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# THE FIRST MICROFINANCE BANK

## AUDITED FINANCIAL STATEMENTS

## FOR YEAR ENDED 31 DECEMBER 2017

Ernst & Young Ford Rhodes Sidat Hyder
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# 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 2017** 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 2017**, 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.

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

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

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

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

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

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

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

Ernst & Young Ford Rhodes

**Chartered Accountants**

**Audit Engagement Partner:** Shabbir Yunus

**Date:** 29 March 2018

**Kabul, Afghanistan**

# THE FIRST MICROFINANCE BANK
## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2017

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | --------- (Afn in '000) --------- | |
| **Assets** | | | |
| Cash and cash equivalents | 7 | **5,798,185** | 3,737,201 |
| Placements | 8 | **399,867** | 1,258,936 |
| Loans and advances to customers - net | 9 | **5,191,284** | 4,661,546 |
| Operating fixed assets | 10 | **77,156** | 161,855 |
| Intangible asset | 11 | **118,021** | 382 |
| Advance tax | 12 | **-** | 14,485 |
| Other assets | 13 | **963,907** | 727,602 |
| **Total Assets** | | **12,548,420** | 10,562,007 |
| **Liabilities** | | | |
| Deposits from customers | 14 | **7,577,081** | 6,190,663 |
| Loans and borrowings | 15 | **2,791,586** | 2,465,766 |
| Income tax payable | | **33,086** | 10,969 |
| Deferred tax liability - net | 16 | **16,157** | 6,356 |
| Other liabilities | 17 | **139,941** | 128,822 |
| **Total Liabilities** | | **10,557,851** | 8,802,576 |
| **Equity** | | | |
| Share capital | 18 | **796,008** | 796,008 |
| Share premium | 19 | **206,038** | 206,038 |
| Retained earnings | | **988,523** | 757,385 |
| **Total equity** | | **1,990,569** | 1,759,431 |
| **Total equity and liabilities** | | **12,548,420** | 10,562,007 |
| **Contingencies and commitments** | 20 | | |

The annexed notes 1 to 35 form an integral part of these financial statements.

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

# THE FIRST MICROFINANCE BANK

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED DECEMBER 31, 2017

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | --------- (Afn in '000) | --------- |
| Interest income | 21 | **1,427,469** | 1,182,520 |
| Interest expense | 21 | **(164,023)** | (152,557) |
| **Net interest income** | | **1,263,446** | 1,029,963 |
| Fee and commission income | 22 | **91,538** | 92,350 |
| Fee and commission expense | 22 | **(37,804)** | (34,531) |
| **Net fee and commission income** | | **53,734** | 57,819 |
| Other revenue | 23 | **118,327** | 123,948 |
| **Revenue** | | **1,435,507** | 1,211,730 |
| Other income | 24 | **17,430** | 16,438 |
| Impairment loss on loans and advances to customers | 9.2 | **(68,824)** | (138,388) |
| Impairment loss on placements | 7 & 8 | **(14)** | (476) |
| General provision on | | | |
| Other assets | 13 | **(3,318)** | - |
| Off-balance sheet items | 17 | **(777)** | - |
| Personnel expenses | 25 | **(594,227)** | (518,715) |
| Depreciation and amortisation | 10 & 11 | **(41,540)** | (23,169) |
| Penalty | | **-** | (11,222) |
| Other expenses | 26 | **(455,729)** | (384,416) |
| Net operating income | | **288,508** | 151,782 |
| Non-operating revenue and expenses: | | | |
| Grants income recognized against deferred grant | 17.3 | **10,346** | 2,194 |
| Grants income recognized against expenditures in advance | | **-** | 5,401 |
| Expenditure against grants | 27 | **(10,346)** | (7,595) |
| | | **-** | - |
| **Profit before tax** | | **288,508** | 151,782 |
| Income tax expense | 28 | **(57,370)** | (40,909) |
| **Net profit** | | **231,138** | 110,873 |
| Other comprehensive income | | **-** | - |
| **Total comprehensive income** | | **231,138** | 110,873 |
| **Earnings per share** | 29 | **2.62** | 1.26 |

The annexed notes 1 to 35 form an integral part of these financial statements.

| | | |
|---|---|---|
| **Chief Financial Officer** | **Chief Executive Officer** | **Chairman** |

# THE FIRST MICROFINANCE BANK
## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED DECEMBER 31, 2017

| | Share capital | Share premium | Retained earnings | Total |
|---|---|---|---|---|
| | (Afn in '000) | | | |
| **Balance at 01 January 2016** | 796,008 | 206,038 | 646,512 | 1,648,558 |
| Total comprehensive income | - | - | 110,873 | 110,873 |
| **Balance at 31 December 2016** | **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** |

The annexed notes 1 to 35 form an integral part of these financial statements.

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

# THE FIRST MICROFINANCE BANK
## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED DECEMBER 31, 2017

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | --------- (Afn in '000) --------- | |
| **Cash flows from operating activities** | | | |
| **Profit before tax** | | **288,508** | 151,782 |
| Adjustments for: | | | |
| Depreciation and amortisation | 10 & 11 | **43,890** | 23,758 |
| Impairment loss on loans and advances to customers | 9.2 | **68,824** | 138,388 |
| Impairment loss on placements | 7 & 8 | **14** | 476 |
| General provision on | | | |
| Other assets | 13 | **3,318** | - |
| Off-balance sheet items | 17 | **777** | - |
| (Gain) / loss on sale of property and equipment | 24 | **(142)** | 326 |
| Grant income | 27 | **(10,346)** | (7,595) |
| | | **394,843** | 307,135 |
| Changes in: | | | |
| Increase in loans and advances to customers | | **(598,562)** | (991,007) |
| Increase in other assets | | **(239,623)** | (151,471) |
| Increase in deposits from customers | | **1,386,418** | 1,198,636 |
| Increase / (decrease) in other liabilities | | **10,342** | (41,187) |
| | | **953,418** | 322,106 |
| Income tax paid | | **(10,967)** | (66,724) |
| Grant received | | **10,346** | 11,226 |
| **Net cash flow from operating activities** | | **952,797** | 266,608 |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | | **(76,853)** | (44,343) |
| Proceeds from sale of property and equipment | | **165** | 295 |
| Maturity of placements | | **859,055** | 323,391 |
| **Net cash flows from investing activities** | | **782,367** | 279,343 |
| **Cash flows from financing activities** | | | |
| Proceeds from loans and borrowings | | **640,915** | 195,000 |
| Repayment of loans and borrowings | | **(315,095)** | (246,871) |
| **Net cash flows from / (used in) financing activities** | | **325,820** | (51,871) |
| Net increase in cash and cash equivalents | | **2,060,984** | 494,080 |
| Cash and cash equivalents at beginning of the year | | **3,737,201** | 3,243,121 |
| **Cash and cash equivalents at end of the year** | | **5,798,185** | 3,737,201 |

The annexed notes 1 to 35 form an integral part of these financial statements.

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

**THE FIRST MICROFINANCE BANK**
**NOTES TO THE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED DECEMBER 31, 2017**

## 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 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 (2016: 38) branches in operation including 17 (2016: 16) urban branches and 21 (2016: 22) rural / peri urban branches in operation at the year end and employed 1,113 (2016: 1,029) 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 and the Law of Banking in Afghanistan. Whenever the requirements of the Law of Banking in Afghanistan differ with the requirements of the IFRS, the requirements of the Law of Banking in Afghanistan takes precedence.

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

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 5.

**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**

IAS 7 Financial Instruments: Disclosures - Disclosure Initiative - (Amendment)

IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealized losses (Amendments)

**Improvements to Accounting Standards Issued by the IASB in December 2013**

IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any effect on the financial statements.

**2.2** The following revised standards, amendments and improvements would be effective from the dates mentioned below against the respective standard or interpretation:

| Standards, Interpretations and Amendments | Effective date (accounting periods beginning on or after) |
|---|---|
| IFRS 2: Share-based Payments - Classification and Measurement of Share-based Payments Transactions (Amendments) | January 01, 2018 |

| Standards, Interpretations and Amendments | Effective date (accounting periods beginning on or after) |
|---|---|
| IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment) | January 01, 2019 |
| IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - (Amendments) | January 01, 2018 |
| IAS 40 Investment Property: Transfers of Investment Property (Amendments) | January 01, 2018 |
| IFRS 9 - Financial Instruments: Classification and Measurement | January 01, 2018 |
| IFRS 9 - Prepayment Features with Negative Compensation (Amendments) | January 01, 2018 |
| IFRS 15 - Revenue from Contracts with Customers | January 01, 2018 |
| IFRS 16 - Leases | January 01, 2019 |
| IFRS 17 - Insurance Contracts | January 01, 2021 |
| IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration FRS 16 - Leases 01 January 2019 | January 01, 2018 |
| IFRIC 23 Uncertainty over Income Tax Treatments | January 01, 2019 |

The Bank expects that the adoption of the above amendments and interpretation of the standards will not materially affect the Bank's financial statements in the period of initial application except for IFRS 9- "Financial Instruments".

IFRS 9 includes three parts on accounting of financial instruments: recognition and measurement, impairment and hedge accounting. IFRS 9 is mandatorily effective for annual periods beginning on or after 01 January 2018, with early adoption permitted. Except for hedge accounting, the standard is applied retrospectively, but provision of comparative information is not mandatory. Requirements in respect of hedge accounting are mainly applied prospectively, with several limited exclusions.

The Bank plans to apply the new standard from the required effective date and will not recalculate comparative information. Currently, the Bank is in the process of performing a detailed assessment of the impact of IFRS 9 and therefore it has not been presented in these financial statements.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB in December 2016. Such improvements are generally effective for accounting periods beginning on or after 01 January 2018 and 01 January 2019. The Bank expects that such improvements to the standards will not have any impact on the Bank's financial statements in the period of initial application.

## 3. DISCLOSURE GUIDELINES FOR FINANCIAL REPORTING BY MICROFINANCE INSTITUTIONS

These financial statements comply with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions (MFIs) which are voluntary norms recommended by a group of sponsors, including the donors who make up the Consultative Group to Assist Poor (CGAP) and the members of Small Enterprise Education and Promotion Network (SEEP).

## 4. 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.

## 5. 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.

During the year, DAB has revised Asset Classification and Provisioning Regulation which were effective from 01 October 2017. These regulations required banks to maintain certain general provisions in the financial statements. Accordingly, general provision created against other assets and off-balance sheet items amounted to Afn.4,095 thousands at the year end. However, the above general provisions have been reversed subsequent to year end, due to further revision in the above regulations which was approved by the Supreme Council of DAB on 06 January 2018, and effective from 01 January 2018.

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:

### 5.1 Provision of income taxes

The Bank recognizes tax liabilities for pending tax assessments using estimates based on expert opinion obtained from legal / tax advisors. Differences, if any, between the income tax provision and the tax liability finally determined is recorded when such liability is so determined.

### 5.2 Property and equipment

The Bank reviews useful lives, residual values and methods of depreciation of property and equipment (note 6.9) on regular basis. Any changes in estimates may affect the carrying amounts of the respective items of property and equipment with a corresponding effect on the depreciation charge.

### 5.3 Impairment of financial instruments

The Bank reviews customers' loan balances on monthly basis for impairment and records the impairment allowance for possible loan losses as per the Bank's policy, funding covenants and the DAB regulation as disclosed in note 6.5.7 and in accordance with the DAB regulations as described in note 9.3.

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 DAB's minimum 1% requirement.

As per Asset Classification and Provisioning Regulation, the management maintains a provision of 1% on collective balance of investments (excluding those with DAB and investments in money market fund), 1% on placements (excluding placements with original maturity below 30 days) and 1% on other assets to cover the counter party risk.

### 5.4 Classification of investments

The Bank follows IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

### 5.5 General provision on off-balance sheet items

As per Asset Classification and Provisioning Regulation, the management maintains a provision of 1% on 100% secured portion of off-balance sheet items.

## 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements.

### 6.1 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.

### 6.2 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 DAB's Asset Classification and Provisioning Regulation 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.

### 6.3 Fees and commission

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

Other fees and commission expense relate mainly to Other fees and commission expense relate mainly to guarantee fee, Afghan Deposit Insurance Corporation (ADIC) premium and transaction and service fees, which are expensed as the services are received.

### 6.4 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.

#### 6.4.1 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.

#### 6.4.2 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.

### 6.4.3 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.

## 6.5 Financial assets and financial liabilities

### 6.5.1 Recognition

The Bank initially recognizes loans and advances, debts, deposits from customers on the date on which they are originated. All other financial assets and liabilities (including financial assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

### 6.5.2 Classification

**Financial assets**

The Bank classifies its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; and
- at fair value through profit or loss.

See Note 6.8.

**Financial liabilities**

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or fair value through profit or loss. See note 6.5.5 and 6.5.6.

### 6.5.3 Derecognition

**(i) Financial assets**

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risk and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset drecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in the other comprehensive income, is recognized in profit or loss. Any interest in the transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

**(ii) Financial liabilities**

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

### 6.5.4 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

### 6.5.5 Amortized cost measurement

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

### 6.5.6 Fair value measurement

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

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

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participant 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, then 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, the difference is recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or transaction is closed out.

If an asset or 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 positions 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 that the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell on 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 fair value of demand deposit is not less than the amount payable on demand.

The Bank recognizes transfers between levels of fair value hierarchy as of the end of the reporting period during which the change has occurred.

### 6.5.7 Identification of measurement of impairment

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

Objective evidence that the financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- indication that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market or a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In determining the potential loss in specific loans, groups of loans, or in the aggregate loan portfolio, all relevant factors are considered including, but not limited to: current economic conditions, historical loss experience, delinquency trends, the effectiveness of the Bank's lending policies and collection procedures, and the timeliness and accuracy of its loan review function.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount (if applicable).

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

The Bank writes off certain loans and advances when they are determined to be uncollectable and are classified in accordance with the regulations of Da Afghanistan Bank.

All loans and advances are classified in accordance with the regulations of DAB as detailed below.

**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% (2016: 4.98%) of value of such loans and advances. However, as per Asset Classification and Provisioning Regulation (ACPR) issued by DAB, at least 1% provision should be maintained of value of such loans and advances.

**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% (2016: 5%) of value of such loans and advances as required under ACPR issued by DAB.

**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.

**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.

**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 481 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 6 months after which the assets should be immediately written off against provision made.

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

### 6.6 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 three 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.

### 6.7 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.

### 6.8 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.

#### 6.8.1 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.

## 6.9 Property and equipment

### 6.9.1 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.

### 6.9.2 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.

### 6.9.3 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:

| | **2017** | **2016** |
|---|---|---|
| Leasehold improvements | **5 years** | 5 years |
| Furniture and fixture | **5 years** | 5 years |
| Vehicles | **5 years** | 5 years |
| Office equipment | **4 years** | 4 years |
| Computer equipment | **3 years** | 3 years |

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

## 6.10 Intangible assets

### 6.10.1 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.

### 6.11 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.

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.

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

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.

### 6.12 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.

### 6.13 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.

### 6.14 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.

### 6.15 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.

### 6.16 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.

#### 6.16.1 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.

#### 6.16.2 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.

## 7. CASH AND CASH EQUIVALENTS

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | --------- (Afn in '000) | --------- |
| Cash on hand | | **326,292** | 267,384 |
| Unrestricted balances with Da Afghanistan Bank | | **1,851,463** | 398,550 |
| Balances with other banks | 7.1 | **1,559,050** | 834,950 |
| Short term placements with banks | 7.2 | **2,061,380** | 2,236,317 |
| | | **5,798,185** | 3,737,201 |

### 7.1 Balances with other banks

| | Note | 2017 | 2016 |
|---|---|---|---|
| Balances with: | | | |
| Habib Bank Limited, UK | | **-** | 692,223 |
| Habib Bank Limited, Brussels | | **462,926** | 24,975 |
| Habib Bank Limited, New York | | **-** | 98,675 |
| Bank Alfalah Limited, Kabul | | **22,808** | 19,077 |
| BMCE-Spain | | **318,076** | - |
| AKTIF - Turkey | | **755,240** | - |
| | 7.1.1 | **1,559,050** | 834,950 |

**7.1.1** These balances are interest free and include Afn.462,926 thousands (2016: Afn.815,873 thousands) held with a related party.

### 7.2 Short term placements with banks

| | Note | 2017 | 2016 |
|---|---|---|---|
| Capital notes (maturity less than three months) | 7.2.1 | **399,989** | - |
| Time deposits with other banks | 7.2.2 | **1,661,391** | 2,236,317 |
| | | **2,061,380** | 2,236,317 |

**7.2.1** These represents capital notes issued by DAB for maturity period of 07 days (2016: Nil). These capital notes carry interest rate of 0.140% (2016: Nil) per annum.

#### 7.2.2 Time deposits with other banks

| | Note | 2017 | 2016 |
|---|---|---|---|
| Habib Bank Limited, Kabul | | **-** | 578,196 |
| Diamond Trust Bank Kenya (DTB - Kenya) | 7.2.2.1 | **1,044,900** | 1,670,250 |
| AKTIF Bank, Turkey | 7.2.2.2 | **208,980** | - |
| Habibsons Bank Limited, UK | 7.2.2.3 | **417,960** | - |
| Less: General provision held | 7.2.2.4 | **(10,449)** | (12,129) |
| | | **1,661,391** | 2,236,317 |

**7.2.2.1** These deposits are having maturity ranging from 19 to 39 days and carry interest rate of 2.45% (2016: 2.4% to 2.5%) per annum.

**7.2.2.2** These deposits are having maturity of 32 days and carry interest rate of 2.1% (2016: NIL) per annum.

**7.2.2.3** These deposits are having maturity ranging from 34 to 55 days and carry interest rate ranging from 1.28% to 1.38% (2016: Nil) per annum.

**7.2.2.4** General provision of 1% (31 December 2016: 1%) on placements having maturity of one month or above is maintained as required by revised regulation of Da Afghanistan Bank "Asset Classification and Provisioning Regulation". As time deposits with DTB-Kenya include Afn.626,940 thousands which have maturity of less than one month, therefore, general provision @ 1% is not required against this amount under this regulation.

## 8. PLACEMENTS

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | --------- (Afn in '000) --------- | |
| Capital notes issued by DAB | 8.1 | **99,876** | 1,126,652 |
| Placement with Habib Bank Limited Brussels | 8.2 | **303,021** | 133,620 |
| Less: General provision held | 8.3 | **(3,030)** | (1,336) |
| | | **399,867** | 1,258,936 |

8.1 These represents capital notes issued by DAB for maturity period 91 days (2016: 3 months to 1 year). These capital notes carry interest rate of 0.49% (2016: 4.33% to 6.68%) per annum.

8.2 These deposits are having maturity periods ranging from 91 to 182 days and carry interest rate ranging from 1.50% to 1.55% (2016: 1.55%) per annum.

8.3 General provision of 1% held on placements with HBL Brussels having maturity up to 182 days (31 December 2016: 1% HBL Brussels), in accordance with revised regulation of Da Afghanistan Bank " Asset Classification and Provisioning Regulation".

## 9. LOANS AND ADVANCES TO CUSTOMERS - NET

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | --------- (Afn in '000) --------- | |
| Loans and advances to customers | 9.1 | **5,493,052** | 4,955,806 |
| Less: Impairment loss on loan and advances | 9.2 | **(301,768)** | (294,260) |
| | | **5,191,284** | 4,661,546 |

### 9.1 Loans and advances to customers

| | Note | 2017 Gross amount | 2017 Impairment allowance | 2017 Carrying amount | 2016 Gross amount | 2016 Impairment allowance | 2016 Carrying amount |
|---|---|---|---|---|---|---|---|
| | | ------------------ (Afn in '000) ------------------ | | | ------------------ (Afn in '000) ------------------ | | |
| Microfinance loans | 9.1.1 | **4,539,924** | **(235,595)** | **4,304,329** | 3,943,782 | (204,420) | 3,739,362 |
| Loans to small and medium size enterprises (SME) | 9.1.1 | **826,252** | **(62,088)** | **764,164** | 876,795 | (88,487) | 788,308 |
| Overdraft financing | 9.1.1 | **126,876** | **(4,085)** | **122,791** | 135,229 | (1,353) | 133,876 |
| | | **5,493,052** | **(301,768)** | **5,191,284** | 4,955,806 | (294,260) | 4,661,546 |

9.1.1 Microfinance loans carry interest at rates ranging from 12% to 27% (2016: 14% to 27%) per annum, whereas interest on loans to small and medium size enterprises (SMEs) is charged at the rates ranging from 16.2% to 23% (2016: 16.2% to 23%) per annum. Overdraft carries interest rate ranging from 9.25% to 20% (2016: 9.25% to 20%) per annum. All 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 eight other customers.

### 9.2 Impairment loss on loans and advances to customers

| | Note | 2017 Specific | 2017 General | 2017 Total | 2016 Specific | 2016 General | 2016 Total |
|---|---|---|---|---|---|---|---|
| | | ------------------ (Afn in '000) ------------------ | | | ------------------ (Afn in '000) ------------------ | | |
| Balance at 1st January | | **57,711** | **236,549** | **294,260** | 50,268 | 186,956 | 237,224 |
| Charge for the year: | | | | | | | |
| Microfinance loans | | **41,205** | **32,502** | **73,707** | 37,008 | 62,476 | 99,484 |
| Loans to small and medium size enterprises | | **(4,386)** | **(497)** | **(4,883)** | 20,703 | 18,201 | 38,904 |
| | | **36,819** | **32,005** | **68,824** | 57,711 | 80,677 | 138,388 |
| Written off against impairment allowance: | | | | | | | |
| Microfinance loans | | **(38,786)** | **(3,605)** | **(42,391)** | (43,801) | (22,868) | (66,669) |
| Loans to small and medium size enterprises | | **(18,925)** | **-** | **(18,925)** | (6,467) | (8,216) | (14,683) |
| | 9.2.1 | **(57,711)** | **(3,605)** | **(61,316)** | (50,268) | (31,084) | (81,352) |
| Balance at 31 December | | **36,819** | **264,949** | **301,768** | 57,711 | 236,549 | 294,260 |

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

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

| 31 December 2017 | 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 | Number of customers |
|---|---|---|---|---|---|---|
| **Classification-Microfinance Loans** | | | | | | |
| Standard | **4,505,480** | **1%** | **45,055** | **4.98%** | **224,373** | **60,856** |
| Overdue: | | | | | | |
| Watch-List | **10,814** | **5%** | **541** | **5%** | **541** | **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** | **20** |
| | **4,539,924** | | **56,278** | | **235,596** | **61,338** |
| **Classification-Overdraft and SME Loans** | | | | | | |
| Standard - SME Loans | **793,876** | **1%** | **7,939** | **4.98%** | **39,536** | **584** |
| Standard - Overdraft financing | **103,959** | **1%** | **1,040** | **1.00%** | **1,040** | **6** |
| Overdue: | | | | | | |
| Watch-List - SME loans | **30** | **5%** | **2** | **5%** | **2** | **1** |
| Watch-List - Overdraft financing | **13,417** | **5%** | **671** | **5%** | **671** | **1** |
| Substandard - SME loans | **8,972** | **25%** | **2,243** | **25%** | **2,243** | **6** |
| Substandard - Overdraft financing | **9,500** | **25%** | **2,375** | **25%** | **2,375** | **2** |
| Doubtful - SME loans | **6,132** | **50%** | **3,066** | **50%** | **3,063** | **17** |
| Rescheduled - SME loans | **17,242** | **100%** | **17,242** | **100%** | **17,242** | **20** |
| | **953,128** | | **34,578** | | **66,172** | **637** |
| **31 December 2016** | | | | | | |
| **Classification-Microfinance Loans** | | | | | | |
| Standard | 3,925,228 | 1% | 39,252 | 4.98% | 195,476 | 56,132 |
| Overdue: | | | | | | |
| Watch-List | 2,151 | 5% | 108 | 5% | 107 | 47 |
| Substandard | 3,783 | 25% | 946 | 25% | 946 | 69 |
| Doubtful | 9,745 | 50% | 4,873 | 50% | 4,873 | 191 |
| Rescheduled | 2,875 | 100% | 2,875 | 100% | 2,875 | 34 |
| | 3,943,782 | | 48,054 | | 204,277 | 56,473 |
| **Classification-Overdraft and SME Loans** | | | | | | |
| Standard - SME Loans | 797,600 | 1% | 7,976 | 4.98% | 39,721 | 863 |
| Standard - Overdraft financing | 135,228 | 1% | 1,352 | 1.00% | 1,352 | 2 |
| Overdue: | | | | | | |
| Watch-List | 16,534 | 5% | 827 | 5% | 827 | 9 |
| Substandard | 5,666 | 25% | 1,417 | 25% | 1,417 | 2 |
| Doubtful | 20,656 | 50% | 10,328 | 50% | 10,328 | 24 |
| Rescheduled | 36,339 | 100% | 36,339 | 100% | 36,338 | 30 |
| | 1,012,023 | | 58,239 | | 89,983 | 930 |

### 9.4 Portfolio Quality

The Bank's main measure of loan delinquency is an aged portfolio-at-risk ratio. Loans are separated into classes depending upon the number of days these are overdue. For each such class of loan, the outstanding principal balance of such loan is divided by the outstanding principal balance of the gross loan portfolio before deducting allowance for impairment.

Loans are considered overdue if any payment has fallen due and remained unpaid for more than 30 days. Loan payments are applied first to any penalty interest applicable, then to the interest due and then to the any remaining balance of principal. The number of days of delay is based on the due date of the earliest loan installment that has not been fully paid. The Bank does not convert interest on late payment / penalty into principal.

The Bank allows loan rescheduling only under limited and rare circumstances. Loan rescheduling is not allowed as a means of delaying an imminent bad debt situation; a loan can be rescheduled solely if a genuine and acceptable reason can be demonstrated and the rescheduling terms must clearly show that the borrower is subsequently able to meet the loan repayments.

In 2017, loans were disbursed relating to products with tenures generally ranging from 06 months to 05 years, in accordance with the needs of the borrowers. Loan repayments are scheduled monthly. The management estimates that average term of its loan portfolio is about 78 weeks [1.50 years] (2016: 73 weeks [1.42 years]) based on disbursements made during the year.

### 9.5 Current Recovery Ratio

Current recovery ratios are calculated and reported on a quarterly basis. The numerator of this ratio is total cash payments of principal received during the reporting period less prepayments. The denominator is the total loans falling due during the period along with the payments in arrears at the start of the period. Penalty interest is not included in the numerator or the denominator of the ratio. Loan delinquency is measured using the Non Performing Loans (NPL) ratio.

| | Current recovery ratio (%) | |
|---|---|---|
| **Period** | **2017** | **2016** |
| 1st Quarter | **94.07** | 92.04 |
| 2nd Quarter | **89.80** | 94.33 |
| 3rd Quarter | **87.11** | 92.78 |
| 4th Quarter | **82.76** | 93.65 |
| January - December | **88.44** | 93.20 |

The loans are repayable in 78 weeks (1.5 year) on average computed on the basis of a sample of tenure of loans disbursed during the year.

Under these circumstances, a current recovery ratio of 88.44% for 78 week loans is approximately equivalent to an Annual Loss Rate (ALR) of 15.41%, considering the year end Portfolio at Risk (PAR) of 1.01%. ALR for 2016 was 9.58%.

The calculation of Annual Loss Rate is based on the following formula.

$$ALR = [(1 - CR) / T] \times 2$$
$$ALR = [(1 - 88.44\ \%) / 1.50] \times 2$$
$$= 15.41\%$$

Where:
ALR = Annual Loss Rate
CR = Collection rate
T = Loan term

## 10. OPERATING FIXED ASSETS

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | (Afn in '000) | |
| Capital work-in-progress | 10.1 | **3,913** | 102,599 |
| Property and equipment | 10.2 | **73,243** | 59,256 |
| | | **77,156** | 161,855 |

### 10.1 Capital work-in-progress

| | Note | 2017 | 2016 |
|---|---|---|---|
| Balance at 01 January | | **102,599** | 92,950 |
| Additions | | **24,914** | 22,204 |
| Transfer to Property and equipment | | **-** | (12,555) |
| Transfer to Core Banking Software | | **(123,600)** | - |
| Balance at 31 December | 10.1.1 | **3,913** | 102,599 |

**10.1.1** Capital work-in-progress represents cost of HRMS & Compliance system which are being implemented.

### 10.2 Property and equipment

| | Leasehold improvements | Furniture and fittings | Vehicles | Office equipment | Computer equipment | Total |
|---|---|---|---|---|---|---|
| | (Afn in '000) | | | | | |
| **Cost** | | | | | | |
| Balance at 01 January 2016 | 44,436 | 30,734 | 20,823 | 58,358 | 55,460 | 209,811 |
| Additions | 2,304 | 2,103 | 1,179 | 10,950 | 5,603 | 22,139 |
| Transfer from CWIP | - | - | - | 12,555 | - | 12,555 |
| Disposals | (2,324) | (1,050) | - | (1,576) | (1,702) | (6,652) |
| Balance at 31 December 2016 | 44,416 | 31,787 | 22,002 | 80,287 | 59,361 | 237,853 |
| **Balance at 1 January 2017** | **44,416** | **31,787** | **22,002** | **80,287** | **59,361** | **237,853** |
| **Additions** | **4,500** | **3,608** | **2,166** | **7,281** | **25,230** | **42,785** |
| **Disposals** | **(37)** | **(877)** | **-** | **(936)** | **(1,640)** | **(3,490)** |
| **Balance at 31 December 2017** | **48,879** | **34,518** | **24,168** | **86,632** | **82,951** | **277,148** |
| **Depreciation** | | | | | | |
| Balance at 01 January 2016 | 35,232 | 24,589 | 10,642 | 43,520 | 47,057 | 161,040 |
| Charge for the year | 2,944 | 2,355 | 2,645 | 9,890 | 5,754 | 23,588 |
| Disposals | (1,965) | (1,031) | - | (1,492) | (1,543) | (6,031) |
| Balance at 31 December 2016 | 36,211 | 25,913 | 13,287 | 51,918 | 51,268 | 178,597 |
| **Balance at 1 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** | **39,639** | **27,757** | **15,910** | **62,727** | **57,872** | **203,905** |
| **Carrying amounts** | | | | | | |
| Balance at 31 December 2016 | 8,205 | 5,874 | 8,715 | 28,369 | 8,093 | 59,256 |
| **Balance at 31 December 2017** | **9,240** | **6,761** | **8,258** | **23,905** | **25,079** | **73,243** |
| **Depreciation rate** | **20%** | **20%** | **20%** | **25%** | **33.33%** | |

#### 10.2.1 Allocation of depreciation and amortisation

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | (Afn in '000) | |
| Depreciation charged for the year | | **28,775** | 23,588 |
| Less: Amount classified under grant expense | 27 | **(2,350)** | (589) |
| | | **26,425** | 22,999 |

## 11. INTANGIBLE ASSET

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | ------ (Afn in '000) ------ | |
| **Computer software:** | | | |
| **Cost** | | | |
| Balance at 01 January | | **20,999** | 20,999 |
| Acquisitions software | | **343** | - |
| Transfer from CWIP | | **123,600** | - |
| Additions CBS | | **8,811** | - |
| Balance at 31 December | | **153,753** | 20,999 |
| **Amortisation** | | | |
| Balance at 01 January | | **(20,617)** | (20,447) |
| Charge for the year software | | **(186)** | (170) |
| Charge for the year CBS | | **(14,929)** | - |
| Balance at 31 December | | **(35,732)** | (20,617) |
| **Carrying amounts at 31 December** | | **118,021** | 382 |

## 12. ADVANCE TAX

| | Note | 2017 | 2016 |
|---|---|---|---|
| Advance tax | 12.1 | - | 14,485 |

**12.1** In 2016, the audit department of Ministry of Finance (MoF) conducted a tax audit for the tax year 2010 and raised a demand of Afn.31,301 thousands which was paid by the Bank. Afterwards, the Bank made an appeal to Objection Review Unit of MoF which ordered a reassessment. On 21 February 2017 a reassessment was made by the MoF resulting in a final tax liability of Afn.16,816 thousands which comprise of income tax and penalty amounting to Afn.5,594 thousands and Afn.11,222 thousands respectively. The excess amount of Afn.14,485 thousands paid earlier was booked as advance tax in 2016 financial statements.

## 13. OTHER ASSETS

| | Note | 2017 | 2016 |
|---|---|---|---|
| Restricted deposits with DAB | 13.1 | **635,459** | 475,432 |
| Interest receivable | | **263,382** | 202,418 |
| Prepayments | | **24,962** | 23,962 |
| Receivable from Roshan against M-Paisa payments | | **33,070** | 12,290 |
| Receivable against written-off SME loans | | - | 5,363 |
| Other receivables | | **2,692** | 4,939 |
| Office supplies and stationery in inventory | | **2,704** | 1,256 |
| Advances to staff | | **3,902** | 1,232 |
| Inter branch balance | | **1,054** | - |
| Other advances | | - | 710 |
| | | **967,225** | 727,602 |
| Less: General provision held | 13.2 | **(3,318)** | - |
| | | **963,907** | 727,602 |

**13.1** 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. Theses balances are interest free.

**13.2** General provision of 1% (2016: Nil) on other assets is maintained as per Asset Classification and Provisioning Regulation issued by DAB.

## 14. DEPOSITS FROM CUSTOMERS

| | Note | 2017 | 2016 |
|---|---|---|---|
| **Retail customers:** | | | |
| Term deposits | 14.1 | **16,031** | 17,747 |
| Current deposits | | **675,675** | 592,065 |
| Saving deposits | 14.2 | **2,211,172** | 1,953,417 |
| **Corporate customers:** | | | |
| Term deposits | | **545,691** | 52,162 |
| Current deposits | | **3,689,426** | 2,903,977 |
| Saving deposits | | **337,023** | 626,962 |
| Cash Margin | | **94,232** | 44,333 |
| Dormant deposits | 14.3 | **7,831** | - |
| | 14.4 | **7,577,081** | 6,190,663 |

**14.1** The rate of interest on term deposits ranges from 0.50 % to 4.5% (2016: 0.50% to 4.00%) per annum.

**14.2** The rate of interest on saving deposits upto to 0.5% (2016: upto 0.5%) per annum.

**14.3** These represent dormant deposits which were identified during the year as a result of data migration to the new core banking software.

**14.4** Deposits include Afn.1,831,402 thousands (2016: Afn.1,933,718 thousands) due to related parties.

## 15. LOANS AND BORROWINGS

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | ------ (Afn in '000) ------ | |
| Loans and borrowings from: | | | |
| Ministry of Finance, Government of Afghanistan | 15.1 | **291,477** | 340,148 |
| Microfinance Investment Support Facility for Afghanistan Ltd | 15.2 | **1,963,401** | 1,909,194 |
| Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V | 15.3 | **341,708** | 21,424 |
| Agricultural Development Fund | 15.4 | **195,000** | 195,000 |
| | | **2,791,586** | 2,465,766 |

**15.1** A 15-year credit line of Euro 3,500 thousands (equivalent Afn.222,000 thousands) was extended by the Ministry of Finance - Government of Islamic Republic of Afghanistan (MOF) on behalf of Kreditanstalt fur Wiederaufbau (KfW) under the financing and project agreement signed in November 2005. The facility was disbursed in 3 tranches of 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 prematured and completely repaid on 28 December 2016. The above rates were revised during 2017 to 1.0% per annum for Euro 1,300 thousands tranche and 0.38% 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 17 November 2010.

Another 15-year credit line of Euro 4,000 thousands (equivalent Afn.264,480 thousands) was extended by the MOF on behalf of KfW under the financing and project agreement signed in March 2009. The facility was availed on 21 May 2011 at an annual interest rate of 5% per annum payable in arrears which was revised to 6% in last quarter of 2014 in accordance with terms of the agreement. This loan is repayable through 20 bi-annual installments, starting from 30 June 2016.

**15.2** On 02 October 2010 Microfinance Investment Support Facility for Afghanistan Ltd (MISFA) and the Bank signed an agreement under which MISFA consolidated all the loans provided to the Bank to an aggregate amount of Afn.950,000 thousands for a period of ten years. This loan agreement carries interest at the rate of 5% per annum effective from 01 July 2010. Loan is repayable through 20 quarterly installments, starting from 01 September 2015.

On 17 June 2012 MISFA and the Bank signed a further loan agreement for an amount of Afn.500,000 thousands carrying interest rate of 6% per annum. This loan is repayable through 20 quarterly installments, starting from 30 June 2017, and was fully drawn in 2012.

On 01 April 2013 MISFA and the Bank signed a further loan agreement for an amount of Afn.500,000 thousands carrying interest rate of 6% per annum. This loan is repayable through 20 quarterly installments, starting from 31 March 2018, and was fully drawn in 2013.

On 23 of July 2014 MISFA / KFW and the Bank signed a further loan agreement for an amount of Euro 7,750 thousands of which the Bank received the first tranche of afghani equivalent of Afn.244,194 thousands on 17 March 2015. The Bank received the second and final tranche of afghani equivalent of Afn.299,207 thousands on 28 October 2017. These loans carrying interest rate of 6% per annum and repayable through 20 quarterly installments, starting from 31 March 2020 and 31 December 2022 respectively.

The total outstanding loan facilities from MISFA of Afn.1,963,431 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.

**15.3** A 10-year sub-ordinated credit facility of USD 3,000 thousands (equivalent Afn.150,000 thousands) by Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) under agreement signed with the Bank in February 2008. This fully drawn facility carries interest rate of 3.5% per annum plus the weighted average rate for the 5 latest 28 days capital notes as auctioned by DAB. Loan is repayable through 14 bi-annual installments, starting from 15 April 2011. This loan is not secured and fully paid as on 31 December 2017.

On 1st November 2017 the Bank received a term loan for an amount of USD 5,000 thousands (equivalent Afn.341,708) from FMO. This is a 5 year loan with one year grace period for principal repayment. The repayment terms are biannually starting from 15 January 2019. The interest rate is 4%+ the weighted average rate for the last five 28 days capital notes as auctioned by DAB. This loan is not secured.

**15.4** A 5-year credit line of Afn.195,000 thousands obtained from Agricultural Development Fund (ADF) through Ministry of Agricultural, Irrigation and Livestock of Afghanistan (MAIL) under an agreement signed in March 2016. The facility is aimed 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 in 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.

**15.5** The Bank has not had any default of principal or interest with respect to its loans and borrowings during the year ended 31 December 2017.

## 16. DEFERRED TAX LIABILITIES-NET

### 16.1 Movement in deferred tax balances

| 2017 | Net balance at 1 January | Recognised in profit or loss | Deferred tax liability | Deferred tax asset | Net balance at 31 December |
|---|---|---|---|---|---|
| | (Afn in '000) | | | | |
| 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** |
| | **(6,356)** | **(9,801)** | **(16,976)** | **819** | **(16,157)** |
| **2016** | | | | | |
| Property and equipment | (4,770) | (1,528) | (6,298) | - | (6,298) |
| Intangibles | - | (58) | (58) | - | (58) |
| General provision held | | | | | |
| on placements | 2,598 | (2,598) | - | - | - |
| | (2,172) | (4,184) | (6,356) | - | (6,356) |

### 16.2 Reconciliation of effective tax rate

| | 2017 Rate | 2017 Afn in '000 | 2016 Rate | 2016 Afn in '000 |
|---|---|---|---|---|
| Profit before tax | | **288,508** | | 151,783 |
| Applicable tax at 20% | **20.00%** | **57,702** | 20.00% | 30,357 |
| Inadmissible expenses | **3.15%** | **9,099** | 4.65% | 7,060 |
| Depreciation and loss on disposal of fixed assets and general provision | **-6.67%** | **(19,231)** | -4.14% | (6,286) |
| Effect of previously unrecognised tax | **0.00%** | - | 3.69% | 5,594 |
| Deferred tax effect | **3.40%** | **9,801** | 0.04% | 4,184 |
| | **19.89%** | **57,371** | 26.95% | 40,909 |

## 17. OTHER LIABILITIES

| | Note | 2017 (Afn in '000) | 2016 (Afn in '000) |
|---|---|---|---|
| Accrued expenses | | **44,271** | 43,580 |
| Interest payable on long term loans | | **52,904** | 40,070 |
| Performance bonus payable | | **22,369** | 15,388 |
| Deferred grants | 17.3 | **9,490** | 11,297 |
| Customer draw down accounts | 17.1 | - | 10,187 |
| Withholding taxes payable | | **5,433** | 8,130 |
| Other | | **4,697** | - |
| Inter branch balance | | - | 170 |
| General provision held against Off-balance items | 17.2 | **777** | - |
| | | **139,941** | 128,822 |

**17.1** These represent amounts lying in the draw down accounts of customers on account of loan payments and recoveries in advance from customers. The Bank has abandoned, disbursement of loans in draw down accounts.

**17.2** General provision of 1% is held on Credit Guarantees and Undrawn loan and overdraft facilities (2016: Nil), in accordance with DAB ACPR.

**17.3 Deferred grants**

| | Note | MISFA | AKF-USA | KFW | TOTAL |
|---|---|---|---|---|---|
| | | (Afn in '000) | | | |
| | | 17.3.1 | 17.3.2 | 17.3.3 | |
| **2017** | | | | | |
| Balance at 1 January | | **2,170** | **5,598** | **3,529** | **11,297** |
| Grants recognised during the year: | | **-** | **-** | **8,539** | **8,539** |
| Grant amortized during the year | | **(526)** | **(1,109)** | **(8,711)** | **(10,346)** |
| Balance at 31 December | | **1,644** | **4,489** | **3,357** | **9,490** |
| **2016** | | | | | |
| Balance at 1 January | | 2,622 | 6,609 | - | 9,231 |
| Grants recognised during the year: | | 731 | - | 3,529 | 4,260 |
| Grant amortized during the year | | (1,183) | (1,011) | - | (2,194) |
| Balance at 31 December | | 2,170 | 5,598 | 3,529 | 11,297 |

**17.3.1** This represents grant received from MISFA Ltd under an agreement signed dated 16 August 2011 to strengthen the Bank's capacity in rural and agricultural financial products and services.

**17.3.2** This include grant received from 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.

**17.3.3** This represents grant received from KFW under an agreement signed dated 26 October 2016 for establishment of "Women - only" branch in Kabul.

## 18. SHARE CAPITAL

| | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|
| | USD | | (Afn in '000) | |
| **Authorized** | | | | |
| 88,800 ordinary shares of US $ 177 each (2016: 88,800 of US $ 177) | **15,717,600** | 15,717,600 | **800,624** | 800,624 |
| **Paid up** | | | | |
| 88,288 ordinary shares of US $ 177 each (2016; 88,288 of US $ 177) | **15,626,976** | 15,626,976 | **796,008** | 796,008 |

**18.1** The capital is contributed by the shareholders as follows:

| | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|
| | Number of shares | | (Afn in '000) | |
| Aga Khan Agency for Microfinance (AKAM) | **34,784** | 34,784 | **310,646** | 310,646 |
| Kreditanstalt fur Wiederaufbau (KfW) | **28,200** | 28,200 | **254,811** | 254,811 |
| International Finance Corporation (IFC) | **14,800** | 14,800 | **133,974** | 133,974 |
| Aga Khan Foundation USA (AKF USA) | **10,504** | 10,504 | **96,577** | 96,577 |
| | **88,288** | 88,288 | **796,008** | 796,008 |

**18.2** 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.

## 19. SHARE PREMIUM

| | | | |
|---|---|---|---|
| Share premium | 19.1 | **206,038** | 206,038 |

**19.1** In 2012, 28,800 new ordinary shares of USD 100 each were issued at a premium of USD 138 per share resulting in total premium of Afn.206,038 thousands.

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | ------ (Afn in '000) ------ | |
| **20. CONTINGENCIES AND COMMITMENTS** | | | |
| **20.1 Contingencies** | | | |
| Outstanding bank guarantees | | **66,757** | 22,333 |
| **20.2 Commitments** | | | |
| Undrawn loan and overdraft facilities | | **10,903** | - |
| **21. NET INTEREST INCOME** | | | |
| **Interest income** | | | |
| Cash and cash equivalents | | **46,578** | 31,670 |
| Placements | | **24,262** | 85,173 |
| Loans and advances to customers | | | |
| Loans to small and medium size enterprises | | **203,750** | 181,321 |
| Microfinance loans | | **1,141,086** | 865,519 |
| Interest on overdraft facility | | **10,618** | 18,314 |
| | | **1,355,454** | 1,065,154 |
| Others | | **1,175** | 523 |
| **Total interest income** | | **1,427,469** | 1,182,520 |
| **Interest expense** | | | |
| Deposits from customers | | **25,179** | 9,785 |
| Loans and borrowings | | **138,844** | 142,772 |
| **Total interest expense** | | **164,023** | 152,557 |
| **Net interest income** | | **1,263,446** | 1,029,963 |
| **22. NET FEE AND COMMISSION INCOME** | | | |
| **Fee and commission income** | | | |
| Loan processing fee | | **61,038** | 59,798 |
| Bank charges relating to foreign remittances and other services | | **30,500** | 32,552 |
| **Total fee and commission income** | | **91,538** | 92,350 |
| **Fee and commission expense** | | | |
| Guarantee fee | | **20,456** | 16,492 |
| Afghanistan Deposit Insurance Corporation (ADIC) premium | | **6,840** | 6,793 |
| Foreign exchange expense | | - | 2,655 |
| Other fee | | **9,139** | 8,591 |
| ACGF claim | | **1,369** | - |
| **Total fee and commission expense** | | **37,804** | 34,531 |
| **Net fee and commission income** | | **53,734** | 57,819 |
| **23. OTHER REVENUE** | | | |
| Foreign exchange service income | | **110,420** | 111,766 |
| Exchange gain | | **7,067** | - |
| Receipts against claims | | - | 8,460 |
| Other | | **840** | 3,722 |
| | | **118,327** | 123,948 |
| **24. OTHER INCOME** | | | |
| Loans and advances written off recovered | | **17,288** | 16,764 |
| Gain / (loss) on disposal of property and equipment | | **142** | (326) |
| | | **17,430** | 16,438 |
| **25. PERSONNEL EXPENSES** | | | |
| Local staff | 25.1 | **522,747** | 446,314 |
| Expat staff | 25.2 | **74,412** | 77,740 |
| | | **597,159** | 524,054 |
| Less: Grant related salaries and benefits | 27 | **(2,932)** | (5,339) |
| | | **594,227** | 518,715 |

| | | Note | 2017 | 2016 |
|---|---|---|---|---|
| | | | ------ (Afn in '000) ------ | |
| **25.1** | **Local staff** | | | |
| | Basic salary | | **372,119** | 315,141 |
| | Other benefits | | **150,628** | 131,173 |
| | | | **522,747** | 446,314 |
| **25.2** | **Expat staff** | | | |
| | Basic salary | | **52,843** | 51,599 |
| | Other benefits | | **21,569** | 26,141 |
| | | | **74,412** | 77,740 |
| **26.** | **OTHER EXPENSES** | | | |
| | Consultancy fee | | **16,447** | 17,014 |
| | Office rent | | **44,367** | 38,561 |
| | Communication | | **55,013** | 41,496 |
| | System maintenance | | **16,823** | 23,954 |
| | Generator fuel and maintenance | | **22,175** | 19,537 |
| | Insurance | | **11,131** | 11,290 |
| | Legal, professional and statutory fee | | **18,150** | 7,513 |
| | Auditors' remuneration | 26.1 | **5,375** | 2,372 |
| | Office security | | **132,072** | 127,390 |
| | Office stationery and supplies | | **29,817** | 17,323 |
| | Other operating expenses | | **7,596** | 4,436 |
| | Repairs and maintenance | | **5,304** | 3,461 |
| | Travel and transportation | | **57,057** | 44,144 |
| | Director's traveling | | **4,441** | 5,698 |
| | Trainings | | **10,253** | 4,003 |
| | Utilities | | **9,975** | 8,605 |
| | Marketing and promotional expenses | | **8,542** | 7,044 |
| | Penalties by DAB | | **1,187** | 460 |
| | Miscellaneous | | **4** | 115 |
| | | | **455,729** | 384,416 |
| **26.1** | **Auditors' remuneration** | | | |
| | Annual audit fee | | **2,110** | 1,871 |
| | Interim review fee | | **565** | 501 |
| | Other professional services | | **2,700** | - |
| | | | **5,375** | 2,372 |
| **27.** | **EXPENDITURE AGAINST GRANTS** | | | |
| | Salaries and benefits | 25 | **2,932** | 5,339 |
| | Office supplies | | **899** | - |
| | Security | | **1,433** | - |
| | Branding | | **954** | - |
| | Consultancy fee | | **724** | - |
| | Training fee | | **-** | 1,667 |
| | Marketing | | **1,054** | - |
| | Depreciation and amortization | 10.2.1 | **2,350** | 589 |
| | | | **10,346** | 7,595 |
| **28.** | **INCOME TAX EXPENSE** | | | |
| | **Current tax** | | | |
| | For the year | | **47,569** | 31,131 |
| | Prior year | 12 | **-** | 5,594 |
| | | | **47,569** | 36,725 |
| | **Deferred tax expense** | 16 | **9,801** | 4,184 |
| | | | **57,370** | 40,909 |

## 29. EARNING PER SHARE

| | 2017 | 2016 |
|---|---|---|
| **Basic earning per share** | | |
| Profit for the year attributable to ordinary shareholders (Afn in '000) | 231,138 | 110,874 |
| Weighted-average number of ordinary shares (numbers) | 88,288 | 88,288 |
| Basic earning per share (Afn in '000) | 2.62 | 1.26 |

## 30. RELATED PARTIES

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

### 30.1 Parent and ultimate controlling entity

Pattern of shareholding in the Bank is disclosed in note 18.1. Aga Khan Development Network entities collectively owns 51% (2016: 51%) of the Bank's capital.

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | ------ (Afn in '000) ------ | |
| **30.2 Transactions with key management personnel** | | | |
| **Key management personnel compensation** | | | |
| Short term employee benefits | 30.2.1 | 65,879 | 70,388 |

30.2.1 Compensation of the Bank's key management personnel includes salaries and benefits. The aggregate value of transactions and outstanding balances related to key management personnel were as follows:

| | Transaction values for the year ended | | Maximum balance for the year ended | | Balance outstanding as at | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | ------ (Afn in '000) ------ | | ------ (Afn in '000) ------ | | ------ (Afn in '000) ------ | |
| Advances to staff | 230 | 1,982 | 209 | 668 | 209 | 167 |
| Deposits received | 64,433 | 64,646 | 13,369 | 16,127 | 1,316 | 2,241 |

### 30.3 Other related party outstanding balances and transactions

| | Balance outstanding as at | |
|---|---|---|
| | 2017 | 2016 |
| | ------ (Afn in '000) ------ | |
| **Balances with related parties** | | |
| Balances with banks | 462,926 | 815,873 |
| Time deposits with banks | 1,765,881 | 2,382,066 |
| Loan to Telecom Development Company Afghanistan Limited (TDCA) | 83,138 | 132,163 |
| Receivable from Roshan against M-Paisa payments | 33,070 | 12,290 |
| Deposits from customers | 1,790,981 | 1,933,050 |
| Cash Margin against guarantees issued | 40,421 | 668 |
| Payable to Aga Khan Agency for Microfinance (AKAM) | - | - |

| | Transaction values for the year ended | |
|---|---|---|
| | 2017 | 2016 |
| | ------ (Afn in '000) ------ | |
| **Transactions with related parties** | | |
| Interest income | 44,172 | 21,934 |
| Fee and commission income | 6,254 | 9,137 |
| Fee and commission expense | 2,129 | 193 |
| Interest expense on deposits from customers | 8,955 | 9,665 |
| Directors' fee and other expenses | 4,441 | 5,698 |
| Costs incurred for AKAM loan recovery | - | 1,934 |

30.4 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.

## 31. 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 | Designated at fair value | Available-for-sale | Held to maturity | Loans and receivables | Other amortised cost | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|---|
| | | (Afn in '000) | | | | | | |
| **31 December 2017** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and cash equivalents | 7 | - | - | **2,061,380** | **3,736,805** | - | **5,798,185** | **5,798,185** |
| Placements | 8 | - | - | **399,867** | - | - | **399,867** | **399,867** |
| Loans and advances to customers | 9 | - | - | - | **5,191,284** | - | **5,191,284** | **5,191,284** |
| Other assets | 13 | - | - | - | - | **933,411** | **933,411** | **933,411** |
| | | - | - | **2,461,247** | **8,928,089** | **933,411** | **12,322,747** | **12,322,747** |
| **Financial liabilities** | | | | | | | | |
| Deposits from customers | 14 | - | - | **655,954** | - | **6,921,127** | **7,577,081** | **7,577,081** |
| Loans and borrowings | 15 | - | - | **2,791,586** | - | - | **2,791,586** | **2,791,586** |
| Other liabilities | 17 | - | - | - | - | **54,164** | **54,164** | **54,164** |
| | | - | - | **3,447,540** | - | **6,975,291** | **10,422,831** | **10,422,831** |
| **31 December 2016** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and cash equivalents | 7 | - | - | 2,236,317 | 1,500,884 | - | 3,737,201 | 3,737,201 |
| Placements | 8 | - | - | 1,258,936 | - | - | 1,258,936 | 1,258,936 |
| Loans and advances to customers | 9 | - | - | - | 4,661,546 | - | 4,661,546 | 4,661,546 |
| Other assets | 13 | - | - | - | - | 702,384 | 702,384 | 702,384 |
| | | - | - | 3,495,253 | 6,162,430 | 702,384 | 10,360,067 | 10,360,067 |
| **Financial liabilities** | | | | | | | | |
| Deposits from customers | 14 | - | - | 114,242 | - | 6,076,421 | 6,190,663 | 6,190,663 |
| Loans and borrowings | 15 | - | - | 2,465,766 | - | - | 2,465,766 | 2,465,766 |
| Other liabilities | 17 | - | - | - | - | 50,257 | 50,257 | 50,257 |
| | | - | - | 2,580,008 | - | 6,126,678 | 8,706,686 | 8,706,686 |

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.

## 32. 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.

### 32.1 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.

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

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | ------ (Afn in '000) ------ | |
| **Maximum exposure to credit risk** | | | |
| Carrying amount | 9 | **5,191,284** | 4,661,546 |
| **At amortised cost** | | | |
| Standard | | **5,403,315** | 4,858,056 |
| Watch-list | | **24,261** | 18,685 |
| Substandard | | **25,384** | 9,449 |
| Doubtful | | **21,661** | 30,401 |
| Rescheduled | | **18,431** | 39,215 |
| Total gross amount | | **5,493,052** | 4,955,806 |
| Allowance for impairment (individual and collective) | | **(301,768)** | (294,260) |
| Net carrying amount | | **5,191,284** | 4,661,546 |

| | 2017 | 2016 |
|---|---|---|
| | ------ (Afn in '000) ------ | |
| **Loans with renegotiated terms** | | |
| Gross carrying amount | **18,431** | 39,214 |
| Impaired amount | **18,431** | 39,214 |
| Allowance for impairment | **(18,431)** | (39,214) |
| Net carrying amount | **-** | - |
| **Neither past due nor impaired** | | |
| Standard (low fair risk) | **5,105,879** | 4,614,601 |
| | **5,105,879** | 4,614,601 |
| **Individually impaired** | | |
| Watch-list | **24,261** | 18,685 |
| Substandard | **25,384** | 9,449 |
| Doubtful | **21,661** | 30,401 |
| Loss and rescheduled | **18,431** | 39,214 |
| | **89,737** | 97,749 |
| **Allowance for impairment** | | |
| Specific | **36,819** | 57,711 |
| General | **264,949** | 236,549 |
| Total allowance for impairment | **301,768** | 294,260 |

***Impaired loans and advances***

See accounting policy - note 6.5.7.

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

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

- A loan is overdue for 30 days or more.

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

***Loans and advances that are past due but not impaired***

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

***Balances with other banks***

The Bank holds balances with central bank and other financial institutions amounting to Afn.5,082,353 thousands at 31 December 2017 (2016: Afn.3,481,946 thousands).

**Collateral held and other credit enhancements**

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

| | Percentage of exposure that is subject to collateral requirements | | Principal type of collateral held |
|---|---|---|---|
| **Type of credit exposure** | **2017** | **2016** | |
| **Loans and advances to customers** | | | |
| Microfinance loans | **79.23** | 77.71 | Property |
| Microfinance loans | **3.69** | 2.51 | Personal guarantee |
| Microfinance loans - Group loans | **-** | - | None |
| Over draft | **2.37** | 2.87 | Property |
| Loans to small and medium size enterprises (SME) | **14.72** | 16.91 | Property |

**Offsetting financial assets and financial liabilities**

No financial assets and financial liabilities have been set off during the year (2016: none).

### 32.1.5 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 2017. For this table, the Bank has allocated exposures to the regions based on the country of domicile of counterparties.

| | Balances with banks | Placements | Loans and advances to customers | Other assets | Total (on-balance sheet) | Contingencies and commitments | Total |
|---|---|---|---|---|---|---|---|
| | | (Afn in '000) | | | | | |
| **31 December 2017** | | | | | | | |
| Afghanistan | **22,808** | **-** | **5,191,284** | **297,952** | **5,512,044** | **66,757** | **5,578,801** |
| United Kingdom | **413,781** | **-** | **-** | **-** | **413,781** | **-** | **413,781** |
| Belgium | **462,926** | **299,991** | **-** | **-** | **762,917** | **-** | **762,917** |
| Kenya | **1,040,720** | **-** | **-** | **-** | **1,040,720** | **-** | **1,040,720** |
| Turkey | **962,130** | **-** | **-** | **-** | **962,130** | **-** | **962,130** |
| Spain | **318,076** | **-** | **-** | **-** | **318,076** | **-** | **318,076** |
| | **3,220,441** | **299,991** | **5,191,284** | **297,952** | **9,009,668** | **66,757** | **9,076,425** |
| **31 December 2016** | | | | | | | |
| Afghanistan | 591,491 | - | 4,661,546 | 226,952 | 5,479,989 | 22,333 | 5,502,322 |
| United Kingdom | 692,223 | - | - | - | 692,223 | - | 692,223 |
| United States | 98,675 | - | - | - | 98,675 | - | 98,675 |
| Belgium | 24,975 | 132,284 | - | - | 157,259 | - | 157,259 |
| Kenya | 1,663,903 | - | - | - | 1,663,903 | - | 1,663,903 |
| | 3,071,267 | 132,284 | 4,661,546 | 226,952 | 8,092,049 | 22,333 | 8,114,382 |

*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 2017.

| | Banks | Agriculture | Telecom | Trade | Others | Total |
|---|---|---|---|---|---|---|
| | (Afn in '000) | | | | | |
| **31 December 2017** | | | | | | |
| Cash and cash equivalents | **3,220,441** | **-** | **-** | **-** | **-** | **3,220,441** |
| Placements | **299,991** | **-** | **-** | **-** | **-** | **299,991** |
| Loans and advances to customers | **-** | **1,460,811** | **82,306** | **2,145,747** | **1,502,420** | **5,191,284** |
| Other assets | **-** | **-** | **33,070** | **-** | **264,882** | **297,952** |
| Bank guarantees | **-** | **-** | **35,823** | **-** | **30,934** | **66,757** |
| | **3,520,432** | **1,460,811** | **151,199** | **2,145,747** | **1,798,236** | **9,076,425** |
| **31 December 2016** | | | | | | |
| Cash and cash equivalents | 3,071,267 | - | - | - | - | 3,071,267 |
| Placements | 132,284 | - | - | - | - | 132,284 |
| Loans and advances | - | 1,192,984 | 135,228 | 2,577,438 | 755,896 | 4,661,546 |
| Other assets | - | - | 12,290 | - | 214,662 | 226,952 |
| Bank guarantees | - | - | - | - | 22,333 | 22,333 |
| | 3,203,551 | 1,192,984 | 147,518 | 2,577,438 | 992,891 | 8,114,382 |

### 32.1.6 Impaired loans and advances

For details of impairment allowance for loans and advances to customers, see note 9.

### 32.2 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.

### 32.2.1 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.

### 32.2.2 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:

| | **2017** | **2016** |
|---|---|---|
| At 31 December | **66.01%** | 64.43% |
| Average for the period | **58.24%** | 66.58% |
| Maximum for the period | **66.01%** | 73.82% |
| Minimum for the period | **51.05%** | 60.45% |

### 32.2.3 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 2017** | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Deposits from customers | 14 | **(7,577,081)** | **(6,965,275)** | **(515,344)** | **(86,154)** | **(10,197)** | **(111)** | **7,577,081** |
| Loans and borrowings | 15 | **(2,791,586)** | **-** | **(72,500)** | **(379,732)** | **(1,799,467)** | **(539,887)** | **2,791,586** |
| Other liabilities | 17 | **(54,164)** | **-** | **-** | **(54,164)** | **-** | **-** | **54,164** |
| Bank guarantees | 20 | **(66,757)** | **(16,673)** | **(6,105)** | **(33,671)** | **(10,197)** | **(111)** | **66,757** |
| | | **(10,489,588)** | **(6,981,948)** | **(593,949)** | **(553,721)** | **(1,819,861)** | **(540,109)** | **10,489,588** |
| **31 December 2016** | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Deposits from customers | 14 | (6,190,663) | (6,129,339) | - | (61,324) | - | - | 6,190,663 |
| Loans and borrowings | 15 | (2,465,766) | (25,744) | (50,250) | (304,247) | (1,686,370) | (399,154) | 2,465,766 |
| Other liabilities | 17 | (50,257) | - | - | (50,257) | - | - | 50,257 |
| Bank guarantees | 20 | (22,333) | - | - | - | (22,333) | - | 22,333 |
| | | (8,729,019) | (6,155,083) | (50,250) | (415,828) | (1,708,703) | (399,154) | 8,729,019 |

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

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

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

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | (Afn in '000) | |
| **Financial assets** | | | |
| Loans and advances to customers | 9 | **3,096,057** | 1,134,577 |
| **Financial liabilities** | | | |
| Loans and borrowings | 15 | **2,339,354** | 2,106,335 |

## 32.3 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.

### 32.3.1 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.

### 32.3.2 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) | Less than 3 months | 3-6 months | 6-12 months | 1-5 years | More than 5 years | Total | Not interest bearing | Carrying amount |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Afn in '000) | | | | | | | |
| **31 December 2017** | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | |
| Cash and cash equivalents | 7 | 0.14% to 2.45% | 2,061,380 | - | - | - | - | 2,061,380 | 3,736,805 | 5,798,185 |
| Placements | 8 | 0.49% to 1.55% | - | 237,803 | 162,064 | - | - | 399,867 | - | 399,867 |
| Loans and advances to customers | 9 | 9.25% to 27% | 223,233 | 471,441 | 1,400,553 | 3,087,391 | 8,666 | 5,191,284 | - | 5,191,284 |
| Other assets | 13 | - | - | - | - | - | - | - | 933,411 | 933,411 |
| Total financial assets | | | 2,284,613 | 709,244 | 1,562,617 | 3,087,391 | 8,666 | 7,652,531 | 4,670,216 | 12,322,747 |
| **Financial liabilities** | | | | | | | | | | |
| Deposits from customers | 14 | 0.5% to 4.5% | 3,057,434 | 50,103 | 2,380 | - | - | 3,109,917 | 4,467,164 | 7,577,081 |
| Loans and borrowings | 15 | 0.38% to 6.28% | 72,500 | 177,232 | 202,500 | 1,799,467 | 539,887 | 2,791,586 | - | 2,791,586 |
| Other liabilities | 17 | - | - | - | - | - | - | - | 54,164 | 54,164 |
| Total financial liabilities | | | 3,129,934 | 227,335 | 204,880 | 1,799,467 | 539,887 | 5,901,503 | 4,521,328 | 10,422,831 |
| Total interest rate gap | | | (845,321) | 481,909 | 1,357,737 | 1,287,924 | (531,221) | 1,751,028 | 148,888 | 1,899,916 |

| | Note | Interest rates (p.a) | Interest bearing: Less than 3 months | 3-6 months | 6-12 months | 1-5 years | More than 5 years | Total | Not interest bearing | Carrying amount |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | (Afn in '000) | | | | | | | |
| **31 December 2016** | | | | | | | | | | |
| **Financial assets** | | | | | | | | | | |
| Cash and cash equivalents | 7 | 2.4% to 2.5% | 2,236,317 | - | - | - | - | 2,236,317 | 1,500,884 | 3,737,201 |
| Placement | 8 | 1.55% to 6.68% | - | 300,444 | 958,492 | - | - | 1,258,936 | - | 1,258,936 |
| Loans and advances to customers | 9 | 9.25% to 27% | 1,353,127 | 825,529 | 1,348,313 | 1,128,511 | 6,066 | 4,661,546 | - | 4,661,546 |
| Other assets | 13 | - | - | - | - | - | - | - | 702,384 | 702,384 |
| Total financial assets | | | 3,589,444 | 1,125,973 | 2,306,805 | 1,128,511 | 6,066 | 8,156,799 | 2,203,268 | 10,360,067 |
| **Financial liabilities** | | | | | | | | | | |
| Deposits from customers | 14 | 0.5% to 4% | 2,598,139 | 48,468 | 3,681 | - | - | 2,650,288 | 3,540,375 | 6,190,663 |
| Loans and borrowings | 15 | 3.53% to 7.04% | 24,335 | 47,500 | 287,595 | 1,729,027 | 377,308 | 2,465,766 | - | 2,465,766 |
| Other liabilities | 17 | - | - | - | - | - | - | - | 50,257 | 50,257 |
| Total financial liabilities | | | 2,622,474 | 95,968 | 291,276 | 1,729,027 | 377,308 | 5,116,054 | 3,590,632 | 8,706,686 |
| Total interest rate gap | | | 966,970 | 1,030,005 | 2,015,529 | (600,516) | (371,242) | 3,040,745 | (1,387,364) | 1,653,381 |

If the interest rate increase / (decrease) by 100 bps, the impact on profit or loss for the year would have been Afn.17,510 thousands (2016: Afn.30,407 thousands) lower/higher respectively.

### 32.3.3 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.

| | USD | EUR | Total | Others | Carrying amount |
|---|---|---|---|---|---|
| **31 December 2017** | (Afn in '000) | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 3,098,544 | 721,375 | 3,819,919 | 1,978,266 | 5,798,185 |
| Placements | 299,991 | - | 299,991 | 99,876 | 399,867 |
| Loans and advances to customers | 385,324 | - | 385,324 | 4,805,960 | 5,191,284 |
| Other assets | 402,907 | 67,825 | 470,732 | 462,679 | 933,411 |
| Total financial assets | 4,186,766 | 789,200 | 4,975,966 | 7,346,781 | 12,322,747 |
| **Financial liabilities** | | | | | |
| Deposits from customers | 4,037,695 | 654,967 | 4,692,662 | 2,884,419 | 7,577,081 |
| Loans and borrowings | - | - | - | 2,791,586 | 2,791,586 |
| Other liabilities | 608 | 5 | 613 | 53,551 | 54,164 |
| Total financial liabilities | 4,038,303 | 654,972 | 4,693,275 | 5,729,556 | 10,422,831 |
| **Net position** | 148,463 | 134,228 | 282,691 | 1,617,225 | 1,899,916 |

| 31 December 2016 | USD | EUR | Total | Others | Carrying amount |
|---|---|---|---|---|---|
| | (Afn in '000) | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 2,513,116 | 869,581 | 3,382,697 | 354,504 | 3,737,201 |
| Placements | 132,284 | - | 132,284 | 1,126,652 | 1,258,936 |
| Loans and advances to customers | 456,583 | - | 456,583 | 4,204,963 | 4,661,546 |
| Other assets | 24,458 | 7 | 24,465 | 677,919 | 702,384 |
| Total financial assets | 3,126,441 | 869,588 | 3,996,029 | 6,364,038 | 10,360,067 |
| **Financial liabilities** | | | | | |
| Deposits from customers | 3,181,197 | 857,408 | 4,038,605 | 2,152,058 | 6,190,663 |
| Loans and borrowings | - | - | - | 2,465,766 | 2,465,766 |
| Other liabilities | 3,161 | - | 3,161 | 47,096 | 50,257 |
| Total financial liabilities | 3,184,358 | 857,408 | 4,041,766 | 4,664,920 | 8,706,686 |
| **Net position** | (57,917) | 12,180 | (45,737) | 1,699,118 | 1,653,381 |

**Sensitivity analysis**

A 10% strengthening of the Afghani, against the USD and Euro at 31 December 2017 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.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Equity | Profit or loss | Equity | Profit or loss |
| USD | **(14,846)** | **(14,846)** | 5,792 | 5,792 |
| Euro | **(13,423)** | **(13,423)** | (1,218) | (1,218) |

A 10% weakening of the Afghani against the above currencies at 31 December 2017 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.

## 32.4 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.

### 32.5 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 2017 was as follows:

| | 2017 | 2016 |
|---|---|---|
| **Regulatory Capital** | ------ (Afn in '000) ------ | |
| **Tier 1 capital** | | |
| Total equity capital | **1,990,569** | 1,759,431 |
| Less: Intangible assets | **(118,021)** | (382) |
| Less: Profit for the year | **(231,138)** | (110,873) |
| **Total tier 1 (core) capital** | **1,641,410** | 1,648,176 |
| **Tier 2 (Supplementary) Capital:** | | |
| General loss reserves on credits as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposures | **93,092** | 72,957 |
| Add: Subordinated debt | **-** | 17,139 |
| Add: Profit for the year | **231,138** | 110,873 |
| **Total tier 2 (supplementary) capital** | **324,230** | 200,969 |
| **Total Regulatory capital = Tier 1 + Tier 2** | **1,965,640** | 1,849,145 |
| **Risk-weighted assets** | | |
| ***On-balance sheet*** | | |
| **0% risk weight:** | | |
| Cash in Afghani and fully-convertible foreign currencies | **326,292** | 267,384 |
| Direct claims on DAB | **2,986,787** | 2,000,634 |
| Total | **3,313,079** | 2,268,018 |
| 0% risk-weight total (above total x 0%) | **-** | - |
| **20% risk weight:** | | |
| Balances with other banks | **2,489,011** | 3,071,267 |
| 20% risk-weight total (above total x 20%) | **497,802** | 614,253 |
| **100% risk weight:** | | |
| All other assets | **7,064,895** | 5,222,722 |
| Less: intangible assets | **(118,021)** | (382) |
| All other assets - net | **6,946,874** | 5,222,340 |
| 100% risk-weight total (above total x 100%) | **6,946,874** | 5,222,340 |

| | 2017 | 2016 |
|---|---|---|
| | ------ (Afn in '000) ------ | |
| **Off-balance sheet** | | |
| **0% risk weight:** | | |
| Guarantees issued | - | 22,333 |
| Undrawn loan and overdraft facilities | 10,903 | |
| 0% credit conversion factor total (risk-weighted total x 0%) | - | |
| 0% risk-weight total (above total x 0%) | - | - |
| **20% risk weight:** | | |
| Guarantees issued | 66,757 | - |
| 20% credit conversion factor total (risk-weighted total x 20%) | 13,351 | - |
| 20% risk-weight total (above total x 20%) | 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** | 7,447,346 | 5,836,593 |
| **Tier 1 Capital Ratio** (Tier 1 capital as % of total risk-weighted assets) | 22.0% | 28% |
| **Regulatory Capital Ratio** (Regulatory capital as % of total risk-weighted assets) | 26.4% | 31.7% |

## 33. CORRESPONDING FIGURES

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

## 34. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on 29th March 2018 by the Board of Supervisors of the Bank.

## 35. GENERAL

Figures have been rounded off to the nearest thousand.

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