

## **INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF AFGHANISTAN INTERNATIONAL BANK**

### **Introduction**

We have audited the financial statements of Afghanistan International Bank (the Bank), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, the 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 31 December 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank.

### **Basis for Opinion**

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

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

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

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

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

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

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

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

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

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 the audit.

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Mazars Afghankstan  
Chartered Accountants  
Engagement Partner: Muhammad Saqlain Siddiqui  
Date: 05 March 2023  
Place: Kabul, Afghanistan

**AFGHANISTAN INTERNATIONAL BANK  
STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER, 2022**

	Note	2022 ----- AFN in '000 -----	2021
<b>ASSETS</b>			
Cash and balances with Da Afghanistan Bank	5	<b>36,754,123</b>	22,457,198
Balances with other banks	6	<b>4,935,205</b>	18,316,295
Placements - net	7	<b>11,326,593</b>	10,685,045
Investments - net	8	<b>6,805,988</b>	15,589,938
Loan and advances to customers - net	9	<b>872,752</b>	1,819,527
Operating fixed assets	10	<b>2,880,139</b>	3,392,964
Intangible assets	11	<b>457,329</b>	291,697
Deferred tax assets	12	<b>13,802</b>	267,333
Other assets	13	<b>970,597</b>	1,633,211
<b>Total assets</b>		<b><u>65,016,527</u></b>	<u>74,453,208</u>
<b>LIABILITIES</b>			
Customers' deposits	14	<b>59,950,045</b>	70,315,610
Deferred income		<b>24,883</b>	29,896
Lease liabilities	15	<b>247,634</b>	323,255
Other liabilities	16	<b>1,022,664</b>	205,912
<b>Total liabilities</b>		<b>61,245,226</b>	70,874,673
<b>EQUITY</b>			
Share capital	17	<b>1,465,071</b>	1,465,071
Capital reserves	18	<b>369,069</b>	318,624
Retained earnings		<b>2,051,465</b>	1,821,712
Revaluation loss on debt instruments at FVOCI		<b>(114,303)</b>	(26,871)
<b>Total equity</b>		<b>3,771,302</b>	3,578,536
<b>Total liabilities and equity</b>		<b><u>65,016,527</u></b>	<u>74,453,208</u>
<b>Contingencies and commitments</b>	19		

The annexed notes 1 to 38 form an integral part of these financial statements.

  
Chairman

  
Chief Executive Officer

  
Chief Financial Officer



**AFGHANISTAN INTERNATIONAL BANK  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER, 2022**

	2022	2021
Note	AFN in '000	
Interest income - calculated using the effective interest method	389,943	628,848
Profit on islamic deposits / Interest expense	(3,393)	(6,389)
Net interest income	386,550	622,459
Fee and commission income	3,204,234	948,327
Fee and commission expense	(251,356)	(138,037)
Net fee and commission income	2,952,878	810,290
Income from dealing in foreign currencies	363,492	373,707
	3,702,919	1,806,456
Other income	-	22,757
Loss / (gain) on sale of securities	(268,130)	232,665
Credit losses - net	(369,245)	(322,233)
Finance cost on lease liability	(2,872)	(4,404)
General and administrative expenses	(1,778,378)	(1,635,076)
<b>Profit before taxation</b>	<b>1,284,294</b>	<b>100,165</b>
Taxation	(275,389)	145,938
<b>Profit for the year</b>	<b>1,008,905</b>	<b>246,103</b>
<b>Other comprehensive income</b>		
<i>Items that may be classified to profit or loss subsequently</i>		
Deficit on debt instruments at FVOCI	(109,290)	(203,114)
Related deferred tax	21,858	33,852
Other comprehensive loss, net of tax	(87,432)	(169,262)
<b>Total comprehensive income for the year</b>	<b>921,473</b>	<b>76,842</b>
Earnings per share - Basic and diluted (AFN)	33.63	8.20

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Chairman

  
Chief Executive Officer

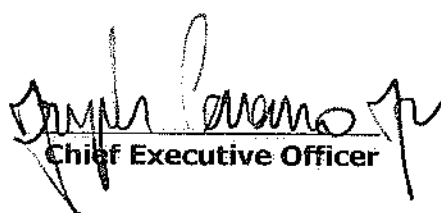
  
Chief Financial Officer

**AFGHANISTAN INTERNATIONAL BANK**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2022**

	Note	2022 ----- AFN in '000 -----	2021 -----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before Income tax		1,284,294	100,165
Adjustments for:			
Depreciation		281,377	281,712
Amortization		87,503	88,743
Finance cost on lease liability		2,872	4,404
Adjustments for the movement in lease liability		(47,614)	52,558
Credit losses -net		369,245	322,233
		<u>1,977,677</u>	<u>849,815</u>
Changes in operating assets and liabilities			
Required reserve maintained with DAB		(1,513,272)	1,461,082
Cash margin held with other banks		10,180	20,236
Loans and advances to customers - net		946,775	540,318
Other assets		666,453	95,526
Deferred income		(148,255)	(5,827)
Customers' deposits		(10,365,565)	8,147,790
Other liabilities		816,753	(801,968)
		<u>(7,609,253)</u>	<u>10,306,972</u>
Income tax paid		(2,648)	(19,550)
<b>Net cash flow (used in)/ from operating activities</b>		<u>(7,611,901)</u>	<u>10,287,422</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital work-in-progress		(251,596)	(233,427)
Acquisition of operating fixed assets		(12,573)	(10,011)
Acquisition of intangible assets		(30,638)	(7,573)
Placements (with maturity more than three months)		(2,391,334)	6,859,087
Investments		8,720,583	1,266,362
<b>Net cash flow from/ (used in) investing activities</b>		<u>6,034,444</u>	<u>7,874,437</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Lease liability repaid		(28,008)	(55,331)
Finance cost paid		(2,872)	(4,404)
Dividend paid		(728,707)	(240,000)
<b>Net cash used in financing activities</b>		<u>(759,587)</u>	<u>(299,735)</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<u>(2,337,045)</u>	<u>17,862,125</u>
Cash and cash equivalents at 1 January		<u>46,827,246</u>	<u>28,965,121</u>
<b>Cash and cash equivalents at 31 December</b>	27	<u><u>44,490,201</u></u>	<u><u>46,827,246</u></u>

The annexed notes 1 to 38 form an integral part of these financial statements.

  
Chairman

  
Chief Executive Officer

  
Chief Financial Officer

**AFGHANISTAN INTERNATIONAL BANK  
STATEMENT OF CHANGES IN EQUITY  
AS AT 31 DECEMBER, 2022**

	Share capital	Revaluation loss on debt instruments at FVOCI	Capital reserves	Retained earnings	Total
	AFN '000'				
Balance at 01 January 2021	1,465,071	142,391	306,319	1,827,914	3,741,695
<b>Total comprehensive income</b>					
Profit for the year				246,103	246,103
Other comprehensive income, net of tax:					
Debt Instruments at FVOCI					
Net change in fair value		(203,114)			(203,114)
Related tax		33,852			33,852
<b>Total comprehensive income</b>		(169,262)		246,103	76,841
Transferred to capital reserve			12,305	(12,305)	
<b>Transactions with owners of the bank</b>					
Dividend paid				(240,000)	(240,000)
<b>Balance at 31 December 2021</b>	<b>1,465,071</b>	<b>(26,871)</b>	<b>318,624</b>	<b>1,821,712</b>	<b>3,578,536</b>

	Share capital	Revaluation loss on debt instruments at FVOCI	Capital reserve	Retained earnings	Total
	AFN '000'				
Balance at 01 January 2022	1,465,071	(26,871)	318,624	1,821,712	3,578,536
<b>Total comprehensive income</b>					
Profit for the year				1,008,905	1,008,905
Other comprehensive income, net of tax:					
Fair value reserve (debt instruments at FVOCI)					
Net change in fair value		(109,290)			(109,290)
Related tax		21,858			21,858
<b>Total comprehensive income</b>		(87,432)		1,008,905	921,473
Transferred to capital reserve			50,445	(50,445)	
<b>Transactions with owners of the bank</b>					
Dividend paid				(728,707)	(728,707)
<b>Balance at 31 December 2022</b>	<b>1,465,071</b>	<b>(114,303)</b>	<b>369,069</b>	<b>2,051,465</b>	<b>3,771,302</b>

The annexed notes 1 to 38 form an integral part of these financial statements.

  
Chairman

  
Chief Executive Officer

  
Chief Financial Officer

**AFGHANISTAN INTERNATIONAL BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER, 2022**

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**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 providers in Afghanistan. The Bank has 15 branches and 1 cash outlets (2021: 15 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 investments 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. New and amended standards and interpretation**

The Bank has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective in these financial statements. Other amendments and interpretations apply for the first time in 2022, but do not have an impact on the Bank's financial statements.

**AFGHANISTAN INTERNATIONAL BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER, 2022**

**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 2022.

**3.1 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.

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 and as of 31 December 2022, the incremental borrowing rate is 1.02%. 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:

**3.2 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;

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NOTES TO THE FINANCIAL STATEMENTS  
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- b) The Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- c) The Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

*Measurement and recognition of leases as a lessee*

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

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

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

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

On the statement of financial position, right-of-use assets have been included in 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.

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**AFGHANISTAN INTERNATIONAL BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER, 2022**

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**3.3 Financial instruments**

**3.3.1 Financial instruments – initial recognition**

**3.3.1.1 Date of recognition**

Financial assets and liabilities, with the exception of 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 market place. 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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**AFGHANISTAN INTERNATIONAL BANK  
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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).

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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**

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**AFGHANISTAN INTERNATIONAL BANK  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER, 2022**

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. The ECL calculation for Debt instruments at FVOCI is explained in Note 33.2.3. 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.



**AFGHANISTAN INTERNATIONAL BANK  
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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.

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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 as explained in Note 2.1.2. 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.

The bank did not have any financial instruments that requires to be classified under FVPL as at 31 December 2022. ( 31 December 2021: Nil).

### **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 2022.

### **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.

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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 29.3.

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

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

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- PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously de recognized and is still in the portfolio. The concept of PDs is further explained in note 29.4.
- 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 29.4.
- 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 29.4.

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.

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 four scenarios, as explained above.

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- 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 four 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 23 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 23 to the financial statements.

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**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 the 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 29.4 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.

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**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 2021: 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.

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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 determine 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.

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**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 7.3 & 8.3 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 23 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.

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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 cost 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.

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
Right of Use Assets	1 to 8 years
Computers	3 to 5 years
Other office machine:	3 to 5 years
Furniture and fittings	3 to 10 years
Vehicles	5 years

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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 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 banking Deposits**

The core banking 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).

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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.

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- 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 currencies against AFN were:

	<b>1 USD</b>	<b>1 Euro</b>
As at 31 December 2022	89.21	94.46
As at 31 December 2021	103.73	113.36

**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.

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**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.

**3.18 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.

**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.

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The measurement of impairment losses under IFRS 9 across 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	2022	2021
			----- AFN in '000 -----	
	Cash in hand	5.1	29,327,890	9,676,731
	Cash in hand - Islamic banking division		167,777	44,789
	Cash at Automated Teller Machines (ATMs)		46,392	53,134
			<u>29,542,059</u>	<u>9,774,654</u>
	Balances with Da Afghanistan Bank:			
	Local currency:			
	- Required reserve accounts	5.2	648,980	228,640
	- Current accounts		245,438	1,315,010
			<u>894,418</u>	<u>1,543,650</u>
	Foreign currency:			
	- Required reserve accounts	5.2	5,471,197	4,378,265
	- Current accounts		846,449	6,760,629
			<u>6,317,646</u>	<u>11,138,894</u>
			<u>36,754,123</u>	<u>22,457,198</u>

**5.1** Cash in hand includes local currency amount of AFN 6,708,443 thousands and foreign currency amount of AFN 22,619,447 thousands: (31 December 2021: local currency amount of AFN 1,069,881 thousands and foreign currency amount of AFN 8,606,851 thousands).

**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.

6	Balances with other banks	Note	2022	2021
			----- AFN in '000 -----	
	Crown agents bank	6.1	2,930,375	13,482,891
	With other banks		2,004,830	4,833,404
			<u>4,935,205</u>	<u>18,316,295</u>

**6.1** The balances with crown agents bank consist of overnight placements carrying interest rate 3.50% per annum (31 December 2021: 0.05% per annum).

7	Placements - net	Note	2022	2021
			----- AFN in '000 -----	
	Placements with banks	7.1	11,344,435	10,685,546
	Impairment allowances for losses	7.2	(17,842)	(501)
			<u>11,326,593</u>	<u>10,685,045</u>

**7.1** These represent USD denominated fixed term placements with financial institutions outside Afghanistan up to a maximum period of 180 days (2021: one year) and carry interest at rates ranging from 2.50% to 4.70% (31 December 2021: 0.12% to 1.60%) per annum.

**7.2** The table below shows the credit quality and the maximum exposure to credit risk for categories based on the Bank's credit rating grades and year-end stage classification as at 31 December 2022 and 2021, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 29.7.

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	31 December, 2022				31 December, 2021
	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Total	
	AFN '000'	AFN '000'	AFN '000'	AFN '000'	
<b>Rating</b>					
<b>Performing</b>					
Investment Grade	9,560,235	1,784,200	-	11,344,435	10,685,546
Non-Investment Grade	-	-	-	-	-
<b>Total</b>	<b>9,560,235</b>	<b>1,784,200</b>	<b>-</b>	<b>11,344,435</b>	<b>10,685,546</b>
Provision for expected credit losses - (note 7.2.1)	(192)	(905)	-	(1,097)	(501)
Provision for impairment losses as per ACPR - (note 7.2.1)	-	(16,745)	-	(16,745)	-
<b>Total</b>	<b>(192)</b>	<b>(17,650)</b>	<b>-</b>	<b>(17,842)</b>	<b>(501)</b>
<b>Net balance</b>	<b>9,560,043</b>	<b>1,766,550</b>	<b>-</b>	<b>11,326,593</b>	<b>10,685,045</b>

**7.2.1** The provision for expected credit losses on placements as per IFRS 9 amounted to AFN 1,097 thousands (31 December 2021: AFN 501 thousands) 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	2022	2021
			AFN in '000	
	<b>Debt instruments at fair value through OCI:</b>			
	- Investment bonds	8.1	2,107,340	6,345,755
	<b>Debt instruments at amortized cost:</b>			
	- Investment bonds	8.2	4,711,659	9,269,967
			6,818,999	15,615,722
	Allowance for ECL / Impairment losses	8.3	(13,011)	(25,784)
			<b>6,805,988</b>	<b>15,589,938</b>

**8.1** These represent investments in sovereign bonds having maturity ranging from April 2023 to October 2029 (31 December 2021: January 2022 to July 2040) and carrying interest rates ranging from 1.65% to 6.00% (31 December 2021: 0.10% to 7.90%) per annum. These investments are managed by Credit Suisse and Emirates NBD on behalf of the Bank.

**8.2** These represent investments in sovereign bonds carrying interest rates ranging from 1.00% to 4.88% (31 December 2021: 1.00% to 6.60%) per annum. These investments have maturity ranging from January 2023 to October 2030 (31 December 2021: January 2022 to October 2030). These investments are managed by Julius Baer and Emirates NBD on behalf of the Bank.

**8.3 Impairment allowance for investments**

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 2022 and 2021, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 29.4

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Rating	31 December, 2022				31 December, 2021
	Stage 1	Stage 2	Stage 3	Total	
	Collective	Collective	Collective		
	----- AFN '000' -----				
<b>Performing</b>					
Investment Grade	5,866,934	-	-	5,866,934	14,573,726
Non-Investment Grade	-	625,989	462,238	1,088,227	1,068,867
	<u>5,866,934</u>	<u>625,989</u>	<u>462,238</u>	<u>6,955,161</u>	<u>15,642,593</u>
Provision for expected credit losses	-	(14,932)	-	(14,932)	(25,784)
Provision for Impairment losses as per ACPR	-	(13,011)	-	1,921	-
	-	(27,943)	-	(13,011)	(25,784)
Mark to market adjustment on debt instruments at fair value	(132,658)	(3,504)	-	(136,162)	(26,871)
	<u>5,734,276</u>	<u>594,542</u>	<u>462,238</u>	<u>6,805,988</u>	<u>15,589,939</u>

The provision for expected credit losses on investments as per IFRS 9 amount to AFN 14,120 thousands (31 December 2021: AFN 25,784 thousands) which is higher than the Asset Classification and Provisioning Regulation (ACPR). Accordingly, the Bank has maintained higher provision as required as per IFRS 9.

9	Loan and advances to customers - net	Note	2022	2021
			----- AFN in '000 -----	
	Overdrafts	9.1	972,027	2,231,308
	Term loans	9.2	266,887	724,915
	Consumer loans	9.3	17,653	29,184
			<u>1,256,567</u>	<u>2,985,407</u>
	General provision	9.4	(333,148)	(155,595)
	Allowance for ECL / impairment losses	9.5	(50,667)	(1,010,285)
			<u>872,752</u>	<u>1,819,527</u>
	<b>Particulars of loans and advances - (gross)</b>			
	Short term (for up to one year)		1,243,336	2,665,982
	Non-current (for over one year)		13,231	319,381
			<u>1,256,567</u>	<u>2,985,363</u>

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- 9.1** These represent balances due from customers at various interest rates ranging from 5.00% to 12% per annum (31 December 2021: 7.00% to 14.50%) 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 89,175 thousands (31 December 2021: AFN 140,454 thousands).
- 9.2** Term loans carry interest at various rates ranging from 5.50% to 18.00% p.a. (31 December 2021: 5.50% to 18.00% 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 including Islamic Murabaha financing amounting to (Nil ) and conventional amounting to AFN 41,383 thousands (31 December 2021: Islamic Murabaha financing amounting to in AFN 35,689 thousands and conventional amounting in AFN 141,207 thousands) which are also partially backed by Afghanistan Credit Guarantee Foundation (ACGF) guarantees to the extent defined in agreement with ACGF.
- 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 of 18% to 22% (31 December 2021: 18% to 22%) p.a., loans provided to university and school teachers carrying interest rate of 13% to 15% (31 December 2021: 13% to 15%) and credit card loans carrying interest of 36% (31 December 2021: 36%) on annual basis on outstanding balances.
- 9.4** This represents US \$3.73 mn additional general provision maintained by the bank, out this, US \$2mn is duly approved by DAB to be part of tier 2 capital to cover any future unexpected losses.

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

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 2022 and 2021, respectively. The amounts presented are gross of impairment allowances. Details of the Bank's rating grades are explained in note 29.4

	31 December, 2022				31 December, 2021
	Stage 1	Stage 2	Stage 3	Total	
	AFN '000'				
<b>Gross loan portfolio</b>					
<b>Internal Rating Grade</b>					
<b>Performing</b>					
High Grade	7,387	-	-	7,387	36,087
Standard Grade	492,423	107,716	-	600,139	765,342
Sub Standard Grade	68,926	334,742	20,617	424,285	1,146,975
<b>Non-performing</b>	-	214,433	10,324	224,756	1,037,004
<b>Total</b>	<b>568,737</b>	<b>656,890</b>	<b>30,941</b>	<b>1,256,567</b>	<b>2,985,408</b>
<b>Allowance for ECL / impairment losses</b>					
Opening balance	14,099	30,290	965,896	1,010,285	689,447
Charge for the year	-	-	43,152	43,152	310,317
Written off during the year	-	-	(983,891)	(983,891)	(1,096)
Exchange rate differences	-	-	(18,879)	(18,879)	11,617
Provision held	14,099	30,290	6,278	50,667	1,010,285
	<b>554,638</b>	<b>626,600</b>	<b>24,663</b>	<b>1,205,900</b>	<b>1,975,123</b>

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The Bank has filed suits for the recovery of loans and advances (principal due) against the defaulted borrowers amounting to AFN 268,337 thousands (31 December 2021: AFN 1,072,403 thousands) 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.

IFRS 9 expected credit loss amounts to AFN 25,162 thousands as at 31 December 2022. The provision as per ACPR amounts to AFN 197,880 thousand (General provision: AFN 8,854 thousands and Specific provision: AFN 189,026 thousands) made under Assets Classification and Provisioning Regulation (ACPR) is higher than IFRS 9 ECL, therefore, the Bank has maintained the higher provision under the requirements of ACPR.

	Note	2022	2021
		----- AFN in '000 -----	
<b>10 Operating fixed assets</b>			
Capital work-in-progress	10.1	7,204	169,043
Property and equipment	10.2	2,872,935	3,223,921
		<u>2,880,139</u>	<u>3,392,964</u>
<b>10.1 Capital work-in-progress</b>			
Advances to suppliers and contractors		<u>7,204</u>	169,043
		<u>7,204</u>	<u>169,043</u>
<b>Movement in capital work in progress</b>			
Opening balance		169,043	48,078
Additions during the year		89,757	138,424
Transferred to operating fixed assets		(5,668)	(8,915)
Transferred to intangible assets		(245,928)	(8,544)
Closing balance		<u>7,204</u>	<u>169,043</u>

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**10.2 Property and equipment**

	Land	Building	Leased buildings - Right of Use Assets	Owner office machines and equipment's	Computers	Furniture & fittings	Vehicles	Total
	----- AFN '000 -----							
<b>Cost</b>								
Balance at 01 January 2021	177,568	2,836,756	623,786	467,114	214,111	67,995	99,352	4,486,682
Adjustment on transition to IFRS 16	-	-	-	-	-	-	-	-
Transfers from CWIP	-	-	-	8,290	453	173	-	8,916
Additions	-	-	-	8,550	1,057	404	-	10,011
Derecognized	-	-	(143,612)	-	-	-	-	(143,612)
Adjustments/ written-off	-	-	(44,398)	-	-	-	-	(44,398)
Balance at 31 December 2021	<u>177,568</u>	<u>2,836,756</u>	<u>435,776</u>	<u>483,953</u>	<u>215,620</u>	<u>68,573</u>	<u>99,352</u>	<u>4,317,599</u>
Balance at 01 January 2022	<b>177,568</b>	<b>2,836,756</b>	<b>435,776</b>	<b>483,953</b>	<b>215,620</b>	<b>68,573</b>	<b>99,352</b>	<b>4,317,598</b>
Transfers from CWIP	-	-	-	5,668	-	-	-	5,668
Additions	-	-	-	11,503	2,726	-	4,012	18,241
Adjustments/ written-off	-	1,433	2,109	(332,427)	(215,099)	(11,473)	(97,735)	(653,192)
Balance at 31 December 2022	<u>177,568</u>	<u>2,838,189</u>	<u>437,885</u>	<u>168,697</u>	<u>3,247</u>	<u>57,100</u>	<u>5,629</u>	<u>3,688,314</u>
<b>Depreciation</b>								
Balance at 01 January 2021	-	268,795	134,560	322,871	111,457	21,380	92,303	951,366
Charge for the year	-	155,654	57,457	51,227	9,997	7,243	135	281,713
Adjustments/ written-off	-	-	(139,401)	-	-	-	-	(139,401)
Balance at 31 December 2021	-	424,448	52,616	374,098	121,454	28,623	92,438	1,093,678
Balance at 01 January 2022	-	424,448	52,616	374,098	121,454	28,623	92,438	1,093,677
Charge for the year	-	155,654	58,764	52,513	7,149	7,162	135	281,377
Adjustments/ written-off	-	(138)	-	(328,920)	(126,735)	(11,602)	(92,280)	(559,675)
Balance at 31 December 2022	-	579,964	111,380	97,691	1,868	24,183	293	815,379
<b>Carrying amounts</b>								
Balance at 31 December 2021	<u>177,568</u>	<u>2,412,308</u>	<u>383,160</u>	<u>109,855</u>	<u>94,166</u>	<u>39,950</u>	<u>6,914</u>	<u>3,223,921</u>
Balance at 31 December 2022	<u>177,568</u>	<u>2,258,225</u>	<u>326,505</u>	<u>71,006</u>	<u>1,379</u>	<u>32,917</u>	<u>5,336</u>	<u>2,872,935</u>
<b>Useful life</b>		20 years	1 to 8 years	3 to 10 years	3 to 5 years	3 to 10 years	5 years	

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**10.3** During the year bank has written off all the tangible assets that were fully depreciated as of 31 December 2022.

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11 Intangible assets	2022		2021	
	----- AFN in '000 -----			
Computer software, licenses and core banking deposit	<u>457,329</u>		<u>291,697</u>	
	<b>Computer software</b>	<b>License fee</b>	<b>Core Banking Deposits</b>	<b>Total</b>
	----- AFN '000 -----			
<b>Cost</b>				
Balance at 01 January 2021	476,422	90,765	542,677	1,109,864
Transfers from CWIP	8,544	-	-	8,544
Additions	7,573	-	-	7,573
Balance at 31 December 2021	<u>492,539</u>	<u>90,765</u>	<u>542,677</u>	<u>1,125,981</u>
Balance at 01 January 2022	<b>492,539</b>	<b>90,765</b>	<b>542,677</b>	<b>1,125,981</b>
Transfers from CWIP	<b>195,783</b>	<b>50,145</b>	-	<b>245,928</b>
Additions	<b>24,382</b>	<b>6,255</b>	-	<b>30,638</b>
Write offs (note 11.1)	<b>(443,570)</b>	<b>(53,968)</b>	-	<b>(497,538)</b>
Balance at 31 December 2022	<u><b>269,134</b></u>	<u><b>93,197</b></u>	<u><b>542,677</b></u>	<u><b>905,009</b></u>
<b>Amortization</b>				
Balance at 01 January 2021	356,518	87,385	301,638	745,541
Charge for the year	51,835	711	36,197	88,743
Balance at 31 December 2021	<u>408,353</u>	<u>88,096</u>	<u>337,835</u>	<u>834,284</u>
Balance at 01 January 2022	<b>408,353</b>	<b>88,096</b>	<b>337,835</b>	<b>834,284</b>
Charge for the year	<b>19,533</b>	<b>31,773</b>	<b>36,197</b>	<b>87,503</b>
Write offs (note 11.1)	<b>(388,031)</b>	<b>(86,076)</b>	-	<b>(474,107)</b>
Balance at 31 December 2022	<u><b>39,855</b></u>	<u><b>33,793</b></u>	<u><b>374,032</b></u>	<u><b>447,680</b></u>
<b>Carrying amounts</b>				
Balance at 31 December 2021	<u>84,186</u>	<u>2,669</u>	<u>204,842</u>	<u>291,697</u>
Balance at 31 December 2022	<u><b>229,279</b></u>	<u><b>59,404</b></u>	<u><b>168,645</b></u>	<u><b>457,329</b></u>
<b>Useful life</b>	<b>3 to 10 years</b>	<b>3 to 10 years</b>	<b>15 years</b>	

**11.1** During the year bank has written off all the intangible assets that were fully amortized as of 31 December 2022.

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	2022	2021
	-----	-----
	AFN in '000	AFN in '000
<b>12 Deferred tax assets</b>		
<b>Deferred tax assets / (liabilities) arising in respect of:</b>		
Provision on investments, placements and other assets	6,334	5,659
Provision on guarantees and commercial letter of credits	36,442	7,794
Loss on revaluation of investments held through OCI	18,999	(2,859)
Carry forward taxable losses	401,778	501,461
Accelerated tax depreciation and amortization	<u>(449,752)</u>	<u>(244,722)</u>
	12.1	
	<u>13,802</u>	<u>267,333</u>
<b>12.1 Movement in temporary differences during the year</b>		
	<b>Balance at</b>	<b>Balance at</b>
	<b>01 January</b>	<b>31</b>
	<b>2021</b>	<b>December</b>
	<b>AFN '000</b>	<b>2021</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
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	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
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	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
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	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
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	<b>in profit or</b>	<b>in profit or</b>
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	<b>in equity</b>	<b>in equity</b>
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	<b>in profit or</b>	<b>in profit or</b>
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	<b>loss</b>	<b>loss</b>
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	<b>in equity</b>	<b>in equity</b>
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	<b>in profit or</b>	<b>in profit or</b>
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	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
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	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in profit or</b>	<b>in profit or</b>
	<b>loss</b>	<b>loss</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>
	<b>in equity</b>	<b>in equity</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>AFN '000</b>	<b>AFN '000</b>
	<b>Recognized</b>	<b>Recognized</b>

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13	Other assets	Note	2022	2021
			----- AFN in '000 -----	
	Advances to employees		43,978	63,357
	Security deposits		9,386	1,444
	Advances and prepayments		285,322	202,380
	Interest receivable		115,771	207,087
	Advance income tax - net		43,212	40,564
	Receivable from credit card service company - CSC		251,378	1,074,826
	Other receivable and advances		222,367	45,561
			<u>971,415</u>	<u>1,635,219</u>
	Allowance for ECL / impairment losses		(818)	(2,008)
			<u>970,597</u>	<u>1,633,211</u>
			2022	2021
			----- AFN in '000 -----	
14	Customers' deposits			
	Current deposits		57,393,332	67,308,118
	Saving deposits		99,222	132,109
	Islamic deposits	14.1	1,433,864	1,686,969
	Cash margin held against bank guarantees and letters of credit	14.2	1,023,627	1,188,414
			<u>59,950,045</u>	<u>70,315,610</u>
14.1	Islamic deposits can be further analyzed as follows:			
	Current deposits		415,227	193,892
	Saving deposits		1,018,637	1,482,041
	Term deposits		-	11,036
			<u>1,433,864</u>	<u>1,686,969</u>
14.2	This represents cash margin held on the bank guarantees and letter of credit issued by the bank ranging 100% to 110%.			
			2022	2021
			----- AFN in '000 -----	
15	Lease liabilities	Note		
	Opening balance		323,255	469,641
	Additions during the year		-	-
	Derecognized during the year		-	(143,612)
	Lease rentals paid		(30,879)	(59,736)
	Finance cost for the year		2,872	4,404
	Exchange (gain)/ loss		(47,614)	52,558
		15.1	<u>247,634</u>	<u>323,255</u>
15.1	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 are presented in note 32.			
			2022	2021
			----- AFN in '000 -----	
16	Other liabilities	Note		
	Accruals and other payables		24,230	7,699
	Pending outward remittances	16.1	498,376	5,738
	Provision for salaries and allowances		122,772	33,743
	Withholding taxes payable to MoF	16.2	84,861	3,796
	Payable to customers	16.3	25,733	43,512
	Others	16.4	84,480	72,453
	Provision on financial guarantees	16.5	182,213	38,971
			<u>1,022,665</u>	<u>205,912</u>

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- 16.1** This includes pending outward remittances of the customers amounting to AFN 491,371 thousands, which subsequently were cleared on 30 January 2023 (31 December 2021: Nil).
- 16.2** This represents withholding taxes on interim dividend payment to the shareholders, which subsequently was cleared on 03 January 2023.
- 16.3** This represents amount payables to the customers as a result of their account closure due to compliance issues.
- 16.4** This mainly includes charges on outgoing remittances payable to the correspondent banks and payables to CSC regarding electronic banking services.
- 16.5** This represents provision ranging from 1% to 50% on unsecured portion of bank guarantees, not backed by cash margin. (31 December 2021: 1%)

<b>17 Share capital</b>	<b>2022</b>	<b>2021</b>
	----- AFN in '000 -----	-----
Authorized 30,000,000 (2021: 30,000,000) ordinary shares of USD 1 each	<u>1,465,071</u>	<u>1,465,071</u>
Issued, subscribed and paid-up - 30,000,000 (31 December 2021: 30,000,000) ordinary shares of AFN 48.84 each fully paid in cash	<u>1,465,071</u>	<u>1,465,071</u>

- 17.1** 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.
- 17.2** Horizon Associates LLC and Wilton Holding Limited each holds 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.
- 17.3** During the year, the Bank has paid cash dividend of AFN 24.29 per share (31 December 2021: AFN 8.00 per share) amounting to AFN 728.707 million (31 December 2021: AFN 240 million).
- 17.4** Bank is proposing a final dividend of AFN 900 million from the current year profits. This is subject to Audit committee, Board of Supervisors and DAB's approval.

**18 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 2022 stood at AFN 371,371 thousands (31 December 2021: AFN 318,644 thousands).

<b>19 Contingencies and commitments</b>	<b>Note</b>	<b>2022</b>	<b>2021</b>
		----- AFN in '000 -----	-----
<b>Contingencies</b>			
Financial guarantees	19.1	<u>2,666,853</u>	<u>8,354,500</u>
<b>19.1</b> These represent bid bonds and performance guarantees issued by the Bank in the normal course of business. These are 100% to 110% secured against the cash margin and counter guarantees.			
<b>19.2</b> The Bank is also facing certain litigations on which no provision is required as per the opinion of legal advisor.			
<b>Commitments</b>			
(a) Undrawn loan and overdraft facilities		<u>338,335</u>	942,955
(b) Commercial letters of credit		<u>44,605</u>	553,918
		<u>382,940</u>	<u>1,496,873</u>

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20	Interest income - calculated using the effective interest method	Note	2022	2021
			AFN in '000	
	Interest income on overnight deposits	20.1	36,852	21,556
	Placements	7.1	74,849	102,202
	Debt instruments at FVOCI	8.1	77,211	173,256
	Debt instruments at amortized cost	8.2	83,418	141,591
	Loans and advances to customers	9	117,613	190,243
			<b>389,943</b>	<b>628,848</b>
20.1	This represents interest income from overnight deposits with crown agents bank at the interest rate of 3.50% per annum (31 December 2021: 0.05% per annum).			
21	Fee and commission income	Note	2022	2021
			AFN in '000	
	Loans and advances to customers		10,896	10,499
	Trade finance products		4,237	12,825
	Income from domestics/international inward/outward remittances		885,475	381,285
	Income from cheque withdrawal charges		58,705	21,522
	Customers' account service charges		76,275	102,374
	Income from electronic banking		123,614	137,038
	Income from guarantee arrangements		58,924	68,245
	Income from payroll disbursement services		52,862	48,218
	Physical cash management income		1,708,438	135,462
	Income from pay on ID's services		221,074	21,626
	Others		3,734	9,235
			<b>3,204,234</b>	<b>948,327</b>
22	Fee and commission expense	Note	2022	2021
			AFN in '000	
	Guarantee / letter of credit commission		-	943
	Bank charges on nostro accounts		13,946	6,767
	Money service providers charges		41,966	1,661
	Asset management fee to investment advisors		95,724	57,196
	Expenses from electronic banking		99,720	71,470
			<b>251,356</b>	<b>138,037</b>

**23 Credit losses (reversal) / expense**

The table below shows the ECL charges on financial instruments for the year recorded in the income statement:

	Note	31 December, 2022					31 December, 2021
		Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Regulatory	Total	
		AFN '000'	AFN '000'	AFN '000'	AFN '000'	AFN '000'	
Placements	7.2	309	(905)	-	17,341	17,341	(6,824)
Investments	8.3	-	10,852	-	13,011	(10,852)	7,556
Loans and advances	9.5	-	-	-	43,152	43,152	308,899
General Provision	9.4	-	-	-	177,553	177,553	1,395
Other assets	13	-	-	-	(1,191)	(1,191)	1,676
Financial guarantees	16.5	1,438	141,804	-	(15,487)	143,242	10,218
Letter of credit	16.5	-	-	-	-	-	(687)
<b>Total impairment loss for the year</b>		<b>1,747</b>	<b>151,751</b>	<b>-</b>	<b>234,379</b>	<b>369,245</b>	<b>322,233</b>



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24	General and administrative expenses	Note	2022	2021
			AFN in '000	
	Salaries, bonus & other benefits		524,834	493,425
	Rental, rates and taxes	24.1	15,828	56,259
	Electricity, generator and fuel		119,009	76,383
	Repairs and maintenance	24.2	61,494	26,729
	Head office building support services		38,517	32,922
	Information technology cost		139,101	107,884
	Security cost		44,567	74,603
	Depreciation	10.2	281,377	281,712
	Amortization	11	87,503	88,743
	Directors fee and their meeting expenses		28,664	25,593
	Travelling and accommodation		21,695	25,776
	Communication, swift and internet		35,112	43,335
	Stationery and printing		25,833	33,257
	Legal and professional charges	24.3	143,493	85,697
	Auditors' remuneration		9,776	9,313
	Marketing and promotion		6,447	9,249
	Insurance		159,003	142,391
	Subscriptions and memberships		5,432	983
	Other expenses		14,962	15,442
	Taxes and penalties		3,564	1,059
	Corporate social responsibility		12,167	4,320
			<b>1,778,378</b>	<b>1,635,076</b>

**24.1** This includes expense related to 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.

**24.2** This includes head office building repairs and maintenance cost amounting to AFN 35,306 thousands (31 December 2021: Nil).

**24.3** This includes legal charges amounting to AFN 37,263 thousands (31 December 2021: AFN 16,636 thousands) and professional fee amounting AFN 75,300 thousands (31 December 2021: AFN 99,017 thousands).

25	Taxation	Note	2022	2021
			AFN in '000	
	<b>Current:</b>			
	For the year	25.1	-	-
	Prior periods		-	-
	<b>Deferred:</b>			
	For the year	12.1	275,389	(145,938)
			<b>275,389</b>	<b>(145,938)</b>

**25.1** Owing to carry forward tax losses, no provision for taxation has been made during the period.

**25.2 Relationship between tax expense and accounting profit**

Accounting profit for the year	<b>1,284,294</b>	<b>100,165</b>
Tax at the applicable rate of 20%	<b>256,859</b>	20,033
Deductible expenses	<b>(257,445)</b>	(200,761)
Non-deductible expenses	<b>112,699</b>	95,040
Effect of temporary differences	<b>63,593</b>	145,938
Effect of carry forward taxable losses	<b>99,683</b>	85,688
	<b>275,389</b>	<b>145,938</b>

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**26 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:

Nature of transactions	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
	2022	2021	2022	2021
	AFN '000			
<b>(a) Loans and advances to related parties</b>				
Loans outstanding at the beginning of the year	7,040	2,678	159,997	172,935
Loans issued during the year	-	-	176,878	159,997
Loans repayments during the year	(7,040)	(2,678)	(159,997)	(172,935)
Exchange gain	-	-	-	-
Loans outstanding at the end of the year	-	-	176,878	159,997
Interest income earned	-	-	8,674	181,217

Provision for expected credit losses on outstanding balances of loans and advances to related parties amounts to AFN 176,878 thousand (31 December 2021: AFN 7,705 thousand).

The facilities provided to related parties carry mark-up of 7% per annum (31 December 2021: 7% per annum) payable on monthly basis and are secured against mortgage of residential property and personal guarantees of directors and representative of shareholders of the Bank.

Nature of transactions	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
	2022	2021	2022	2021
	AFN '000			
<b>(b) Deposits from related parties</b>				
Deposits at the beginning of the year	158,172	56,741	4,839	64,474
Deposits received during the year	3,325	275,318	219,324	1,585,446
Deposits repaid during the year	(134,606)	(187,079)	(213,142)	(1,651,968)
Exchange rate difference	22,744	13,192	10,274	6,887
Deposits at the end of the year	49,635	158,172	21,295	4,839
Interest expense on deposits	-	-	-	-

These represent current account of related parties, which do not carry interest (31 December 2021: Nil).

Nature of transactions	Directors and other key management personnel (and close family members)		Shareholders and its associated companies	
	2022	2021	2022	2021
	AFN '000			
<b>(c) Other related party transactions</b>				
Fee and commission income	-	-	59	3,795
Directors' fee	15,465	25,593	-	-
Rental expenses	-	-	30,689	58,523
			2022	2021
			AFN in '000	
<b>(d) Key Management compensation</b>				
Salaries and other short-term benefits			80,859	75,930
			80,859	75,930

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

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	2022	2021
	----- AFN in '000 -----	
<b>27 Cash and cash equivalents</b>		
Cash in hand and at ATM	29,542,059	9,774,654
Balances with DAB (other than minimum reserve requirement)	1,091,887	8,075,638
Balances with other banks	4,920,490	18,291,403
Placements (with maturity less than three months)	8,935,765	10,685,551
	<u>44,490,201</u>	<u>46,827,246</u>
<b>28 Earnings per share - Basic and diluted</b>		
Profit after taxation (AFN '000)	1,008,905	246,103
Weighted average number of ordinary shares - (number in thousand)	30,000	30,000
Earnings per share - Basic and diluted (AFN)	<u>33.63</u>	<u>8.20</u>

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

**29 Financial risk management**

**29.1 Financial Assets and Liabilities**

	Financial assets (other than investments)- At amortized cost	Debt investments at amortized cost	Debt investments at fair value through OCI	Financial liabilities at amortized cost	Total
<b>31 December 2022</b>					
	----- AFN '000 -----				
<b>Financial assets</b>					
Cash and balances with					
Da Afghanistan Bank	36,754,123	-	-	-	36,754,123
Balances with other banks	4,935,205	-	-	-	4,935,205
Placements - net	-	11,326,593	-	-	11,326,593
Investments - net	-	4,698,648	2,107,340	-	6,805,988
Loans and advances to customers - net	872,752	-	-	-	872,752
Other assets	-	598,085	-	-	598,085
	<u>42,562,080</u>	<u>16,623,325</u>	<u>2,107,340</u>	<u>-</u>	<u>61,292,745</u>
<b>Financial liabilities</b>					
Customers' deposits	-	-	-	59,950,045	59,950,045
Lease liabilities	-	-	-	247,634	247,634
Other liabilities	-	-	-	840,452	840,452
	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,038,131</u>	<u>61,038,131</u>

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	Financial assets (other than investments)- At amortized cost	Debt investments at amortized cost	Debt investments at fair value through OCI	Financial liabilities at amortized cost	Total
<b>31 December 2021</b>					
----- AFN '000 -----					
<b>Financial assets</b>					
Cash and balances with Da Afghanistan Bank	22,457,198	-	-	-	22,457,198
Balances with other banks	18,316,295	-	-	-	18,316,295
Placements - net	-	10,685,045	-	-	10,685,045
Investments - net	-	9,244,183	6,345,755	-	15,589,938
Loans and advances to customers - net	1,819,527	-	-	-	1,819,527
Other assets	-	1,326,910	-	-	1,326,910
	<u>42,593,020</u>	<u>21,256,138</u>	<u>6,345,755</u>	<u>-</u>	<u>70,194,913</u>
<b>Financial liabilities</b>					
Customers' deposits	-	-	-	70,315,610	70,315,610
Deposit from banks	-	-	-	-	-
Lease liabilities	-	-	-	323,255	323,255
Other liabilities	-	-	-	166,941	166,941
	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,805,806</u>	<u>70,805,806</u>

## 29.2 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.

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### 29.3 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.

### 29.4 Credit risk measurement

#### Definition of default and cure

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

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 3 consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit 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 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 determine 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.

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**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 judgement has also been applied in this process. Forecast of these economic variables (the "base economic scenario") are obtained from external sources on a quarterly basis.

In addition to the base economic scenario, the management also estimate other possible scenarios along with scenarios weighting. The scenario weighting are determined by an expert credit judgement. As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The 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) Over due balances on loans to customers are segmented into four categories as described in note 4.4(b). The percentage of provision created on such over due 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.

**(b) 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.

**29.5 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.

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**(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 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.

**29.6 Analysis of maximum exposure to credit risk and collateral and other credit enhancements**

	<b>Maximum exposure</b>	
	<b>2022</b>	<b>2021</b>
	<b>AFN '000</b>	<b>AFN '000</b>
Credit risk exposures relating to on-balance sheet items are as follows:		
Balances with other banks	<b>4,935,205</b>	18,316,295
Placements - net	<b>11,326,593</b>	10,685,045
Investments - net (excluding capital notes with DAB)	<b>6,805,988</b>	15,589,938
Loans and advances to customers - net	<b>872,752</b>	1,819,527
Other assets	<b>598,085</b>	1,326,910
	<b>24,538,622</b>	47,737,715
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	<b>2,666,853</b>	8,354,500
Undrawn loan and overdraft facilities	<b>338,335</b>	942,955
Commercial letters of credit	<b>44,605</b>	553,918
	<b>3,049,793</b>	9,851,374

The above table represents credit risk exposure to the Bank at 31 December 2022 and 31 December 2021 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):

	<b>31 December 2022</b>	<b>31 December 2021</b>
Balances with other banks	<b>20.11%</b>	38.37%
Placements - net	<b>46.16%</b>	22.38%
Investments - net (excluding capital notes with DAB)	<b>27.74%</b>	32.66%
Loans and advances to customers - net	<b>3.56%</b>	3.81%

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**29.7 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/ Counter parties with external credit ratings:	Credit rating	Credit rating agency	2022	2021
			----- AFN in '000 -----	
Commerzbank Germany	A1	Moody's	1,045,600	1,276,755
Crown agents	BB	Fitch	2,930,375	13,482,891
Emirates NBD	A3	Moody's	30,366	712,998
State commercial bank of Turkmenistan	Baa1	Moody's	258,392	335,474
Julius Baer International	Aa2	Moody's	142,494	1,859,257
Bank Centre Credit	Caa1	Moody's	247,497	49,999
Others			280,479	598,920
<b>Placements</b>				
	Credit rating	Credit rating agency	2022	2021
			----- AFN in '000 -----	
Doha bank	Baa1	Moody's	713,680	-
Commercial Bank International	A3	Moody's	-	1,037,300
Commercial Bank of Dubai PSC	A-	Moody's	-	1,037,300
Emirates NBD	A3	Moody's	7,897,414	4,399,791
National Bank of Fujairah	Baa1	Moody's	-	-
Citibank	A3	Moody's	2,733,340	3,173,855
			2022	2021
			----- AFN in '000 -----	
<b>Investments - net</b>			<b>6,863,553</b>	<b>15,615,722</b>

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 2022 & 2021:

	2022	2021
	----- AFN in '000 -----	
<b>Loans and advances to customers- net</b>	<b>872,752</b>	<b>1,819,527</b>
	2022	2021
	----- AFN in '000 -----	
<b>Other assets</b>		
Counter parties	598,085	1,326,910

**29.8 Loans and advances - net**

	Note	2022	2021
		----- AFN in '000 -----	
Loans and advances are summarized as follows:			
Neither past due nor impaired		845,743	1,933,014
Past due but not impaired		402,098	15,389
Non-performing- Stage 3		8,723	1,037,004
Gross outstanding		1,256,564	2,985,408
Less: Allowance for impairment			
General provision	9.4	(333,148)	(155,595)
Provision held for expected credit losses - note		(50,667)	(1,010,285)
		(383,815)	(1,165,880)
		<b>872,749</b>	<b>1,819,528</b>



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**(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	Total
	Overdraft AFN '000	Term loans AFN '000	Term loans AFN '000	Term loans AFN '000	
<b>31 December 2022</b>					
Regular loans	972,026	244,906	13,257	17,653	1,247,842
<b>31 December 2021</b>					
Regular loans	1,319,416	548,020	40,071	25,507	1,933,014
<b>(b) Loans and advances past due but not impaired</b>					
<b>31 December 2022</b>					
Past due up to 30 days	-	-	6,669	-	6,669
Fair value of collateral	-	-	2,906	-	2,906
<b>31 December 2021</b>					
Past due up to 30 days	-	-	13,786	1,603	15,389
Fair value of collateral	-	-	9,926	-	9,926

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 0 thousands (31 December 2021: AFN 6,641 thousands).

	Commercial loans		SME loans	Consumer loans	Total
	Overdraft AFN '000	Term loans AFN '000	Term loans AFN '000	Term loans AFN '000	
<b>31 December 2022</b>					
Non-performing - Stage 3	-	-	8,723	-	8,723
Fair value of collateral	-	-	150,874	-	150,874
<b>31 December 2021</b>					
Non-performing - Stage 3	911,492	-	123,037	2,474	1,037,004
Fair value of collateral	276,245	-	244,445	-	520,690

**(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 2022 were AFN 7,461 thousands (31 December 2021: AFN 0 thousands).

	31 December 2022		31 December 2021	
	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
<b>Commercial loans and advances:</b>				
Term loans	7,630	7,461	-	-
Total	7,630	7,461	-	-

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29.9 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 2021. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

2022	On balance sheet:				Off balance sheet:		Total AFN '000
	Balances with other banks AFN '000	Placements AFN '000	Investments AFN '000	Loans and advances to customers - net AFN '000	Other assets AFN '000	Contingencies and commitments AFN '000	
Afghanistan	-	-	-	872,752	604,265	3,049,793	4,526,810
Lebanon	-	-	-	-	251,378	-	251,378
Singapore	59,561	-	-	-	-	-	59,561
Germany	1,060,315	-	-	-	-	-	1,060,315
UAE	30,366	6,762,612	1,578,000	-	-	-	8,370,978
USA	-	2,707,603	-	-	-	-	2,707,603
UK	2,930,375	1,767,400	-	-	-	-	4,697,775
Switzerland	142,494	-	-	-	-	-	142,494
Turkey	33,034	-	-	-	-	-	33,034
Russia	-	-	518,248	-	-	-	518,248
Uzbekistan	171,975	-	-	-	-	-	171,975
Kazakhstan	247,497	-	-	-	-	-	247,497
Turkmenistan	258,392	-	-	-	-	-	258,392
India	1,194	-	-	-	-	-	1,194
Korea	-	-	36,341	-	-	-	36,341
Italy	-	-	625,989	-	-	-	625,989
Mexico	-	-	763,532	-	-	-	763,532
Portugal	-	-	53,553	-	-	-	53,553
Poland	-	-	-	-	-	-	-
Hungary	-	-	-	-	-	-	-
Slovak Republic	-	-	-	-	-	-	-
Malaysia	-	-	132,783	-	-	-	132,783
Belgium	-	-	983,773	-	-	-	983,773
Oman	-	-	44,266	-	-	-	44,266
Saudi Arabia	-	-	263,640	-	-	-	263,640
Qatar	-	-	473,597	-	-	-	473,597
Sweden	-	-	-	-	-	-	-
Slovenia	-	-	-	-	-	-	-
Indonesia	-	-	761,789	-	-	-	761,789
China	-	-	445,942	-	-	-	445,942
Namibia	-	-	-	-	-	-	-
South Africa	-	-	-	-	-	-	-
Others	-	-	124,535	-	115,771	-	240,306
	<b>4,935,205</b>	<b>11,237,615</b>	<b>6,805,988</b>	<b>872,752</b>	<b>971,415</b>	<b>3,049,793</b>	<b>27,872,768</b>

(b) Industry sectors

2022	On balance sheet:				Off balance sheet:		Total AFN '000
	Balances with other banks AFN '000	Placements AFN '000	Investments AFN '000	Loans and advances to customers - net AFN '000	Other assets AFN '000	Contingencies and commitments AFN '000	
Government / Public sector	-	-	6,805,988	-	43,212	-	6,849,200
Manufacturing	-	-	-	191,539	-	-	191,539
Agriculture	-	-	-	-	-	-	-
Construction	-	-	-	170,172	-	-	170,172
Power	-	-	-	-	-	1,265,827	1,265,827
Telecommunication	-	-	-	-	-	-	-
Banks and financial institutions	4,935,205	11,237,615	-	-	251,378	-	16,424,199
Traders	-	-	-	-	-	1,445,631	1,445,631
Fuel suppliers	-	-	-	491,541	-	-	491,541
Others	-	-	-	19,500	676,824	-	696,324
	<b>4,935,205</b>	<b>11,237,615</b>	<b>6,805,988</b>	<b>872,752</b>	<b>971,415</b>	<b>2,711,458</b>	<b>27,534,433</b>

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	On balance sheet:				Off balance sheet:		Total AFN '000
	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	Other assets AFN '000	Contingencies and commitments AFN '000	
2021							
Afghanistan	-	-	-	1,819,527	353,306	9,851,374	12,024,206
Lebanon	-	-	-	-	1,074,826	-	1,074,826
Singapore	26,547	-	-	-	-	-	26,547
Germany	1,133,924	-	-	-	-	-	1,133,924
UAE	712,998	10,685,546	1,814,535	-	-	-	13,213,079
USA	-	-	-	-	-	-	-
UK	13,625,722	-	-	-	-	-	13,625,722
Switzerland	1,859,257	-	-	-	-	-	1,859,257
Turkey	181,572	-	-	-	-	-	181,572
Russia	384,859	-	919,186	-	-	-	1,304,045
Uzbekistan	5,587	-	-	-	-	-	5,587
Kazakhstan	49,999	-	-	-	-	-	49,999
Turkmenistan	335,474	-	-	-	-	-	335,474
India	356	-	-	-	-	-	356
Korea	-	-	345,771	-	-	-	345,771
Italy	-	-	725,221	-	-	-	725,221
Mexico	-	-	908,936	-	-	-	908,936
Portugal	-	-	63,667	-	-	-	63,667
Poland	-	-	46,696	-	-	-	46,696
Hungary	-	-	768,561	-	-	-	768,561
Slovak Republic	-	-	1,078,998	-	-	-	1,078,998
Malaysia	-	-	191,476	-	-	-	191,476
Belgium	-	-	1,147,651	-	-	-	1,147,651
Oman	-	-	115,732	-	-	-	115,732
Saudi Arabia	-	-	782,339	-	-	-	782,339
Qatar	-	-	1,311,625	-	-	-	1,311,625
Sweden	-	-	-	-	-	-	-
Slovenia	-	-	445,106	-	-	-	445,106
Indonesia	-	-	1,126,435	-	-	-	1,126,435
China	-	-	-	-	-	-	-
Namibia	-	-	51,486	-	-	-	51,486
South Africa	-	-	-	-	-	-	-
Others	-	-	3,722,301	-	207,087	-	3,929,388
	<u>18,316,294</u>	<u>10,685,546</u>	<u>15,615,722</u>	<u>1,819,527</u>	<u>1,635,219</u>	<u>9,851,374</u>	<u>57,923,681</u>
2021							
Government / Public sector	-	-	15,615,722	-	247,651	-	15,863,373
Manufacturing	-	-	-	-	-	-	-
Agriculture	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Power	-	-	-	-	-	-	-
Telecommunication	-	-	-	-	-	-	-
Banks and financial institutions	18,316,294	10,685,546	-	-	1,074,826	-	30,076,666
Traders	-	-	-	-	-	-	-
Fuel suppliers	-	-	-	-	-	-	-
Others	-	-	-	-	312,742	8,354,500	8,667,242
	<u>18,316,294</u>	<u>10,685,546</u>	<u>15,615,722</u>	<u>-</u>	<u>1,635,219</u>	<u>8,354,500</u>	<u>54,607,281</u>

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**30 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.

**31 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 2022 and 31 December 2021. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency.

	AED	USD	Converted to AFN '000				Total AFN '000
			EUR	GBP	INR	AFN '000	
<b>As at 31 December 2022</b>							
<b>Assets</b>							
Cash and balances with Da Afghanistan Bank	-	28,979,692	78,953	-	-	-	36,754,125
Balances with other banks	653	3,884,561	877,500	172,189	302	-	4,935,205
Placements	-	11,344,435	-	-	-	-	11,344,435
Investments	-	6,876,564	-	-	-	-	6,876,564
Loans and advances to customers	-	595,358	-	-	-	661,207	1,256,565
Other assets	-	572,125	14,999	-	-	329,054	916,178
<b>Total financial assets</b>	<b>653</b>	<b>52,252,735</b>	<b>971,452</b>	<b>172,189</b>	<b>302</b>	<b>8,685,741</b>	<b>62,083,073</b>
<b>Liabilities</b>							
Customers' deposits	-	51,661,800	850,473	169,897	-	7,293,609	59,975,779
Lease liabilities	-	-	-	-	-	247,634	247,634
Other liabilities	-	568,976	3,611	-	-	-	572,587
<b>Total financial liabilities</b>	<b>653</b>	<b>52,230,776</b>	<b>854,084</b>	<b>169,897</b>	<b>302</b>	<b>7,541,243</b>	<b>60,796,000</b>
<b>On-balance sheet financial position - net</b>		<b>21,959</b>	<b>117,368</b>	<b>2,292</b>		<b>1,144,498</b>	<b>1,287,073</b>
<b>As at 31 December 2021</b>							
Total financial assets	8,930	65,048,716	1,376,595	253,059	356	5,262,659	71,950,315
Total financial liabilities	-	64,545,974	1,302,078	251,806	-	4,694,573	70,794,431
<b>On-balance sheet financial position - net</b>	<b>8,930</b>	<b>502,742</b>	<b>74,517</b>	<b>1,253</b>	<b>356</b>	<b>568,086</b>	<b>1,155,884</b>

**Sensitivity analysis:**

If the functional currency, at the year end 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.

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	AED	USD	EUR	GBP	INR
<b>2022</b>					
5% increase (AFN'000) - profit/ (loss)	(33)	(1,098)	(5,868)	(115)	(15)
5% decrease (AFN'000) - profit/ (loss)	33	1,098	5,868	115	15
<b>2021</b>					
5% increase (AFN'000) - profit/ (loss)	(446)	(25,137)	(3,726)	(63)	(18)
5% decrease (AFN'000) - profit/ (loss)	446	25,137	3,726	63	18

**32 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 reprising or maturity dates.

	Interest bearing						Total
	1 to 3 months			Total interest bearing		Non- interest bearing	
	Up to 1 month	3 to 12 months	1 to 5 years	Over 5 years	AFN '000		
AFN '000	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000	
<b>As at 31 December 2022</b>							
<b>Assets</b>							
Cash and balances with Da Afghanistan Bank	-	-	-	-	-	-	-
Balances with other banks	2,854,720	-	-	-	2,854,720	-	4,935,205
Placements	4,150,700	4,775,064	-	-	11,344,435	-	11,344,435
Investments	535,494	69,772	756,114	3,760,962	1,696,657	-	6,818,999
Loans and advances to customers	-	696	1,001,098	246,048	1,247,842	-	1,247,842
Other assets	-	-	-	-	-	-	598,085
<b>Total financial assets</b>	<b>7,550,914</b>	<b>4,845,532</b>	<b>4,165,882</b>	<b>4,007,010</b>	<b>22,265,995</b>	<b>2,678,570</b>	<b>24,944,565</b>
<b>Liabilities</b>							
Customers' deposits	-	-	-	-	-	-	59,950,045
Deposits from bank	-	-	-	-	-	-	-
Lease liabilities	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	247,634	-	247,634
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>247,634</b>	<b>-</b>	<b>1,022,665</b>
<b>Total interest reprising gap</b>	<b>7,550,914</b>	<b>4,845,532</b>	<b>4,165,882</b>	<b>4,007,010</b>	<b>22,018,361</b>	<b>(58,294,140)</b>	<b>(36,275,779)</b>
<b>As at 31 December 2021</b>							
Total financial assets	49,581,379	855,493	8,384,675	9,494,228	2,819,219	71,134,994	113,824,349
Total financial liabilities	12,096	120,958	35,228	60,479	105,530	334,291	70,521,522
<b>Total interest reprising gap</b>	<b>49,569,283</b>	<b>734,535</b>	<b>8,349,448</b>	<b>9,433,749</b>	<b>2,713,689</b>	<b>70,800,703</b>	<b>(27,832,166)</b>

If the interest increase / (decrease) by 100 bps, the profit or loss for the year would have been: AFN 220,184 thousands (31 December 2021: AFN 708,007 thousands) higher/ lower respectively

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**33 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.

**33.1 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.

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.

**33.2 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

	2022	2021
Year-end	1.46%	2.59%
Maximum	2.69%	6.74%
Minimum	1.46%	4.50%
Average	2.10%	5.44%

**33.3 Non-derivative financial liabilities and assets held for managing**

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	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000	AFN '000
<b>As at 31 December 2022</b>						
<b>Liabilities</b>						
Customers' deposits	59,950,045	-	-	-	-	59,950,045
Lease liabilities	-	-	-	-	247,634	247,634
Other liabilities	583,237	231,482	-	-	-	814,719
<b>Total financial liabilities (contractual maturity dates)</b>	<b>60,533,282</b>	<b>231,482</b>	<b>-</b>	<b>-</b>	<b>247,634</b>	<b>61,012,398</b>
<b>Total financial assets (contractual maturity dates)</b>	<b>10,229,484</b>	<b>4,845,532</b>	<b>4,165,882</b>	<b>4,007,010</b>	<b>1,696,657</b>	<b>24,944,565</b>
<b>As at 31 December 2021</b>						
<b>Liabilities</b>						
Customers' deposits	70,359,122	-	11,036	-	-	70,370,158
Lease liabilities	12,096	120,958	24,192	60,479	105,530	323,255
Other liabilities	11,495	41,442	-	-	-	52,937
<b>Total financial liabilities (contractual maturity dates)</b>	<b>70,382,713</b>	<b>162,400</b>	<b>35,228</b>	<b>60,479</b>	<b>105,530</b>	<b>70,746,350</b>
<b>Total financial assets (contractual maturity dates)</b>	<b>92,270,733</b>	<b>855,493</b>	<b>8,384,675</b>	<b>9,494,228</b>	<b>2,819,219</b>	<b>113,824,349</b>

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 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	1 to 5 years	Over 5 years	Total
	AFN '000	AFN '000	AFN '000	AFN '000
<b>As at 31 December 2022</b>				
Guarantees	2,277,824	389,029	-	2,666,853
Undrawn loans and overdraft facilities	338,335	-	-	338,335
Commercial letters of credit	-	44,605	-	44,605
<b>Total</b>	<b>2,616,159</b>	<b>433,634</b>	<b>-</b>	<b>3,049,793</b>
<b>As at 31 December 2021</b>				
Guarantees	5,575,005	2,779,495	-	8,354,500
Undrawn loans and overdraft facilities	892,508	50,447	-	942,955
Commercial letters of credit	35,268	518,650	-	553,918
<b>Total</b>	<b>6,502,782</b>	<b>3,348,592</b>	<b>-</b>	<b>9,851,374</b>

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**34 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			
<b>As at 31 December 2022</b>	-	2,107,340	-
<b>As at 31 December 2021</b>	-	6,345,755	-

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.

**(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	
	2022 AFN '000	2021 AFN '000	2022	2021
<b>Financial assets</b>				
Cash and balances with Da Afghanistan Bank	36,754,123	22,457,198	36,754,123	22,457,198
Balances with other banks	4,935,205	18,316,295	4,935,205	18,316,295
Placements - net	11,326,593	10,685,045	11,326,593	10,685,045
Investments - net	4,698,648	9,244,184	4,698,648	9,244,184
Loans and advances to customers - net	872,752	1,819,527	872,752	1,819,527
Security deposits and other receivables - net	598,085	841,036	598,085	841,036
<b>Financial liabilities</b>				
Customers' deposits	59,950,045	70,315,610	59,950,045	70,315,610
Deposits from bank	-	-	-	-
Other liabilities	583,237	11,495	583,237	11,495
<b>Off-balance sheet financial instruments</b>				
Bank's guarantees	2,666,853	8,354,500	2,666,853	8,354,500
Bank's commitments	382,940	1,496,873	382,940	1,496,873

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 amortised 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.

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**35 Capital Management**

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:

	2022	2021
	----- AFN in '000 -----	
<b>Tier 1 (Core) Capital:</b>		
Total equity capital	3,771,302	3,578,536
Less:		
Intangible assets	(457,329)	(291,697)
Net deferred tax assets	(13,802)	(267,333)
Revaluation reserve on debt instruments at OCI	114,303	26,871
Profit for the year	(1,008,905)	(246,103)
	<u>2,405,569</u>	<u>2,800,274</u>
<b>Tier 2 (Supplementary) Capital:</b>		
General reserves as per DAB's regulation, but restricted to 1.25% of total risk-weighted exposure	170,342	170,251
Profit for the year	1,008,905	246,103
Revaluation reserve on bonds (45%)	-	-
	<u>1,179,248</u>	<u>416,354</u>
Tier 2 (Supplementary) Capital (restricted 100% of Tier 1 (Core) Capital)	<u>1,179,248</u>	<u>416,354</u>
	<u>3,584,817</u>	<u>3,216,628</u>
<b>Risk-weight categories</b>		
<b>0% risk weight:</b>		
Cash in Afghani and fully-convertible foreign currencies	29,542,060	9,774,654
Direct claims on DAB	7,212,063	12,682,544
Others	1,020,563	2,845,474
Total	<u>37,774,686</u>	<u>25,302,673</u>
0% risk-weight total (above total x 0%)	<u>-</u>	<u>-</u>
<b>20% risk weight:</b>		
Balances with other banks	16,279,639	30,076,667
Others	789,728	323,698
20% risk-weight total (above total x 20%)	<u>3,413,873</u>	<u>6,080,073</u>
<b>50% risk weight:</b>		
Others	679,778	1,424,769
50% risk-weight total (above total x 50%)	<u>339,889</u>	<u>712,385</u>

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<b>100% risk weight:</b>		
All other assets	9,866,546	17,523,944
Less: intangible assets	(457,329)	(291,697)
Less: Deferred tax assets	(13,802)	(267,333)
All other assets - net	9,395,415	16,964,915
100% risk-weight total (above total x 100%)	9,395,415	16,964,915
<b>Credit conversion factor</b>		
<b>0% risk weight:</b>		
Undrawn loan and overdraft facilities	338,335	942,955
Guarantees	284,726	415,522
0% credit conversion factor total (risk-weighted total x 0%)	-	-
0% risk-weight total (above total x 0%)	-	-
<b>20% risk weight:</b>		
Commercial letters of credit	44,605	553,918
Guarantees	2,382,128	7,938,978
20% credit conversion factor total (risk-weighted total x 20%)	8,921	110,784
20% credit conversion factor total (risk-weighted total x 20%)	478,210	1,609,953
<b>100% risk weight:</b>		
Guarantees	-	-
100% credit conversion factor total (risk-weighted total x 100%)	-	-
100% risk-weight total (above total x 100%)	-	-
<b>Total risk-weighted assets</b>	<b>13,627,387</b>	<b>25,367,326</b>
<b>Tier 1 Capital Ratio</b>		
(Tier 1 capital as % of total risk-weighted assets)	17.65%	11.04%
<b>Regulatory Capital Ratio</b>		
(Regulatory capital as % of total risk-weighted assets)	26.31%	12.68%

**36 Islamic banking**

The Bank started Islamic banking operation in November 2015 with following Islamic deposit products.

**Qardul Hasanah 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 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.

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Below are the figures relating to Islamic banking as at 31 December 2022

	2022 AFN '000	2021 AFN '000
<b>ASSETS</b>		
Cash and balances with Da Afghanistan Bank	776,607	909,689
Investments in sukuk securities	624,470	727,961
Loans and advances to customers	14,844	28,370
Operating fixed assets	9	1,307
Other assets	3,832	5,206
<b>Total assets</b>	<b>1,419,762</b>	<b>1,672,532</b>
<b>LIABILITIES</b>		
Deposit - current	415,227	193,892
Deposit - saving	1,018,637	1,482,041
Deposit - term deposit	-	11,036
Other liabilities	4,813	3,695
	<b>1,438,677</b>	<b>1,690,664</b>
<b>EQUITY</b>		
Share Capital	5,809	5,809
Accumulated losses reserve	(23,941)	(23,203)
<b>Total equity</b>	<b>(18,132)</b>	<b>(17,394)</b>
<b>Total liabilities and equity</b>	<b>1,420,545</b>	<b>1,673,270</b>
Total profit income	10,737	6,961
Total profit expense	(3,319)	(2,255)
Net Profit Income	7,418	4,706
Other non profit income	9,765	11,253
Other non profit expense	(14,211)	(15,189)
Net non profit expense	(4,446)	(3,936)
Income / (loss) from dealing in foreign currencies	984	(2,078)
<b>TOTAL INCOME</b>	<b>3,956</b>	<b>(1,308)</b>
Net provision / (reversal) for expected credit losses	(4,739)	570
<b>NET LOSS FOR THE YEAR</b>	<b>(783)</b>	<b>(738)</b>

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**37 General**

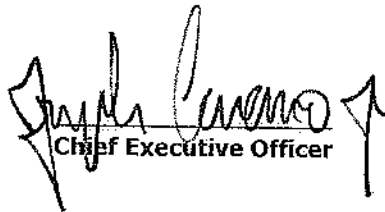
**37.1** Corresponding figures have been reclassified / re-arranged wherever necessary to facilitate comparison in the presentation in the current year. However, there are no material reclassification / re-arrangement to report.

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

**38 Date of authorization for issue**

These financial statements were authorized for issue by the Board of Supervisors of the Bank on \_\_\_\_\_

  
Chairman

  
Chief Executive Officer

  
Chief Financial Officer