AIB

بانک بین المللی
افغانستان

Afghanistan
International Bank

Annual Report 2019
Your partner for growth.

Committed to the prosperity and future of Afghanistan

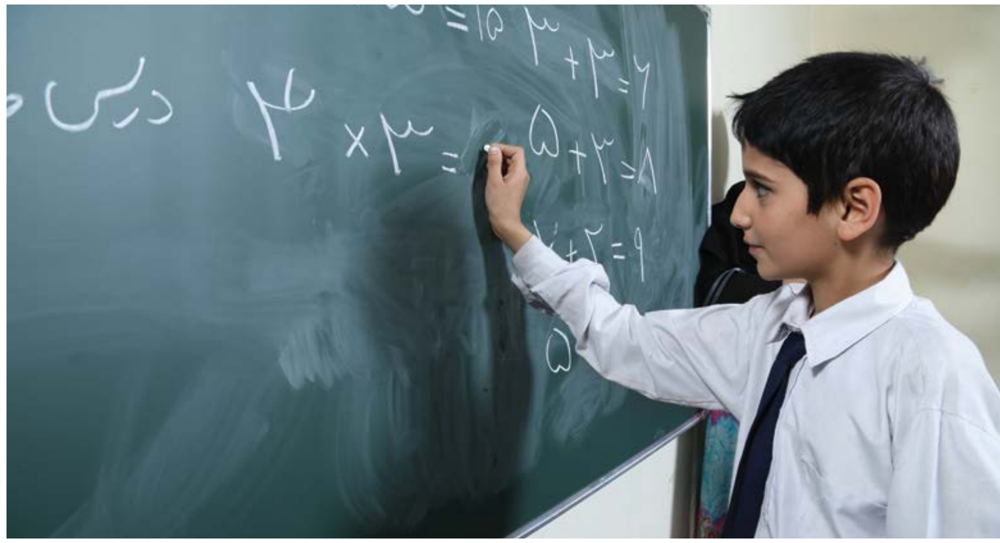
Bank of the Year
2012, 2013, 2014, 2015, 2016, 2017, 2018, and 2019
Afghanistan

Best Corporate Governance
2014, 2015, 2016, 2017, 2018, and 2019
Afghanistan

Our Story

From inception in 2004, Afghanistan International Bank's major objective has been to assist in developing the Afghan economy and to conduct business in accordance with international standards of governance and integrity. The many awards received from authoritative industry bodies is independent endorsement of AIB's success in achieving its goals, notably being named The Banker magazine's 'Bank of the Year, Afghanistan' for eight consecutive years from 2012 to 2019.

AIB is now well-established as an industry leader, and widely acknowledged to be the nation's most respected and trusted financial institution. Its growth as an enduring institution combines international expertise with intimate local knowledge and a deep-rooted understanding of customer needs.



Our Vision

We aspire to remain the most reputable financial institution and bank of choice in Afghanistan.

Our Mission

Our mission is to foster economic development in Afghanistan, to be a catalyst for growth, and ultimately contribute to the prosperity of the country and its people.

We strive to adhere to international best practices in corporate governance, financial and risk management (including anti-money laundering and 'know your customer'), customer service, operations, information technology, and internal controls. A major factor in our success is dedication to staff development and training within a culture of integrity and professionalism.

Our Future

Through our financial performance and the specific investments we have made in our people and infrastructure, AIB has become a positive emblem for achievement and transformation, despite its challenging environment.

As we look ahead to our tenth anniversary we remain committed to enabling a better future for Afghanistan, and we are proud to play a role in shaping the opportunities that lie ahead.

Chairman's Statement

> Notwithstanding the difficult environment AIB operates in, I am proud to say that the bank has performed well over the past ten years thanks to the support of all stakeholders: shareholders, Board directors, customers and employees. Let me devote my last message to a review of the past ten years and a view of the future of the Bank for the next several years.

Ronald Stride
Chairman

As the old saying goes "all good things must come to an end". At the Annual General Meeting in March 2020, my tenure as an independent director and Chairman of the Board of Supervisors of Afghanistan International Bank will come to an end. This is due to a ten year term limit for independent directors as prescribed in the Bank's Articles of Association. Accordingly, this message will be my last! Notwithstanding the difficult environment AIB operates in, I am proud to say that the bank has performed well over the past ten years thanks to the support of all stakeholders: shareholders, Board directors, customers and employees. Let me devote my last message to a review of the past ten years and a view of the future of the Bank for the next several years.

The macro situation in Afghanistan in the past decade

When I joined the Board of AIB in late 2009, the banking system in Afghanistan was in a period of relative political and security stability and increased business confidence. This drove a positive scenario of enhanced business investment and corresponding growth in the banking system. However, three factors negatively impacted this scenario over time. The first was in 2011 involving the financial scandal and subsequent takeover by the central bank of Kabul Bank, the largest bank in the country at the time. The second factor was the resurgence of the Taliban and entry of the Islamic State (ISIS) in Afghanistan resulting in security and economic volatility. The third factor was the failure of the political elite to address the issues facing the country. Hence, at the point of entering a new decade, the banking system is actually shrinking in size.

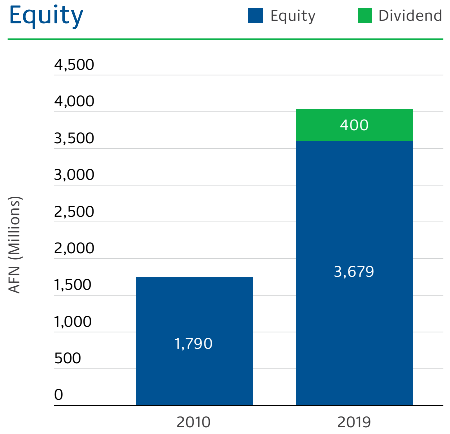
How did AIB do over this period

In the decade since 2010 AIB has been a stable and financially sound institution as illustrated in the charts below. Today, AIB is the leading bank in Afghanistan in terms of deposits, profits and reputation.

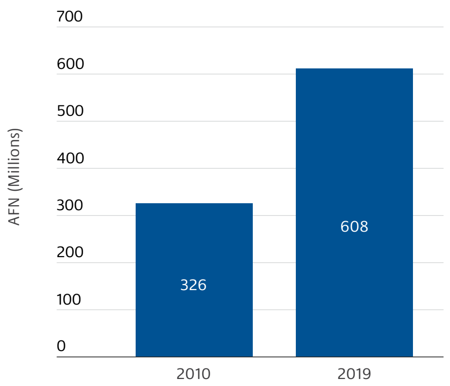
This distinction is attributable to the Bank's consistent improvement in operational performance; organizational and human resource development; commitment to integrity and transparency in our dealings with customers, counterparties and regulators; strong corporate governance at all levels, and financially stability and satisfactory returns to our shareholders. The only part of the Bank's performance profile that has not grown over the years is lending; however, this is attributable to low economic activity and the poor creditworthiness of many Afghan companies.

> "Today, AIB is the leading bank in Afghanistan in terms of deposits, profits and reputation."

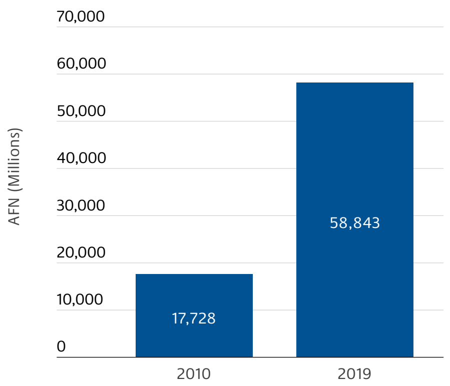
Equity



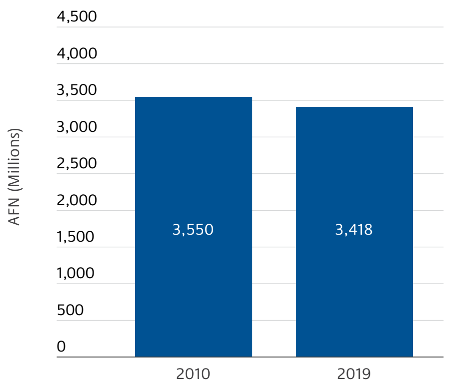
Net Profit



Customer Deposits



Advances



Some of the major developments that have helped AIB to achieve the distinction of becoming the leading bank in the country are:

- The purchase of the Afghanistan branch of Standard Chartered Bank in 2012. This transaction brought a large number of customers from multilateral institutions to AIB and established AIB's reputation for operations' excellence and good governance. Much of the business is deposits and wire transfers which provides a solid base of fee income.
- The minority ownership of the Bank by the Asian Development Bank (ADB) and, upon ADB's planned exit in 2016, the subsequent partial ownership by the International Finance Corporation (IFC), the private sector arm of the World Bank. Involvement in the ownership of AIB by these multilateral organizations has benefitted the Bank in many ways, the most important being the reputational halo effect of their participation and the good governance principles they bring to the Bank.
- The ability to maintain correspondent relationships with leading banks for US dollar clearing purposes. These correspondent relationships have allowed AIB to be the dominant payments processor for international transactions. This is another factor in the strong fee-based business AIB enjoys.
- Achieving world class standards in anti-money laundering and financial crimes compliance. Banks around the world are now held responsible for their ability to identify suspicious financial activity. AIB has invested large amounts of resources, time and money to establish an international level of performance in this area.
- Befitting of AIB's position, the completion of the head office building in 2018 after experiencing many unavoidable construction delays. This building, built to international standards, reflects the image of leadership that the Bank has in the country.
- Recognition of performance by outside organizations. For eight consecutive years, The Banker magazine has awarded AIB "Best Bank in Afghanistan". For the sixth consecutive year AIB has been the recipient of the "Best Corporate Governance – Afghanistan" award by the prestigious London-based Capital Finance International organization.
- Adherence to international standards of good governance. Thanks to the shareholders, management and staff, AIB has instituted international best practices in governance throughout the organization. This has inculcated a cultural of conducting the decision-making affairs of the Bank in a planned and orderly manner.

As the above section demonstrates, AIB is well-positioned for the future barring any unforeseeable events.

The future

AIB recently completed a strategic forecast for the period through 2022. Not surprisingly, the conclusion of the plan is business as usual based on the overall conditions we foresee in the country, that is, some progress in addressing the political, economic and security issues, but insufficient to change business sentiment over the next two years. Highlights of the plan are:

- Maintain high quality service and US dollar clearing for corporate and institutional customers. This initiative requires the Bank to maintain/increase the number of correspondent banks who will serve us.
- Increase penetration in small business and consumer banking segments for future positioning as these segments grow over time.
- Improve operational efficiencies through investment in automation and re-engineering.
- Obtain/maintain international standards (BSA) in compliance.
- From a financial perspective, the Bank plans to achieve a 15% Return on Equity, a Capital Adequacy Ratio of 14% (above regulatory requirements), and Cost to Income ratio of 60%.

In departing from my position at AIB, I would like to thank the shareholders and all the directors, past and present, who have contributed their time and energy to helping AIB to become a superior financial institution. Special thanks to Aditya Srivastava, who, after seven years on the Board, is also stepping down in March, 2020. Finally, to the management and staff of AIB, I appreciate the dedication you have shown in a difficult environment to help AIB achieve its objectives.

Chairman's concluding remarks

A last minute note. On February 29th, the Taliban and the United States signed a peace deal after 18 years of fighting between the two sides. Hopefully, this will lead to a permanent political agreement between the Afghanistan government and the Taliban and the beginning of a positive economic environment in Afghanistan. This will obviously be beneficial to the country and it's people, business sentiment, and the banking industry.

Ronald Stride
Chairman

A thank you to Mr. Ronald Stride

2019 marks the final full year of Ronald Stride's tenure as Chairman and Independent Supervisor of AIB. In March 2020, the Chairman will hand over the reigns of the board to his successor after serving in the role for 10 years, which is the term limit for an independent director of an Afghan bank. Over this period Mr. Stride has led the bank from strength to strength, becoming the leading bank in Afghanistan – AIB has been recognized The Banker's Bank of The Year in Afghanistan for 8 consecutive years from 2012-2019.

One of the keys to AIB's success has been governance and this is embodied in the chairmanship of Mr. Stride. He focused tirelessly on recruiting a professional board, having well prepared and efficiently run meetings, carefully managing conflicts of interest, and making sure all decisions of the board are made with integrity. As a strong steward of AIB, the chairman has made sure that AIB complies with the laws of Afghanistan and the regulations of Da Afghanistan Bank. This focus on governance has been essential in making AIB the strong institution it is today.

Mr. Stride also led the bank through a number of transformational changes. He was chairman when AIB acquired Standard Chartered's Afghanistan branch and when IFC acquired a shareholding in the bank. He oversaw the decision to construct AIB's new headquarters in Kabul, which is truly a new landmark in Afghanistan. He managed the transition of three CEO's of the bank and the hiring of new board members and audit committee members. He also kept the bank focused through a number of shareholder changes.

Throughout his tenure the supervisors and shareholders have enjoyed serving alongside Mr. Stride and appreciate the hard work and dedication he has put in to building such a strong pillar for the economy of Afghanistan. We wish him every happiness and success in the future.

Shareholders and Board of Supervisors
Afghanistan International Bank

CEO's Management Review

2019 was another successful year for Afghanistan International Bank (AIB), demonstrating the benefit of our conservative posture and our focus on the highest standards of governance. Our bank has now experienced this environment for the past 5 years and has been able to deliver strong results in this context.

Anthony Barned
Chief Executive Officer

2019 was another successful year for Afghanistan International Bank (AIB) in an unsympathetic macroeconomic environment, demonstrating the benefit of our conservative posture and our focus on the highest standards of governance. Our bank has now experienced this environment for the past 5 years and has been able to deliver strong results in this context. This continued in 2019 with a return on equity of 16.53% and profitability in line with expectation. Ongoing uncertainty regarding political and security matters saw moderate declines in balance sheets across the banking industry against 2018 levels, and whilst AIB's balance sheet did experience a decline we remain extremely well capitalised and liquid by international standards.

"Within the country, the government continues to place an emphasis on infrastructure development."

Overview

I am pleased to report revenue increased by 14.01% to AFN 2.85 billion (2018: AFN 2.50 billion), with non-interest income accounting for 52% of total revenue. The growth was driven by a 9.13% increase in outward international transfers fee to AFN 512 million from AFN 469 million in 2018. The volume of outward transfers grew to 24,178 transactions, while AIB also received 35,772 inward transfers totalling AFN 331 billion. This growth was principally a factor of increased market share rather than an increase in aggregate international transfers. These transactions underline the value of strong correspondent partnerships and sound regulatory compliance.

AIB's deposits at year end decreased 11.93% AFN 59.34 (2018: AFN 67.38 billion) but market share remained essentially unchanged. Given AIB's strong liquid position we found it unnecessary to compete for deposits based on interest rates.

In line with the fall in deposits assets also decreased by 11.14% to AFN 63.73 billion (2018: AFN 71.72 billion), bringing compound annual asset growth since 2012 to 4.73%, which we consider a strong performance in the context, given the withdrawal of international missions and their associated assets.
AIB remains the largest bank in Afghanistan in terms of both deposits, assets and profitability.

Within the country, the government continues to place an emphasis on infrastructure development. The financing is generally from international donors, and whilst AIB's resources are too small to participate directly, we are able to provide performance guarantees backed by inward letters of credit from international banks. These totalled AFN 2.23 billion relating to 79 projects in addition to AFN 5.7 billion we have provided in previous years.

Active management of the Bank's bond portfolio contributed to growth, generating revenue of AFN 0.59 billion. Total revenue was also assisted by the liquidation of real estate collateral for AFN 46 million, even though loan recovery was negatively affected by the arduous and very lengthy process for foreclosure and obtaining vacant possession. Commercial lending was subdued throughout the year.

Operating expenses increased by 10% as was anticipated when preparing the budget, and largely driven by depreciation of the new Head Office building.

With both revenues and expenses being in line with budget, the Bank was able to achieve a 3.95% increase in pre-tax profit to AFN 0.67 billion (2018: AFN 0.64 billion). Net profit showed an increase of 21% to AFN 0.61 billion (2018: AFN 0.48 billion).

New Head Office

As discussed, Afghanistan's efforts to establish a stable political and security environment continue with some signs of hope but overall limited success thus far.

In this context, AIB is setting a new standard in the quality of our Head Office and branches. 2019 saw us complete the transition to our Head Office which is built to international standards regarding safety, comfort and productivity, and access for physically impaired staff and customers.

In addition, our latest new branch in Mazar-e Sharif has been recognized by our customers as offering a quality of facilities not previously experienced anywhere in Afghanistan.

Institutional Banking and Trade

Our initiatives to encourage exports from Afghanistan and investment into Afghanistan continue.

Internationally, AIB supported and sponsored the US-Afghanistan Business Matchmaking Conference & Investment Summit organized by the Afghan-American Chamber of Commerce in Washington DC, and supported and sponsored the 2nd Afghanistan-UK Conference organized by the Afghanistan Embassy in London.
AIB was again represented at SIBOS, the annual conference, exhibition, and networking event organized by SWIFT for the financial industry, held in London, the event was an excellent opportunity to refresh existing relationships and establish new ones.

We continue to be the leading bank for assisting imports, with the ability to make US$ payments worldwide, remaining able to make payments to most countries not subject to international sanctions.

Our correspondent bank network includes State Commercial Bank of Turkmenistan and Aska Bank in Uzbekistan, CenterCredit Bank in Kazakhstan and Transcapital Bank in Russia. Crown Agents Bank in London, working with Citibank, has replaced the services previously provided by Standard Chartered Bank. We are working to further expand this network and are optimistic about adding a new European bank in 2020. AIB is also an active participant in Citibank's Worldlink payment channel. Provision of these US$ clearing facilities requires major investment in human resources and IT systems totalling annually around 20% of our post-tax profit.

To be able to provide these and other international services, AIB's Anti Money Laundering (AML) procedures and onboarding requirements are relatively demanding on our customers whom I would like to thank for their patience in this regard. Our resulting position of having the most robust AML in Afghanistan is extremely important for all of our stakeholders.

Business and Community Banking

AIB continues to support the sector by making low-cost Afghani credit facilities available. Our impression is that the last twelve months have been particularly difficult for companies in the SME sector where we have seen increased defaults. In these incidences, we have focused on structuring workouts by rescheduling loans rather than foreclosing.

The Afghan Credit Guarantee Foundation (a German charitable organization supported by the World Bank) has been instrumental in assisting AIB to work with SMEs facing financial difficulties whilst continuing to lend to this sector.

In all of our commercial lending activities AIB is alert to disproportionate distribution of the development costs, environmental destruction, and unsustainable use of natural resources. Avoiding or mitigating negative effects on people and the environment is a prime consideration of the bank.

Consumer Banking

The bank has developed a number of initiatives to support the central bank's goal of expanding banking services to more of the population, and to develop consumer protection rights.
At the end of 2019 we were pleased to announce that Afghani-denominated accounts for individuals would become completely free: No maintenance fees, domestic transfer fees or ATM fees.

To support the introduction of consumer rights the bank has developed and published a Consumer Rights Handbook in both English and local languages and appointed a bank Ombudsman. The Ombudsman will act as a point of contact within the bank for more complex complaints or those complaints where our customers remain unsatisfied with responses from other departments of the bank. Customers are able to contact the Ombudsman via our web page, social media, as well as by phone and email.

AIB's Ombudsman was the first such service in Afghanistan thus use of the service was limited in the first few months after its introduction in April 2019. Since then the number of customers raising issues has increased to about twenty a month. We are pleased that we are able to settle most issues in a few hours while very complex issues may take three or four days.

"We were the first bank to provide ATM's for the visually impaired and have barrier-free branches to enable straightforward wheelchair access."

Consumer Technology
Digitalization and the introduction of phone banking is central to our future offer for consumer banking in Afghanistan. The cornerstone of our strategic plan from 2020 to 2022 is to "Strengthen our competitive position by investing in modern technical solutions and channels" and I am pleased that progress has continued apace in 2019.

For many years AIB has been able to offer the full range of services available from MasterCard, however, our Visa services were limited to ATM's. Visa have now approved AIB to issue Visa credit and debit cards and to enable merchants to accept Visa cards. Merchant uptake has been strong with a substantial increase in transactions and an increase in requests for POS machines. AIB has also launched e-commerce services allowing merchants to accept payment from Visa and MasterCard on their own websites.

Near Field Communication systems (allowing cardholders to tap their cards to perform payments) are now available at our ATM's and POS machines. This facility is available for both plastic cards and smart phones via our app.

While our new branches are designed to enable easy access to the disabled, additional features were required to assist the sight impaired. Our new ATM machines now included braille keyboards and a sound system to audibly communicate instructions. Specially trained staff have also been assigned four branches to assist sight and hearing-impaired customers.

Information Technology
The year marked a major milestone in our Service Resiliency improvement, Cyber Security and Financial Crimes Compliance initiatives as we implemented and completed the major goals of our long-range plan.

This includes setting up a Tier 3 data center that delivers redundancy in IT components and greater availability for our services. With this achievement, we completed the scope of the upgrade of Information Technology infrastructure backbone and Data center facilities.

During the year, we made great progress in advancing Business Continuity through the implementation of a Document Management System for digital archiving and retrieval of documents. This has helped to enhance efficiency in our operations, and improved the general digitization posture.

In delivering on our mission to advance our Cyber Security capabilities, we successfully certified to the requirements of SWIFT Customer Security Controls Framework Version 2019. In addition, we embarked on ISO/IEC 27001 Certification Course training to familiarize our employees with skills to establish, implement and continually improve an Information Security Management System (ISMS). Similarly, we intensified the cyber-security awareness program for all employees to improve situational awareness on Information Security practices.

The fundamental strength of the Financial Crimes Compliance initiatives rests on optimizing technology deployments with compliance requirements to produce adequate detection, and response systems. Based on this, we also greatly enhanced our software capabilities by upgrading our systems to collect enriched client KYC data and provide enhanced Risk Assessment and Transaction Screening capabilities.

Social Responsibility
AIB recognizes that it has a responsibility to the local community. Including out-sourced guards, we employ around one thousand staff in the country. In addition, another 600 laborers were employed during the construction of our head office. As a result, we estimate that the bank has contributed to the sustenance of over eighteen thousand people.

The bank has wider community involvement extended to sponsoring and supporting the Youth to Business Forum which is held by AIESEC (International Association of Students in Economic and Commercial Sciences) aim to facilitate youth with business tips and has also sponsored Afghanistan's 100th Independence Day celebrations in Dubai, United Arab Emirates.

As part of its corporate social responsibility, AIB has supported Charmaghz Cinema mobile bus library which provides the children of Kabul with access to books and movies, inspiring the next generation. AIB in cooperation with Ministry of Education created five social media videos to raise awareness and encourage people to send their children to school.

In its effort to grow the socially responsible culture within the bank, AIB supports various charitable initiatives. This includes employees making blood donations to the Afghanistan National Blood Safety and Transfusing Service.

In addition, we are working hard to ensure AIB is inclusive of those with disabilities. We were the first bank to provide ATM's for the visually impaired and have barrier-free branches to enable straightforward wheelchair access.

AIB also believes that gender equality is a key part of facilitating economic growth and poverty reduction in society. As a result, the bank continues to assist the progression of women both as customers and members of staff. The bank regularly sponsors the Afghan Women Chamber of Commerce and Industry (AWCCI) in their efforts to support 850 women entrepreneurs across the country.

We also collaborated directly with the AWCCI to organize the "Bibi Khadija Award Ceremony" for third consecutive year. Fifteen female Business Entrepreneurs were honored at the ceremony based on specific criteria developed by the AWCCI, AIB, Ministry of Commerce and Industry and Ministry of Women Affairs. Furthermore, we granted a loan via a revolving credit facility for AWCCI members to showcase their products both domestically and internationally. AIB also sponsored the operational costs of AWCCI, allowing them to take part in corporate social responsibilities of women in Afghanistan.

Conclusion
Overall I am pleased with the bank's performance in 2019, with our conservative stance again delivering returns in an uncertain environment. Our positioning, governance and integrity allow us to continue acting as an essential piece of infrastructure for economic growth in the country.

Whilst the wider economic context currently precludes more expansive activities, I am proud that we have extended our leadership position in security, compliance and KYC, and are quickly developing our consumer offering to international standards. Lastly I would like to thank the shareholders, directors and all of my colleagues for their hard work in 2019, and I look forward to another successful year in 2020.

Anthony Barned
Chief Executive Officer

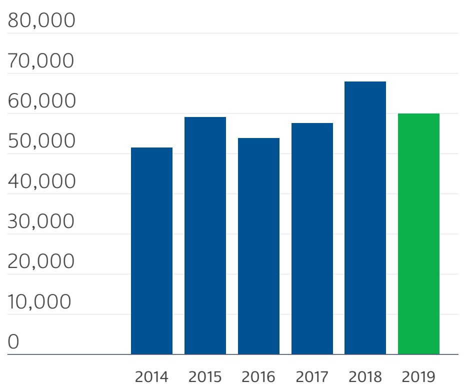
Financial Highlights

2.85bn
Revenue
↗ 14%

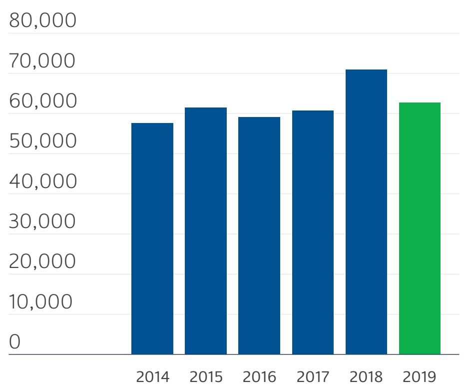
608mn
Net Profit after tax
↗ 27%

94mn
Capital Growth
↗ 3%

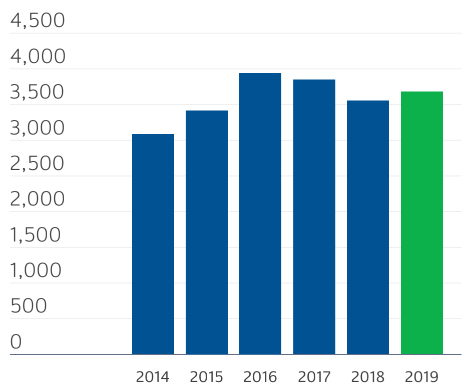
Deposits
(AFN) Millions



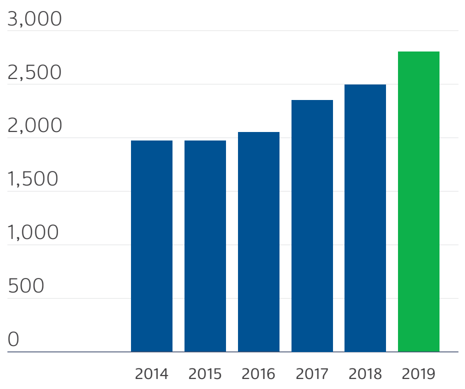
Total Assets
(AFN) Millions



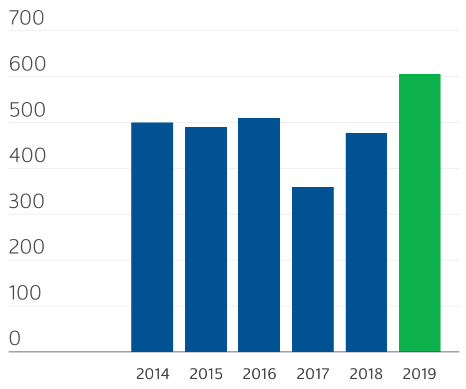
Capital
(AFN) Millions



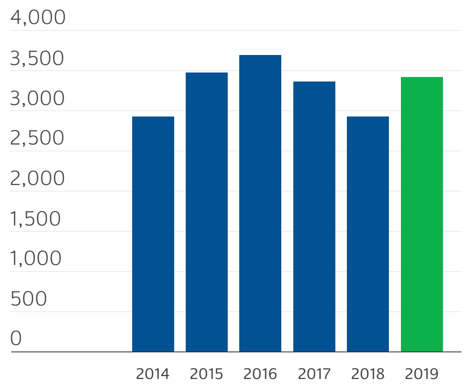
Revenues
(AFN) Millions



Net Profit
(AFN) Millions

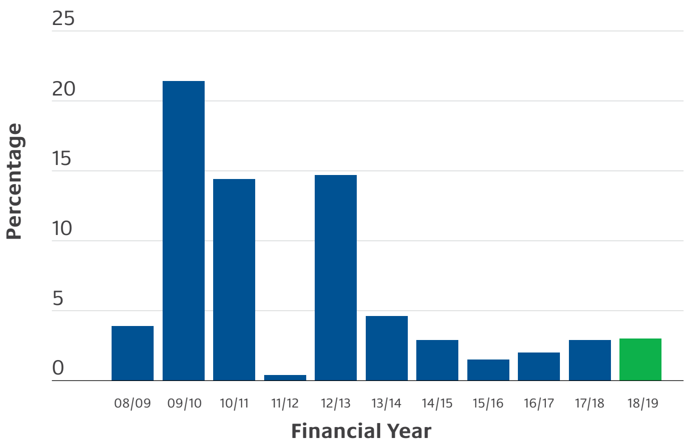


Advances
(AFN) Millions



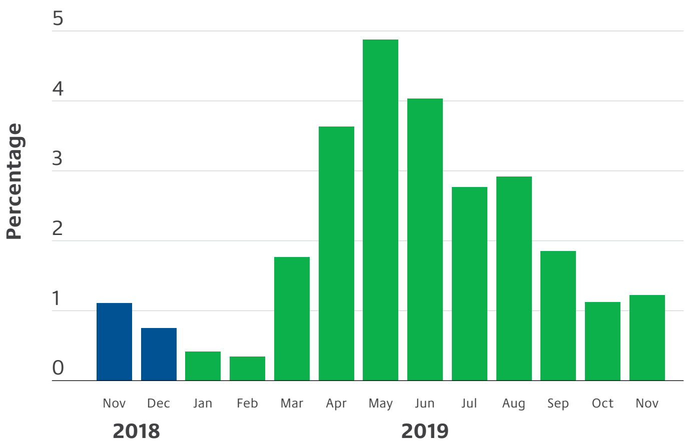
Afghanistan Economic Outlook

Annual GDP Growth* (%)



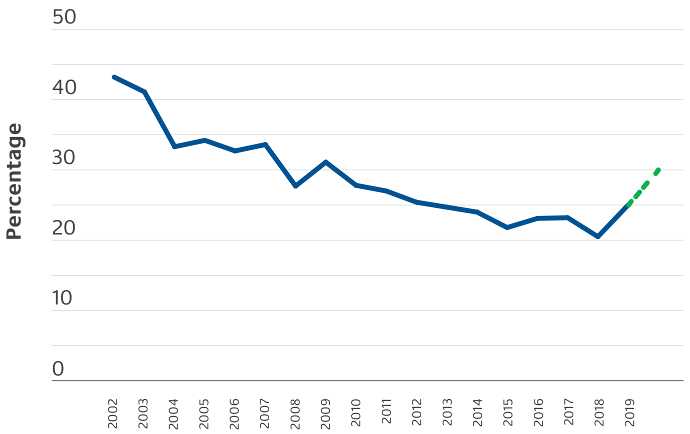
*Da Afghanistan Bank Data

Inflation Rate – Monthly* (%)



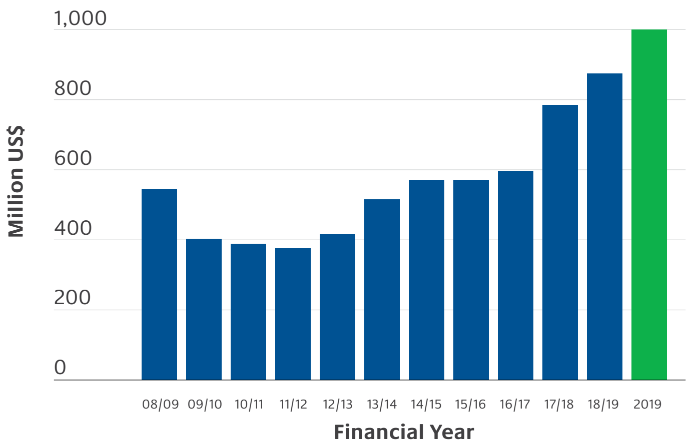
*National Statistics and Information Authority (NSIA)

Afghanistan GDP – Share of Agriculture* (%)



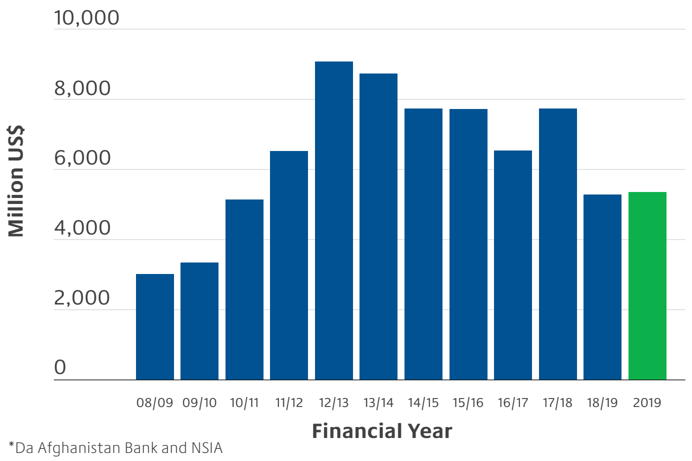
*National Statistics and Information Authority (NSIA)

Afghanistan Export Data (Millions US$)



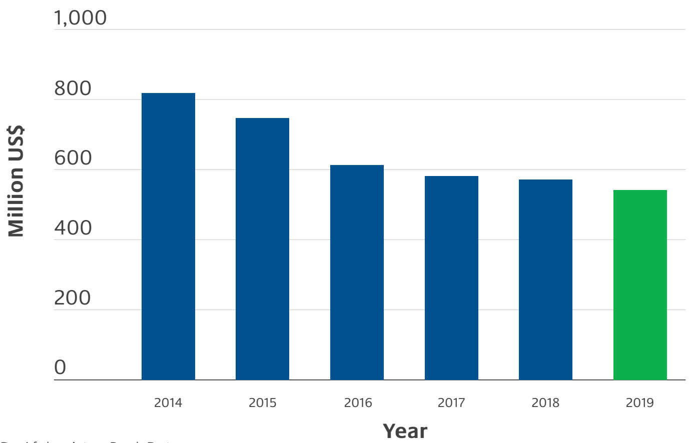
*Da Afghanistan Bank Data

Afghanistan Import Data (Millions US$)



*Da Afghanistan Bank and NSIA

Banks Lending to Private Sector (Million US$)



*Da Afghanistan Bank Data

GDP
Afghanistan's economic growth improved slightly in 2019, increasing to 3% (AIB Estimate), from 2.9% the previous year. Stronger growth has been fueled by better weather, which allowed the agricultural sector to recover from last year's droughts. However, growth in manufacturing and services continues to be constrained by significant political uncertainty, election-related violence and worsening security conditions after the suspension of peace negotiations with the Taliban in the fall of 2019.

With rising production in agriculture, an increase in household income is expected to support growth in private consumption. GDP growth of 3.4% is forecast for 2020 and is expected to remain between 3% and 5% over the next three years (ADB 2019 Forecast). However, projections could prove vulnerable to any fallout from the presidential election and the ease of political transition. The potential peace agreement with the Taliban and the continuation of international security support could also have an impact.

A stable political transition and any potential political agreement with the Taliban would bring major economic and financial benefits for the Afghan economy. Improving investor confidence should see capital and skilled workers repatriated from overseas. However, realising these benefits depends on achieving a stable security situation.

Inflation
Annual inflation accelerated from 0.65% a year earlier to 2.27% in 2019. The increase is in line with high commodity prices in global markets. The depreciation of the Afghani against the US Dollar, alongside the government's expansionary fiscal policies before the presidential election, led to a significant increase in inflation rates in the second quarter of 2019.

However, inflation showed a downward trend towards the end of the year and is now projected to be markedly lower in 2020. Da Afghanistan Bank has committed to keeping inflation in check primarily through foreign currency and capital note auctions. In addition, the government succeeded in banning foreign currency transactions in three main provinces which should provide some support for the Afghani as well as a slight decrease in inflation. Looking at historic data, inflation averaged 3.12% between 2009 and 2019, but with considerable variability in between, reaching an all-time high of 12.23% in 2011 and a record low of 0.59% in 2018.

Agriculture sector
Agriculture is a significant share of the Afghan economy. 71.25% (NSIA Q3) of Afghans live in rural areas and according to International Labor Organization (ILO), 38.32% (WB 2019) of the total employed population is involved in agriculture sector. It provides income to 61% (WB 2018) of all households across the country.

According to the NSIA data, agriculture formed an average of 28.84% of GDP between 2002 and 2018, with a minimum of 20.45% in 2018 and a maximum of 43.17% in 2002 (NSIA 2018). In 2019, agriculture contributed over 25% (Estimated) of GDP. As a result of improving weather conditions, plus developments in infrastructure, this sector is expected to contribute to more than 25% of the country's GDP by the end of 2020. According to the most recent data, agriculture accounts for more than 92.8% of Afghanistan's total exports (NSIA and DAB 2018).

Exports
Exports grew by approximately US$125 million over the year, rising from US$875 million in 2018 to over US$1 billion in 2019 (DAB Q3) as better weather supported the agricultural sector.

Developments in infrastructure have also led to a tangible increase in exports. These include the establishment of the Lapis Lazuli trade route, plus new air corridors and the initiation of the Chabahar Port Agreement, a trilateral transit agreement signed by India, Iran and Afghanistan, allowing goods to move between India and Afghanistan through Iran.

Lapis Lazuli is an international transit route opened in 2018 that connects Afghanistan to the European and Balkan markets via the Caspian and Black Sea ports, the shortest route. With the establishment of this trade route, Turkey has become one of the top five export destinations for Afghan produce.

The Chabahar Port Agreement has provided a new supply route between Afghanistan, Iran and India that allows Afghanistan to ship its goods to large South Asian markets, reducing the country's dependency on Pakistan's Karachi Port. Recently, India added two new ports to the Chabahar Port Agreement in order to strengthen its trading ties with Afghanistan. Afghanistan's exports to India have grown to approximately US$0.4 billion (NSIA Q3) with growth expected to continue throughout 2020 as a result of these newly established trading routes.

According to the most recent data, India is the largest buyer of Afghanistan's exports, accounting for 46.4% of total exports. Pakistan shifts to second position with 36.3%. Turkey is in third position, drawing 3% of the country's exports (NSIA Q3). The major exported components are food items, medical seeds, carpets, leather, and wool. Exports have increased significantly in recent years and are expected to accelerate.

Nevertheless, potential political disruption is a risk. Previous elections have caused disruption to exports. The outcome of peace negotiations with the Taliban could also have a direct impact on the country's exports, either positive or negative.

Imports
As agriculture has recovered, the need to import goods has diminished. Imports declined markedly in 2019, falling 27.8% (NSIA Q3) compared to last year. In value terms, imports declined from US$7.4 billion in 2018 to approximately US$5 billion (NSIA Q3) in 2019. Afghanistan's major import partners are India, Pakistan, China, Turkey, Iran and the Commonwealth of Independence States (CIS).

According to the latest available data, consumer goods account for the largest share of imports (38% of total imports) despite it a decrease of 1% compared to last year. The second largest share came from capital goods, which decreased from 38% to 35% in 2019. Fuel and lubricants accounted for the third largest share if Afghan imports, which increased by almost 16%. Industrial supplies had the smallest share, accounting for 12% of the country's total imports (NSIA Q3). Improving weather conditions and recent economic improvements should support further reduction in imports.

Banking sector
The Afghan financial system is dominated by private banks. As of end-2019, the banking sector comprised 12 banks with total assets of US$3.82 billion: customer deposits of US$3.25 billion and a gross loan portfolio of below US$0.6 billion (ABA Q3). The banking sector represents nearly 21.51% of the country's GDP (DAB Q2).

The three State-owned banks hold 27.65% of banking assets and account for 27.13% of deposits, with 11.67% of total loan portfolio. The seven privately-owned banks hold 66.82% of banking sector assets and 87.23% of the loan portfolio, plus 68.15% of the sector deposits. The banking sector is also home to branches of foreign commercial banks, but they hold a far smaller share, with an asset share of 5.53%, a 1.09% share of the loan portfolio and 4.72% of deposits (ABA Q3, DAB Q2).

In Afghanistan, an estimated 10% of the adult population own bank accounts (WB 2018, ABA Q3). This access rate is well behind regional peers such as India (53%) and alongside other conflict-affected countries such as Iraq (11%). Credit growth remains sluggish, with credit to the private sector falling by 5.42% in 2019. By value, total loans declined from US$572 million in 2018 to US$541 million in 2019 (ABA Q3).

Total bank deposits decreased to US$3.25 billion in 2019 from US$3.78 billion in 2018. Banks have tightened credit standards in response to political uncertainty, which is likely to constrain further lending.

Business reform

Afghanistan carried out a record number of business reforms in 2019. On October 31, the World Bank published its Doing Business 2019 report, which highlighted Afghanistan as one of the top 10 improvers on its 'doing business' scores. Recent reforms have been focused on starting a business, getting credit, protecting minority investors, paying taxes, and resolving insolvency.

Key to this improvement has been the decision of the High Economic Council led by President Ghani to reduce the cost of a business license from 82.3% of per capita income to just 6.4%. At the same time, the Afghanistan Investment Climate Reform (AICR) program brought about business-boosting reforms, such as efficient and transparent business registration alongside licensing in Kabul and other provinces.

Similarly, the Afghan Government has increased investment in accurate and real-time data collection. Recently, the National Statistics and Information Authority (NSIA) launched three online platforms (nsia.gov.af, stat.gov.af, data.gov.af), which are designed to provide accurate dissemination of data and statistical reports. These online platforms should help decision-making, creating investment opportunities and better credit analysis.

Another pillar of reform has been the launch of the Afghanistan Central Business Registry (ACBR). ACBR is a one-stop shop for speedy business registration, designed to help and encourage businesses to enter the formal economy.

Political outlook

The Presidential election was held in September 2019. Fifteen candidates, including President Ghani and CEO Abdullah, competed in the elections. Preliminary results show President Ghani leading, with more than 50% of votes. However, runner-up CEO Abdullah is appealing the result. The relative stability of the political climate continues to influence the country's overall economic outlook.

The peace process gained some momentum after the Kabul Conference in February 2018, when President Ghani made an unconditional offer for talks with the Taliban, which was followed by a ceasefire in June 2018. The Afghan government hosted a Loya Jirga in April 2019 to create a road map for peace. After almost a year and nine rounds of peace negotiations between the US and Taliban, there was considerable optimism for intra-Afghan peace talks and a peaceful end to the last four decades of war.

The talks were derailed in September 2019 following the withdrawal of the US president in response to a Taliban suicide attack in Kabul. However, the Taliban responded positively, which once again raised hopes that the elusive deal might be possible. A prisoner swap between US and Afghanistan suggested appetite for a deal. The current peace negotiations are reportedly close to establishing a mechanism to bring conflict to an end. However, key disputes still need to be resolved to achieve a long-lasting peace.

Infrastructure

After decades of war, Afghanistan's infrastructure is a brake on economic recovery. It needs new roads, bridges, power plants and the capacity to maintain them. For nearly three decades, energy infrastructure and supply have been significantly disrupted by conflict. Power generating facilities have either been destroyed or are running at low capacity.

After the collapse of the Taliban, more than 90% of the population had no access to electricity. In January 2009, with a newly constructed transmission line running from Uzbekistan, the majority of the capital's four million citizens had access to electricity for the first time. In 2001, Afghanistan produced 430 megawatts of electricity. As of 2018, the installed energy generating capacity had grown to more than 1400 megawatts.

On July 2019, President Ghani laid the foundation for a new administrative complex housing 27 ministries and public offices on 100 hectares of land. The cost is set at $1.6 billion and is a totally new type of development for the country.

The Afghan Government has also taken steps to align its practices with internationally-recognised norms. This has included establishing key financial sector infrastructure such as public credit registry, movable collateral registry and a modernized payment system. The government has also been supporting the development of microfinance through the Microfinance Investment Support Facility for Afghanistan (MISFA), allowing small business to receive credits from financial organizations.

Development support

A wealth of international donors has contributed to Afghanistan's national development projects, either through direct grants to the government or through private sector investments. Since 2001, 40% of newly constructed roads have been built by USAID funds. Meanwhile, the World Bank has committed to provide more than US$4.4 billion to support development projects, including education, health, transportation, female empowerment and economic management.

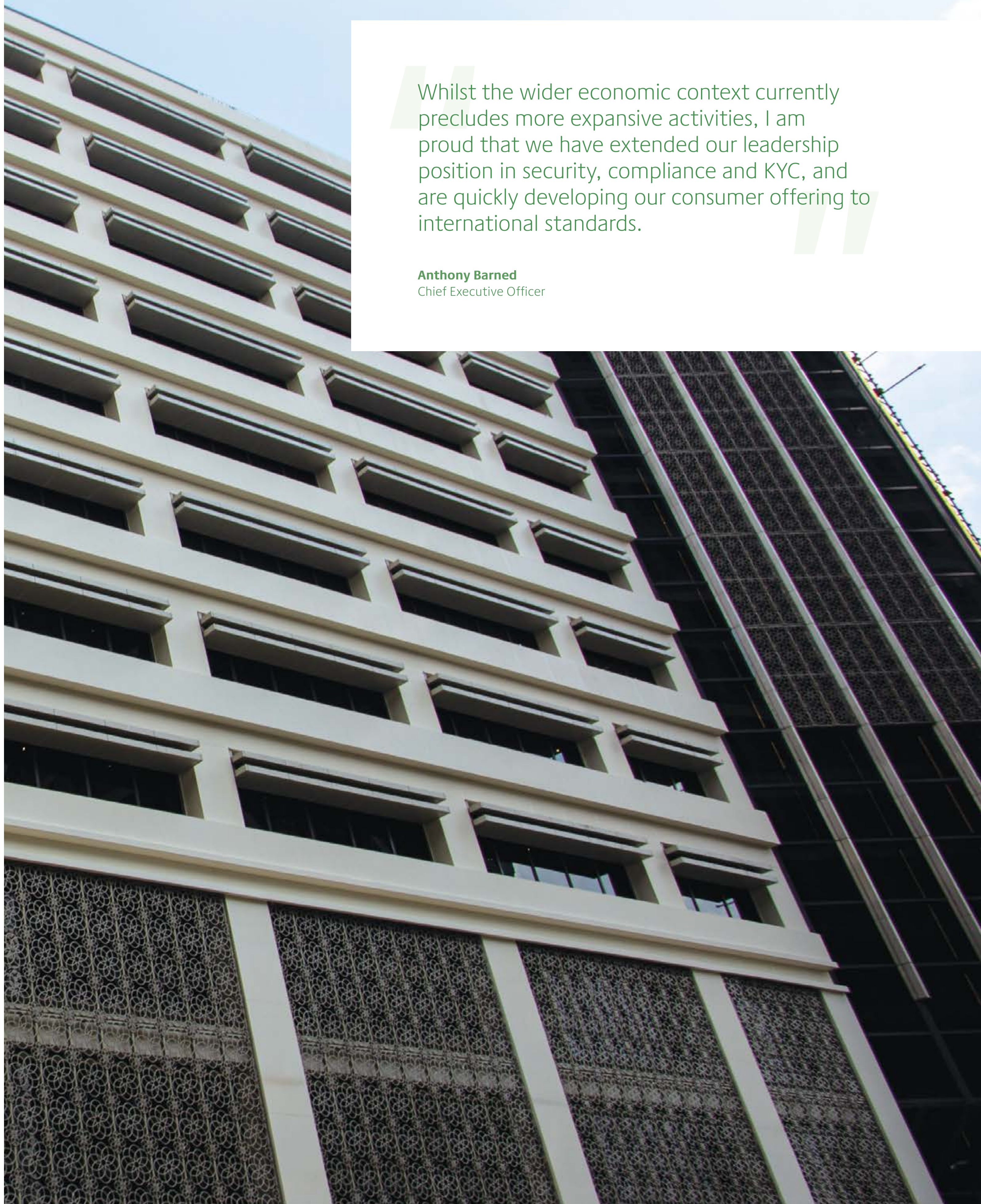
Under the administration of World Bank, the Afghanistan Reconstruction Trust Fund (ARTF) was established in 2002 to provide a coordinated financing mechanism for the Government of Afghanistan's budget and national investment projects. Since its inception, 34 donors have contributed over US$11.4 billion to the ARTF, making it the largest single source of budget financing for Afghanistan's development. The Asian Development Bank's commitments now exceed $5.6 billion, which are mainly granted for the national infrastructure development. Afghanistan's international partners confirmed their long-term support for sustainable development in the country.

Islamic banking

As Islamic finance becomes more closely integrated with mainstream banking in Afghanistan, expectations are high that Shariah-compliant banking will provide much-needed momentum for the country's economy, whose 99% Muslim population should create significant demand for an interest-free banking service.

To revive Islamic Banking, Da Afghanistan Bank, Afghanistan's Central Bank, issued a regulatory framework for Islamic banking in 2015, setting clear legal standards with rules based on Bahrain-based Accounting and Auditing Organization for Islamic Financial Institutions, a major standard-setting institution for Islamic finance. This regulatory framework helped three private banks to establish Islamic Windows and it also paved the way for Da Afghanistan Bank to issue the first full-fledged Islamic banking license to a private bank adhering fully to all the standards and principles of Sharia banking. These are concrete steps towards a diversified banking service in Afghanistan.

As of November 2019, the banking sector comprised one fully fledged Islamic Bank and six Islamic Banking windows with total assets of US$471.8 million, customer deposits of US$349.6 million and a total investment and financing portfolio of US$154.3 million. As of Q2 2019, the Islamic Banking sector represents 10.68% of the overall banking sector but has a 27.92% share in gross loans and 10.30% share in deposits.



"Whilst the wider economic context currently precludes more expansive activities, I am proud that we have extended our leadership position in security, compliance and KYC, and are quickly developing our consumer offering to international standards."

Anthony Barned
Chief Executive Officer

Governance Report & AIB Committee

As a matter of principle and good business practice, AIB has conducted its banking business in an ethical, prudent, and professional manner, according to international standards of governance.

Philosophy of governance

AIB endeavours to enhance shareholder value; protect the interests of all stakeholders including shareholders, customers, employees, regulators, and the public at large; and ensure compliance with international best practices for financial institutions. The Bank complies with all legal and regulatory requirements of Afghanistan – but also formulates and adheres to strong corporate governance practices beyond what is mandated by Afghanistan regulators. In fact, 'international' in our name reflects the standard of performance we strive to achieve.

The adoption and implementation of corporate governance is the direct responsibility of the Board of Supervisors. In this role, the Board ensures that the management of the Bank is meeting the requirements and obligations of good governance.

Shareholders

The Bank has three shareholders, each with an ownership percentage as shown below. The shareholders operate under a policy of non-interference in management decisions and the Bank's operations. The positive reputation and widespread business interests and relationships of the Bank's shareholders in Afghanistan have contributed significantly to the success of the institution. Each shareholder has the right to appoint one individual to the Board of Supervisors.

Board of Supervisors

The major purpose of the Board of Supervisors is to formulate the overall strategic and financial objectives of the Bank; to monitor these objectives to ensure they are met by management; and to ensure that the risks associated with operating a financial institution in Afghanistan are managed and mitigated as far as possible. Ensuring the upholding of good corporate governance is key to the Bank achieving its goals, and the Board ensures that best practices are maintained.

The Board is composed of the Chairman, shareholder-appointed directors, and independent directors. The Chairman is an independent director, which complies with central bank regulations. Independent Board members are in the majority, in line with regulations and international governance standards. According to the Articles of Association, each shareholder has the right to appoint one shareholder-designated director. The shareholders have agreed to a Board of Supervisors consisting of seven individuals. There are currently seven Board members: five independent and two shareholder-appointed. Brief biographical profiles of the directors are included in this annual report.

The Chairman is a non-executive director and is responsible for leadership of the Board and ensuring its effectiveness. Shareholder-nominated directors are appointed by the respective shareholders and represent their interests. There are currently two shareholder-appointed directors.

Independent directors are expected to bring impartial judgement to the Board through their expertise in the financial world, as well as governance experience through having served on other boards. Independent directors and directors who are shareholder representatives are elected/appointed for terms of four years, but must stand for reappointment each year.

The Board has five committees: Remuneration; Nominating; Risk; Planning and Strategy, and Audit. Each committee has a Chairman and a formal charter to guide its activities. The Board Chairman, with advice and consent of the full Board, selects committee members and committee chairs annually.

The Board of Supervisors meets monthly: four times in person and the balance by conference call. The committees of the Board meet four times a year in person and in conjunction with Board meetings, with occasional conference calls. Board committee meetings are attended by the Chief Executive Officer. Minutes of committee meetings are circulated to all Board members for their information. The role of these committees is explained in more detail in the following subsections.

In 2019, the Board met 14 times. During each meeting the Board monitored the financial performance of the Bank as well as the status of non-performing loans and operational risks. Each quarter, the Board reviewed the anti-money laundering/compliance dashboard to ensure the Bank's adherence to the policies and procedures established for this function by outside experts. The Bank has invested significant resources into compliance, resulting in very satisfactory implementation of these policies and procedures, although more needs to be done.

One of the key factors in the success of AIB is our correspondent banking relationships that permit the Bank to do direct clearing of US$ and other currencies. The Board were intimately involved in the expansion of our correspondent relationship network, resulting in new US$ nostro accounts with the UK, Kazakhstan, Russian, and Uzbekistan banks. We look forward to the continued expansion of our network of correspondent banks in 2020 to other countries.

Another key success factor is to have a physical environment conducive to operating efficiency and staff productivity as well as putting forth an image of financial success and achievement befitting the largest bank in the country. To that end, AIB has constructed a new head office building in Kabul, completed in 2019. We are proud to finally have our own headquarters and the Board held its first meeting on the premises in 2019.

Planning and Strategy Committee

The Planning and Strategy Committee is responsible for the development and monitoring of AIB's Strategic and Annual Operating Plans, and for monitoring the Bank's investment portfolio.

In 2019, the committee met four times in person. Specific accomplishments during the year were:

- Reviewed and approved the Strategic Plan for 2020-22, and the business and financial Plan for 2020; the 2020 Operating Plan shows an increase of 6% in pre-tax net profit and return on equity of 15.4% before dividend payment.
- Monitored management initiatives to improve customer service in branches. These initiatives comprise both technology and process enhancements to improve service delivery to customers.
- Refined planning by business unit/segment, including; development of plans for each business unit: corporate and institutional, business banking, community banking,

Shareholder	Beneficial Shareholder	Type of Company	Incorporated	Board Members	Ownership (%)
International Finance Corporation (IFC)	Not applicable	Global development institution	Washington, District of Columbia	No one appointed	7.50
Horizon Associates	Mohammed Abrahim Mohib	Holding Company	Delaware, USA	Lutfullah Rahmat	46.25
Wilton Holdings	Lutfullah Rahmat, Izzatullah Rahmat, Nasrullah Rahmat	Holding Company	Cayman Islands	Hamidullah A. Mohib	46.25

- and consumer banking; development of profit and loss statements and balance sheets for business units; monitoring of plans and performance for business units; Initiated the development of a Customer Profitability tracking system.
- Monitored the investment portfolio and approved allocation of funds across a number of investment instruments and asset managers: the investment portfolio yielded 2.88% in interest income, amounting to $6.3 million and comprising 18.4% of total revenue.
- Recommended a greater shift to bonds from placements to optimise returns in the current and expected interest rate environment.
- Monitored ongoing initiatives for branch rationalization program aimed at branch network cost in a challenging business environment.
- Reviewed necessary changes to the organisation structure for the Bank.

As a part of its on-going responsibilities, the committee actively monitored progress of the 2019 Operating Plan each quarter. As Afghanistan and it's economy continue to face significant political, security and economic challenges, the committee maintains a conservative approach based on robust risk management, maintaining asset quality, and pursuing selective growth opportunities to grow core earnings sustainably.

Risk Committee
The Board's committee to provide comprehensive oversight and best practices in risk governance and risk management.

The principal role of the committee is to review the Bank's risk exposure under different products. This encompasses foreign exchange positions, assets and liabilities, capital adequacy, credit and market risk, and sovereign risk. The committee also reviews performance of the classified and non-performing loan portfolio, and, most importantly, reviews and submits to the Board of Supervisors all the Bank's policies associated with risk management. Finally, the committee identifies unacceptable risk conditions to the full Board for consideration and action.

The Board and the shareholders of AIB continued to place high priority on implementing, maintaining, and developing the highest standards in anti-money laundering (AML) and counter-terrorism financing (CTF). During the year, AIB continued to work with a prominent consulting firm, which works closely with several international financial institutions, to ensure that AIB's AML and CTFs processes were working satisfactorily. The findings were positive and was one of the factors that allowed us to widen our network of correspondent banks.

Similar to previous years, the Bank retained the services of external consultants who completed a credit risk review of the Bank's loan portfolio, with recommendations being implemented as well as refinements to the Bank's business continuity plan. In addition, the Legal team reviewed all the security documents to ensure that all security is enforceable if required. Their findings are being implemented by the Bank.

Due to uncertainties in the economic outlook for Afghanistan, the Risk Committee adopted a conservative approach to the Bank's risk profile. This approach will continue in 2020 to ensure that the balance between risk and return is maintained.

Audit Committee
The Audit Committee (AC) is responsible for overseeing financial reporting; compliance with risk management policies and procedures; internal controls; ethical behavior; and management and functioning of the Internal Audit Department.

The AC currently has three members, all qualified and experienced in audit, accounting, business, or banking. The Board of Supervisors appoints members to the AC, from qualified person, who are not members of the Board of Supervisors subject to the approval of Da Afghanistan Bank (the central bank). At least one of the AC members must have sufficient experience in banking, accounting, or financial management. Any individual, who is proposed to join the AC, is subject to the same 'fit and proper' requirements as members of the Board of Supervisors. The AC currently has one non-Board member and two members of the Board of Supervisor who will be replaced by non board members early in 2020

The AC is responsible for relationships with the external auditors, and meets them on completion of the annual audit and quarterly reviews. On the AC's recommendation, the Board of Supervisors approves the annual audited financial statements and three quarterly reviewed interim financial statements. These meetings enable AC members to discuss matters relating to the external auditors' remit and issues arising from the audit.

Consistent with previous years, in 2019 the AC assessed and approved the annual internal audit plan, including budget and resources, and regularly monitored progress of the plan. The AC discusses control environment issues reported by the Internal Audit Department, their root causes and management responses, and remediation activities including any significant audit issues that were brought to the AC's attention.
The AC regularly monitors and assesses the role and effectiveness of the internal audit function.

The AC also reviews the Bank's annual budget and business plan, and recommends to the Board of Supervisors the payment of dividends.

The AC receives quarterly reports from major operational segments such as non-performing loans, operational loss, and financial reports of the Bank, reviewed at every quarterly AC meeting. The reports include the key performance indicators of these segments and issues related to operational and financial controls.

During 2019, the AC continuously focused on the status of overall internal controls of the Bank and issues relating to money laundering and countering financial terrorism.

Remuneration Committee
The Remuneration Committee has five major responsibilities:

- Establish compensation policies for the Bank's senior management, including base salary, fringe benefits, and bonus scheme.
- Establish performance goals for each member of senior management and monitor performance against these goals.
- Establish and review development and succession plans for senior management.
- Recommend to the full Board for final decision matters relating to senior management compensation and bonus actions.
- Review and approve the Bank's human resource policies.

The Committee has four members, three of whom are independent directors including the Chairperson. The Committee met four times in person during 2019. Key issues addressed included:

- Reviewed, approved, and monitored senior management goal achievements.
- Reviewed and approved 2019 bonus scheme adjustment and approved 2020 bonus pool.
- Reviewed and approved remuneration for new Member of the Management Board and approved long term absence of another Member of the Management Board.
- Reviewed and revised executive management compensation policy.

Good staff retention and attraction remains the primary goal of the management and the committee. In the uncertain Afghan political and economic environment, the committee believes that they succeeded in this direction.

Nominating Committee
The Nominating Committee works as a preparatory committee for the Board of Supervisors with respect to nomination and appointment of candidates to the Board of

Supervisors, the Management Board, and other key senior managers as determined by the Committee.

In 2019, the Committee met seven times in person, in conjunction with Board meetings, and held conference calls to interview Board and Audit Committee candidates. The Committee's major activities were:

- Focusing on succession planning. The committee spent significant time with management, to make sure its training plans support Afghanization at all levels, and to ensure the bank has individuals ready to take on all key management roles:
- Supporting management in the recruitment process of a new Head of Business. Development and subsequently nominating him to the Board of Management.
- Recommending the reappointment of the Chief Compliance Officer.
- Commencing a review of candidates to replace two independent board members due to retire in 2020 including the Chairman who is term limited to 10 years. The committee interviewed an initial candidate and are reviewing further candidates.
- Interviewing a number of candidates for the audit committee, three of whom were nominated and subsequently submitted to DAB for confirmation which was still awaited at year end.
- Nominating persons related to the bank's sharia banking activities including the Chief of Islamic Banking and a member of the Sharia Board.
- Submitting existing board members for re appointment at the Annual General Meeting of Shareholders.

Board of Supervisors

Ronald Stride

Independent Director, Chair of the Board of Supervisors, Member of the Strategy and Planning Committee, the Remuneration Committee, the Nominating Committee, and the Risk Committee

Mr Stride spent most of his career with Booz Allen & Hamilton, the management consulting firm, where he was a senior vice-president and managing partner for Asia. He also served on the firm's Board of Directors in the US. Mr Stride has been a member of AIB's Board since November 2009. He is currently a member of several boards as well as chairing a large Singapore-based charity – Food from the Heart. He was formerly president of the American Association of Singapore, a position he held for five years. Mr Stride received his BA from Providence College in the USA.

Mansoor Tirmzi

Independent Director, Chair of the Strategy & Planning Committee and member of the Nominating Committee

Mr Tirmzi is a qualified Chartered Accountant (1981, Institute of Chartered Accountants, England & Wales), and has 34 years of international banking experience in the Middle East and Asia Pacific with Citibank and HSBC. Key roles as Chief Financial Officer include Saudi Arabia, Philippines, Indonesia, Hong Kong, and Singapore – as well as three regional CFO roles in Asia Pacific. He was also director of audit and risk review with Citibank Asia Pacific. He is currently a financial consultant based in Singapore, focused on assignments in the Middle East and Asia Pacific.

Samuel Sidiqi

Independent Director, Chair of Nomination Committee, and member of the Strategy and Planning and Remuneration Committees

Mr. Sidiqi joined the Board in 2017 he is currently the Chairman and Co-Founder of Silk Road Mining, the first company to receive a large-scale exploration mining exploration in Afghanistan. Previously he was CEO of two of the largest real estate companies in the Middle East: Abu Dhabi listed RAK Properties, and Kuwait listed NREC, both with assets of more than USD 1.5 billion. Prior to that Mr. Sidiqi worked for Agility Logistics across the Middle East, North America, Europe and South Asia. He began his career with Bain and Company where he advised Fortune 500 companies on strategy. He received his MBA from Wharton and his MA from the University of Pennsylvania. He has degrees in economics and political science from MIT.

Hamidullah A. Mohib

Shareholder-appointed Member of the Board of Supervisors, Member of the Remuneration Committee, the Nominating Committee, the Risk Committee, and the Audit Committee

Mr Mohib has been a member of the Board since 2005. He is an executive director at Mohib Holdings, responsible for strategic planning and treasury operations for the group's various activities in Central Asia and the Middle East. Mr Mohib was educated at King's University College at the University of Western Ontario.

Hugo Minderhoud

Independent Director, Chair of the Remuneration Committee and Member of the Risk and Audit Committee

Mr Minderhoud joined the board in December 2017. He is based in Tashkent, Uzbekistan, where he is senior advisor to Ipak Yuli Bank Uzbekistan. He has worked in various capacities in Central Asia and the former Soviet Union since 1994, at first with ABN AMRO Bank, Netherlands, and since 2006 as independent financial advisor and board member of various banks and companies in the region. He holds a law degree from Leiden University in The Netherlands.

Aditya Srivastava

Independent Director, Chair of the Risk Committee, and Member of the Strategy and Planning Committee

Mr Srivastava has been a Board member since August 2012. He is Chief Commercial Officer of Wasl Asset Management Group, a Government of Dubai-owned corporation with interests in property, hospitality, and leisure. Before joining Wasl in 2008, he had a 20-year career in banking, the last 10 years with Société Générale where he was GCC head of project finance and corporate relationships. Mr Srivastava holds a master's degree in economics from the Delhi School of Economics and is a member of the Institute of Chartered Accountants in England and Wales.

Lutfullah Rahmat

Shareholder appointed Member of the Board of Supervisors. Member of the Strategy and Planning, the Nominating, and the Risk Committees

Mr Rahmat is past-chairman of AIB and has been a member of the Board since the Bank's inception in 2004. He is also managing director of the Rahmat Group, that has Star Textile Mills Ltd as its principal member; president of Rahmat Fruit Processing Corporation; and a partner in the sole agents for Samsung Electronics and Appliances in Afghanistan. He graduated with a BCom from Bombay University.

Record of Attendance

Record of attendance of Board meetings

	Call 22 Jan '19	Call 26 Feb '19	Live 16 Mar '19	Call 16 Apr '19	Call 14 May '19	Live 29 Jun '19	Call 23 Jul '19	Call 06 Aug '19	Live 31 Aug '19	Call 24 Sep '19	Live 29 Oct '19	Call 12 Nov '19	Live 16 Nov '19	Call 17 Dec '19
Ronald Stride	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Aditya Srivastava	✓	✓	✓	✗	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓
Hamidullah A. Mohib	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Hugo Minderhoud	✗	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓
Lutfullah Rahmat	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mansoor Tirmzi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Samuel Sidiqi	✓	✗	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓

Record of attendance of Committee meetings

Nominating

	Live 15 Mar '19	Live 28 Jun '19	(Special) Live 29 Jun '19	Live 30 Aug '19	Call 17 Sep '19	Live 15 Nov '19	(Special) Live 16 Nov'19
Samuel Sidiqi	✓	✓	✓	✓	✓	✓	✓
Hamidullah A. Mohib	✓	✓	✓	✓	✗	✓	✓
Hugo Minderhoud	✓	–	–	–	–	–	–
Lutfullah Rahmat	✓	✓	✓	✓	✓	✓	✓
Mansoor Tirmzi	✓	✓	✓	✓	✓	✓	✓
Ronald Stride	–	✓	✗	✓	✓	✓	✓

Remuneration

	Live 15 Mar '19	Live 28 Jun '19	Live 30 Aug '19	Live 15 Nov '19
Hugo Minderhoud	–	✓	✓	✓
Hamidullah A. Mohib	✓	✓	✓	✓
Mansoor Tirmzi	✓	–	–	–
Ronald Stride	✓	✓	✓	✓
Samuel Sidiqi	✓	✓	✓	✓

Risk

	Live 15 Mar '19	Live 28 Jun '19	Live 30 Aug '19	Live 15 Nov '19
Aditya Srivastava	✓	✓	✓	✓
Hamidullah A. Mohib	✓	✓	✓	✓
Hugo Minderhoud	✓	✓	✓	✓
Lutfullah Rahmat	✓	✓	✓	✓
Ronald Stride	✓	✓	✓	✓

Planning & Strategy

	Live 15 Mar '19	Live 28 Jun '19	Live 30 Aug '19	Live 15 Nov '19	Call 16 Nov '19
Mansoor Tirmzi	✓	✓	✓	✓	✓
Aditya Srivastava	✓	✓	✓	✓	✗
Lutfullah Rahmat	✓	✓	✓	✓	✓
Ronald Stride	✓	✓	✓	✓	✓
Samuel Sidiqi	✓	✓	✓	✓	✓

Audit

	Live 28 Feb '19	Call 07 Mar '19	Call 30 Mar '19	Call 12 May '19	Live 27 Jun '19	Call 03 Aug '19	Call 09 Nov '19	Live 14 Nov '19	Live 16 Nov '19
Said Arab Khan	✓	✓	✓	✓	✓	✓	✓	✓	✓
Hamidullah A. Mohib	✓	✓	✓	✓	✓	✓	✓	✓	✓
Hugo Minderhoud	✓	✓	✓	✓	✓	✓	✓	✓	✓

Organisational Structure

Board of Supervisors

Remuneration Committee
Risk Committee
Nominating Committee
Planning and Strategy Committee
Audit Committee

Management Board

Chief Executive Officer

Anthony Barned
Chairman of Management Board
Mr Barned assumed the position in April 2016, having worked with the Bank in an advisory role and chairing the Audit Committee for the previous seven years. He brings more than 40 years of international commercial banking experience, with the Barclays group and Bank of Ceylon, and as a consultant with Booz Allen & Hamilton. He is an Associate of the Chartered Institute of Bankers, London.

Internal Audit

Head of Internal Audit

Bishwajit Mazumder
Mr Mazumder, is a qualified chartered accountant, certified internal auditor, and certified information systems auditor. He also holds a law degree from India and is a USA-certified fraud examiner. He has more than 30 years' experience in banking in various institutions in different geographies and cultures, including more than a decade of heading internal audit.

Chief Operating Officer

Asadullah Fayzi
Member of Management Board
Mr Fayzi holds the position of COO, having joined AIB at its inception in 2004 as head of IT and subsequently CIO. He manages IT,HR, General Services and Operations. Previously he had been IT manager for Afghanistan Reconstruction Company. He was appointed to his current position during 2012. He holds an MSc in Electronics telecommunications from Istanbul Technical University, Turkey.

Chief Credit Officer

Curtis Faulkner
Mr Faulkner retired with 30 years' experience as a regulator with the Tennessee Department of Financial Institutions. He has since worked as consultant on banking projects with the FDIC, IMF, ADB, and USAID, including three years as a consultant for Da Afghanistan Bank. Since 2015, he has worked for AIB in various consulting roles and was appointed to the Acting CCO position in August, 2018.

Chief Financial Officer

Lalit Kumar Jha
Member of Management Board
Mr Jha holds a bachelor's degree in commerce and is a qualified chartered accountant with more than 20 years' experience, mainly in the banking sector. He has been CFO at AIB since 2010, having previously been senior vice- president at Dresdner Bank, New Delhi, and head of accounts and taxation at Bank of Tokyo Mitsubishi UFJ, New Delhi.

Head of Strategic Planning

Mohammad Taofiq Mir
Head of Strategic Planning
Mr Mir began his banking career in 2006 with AIB. He managed electronic banking channels and was head of retail banking before becoming head of strategic planning in 2014.
He also leads the Bank's programme to enhance financial crime compliance. Mr Mir holds a BSc in electrical engineering from Delft University of Technology, Netherlands.

Head of Business Development

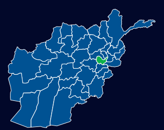
Jospeh Carasso
Mr Carasso joined AIB in 2019 in September 2019 as Head of Business Development, bringing 25 years of experience in the banking sector. Mr Carasso worked for the last 22 years in Citibank in many senior positions, including Head of Non Presence Countries, Financial Institutions and Foreign Correspondent Banking for Africa, CEO for Tanzania, Ghana and Head of Corporate and Investment Bank for Uganda. Mr. Carasso is Brazilian, and holds an undergraduate degree in Business Administration and an MBA in Finance.

Chief Risk Officer

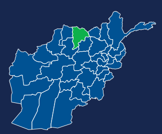
Zulfiqar Ali Khan
Dr. Khan has over 12 years of experience as a central and commercial banker. He joined AIB in 2014 as Head of Islamic Banking and also managed banking for small business, trade finance, and commercial banking. Dr.Khan is a PhD holder in Islamic finance, an MSc in banking & finance and a bachelor's degree in economics. Dr.Khan also holds professional certificates from reputed international financial institutions, including executive education course certified in Achieving Leadership Excellence from London School of Economics (LSE).

Fifteen years' history and performance of AIB

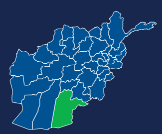
AIB's reputation for excellence is founded on consistent improvements in performance, a commitment to business integrity and strong corporate governance, and independent recognition of its achievements.



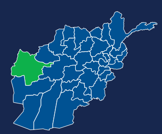
Kabul branches: 20
Shahr-e-Naw Haji Yaqoob Square Branch
Shahr-e-Naw Ansari Square Branch
Microryan Bibi Mahro Branch
Sarai Shahzada Branch
Mirwais Maidan Branch
Khair Khana Branch
Kolola Pushta Branch
Taimani Branch
Kart-e-Naw Branch
Pole Charkhi Branch
Jad-e-Maiwand Branch
Pule Bagh-e-Omomi Branch
Dasht-e-Barchi Branch
Kart-e-Se Branch
Wazir Akbar Khan Branch
UNOCA Branch
AUAF Branch
US Embassy Branch
Ahmadshah Baba Mina Branch
Smart Branch – Gulbahar Business Center
Kabul cash deposit machines: 5
ISAF HQ
KAIA
Kabul ATM's: 87



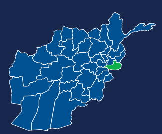
Balkh branches: 3
Mazar-e-Sharif Main Branch
Mazar-e-Sharif Kefayat Branch
Hairatan Branch
Mazar-e-Sharif ATM's: 8



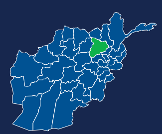
Kandahar branches: 2
Kandahar Main Branch
Kandahar Ayno Mina
Kandahar ATM's: 6



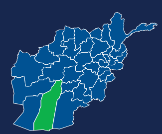
Herat branches: 2
Herat Main Branch
Herat Darb-e-Khosk Branch
Herat ATM's: 7



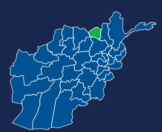
Nangarhar branches: 1
Jalalabad Branch
Nangarhar ATM's: 6



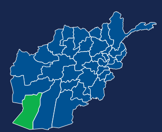
Baghlan branches: 1
Pol-e-Khumri Branch



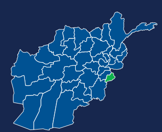
Helmand branches: 1
Lashkargah Branch
Helmand ATM's: 1



Kunduz branches: 1
Kunduz Branch



Nimroz branches: 1
Nimroz Branch



Khost branches: 1
Khost Branch
Khost ATM's: 1

33
Branches

122
ATM's

6
Cash Deposit Machines

2004
AIB signs a Management Services and Technical Assistance Agreement with ING Institutional and Government Advisory Services BV, the independent advisory unit of Netherlands headquartered ING Wholesale Banking. This agreement expired in September 2007, ING having fulfilled its mandate. Asian Development Bank's Board of Directors approves a $2.6 million equity investment in AIB. ADB enters into an agreement with three other investors to form the shareholders group, each owning 25 percent equity.

2005
Opening of first branch outside Kabul.

2006
Khalilullah Sediq joins as Chief Executive Officer.

2007
AIB shows annual profit for the first time.

2008
Appointed bankers to the American forces in Afghanistan.

2010
AIB pays first dividend to shareholders, with total distribution of $10 million.

2011
Deposits exceed $500 million. Site of 4,550m^2 purchased for development of new head office, a 12-storey property with total built area of roughly 15,500m^2.

2012
Deposits exceed $800 million. AIB acquires Standard Chartered Bank's business in Afghanistan. The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan.

2013
The Banker magazine again designates AIB as 'Bank of the Year' in Afghanistan.

2014
After being nominated by the World Bank, AIB wins 'Best Corporate Governance, Afghanistan' in the 2014 CFI.co awards. The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan for the third consecutive year. The Bank begins building its 5,500m^2 12-storey head office.

2015
Khalilullah Sediq retires as CEO to become Governor of Da Afghanistan Bank (Afghanistan's central bank). AIB wins the CFI.co 'Best Corporate Governance, Afghanistan' award and The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan for the fourth year running. Construction of the Bank's new Head Office reaches the ninth floor. The Bank exhibits for the first time at SIBOS, the annual conference, exhibition and networking event organised by SWIFT for the financial industry.

2016
AIB wins the CFI.co 'Best Corporate Governance, Afghanistan' award for the third consecutive year and The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan for the fifth year running. Construction of the Bank's new Head Office completes and fit-out begins. The Bank exhibits at SIBOS for the second time.

2017
AIB wins the CFI.co 'Best Corporate Governance, Afghanistan' award for the fourth consecutive year and The Banker magazine designates AIB as 'Bank of the Year' in Afghanistan for the sixth year running. Construction of the Bank's new Head Office nears completion with occupancy commencing in the first quarter of 2018. The Bank exhibits at SIBOS for the third time.

2018
The Banker magazine has named AIB 'Bank of the Year, Afghanistan'. The original HQ served AIB very well but the Bank has now outgrown the premises. New HQ. AIB moves into its new headquarters in central Kabul, reflecting the Bank's prominent position within Afghanistan's banking system.

2019

AIB was again awarded Best Corporate Governance in Afghanistan, and named Bank of the Year by the Bankers Magazine. AIB receives license to issue and acquire Visa cards for the first time. AIB joins Citibank's WorldLink system. AIB accelerates its deployment of digital services and mobile banking.

Independent Auditors' Report
To the shareholders of Afghanistan International Bank

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

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

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

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

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

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

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

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

- 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 Group's internal control.

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

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

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

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

Independent Auditors' Report
To the shareholders of Afghanistan International Bank

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

Grant Thornton Afg.

Grant Thornton Afghanistan
Chartered Accountants

Engagement Partner: Saqib Rehman Qureshi - FCA
Location: Kabul, Afghanistan
Date: 07 March 2020

Statement of Financial Position

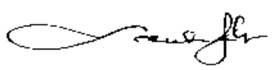
As at 31 December 2019

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
Assets			
Cash and balances with Da Afghanistan Bank	5	13,859,017	15,965,500
Balances with other banks	6	7,237,771	10,095,978
Placements - net	7	15,085,047	19,858,325
Investments - net	8	18,915,749	18,423,705
Loan and advances to customers - net	9	3,417,810	2,897,616
Receivables from financial institutions	10	502,618	360,120
Operating fixed assets	11	3,450,342	3,059,571
Intangible assets	12	426,328	394,538
Deferred tax assets	13	–	95,104
Other assets	14	837,819	572,867
Total assets		**63,732,501**	**71,723,324**
Liabilities			
Customers' deposits	15	58,843,105	67,383,947
Deposits from bank	16	500,000	–
Deferred income		77,312	98,627
Lease liabilities	17	265,040	–
Deferred tax liabilities	13	34,299	–
Other liabilities	18	333,581	655,593
Total liabilities		**60,053,337**	**68,138,167**
Equity			
Share capital	19	1,465,071	1,465,071
Capital reserves	20	290,813	260,405
Retained earnings		1,859,291	1,946,530
Revaluation surplus/ (loss) on debt instruments at FVOCI		63,989	(86,849)
Total equity		**3,679,164**	**3,585,157**
Total liabilities and equity		**63,732,501**	**71,723,324**
Contingencies and commitments	21		

The annexed notes 1 to 36 form an integral part of these financial statements.


Chairman


Chief Executive Officer


Chief Financial Officer

Statement of Comprehensive Income

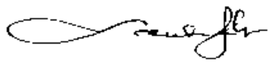
For the year ended 31 December 2019

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
Interest income	22	1,383,239	1,291,598
Interest expense	23	(36,968)	(51,141)
Net interest income		1,346,271	1,240,457
Fee and commission income	24	1,081,873	917,074
Fee and commission expense	25	(15,277)	(28,764)
Net fee and commission income		1,066,596	888,310
Income from dealing in foreign currencies		236,756	231,055
		2,649,623	**2,359,822**
Other income	26	46,414	64,750
Gain/ (loss) on sale of securities		105,221	(1,732)
Credit losses reversal / (expense)	27	(120,882)	38,114
Finance cost on lease liability		(5,351)	–
General and administrative expenses	28	(2,000,947)	(1,812,483)
Profit before income tax		**674,078**	**648,471**
Taxation	29	(65,909)	(170,306)
Profit for the year		**608,169**	**478,165**
Other comprehensive income			
Items that may be classified to profit or loss subsequently			
Surplus/ (Deficit) on debt instruments at fair value through other comprehensive income		188,547	(107,431)
Related deferred tax		(37,709)	21,486
Other comprehensive income/(loss) - net of tax		150,838	(85,945)
Total comprehensive income for the year	**21**	**759,007**	**392,220**
Earnings per share (in AFN)		20.27	15.94

The annexed notes 1 to 36 form an integral part of these financial statements.


Chairman


Chief Executive Officer


Chief Financial Officer

Statement of Changes in Equity
For the year ended 31 December 2019

	Share capital AFN '000'	Capital reserves AFN '000'	Retained earnings AFN '000'	Revaluation surplus/(loss) on debt instruments at FVOCI AFN '000'	Total AFN '000'
Balance as at 01 January 2018	**1,465,071**	**236,497**	**2,145,383**	**3,548**	**3,850,499**
Effect due to adoption of IFRS 9	–	–	(8,110)	–	(8,110)
Restated opening balance under IFRS 9	**1,465,071**	**236,497**	**2,137,273**	**3,548**	**3,842,389**
Profit for the year			478,165		478,165
Other comprehensive income, net of tax:					
Debt instruments at FVOCI					
Net change in fair value				(107,431)	(107,431)
Related tax				21,486	21,486
Reclassification adjustments relating to available for sale investments disposed-off during the year – net				(5,565)	(5,565)
Related tax on loss on disposal available for sale investments during the year				1,113	1,113
Total comprehensive income	**–**	**–**	**478,165**	**(90,397)**	**387,768**
Transferred to capital reserve		23,908	(23,908)		
Transactions with owners of the bank					
Dividend paid			(645,000)		(645,000)
Balance as at 31 December 2018	**1,465,071**	**260,405**	**1,946,530**	**(86,849)**	**3,585,157**
Balance as at 01 January 2019	**1,465,071**	**260,405**	**1,946,530**	**(86,849)**	**3,585,157**
Total comprehensive income					
Profit for the year			608,169		608,169
Other comprehensive income, net of tax:					–
Debt instruments at FVOCI					–
Net change in fair value				188,547	188,547
Related tax				(37,709)	(37,709)
Total comprehensive income	**–**	**–**	**608,169**	**150,838**	**759,007**
Transferred to capital reserve		30,408	(30,408)		–
Transactions with owners of the bank					
Dividend paid	–	–	(665,000)	–	(665,000)
Balance as at 31 December 2019	**1,465,071**	**290,813**	**1,859,291**	**63,989**	**3,679,164**

The annexed notes 1 to 36 form an integral part of these financial statements.

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

Statement of Cashflows
For the year ended 31 December 2019

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
Cash flows from operating activities			
Profit Before Income Tax		674,078	648,471
Adjustments for:			
Depreciation	11.2	265,633	76,771
Amortization	12.1	78,119	84,856
Finance cost on lease liability	17	5,351	–
Credit losses (reversal) / expense	27	120,882	(38,114)
Property and equipment written-off	11.2	1,708	–
		1,145,771	771,984
Changes in operating assets and liabilities			
Receivable from financial institutions		(142,498)	227,414
Required reserve maintained with DAB		462,748	(824,255)
Cash margin held with other banks		6,743	19,927
Loans and advances to customers - net		(674,188)	338,455
Other assets		(248,991)	(47,272)
Deferred income on commercial letter of credit and guarantees		(21,315)	79,638
Customers' deposits		(8,540,842)	11,122,527
Deposits from banks		500,000	(500,000)
Other liabilities		(292,874)	342,289
		(7,805,446)	11,530,706
Income tax paid		(6,258)	(131,021)
Net cash flow (used in)/ from operating activities		(7,811,704)	11,399,685
Cash flows from investing activities			
Capital work-in-progress	11.1.1	(429,370)	(579,423)
Acquisition of operating fixed assets	11.2	(715)	(9,255)
Acquisition of intangible assets	12.1	(9,255)	(24,700)
Placements (with maturity more than three months)		3,115,176	1,276,079
Investments		(293,373)	(2,485,619)
Net cash flow from/ (used in) investing activities		2,382,463	(1,822,918)
Cash flows from financing activities			
Lease liability repaid	17	(60,769)	–
Finance cost paid	17	(8,223)	–
Dividend paid	19.3	(665,000)	(645,000)
Net cash used in financing activities		(733,992)	(645,000)
Net increase in cash and cash equivalents		**(6,163,233)**	**8,931,767**
Cash and cash equivalents at 1 January		34,537,651	25,605,884
Cash and cash equivalents at 31 December	31	**28,374,418**	**34,537,651**

The annexed notes 1 to 36 form an integral part of these financial statements.

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

Notes to the Financial Statements
For the year ended 31 December 2019

1. Status and nature of business
Afghanistan International Bank (the Bank) was registered with Afghan Investment Support Agency (AISA) on 27 December 2003 and received formal commercial banking license on 22 March 2004 from Da Afghanistan Bank (DAB), the central bank of Afghanistan, to operate nationwide. The Bank obtained Islamic banking license from DAB via letter no. 1863/1890 dated 21 July 2014.

The Bank initially was incorporated as a limited liability company and domiciled in Afghanistan, however, on the basis that the bank capital is divided into shares the status of the bank is changed from limited liability to Corporation under the Corporations and Limited Liability Companies Law, this status is effective from 04 May 2016. The principal business place of the Bank is at AIB Head Office, Airport Road, Kabul, Afghanistan.

The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The Bank has 35 branches and 2 cash outlets (2018: 37 branches and 2 cash outlets) in operation.

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

These financial statements have been prepared under the historical cost convention except that certain investments, derivative financial instruments and forward foreign exchange contracts are stated at fair value.

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

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

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

Standard or Interpretation
- IFRS 16, "Leases"
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
- Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures (amendments to IAS 28)
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

Annual Improvements to IFRS Standards 2015-2017 Cycle
- IFRS 3 Business combination - previously held interest in a joint operation
- IFRS 11 Joint Agreements- previously held interest in a joint operation
- IAS 12 Income Taxes- Income tax consequences on payments on financial instruments classified as equity
- IAS 23 Borrowing cost - Borrowing cost eligible for capitalization

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

2.2. Standards, interpretations and amendments to published approved accounting standards that are not yet effective
The following standards, amendments and interpretations with respect to the approved accounting standards would be effective from the dates mentioned there against:

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

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

3. Summary of significant accounting policies
The accounting policies adopted in preparation of this financial statements are consistent with those followed in the preparation of the annual financial statements of the Bank for the year ended 31 December 2018 other than as disclosed in note 3.1 below:

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

3.1.1. IFRS 16 Leases
IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The adoption of this new Standard has resulted in recognition of a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach. There has been no impact on the opening equity upon adoption of IFRS 16. The comparative information for 2018 is reported under IAS 17 and is not comparable to the information presented for 2019. Right-of-use asset amounting to AFN 329,926 thousand has been recognized along with lease liability of AFN 317,856 thousand with remaining impact recognized in reversal of prepaid rent expense as of the date of adoption.

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

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16. On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. The Bank did not had any finance lease. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 1.9% per annum. The Bank has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

Following accounting policy change has been adopted by the Bank pursuant to IFRS 16:

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

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

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

c) The Bank has the right to direct the use of the identified asset throughout the period of use. The Ban 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 property and equipment within operating fixed assets and lease liabilities have been disclosed on the face of the statement of financial position.

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.

3.2. Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity including cash in hand and at ATM, unrestricted balances with the DAB, balances with banks and placements.

3.3. Financial instruments
3.3.1. Financial instruments – initial recognition
3.3.1.1. Date of recognition
Financial assets and liabilities, except for loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognize balances due to customers when funds are transferred to the Bank.

3.3.1.2. Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments.

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

3.3.1.3. Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

3.3.1.4. Measurement categories of financial assets and liabilities
The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost, as explained in note 3.3.2.1
- FVOCI, as explained in notes 3.3.2.3 and 3.3.2.4
- FVPL

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The Bank classifies and measures its trading portfolio at FVPL as explained in Notes 3.3.2.2. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 3.3.2.6.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 3.3.2.6.

3.3.2. Financial assets and liabilities
3.3.2.1. Due from banks, Loans and advances to Customers, Financial investments at amortized cost
The Bank measures Due from banks, Loans and advances to customers and other financial investments at amortized cost if both of the following conditions are met:

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

The details of these conditions are outlined below:

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

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

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

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

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

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

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

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

3.3.2.2. Financial assets or financial liabilities held for trading
The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

3.3.2.3. Debt instruments at FVOCI
The Bank classifies debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost as explained in note 3.3.2.1. The ECL calculation for Debt instruments at FVOCI is explained in Note 33.2.2. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. On de recognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

3.3.2.4. Equity instruments at FVOCI
Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by- instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

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

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

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

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

3.3.3. Reclassification of financial assets and liabilities
The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets or liabilities in 2019.

3.3.4. Impairment of financial assets
3.3.4.1. Overview of the ECL principles
The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 3.3.4.2). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 3.3.5.

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

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

The Bank has established a policy to perform an assessment at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 33.2.2

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

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

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

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

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

PD	The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de de–recognized and is still in the portfolio. The concept of PDs is further explained in note 33.2.2.
EAD	The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in note 33.2.2.
LGD	The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in note 33.2.2.

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

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 2.6.5, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

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The mechanics of the ECL method are summarized below:

Stage 1	The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
Stage 2	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
Stage 3	For loans considered credit-impaired (as defined in note 33.2.2), the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
POCI	POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit-adjusted EIR.

Loan commitments and letters of credit

When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognized within provisions, as disclosed in note 18.2 to the financial statements.

Financial guarantee contracts

The Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognized within provisions, as disclosed in note 18.2 to the financial statements.

3.3.4.3. Debt instruments measured at fair value through OCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon de recognition of the assets.

3.3.4.4. Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behavior, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is one year for corporate and 3 years for retail products.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 33.2.2 but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

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

3.3.4.5. Forward looking information

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

- GDP growth
- Unemployment rates
- Consumer price indices

3.3.5. Impairment provision under local regulations

Loans and advances to customers

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

i) **Standard:** These are loans and advances, which are paying in a current manner or at most past due for the period of 1-30 days, fully secured and is supported by sound net worth, profitability, liquidity and cash flow of the obligor. Standard assets are sufficiently secured with respect to the repayment of both the principal amount and interest. An overdraft would be regarded as Standard if monthly interest payments and other charges are past due for 1-30 days, and there was regular activity on the account with no sign of a hard core of debt developing. A standard provision is maintained in the books of account @1% (31 December 2018: 1%) of value of such loans and advances.

ii) **Watch:** These are loans and advances which are adequately protected but are potentially weak. Such an asset constitutes an unwarranted credit risk, but not to the point of requiring a classification of Substandard. The credit risk may be minor, and most instances, bank management can correct the noted deficiencies with increased attention. Further, all loans and advances which are past due by 31 to 60 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account not less than 5% of value of such loans and advances.

iii) **Substandard:** These are loans and advances which show clear manifestations of credit weaknesses that jeopardize the liquidation of the debt. Substandard loans and advances include loans to borrowers whose cash flows are not sufficient to meet currently maturing debts, loans to borrowers which are significantly undercapitalized, and loans to borrowers lacking sufficient working capital to meet their operating needs.

Further, all loans and advances which are past due by 61 to 120 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account not less than 25% of value of such loans and advances.

iv) **Doubtful:** These are loans and advances which display all the weaknesses inherent in loans and advances classified as Substandard but with the added characteristics that they are not well secured and the weaknesses make collection or liquidation in full, on the basis of currently available information, highly questionable and improbable. The possibility of loss is extremely high, but because of certain mitigating circumstances, which may work to the advantage and strengthening of the facility, its classification as an estimated loss is postponed until its more defined status is ascertained. Further all loans and advances which are past due by 121 to 480 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account not less than 50% of value of such loans and advances.

v) **Loss:** These are loans and advances which are considered uncollectible and of such little value that their continuation as recoverable facilities is not defensible. This classification does not imply that the facility has absolutely no recoverable value, but rather it is not practical or desirable to defer making full provisions for the facility even though partial recover in future may not be entirely ruled out. Loans and advances classified as Loss include those to bankrupt companies and insolvent firms with negative working capital and cash flow or those to judgment debtors with no means or foreclosable collateral to settle the debts. Further, all loans and advances which are past due over 481 days for principal and interest payments are classified as Loss. This category of loans shall be retained in bank balance sheet for the period of 6 month for recovery purposes and 100% loan loss provisioning should be made. After 6 months, they shall be immediately written off with the provisioning made.

The bank has also determined provision for expected credit losses under IFRS 9 which results higher than provision under Asset Classification Provisioning Regulation, accordingly higher provisions were in cooperated in the financial statements as disclosed in note 9.4 to the financial statements.

Investments, placements and other assets

The bank has policy of maintaining general provision on placements and investments based on the credit rating, falling in category A (0%), B (0.50%) and C (1%), entity also determine provision for expected credit losses under IFRS 9, the financial statements are in cooperated with higher provision impact resulting from the mentioned methods, as disclosed in notes 7.2.2 & 8.5.2 to the financial statements.

Off-balance sheet item

General provision of 1% is maintained on bank guarantees and letter of credits on unsecured portion by cash margin as required in Asset Classification and Provisioning Regulation issued by DAB, however, entity also determine provision for expected credit losses on off-balance sheet items under IFRS 9, the financial statements are in cooperated with higher provision impact resulting from the mentioned methods, as disclosed in note 18.2 to the financial statements.

3.4. 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.

3.5. Fair value measurement

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

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

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximizes the use of relevant observable inputs and minimize the use of unobservable all of 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.

3.6. Operating fixed assets

These are stated at historical cost less accumulated depreciation and impairment, if any, except for land and capital work in progress which is stated at cost less impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are recognized in statement of comprehensive income during the financial period in which they are incurred.

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Depreciation is calculated using the straight-line method to allocate the depreciable amount of the assets over their estimated useful life as follows:

Building	20 years
Leasehold improvements	3 to 10 years
Computers	3 to 5 years
Office equipment	3 to 5 years
Furniture and fittings	3 to 10 years
ATMs	5 years
Vehicles	5 years

Depreciation is charged on additions during the year from the month they become available for their intended use while no depreciation is charged in the month of disposal of assets. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each statement of financial position date.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount. These are included in other income in the statement of comprehensive income.

3.7. Intangible assets

Intangible assets are capitalized only to the extent that the future economic benefits can be derived by the Bank having useful life of more than one year. Intangible assets are stated at cost less accumulated amortization. Amortization is charged to income applying the straight-line method.

i) Core Deposits
The Core Deposits is capitalized resulting from the acquisition of deposit base of Standard Chartered Bank (SCB) Afghanistan operations during 2012 which is amortized over the useful life of 15 years.

ii) Computer software
Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of 3 to 10 years.

iii) License fee
Acquired trademarks and licenses are initially recognized at historical cost and subsequently recognized at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the licenses over their estimated useful life.

The useful lives of intangibles are reviewed and adjusted, if appropriate, at each statement of financial position date.

3.8. Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Non-financial assets that are subject to depreciation/ amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss or reversal of impairment loss is recognized in the statement of comprehensive income. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. Reversal of the impairment losses is restricted to the original cost of the assets.

3.9. Taxation

Current

The current income tax charge is calculated in accordance with Income Tax Law, 2009. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3.10. Revenue recognition

a) Interest income and expenses for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within `interest income' and `interest expense' in the statement of comprehensive income using the effective interest rate method.

   The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

b) Due but unpaid interest income is accrued on overdue advances for periods up to 90 days in compliance with the Banking regulations issued by DAB. After 90 days, overdue advances are classified as non-performing and further accrual of unpaid interest income ceases.

c) Gains and losses on disposal of property and equipment are recognized in the period in which disposal is made.

d) Fees and commission income and expense are recognized on an accrual basis when the service has been provided/received.

e) Fee and commission income that are integral part to the effective interest rate on financial assets and liability are included in the measurement of effective interest rate. Other fee and commission expenses related mainly to the transactions are services fee, which are expensed as the services are received.

3.11. Foreign currency transactions and translation

a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is Afghani (AFN). All amounts have been rounded to the nearest thousands, except when otherwise indicated

3.12. Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency assets and liabilities are translated using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of assets and liabilities denominated in foreign currencies are recognized in income currently.

The exchange rate for following major currencies against AFN were:

	1 USD	1 Euro
As at 31 December 2019	77.46	86.18
As at 31 December 2018	75.31	86.01

3.13. Provisions

Provisions are recognized when there are present, legal or constructive obligations as a result of past events; it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amounts can be made. Provision for guarantee claims and other off-balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations.

3.14. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements when there is a legally enforceable right to offset the recognized amounts and the Bank intends to settle either on a net basis or realize the assets and settle the liabilities simultaneously.

3.15. Dividend Distribution

Final dividend distributions to the bank's shareholders are recognized as a liability in the financial statements in the period in which the dividends are approved by the Bank's shareholders at the Annual General Meeting while interim dividend are recognized in the period in which the dividends are declared by the Board of Supervisors.

3.16. Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to shareholders of the Bank by the weighted-average number of shares outstanding during the year.

3.17. Employee benefits

Defined contribution plan

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognized as personnel expenses (salaries and benefits) in profit or loss. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

4. Use of critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgments will, by definition, rarely equal the related actual results. The material estimates, assumptions and judgments used to measure and classify the carrying amounts of assets and liabilities are outlined below:

a) Impairment losses on financial assets

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

The measurement of impairment losses under IFRS 9across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

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

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

The Bank reviews loans to customer balances quarterly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations.

b) 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.

c) Useful life of property and equipment and intangible assets

The Bank reviews the useful life, depreciation method and residual value of property and equipment and intangible assets 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.

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5. Cash and balances with Da Afghanistan Bank

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
Cash in hand		2,432,604	1,791,885
Cash in hand – Islamic banking division		180,747	115,728
Cash at Automated Teller Machines (ATMs)		648,553	725,223
		3,261,904	2,632,836
Balances with Da Afghanistan Bank:			
Local currency:			
– Deposit facility accounts	5.1	1,107,189	2,821,706
– Required reserve accounts	5.2	588,501	620,660
– Current accounts		496,894	1,221,241
		2,192,584	4,663,607
Foreign currency:			
– Required reserve accounts	5.2	5,337,790	5,768,379
– Current accounts		3,066,739	2,900,678
		13,859,017	**15,965,500**

5.1. This represents interest bearing account carrying interest @ 0.10% (31 December 2018: 0.10%) per annum.

5.2. Required reserves are maintained with DAB, denominated in respective currencies, to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. Theses balances are interest free.

6. Balances with other banks

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
Outside Afghanistan:			
With Standard Chartered Bank	6.1	–	4,216,826
With Commerzbank, Germany:			
– in nostro accounts	6.2	77,070	149,930
– as cash margins held	6.3	18,590	18,074
		95,660	168,004
With Crown Agents Bank:			
– in nostro accounts	6.4	2,893,292	1,615,896
– as cash margins held		–	7,259
		2,893,292	1,623,155
With other banks	6.5	4,248,819	4,087,993
		7,237,771	**10,095,978**

6.1. These represented balances with Standard Chartered Bank in Singapore, New York, Frankfurt, London and Dubai, in USD, EURO, GBP and AED currencies, which carried interest rates ranging from 0.05% to 0.80% p.a. These balances are available on demand basis.

6.2. These represent non-interesting bearing balances available on demand basis.

6.3. This represents the amounts held against the counter guarantees issued by Commerzbank, Germany.

6.4. These represent interesting bearing balances (2018: non-interest bearing) which carry interest of 1.50% p.a.

6.5. These represent non-interest bearing balances available with different banks for which details are included in note 33.2.5.

7. Placements – net

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
Placements with banks	7.1	15,106,058	19,889,268
Impairment allowances for losses	7.2	(21,011)	(30,943)
		15,085,047	**19,858,325**

7.1. These represent USD and Euro denominated fixed term placements with financial institutions outside Afghanistan up to a maximum period of one year (2018: one year) and carry interest at rates ranging from 1.40% to 3.50% (31 December 2018: 1.15% to 3.25%) per annum.

7.2. Impairment allowance for placements

7.2.1. The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2019 and 2018, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 32.2.2.

	31 December 2019				31 December 2018
	Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Total AFN '000'	AFN '000'
Rating Performing					
Investment Grade	13,809,990	774,600	–	14,584,590	19,889,268
Non-Investment Grade	–	521,468	–	521,468	–
Total	**13,809,990**	**1,296,068**	**–**	**15,106,058**	**19,889,268**
Provision for expected credit losses	(234)	(821)	–	(1,055)	(2,714)
Provision for impairment losses as per ACPR - (note 7.2.2)	–	–	–	(19,956)	(28,229)
Total	**(234)**	**(821)**	**–**	**(21,011)**	**(30,943)**
Net balance	**13,809,756**	**1,295,247**	**–**	**15,085,047**	**19,858,325**

7.2.2. The provision for expected credit losses on placements as per IFRS 9 amounted to AFN 1,055 thousand (31 December 2018: AFN 2,714 thousand) which is lower from the one resulting from Assets Classification and Provisioning Regulation requirements (ACPR). Accordingly, the Bank has maintained higher provision as required under ACPR.

8. Investments – net

	Note	31 December 2019 AFN '000	31 December 2018 AFN '000
Investment bonds	8.1	7,837,520	3,588,690
Debt instruments at amortised cost:			
Capital notes with DAB	8.2	742,372	1,144,940
Treasury bills	8.3	934,684	2,685,978
Investment bonds	8.4	9,415,638	11,028,686
		11,092,694	14,859,604
		18,930,214	18,448,294
Allowance for ECL / impairment losses	8.5	(14,465)	(24,589)
		18,915,749	**18,423,705**

8.1. These represent investments in sovereign bonds having maturity ranging from January 2020 to April 2026 (31 December 2018: April 2019 to April 2025) and carrying interest rates ranging from 2.38% to 8.75% (31 December 2018: 2.38 % to 8.75%) per annum. These investments are managed by Julius Baer and Emirates NBD on behalf of the Bank.

8.2. These represent investments in Capital notes issued by DAB having maturity ranging from February to November 2020 (31 December 2018: three to six months) carrying yield ranging from 0.93% to 2.20% (31 December 2018: 0.50% to 0.91%) per annum receivable on maturity of respective notes.

8.3. This represents investment in United States of America - Treasury bills having maturing in January 2020 (31 December 2018: one month to three months), carrying yield of 1.53% (31 December 2018: 2.29% to 2.39%) per annum receivable on maturity.

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8.4. These represent investments in sovereign bonds carrying interest rates ranging from 1.25% to 7.75% (31 December 2018: 1.25% to 7.75%) per annum. These investments have maturity ranging from January 2020 to August 2025 (31 December 2018: January 2019 to August 2025). These investments are managed by Julius Baer, Credit Suisse and Emirates NBD on behalf of the Bank.

8.5. Impairment allowance for investments

8.5.1. The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2019 and 2018, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 32.2.2.

	31 December 2019				31 December 2018
	Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Total AFN '000'	AFN '000'
Rating Performing					
Investment Grade	12,739,685	5,282,575	–	18,022,260	16,177,079
Non-Investment Grade	–	817,373	–	817,373	2,163,782
Total	**12,739,685**	**6,099,948**	**–**	**18,839,633**	**18,340,861**
Provision for expected credit losses	–	(9,813)	–	(9,813)	(19,064)
Provision for Impairment losses as per ACPR - (note 8.5.2)	–	–	–	(4,652)	(5,524)
Total	**–**	**(9,813)**	**–**	**(14,465)**	**(24,588)**
Mark to market adjustment on debt instruments at fair value through OCI	–	–	–	90,581	107,432
Net balance	**12,739,685**	**6,090,135**	**–**	**18,915,749**	**18,423,705**

8.5.2. The provision for expected credit losses on investments as per IFRS 9 amount to AFN 9,813 thousand (31 December 2018: AFN 24,588 thousand) which is lower from Assets Classification and Provisioning Regulation requirements (ACPR). Accordingly, the Bank has maintained higher provision as required under ACPR.

9. Loan and advances to customers – net

	Note	31 December 2019 AFN '000	31 December 2018 AFN '000
Overdrafts	9.1	3,208,365	2,433,694
Term loans	9.2	531,421	633,716
Consumer loans	9.3	51,546	49,734
		3,791,332	3,117,144
General provision	9.4	(154,920)	(150,620)
Allowance for ECL / impairment losses	9.5	(218,602)	(68,908)
		3,417,810	**2,897,616**
Particulars of loans and advances - (gross)		3,318,947	2,222,954
Short term (for up to one year)		472,500	894,190
Non-current (for over one year)		**3,791,447**	**3,117,144**

9.1. These represent balances due from customers at various interest rates ranging from 7% to 14.5% (31 December 2018: 7% to 15%) per annum and are secured against mortgage of properties, personal guarantees and pledge of stocks. These include loans and advances to Small Medium Size Enterprises (SMEs) amounting to AFN 71,884 thousand (31 December 2018: AFN 138,845 thousand) which are also partially backed by Afghanistan Credit Guarantee Foundation (ACGF) guarantees to the extent defined in agreement with ACGF.

9.2. Term loans carry interest at various rates ranging from 5.5% to 21% p.a. (31 December 2018: 11% to 18% p.a.) and are secured against mortgage of properties, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers. These include loans and advances to SMEs amounting to AFN 228,333 thousand (31 December 2018: AFN 587,070 thousand) which are also partially backed by Afghanistan Credit Guarantee Foundation (ACGF) guarantees to the extent defined in agreement with ACGF.

9.2.1. Term loans included Small Business loans amounted to AFN 32,819 thousand as of 31 December 2018 with interest rate ranging from 13% to 18% p.a. These loans were secured against deposit of original title deed, corporate guarantee by a registered company and hypothecation of movable fixed assets as collateral after registration from DAB.

9.3. These include payroll loans provided to individual payroll account holders and employees of corporate customers having payroll account with the Bank carrying interest rate of18% (31 December 2018: 18%) p.a., loans provided to university and school teachers carrying interest rate of 15% (31 December 2018: 15%) and credit card loans carrying interest of 36% (31 December 2018: 36%) on annual basis on outstanding balances.

9.4. This represent additional general provision maintained by the bank which is duly approved by DAB.

9.5. Allowance for ECL / Impairment allowance for loans and advances to customers

9.5.1. The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2019 and 2018, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 32.2.2.

	31 December 2019				31 December 2018
	Stage 1 AFN '000'	Stage 2 AFN '000'	Stage 3 AFN '000'	Total AFN '000'	AFN '000'
Gross loan portfolio					
Internal Rating Grade Performing					
High Grade	583,822	56,571	–	640,393	868,331
Standard Grade	1,614,068	1,194,418	–	2,808,486	2,193,506
Sub Standard Grade	3,920	10,819	–	14,739	44,379
Non-performing	–	–	327,714	327,714	10,928
Total	2,201,810	1,261,808	327,714	3,791,332	3,117,144
Allowance for ECL / impairment losses					93,739
Opening balance	26,011	33,945	8,952	68,908	
Allowances for impairment made during the year	(15,175)	(5,200)	166,799	146,424	(5,293)
Amounts written off during the year - note 9.5.2	–	–	(12,374)	(12,374)	(15,490)
Exchange rate differences and other adjustments			15,644	15,644	(4,048)
Provision held for expected credit losses - note 9.5.3	10,836	28,745	179,021	218,602	68,908
Net balance	**2,190,974**	**1,233,063**	**148,693**	**3,572,730**	**3,048,236**

9.5.2. The Bank has filed suits for the recovery of loans and advances (principal due) against the defaulted borrowers amounting to AFN 1,029,119 thousand (31 December 2018: AFN 754,965 thousand) as at the year end. These suits are pending decisions at various courts. The Bank's management is of the view that the aforementioned suits will be decided in its favor due to sound legal footings.

9.5.3. IFRS 9 expected credit loss amounts to AFN 218,601 thousand as at 31 December 2019. The provision of AFN 212,927 thousand (General provision: AFN 21,061 thousand and Specific provision: AFN 191,866 thousand) (31 December 2018: provision of AFN 63,867 comprising of General provision of AFN 28,668 thousand and Specific provision of AFN 35,199 thousand) made under Assets Classification and Provisioning Regulation is lower than IFRS 9 ECL, therefore, the Bank has maintained the higher provision under the requirements of IFRS 9.

10. Receivable from financial institutions

This represents non-interest bearing net receivable balance due from CSC Bank SAL (CSC). The Bank under the agreement with CSC provides the enablement platform for credit/ debit card transactions, under fee sharing arrangement, and transfers the cash in ATMs to CSC. Usage charges are payable by the Bank to CSC.

Notes to the Financial Statements continued

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11. Operating fixed assets

	Note	31 December 2019 AFN '000	31 December 2018 AFN '000
Capital work–in–progress	11.1	339,623	79,949
Property and equipment	11.2	3,110,719	2,979,622
		3,450,342	**3,059,571**

11.1. Capital work–in–progress

Advances to suppliers and contractors		85,570	79,949
Advances to related party		254,053	–
	11.1.1	339,623	79,949

11.1.1. Movement in capital work in progress

Opening	79,949	2,264,025
Additions during the year	429,370	579,423
Transferred to operating fixed assets	(69,042)	(2,754,723)
Transferred to intangible assets	(100,654)	(8,776)
Closing	339,623	79,949

11.2. Property and equipment

	Land	Building	Leased buildings - Right of Use Assets	Leasehold improvements	Computers	Office equipment	Furniture & fittings	ATMs	Vehicles	Total
Cost										
Balance at 1 January 2018	177,568	–	–	81,810	115,751	175,100	19,204	136,935	97,651	804,019
Transfers from CWIP	–	2,568,578	–	15,882	45,823	13,462	49,692	61,286	–	2,754,723
Additions	–	–	–	658	11,610	4,349	98	2,694	82	19,491
Balance at 31 December 2018	177,568	2,568,578	–	98,350	173,184	192,911	68,994	200,915	97,733	3,578,233
Balance at 1 January 2019	177,568	2,568,578	–	98,350	173,184	192,911	68,994	200,915	97,733	3,578,233
Adjustment on transition to IFRS 16			329,926							329,926
Transfers from CWIP	–	1,416	–	8,122	31,408	17,945	1,466	8,685	–	69,042
Additions	–	–	–	–	–	–	–	–	715	715
Adjustments/ written–off		–	(1,245)	(9,972)	–	–	–	–	–	(11,217)
Balance at 31 December 2019	177,568	2,569,994	328,681	96,500	204,592	210,856	70,460	209,600	98,448	3,966,699
Depreciation										
Balance at 1 January 2018	–	–	–	75,447	87,093	165,010	17,055	93,539	83,695	521,839
Charge for the year	–	10,908	–	7,186	11,144	22,563	1,637	16,613	6,721	76,772
Balance at 31 December 2018	–	10,908	–	82,633	98,237	187,573	18,692	110,152	90,416	598,611
Balance at 1 January 2019	–	10,908	–	82,633	98,237	187,573	18,692	110,152	90,416	598,611
Charge for the year	–	128,580	63,916	6,698	35,476	7,151	2,702	17,088	4,022	265,633
Adjustments/ written–off	–	–	–	(8,264)	–	–	–	–	–	(8,264)
Balance at 31 December 2019	–	139,488	63,916	81,067	133,713	194,724	21,394	127,240	94,438	855,980
Carrying amounts										
Balance at 1 January 2018	177,568	–	–	6,363	28,658	10,090	2,149	43,396	13,956	282,180
Balance at 31 December 2018	177,568	2,557,670	–	15,717	74,947	5,338	50,302	90,763	7,317	2,979,622
Balance at 31 December 2019	**177,568**	**2,430,506**	**264,765**	**15,433**	**70,879**	**16,132**	**49,066**	**82,360**	**4,010**	**3,110,719**
Useful life		20 years	1 to 8 years	3 to 10 years	3 to 5 years	3 to 5 years	3 to 10 years	5 years	5 years	

12. Intangible assets

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
Computer software, licenses and core deposits	12.1	**426,328**	**394,538**

12.1. Computer software, licenses and core deposits

	Computer software AFN '000	License fee AFN '000	Core deposits AFN '000	Total AFN '000
Cost				
Balance at 01 January 2018	326,086	72,520	542,677	941,283
Transfers from CWIP	8,776	–	–	8,776
Additions	23,989	711	–	24,700
Balance at 31 December 2018	358,851	73,231	542,677	974,759
Balance at 01 January 2019	358,851	73,231	542,677	974,759
Transfers from CWIP	100,654	–	–	100,654
Additions	9,255	–	–	9,255
Balance at 31 December 2019	**468,760**	**73,231**	**542,677**	**1,084,668**
Amortization				
Balance at 01 January 2018	245,602	56,708	193,055	495,365
Charge for the year	39,403	7,722	37,731	84,856
Balance at 31 December 2018	285,005	64,430	230,786	580,221
Balance at 01 January 2019	285,005	64,430	230,786	580,221
Charge for the year	36,128	7,336	34,655	78,119
Balance at 31 December 2019	**321,133**	**71,766**	**265,441**	**658,340**
Carrying amounts				
Balance at 01 January 2018	113,249	16,523	349,622	479,394
Balance at 31 December 2018	73,846	8,801	311,891	394,538
Balance at 31 December 2019	**147,627**	**1,465**	**277,236**	**426,328**
Useful life	3 to 10 years	3 to 10 years	15 years	

Notes to the Financial Statements continued
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13. Deferred tax

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
Deferred tax assets / (liabilities) arising in respect of:			
Provision on investments, placements, loans and advances and other assets		7,096	40,756
Provision on guarantees and commercial letter of credits		14,376	15,048
Surplus on revaluation of investments		(17,110)	20,599
Carry forward taxable losses		189,383	139,597
Accelerated tax depreciation and amortization		(228,044)	(120,896)
	13.1	**(34,299)**	**95,104**

13.1. Movement in temporary differences during the year

	Balance at 01 January 2018 AFN '000	Recognized in profit or loss AFN '000	Recognized in equity AFN '000	Balance at 31 December 2018 AFN '000	Recognized in profit or loss AFN '000	Recognized in equity AFN '000	Balance at 31 December 2019 AFN '000
Deferred tax assets arising in respect of:							
Provision on investments placements and other assets	48,720	(7,963)	–	40,757	(33,661)	–	7,096
Provision on guarantees and commercial letter of credits	13,648	1,399	–	15,047	(671)	–	14,376
Carry forward taxable losses	–	139,597	–	139,597	49,786	–	189,383
	62,368	133,033	–	195,401	15,454	–	210,855
Deferred tax liabilities arising in respect of:							
Revaluation reserve on investments	(887)	21,486	20,599			(37,709)	(17,110)
Accelerated tax depreciation and amortization	12,124	(133,020)	–	(120,896)	(107,148)	–	(228,044)
	11,237	(133,020)	21,486	(100,297)	(107,148)	(37,709)	(245,154)
	73,605	**13**	**21,486**	**95,104**	**(91,694)**	**(37,709)**	**(34,299)**

14. Other assets

	Note	31 December 2019 AFN '000'	31 December 2018 AFN '000'
Advances to employees		49,561	37,851
Security deposits		8,821	8,805
Prepayments		206,222	153,237
Interest receivable		346,562	328,021
Advance income tax – net		30,050	23,792
Other receivable and advances		196,609	30,870
Receivable from DoJ	14.1	250,605	250,605
Less: Balance written off		(250,605)	(250,605)
		–	–
		837,825	582,576
Allowance for ECL / impairment losses	14.2	(6)	(9,709)
		837,819	**572,867**

14.1. Receivable from DoJ

This represents receivables from the United States Government department, Department of Justice (the "DoJ"). The DoJ seized an amount of AFN 565.701 million (equivalent to USD 10.1 million) from the Bank's account with Standard Chartered's branch in New York. Pursuant to Title 18, U.S. Code Section 981(k), the United States sought to reach the customer's Afghan-based accounts by seizing funds from the Bank's correspondent account in the United States. The United States has not alleged any wrongdoing against the Bank. In September 2013, the United States returned to the Bank approximately USD 5.7 million, plus accrued interest, of the seized funds. The United States then moved to strike AIB's claim as to the remaining monies. In September 2015, that motion was denied as to all but USD 147,939, leaving approximately USD 4.1 million at issue. AIB is in settlement discussion with the U.S. Government. However, on prudent basis, the Bank has made provision of AFN 250,605 thousand in its books of account.

14.2. This represents provision maintained on advances to staff as per Asset Classification and Provisioning Regulation issued by DAB (31 December 2018: provision for expected credit losses on advances to staff).

15. Customers' deposits

	Note	31 December 2019 AFN '000'	31 December 2019 AFN '000'
Current deposits		56,415,963	62,250,562
Saving deposits	15.1	244,037	224,981
Term deposits	15.2	–	3,012,400
Islamic deposits	15.3	1,335,000	881,714
Cash margin held against bank guarantees and letters of credit		848,105	1,014,290
		58,843,105	**67,383,947**

15.1. Saving deposits carry interest @ 3% p.a. (31 December 2018: 3% p.a.)

15.2. Term deposits carried interest rates ranging from 0.75% to 1.40% per annum.

15.3. Islamic deposits can be further analyzed as follows:

Current deposits	144,910	121,803
Saving deposits	1,146,235	733,067
Term deposits	43,855	26,845
	1,335,000	**881,715**

16. Deposits from bank

Represents term deposit of AFN 500,000 thousand (31 December 2018: Nil) from Pashtany Bank that carries interest of 1.87% per annum and maturing on 8 June 2020.

17. Lease liabilities

	Note	31 December 2019 AFN '000'	31 December 2019 AFN '000'
Adjustment on transition to IFRS 16 – opening balance as of 1 January 2019		317,856	–
Additions during the year		–	–
Derecognized during the year		(1,113)	–
Principal repayment		(60,769)	–
Finance cost accrued		5,351	–
Finance cost paid		(8,223)	–
Adjustments for the movement in lease liability		11,938	–
	17.1	**265,040**	**–**

17.1. Lease liabilities represent the amounts payable relating to the right-of-use assets recognized on account of branches under operating leases. The maturity analysis of lease liabilities is presented in note 33.3.2.

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18. Other liabilities

	Note	31 December 2019 AFN '000'	31 December 2019 AFN '000'
Accruals and other payables		12,148	37,426
Amounts pending transfers to customers' accounts	18.1	46,222	337,651
Retention money payable		14,927	15,341
Payable from sale of collateral against loans and advances written off		64,924	34,098
Others		123,479	155,843
Provision on:			
Financial guarantees	18.2	71,582	75,234
Commercial letter of credits	18.2	299	–
		71,881	75,234
		333,581	**655,593**

18.1. This represents amounts received on behalf of the customers, however, not credited in the respective customer accounts due to incomplete identification data.

18.2. This represents 1% provision on unsecured portion of bank guarantees, not backed by cash margin, as required in Asset Classification and Provisioning Regulation issued by DAB, however, IFRS 9 provision for expected credit loss computed on unfunded financing facilities amounts to AFN 47,074 thousands (31 December 2018: AFN 23,363 thousands). The provision under regulations issued by DAB is higher than IFRS 9 ECL therefore, the Bank has maintained the regulatory provision.

19. Share capital

		31 December 2019	31 December 2019
Authorized 30,000,000 (2018: 30,000,000) ordinary shares of USD 1 each	USD '000'	30,000	30,000
	AFN '000'	1,465,071	1,465,071
Issued, subscribed and paid-up – 30,000,000 (31 December 2018: 30,000,000) ordinary shares of USD 1 each fully paid in cash	AFN	**1,465,071**	**1,465,071**

19.1. Pursuant to letter no.918/703 dated 17 May 2010 issued by Da Afghanistan Bank (DAB), the Bank complies with the minimum paid-up capital requirement for commercial banks in Afghanistan amounting to AFN 1 billion or US $ 20 million.

19.2. Horizon Associates LLC and Wilton Holding Limited each hold 46.25% of issued, subscribed and paid up capital while remaining 7.5% is held by International Finance Corporation which is same as per previous year.

19.3. During the year, the Bank has paid cash dividend of AFN 22.17 per share (31 December 2018: AFN 21.5 per share) amounting to AFN 665 million (31 December 2018: AFN 645 million).

20. Capital reserves

Article 93 "Reserve Capital" of Corporations and Limited Liability Companies Law of Afghanistan, requires that Bank should transfer 5% of its profit to Capital Reserve to compensate for future possible losses to the extent such capital reserves reach up to 25% of the Bank's capital. The Bank's capital reserves as at 31 December 2019 stood at AFN 290,813 thousand (31 December 2018: AFN 260,405 thousand).

21. Contingencies and commitments

	Note	31 December 2019 AFN '000'	31 December 2019 AFN '000'
21.1. Contingencies			
Financial guarantees	21.1.1	**7,946,230**	**8,258,845**
21.2. Commitments			
(a) Undrawn loan and overdraft facilities		524,394	1,217,553
(b) Commercial letters of credit		48,537	25,333
		572,931	**1,242,886**

21.1.1. These represent bid bonds and performance-based guarantees issued by the Bank. These are 100% secured against the cash margin and counter guarantees.

22. Interest income

	Note	31 December 2019 AFN '000'	31 December 2019 AFN '000'
Interest income on:			
Balances with DAB and other banks		25,801	17,919
Placements		494,077	417,418
Debt instruments at FVOCI		200,179	140,186
Debt instruments at amortized cost		283,565	276,172
Loans and advances to customers		379,617	439,902
		1,383,239	**1,291,598**

23. Interest expense

	Note	31 December 2019 AFN '000	31 December 2018 AFN '000
Interest expense on:			
Customers' deposits		33,261	41,575
Deposits from bank		3,707	9,566
		36,968	**51,141**

24. Fee and commission income

Fee and commission income on:		
Loans and advances to customers	41,398	23,275
Trade finance products	51,254	52,599
Cash withdrawals / Cash transfers	512,184	469,339
Customers' account service charges	131,403	107,645
Income from ATMs	97,798	91,301
Income from guarantee arrangements	138,154	70,163
Payroll services	75,509	53,717
Others	34,173	49,035
	1,081,873	**917,074**

25. Fee and commission expense

Guarantee / letter of credit commission	13,078	22,390
Bank charges	2,199	6,374
	15,277	**28,764**

26. Other income

Loans and advances recovered previously written off	**46,414**	**64,750**

Notes to the Financial Statements continued
For the year ended 31 December 2019

27. Credit losses (reversal) / expense
The table below shows the ECL charges on financial instruments for the year recorded in the income statement:

	Note	Stage 1 Collective AFN '000'	Stage 2 Collective AFN '000'	Stage 3 Collective AFN '000'	Regulatory AFN '000'	Total AFN '000'	31 December 2018 AFN '000'
			31 December 2019				
Placements	7.2	(733)	(926)	–	(8,273)	(9,932)	(81,322)
Investments	8.5		(9,251)	–	(873)	(10,124)	(100,997)
Loans and advances	9.5	(15,175)	(5,200)	170,069	–	149,694	(5,293)
General provision	9.4	–	–	–	4,300	4,300	138,540
Other assets	14.2	–	(9,703)	–	–	(9,703)	3,962
Financial guarantees	18.2	–	–	–	(3,652)	(3,652)	9,924
Letter of credit	18.2	–	–	–	299	299	(2,928)
Total (reversal)/ impairment loss for the year		**(15,908)**	**(25,080)**	**170,069**	**(8,199)**	**120,882**	**(38,114)**

28. General and administrative expenses

	Note	31 December 2019 AFN '000	31 December 2018 AFN '000
Salaries and benefits		613,301	574,445
Rental, rates and taxes	28.1	34,540	105,917
Electricity, generator and fuel		89,743	57,794
Repairs and maintenance		20,766	25,516
Information technology cost		94,374	85,733
Security cost		122,368	112,260
Depreciation	11.2	265,633	76,771
Amortization	12.1	78,119	84,856
Directors fee and their meeting expenses		39,588	34,349
Travelling and accommodation		61,105	64,146
Communication, swift and internet		56,241	53,125
Stationery and printing		53,768	55,580
Legal and professional charges		94,971	155,188
Asset management fee to investment advisors		54,662	41,942
Auditors' remuneration		10,093	8,370
Marketing and promotion		28,305	34,837
Money service providers charges		4,174	8,747
Insurance		155,302	144,496
Subscriptions and memberships		9,126	10,674
Other charges		82,401	52,540
Taxes and penalties		4,028	1,750
Corporate social responsibility		7,148	3,403
Others		21,191	20,044
		2,000,947	**1,812,483**

28.1. This includes AFN 19,541 thousand on account of short-term lease (less than 12 months) which have not been accounted for in the lease model of IFRS 16 and recognized in expense on straight line basis.

29. Taxation

	Note	31 December 2019 AFN '000	31 December 2018 AFN '000
Current:			
For the year	29.1	–	–
Prior periods		(25,785)	170,420
Deferred:			
For the year		91,694	(115)
		65,909	**170,305**

29.1. Owing to carry forward tax losses, no provision for taxation has been made during the year.

29.2. Relationship between tax expense and accounting profit

Accounting profit for the year	674,078	648,471
Tax at the applicable rate of 20%	134,816	129,694
Deductible expenses	(135,648)	(331,280)
Non-deductible expenses	832	61,989
Effect of temporary differences	21,354	(115)
Effect of carry forward taxable losses	70,340	139,597
Adjustment in respect of income tax of prior years	(25,785)	170,420
	65,909	**170,305**

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30. Related party transactions
The Bank has a related party relationship with its shareholders, their related entities, directors and key management personnel. The Bank had transactions with following related parties at mutually agreed terms during the year:

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	2019 AFN '000	2018 AFN '000	2019 AFN '000	2018 AFN '000
(a) Loans and advances to related parties				
Loans outstanding at the beginning of the year	–	–	174,011	155,515
Loans issued during the year	1,908	–	169,316	171,995
Loans repayments during the year	–	–	(168,354)	(153,306)
Exchange gain	–	–	(193)	(193)
Loans outstanding at the end of the year	1,908	–	174,781	174,011
Interest income earned	**57**	**–**	**11,544**	**14,812**

During the year, an amount of AFN 254,053 thousand (31 December 2018: AFN 446,356 thousand) was paid to MADCC (related party) for the construction of head office building.

Provision for expected credit losses on outstanding balances of loans and advances to related parties amounts to AFN 1,748 thousand (31 December 2018: AFN 1,364 thousand).

The facilities provided to related parties carry mark-up of 7% p.a. (31 December 2018: 7% p.a.) payable on monthly basis and are secured against mortgage of residential property and personal guarantees of directors and representative of shareholders of the Bank.

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	2019 AFN '000	2018 AFN '000	2019 AFN '000	2018 AFN '000
(b) Deposits from related parties				
Deposits at the beginning of the year	19,061	49,267	53,472	104,110
Deposits received during the year	440,748	464,349	4,203,122	2,679,656
Deposits repaid during the year	(402,726)	(498,441)	(4,190,581)	(2,751,110)
Exchange rate difference	226	3,886	1,401	20,815
Deposits at the end of the year	57,309	19,061	67,414	53,472
Interest expense on deposits	**–**	**–**	**–**	**–**

These represent current account of related parties, which carry Nil interest rate (31 December 2018: Nil).

	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
Nature of transactions	2019 AFN '000	2018 AFN '000	2019 AFN '000	2018 AFN '000
(c) Other related party transactions				
Fee and commission income	–	–	6,017	13,203
Directors' fee	30,038	22,264	–	–
Fee and commission expense	–	–	–	–
Rental expenses	–	–	54,301	52,989
Travelling expense	9,550	10,851	–	–
Capital work-in-progress	–	–	254,053	417,497
Guarantees issued by the Bank	–	–	–	333

30.1. This represents the payments made to Mohib Advance Design Construction Company (MADCC) and Marco Polo Gulf Trading FZE against certain construction and other works remaining after completion of head office.

	2019 AFN '000	2018 AFN '000
(d) Key Management compensation		
Salaries and other short-term benefits	56,412	55,100
	56,412	**55,100**

Key Management personnel of the Bank include the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.

31 Cash and cash equivalents

	31 December 2019 AFN '000	31 December 2018 AFN '000
Cash in hand and at ATM	3,261,904	2,632,836
Balances with DAB (other than minimum reserve requirement)	4,670,822	6,943,625
Balances with other banks	7,219,181	10,070,645
Placements (with maturity less than three months)	13,222,511	14,890,545
	28,374,418	**34,537,651**

32 Earnings per share - Basic and diluted

	31 December 2019	31 December 2018
Profit after taxation (AFN '000)	608,169	478,165
Weighted average number of ordinary shares - (number in thousand)	30,000	30,000
Earnings per share - Basic and diluted (AFN)	**20.27**	**15.94**

32.1. There is no dilutive effect on basic earnings per share of the Bank.

33. Financial risk management
33.1. Financial Assets and Liabilities

31 December 2019	Financial assets (other than investments)– At amortized cost AFN '000	Debt investments at amortized cost AFN '000	Debt investments at fair value through OCI AFN '000	Financial liabilities at amortized cost AFN '000	Total AFN '000
Financial assets					
Cash and balances with Da Afghanistan Bank	13,859,017	–	–	–	13,859,017
Balances with other banks	7,237,771	–	–	–	7,237,771
Placements - net	–	15,085,047	–	–	15,085,047
Investments - net	–	11,078,229	7,837,520	–	18,915,749
Loans and advances to customers - net	3,417,810	–	–	–	3,417,810
Receivables from financial institutions	502,618	–	–	–	502,618
Other assets	–	551,986	–		551,986
	25,017,216	**26,715,262**	**7,837,520**	**–**	**59,569,998**
Financial liabilities					
Customers' deposits	–	–	–	58,843,105	58,843,105
Deposit from banks	–	–	–	500,000	500,000
Lease liabilities	–	–	–	265,040	265,040
Other liabilities	–	–	–	261,700	261,700
	–	**–**	**–**	**59,869,845**	**59,869,845**

Notes to the Financial Statements continued
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31 December 2018	Financial assets (other than investments)- At amortized cost AFN '000	Debt investments at amortized cost AFN '000	Debt investments at fair value through OCI AFN '000	Financial liabilities at amortized cost AFN '000	Total AFN '000
Financial assets					
Cash and balances with Da Afghanistan Bank	15,965,500	–	–	–	15,965,500
Balances with other banks	10,095,978	–	–	–	10,095,978
Placements - net		19,858,325	–	–	19,858,325
Investments - net	–	14,835,015	3,588,690	–	18,423,705
Loans and advances to customers - net	2,897,616	–	–	–	2,897,616
Receivables from financial institutions	360,120	–	–	–	360,120
Other assets	–	357,987	–	–	357,987
	29,319,214	**35,051,327**	**3,588,690**	**–**	**67,959,231**
Financial liabilities					
Customers' deposits	–	–	–	67,383,947	67,383,947
Deposit from banks	–	–	–	–	–
Other liabilities	–	–	–	580,359	580,359
	–	**–**	**–**	**67,964,306**	**67,964,306**

33.2. Financial risk factors
The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a Risk Management Department (RMD) under policies approved by the Management Board. RMD identifies, evaluates and manages financial risks in close co-operation with the Bank's operating units. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non-derivative financial instruments. The internal audit is responsible for the independent review of risk management and control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

33.2.1. Credit Risk
The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, balances with banks and receivable from financial institution and placements with other banks. Credit risk also arises in off-balance sheet financial instruments, such as Bank's contingencies and commitments. The credit risk management and control are centralized in credit risk management team of Bank and reported to the management team and head of each business unit regularly. Balances with DAB are not exposed to credit risk.

33.2.2. Credit risk measurement
Impairment assessment under IFRS 9

Definition of default and cure

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

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

Credit ratings and PD estimation process

The Bank's Credit Risk Department operates its internal rating models. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behavior. PDs for rated portfolios are

determined using migration of rating grades from one period to other within the PD observation period. Consumer lending comprises unsecured personal loans, credit cards and overdrafts. PDs models of these products are primarily driven by days past due.

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

Exposure at default

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

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

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

Loss given default

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

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition. Significant increase in credit risk is measured by comparing the risk of default estimated at origination with the risk of default at reporting date. The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Measuring expected credit losses - ECL

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

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

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

Impairment under local regulations

(i) Overdue balances on loans to customers are segmented into four categories as described in note 3.3.5. The percentage of provision created on such overdue balances are as per guidelines issued by DAB and reflects the range of default probabilities defined for each category. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes.

(ii) Exposure at default is based on the amounts, the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

(a) Other than loans and advances

Other than loans and advances includes balances with other banks and financial institutions and placements with other banks, investments in bonds and held with DAB and other assets. Judgments and instructions from the Bank's treasury are being used by the Bank's management in placing funds with other banks and are viewed as a way to gain better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time when required.

Further, the Bank has banking relationships with financial institutions which have good international reputation and strong financial standing and therefore, probability of default by such financial institutions is low.

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33.2.3. Risk limit control and mitigation policies
The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, industries and countries.

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 groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved quarterly by the Management Board.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored daily.

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.

Some other specific control and mitigation measures are outlined below.

(a) Collateral
The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential and commercial properties
- Charges over business assets such as premises, inventory and accounts receivable

In addition, in order to minimize the credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(b) Credit-related commitments
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

33.2.4. Analysis of maximum exposure to credit risk and collateral and other credit enhancements

	Maximum exposure	
	2019 AFN '000	2018 AFN '000
Credit risk exposures relating to on-balance sheet items are as follows:		
Balances with other banks	7,237,771	10,095,978
Placements - net	15,085,047	19,858,324
Investments - net (excluding capital notes with DAB)	18,173,377	17,278,765
Loans and advances to customers - net	3,417,810	2,897,617
Receivable from other financial institutions	502,618	360,120
Other assets	551,986	357,987
	44,968,610	**50,848,792**
Credit risk exposures relating to off-balance sheet items are as follows:	7,946,230	8,258,845
Guarantees	524,394	1,217,553
Undrawn loan and overdraft facilities	48,537	25,333
Commercial letters of credit	8,519,161	9,501,731

The above table represents credit risk exposure to the Bank at 31 December 2019 and 31 December 2018, taking account of any collateral held or other enhancements attached. For on-balance-sheet assets the exposure set out above is based on net carrying amounts as reported in the statement of financial position.

The percentage of the maximum credit exposure in balances with other banks, placements, investments and loans and advances are as follows (in percentage of the total credit exposure):

	31 December 2019	31 December 2018
Balances with other banks	16.10%	19.85%
Placements - net	33.55%	39.05%
Investments - net (excluding capital notes with DAB)	40.41%	33.98%
Loans and advances to customers - net	7.60%	5.70%

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33.2.5. Credit quality of financial assets
The credit qualities of Bank's financial assets have been assessed below by the reference to external credit ratings of counter parties determined by various international credit rating agencies. The counterparties for which external credit ratings were not available and have been assessed by reference to internal credit ratings determined based on their historical information for any defaults in meeting obligations.

Balances with other banks/FIs	Credit rating	Credit rating agency	31 December 2019 AFN '000	31 December 2018 AFN '000
Counter parties with external credit ratings:				
Standard Chartered Bank	A1	Moody's	–	4,216,826
Commerzbank Germany	A1	Moody's	95,660	168,004
Crown Agents	BBB	Fitch	2,893,291	1,623,154
Emirates NBD	A3	Moody's	628,562	313,816
AkBank, Turkey	B3	Moody's	89,998	62,206
State commercial bank of Turkmenistan	Baa1	Moody's	961,094	626,023
Julius Baer International	Aa2	Moody's	56,308	311,033
Asaka Bank	B3	Moody's	746,858	1,234,334
Credit Suisse Singapore	A1	Moody's	41,294	5,432
Bank Centre Credit	Caa1	Moody's	793,486	1,377,708
Yes Bank, India	B2	Moody's	6,555	1,506
Transkapitalbank	B3	Moody's	910,801	–
Others			13,863	14,043

Placements	Credit rating	Credit rating agency	31 December 2019 AFN '000	31 December 2018 AFN '000
Bank of Baroda Dubai	A1	Moody's	774,600	–
Commercial Bank International	A1	Moody's	795,019	1,506,200
Commercial Bank of Dubai PSC	BBB	Fitch	–	755,953
Dubai Islamic Bank	A3	Moody's	–	759,259
CSC Bank SAL	B3	Moody's	521,468	438,163
Emirates NBD	Baa1	Moody's	2,868,279	5,071,978
National Bank of Fujairah	Aa2	Moody's	–	753,100
Julius Baer	B3	Moody's	1,962,449	3,370,951
United Arab Bank	A1	Moody's	795,019	1,506,200
Crown Agents Bank	Caa1	Moody's	794,650	1,903,032
Citibank	B2	Moody's	3,993,303	3,824,432
Noor Bank	B3	Moody's	1,031,651	–
Ajman Bank	BBB+	Fitch	795,020	–
National Bank of Ras Al Khaimah	A3	Moody's	774,600	–

	31 December 2019 AFN '000	31 December 2018 AFN '000
Investments – net	**17,162,576**	**18,448,294**

Investments held carries various credit rating including AAA, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3, Ba1, Ba2, Ba3, B1, B2 and B3. These investments are managed by the bank through Emirates NBD, Julius Baer and Credit Suisse under investment criteria defined by the Bank. The credit quality and the maximum exposure to credit risk for under expected credit losses model is based on the Bank's credit rating grades and year-end stage classification as at 31 December 2019 and 2018 as disclosed in note 8.5.1 to the financial statements.

Loans and advances to customers- net	3,417,810	2,897,616

The credit quality and the maximum exposure to credit risk for IFRS 9 stage categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2019 and 2018 are disclosed in note 9.5.1 to the financial statements.

Receivables from financial institutions		
Counter parties	**502,618**	**360,120**
Other assets		
Counter parties	**551,986**	**357,987**

33.2.6. Loans and advances – net

	Note	31 December 2019 AFN '000	31 December 2018 AFN '000
Loans and advances are summarized as follows:			
Neither past due nor impaired		2,110,969	2,869,987
Past due but not impaired		1,352,649	236,229
Non-performing- Stage 3		327,714	10,928
Gross outstanding		3,791,332	3,117,144
Less: Allowance for impairment			
General provision	9.4	(154,920)	(150,620)
Provision held for expected credit losses – note 9.5.1		(218,602)	(68,908)
		(373,522)	(219,528)
		3,417,810	**2,897,616**

(a) Loans and advances neither past due nor impaired
The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the IFRS 9.

	Commercial loans		SME loans	Consumer loans	
	Overdraft AFN '000	Term loans AFN '000	Term loans AFN '000	Term loans AFN '000	Total AFN '000
31 December 2019					
Regular loans	1,712,815	52,449	295,480	50,225	2,110,969
31 December 2018					
Regular loans	2,336,317	280,196	199,235	54,239	2,869,987

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(b) Loans and advances past due but not impaired

	Commercial loans		SME loans	Consumer loans	
	Overdraft AFN '000	Term loans AFN '000	Term loans AFN '000	Term loans AFN '000	Total AFN '000
31 December 2019					
Past due up to 30 days	1,351,691	–	–	958	1,352,649
Fair value of collateral	1,161,868	–	–	–	1,161,868
31 December 2018					
Past due up to 30 days	93,030	143,199	–	–	236,229
Fair value of collateral	140,023	240,234	–	–	380,257

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is AFN 327,829 thousand (31 December 2018: AFN 10,839 thousand).

	Commercial loans		SME loans	Consumer loans	
	Overdraft AFN '000	Term loans AFN '000	Term loans AFN '000	Term loans AFN '000	Total
31 December 2019					
Non-performing - Stage 3	143,859	102,596	80,896	363	327,714
Fair value of collateral	623,837	212,952	1,090,329		
31 December 2018					
Non-performing - Stage 3	4,348	6,580	–	–	10,928
Fair value of collateral	40,000	54,533	–	–	94,533

(d) Loans and advances restructured / rescheduled

Restructuring activities include extended payment arrangements and deferral of payments. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired at 31 December 2019 were AFN 219,880 thousand (31 December 2018: AFN 105,541 thousand).

	31 December 2019		31 December 2019	
	Loan amount at the time of rescheduling AFN '000	At year-end AFN '000	Loan amount at the time of rescheduling AFN '000	At year-end AFN '000
Commercial loans and advances:				
Term loans	–	219,880	–	105,541
Overdraft	247,310	–	280,697	–
Total	**247,310**	**219,880**	**280,697**	**105,541**

33.2.7. Concentration of risk of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2018. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

2019

	On balance sheet:						Off balance sheet:	
	Balances with other banks AFN '000	Placements (Note 7.1) AFN '000	Investments (excluding capital notes) Note 8.1,8.3,8.4 AFN '000	Loans and advances to customers – net AFN '000	Receivable from financial institutions AFN '000	Other assets AFN '000	Contingencies and commitments AFN '000	Total AFN '000
Afghanistan	–	–	–	3,417,810	–	551,986	8,519,161	12,488,957
Lebanon	–	521,468	–	–	502,618	–	–	1,024,086
Singapore	41,294	–	–	–	–	–	–	41,294
Germany	95,660	–	–	–	–	–	–	95,660
UAE	628,562	7,059,588	1,037,444	–	–	–	–	8,725,594
USA	–	3,993,303	1,312,652	–	–	–	–	5,305,955
UK	2,893,291	794,650	–	–	–	–	–	3,687,941
Switzerland	56,308	1,962,449	–	–	–	–	–	2,018,757
Turkey	89,998	–	243,222	–	–	–	–	333,220
Russia	910,800	–	83,426	–	–	–	–	994,226
Uzbekistan	746,858	–	–	–	–	–	–	746,858
Kazakhstan	793,486	–	91,626	–	–	–	–	885,112
Turkmenistan	974,954	–	–	–	–	–	–	974,954
India	6,560	774,600	–	–	–	–	–	781,160
Korea	–	–	1,693,386	–	–	–	–	1,693,386
Italy	–	–	1,460,681	–	–	–	–	1,460,681
Mexico	–	–	1,343,334	–	–	–	–	1,343,334
Portugal	–	–	1,297,855	–	–	–	–	1,297,855
Poland	–	–	1,292,634	–	–	–	–	1,292,634
Hungary	–	–	1,223,285	–	–	–	–	1,223,285
Slovak Republic	–	–	844,261	–	–	–	–	844,261
Malaysia	–	–	661,167	–	–	–	–	661,167
Belgium	–	–	625,174	–	–	–	–	625,174
Oman	–	–	595,919	–	–	–	–	595,919
Saudi Arabia	–	–	524,998	–	–	–	–	524,998
Qatar	–	–	522,083	–	–	–	–	522,083
Sweden	–	–	393,768	–	–	–	–	393,768
Slovenia	–	–	348,972	–	–	–	–	348,972
Indonesia	–	–	344,520	–	–	–	–	344,520
Namibia	–	–	277,520	–	–	–	–	277,520
South Africa	–	–	275,883	–	–	–	–	275,883
Others (note below – amount in millions)		–	1,694,032	–	–	–	–	1,694,032
	7,237,771	**15,106,058**	**18,187,842**	**3,417,810**	**502,618**	**551,986**	**8,519,161**	**53,523,246**

Others include investments in sovereign bonds issued by Bermuda (AFN 162.951m), Croatia (AFN 86.078m), Brazil (AFN 90.046m), Panama (AFN 33.209m), Romania (AFN 148.906m), Trinidad and Tobago (AFN 57.733m), Colombia (AFN 118.526m), Kenya (AFN 33.197m), Ecuador (AFN 22.151m), Zambia (AFN 29.165m), Nigeria (AFN 78.306m), Guatemala (AFN 22.752m), Ghana (AFN 42.619m), Morocco (AFN 69,590m), Costa Rica (AFN 50.767m), Senegal (AFN 42.074m), Sri Lanka (AFN 39.309m), Vietnam (AFN 83.963m), Argentina (AFN 16.886m), Armenia (AFN 15.861m), Serbia (AFN 16.886m), Paraguay (AFN 32.815m), Egypt (AFN 31.340m), Iceland (AFN 144.083m), Lithuania (AFN 147.838m) and Latvia (AFN 77.461m).

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2018

	On balance sheet:						Off balance sheet:	
	Balances with other banks AFN '000	Placements – net AFN '000	Investments – net (excluding capital notes) AFN '000	Loans and advances to customers – net AFN '000	Receivable from financial institutions AFN '000	Other assets AFN '000	Contingencies and commitments AFN '000	Total AFN '000
Afghanistan	–	–	–	2,897,616	–	357,987	9,501,731	12,757,334
Lebanon	–	438,172	–	–	360,120	–	–	798,292
Singapore	2,374,813	–	–	–	–	–	–	2,374,813
Germany	747,485	–	–	–	–	–	–	747,485
UAE	397,696	10,353,077	1,258,107	–	–	–	–	12,008,880
USA	1,146,068	3,824,573	302,206	–	–	–	–	5,272,847
UK	1,661,171	1,903,103	–	–	–	–	–	3,564,274
Switzerland	451,870	1,864,820	–	–	–	–	–	2,316,690
Turkey	76,244	–	237,564	–	–	–	–	313,808
Russia	–	–	–	–	–	–	–	–
Uzbekistan	–	–	–	–	–	–	–	–
Kazakhstan	–	–	–	–	–	–	–	–
Turkmenistan	–	–	–	–	–	–	–	–
India	2,566	753,128	–	–	–	–	–	755,694
Korea	–	–	1,411,045	–	–	–	–	1,411,045
Italy	–	–	–	–	–	–	–	–
Mexico	–	–	915,272	–	–	–	–	915,272
Portugal	–	–	–	–	–	–	–	–
Poland	–	–	–	–	–	–	–	–
Hungary	–	–	–	–	–	–	–	–
Slovak Republic	–	–	–	–	–	–	–	–
Malaysia	–	–	–	–	–	–	–	–
Belgium	–	–	–	–	–	–	–	–
Oman	–	–	1,160,831	–	–	–	–	1,160,831
Saudi Arabia	–	–	–	–	–	–	–	–
Qatar	–	–	–	–	–	–	–	–
Sweden	–	–	–	–	–	–	–	–
Slovenia	–	–	347,104	–	–	–	–	347,104
Indonesia	–	–	–	–	–	–	–	–
Namibia	–	–	–	–	–	–	–	–
South Africa	–	–	–	–	–	–	–	–
Others	3,238,065	721,452	11,646,634	–	–	–	–	15,606,151
	10,095,978	**19,858,325**	**17,278,763**	**2,897,616**	**360,120**	**357,987**	**9,501,731**	**60,350,520**

(b) Industry sectors

2019

	On balance sheet:						On balance sheet:	
	Balances with other banks AFN '000	Placements (Note 7.1) AFN '000	Investments (excluding capital notes) Note 8.1,8.3,8.4 AFN '000	Loans and advances to customers - net AFN '000	Receivable from financial institutions AFN '000	Other assets AFN '000	Contingencies and commitments AFN '000	Total AFN '000
Government / Public sector	–	–	18,187,842	–		–	–	18,187,842
Manufacturing	–	–	–	1,046,298		–	17,918	1,064,216
Agriculture	–	–	–	–		–	2,058	2,058
Construction	–	–	–	192,829		–	3,618,853	3,811,682
Power	–	–	–				3,127,718	3,127,718
Telecommunication	–	–	–	–		–	5,151	5,151
Banks and financial institutions	7,237,771	15,106,058	–	–	502,618	–	–	22,846,447
Traders	–	–	–	926,987		–	72,661	999,648
Fuel suppliers	–	–	–	909,203		–	658,423	1,567,626
Others	–	–	–	340,286		551,986	1,016,379	2,800,923
	7,237,771	**15,106,058**	**18,187,842**	**3,417,810**	**502,618**	**551,986**	**8,519,161**	**53,523,246**

2018

	On balance sheet:						On balance sheet:	
	Balances with other banks AFN '000	Placements – net AFN '000	Investments - net (excluding capital notes) AFN '000	Loans and advances to customers – net AFN '000	Receivable from financial institutions AFN '000	Other assets AFN '000	Contingencies and commitments AFN '000	Total AFN '000
Government / Public sector	–	–	17,278,763	–	–	–	–	17,278,763
Manufacturing	–	–	–	473,007	–	–	323,438	796,445
Agriculture	–	–	–	5,676	–	–	–	5,676
Construction	–	–	–	94,103	–	–	6,828,235	6,922,338
Power	–	–	–	–	–	–	–	–
Telecommunication	–	–	–	–	–	–	480,612	480,612
Banks and financial institutions	10,095,978	19,858,325	–	–	360,120	–	–	30,314,423
Traders	–	–	–	682,938	–	–	280,714	963,652
Fuel suppliers	–	–	–	960,909	–	–	323,556	1,284,465
Others	–	–	–	680,983	–	357,987	1,265,176	2,304,146
	10,095,978	**19,858,325**	**17,278,763**	**2,897,616**	**360,120**	**357,987**	**9,501,731**	**60,350,520**

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33.3 Market risk
The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange.

33.3.1. Foreign exchange risk
The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management committee sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2019 and 31 December 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

	AED	USD	EUR	GBP	INR		Total
		Converted to AFN '000				AFN '000	AFN '000
As at 31 December 2019							
Assets							
Cash and balances with Da Afghanistan Bank	–	10,041,139	461,568	–	–	3,356,310	13,859,017
Balances with other banks	46,114	6,876,624	193,875	120,795	363	–	7,237,771
Placements	–	14,584,590	521,468	–	–	–	15,106,058
Investments	–	18,187,842	–	–	–	742,372	18,930,214
Loans and advances to customers	–	1,292,269	–	–	–	2,499,063	3,791,332
Receivables from financial institutions	–	502,618	–	–	–	–	502,618
Other assets	–	540,328	–	–	–	11,658	502,618
Total financial assets	46,114	52,025,410	1,176,911	120,795	363	6,609,403	59,929,629
Liabilities							
Customers' deposits	–	51,053,453	1,203,399	138,833	–	6,447,420	58,843,105
Deposits from bank	–	–	–	–	–	500,000	500,000
Lease liabilities	–	255,262	–	–	–	9,778	265,040
Other liabilities	–	28,374	–	–	–	233,326	261,700
Total financial liabilities	–	51,337,089	1,203,399	138,833	–	7,190,524	59,869,845
On-balance sheet financial position – net	**46,114**	**688,321**	**(26,488)**	**(18,038)**	**363**	**(581,121)**	**59,784**
As at 31 December 2018							
Total financial assets	56,668	58,373,974	1,447,918	189,508	1,059	8,932,667	69,001,794
Total financial liabilities	–	58,093,622	1,483,601	–	–	8,253,193	67,830,416
On-balance sheet financial position - net	**56,668**	**280,352**	**(35,683)**	**189,508**	**1,059**	**679,474**	**1,171,378**

Sensitivity analysis:
If the functional currency, at the yearend date, strengthens/weakens by 5% against the other currencies, as disclosed above, with all other variables held constant, the impact on profit or loss for the period would be as given below mainly as a result of exchange gains/losses on translation of foreign exchange denominated receivables and payables.

	AED	USD	EUR	GBP	INR
2019					
5% increase (AFN'000) - profit/ (loss)	(2,306)	(34,416)	1,324	902	(18)
5% decrease (AFN'000) - profit/ (loss)	2,306	34,416	(1,324)	(902)	18
2018					
5% increase (AFN'000) - profit/ (loss)	(2,833)	(14,018)	1,784	(9,475)	(53)
5% decrease (AFN'000) - profit/ (loss)	2,833	14,018	(1,784)	9,475	53

33.3.2. Interest rate risk
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. Bank's investments, loans and advances carry fixed coupon/ interest rates.

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amount, categorized by the earlier of contractual repricing or maturity dates.

	Interest bearing					Total interest bearing	Non– interest bearing	Total
	Up to 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	AFN '000	AFN '000	AFN '000
As at 31 December 2019								
Assets								
Cash and balances with Da Afghanistan Bank	1,107,189	–	–	–	–	1,107,189	12,751,828	13,859,017
Balances with other banks	–	–	–	–	–	–	7,237,771	7,237,771
Placements	7,300,160	5,922,187	1,883,711	–	–	15,106,058	–	15,106,058
Investments	2,137,423	467,131	904,249	15,193,189	228,222	18,930,214	–	18,930,214
Loans and advances to customers	3,740,315	1,149	23,638	26,230	–	3,791,332	–	3,791,332
Receivables from financial institutions	–	–	–	–	–	–	502,618	502,618
Other assets	–	–	–	–	–	–	261,700	261,700
Total financial assets	14,285,087	6,390,467	2,811,598	15,219,419	228,222	38,934,793	20,753,917	59,688,710
Liabilities								
Customers' deposits	1,390,272	–	43,855	–	–	1,434,127	57,408,978	58,843,105
Deposits from bank	–	–	500,000	–	–	500,000	–	500,000
Lease liabilities	7,160	2,389	36,644	213,452	5,395	265,040	–	265,040
Other liabilities	–	–	–	–	–	–	261,700	261,700
Total financial liabilities	1,397,432	2,389	580,499	213,452	5,395	2,199,167	57,670,678	59,869,845
Total interest repricing gap	**12,887,655**	**6,388,078**	**2,231,099**	**15,005,967**	**222,827**	**36,735,626**	**(36,916,760)**	**(181,135)**
As at 31 December 2018								
Total financial assets	16,914,163	7,159,747	13,442,962	11,849,513	1,034,259	50,400,644	17,870,702	68,271,346
Total financial liabilities	2,467,671	37,353	642,402	2,257,875	–	5,405,301	63,481,051	68,886,352
Total interest repricing gap	**14,446,492**	**7,122,394**	**12,800,560**	**9,591,638**	**1,034,259**	**44,995,343**	**(45,610,349)**	**(615,006)**

If the interest increase / (decrease) by 100 bps, the profit or loss for the year would have been AFN 369,168 thousand (31 December 2018: AFN 456,103 thousand) higher/ lower respectively.

33.4 Liquidity risk
Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

33.4.1. Liquidity risk management process
The Bank's liquidity management process, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Notes to the Financial Statements continued
For the year ended 31 December 2019

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

33.4.2. Funding approach
Sources of liquidity are regularly reviewed by the Asset Liability Committee (ALCO) to maintain a wide diversification by currency, geography, provider, product and term.

Liquidity ratios
Advances to deposit ratios

	2019	2018
Year-end		
Maximum	5.81%	4.27%
Minimum	6.57%	5.60%
Average	5.62%	4.27%
	6.07%	6.31%

33.4.3. Non-derivative financial liabilities and assets held for managing liquidity risk
The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held to manage liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Up to 1 month AFN '000	1 to 3 months AFN '000	3 to 12 months AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at 31 December 2019						
Liabilities						
Customers' deposits	58,799,250	–	43,855	–	–	58,843,105
Deposits from bank	–	–	500,000	–	–	500,000
Lease liabilities	7,160	2,389	36,644	213,452	5,395	265,040
Other liabilities	261,700	–	–	–	–	261,700
Total financial liabilities (contractual maturity dates)	59,068,110	2,389	580,499	213,452	5,395	59,869,845
Total financial assets (contractual maturity dates)	**35,039,004**	**6,390,467**	**2,811,598**	**15,219,419**	**228,222**	**59,688,710**
As at 31 December 2018						
Liabilities						
Customers' deposits	62,597,346	–	4,786,601	–	–	67,383,947
Other liabilities	580,359	–	–	–	–	580,359
Total financial liabilities (contractual maturity dates)	63,177,705	–	4,786,601	–	–	67,964,306
Total financial assets (contractual maturity dates)	**32,804,554**	**2,796,316**	**6,904,321**	**14,514,727**	**730,460**	**57,750,378**

Assets available to meet all of the liabilities and to cover outstanding loans commitment include cash and balances with Da Afghanistan Bank, balances with other banks and receivable from financial institutions, placements, loans and advances to customers and security deposits and other receivables.

33.4.4. Off-balance sheet items
The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarized in the table below:

	Not later than 1 year AFN '000	1 to 5 years AFN '000	Over 5 years AFN '000	Total AFN '000
As at 31 December 2019				
Guarantees	4,830,444	3,115,786	–	7,946,230
Undrawn loans and overdraft facilities	203,420	320,974	–	524,394
Commercial letters of credit	48,537	–	–	48,537
Total	**5,082,401**	**3,436,760**	**–**	8,519,161
As at 31 December 2018				
Guarantees	2,304,121	5,954,724	–	8,258,845
Undrawn loans and overdraft facilities	850,618	366,935	–	1,217,553
Commercial letters of credit	25,333	–	–	25,333
Total	**3,180,072**	**6,321,658**	**–**	9,501,731

33.5 Fair value of financial assets and financial liabilities
Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

(a) Financial instruments measured at fair value using a valuation technique
The table below analyses financial instruments carried at fair value, by valuation method. The various fair value levels have been defined as follows:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
Level 3	inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 AFN '000	Level 2 AFN '000	Level 3 AFN '000
Investments in bonds - Fair value through OCI:			
As at 31 December 2019	–	7,837,520	–
As at 31 December 2018	**–**	**3,588,690**	**–**

Valuation technique and key inputs used for investments in bonds were quoted market bid price in active market. There were no transfers made among various levels of fair value hierarchy during the year.

Notes to the Financial Statements continued
For the year ended 31 December 2019

(b) Financial instruments not measured at fair value
The table below summarizes the carrying amounts and fair values of those financial assets and liabilities which are presented on the Bank's statement of financial position at value other than fair value.

	Carrying Value		Fair Value	
	31 December 2019 AFN '000	31 December 2018 AFN '000	31 December 2019 AFN '000	31 December 2018 AFN '000
Financial assets				
Cash and balances with Da Afghanistan Bank	13,859,017	15,965,500	13,859,017	15,965,500
Balances with other banks	7,237,771	10,095,978	7,237,771	10,095,978
Placements - net	15,085,047	19,858,325	15,085,047	19,858,325
Investments - net	11,078,229	10,586,185	11,078,229	10,586,185
Loans and advances to customers - net	3,417,810	2,897,616	3,417,810	2,897,616
Receivables from financial institutions	502,618	360,120	502,618	360,120
Security deposits and other receivables - net	261,700	357,987	261,700	357,987
Financial liabilities				
Customers' deposits	58,843,105	67,383,947	58,843,105	67,383,947
Deposits from bank	500,000	–	500,000	500,000
Other liabilities	261,700	580,359	261,700	580,359
Off-balance sheet financial instruments				
Bank's guarantees	7,946,230	8,258,845	7,946,230	8,258,845
Bank's commitments	572,931	1,242,886	572,931	1,242,886

The carrying values of these financial assets and liabilities approximates their fair values as at the date of statement of financial position.

(i) Investments:
These include investment bonds classified as held-to-maturity which are measured at amortized cost. The fair value of these investments is equal to the carrying amount.

(ii) Loans and advances, other assets and other financial liabilities
Fair value of loans and advances, security deposits and other receivables and all the financial liabilities cannot be calculated with sufficient reliability due to absence of current and active market for such assets and reliable data regarding market rates for similar instruments, so its carrying amount is its fair value. The provision for loans and advances has been calculated in accordance with the Bank's policy and regulations issued by DAB.

(iii) Off-balance sheet financial instruments
The fair value of the off-balance sheet financial instruments is equal to the carrying amounts.

33.6. The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

(i) to comply with the capital requirements set by the DAB;

(ii) to safeguard the Bank's ability to continue as a going concern so that it can continue to be self-sustainable; and

(iii) to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management. DAB requires each bank to maintain its Tier 1 Capital ratio and Regulatory Capital ratio to be at least 6 % and 12 % respectively. The Bank is maintaining this ratio well above the required level.

The table below summarizes the composition of the regulatory capital and ratio of the Bank:

	31 December 2019 AFN '000	31 December 2018 AFN '000
Tier 1 (Core) Capital:		
Total equity capital	3,679,164	3,585,157
Less:		
Intangible assets	(426,328)	(394,538)
Net deferred tax assets	–	(95,104)
Revaluation reserve on debt instruments at OCI	(63,989)	86,849
Profit for the year	(608,169)	(478,165)
	2,580,678	**2,704,199**
Tier 2 (Supplementary) Capital:		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	176,030	191,237
Profit for the year	608,169	478,165
Revaluation reserve on bonds (45%)	28,795	–
	812,994	669,402
Tier 2 (Supplementary) Capital (restricted 100% of Tier 1 (Core) Capital)	812,994	669,402
Regulatory Capital = Tier 1 + Tier 2	**3,393,672**	**3,373,601**
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully convertible foreign currencies	3,261,904	2,632,836
Direct claims on DAB	11,339,485	14,477,604
Direct claims on other Governments	–	
Others	5,331,137	5,409,346
Total	19,932,526	22,519,786
0% risk-weight total (above total x 0%)	–	–
20% risk weight:		
Balances with other banks	22,846,448	30,314,423
Others	2,641,431	1,152,710
20% risk-weight total (above total x 20%)	**5,097,576**	**6,293,427**
50% risk weight:		
Others	2,780,447	–
50% risk-weight total (above total x 50%)	**1,390,223**	**–**
100% risk weight:		
All other assets	15,743,163	17,927,643
Less: intangible assets	(426,328)	(394,538)
Less: Deferred tax assets	–	(95,104)
All other assets - net	**15,316,835**	**17,438,001**
100% risk-weight total (above total x 100%)	**15,316,835**	**17,438,001**

Notes to the Financial Statements continued
For the year ended 31 December 2019

Credit conversion factor		
0% risk weight:		
Undrawn loan and overdraft facilities	524,394	1,217,553
Guarantees	617,410	968,176
0% credit conversion factor total (risk-weighted total x 0%)	–	–
0% risk-weight total (above total x 0%)	–	–
20% risk weight:		
Commercial letters of credit	48,537	25,333
Guarantees	7,324,947	7,815,895
20% credit conversion factor total (risk-weighted total x 20%)	9,707	5,067
20% credit conversion factor total (risk-weighted total x 20%)	**1,466,930**	**1,438,192**
100% risk weight:		
Guarantees	3,873	104,773
100% credit conversion factor total (risk-weighted total x 100%)	**3,873**	**104,773**
100% risk-weight total (above total x 100%)	**3,873**	**104,773**
Total risk-weighted assets	**23,275,437**	**25,274,393**
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	**11.09%**	**10.70%**
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	**14.58%**	**13.35%**

32. Islamic Banking
The Bank started Islamic banking operations in November 2015 with the following Islamic deposit products.

Qardul Hasana Current Account
This account is profit-free account specifically designed to meet the requirements of the Bank's customers. Account holders will have easy access to their account at any time to meet their personal or business expenses.

Mudarabah Savings Account
This account is designed specifically to meet the requirements of customers who authorize the Bank to invest their cash deposits. Customers can deposit or withdraw money at any time they wish, and can earn profits on their savings.

Mudarabah Term Investment Deposit
These funds are accepted with different investment periods. The Bank manages and invests the funds aiming at realizing the best profit for the mutual interest of the parties.

Below are the figures relating to Islamic banking as at 31 December 2019:

	31 December 2019 AFN '000	31 December 2018 AFN '000
Assets		
Cash and balances with Da Afghanistan Bank	750,697	546,245
Investments in sukuk securities	542,220	301,240
Loans and advances to customers	43,134	37,673
Operating fixed assets	1,283	2,345
Other assets	6,581	5,687
Total assets	**1,343,915**	**893,190**
Liabilities		
Deposit - current	144,910	121,803
Deposit - saving	1,146,234	733,067
Deposit - term deposit	43,855	26,845
Other liabilities	16,870	20,964
	1,351,869	**902,679**
Equity		
Share Capital	5,809	5,809
Accumulated losses reserve	(13,764)	(15,298)
Total equity	(7,955)	(9,489)
Total liabilities and equity	**1,343,914**	**893,190**
Total profit income	20,802	23,063
Total profit expense	(8,476)	(9,063)
Net Profit Income	12,327	14,000
Other non-profit income	3,242	970
Other non-profit expense	(14,750)	(12,885)
Net non-profit expense	(11,507)	(11,915)
Income from dealing in foreign currencies	(757)	(1,186)
Total Income	63	899
Net provision for expected credit losses	1,472	(1,130)
Net Income/ (Loss) For The Year	**1,535**	**(231)**

Notes to the Financial Statements continued

For the year ended 31 December 2019

35. General

35.1. Corresponding figures have been reclassified / re-arranged wherever necessary to facilitate comparison in the presentation in the current year. However, there are no material reclassification / re-arrangement to report.

35.2. The figures in these financial statements have been rounded off to the nearest in thousands in AFN.

36. Date of authorization for issue

These financial statements were authorized for issue by the Board of Supervisors of the Bank on 7th March 2020.

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

بانك بين المللی افغانستان AIB
Afghanistan International Bank
بانكداری اسلامی Islamic Banking اسلامي بانكداري

SHARIAH BOARD'S STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2019

In the Name of Allah, the Most Beneficent, the Most Merciful

All praise be to Allah, the Lord of all the worlds and blessings on Prophet Mohammad and his household and his companions.

By the Grace of Almighty Allah, the year under review was the 5th year of Islamic Banking being operated in Afghanistan International Bank (AIB).

During the year, the Shariah board (SB) held 11 meetings to review various products, policies, standard operating procedures, transactions, processes and their Shariah-compliance.

The Shariah board appreciates the cooperation of Islamic Banking department and management for the expansion and implementation of Islamic Banking best practice and products according to Shariah rules and regulations and resolutions issued by the Shariah board of the bank.

We are of the view that:

- In our opinion, the affairs of the Islamic Banking Window have been carried out in accordance with the rules and principles of Shariah, in the light of Rulings, Fatwa and the Guidelines issued by the Shariah board and Da Afghanistan Bank (DAB).
- During review, any matters requiring corrective measures have been noted and were resolved by the management or ensured to be rectified in future.
- The Islamic Banking Department has a comprehensive mechanism in place to ensure Shariah compliance in their overall operations.
- The allocation of funds, profit and loss distribution and pool management are in accordance with Shariah principles.
- The late payment charges has been used for charitable purposes as approved by Shariah board.
- The Shariah board has been provided resources enabling it to discharge its duties.

We pray that Allah may grant all of us further success and prosperity.
Dated: February 23, 2019 | Hoot 04, 1398 H.S.

Dr.Najibullah Saleh, Shariah Board Member

Rahmanullah Shahab, Shariah Board Member

Mufti Shamsur-Rahman Frotan, Shariah Advisor

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Annual Report 2019

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