standard (low fair risk)		6,045,116	5,105,879
		6,045,116	5,105,879
Individually impaired			
Watch-list		28,915	24,261
Substandard		20,852	25,384
Doubtful		65,278	21,661
Loss and rescheduled		94,247	18,431
		209,292	89,737
Allowance for impairment			
Specific		133,546	36,819
General		294,150	264,949
Total allowance for impairment		427,696	301,768

Impaired loans and advances

See accounting policy - note 5.6.6.

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.4,252,994 thousands at 31 December 2018 (2017: Afn.5,471,893 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.

Type of credit exposure	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
	31 December 2018	31 December 2017	
Loans and advances to customers			
Microfinance loans	73.90	79.23	Property
Microfinance loans	4.32	3.69	Personal guarantee
Microfinance loans - Group loans	-	-	None
Over draft	3.98	2.37	Property
Loans to small and medium size enterprises (SME)	17.79	14.71	Property

Offsetting financial assets and financial liabilities

No financial assets and financial liabilities have been set off during the year (2017: 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 carrying amount, as categorised by geographical region as of 31 December 2018. 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 2018							
Afghanistan	24	-	5,868,698	324,169	6,192,891	19,150	6,212,041
United Kingdom	226,931	-	-	390	227,321	-	227,321
Belgium	336,986	148,936	-	1,853	487,775	-	487,775
Kenya	1,061,985	-	-	1,388	1,063,373	-	1,063,373
Turkey	17,668	245,744	-	1,907	265,319	-	265,319
Spain	1,069,543	-	-	249	1,069,792	-	1,069,792
	<u>2,713,137</u>	<u>394,680</u>	<u>5,868,698</u>	<u>329,956</u>	<u>9,306,471</u>	<u>19,150</u>	<u>9,325,621</u>
31 December 2017							
Afghanistan	22,808	-	5,191,284	288,406	5,502,498	66,757	5,569,255
United Kingdom	413,780	-	-	229	414,009	-	414,009
Belgium	462,926	299,991	-	1,129	764,046	-	764,046
Kenya	1,040,721	-	-	1,280	1,042,001	-	1,042,001
Turkey	962,130	-	-	2,090	964,220	-	964,220
Spain	318,076	-	-	-	318,076	-	318,076
	<u>3,220,441</u>	<u>299,991</u>	<u>5,191,284</u>	<u>293,134</u>	<u>9,004,850</u>	<u>66,757</u>	<u>9,071,607</u>

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 2018.

	Note	Banks	Agriculture	Telecom	Trade	Others	Total
		(Afn in '000)					
31 December 2018							
Cash and cash equivalents	6	2,713,137	-	-	-	-	2,713,137
Placements	7	394,680	-	-	-	-	394,680
Loans and advances to customers	8	-	1,490,752	83,388	3,485,887	808,671	5,868,698
Other assets	11	-	-	56,852	-	273,104	329,956
Contingencies and commitments	17	-	-	3,189	-	15,961	19,150
		<u>3,107,817</u>	<u>1,490,752</u>	<u>143,429</u>	<u>3,485,887</u>	<u>1,097,736</u>	<u>9,325,621</u>
31 December 2017							
Cash and cash equivalents	6	3,220,441	-	-	-	-	3,220,441
Placements	7	299,991	-	-	-	-	299,991
Loans and advances	8	-	1,460,811	82,306	2,145,747	1,502,420	5,191,284
Other assets	11	-	-	33,070	-	260,064	293,134
Contingencies and commitments	17	-	-	35,823	-	30,934	66,757
		<u>3,520,432</u>	<u>1,460,811</u>	<u>151,199</u>	<u>2,145,747</u>	<u>1,793,418</u>	<u>9,071,607</u>

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 December 2018	31 December 2017
At 31 December	58.67%	66.01%
Average for the period	60.35%	58.24%
Maximum for the period	79.61%	66.01%
Minimum for the period	54.72%	51.05%



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 2018								
Financial liabilities								
Deposits from customers	12	(7,669,494)	(6,581,856)	(505,813)	(580,301)	(1,524)	-	7,669,494
Loans and borrowings	13	(2,586,799)	(97,500)	(192,406)	(303,131)	(1,403,024)	(590,738)	2,586,799
Other liabilities	15	(144,457)	(65,647)	(78,810)	-	-	-	150,257
Contingencies and commitments	17	(19,150)	(14,899)	(910)	(1,817)	(1,524)	-	19,150
		<u>(10,419,900)</u>	<u>(6,759,902)</u>	<u>(777,939)</u>	<u>(885,249)</u>	<u>(1,406,072)</u>	<u>(590,738)</u>	<u>10,425,700</u>
31 December 2017								
Financial liabilities								
Deposits from customers	12	(7,577,081)	(6,965,275)	(515,344)	(86,154)	(10,197)	(111)	7,577,081
Loans and borrowings	13	(2,791,586)	-	(72,500)	(379,732)	(1,799,467)	(539,887)	2,791,586
Other liabilities	15	(102,608)	-	-	(102,608)	-	-	102,608
Contingencies and commitments	17	(66,757)	(16,673)	(6,105)	(33,671)	(10,197)	(111)	66,757
		<u>(10,538,032)</u>	<u>(6,981,948)</u>	<u>(593,949)</u>	<u>(602,165)</u>	<u>(1,819,861)</u>	<u>(540,109)</u>	<u>10,538,032</u>

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

Type of financial instrument

Non-derivative financial liabilities

Issued financial guarantee contracts and unrecognised loan commitments

Basis on which amounts are compiled

Undiscounted cash flows, which include estimated interest payments

Earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

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

	Note	31 December 2018 ----- (Afn in '000) -----	31 December 2017 -----
Financial assets			
Loans and advances to customers	8	<u>3,669,134</u>	<u>3,096,057</u>
Financial liabilities			
Loans and borrowings	13	<u>1,993,762</u>	<u>2,339,354</u>

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 optimising the return on risk.

30.3.1 Management of market risks

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

30.3.2 Exposure to interest rate risk

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

	Note	Interest rates (p.a)	Interest bearing					Total	Not interest bearing	Carrying amount
			Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years			
			(Afn in '000)							
31 December 2018										
Financial assets										
Cash and cash equivalents	6	0.10% to 2.50%	3,090,578	-	-	-	-	3,090,578	1,499,258	4,589,836
Placements	7	0.499% to 3.95%	-	769,184	74,656	-	-	843,840	-	843,840
Loans and advances to customers	8	6.6% to 27%	207,598	434,042	1,557,924	3,664,140	4,994	5,868,698	-	5,868,698
Other assets	11		-	-	-	-	-	-	936,074	936,074
Total financial assets			3,298,176	1,203,226	1,632,580	3,664,140	4,994	9,803,116	2,435,332	12,238,448
Financial liabilities										
Deposits from customers	12	0.5% to 5%	3,293,993	71,367	506,979	-	-	3,872,339	3,797,155	7,669,494
Loans and borrowings	13	0.34% to 6%	97,500	192,406	303,131	1,403,024	590,738	2,586,799	-	2,586,799
Other liabilities	15		-	-	-	-	-	-	150,257	150,257
Total financial liabilities			3,391,493	263,773	810,110	1,403,024	590,738	6,459,138	3,947,412	10,406,550
Total interest rate gap			(93,317)	939,453	822,470	2,261,116	(585,744)	3,343,978	(1,512,080)	1,831,898

	Note	Interest rates (p.a)	Interest bearing					Total	Not interest bearing	Carrying amount
			Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years			
<hr/>										
(Afn in '000)										
<hr/>										
31 December 2017										
Financial assets										
Cash and cash equivalents	6	0.10% to 2.45%	3,109,959	-	-	-	-	3,109,959	2,688,226	5,798,185
Placement	7	1.50% to 1.55%	-	237,803	162,064	-	-	399,867	-	399,867
Loans and advances to customers	8	9.25% to 27%	223,233	471,441	1,400,553	3,087,391	8,666	5,191,284	-	5,191,284
Other assets	11	-	-	-	-	-	-	-	928,593	928,593
Total financial assets			3,333,192	709,244	1,562,617	3,087,391	8,666	8,701,110	3,616,819	12,317,929
Financial liabilities										
Deposits from customers	12	0.5% to 4.5%	3,057,434	50,103	2,380	-	-	3,109,917	4,467,164	7,577,081
Loans and borrowings	13	0.38% to 6.28%	72,500	177,232	202,500	1,799,467	539,887	2,791,586	-	2,791,586
Other liabilities	15	-	-	-	-	-	-	-	102,608	102,608
Total financial liabilities			3,129,934	227,335	204,880	1,799,467	539,887	5,901,503	4,569,772	10,471,275
Total interest rate gap			203,258	481,909	1,357,737	1,287,924	(531,221)	2,799,607	(952,953)	1,846,654

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 summarises the Bank's exposure to foreign currency exchange rate risk. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

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

		AFN	USD	EUR	Total	Others	Carrying amount
		(Afn in '000)					
31 December 2017							
Financial assets							
Cash and cash equivalents	6	1,978,266	3,098,544	721,375	5,798,185	-	5,798,185
Placements	7	99,876	299,991	-	399,867	-	399,867
Loans and advances to customers	8	4,805,960	385,324	-	5,191,284	-	5,191,284
Other assets	11	457,861	402,907	67,825	928,593	-	928,593
Total financial assets		7,341,963	4,186,766	789,200	12,317,929	-	12,317,929
Financial liabilities							
Deposits from customers	12	2,884,419	4,037,695	654,967	7,577,081	-	7,577,081
Loans and borrowings	13	2,791,586	-	-	2,791,586	-	2,791,586
Other liabilities	15	79,092	20,082	3,434	102,608	-	102,608
Total financial liabilities		5,755,097	4,057,777	658,401	10,471,275	-	10,471,275
Net position		1,586,866	128,989	130,799	1,846,654	-	1,846,654
Sensitivity analysis							

A 10% strengthening of the Afghani, against the USD and Euro at 31 December 2016 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.

	2018		2017	
	Equity	Profit or loss	Equity	Profit or loss
(Afn in '000)				
USD	2,155	2,155	(12,899)	(12,899)
Euro	246	246	(13,080)	(13,080)

A 10% weakening of the Afghani against the above currencies at 31 December 2016 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 endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.



30.5 Capital management

Regulatory capital

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

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

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

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

The Bank's regulatory capital position at 31 December 2018 was as follows:

	31 December 2018	31 December 2017
	----- (Afn in '000) -----	
Regulatory Capital		
Tier 1 capital		
Total equity capital	2,022,186	1,990,569
Less: Intangible assets	(100,672)	(118,021)
Less: Profit for the year	(31,617)	(231,138)
Total tier 1 (core) capital	1,889,897	1,641,410
Tier 2 (Supplementary) Capital:		
General loss reserves on credits as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposures	91,406	75,142
Add: Profit for the year	31,617	231,138
Total tier 2 (supplementary) capital	123,023	306,280
Total Regulatory capital = Tier 1 + Tier 2	2,012,920	1,947,690
Risk-weighted assets		
On-balance sheet		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	336,842	326,292
Direct claims on DAB	2,595,135	2,986,787
Total	2,931,977	3,313,079
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Balances with banks operating in category A countries	2,055,872	2,489,011
Loans guaranteed by development institutions	1,192,252	797,759
Total	3,248,124	3,286,770
20% risk-weight total (above total x 20%)	649,625	657,354
100% risk weight:		
All other assets	6,762,781	5,489,377
Less: intangible assets	(100,672)	(118,021)
All other assets - net	6,662,109	5,351,356
100% risk-weight total (above total x 100%)	6,662,109	5,351,356

31 December 31 December
2018 2017
----- (Afn in '000) -----

Off-balance sheet**0% risk weight:**

Guarantees issued

Undrawn loan and overdraft facilities

0% credit conversion factor total (risk-weighted total x 0%)

0% risk-weight total (above total x 0%)

-	-
46,876	10,903
-	-
-	-

20% risk weight:

Guarantees issued

20% credit conversion factor total (risk-weighted total x 20%)

20% risk-weight total (above total x 20%)

19,150	86,757
3,830	13,351
766	2,670

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

7,312,500	6,011,380
-----------	-----------

Tier 1 Capital Ratio

(Tier 1 capital as % of total risk-weighted assets)

25.8%	27%
-------	-----

Regulatory Capital Ratio

(Regulatory capital as % of total risk-weighted assets)

27.5%	32.4%
-------	-------

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 24th March 2019 by the Board of Supervisors of the Bank.

33. GENERAL

Figures have been rounded off to the nearest thousand.

on



Acting Chief Financial Officer



Acting Chief Executive Officer



Chairman