

# **THE FIRST MICROFINANCE BANK**

## **Audited Financial Statements**

**For the year ended December 31, 2022**

**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDERS OF THE FIRST MICROFINANCE BANK - AFGHANISTAN**

**Opinion**

We have audited the accompanying financial statements of The First MicroFinance Bank - Afghanistan (the Bank), which comprise the statement of financial position as of December 31, 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of December 31, 2022, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank.

**Basis for Opinion**

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

**Emphasis of Matters**

Without qualifying our opinion, we draw attention to note 8.2.1 to the financial statements which states that due to the economic crisis in the country, the repayment capacity of customers of the Bank has reduced. As a result, the quality of loans and advances of the Bank has deteriorated which required further impairment loss to be recognized against these loans under the "Asset Classification and Provisioning Regulation" by DAB. However, DAB vide letter no 11068/9588 dated 21 December 2021, instructed the Bank not to change the assets classification of loans and advances of the Bank from their status as of 30 June 2021. This relaxation has further extended up to 28 February 2023 through a circular Ref. No. 3101/3391 dated 29 September 2022. Hence, impairment loss on loans and advances of the Bank has been calculated on the basis of their status as of 30 June 2021 and no further provision has been made against those loans and advances which subsequently did not perform well due to the current situation in the country. If DAB had not granted this relaxation to the Bank, the impairment allowance against loans and advances of the Bank would have been increased by AFN 1,308,453 thousands (net of ACGF share of loss (note 8.2.2) (2021: AFN 1,082,966 thousands) for the year, resulting in increase in the loss before tax by the said amount.

**Other Matter**

In connection with our audit of the financial statements, we have been informed by management that there is no other information that is attached by them along with the financial statements and our auditor's report thereon.

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### **Responsibilities of Management and Those Charged With Governance for the Financial Statements**

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

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

Those Charged with Governance are responsible for overseeing the Bank's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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.

The engagement partner on the audit resulting in this independent auditor's report is Umar Daraz.

UHY Shafiq Umar Daraz & Co.

**Chartered Accountants**

**Date:** March 16, 2023  
**Kabul, Afghanistan**



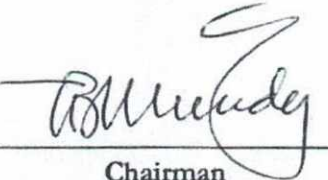
**The First MicroFinance Bank - Afghanistan**  
**Statement of Financial Position**  
**As at 31 December 2022**

		31 December 2022	31 December 2021
	Note	----- (AFN in '000) -----	
<b>Assets</b>			
Cash and cash equivalents	6	7,311,724	4,259,825
Short term placements with banks	7	1,624,666	1,947,298
Loans and advances to customers - net	8	2,135,280	3,817,089
Operating fixed assets	9	330,900	318,840
Intangible assets	10	52,184	83,210
Deferred tax asset - net	11	141,265	6,177
Other assets	12	927,460	723,397
<b>Total Assets</b>		<b>12,523,479</b>	<b>11,155,836</b>
<b>Liabilities</b>			
Deposits from customers	13	8,948,110	6,842,937
Loans and borrowings	14	1,755,264	1,950,752
Other liabilities	15	397,723	403,756
<b>Total Liabilities</b>		<b>11,101,097</b>	<b>9,197,445</b>
<b>Equity</b>			
Share capital	16	796,008	796,008
Share premium		206,038	206,038
Retained earnings		420,336	956,345
<b>Total equity</b>		<b>1,422,382</b>	<b>1,958,391</b>
<b>Total equity and liabilities</b>		<b>12,523,479</b>	<b>11,155,836</b>
<b>Contingencies and commitments</b>	17		

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

  
Chief Financial Officer

  
Chief Executive Officer

  
Chairman

**The First MicroFinance Bank - Afghanistan**  
**Statement of Comprehensive Income**  
**For the year ended 31 December 2022**

		31 December 2022	31 December 2021
	Note	----- (AFN in '000) -----	
Interest income	18	44,111	799,602
Interest expense	19	(9,334)	(136,315)
<b>Net interest income</b>		<b>34,777</b>	<b>663,287</b>
Fee and commission income	20	23,395	53,219
Fee and commission expense	21	(1,652)	(3,139)
<b>Net fee and commission income</b>		<b>21,743</b>	<b>50,080</b>
Income from dealing in foreign currencies		129,254	159,131
<b>Revenue</b>		<b>185,774</b>	<b>872,498</b>
Other income/ (expense)	22	(5,045)	120,437
Reversal of impairment loss on loans and advances to customers	8.2	93,720	6,059
Impairment (loss)/ gain on placements	7	(15,690)	9,874
General provision on other assets	12	3,740	(3,947)
Personnel expenses	23	(547,084)	(663,968)
Depreciation and amortisation	9 & 10	(129,420)	(166,139)
Finance cost on lease liabilities	15.1	(9,789)	(7,948)
Other expenses	24	(247,303)	(335,871)
<b>Net operating loss</b>		<b>(671,097)</b>	<b>(169,005)</b>
Non-operating revenue and expenses:			
Development grant income	15	402	840
Operating grant income		-	30,563
Expenditure against grants	25	(402)	(31,403)
		-	-
<b>Loss before tax</b>		<b>(671,097)</b>	<b>(169,005)</b>
Income tax	26	135,088	16,063
<b>Loss for the year</b>		<b>(536,009)</b>	<b>(152,942)</b>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>(536,009)</b>	<b>(152,942)</b>
<b>Earnings per share</b>	27	<b>(6,071)</b>	<b>(1,732)</b>

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

  
Chief Financial Officer

  
Chief Executive Officer


  
Chairman

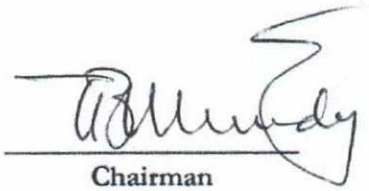
**The First MicroFinance Bank - Afghanistan**  
**Statement of Changes in Equity**  
**For the year ended 31 December 2022**

	Share capital	Share premium	Retained earnings	Total
	(AFN in '000)			
Balance at 01 January 2021	796,008	206,038	1,109,287	2,111,333
Loss for the year	-	-	(152,942)	(152,942)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(152,942)	(152,942)
Balance at 31 December 2021	796,008	206,038	956,345	1,958,391
Loss for the year	-	-	(536,009)	(536,009)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(536,009)	(536,009)
Balance at 31 December 2022	796,008	206,038	420,336	1,422,382

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

  
 Chief Financial Officer

  
 Chief Executive Officer

  
 Chairman

**The First MicroFinance Bank - Afghanistan**  
**Statement of Cash Flows**  
**For the year ended 31 December 2022**

	Note	31 December 2022 ----- (AFN in '000) -----	31 December 2021
<b>Cash flows from operating activities</b>			
Loss before tax		(671,097)	(169,005)
Adjustments for:			
Depreciation and amortisation	9 & 10	129,420	166,139
Reversal of impairment loss on loans and advances to customers	8.2	(93,720)	(6,059)
Impairment loss/ (gain) on placements	6 & 7	15,690	(9,874)
General provision on			
Other assets	12	(3,740)	3,947
Gain on disposal of property and equipment	22	(325)	(229)
Finance cost on lease liabilities	15.1	9,789	7,948
Grant income	25	(402)	(31,403)
		<u>(614,385)</u>	<u>(38,536)</u>
Changes in:			
Decrease in loans and advances to customers		1,775,529	435,353
Decrease/(increase) in other assets		(200,323)	240,479
(Decrease)/increase in deposits from customers		2,105,173	(839,504)
Increase in other liabilities		<u>(54,164)</u>	<u>51,440</u>
		3,011,830	(150,768)
Income tax paid		-	(27,885)
Grant received		17,520	31,403
<b>Net cash flows from/ (used in) operating activities</b>		<u>3,029,350</u>	<u>(147,250)</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(110,916)	(62,609)
Proceeds from disposal of property and equipment		385	2,412
Net investment in placements		<u>306,942</u>	<u>(395,137)</u>
<b>Net cash flows from / (used in) investing activities</b>		<u>196,411</u>	<u>(455,334)</u>
<b>Cash flows from financing activities</b>			
Repayment of lease liabilities	15.1	(64,094)	(25,452)
Addition to lease liabilities		85,720	-
Proceeds from loans and borrowings		-	810,529
Repayment of loans and borrowings		<u>(195,488)</u>	<u>(1,098,391)</u>
<b>Net cash used in financing activities</b>		<u>(173,862)</u>	<u>(313,314)</u>
Net increase in cash and cash equivalents		3,051,899	(915,898)
Cash and cash equivalents at beginning of the year		4,259,825	5,175,723
<b>Cash and cash equivalents at end of the year</b>	6	<u>7,311,724</u>	<u>4,259,825</u>

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

  
Chief Financial Officer

  
Chief Executive Officer

  
Chairman

**The First MicroFinance Bank - Afghanistan**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2022**

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**1. STATUS AND NATURE OF OPERATIONS**

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

The registered office of the Bank is situated in Kabul, Afghanistan. The Bank has 37 (2021: 38) branches in operation including 17 urban branches (2021: 17) and 20 rural / peri urban branches (2021: 21) in operation at the year end and employed 1,138 staff (2021: 1,418).

The financial statements for the year ended December 31, 2022 (including comparatives) have been approved and authorized for issue by the Board of Supervisors on March 16, 2023.

**2. STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standard Board (IASB), the Banking Laws and Regulations in Afghanistan and directives issued by the DAB. In case if the regulatory requirements differ with the requirements of IFRS, the provisions of applicable laws shall prevail.

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

**2.1 Basis of preparation**

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

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

**2.2 Use of significant accounting estimates and judgments**

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

The judgments, estimates and assumptions applied in the financial statements, including key sources of estimation uncertainty, were same as those applied in the Bank's last annual financial statements for the year ended 31 December 2021.

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

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**The First MicroFinance Bank - Afghanistan**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2022**

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

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

- References to the Conceptual Framework (Amendments to IFRS 3)
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

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

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

Standards, Interpretations and Amendments	Effective date (accounting periods beginning on or after)
- IFRS 17 Insurance Contracts	January 01, 2023
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current	January 01, 2024
- Definition of accounting estimates (Amendment to IAS 8)	January 01, 2023
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	January 01, 2023
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	January 01, 2023

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

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# **The First MicroFinance Bank - Afghanistan**

## **Notes to the Financial Statements**

**For the year ended 31 December 2022**

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### **3. FUNCTIONAL AND PRESENTATION CURRENCY**

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

### **4. USE OF ESTIMATES AND JUDGMENTS**

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

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

#### **4.1 Provision of income taxes**

The Bank recognizes tax liability in accordance with the provisions of Income Tax Law 2009. The final tax liability is dependent on assessment by Ministry of Finance, Government of Islamic Republic of Afghanistan.

#### **4.2 Useful life of property and equipment and intangible assets**

The Bank reviews the useful life, depreciation method and residual value of property and equipment (note 5.10) and intangible assets (note 5.11) at each statement of financial position date. Any change in estimates may affect the carrying amounts of the respective items of property and equipment and intangible assets with a corresponding effect on the depreciation / amortization charge.

#### **4.3 Impairment losses on financial instruments**

The banks accounting framework considers both the provision prescribed under local regulations in Afghanistan and management estimates of the expected credit loss.

The Bank maintains a general provision of 5% on standard loans in Microfinance and SME portfolio and 1% on standard Overdraft and Corporate loans in line with bank's own provisioning policy which is relatively higher than the regulatory requirements.

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

### **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in preparation of these financial statements are consistent with those followed in the preparation of the annual financial statements of the Bank for the year ended 31 December 2021.

#### **5.1 Cash and cash equivalents**

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

#### **5.2 Financial instruments**

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

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

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**5.2 Financial instruments (Contd...)**

**Classification and subsequent measurement of financial assets and financial liabilities**

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

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

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

**a) Classification, recognition and subsequent measurement of financial assets**

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

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

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

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

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

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

**b) Classification and subsequent measurement of financial liabilities**

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

**5.2.1 Impairment provision under local regulations**

**Loans and advances to customers**

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

- i) **Standard:** These are loans and advances, which are paying in a current manner and are supported by sound net worth and paying capability of the borrower. In terms of policy of the Bank for more prudent approach, a general risk based provision is maintained in the books of accounts at the rate of 5% (2021: 5%) of value of such loans and advances (microfinance and SMEs) and 1% (2021: 1%) on overdraft and corporate loans. However, as per Asset Classification and Provisioning Regulation (ACPR) issued by the DAB, 1% optional provision can be maintained of value of such loans and advances.
- ii) **Watch:** These are loans and advances which are adequately protected, but are potentially weak. All loans and advances where principal or interest payments are past due by 31 to 60 days are classified as watch-list. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification to Substandard. A provision is maintained @ 5% (2021: 5%) of value of such loans and advances as required under ACPR issued by the DAB.
- iii) **Substandard:** These are loans and advances which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral, if any, supporting it. Further, all microfinance loans and advances which are past due by 61 to 90 days and other loans past due by 61 to 120 days in case of for principal or interest payments are classified as "Substandard". A provision is maintained in the books of account @ 25% (2021: 25%) of value of such loans and advances as per ACPR issued by the DAB.
- iv) **Doubtful:** These are loans and advances which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. Further, all microfinance loans and advances which are past due by 91 to 180 days and other loans past due by 121 to 480 days for principal or interest payments are required to be classified as "Doubtful" as per the ACPR issued by DAB.

A provision is maintained in the books of account @ 50% (2021: 50%) of value of such loans and advances as per Bank's risk based approach.
- v) **Loss:** These are loans and advances which are not collectible and or such little value that their continuance as a bankable asset is not warranted. Further, all microfinance loans and advances which are past due over 180 days and other loans which are past due over 480 days for principal or interest payments are required to be classified as "Loss" as per the ACPR issued by DAB. Bank can maintain loss assets in the books for a period of 12 months after which the loans should be immediately written off against provisions made.
- vi) **Rescheduled:** Rescheduled loans and advances are provided as per provisioning policy of the bank which is aligned with the DAB regulations.
- vii) **Secured loans:** Bank has a blanket agreement with Afghanistan Credit Guarantee Foundation (ACGF) for securing the SME and Overdraft loans portfolio partially, as defined in the agreement, up to a maximum of 72% of the loan amount. As per DAB guidelines, Bank records provisioning against these loans to the extent of unsecured portion. Bank claim the loss from ACGF upon charging-off of the loan.

**Placements and other assets**

The Bank has a policy of maintaining general provision at 1% (2021: nil) on placements based on the review of the portfolio as allowed under DAB regulations.

# **The First MicroFinance Bank - Afghanistan**

## **Notes to the Financial Statements**

**For the year ended 31 December 2022**

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### **5.2.1 Impairment provision under local regulations (Contd...)**

#### **Off-balance sheet item**

The Bank has a policy of maintaining general provision at 1% (2021: nil) on off-balance sheet items based on the review of the portfolio as allowed under DAB regulations.

### **5.2.2 Disclosure under IFRS 9**

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

## **5.3 Financial liabilities**

The Bank classifies its financial liabilities in following categories.

### **a) Financial liabilities at fair value through profit or loss**

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

### **b) Other financial liabilities measured at amortized cost**

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

## **5.4 Fair value measurement**

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit and loss in an appropriate basis over the life of the instrument but no later than when valuation is wholly supported by observable market data or transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short position at an ask price.

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market risk or credit risk or measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

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

# The First MicroFinance Bank - Afghanistan

## Notes to the Financial Statements

For the year ended 31 December 2022

### 5.5 Operating fixed assets (Property and equipment)

#### 5.5.1 Recognition and measurement

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

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

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

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

#### 5.5.2 Subsequent costs

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

#### 5.5.3 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:

	2022	2021
Leasehold improvements	5 years	5 years
Furniture and fittings	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.

#### 5.5.4 IFRS 16 Leases

##### Leased assets

##### *The Bank as a Lessee*

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

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- The Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

**5.5.4 IFRS 16 Leases (Contd...)**

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

***Measurement and recognition of leases as a lessee***

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

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

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

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

Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in operating fixed assets and lease liabilities have been included as part of other liabilities.

***Extension options for leases***

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

**5.6 Intangible assets**

**5.6.1 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.

**The First MicroFinance Bank - Afghanistan**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2022**

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**5.7 Income tax**

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

**5.7.1 Current tax**

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

**5.7.2 Deferred tax**

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

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

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

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

**5.7.3 Tax exposures**

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

**5.8 Impairment of non-financial assets**

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

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

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

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

**5.9 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.

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# **The First MicroFinance Bank - Afghanistan**

## **Notes to the Financial Statements**

**For the year ended 31 December 2022**

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### **5.10 Provisions**

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

### **5.11 Financial guarantees**

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

### **5.12 Earnings per share (EPS)**

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

### **5.13 Interest**

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

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

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

### **5.14 Fees and commission**

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

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

### **5.15 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. *UHM*

**The First MicroFinance Bank - Afghanistan**

**Notes to the Financial Statements**

**For the year ended 31 December 2022**

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**5.16 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.

**5.16.1 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.

**5.16.2 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.

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**The First MicroFinance Bank - Afghanistan**  
**Notes to the Financial Statements**  
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**6 CASH AND CASH EQUIVALENTS**

	Note	31-Dec-2022 ----- (AFN in '000) -----	31-Dec-2021 -----
Cash on hand		1,903,134	411,221
Unrestricted balances with Da Afghanistan Bank	6.1	4,653,012	2,849,348
Balances with other banks	6.2	755,578	999,256
		<u>7,311,724</u>	<u>4,259,825</u>

**6.1 Unrestricted balances with Da Afghanistan Bank**

**Local currency**

Current accounts		3,412,438	804,955
Overnight deposit account	6.1.1	632,449	632,423
		<u>4,044,887</u>	<u>1,437,378</u>

**Foreign currency**

Current accounts	6.1.2	608,125	1,411,970
		<u>4,653,012</u>	<u>2,849,348</u>

**6.1.1** These balances are interest free (2021: 0%) per annum.

**6.1.2** These represent current accounts with Da Afghanistan Bank (DAB) in USD.

**6.2 Balances with other banks**

Transkapital - Russia		5,245	38,098
BMCE Bank International, Spain		687,794	897,807
AKTIF Bank, Turkey		44,507	52,921
CSCBank SAL		18,032	10,430
	6.2.1	<u>755,578</u>	<u>999,256</u>

**6.2.1** These balances are interest free (2021: Nil).

**7 SHORT TERM PLACEMENTS WITH BANKS**

Time deposits with other banks	7.2	1,640,356	1,947,298
Less: General provision held	7.3	(15,690)	-
		<u>1,624,666</u>	<u>1,947,298</u>

**7.1** This represents placements with foreign banks having maturity of 28 to 95 days (2021: 7 to 91 days) and carried interest rates ranging from 1% to 3.10% per annum (2021: 0.1% to 0.65%).

		31-Dec-2022 ----- (AFN in '000) -----	31-Dec-2021 -----
<b>7.2 Time deposits with other banks - net</b>			
Habib Bank Limited, Brussels	7.2.1	1,569,044	1,864,562
AKTIF Bank, Turkey	7.2.2	71,312	82,736
		<u>1,640,356</u>	<u>1,947,298</u>

**7.2.1** These deposits, held with the related party, have maturity of 92 to 95 days (2021: 28 days) and carry interest rates of 2.80% to 3.10% (2021: 0.60% to 0.65%) per annum.

**7.2.2** This deposit has maturity of 28 days (2021: 28 days) and carries interest rate of 1% (2021: 0.1%) per annum.

**7.3 Impairment on short-term placements**

The bank has maintained a provision of AFN 15,690 thousand (2021: Nil) based on Bank's provisioning policy and Assets Classification and Provisioning Regulation (ACPR) issued by DAB.

**First MicroFinance Bank - Afghanistan**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2022**

	Note	31-Dec-2022 ----- (AFN in '000) -----	31-Dec-2021 -----
<b>LOANS AND ADVANCES TO CUSTOMERS - NET</b>			
Loans and advances to customers	8.1	2,279,750	4,055,279
Less: Allowance for impairment loss on loans and advances to customers	8.2	(144,470)	(238,190)
		<u>2,135,280</u>	<u>3,817,089</u>

**8.1 Loans and advances to customers**

		31 December 2022			31 December 2021		
	Note	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		----- (AFN in '000) -----					
Microfinance loans	8.1.1	1,437,034	(116,470)	1,320,564	2,950,925	(205,251)	2,745,674
Loans to small and medium size enterprises (SME)	8.1.2	750,797	(24,332)	726,465	849,080	(30,217)	818,863
Overdraft/Corporate financing	8.1.3	91,919	(3,668)	88,251	255,274	(2,722)	252,552
		<u>2,279,750</u>	<u>(144,470)</u>	<u>2,135,280</u>	<u>4,055,279</u>	<u>(238,190)</u>	<u>3,817,089</u>

**8.1.1** Microfinance loans carry interest at rates ranging from 9% to 27% (2021: 9% to 27%) per annum. These loans are secured by various kind of properties and personal guarantees.

**8.1.2** Interest on loans to small and medium size enterprises (SMEs) is charged at the rates ranging from 10% to 23% (2021: 10% to 23%) per annum. These loans are secured by various kind of properties and personal guarantees.

**8.1.3** Overdraft financing carry interest rates ranging from 10% to 15% (2021: 10% to 15%) per annum. These loans are secured by different types of collaterals and personal guarantees.

**8.1.4** The Bank received approval for Islamic financing from the central bank in October 2022; accordingly, total portfolio of AFN 2.2bn includes a portfolio of AFN 156.1mn Islamic financing as well.

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**First MicroFinance Bank - Afghanistan**  
**Notes to the Financial Statements**  
**for the year ended 31 December 2022**

**8.2 Allowance for impairment loss on loans and advances to customers**

Note	31 December 2022			31 December 2021		
	Specific	General	Total	Specific	General	Total
	(AFN in '000)					
Opening	87,829	150,361	238,190	156,693	181,811	338,504
Charge for the year:						
Microfinance loans	(15,270)	(73,511)	(88,781)	12,284	(28,466)	(16,182)
Loans to small and medium size enterprises and overdrafts	(2,146)	(2,793)	(4,939)	13,107	(2,984)	10,123
	(17,416)	(76,304)	(93,720)	25,391	(31,450)	(6,059)
Written off against impairment allowance:						
Microfinance loans	-	-	-	(80,391)	-	(80,391)
Loans to small and medium size enterprises and overdrafts	-	-	-	(13,864)	-	(13,864)
	-	-	-	(94,255)	-	(94,255)
Closing	70,413	74,057	144,470	87,829	150,361	238,190

**8.2.1** Due to the economic crisis in the country, the repayment capacity of customers of the Bank has reduced during the year. As a result, the quality of loans of the Bank has deteriorated which required further impairment loss to be recognised against these loans under the "Asset Classification and Provisioning Regulation" by DAB. However, DAB vide letter no 11068/9588 dated 21 December 2021, instructed the Bank not to change the assets classification of loans and advances of the Bank from their status as of 30 June 2021. This relaxation has further extended up to 28 February 2023 through a circular Ref. No. 3101/3391 dated 29 September 2022. Hence, impairment loss on loans and advances of the Bank has been calculated on the basis of their status as of 30 June 2021, and no further provision has been made against those loans which subsequently did not perform well due to the current situation in the country. If DAB had not granted this relaxation to the Bank, the impairment allowance against loans and advances of the Bank would have been increased by AFN 1,308,453 thousands (net of ACGF share of loss (note 8.2.2) (2021: 1,082,966 thousands) for the year, resulting in increase in the loss before tax by the said amount.

**8.2.2** The Bank has obtain an insurance from a third party (ACGF) for a large portion of its SME and Corporate loans that will provide 72% of the principal amount in case of loan default. Subsequently, as per the agreement ACGF has secured the right to terminate the contract following the regime change which has impacted the overall economy of Afghanistan and FMFB-A loans performance. However, to maintain the relationship between ACGF and FMFB-A; both parties have signed a conditional amendment in Jan 2022 that allows FMFB-A to claim the qualified loans from ACGF after 540 days instead of 180 days and ACGF will go through a viability assessment of FMFB-A with help of an external party. Consequently, the viability assessment is completed with mostly positive comments from the external party; however, the main concern of the external party is capital injection whenever required after the relaxation is lifted by the central bank. The final viability assessment report will be shared with the Bank later by end of March 2023.

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# The First MicroFinance Bank - Afghanistan

## Notes to the Financial Statements

For the year ended 31 December 2022

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

8.2.4 As per the IFRS 9 ECL model, the expected credit losses on Loans and Advances amount to AFN 1,881,560 thousand (2021: AFN 3,475,961 thousand). IFRS 9 impact on cash and bank balances and placements is not material.

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

	Amount outstanding (AFN in '000)	Rate	Impairment allowance required as per ACPR (AFN in '000)	Rate	Impairment allowance held (AFN in '000)	Number of customers
<b>31 December 2022</b>						
<b>Classification - Microfinance Loans</b>						
Standard	1,344,167	1%	13,442	5%	67,244	26,860
Overdue:						
Watch-List	31,849	5%	1,592	5%	1,592	827
Substandard	7,892	25%	1,973	25%	1,973	163
Doubtful	14,929	50%	7,465	50%	7,464	310
Loss	38,197	100%	38,197	100%	38,197	833
	<b>1,437,034</b>		<b>62,669</b>		<b>116,470</b>	<b>28,993</b>
<b>Classification - Overdraft and SME Loans</b>						
Standard - SME Loans	626,479	1%	3,118	5%	16,847	185
Standard - Overdraft financing	81,689	1%	817	1%	817	2
Overdue:						
Watch-List - SME loans	9,251	5%	463	5%	463	6
Watch-List - Overdraft financing	-	5%	-	5%	-	-
Substandard - SME loans	8,789	25%	2,197	25%	2,197	7
Substandard - Overdraft financing	-	25%	-	25%	-	-
Doubtful - SME loans	85,116	50%	42,558	50%	42,558	15
Doubtful - Overdraft financing	-	50%	-	50%	-	-
Loss - SME loans	21,162	100%	21,162	100%	21,162	15
Loss - Overdraft financing	10,230	100%	10,230	100%	10,230	1
Reversal of provisioning on loans secured with ACGF			(55,067)		(66,274)	
	<b>842,716</b>		<b>25,478</b>		<b>28,000</b>	<b>231</b>
<b>Total</b>	<b>2,279,750</b>		<b>88,147</b>		<b>144,470</b>	<b>29,224</b>

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**The First MicroFinance Bank - Afghanistan**  
**Notes to the Financial Statements**  
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	Amount outstanding		Impairment allowance required as per ACPR		Impairment allowance held	Number of customers
	(AFN in '000)	Rate	(AFN in '000)	Rate	(AFN in '000)	
<b>31 December 2021</b>						
<b>Classification - Microfinance Loans</b>						
Standard	2,820,641	1%	28,206	4.98%	141,111	43,620
Overdue:						
Watch-List	50,965	5%	2,548	5%	2,586	1,078
Substandard	10,667	25%	2,667	25%	2,667	205
Doubtful	19,531	50%	9,766	50%	9,766	375
Loss	49,121	100%	49,121	100%	49,121	1,008
	<b>2,950,925</b>		<b>92,308</b>		<b>205,251</b>	<b>46,286</b>
<b>Classification - Overdraft and SME Loans</b>						
Standard - SME Loans	774,782	1%	4,944	5.00%	24,718	277
Standard - Overdraft financing	172,142	1%	4,526	1%	4,526	14
Overdue:						
Watch-List - SME loans	17,933	5%	897	5%	897	7
Watch-List - Overdraft financing	-	5%	-	5%	-	-
Substandard - SME loans	7,658	25%	1,915	25%	1,914	6
Substandard - Overdraft financing	2,615	25%	654	25%	654	1
Doubtful - SME loans	34,409	50%	17,205	50%	17,204	12
Doubtful - Overdraft financing	62,234	50%	31,117	50%	31,117	4
Loss - SME loans	14,298	100%	14,298	100%	14,298	13
Loss - Overdraft financing	18,283	100%	18,283	100%	18,283	3
Reversal of provisioning on loans secured with ACGF			(66,015)		(80,672)	
	<b>1,104,354</b>		<b>27,824</b>		<b>32,939</b>	<b>337</b>
<b>Total</b>	<b>4,055,279</b>		<b>120,132</b>		<b>238,190</b>	<b>46,623</b>

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**The First MicroFinance Bank - Afghanistan**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2022**

	Note	31-Dec-2022 ----- (AFN in '000)	31-Dec-2021 -----
<b>9. OPERATING FIXED ASSETS</b>			
Capital work-in-progress	9.1	48,068	5,022
Property and equipment	9.2	70,219	115,394
Right-of-use assets - Bank's branches	9.3	212,613	198,424
		<u>330,900</u>	<u>318,840</u>

**9.1 Capital work-in-progress**

Opening balance		5,022	24,614
Advances made during the year	9.1.1	43,046	8,692
Transfer to assets		-	(28,284)
Closing balance		<u>48,068</u>	<u>5,022</u>

9.1.1 This mainly includes the advance for Islamic banking window setup and module cost which is not yet completed.

**9.2 Property and equipment**

	Leasehold improvements	Furniture and fittings	Vehicles	Office equipments	Computer equipments	Total
	(AFN in '000)					
<b>Cost</b>						
Balance at 01 January 2021	109,693	43,270	24,192	161,282	116,353	454,790
Additions	4,079	1,884	-	12,415	2,636	21,014
Transfer from CWIP	-	-	-	4,966	-	4,966
Disposals	(164)	(223)	-	(798)	(689)	(1,874)
<b>Balance at 31 December 2021</b>	<b>113,608</b>	<b>44,931</b>	<b>24,192</b>	<b>177,865</b>	<b>118,300</b>	<b>478,896</b>
Balance at 01 January 2022	113,608	44,931	24,192	177,865	118,300	478,896
Additions	814	174	-	829	312	2,129
Disposals	(204)	(1,371)	(809)	(1,690)	(6,300)	(10,374)
<b>Balance at 31 December 2022</b>	<b>114,218</b>	<b>43,734</b>	<b>23,383</b>	<b>177,004</b>	<b>112,312</b>	<b>470,651</b>
<b>Depreciation</b>						
Balance at 01 January 2021	55,259	35,027	23,459	99,092	96,688	309,525
Charge for the year	13,949	3,369	438	24,330	13,731	55,817
Disposals	(164)	(215)	-	(791)	(670)	(1,840)
<b>Balance at 31 December 2021</b>	<b>69,044</b>	<b>38,181</b>	<b>23,897</b>	<b>122,631</b>	<b>109,749</b>	<b>363,502</b>
Balance at 01 January 2022	69,044	38,181	23,897	122,631	109,749	363,502
Charge for the year	13,609	2,970	294	23,554	6,817	47,244
Disposals	(199)	(1,369)	(808)	(1,680)	(6,258)	(10,314)
<b>Balance at 31 December 2022</b>	<b>82,454</b>	<b>39,782</b>	<b>23,383</b>	<b>144,505</b>	<b>110,308</b>	<b>400,432</b>
<b>Carrying amounts</b>						
Balance at 31 December 2021	44,564	6,750	295	55,234	8,551	115,394
<b>Balance at 31 December 2022</b>	<b>31,764</b>	<b>3,952</b>	<b>-</b>	<b>32,499</b>	<b>2,004</b>	<b>70,219</b>
<b>Depreciation rate</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>25%</b>	<b>33.33%</b>	

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**The First MicroFinance Bank - Afghanistan**  
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**For the year ended 31 December 2022**

	Note	31-Dec-2022 ----- (AFN in '000) -----	31-Dec-2021 -----
<b>9.3 Right-of-use assets - Bank's branches</b>			
Cost:			
Opening balance as on 01 January		349,977	322,040
Additions during the year		65,741	27,937
Adjustment for lease modification		-	-
Closing balance as on 31 December		<u>415,718</u>	<u>349,977</u>
Accumulated depreciation:			
Balance as of 01 January		151,553	81,788
Depreciation expense for the year		51,552	68,456
Adjustment for lease modification		-	1,309
Balance as at 31 December		<u>203,105</u>	<u>151,553</u>
<b>Carrying amount</b>		<u>212,613</u>	<u>198,424</u>
<b>9.4 Allocation of depreciation</b>			
Depreciation charge on property and equipment		47,244	55,817
Depreciation charge on right-of-use assets		51,552	68,456
Less: Amount classified under grant expense	25	<u>(402)</u>	<u>(840)</u>
		<u>98,394</u>	<u>123,433</u>
<b>10. INTANGIBLE ASSETS</b>			
Cost			
Opening		251,030	222,746
Transfer from CWIP		-	23,318
Additions		-	4,966
Closing		251,030	251,030
Amortisation			
Opening		(167,820)	(125,114)
Charge for the year		(31,026)	(42,706)
Closing		(198,846)	(167,820)
<b>Carrying amounts at 31 December</b>		<u>52,184</u>	<u>83,210</u>

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**For the year ended 31 December 2022**

**11. DEFERRED TAX ASSETS - NET**

**11.1 Movement in deferred tax balances**

	Net balance at 01 January	Recognised in profit or loss	Deferred tax liability	Deferred tax asset	Net balance at 31 December
	(AFN in '000)				
<b>2022</b>					
Property and equipment	(12,159)	6,573	(5,586)	-	(5,586)
Right-of-use assets	(39,685)	(2,838)	(42,523)	-	(42,523)
Intangibles	(10,011)	(426)	(10,437)	-	(10,437)
Short term placements with banks	-	3,138	-	3,138	3,138
General provision held on Other assets	849	(748)	-	101	101
Lease liabilities	36,248	6,283	-	42,531	42,531
Unutilised tax losses	30,935	123,106	-	154,041	154,041
	<u>6,177</u>	<u>135,088</u>	<u>(58,546)</u>	<u>199,811</u>	<u>141,265</u>
<b>2021</b>					
Property and equipment	(11,331)	(828)	(12,159)	-	(12,159)
Right-of-use assets	(48,050)	8,365	(39,685)	-	(39,685)
Intangibles	(12,114)	2,103	(10,011)	-	(10,011)
Impairment loss on placements	1,975	(1,975)	-	-	-
General provision held on Other assets	60	789	-	849	849
Lease liabilities	39,749	(3,501)	-	36,248	36,248
Unutilised tax losses	-	30,935	-	30,935	30,935
	<u>(29,711)</u>	<u>35,888</u>	<u>(61,855)</u>	<u>68,032</u>	<u>6,177</u>

**12. OTHER ASSETS**

Restricted deposits with DAB	12.1	715,881	477,407
Interest receivable		169,737	186,420
Prepayments		13,035	12,004
Receivable from Roshan against M-Paisa payments		11,907	34,731
Advances	12.2	7,964	5,333
Receivable from Afghanistan Payment System		15	1,438
Others		9,427	10,310
		<u>927,966</u>	<u>727,643</u>
Less: Allowance for impairment losses		(506)	(4,246)
		<u>927,460</u>	<u>723,397</u>

**12.1 Restricted deposits with DAB**

In local currency		240,028	86,543
In foreign currency		475,853	390,864
	12.1.1	<u>715,881</u>	<u>477,407</u>

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

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

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	Note	31-Dec-2022 ----- (AFN in '000) -----	31-Dec-2021 ----- (AFN in '000) -----
<b>13. DEPOSITS FROM CUSTOMERS</b>			
<b>Retail customers</b>			
Term deposits	13.1	57,749	76,823
Current deposits		960,177	901,074
Saving deposits	13.2	1,873,975	2,212,820
		<b>2,891,901</b>	<b>3,190,717</b>
<b>Corporate customers</b>			
Term deposits	13.3	-	750,000
Current deposits		4,938,133	2,779,951
Saving deposits	13.4	1,038,750	44,290
		<b>5,976,883</b>	<b>3,574,241</b>
Cash Margin		39,913	33,371
Dormant deposits		39,413	44,608
	13.5	<b>8,948,110</b>	<b>6,842,937</b>

- 13.1** The rate of interest on term deposits from retail customers ranges from 0.65% to 5.5% (2021: 1% to 4%) per annum.
- 13.2** The rate of interest on saving deposits other than those in Euro from retail customers is up to 0.5% (2021: up to 0.5%) per annum. Saving deposits in Euro are interest free.
- 13.3** There is no corporate fixed deposit placed with the bank in 2022 (2021: 5% to 6%) per annum.
- 13.4** The rate of interest on saving deposits other than those in Euros from corporate customers is 0.5% (2021: 0.5%) per annum. Saving deposits in Euro are interest free.
- 13.5** Deposits include AFN 1,554,515 thousands (2021: AFN 779,189 thousands) from related parties.
- 13.6** The Bank received approval for Islamic financing from the central bank in October 2022; accordingly, the total deposit of AFN 8,900,000 thousands includes a deposit of AFN 241,100 thousands as Islamic deposit.

	Note	31-Dec-2022 ----- (AFN in '000) -----	31-Dec-2021 ----- (AFN in '000) -----
<b>14. LOANS AND BORROWINGS</b>			
Loans and borrowings from:			
Ministry of Finance, Government of Afghanistan	14.1	104,129	119,016
Microfinance Investment Support Facility for Afghanistan	14.2	722,643	722,643
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V	14.3	234,473	315,074
Agricultural Development Fund	14.4	-	100,000
International Fund for Agricultural Development	14.5	694,019	694,019
		<b>1,755,264</b>	<b>1,950,752</b>

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		31-Dec-2022	31-Dec-2021
		----- (AFN in '000) -----	
<b>14.1 Ministry of Finance, Government of Afghanistan</b>			
FMFB Credit Line II	14.1.1	<u>104,129</u>	119,016
		<u>104,129</u>	<u>119,016</u>
<b>14.1.1</b>	On 29th October 2008, the Bank entered into another financing and project agreement (FMFB Credit Line II), for 15 years with 5 years grace period for principal repayment, between the above parties. The purpose of the credit line is to support the development of the Bank through the expansion of its lending business. The total principal of the facility agreed was Euro 4,000 thousands (equivalent AFN 264,480 thousands) at an annual interest rate of 5% per annum payable in arrears which was revised to 6% in 2017. (The repayment of loan started from June 2016, through 20 bi-annual installments). There has been payment of AFN 14,887 thousands during the year 2022.		
		31-Dec-2022	31-Dec-2021
	Note	----- (AFN in '000) -----	
<b>14.2 Microfinance Investment Support Facility for Afghanistan</b>			
MISFA II	14.2.1	162,500	162,500
MISFA III	14.2.2	90,000	90,000
MISFA/KfW IV	14.2.3	170,936	170,936
MISFA/KfW V	14.2.3	299,207	299,207
	14.2.4	<u>722,643</u>	<u>722,643</u>
<b>14.2.1</b>	The Bank signed a further loan agreement (MISFA II) via agreement No. M9102 dated 17th June 2012 with MISFA for an amount of AFN 500,000 thousands for a period of 10 years with 5 years grace period for principal repayment. The total facility was disbursed in four tranches as per the terms of the aforementioned agreement of AFN 212,000 thousand, AFN 38,000 thousand, AFN 100,000 thousand and AFN 150,000 thousand on 19th June 2012, 29th June 2013, 9th August 2012 and 25th November 2012, respectively. The purpose of the loan is to grow the microfinance and SME loan portfolio of Bank. This loan agreement carries interest rate of 6% per annum effective from 30th June 2012. The loan is repayable as per agreed upon repayment schedule with MISFA with the first installment starting from 30th June 2017, and was fully drawn on 25th November 2012.		
<b>14.2.2</b>	The Bank signed a further loan agreement (MISFA III) via agreement No. M9105 dated 20th March 2013 with MISFA for an amount of AFN 500,000 thousands for a period of 10 years with 5 years grace period for principal repayment. The total facility was disbursed in four tranches as per the terms of the aforementioned agreement of AFN 120,000 thousand, AFN 130,000 thousand, AFN 130,000 thousand and AFN 120,000 thousand on 2nd April 2012, 4th May 2013, 29th June 2013 and 5th August 2013, respectively. The purpose of the loan is to grow the microfinance and SME loan portfolio of Bank. This loan agreement carries interest rate of 6% per annum effective from 30th June 2013. The loan is repayable as per agreed term schedule with MISFA; the first installment starting from 30th June 2017, and was fully drawn on 5th August 2013.		
<b>14.2.3</b>	The Bank entered into a financing and project agreement for a period of 10 years with 5 years grace period for principal repayment amounting for Euro 7,750 thousand dated 19th December 2013 with Kreditanstalt für Wiederaufbau, Frankfurt am Main (KfW), the Islamic Republic of Afghanistan (IROA) represented by the Ministry of Finance (MOF) and Microfinance Investment Support Facility for Afghanistan Limited (MISFA). The loan was disbursed in 2 tranches, as agreed in a separate agreement dated 15th July 2014 between the Bank and KfW, on 17th March 2015 and 28th October 2017 of Euro 4,000 thousand (equivalent AFN 244,000 thousand) (MISFA/KfW IV) and Euro 3,750 thousand (equivalent AFN 299,000 thousand) (MISFA/KfW V), respectively, carrying financial charges at the rate of 6% per annum effective from 31st March 2015. Both tranches are repayable as per agreed upon schedule with MISFA starting from 31st March 2020 and 31st December 2022 respectively.		

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## Notes to the Financial Statements

For the year ended 31 December 2022

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

	Note	31-Dec-2022 ----- (AFN in '000) -----	31-Dec-2021 -----
<b>14.3 Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)</b>			
FMO I	14.3.1	42,714	85,409
FMO II	14.3.2	191,759	229,665
		<u>234,473</u>	<u>315,074</u>

**14.3.1** On 25 July 2017, the Bank signed a term loan agreement for an amount of USD 5,000 thousand (equivalent to AFN 341,708 thousand) with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) for a period of 5 years with 1 year grace period for principal repayment. The purpose of the loan is to extend SME and microfinance loans to eligible borrowers. The said loan was disbursed on 1st November 2017 having interest rate 4% + the weighted average rate for the last five 28 days capital notes as auctioned by Da Afghanistan Bank. The loan is repayable in eight installments starting from 15th January 2019 and ending on 15th July 2022. This loan is not secured. There has been payment of AFN 42,695 thousands during the year 2022.

**14.3.2** On 22 July 2019, the Bank signed a term loan agreement for an amount of EUR 3,500 thousand (equivalent to AFN 306,368 thousand) with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) for a period of 5 years with 1 year grace period for principal repayment. The purpose of the loan is to extend SME and microfinance loans to eligible borrowers. The said loan was disbursed on 12th August 2019 having interest rate of 4% + LIBOR. The loan is repayable in eight installments starting from 15th January 2021 and ending on 15th July 2024. This loan is not secured. There has been payment of AFN 37,906 thousands during the year 2022.

**14.4** A 5-year credit line of AFN 100,000 thousands was obtained from Agricultural Development Fund (ADF) through Ministry of Agricultural, Irrigation and Livestock of Afghanistan (MAIL) under the agreement number CID: 000205. The purpose of the facility is to fund agri-lending and provide access to credit for clientele in agricultural value chain. The credit line carries an interest rate of 6% per annum. The loan is repayable through 6 bi-annual installments and the principal repayment has two years grace period with 1st installment due on 22nd June 2023. 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. Also, the bank fully repaid a prior loan with ADF with a contract amount of 195,000 thousands. This loan is fully paid in 2022.

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

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**For the year ended 31 December 2022**

	Note	31-Dec-2022 ----- (AFN in '000) -----	31-Dec-2021 ----- (AFN in '000) -----
<b>15. OTHER LIABILITIES</b>			
Accrued expenses		108,371	136,536
Interest payable		26,206	67,387
Lease liabilities	15.1	212,655	181,240
Deferred grants	15.2	17,118	402
Withholding taxes payable		4,236	4,672
Payable to Afghanistan Payment System		2,839	3,451
Inter branch balance		15,182	7,682
All other liabilities		11,116	2,386
		<u>397,723</u>	<u>403,756</u>
<b>15.1 Lease liabilities</b>			
Opening balance as of 1 January		181,240	198,744
Additions during the year		65,740	-
Accrued finance cost		9,789	7,948
Principal repayment and interest payments		(64,094)	(25,452)
Adjustment for lease modification		19,980	-
		<u>212,655</u>	<u>181,240</u>
<b>15.2 Deferred grants</b>			
Balance at 01 January		402	1,242
Grants received during the year		17,117	-
Grant amortized during the year		(401)	(840)
Balance at 31 December		<u>17,118</u>	<u>402</u>

This represents grant received from (FMO) for implementing the Islamic banking functions.

	31-Dec-2022 ----- (AFN in '000) -----	31-Dec-2021 ----- (AFN in '000) -----
<b>16. SHARE CAPITAL</b>		
<b>Authorized</b>		
88,800 ordinary shares of AFN 9,016 each (2021: 88,800 of AFN 9,016)	<u>800,624</u>	<u>800,624</u>
<b>Paid up</b>		
88,288 ordinary shares of AFN 9,016 each (2021: 88,288 of AFN 9,016)	<u>796,008</u>	<u>796,008</u>

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16.1 The capital is contributed by the shareholders as follows:

	31-Dec-2022	31-Dec-2021	31-Dec-2022	31-Dec-2021
	---- Number of shares ----		----- (AFN in '000) -----	
Aga Khan Agency for Microfinance (AKAM)	34,784	34,784	310,646	310,646
Kreditanstalt für Wiederaufbau (KfW)	28,200	28,200	254,811	254,811
International Finance Corporation (IFC)	14,800	14,800	133,974	133,974
Aga Khan Foundation (AKF) USA	10,504	10,504	96,577	96,577
	<u>88,288</u>	<u>88,288</u>	<u>796,008</u>	<u>796,008</u>

16.2 The holder of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at the general meeting of the bank.

**17. CONTINGENCIES AND COMMITMENTS**

**17.1 Contingencies**

Outstanding bank guarantees

31-Dec-2022 31-Dec-2021  
----- (AFN in '000) -----

10,334 7,401

**17.2 Commitments**

Undrawn loan and overdraft facilities

20,822 30,763

**18. INTEREST INCOME**

Cash and cash equivalents

840 8,283

Placements

21,361 25,944

Loans and advances to customers

Loans to small and medium size enterprises

6,238 86,751

Microfinance loans

(695) 641,468

Interest on overdraft facility

16,367 37,156

21,910 765,375

44,111 799,602

**19. INTEREST EXPENSE**

Deposits from customers

18,245 49,186

Loans and borrowings

(8,911) 87,129

9,334 136,315

**20. FEE AND COMMISSION INCOME**

Loan processing fee

1,212 34,066

Bank charges relating to foreign remittances and other services

22,183 19,153

23,395 53,219

**21. FEE AND COMMISSION EXPENSE**

Bank charges

1,652 3,139

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	Note	31-Dec-2022 ----- (AFN in '000) -----	31-Dec-2021 -----
<b>22. OTHER INCOME/ (EXPENSE)</b>			
Unrealised exchange gain/(loss)		(60,034)	31,950
Receipts against claims with ACGF		-	52,634
Recovery of loans and advances written-off		53,142	33,867
Gain on disposal of property and equipment		325	229
Other miscellaneous income		1,522	1,757
		<u>(5,045)</u>	<u>120,437</u>
<b>23. PERSONNEL EXPENSES</b>			
Local staff	23.1	547,084	611,172
Expat staff	23.2	-	54,639
		<u>547,084</u>	<u>665,811</u>
Less: Grant related salaries and benefits	25	-	(1,843)
		<u>547,084</u>	<u>663,968</u>
<b>23.1 Local staff</b>			
Basic salary		445,103	473,551
Other benefits		101,981	137,621
		<u>547,084</u>	<u>611,172</u>
<b>23.2 Expat staff</b>			
Basic salary		-	38,627
Other benefits		-	16,012
		<u>-</u>	<u>54,639</u>
<b>24. OTHER EXPENSES</b>			
Consultancy fee		1,905	13,065
Office rent		5,196	4,309
Communication		49,028	56,039
IT maintenance and support costs		29,711	29,232
Generator fuel and maintenance		24,630	32,954
Insurance		32,216	61,994
Legal, professional and statutory fee		10,189	15,547
Auditors' remuneration	24.1	2,691	2,526
Office security		18,329	23,382
Office stationery and supplies		9,657	25,904
Other operating expenses		6,042	7,138
Repairs and maintenance		1,823	3,766
Travel and transportation		29,279	36,256
Director's expense		13,065	7,540
Trainings		634	1,586
Utilities		11,330	11,154
Marketing and promotional expenses		1,578	3,479
		<u>247,303</u>	<u>335,871</u>

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			31-Dec-2022	31-Dec-2021
		Note	----- (AFN in '000)	-----
<b>24.1</b>	<b>Auditors' remuneration</b>			
	Annual audit fee		2,424	2,217
	Interim review fee		267	309
			<u>2,691</u>	<u>2,526</u>
<b>25.</b>	<b>EXPENDITURE AGAINST GRANTS</b>			
	Consultancy fee		-	9,797
	IT Maintenance and support costs		-	18,923
	Depreciation and amortization	9.4	402	840
	Travel and Perdiem		-	1,843
			<u>402</u>	<u>31,403</u>
<b>26.</b>	<b>INCOME TAX</b>			
	<b>Current tax</b>			
	For the year		-	-
	Prior year		-	19,825
			<u>-</u>	<u>19,825</u>
	<b>Deferred tax expense/(reversal)</b>	11	<u>(135,088)</u>	<u>(35,888)</u>
			<u>(135,088)</u>	<u>(16,063)</u>
<b>27.</b>	<b>EARNINGS PER SHARE</b>			
	<b>Basic earnings per share</b>			
	Loss for the year attributable to ordinary shareholders (AFN '000)		(536,009)	(152,942)
	Weighted-average number of ordinary shares		88,288	88,288
	Basic earnings per share (AFN)		<u>(6,071)</u>	<u>(1,732)</u>
<b>28.</b>	<b>RELATED PARTIES</b>			
	Related parties of the Bank comprise of associates (including entities having directors in common with the Bank), major share holders, directors and key management personnel.			
<b>28.1</b>	<b>Parent and ultimate controlling entity</b>			
	Pattern of shareholding in the Bank is disclosed in note 16.1. to the financial statements wherein it is mentioned that Aga Khan Development Network entities collectively own 51% (2021: 51%) of the Bank's capital.			
			31-Dec-2022	31-Dec-2021
		Note	----- (AFN in '000)	-----
<b>28.2</b>	<b>Transactions with key management personnel</b>			
<b>28.2.1</b>	<b>Key management personnel compensation</b>			
	Short term employee benefits	28.2.1.1	<u>46,010</u>	<u>42,750</u>
<b>28.2.1.1</b>	Compensation of the Bank's key management personnel includes salaries and benefits.			

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**Notes to the Financial Statements**  
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**28.2.2 Related party transactions**

	Directors and other key management personnel (and close family members)		Shareholders and their associated companies	
	31-Dec-2022	31-Dec-2021	31-Dec-2022	31-Dec-2021
<b>Balances with related parties</b>	<b>----- (AFN in '000) -----</b>			
Balances with banks	-	-	-	-
Time deposits with banks	-	-	1,569,044	1,864,562
Advances	1,953	758	-	-
Deposits from customers	30,204	28,406	1,554,515	779,189
Cash Margin against guarantees issued	-	-	-	-
Loan to Telecom Development Company Afghanistan Limited (TDCA)	-	-	79,862	-
Receivable from Roshan against M-Paisa payments	-	-	11,907	34,731

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
	31-Dec-2022	31-Dec-2021	31-Dec-2022	31-Dec-2021
<b>Transactions with related parties</b>	<b>----- (AFN in '000) -----</b>			
Interest income	-	-	21,361	25,944
Fee and commission income	-	-	1,030	3,079
Fee and commission expense	-	-	2,378	4,834
Interest expense on deposits from customers	-	-	-	55
Directors' fee and other reimbursements	14,064	7,540	-	-

**28.2.2.1** 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.

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**29. FINANCIAL ASSETS AND LIABILITIES**

**Accounting classification of financial assets and financial liabilities and fair values**

Fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

		Debt investments at amortized cost	Other amortised cost	Total carrying amount	Fair value
	Note	(AFN in '000)			
31 December 2022					
Financial assets					
Cash and cash equivalents	6	7,311,724	-	7,311,724	7,311,724
Placements	7	1,624,666	-	1,624,666	1,624,666
Loans and advances to customers	8	2,135,280	-	2,135,280	2,135,280
Other assets	12	-	906,461	906,461	906,461
		11,071,670	906,461	11,978,131	11,978,131
Financial liabilities					
Deposits from customers	13	-	8,948,110	8,948,110	8,948,110
Loans and borrowings	14	-	1,755,264	1,755,264	1,755,264
Other liabilities	15	-	361,187	361,187	361,187
		-	11,064,561	11,064,561	11,064,561
31 December 2021					
Financial assets					
Cash and cash equivalents	6	4,259,825	-	4,259,825	6,207,123
Placements	7	1,947,298	-	1,947,298	-
Loans and advances to customers	8	3,817,089	-	3,817,089	3,817,089
Other assets	12	-	706,060	706,060	706,060
		10,024,212	706,060	10,730,272	10,730,272
Financial liabilities					
Deposits from customers	13	-	6,842,937	6,842,937	6,842,937
Loans and borrowings	14	-	1,950,752	1,950,752	1,950,752
Other liabilities	15	-	391,000	391,000	391,000
		-	9,184,689	9,184,689	9,184,689

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.

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# **The First MicroFinance Bank - Afghanistan**

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### **30. FINANCIAL RISK MANAGEMENT**

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

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

#### **Risk management framework**

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

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

#### **30.1 Credit risk**

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

##### **30.1.1 Credit risk measurement**

###### **Management of credit risk**

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

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

###### **Credit quality analysis**

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

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**30.1.1 Credit risk measurement (Continued---)**

	Note	31-Dec-2022 ----- (AFN in '000) -----	31-Dec-2021 -----
<b>Maximum exposure to credit risk</b>			
Carrying amount	8	2,135,280	3,817,089
<b>At amortised cost</b>			
Standard		1,892,678	3,743,463
Watch-list		38,793	65,636
Substandard		16,681	18,325
Doubtful		78,045	81,244
Loss		69,511	77,672
Rescheduled		184,042	68,939
Total gross amount		2,279,750	4,055,279
Allowance for impairment (individual and collective)		(144,470)	(238,190)
Net carrying amount		2,135,280	3,817,089
<b>Loans with renegotiated terms</b>			
Gross carrying amount		184,042	68,939
Allowance for impairment		(5,071)	(24,194)
Net carrying amount		178,971	44,745
<b>Neither past due nor impaired</b>			
Standard (low fair risk)		1,892,678	3,743,463
		1,892,678	3,743,463
<b>Individually impaired</b>			
Watch-list		38,793	65,636
Substandard		16,681	18,325
Doubtful		78,045	81,244
Loss and rescheduled		253,553	146,611
		387,072	311,816
<b>Allowance for impairment</b>			
Specific		70,413	87,829
General		74,057	150,361
Total allowance for impairment		144,470	238,190

**Impaired loans and advances**

See accounting policy - note 5.2.1

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.

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**30.1.1 Credit risk measurement (Continued---)**

**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 7,749,137 thousands at 31 December 2022 (2021: AFN 6,273,309 thousands).

**Collateral held and other credit enhancements**

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

	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
	31-Dec-2022	31-Dec-2021	
<b>Type of credit exposure</b>			
<b>Loans and advances to customers</b>			
Microfinance loans	61.85	71.93	Property
Microfinance loans - Group loans	-	-	None
Over draft	4.13	13.96	Property
Loans to small and medium size enterprises (SME)	34.02	14.11	Property

**Offsetting financial assets and financial liabilities**

No financial assets and financial liabilities have been set off during the year (2021: none).

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**1.2 Concentration of credit risk**

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

**Geographic sector**

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

	Cash and cash equivalents	Placements	Loans and advances to customers	Other assets	Total (on- balance sheet)	Contingencies and commitments	Total
	(AFN in '000)						
<b>31 December 2022</b>							
Afghanistan	-	-	2,135,280	190,580	2,325,860	31,156	2,357,016
Belgium	1,569,044	-	-	-	1,569,044	-	1,569,044
Kenya	-	-	-	-	-	-	-
Turkey	115,819	-	-	-	115,819	-	115,819
Spain	687,794	-	-	-	687,794	-	687,794
Russia	5,245	-	-	-	5,245	-	5,245
Lebanon	18,032	-	-	-	18,032	-	18,032
	<u>2,395,934</u>	<u>-</u>	<u>2,135,280</u>	<u>190,580</u>	<u>4,721,794</u>	<u>31,156</u>	<u>4,752,950</u>
<b>31 December 2021</b>							
Afghanistan	-	-	3,817,089	706,060	4,523,149	38,164	4,561,313
Belgium	1,864,562	-	-	-	1,864,562	-	1,864,562
Kenya	-	-	-	-	-	-	-
Turkey	135,657	-	-	-	135,657	-	135,657
Spain	897,807	-	-	-	897,807	-	897,807
Russia	38,098	-	-	-	38,098	-	38,098
Lebanon	10,430	-	-	-	10,430	-	10,430
	<u>2,946,554</u>	<u>-</u>	<u>3,817,089</u>	<u>706,060</u>	<u>7,469,703</u>	<u>38,164</u>	<u>7,507,867</u>

**Industry sector**

The following table breaks down the Bank's main credit exposure at their carrying amount, as categorised by industry sector as of 31 December 2022.

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**1.2 Concentration of credit risk (Continued---)**

Concentration of credit risk (Continued---)		Banks	Agriculture	Telecom	Trade	Others	Total
	Note	----- (AFN in '000) -----					
<b>31 December 2022</b>							
Cash and cash equivalents	6	755,578	-	-	-	-	755,578
Placements	7	1,640,356	-	-	-	-	1,640,356
Loans and advances to customers	8	-	262,863	135,140	196,384	1,540,893	2,135,280
Other assets	12	-	-	11,907	-	178,673	190,580
Contingencies and commitments	17	-	-	-	-	31,156	31,156
		<u>2,395,934</u>	<u>262,863</u>	<u>147,047</u>	<u>196,384</u>	<u>1,750,722</u>	<u>4,752,950</u>
<b>31 December 2021</b>							
Cash and cash equivalents	6	999,256	-	-	-	-	999,256
Placements	7	1,947,298	-	-	-	-	1,947,298
Loans and advances to customers	8	-	879,377	44,885	1,307,298	1,585,529	3,817,089
Other assets	11	-	-	34,731	-	671,329	706,060
Contingencies and commitments	17	-	-	-	-	38,164	38,164
		<u>2,946,554</u>	<u>879,377</u>	<u>79,616</u>	<u>1,307,298</u>	<u>2,295,022</u>	<u>7,507,867</u>

**1.2.1 Impaired loans and advances**

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

**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.

**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.

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**2.1 Management of liquidity risk (Continued...)**

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.

**2.2 Exposure to liquidity risk**

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

	31-Dec-2022	31-Dec-2021
At 31 December	106.15%	103.42%
Average for the period	87.26%	84.53%
Maximum for the period	106.15%	103.42%
Minimum for the period	79.89%	77.16%

**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) -----								
<b>31 December 2022</b>								
<b>Financial liabilities</b>								
Deposits from customers	13	(6,842,937)	(6,777,487)	(2,339)	(28,825)	(2,550)	(31,736)	8,948,110
Loans and borrowings	14	(1,950,752)	(57,209)	(62,934)	(331,872)	(895,304)	(603,433)	1,755,264
Other liabilities	15	(353,069)	(134,577)	(5,837)	-	(212,655)	-	361,187
		<u>(9,146,758)</u>	<u>(6,969,273)</u>	<u>(71,110)</u>	<u>(360,697)</u>	<u>(1,110,509)</u>	<u>(635,169)</u>	<u>11,064,561</u>
<b>31 December 2021</b>								
<b>Financial liabilities</b>								
Deposits from customers	13	(6,842,937)	(6,777,487)	(2,339)	(28,825)	(2,550)	(31,736)	6,842,937
Loans and borrowings	14	(1,950,752)	(57,209)	(62,934)	(331,872)	(895,304)	(603,433)	1,950,752
Other liabilities	15	(391,000)	(203,923)	(5,837)	-	(181,240)	-	391,000
		<u>(9,184,689)</u>	<u>(7,038,619)</u>	<u>(71,110)</u>	<u>(360,697)</u>	<u>(1,079,094)</u>	<u>(635,169)</u>	<u>9,184,689</u>

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**12.3 Maturity analysis for financial liabilities (Continued...)**

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

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

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

	Note	31-Dec-2022 ----- (AFN in '000) -----	31-Dec-2021 ----- (AFN in '000) -----
<b>Financial assets</b>			
Loans and advances to customers	8	<u>1,117,384</u>	<u>1,997,470</u>
<b>Financial liabilities</b>			
Loans and borrowings	14	<u>1,133,397</u>	<u>1,448,303</u>

**13 Market risk**

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

**13.1 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.

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**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.

			Interest bearing					Not interest bearing	Carrying amount	
Note	Interest rates (p.a)	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total			
----- (AFN in '000) -----										
31 December 2022										
Financial assets										
Cash and cash equivalents	6	1% to 3.10%	1,624,666	-	-	-	-	1,624,666	5,687,058	7,311,724
Loans and advances to customers	8	9% to 27%	266,983	192,636	558,277	1,117,250	134	2,135,280	-	2,135,280
Other assets	12		-	-	-	-	-	-	906,461	906,461
Total financial assets			1,891,649	192,636	558,277	1,117,250	134	3,759,946	6,593,519	10,353,465
Financial liabilities										
Deposits from customers	13	0.5% to 5.5%	11,053	19,768	-	26,928	-	57,749	8,890,361	8,948,110
Loans and borrowings	14	0.5% to 6%	481,212	48,047	92,608	912,000	221,397	1,755,264	-	1,755,264
Other liabilities	15		-	-	-	-	212,655	212,655	148,532	361,187
Total financial liabilities			492,265	67,815	92,608	938,928	434,052	2,025,668	9,038,893	11,064,561
Total interest rate gap			1,399,384	124,821	465,669	178,322	(433,918)	1,734,278	(2,445,374)	(711,096)

Note	Interest rates (p.a)	Interest bearing					Total	Not interest bearing	Carrying amount	
		Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years				
		(AFN in '000)								
31 December 2021										
Financial assets										
Cash and cash equivalents	6	0.05% to 2.45%	1,947,298	-	-	-	-	1,947,298	2,312,527	4,259,825
Loans and advances to customers	8	6.6% to 27%	477,266	344,361	997,992	1,997,230	240	3,817,089	-	3,817,089
Other assets	12		-	-	-	-	-	-	706,060	706,060
Total financial assets			2,424,564	344,361	997,992	1,997,230	240	5,764,387	3,018,587	8,782,974
Financial liabilities										
Deposits from customers	13	0.5% to 4.5%	2,173,325	2,339	28,825	2,550	31,737	2,238,776	4,604,161	6,842,937
Loans and borrowings	14	0.5% to 6%	263,363	62,933	176,153	927,358	520,945	1,950,752	-	1,950,752
Other liabilities	15		-	-	-	-	181,240	181,240	209,760	391,000
Total financial liabilities			2,436,688	65,272	204,978	929,908	733,922	4,370,768	4,813,921	9,184,689
Total interest rate gap			(12,124)	279,089	793,014	1,067,322	(733,682)	1,393,619	(1,795,334)	(401,715)

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**3.3 Exposure to currency risk**

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

	Note	AFN	USD	EUR	Total	Others	Carrying amount
<b>31 December 2022</b>							
<b>Financial assets</b>							
Cash and cash equivalents	6	4,758,630	2,267,241	285,853	7,311,724	-	7,311,724
Placements	7	-	1,624,666	-	1,624,666	-	1,624,666
Loans and advances to customers	8	1,875,488	259,791	-	2,135,280	-	2,135,280
Other assets	12	430,609	451,508	24,344	906,461	-	906,461
Total financial assets		7,064,727	4,603,206	310,197	11,978,131	-	11,978,131
<b>Financial liabilities</b>							
Deposits from customers	13	4,591,123	4,099,275	257,712	8,948,110	-	8,948,110
Loans and borrowings	14	1,755,264	-	-	1,755,264	-	1,755,264
Other liabilities	15	196,834	154,629	9,724	361,187	-	361,187
Total financial liabilities		6,543,221	4,253,904	267,436	11,064,561	-	11,064,561
<b>Net position</b>		<b>521,506</b>	<b>349,302</b>	<b>42,761</b>	<b>913,570</b>	<b>-</b>	<b>913,570</b>
<b>31 December 2021</b>							
<b>Financial assets</b>							
Cash and cash equivalents	6	1,820,756	1,710,260	728,809	4,259,825	-	4,259,825
Placements	7	-	1,947,298	-	1,947,298	-	1,947,298
Loans and advances to customers	8	3,530,100	286,989	-	3,817,089	-	3,817,089
Other assets	12	319,935	314,647	71,478	706,060	-	706,060
Total financial assets		5,670,791	4,259,194	800,287	10,730,272	-	10,730,272
<b>Financial liabilities</b>							
Deposits from customers	13	2,273,364	3,821,844	747,729	6,842,937	-	6,842,937
Loans and borrowings	14	1,950,752	-	-	1,950,752	-	1,950,752
Other liabilities	15	147,743	236,623	6,634	391,000	-	391,000
Total financial liabilities		4,371,859	4,058,467	754,363	9,184,689	-	9,184,689
<b>Net position</b>		<b>1,298,932</b>	<b>200,727</b>	<b>45,924</b>	<b>1,545,583</b>	<b>-</b>	<b>1,545,583</b>

**Sensitivity analysis**

A 16% and 22% of strengthening of the Afghani, against the USD and Euro at 31 December 2022 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.

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

	2022		2021	
	Equity	Profit or loss	Equity	Profit or loss
	(AFN in '000)			
USD	(27,944)	(34,930)	(17,644)	(22,055)
Euro	(3,421)	(4,276)	(3,674)	(4,592)

A 10% weakening of the Afghani against the above currencies at 31 December 2022 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.

**4 Operational and business risk**

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

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**The First MicroFinance Bank - Afghanistan**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2022**

**30.5 Capital management**

**Regulatory capital**

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

- Tier 1 or core capital, consisting of the highest quality capital elements that fully meet all the essential characteristics of capital; to be 6% of risk weighted assets.
- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank as a going concern.
- Regulatory capital is the sum of Tier 1 and Tier 2 capital; Tier 2 capital cannot exceed the amount of Tier 1 capital.

The Bank's regulatory capital position at 31 December 2022 was as follows:

	31-Dec-2022	31-Dec-2021
	----- (AFN in '000) -----	
<b>Regulatory Capital</b>		
<b>Tier 1 capital</b>		
Total equity capital	1,422,382	1,958,391
Less: Intangible assets	(52,184)	(83,210)
Less: Profit for the year	-	-
<b>Total tier 1 (core) capital</b>	<u>1,370,198</u>	<u>1,875,181</u>
<b>Tier 2 (Supplementary) Capital:</b>		
General loss reserves on credits as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposures	37,921	57,171
Add: Profit for the year	-	-
<b>Total tier 2 (supplementary) capital</b>	<u>37,921</u>	<u>57,171</u>
<b>Total Regulatory capital = Tier 1 + Tier 2</b>	<u>1,408,119</u>	<u>1,932,352</u>
<b>Risk-weighted assets</b>		
<b>On-balance sheet</b>		
<b>0% risk weight:</b>		
Cash in Afghani and fully-convertible foreign currencies	1,903,134	411,221
Direct claims on DAB	5,368,893	3,326,755
Loans guaranteed by development institutions	411,593	647,682
<b>Total</b>	<u>7,683,620</u>	<u>4,385,658</u>
0% risk-weight total (above total x 0%)	<u>-</u>	<u>-</u>
<b>20% risk weight:</b>		
Balances with banks operating in category A countries	2,256,839	2,762,369
Direct claims in non-category A countries	139,096	184,185
Loans guaranteed by development institutions	-	-
<b>Total</b>	<u>2,395,935</u>	<u>2,946,554</u>
20% risk-weight total (above total x 20%)	<u>479,187</u>	<u>589,311</u>
<b>100% risk weight:</b>		
All other assets	2,604,590	4,066,060
Less: intangible assets	(52,184)	(83,210)
All other assets - net	<u>2,552,406</u>	<u>3,982,850</u>
100% risk-weight total (above total x 100%)	<u>2,552,406</u>	<u>3,982,850</u>

**The First MicroFinance Bank - Afghanistan**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2022**

**30.5 Capital management (Continued....)**

	31-Dec-2022	31-Dec-2021
	----- (AFN in '000) -----	
<b>Off-balance sheet</b>		
<b>0% risk weight:</b>		
Guarantees issued	-	-
Undrawn loan and overdraft facilities	20,822	30,763
0% credit conversion factor total (risk-weighted total x 0%)	-	-
0% risk-weight total (above total x 0%)	-	-
<b>20% risk weight:</b>		
Guarantees issued	10,334	7,401
20% credit conversion factor total (risk-weighted total x 20%)	2,067	1,480
<b>100% risk weight:</b>		
Guarantees	-	-
100% credit conversion factor total (risk-weighted total x 100%)	-	-
100% risk-weight total (above total x 100%)	-	-
<b>Total risk-weighted assets</b>	<b>3,033,660</b>	<b>4,573,641</b>
<b>Tier 1 Capital Ratio</b>		
(Tier 1 capital as % of total risk-weighted assets)	45.2%	41.0%
<b>Regulatory Capital Ratio</b>		
(Regulatory capital as % of total risk-weighted assets)	46.4%	42.2%

**31. CORRESPONDING FIGURES**

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

**32. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorized for issue on 16/03/23 by the Board of Supervisors of the Bank.

**33. GENERAL**

Figures have been rounded off to the nearest thousand. *u.m.*

  
 Chief Financial Officer

  
 Chief Executive Officer

  
 Chairman