

Da Afghanistan Bank
Monetary Policy Department

Monthly Report

November 2020

Executive Summary

The report provides a brief analysis, evaluation and progress of the current macroeconomic indicators, and updates on the financial stability in Afghanistan during the month under review. This report is prepared based on the compilation of the monetary and financial data collected from major departments of the Da Afghanistan Bank (DAB). The report incorporates macro-data from Monetary Sector, External Sector, Real Sector, Fiscal sector, and financial data from Payments and Financial Supervision Departments.

Reserve Money (RM) weekly actual amount stood at Af 325,592.30 million at the end of Aqrab, while it recorded Af 321,628.98 million at the beginning of FY 1399 (2020) and showing 1.23 percent growth since the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC) and it stood at Af 285,992.98 million at the end of Aqrab month, whereas the weekly actual CiC recorded Af 259,349.98 million at the beginning of FY1399 (2020), and shows 10.27 percent growth.

Since the beginning of fiscal year of 1399 (2020) up to end of Aqrab, DAB has auctioned a total amount of USD 1,902.37 million through open market operations, and has collected Af 146.10 billion from the market. These operations have fulfilled 29.23 percent of the total demand for currency (especially the US dollar) in the market.

Headline inflation increased in the month of October 2020 year over year basis. The year over year inflation increased to 5.99 percent in October from 5.70 percent observed in the previous month. This increase is caused by higher prices of both food and non-food items.

The balance of payments (BOP's) current account deficit decreased by 13 % to a value of USD 893.51 million in the third quarter of the FY 1399 from a value of USD 1,028.38 million recorded in the third quarter of the FY 1398.

The decline in current account deficit was mainly due to an expansion in official grants, increasing in personal transfers as well as increasing in services account related receipts during the third quarter of the FY 1399.

Total revenue (domestic revenue plus external aids) for the month of November 2020 is AFN 24.16 billion, while in October it was AFN 30.43 billion which shows 20.60% or AFN 6.27 billion decrease in November. Total revenue from the start of FY-2020 till end of November reached to AFN 301.63 billion that is combination of AFN 153.53 billion donor contributions and AFN 148.10 billion domestic revenue respectively.

The main financial indicators as Total Assets, deposits, investments and equity capital demonstrated increases in the current quarter; moreover the banking sector remained profitable though decreased since last quarter. Liquidity and CAR position of all banks are above the set regulatory threshold. However, the loan quality still remains weak and is a concern.

Given the spread of C19 second wave, in coming months, the banking sector may experience more NPLs, high provisions leading to declining profitability, capital, and financial ratios. Therefore, banks have to opt for more precautionary measures to cope with the expected financial downturn. The main points of the Post C 19 plan are the expansion of banking activities, disbursement of new credit facilities, cost reduction measures including suspension of dividend payments in 2020, electronic reporting, renewal of loans, relaxation in loan classification and risk weighting of loans guaranteed by the third parties such as ACGF, IFC, USAID etc.

Table of content

1. Monetary Sector9

1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report.....	9
1.2 Net International Reserve	9
1.3 Foreign Exchange and Capital Notes Auction	10
1.5 Exchange Rate	14
2. Real Sector	17
3.External sector.....	21
3.1. CURRENT ACCOUNT BALANCE	21
3.2. GOODS ACCOUNT	21
3.3. SERVICES ACCOUNT	22
3.4. PRIMARY INCOM ACCOUNT:.....	22
3.5. SECONDARY INCOME ACCOUNT:.....	22
3.6. CAPITAL ACCOUNT BALANCE:	22
3.7. FINANCIAL ACCOUNT BALANCE:	23
4. Fiscal Sector	24
5. Swift	27
6. Banking Sector	28
EXECUTIVE SUMMARY.....	28
SECTOR AT A GLANCE.....	29
INTRODUCTION.....	30
6.1: ASSETS OF THE BANKING SECTOR	31
6.2: Loan Portfolio	33
6.2.1: Quality of Loans.....	34
6.2.2: Type of Loans.....	37
6.2.3: Sector-wise Designation of Loans	38
6.2.4: Related Party Exposure	38
6.2.5: Repossessed Assets.....	38
6.3: LIQUIDITY OF THE BANKING SECTOR	39
6.3: LIQUIDITY OF THE BANKING SECTOR	39
6.3.1: Liquid Assets.....	39
6.3.2: Required Reserves	40
6.3.3: Interbank Claims	41
6.3.4: Foreign Accounts and Placements	41
6.3.5: Deposits.....	41
6.4: CAPITAL OF THE BANKING SECTOR	45
6.5: PROFITABILITY OF THE BANKING SECTOR	46
6.6: OFF-BALANCE SHEET ITEMS	51

Monetary Sector

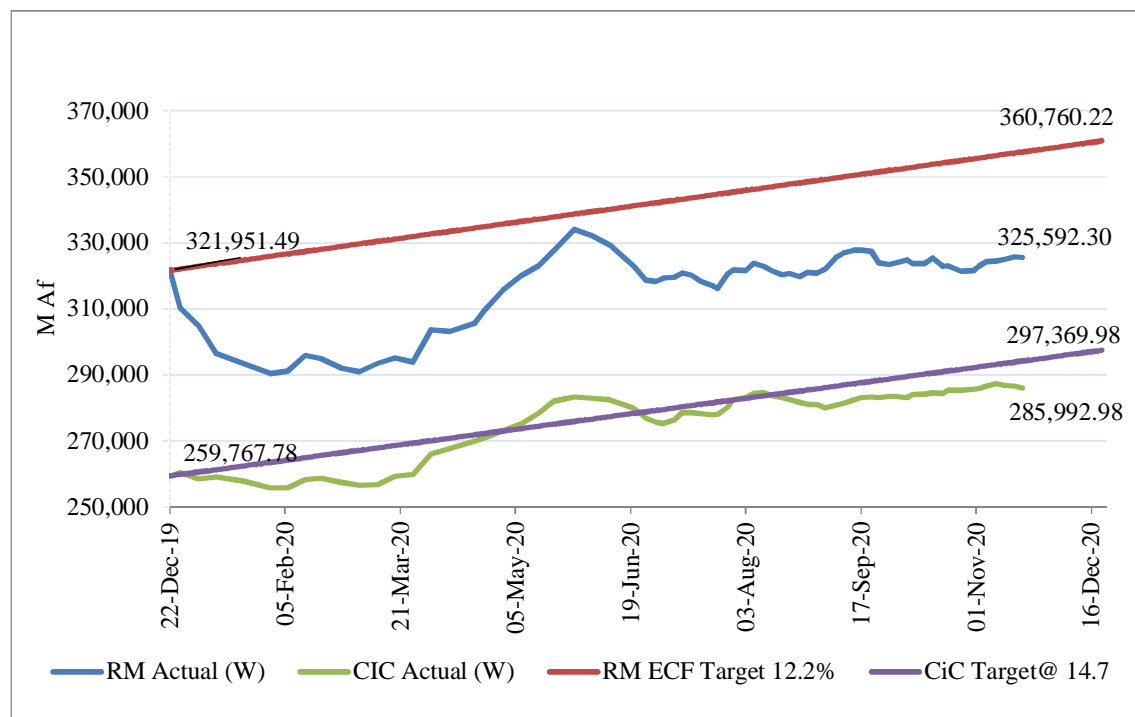
1.1 Reserve Money (RM) and Currency in Circulation (CiC) growth Report

Monetary Policy department develops monetary policies of Da Afghanistan Bank in consideration to the country's economic situation, through the main and effective channels of money demand, government's fiscal program (Revenue and expenditure), economic growth outlook, and price stability in the country.

Reserve Money (RM) weekly actual amount stood at Af 325,592.30 million at the end of Aqrab, while it recorded Af 321,628.98 million at the beginning of FY 1399 (2020) and showing 1.23 percent growth since the beginning of FY.

In addition, Da Afghanistan Bank could successfully manage the currency in circulation (CiC) and it stood at Af 285,992.98 million at the end of Aqrab month, whereas the weekly actual CiC recorded Af 259,349.98 million at the beginning of FY1399 (2020), and shows 10.27 percent growth.

Figure 1.1 shows the RM and CiC during FY 1399 (2020)



Source: Open Market Operations/Monetary Policy Departments

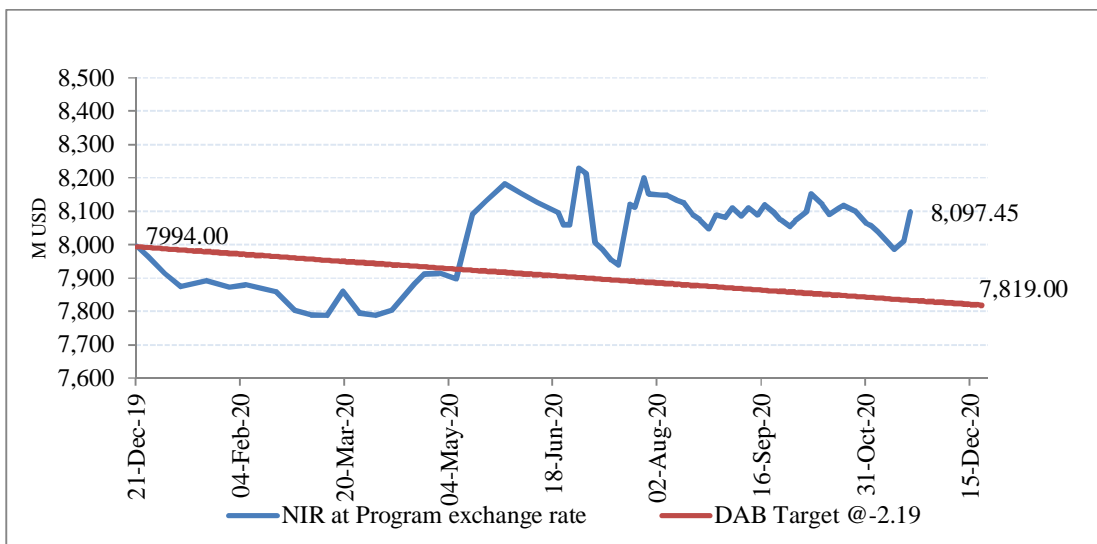
1.2 Net International Reserve

Accumulation of Net International Reserves (NIR), which is known as a main macroeconomic indicator of the national economy, is one of the biggest achievements in the country's financial system. NIR accumulation, without doubt, has significant direct impacts on better

implementation of monetary policies as well as on managing macroeconomic indicators such as exchange rate, inflation and balance of payment stability.

At the beginning of FY1399 (2020), Afghanistan's NIR actual amount in program exchange rate was set USD 7,994.0 million, but actual amount reached to USD 8,097.45 million at the end of Aqrab month, which shows USD 102.99 million accumulation.

Figure 1.2 shows Net International Reserve (NIR) during FY 1399:



Source: Open Market Operations/Monetary Policy Departments

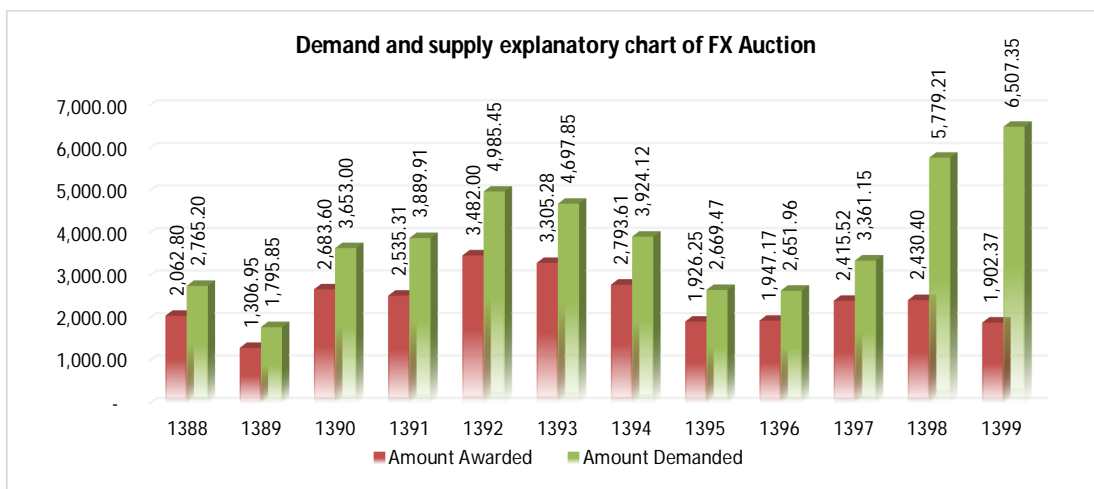
1.3 Foreign Exchange and Capital Notes Auction

In order to control the liquidity, money supply and mitigate excessive Af exchange rate fluctuations in the economy, DAB manages reserve money growth close to its sited ceiling by conducting USD auctions three times in a week, and weekly capital notes auctions, which are the two instruments used through open market operations. For detail each of instruments illustrates in the below.

Foreign Exchange Auction

Since the beginning of fiscal year of 1399 (2020) up to end of Aqrab, DAB has auctioned a total amount of USD 1,902.37 million through open market operations, and has collected Af 146.10 billion from the market. These operations have fulfilled 29.23 percent of the total demand for currency (especially the US dollar) in the market.

Figure 1.3 illustrates the foreign exchange demand and supply during the last 12 years.



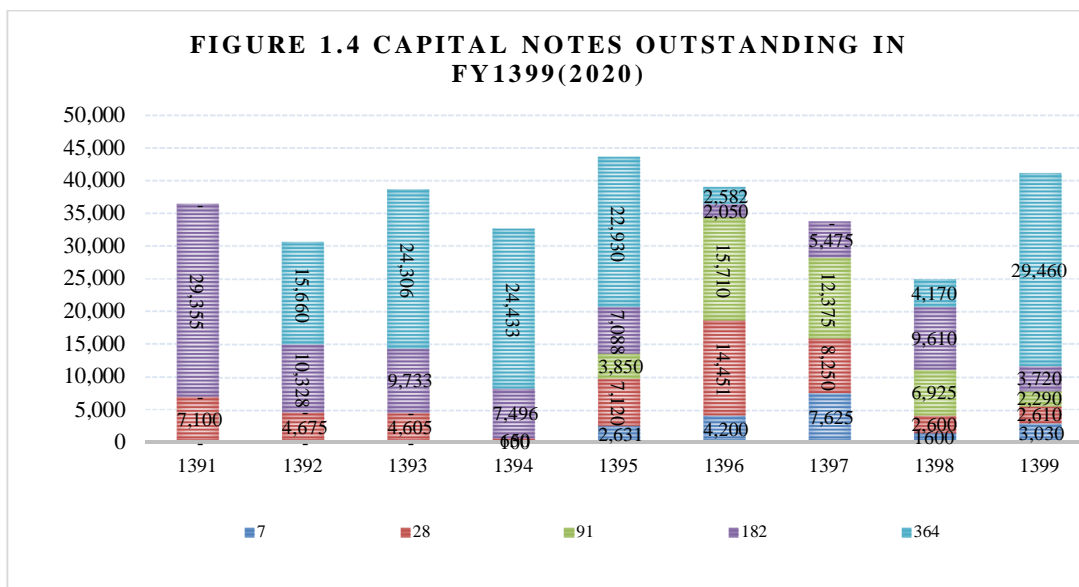
Source: Market Operations/Monetary Policy Departments

Capital Notes Auction (Interest rate bidding)

DAB uses capital notes auction as its secondary tool to manage liquidity in the market and mop up the excess liquidity from the banking sectors, establish and vindicate secondary markets for securities, maintain price stability, diversify monetary policy instruments, and motivate commercial banks to attract Afghani denominated deposits.

From the beginning of fiscal year of 1399 (2020) up to end of Aqrab, the total outstanding of capital notes reached Af 41.11 billion and meanwhile the total interest paid for the mentioned notes reached Af 176.35 million at the end of this month.

Figure 1.4 figure illustrates the Capital Notes Outstanding during 9 years till the end of Aqrab month of FY 1399 (2020).

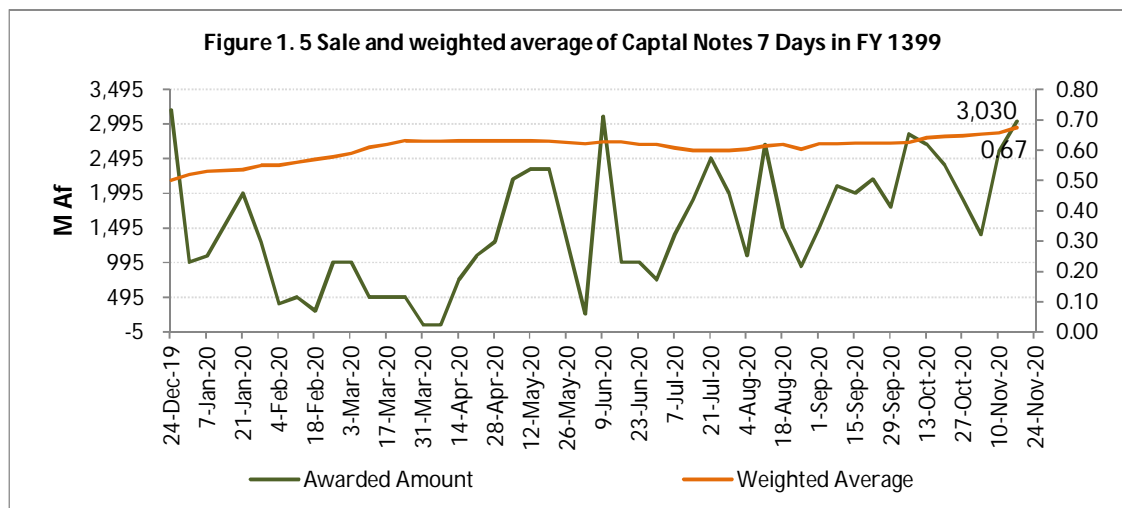


Source: Market Operations/Monetary Policy Departments

7 days Capital Notes

The awarded amount of 7 days' capital notes auction at the end of Aqrab reached Af 3.03 billion with average interest rate of 0.67 percent. The outstanding of these notes is stood Af 3.03 billion for the mentioned period.

Figure 1.5 Sale and weighted average of Capital Notes 7 Days in FY 1399

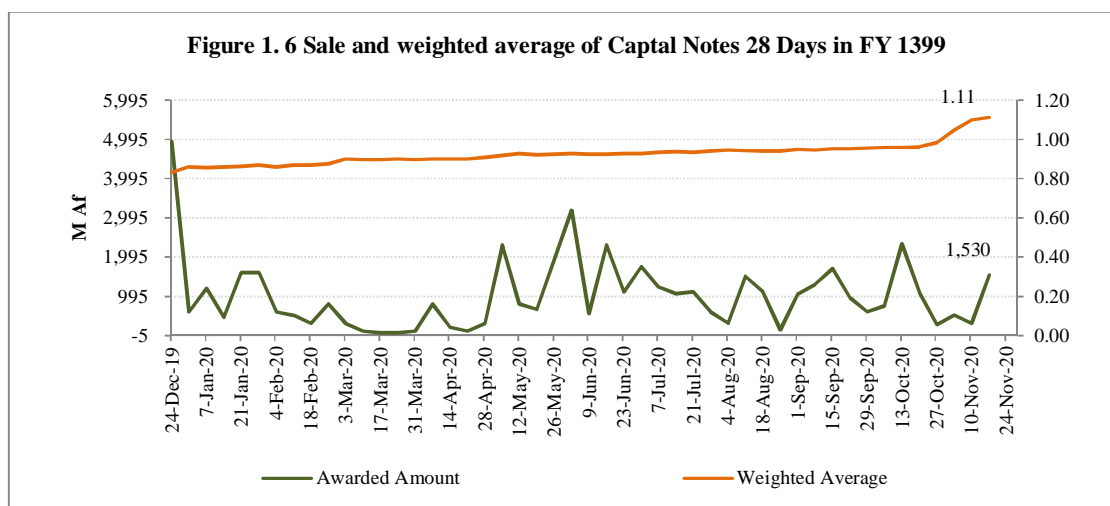


Source: Market Operations/Monetary Policy Departments

28 days Capital Notes

During the reviewed period, awarded amount of 28 days' capital notes auction at the end of Aqrab is recorded Af 1.53 billion with average interest rate of 1.11 percent and outstanding amount of Af 2.61 billion.

Figure 1.6 Sale and weighted average of Capital Notes 28 Days in FY 1399

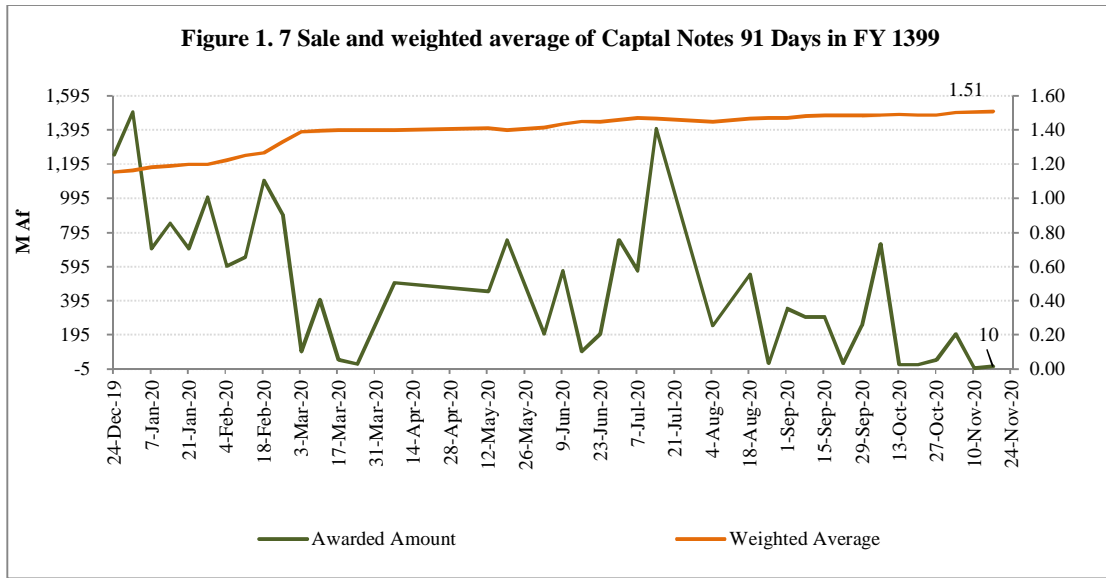


Source: Market Operations/Monetary Policy Departments

91 days Capital Notes

DAB's 91 days' capital notes auction during this reporting period stood at Af 0.01 billion at the end of Aqrab with average interest rate of 1.51 percent and total outstanding of Af 2.29 billion.

Figure 1.7 Sale and weighted average of Capital Notes 91 Days in FY 1399

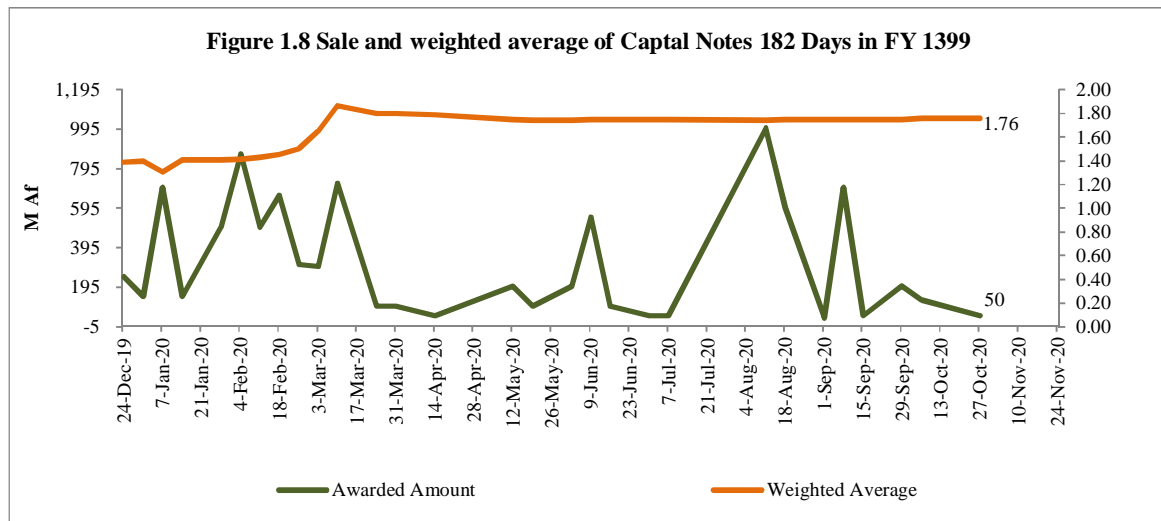


Source: Market Operations/Monetary Policy Departments

182 days Capital Notes

DAB's 182 days' capital notes auction during this reporting period stood at Af 0.05 billion at the end of Aqrab with average interest rate of 1.76 percent and total outstanding of Af 3.72 billion.

Figure 1.8 Sale and weighted average of Capital Notes 182 Days in FY 1399

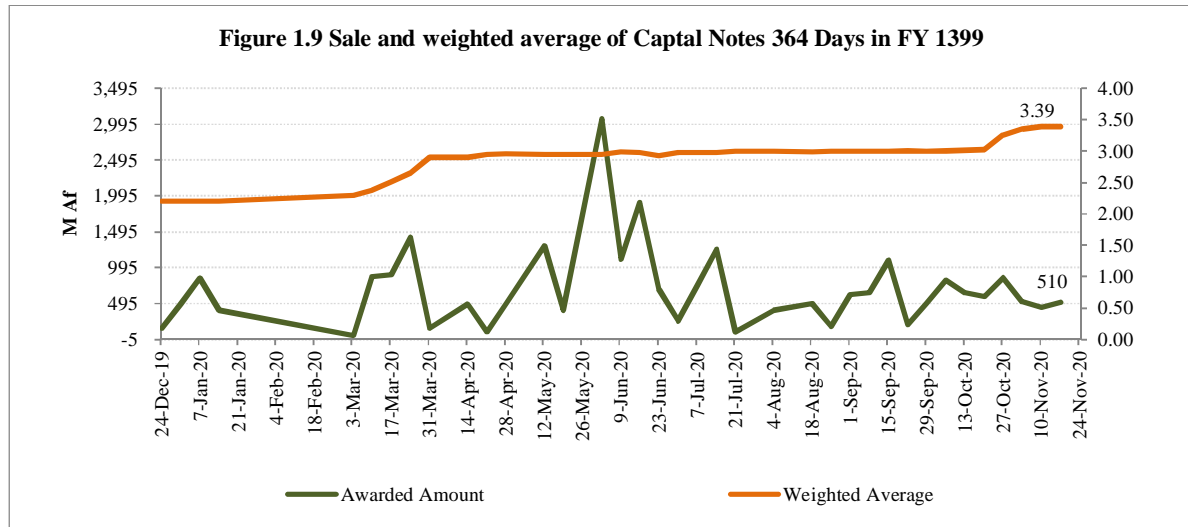


Source: Market Operations/Monetary Policy Departments

364 Days Capital Notes

DAB's 364 days' capital notes auction during this reporting period stood at Af 0.51 billion at the end of Aqrab with average interest rate of 3.39 percent and total outstanding of Af 29.46 billion.

Figure 1.9 Sale and weighted average of Capital Notes 364 Days in FY 1399

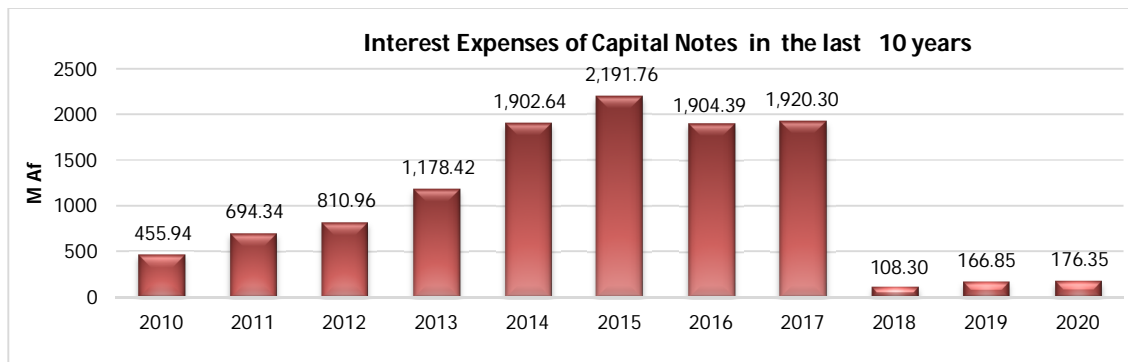


Source: Market Operations/Monetary Policy Departments

Interest Expenses

DAB interest paid for Capital Notes during of 11 years till the end of Aqrab month FY 1399 (2020) the figure of below illustrated.

Figure 1.10 Interest Expenses of Capital Notes in the last 11 years

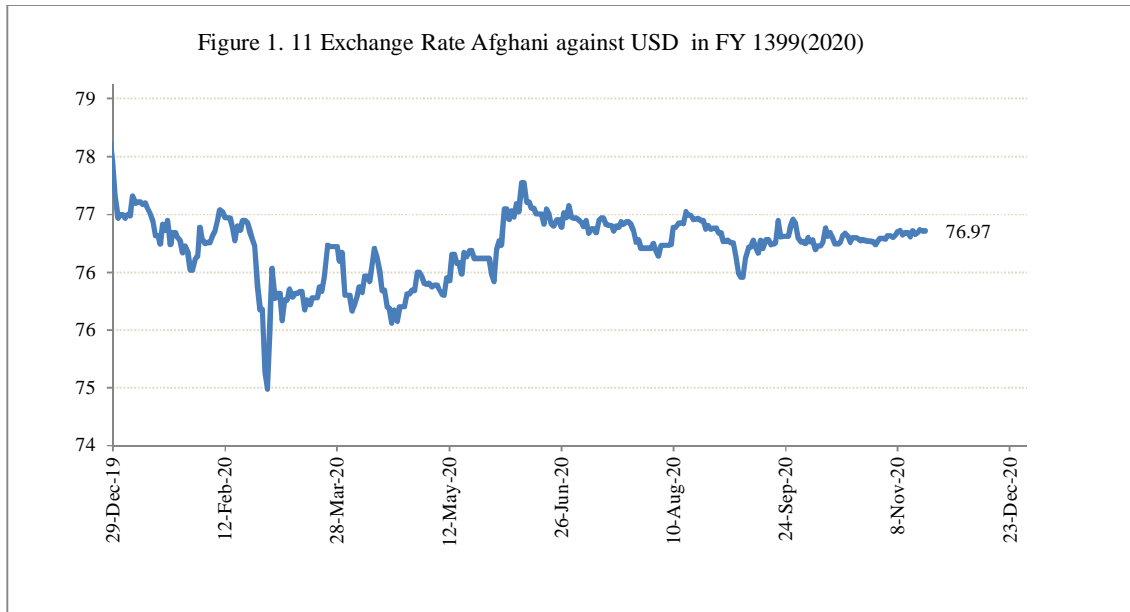


1.5 Exchange Rate

Central bank does not target the exchange rate in the market. However, considering its significant effects on other macroeconomic indicators, DAB closely monitors exchange rate behavior to prevent its severe fluctuations. Observing the data, the Afghani exchange rate has recorded some fluctuations against major currencies of the world.

From the beginning of FY1399 (2020) Afghani has appreciated by 1.87 percent, and has been exchanged at Af 76.79 per USD on average and recorded at Af 76.97 exchanged at the end of Aqrab month.

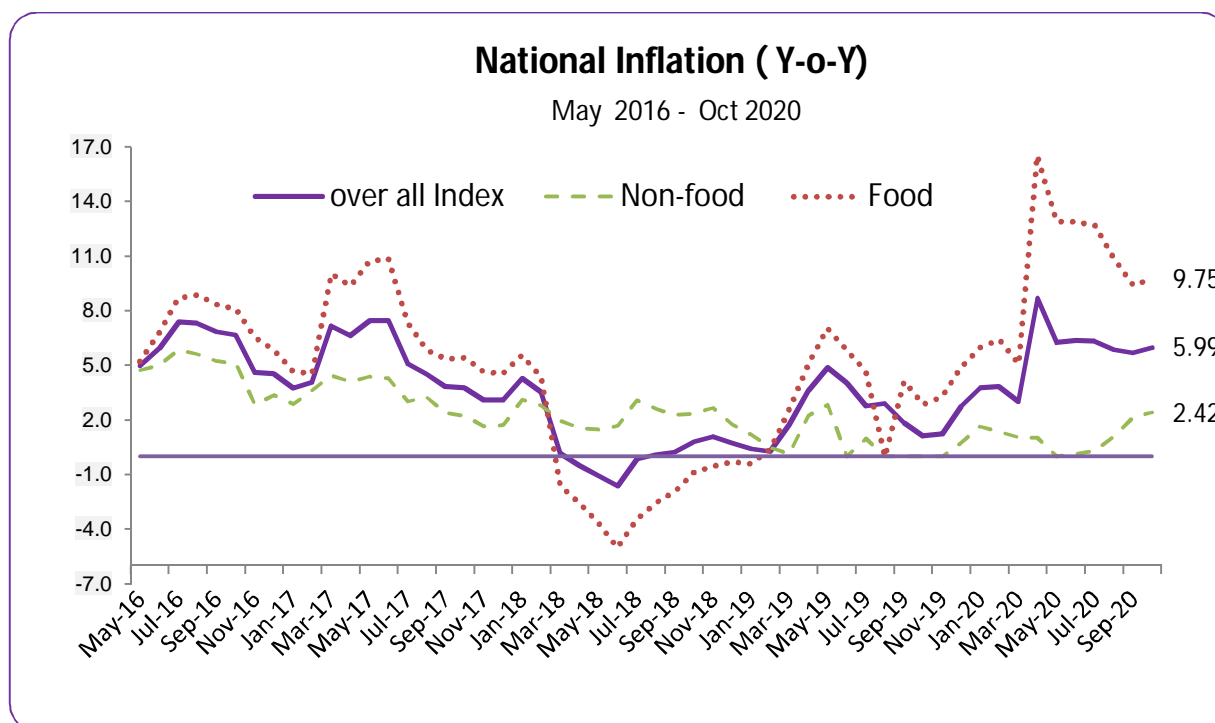
Figure 1. 11 Exchange Rate Afghani against USD in FY 1399(2020)



The table of Monetary Indicators

Items	FY1398						1399 FY				
	Hoot	Jawza	Sunbula	Meezan	Aqrab	Qaws	Hoot	Jawza	Sunbula	Meezan	Aqrab
Reserve Money Target (%)	12						12				
Actual Reserve Money (%)	-5.6	-4.5	1.19	1.9	2.2	12	-8	0.42	1.82	0.44	1.23
RM Actual	255627.49	259654.32	275042.98	293531.98	294628.03	304625.71	295224.52	322978.27	327473.80	323039.14	325592.30
RM Target	280267.14	305491.17	314327.17	317177.49	320027.82	322878.14	331039.94	340873.85	350707.77	353880.00	357535.12
CiC Actual	222147.20	231598.67	244489.52	254320.10	255165.73	259350.77	259302.12	279989.89	283438.22	285277.84	285992.98
CiC Target	233785.34	241897.91	248894.55	251151.53	253408.50	255665.48	266938.63	274868.34	282798.06	285356.03	294236.46
Actual NIR	7702.51	7691.22	7868.70	8365.31	7978.50	7873.60	7711.85	8128.78	8334.40	8365.31	8097.45
NIR Target	7684.13	7708.58	7708.58	7708.58	7708.58	7708.58	7846.07	7919.41	7919.41	7919.41	7833.74
Outstanding Amount	26665	27020	23920	25000	23075	24905	30455	34495	39590	41550.00	41110.00
Required Reserve (Afs)	5768.54	10923.40	2,657.34	5895.74	5442.18	5734.43	5928.75	6271.67	6914.36	6914.36	7118.90

2. Real Sector



Consumer Price Index (CPI) in Afghanistan is divided into two main groups: Food Items, accounting for 47.8 percent of total CPI and Non-Food Item making up the remaining 52.2 percent. The most important components in food item, which may put significant impacts on the overall inflation, are: bread and cereals (14.6 percent), meat (7.5 percent), milk, cheese and eggs (4.7percent) and oil and fats (4.6 percent). The non-food item is mainly composed of: housing (19.1 percent), clothing (4.6 percent), household goods (11.9 percent), transportation (4.3 percent), and health (6.2 percent).

Headline inflation

Headline inflation increased in the month of October 2020 year over year basis. The year over year inflation increased to 5.99 percent in October from 5.70 percent observed in the previous month. This increase is caused by higher prices of both food and non-food items.

Considering price changes in the short-term (month-to-month), headline inflation increased to 0.52 percent from -0.83 percent. Based on this measure, food items increased to 0.50 percent from -1.92 percent and non-food items also increased to 0.55 percent from 0.30 percent.

Table 1. Headline Inflation (September 20- October 20)

	Y-o-Y		M-to-M	
	September	October	September	October
National CPI				
Headline	5.70	5.99	-0.83	0.52
<i>Food</i>	9.41	9.75	-1.92	0.50
<i>Non-Food</i>	2.16	2.42	0.30	0.55

FOOD INFLATION increased in month of October 2020. Food and beverages items are weighted for 47.8 percent of the overall index. Food inflation in October 2020, when measured year over year basis, increased to 9.75 percent compared to 9.41 percent calculated in previous month. This increases come from higher prices of meat, milk, cheese and eggs, vegetables, sugar and sweets.

In October 2020, **price index of milk, cheese and eggs** which comprises around 5 percent of the overall index showed higher prices. During the review period, this index has increased to 3.30 percent (year over year) from 2.16 percent observed in previous month. When measured on the month-to-month basis, it also increased to 1.15 percent from -1.52 percent recorded in previous month.

Afghanistan imports most of their dairy products and chicken eggs from neighboring countries; especially from Iran. Recently, the prices of dairy products and chicken eggs has increased in Iran, which has a direct effect on the domestic prices of the mentioned index.

Vegetables price index which is dedicated for 6.56 percent of the overall index, increased to 11.97 percent (year over year) from 2.06 percent observed in the previous month. On the other hand, when measured on the month to month basis this index has increased to 11.00 percent; however, it was recorded -3.06 percent in the previous month.

one of the main reasons behind increase of this price index is seasonal effect, normally during the autumn season price of this index gets increase. Also many cold storage has started working, which has the capacity to store and not to be sold at cheap price during this season in market.

Price index of sugar and sweets increased year over year basis. This index which comprises around 2.7 percent of the consumer price index increased to 3.74 percent (year over year) from 0.67 percent.

On the other hand, when measured month to month basis, this index decreased to -0.98 from -0.52 percent. However, this change is not likely to affect the CPI dramatically, because it does not make significant weight in the index.

as most of the sugar has been importing from neighboring countries such as Iran, and UAE, Malaysia, India and Turkmenistan, the increase of sugar price in Iran and UAE. Also decrease in the import of sugar from Malaysia, India and Turkmenistan has led to increase the prices in domestic market.

Table 2.2. Food and Non-alcoholic beverage Inflation (September 20- October 20)

Items	Weight	Y-o-Y		M-to-M	
		September	October	September	October
Food and Non-alcoholic Beverages	47.8	9.41	9.75	-1.92	0.50
<i>Bread and Cereals</i>	14.6	14.49	12.43	-1.62	-1.54
<i>Meat</i>	7.5	9.72	10.96	-0.76	0.67
<i>Milk, cheese and eggs</i>	4.7	2.16	3.30	-1.52	1.15
<i>Oils and fats</i>	4.6	15.44	11.98	-1.04	-2.39
<i>Fresh and dried fruits</i>	5.0	13.15	10.52	-6.38	-1.65
<i>Vegetables</i>	6.0	2.06	11.97	-3.06	11.00
<i>Sugar and sweets</i>	2.7	0.67	3.74	-0.52	-0.98
<i>Spices</i>	1.3	-1.18	-2.47	0.56	3.08
<i>Non-alcoholic beverages</i>	1.4	4.89	3.54	0.20	0.25

Non-Food Inflation

Inflation in non-food items exhibited upwards trend in the month of October 2020. Year over year basis, non-food inflation increased to 2.42 percent from 2.16 percent observed in the previous month. This increase mainly comes from higher prices of clothing, furnishing, electricity, water and gas, transportation, communication, information and culture, education, and miscellaneous.

Clothing price index which comprises around 4.6 percent of the overall index, increased in October 2020 to 8.64 percent (year over year), while it was calculated 7.84 percent in the previous month. On the other hand, this index also increased on month to month basis turning to 1.47 percent from 1.21 percent.

the main contribution behind increase of this index are demand for purchase of autumn season cloths has increased, also mostly clothing index are importing from Pakistan and due to locust attack on cotton field in Pakistan, the price of clothing index has increased which also led to increase domestic price throughout the country.

Price index of furnishing and household goods increased in the month of October 2020. This index which holds a healthy weight of 12 percent in the CPI, increased to 4.30 percent from 3.40 percent.

in the meantime, when measured on month to month basis this index decreased to 0.08 percent from 0.65.

most of the household goods import from neighbor's countries, particularly from Iran and Pakistan and price of household goods in Iran has increased, and cotton production in Pakistan has decreased which led to increase the price of mentioned index. also Afghanistan import during the period has been decreased from neighbors' countries which has led to increase the domestic prices of mentioned index.

Education price index, increased in the month of October. Observing the data, this index increased to 5.29 percent from 4.35 percent (year over year), this index is also increased to 1.47 percent from 1.39 percent (month to month).

demand for English and science courses has increased which caused increased in fee of mentioned index

CORE INFLATION

Core measure of inflation gives a more specific view of price changes. This method is used to analyze the inflationary developments cutting off the effects of eccentric factors, which may be seasonal or other specific cases. In this method, those components, which show abnormal changes in their price level, are ignored to put down their effects from the CPI.

One of the most common methods of core inflation is **trimmed mean**. This measure is defined for a particular part of the CPI, and is calculated by taking the simple average of the index after excluding the targeted components. During October 2020, trimmed mean (30 % of CPI) increased to 5.47 percent (year over year) from 4.23 percent observed in the previous month.

Another core measure of inflation is the CPI excluding **bread and cereals, oils and fats, and transportation**, which increased to 5.39 percent compared to 4.47 percent recorded in the previous month. Inflation by this measure decreased on month to month basis to 1.16 percent from -0.69 percent.

Core Measures	Y-on-Y		M-to-M	
	Sep	Oct	Sep	Oct
	<i>30 % trimmed mean</i>	4.23	5.47	
<i>CPI ex B&C, O& F and T</i>	4.47	5.39	-0.69	1.16

Source: *Afghanistan Bank and/NSIA*

3.External sector

3.1. CURRENT ACCOUNT BALANCE

The balance of payments (BOP's) current account deficit decreased by 13 % to a value of USD 893.51 million in the third quarter of the FY 1399 from a value of USD 1,028.38 million recorded in the third quarter of the FY 1398.

The decline in current account deficit was mainly due to an expansion in official grants, increasing in personal transfers as well as increasing in services account related receipts during the third quarter of the FY 1399.

3.2. GOODS ACCOUNT

Base on the available data the merchandise trade deficit expanded by 25 % and stood at USD 1,725.37 million in the third quarter of the FY 1399 from a deficit of USD 1,382.43 million recorded in the third quarter of the FY 1398.

The value of total export declined by 5 % to a value of USD 198.42 million in the third quarter of the FY 1399 from a value of USD 208.77 million recorded in the similar quarter of the previous year mainly on account of fresh and dry fruits. But export of medical seeds and other recorded a notable performance in the review period.

The value of total import surged to a value of USD 1,923.79 million in the third quarter of the FY 1399 compared to a value of USD 1,591.20 million in the third quarter of the previous year, owing to improvements in all components of imports as a result of trade acceleration with trading partners

(Iran, China, Pakistan, India, Uzbekistan and Tajikistan) after relaxing trade restrictions, except industrial supplies.

3.3. SERVICES ACCOUNT

The deficit of services account declined by 30 % to a value of USD 129.61 million in the third quarter of the FY 1399 from a value of USD 185.60 million recorded in the third quarter of the FY 1398.

3.4. PRIMARY INCOM ACCOUNT:

The primary income balance includes flows between general government and the rest of the world in the form of (flows from investment income, taxes, subsidies on products and production as well as compensation of employees).

Observing the statistics, the primary income account related inflows declined by 14% to a value of USD 65.35 million in the third quarter of the FY 1399 from a value of USD 75.79 million recorded in the third quarter of the FY 1398.

At the same time, primary income outflows increased by 99% to a value of USD 13.81 million in the third quarter of the FY 1399 from a value of USD 6.95 million recorded in the third quarter of the FY 1398.

3.5. SECONDARY INCOME ACCOUNT:

Net inflows to the secondary income account increased by 110% to a value of USD 717.57 million in the third quarter of the FY 1399 from a value of USD 341.27 million recorded in the third quarter of the FY 1398.

- **Official transfers (Net);** to the Afghan government increased by 151% to a value of USD 585.7 million in the third quarter of the FY 1399 from a value of USD 233.1 million recorded in the third quarter of the FY1398.
- **Personal transfers (Net)** increased by 24 % to a value of USD 176.74 million in the third quarter of the FY 1399 from a value of USD 142.51 million recorded in the third quarter of the FY 1398.

3.6. CAPITAL ACCOUNT BALANCE:

Inflow to the capital account significantly decreased by 72% to a value of USD 109.53 million in the third quarter of the FY 1399 from a value of USD 391.57 million recorded in the third quarter of the FY 1398, as a result of lower inward of capital transfers to the government sector.

3.7. FINANCIAL ACCOUNT BALANCE:

Financial account of the balance of payments mainly consists of foreign direct investment (FDI), foreign portfolio investment (FPI), other investment and reserve assets.

3.7.1. Direct investment

- ✓ FDI abroad, increased to a value of USD 10 million in the third quarter of the FY 1399 from a value of USD 4.86 million in the third quarter of the FY 1398.
- ✓ FDI in the country also increased to a value of USD 4.78 million in the third quarter of the FY 1399 from a value of USD -4.18 million recorded in the third quarter of the FY 1398.

3.7.2. Portfolio Investment abroad: increased to a value of USD 83.11 million in the third quarter of the FY 1399 from a value of USD -33.74 million recorded in the third quarter of the FY1398.

3.7.3. Other investment: which is consist of currency and deposits, loans, other account Payable and receivable, trade credit and advances

- ✓ The total value of other investment abroad (assets): recorded USD – 0.24 million in the third quarter of the FY 1399, while this figure was recorded USD – 17.86 million in the third quarter of the FY 1398.
- ✓ At the same time total value of other investment in the country (liabilities), recorded USD 9.50 million in the third quarter of the FY 1399, while this was recorded USD 55.14 million in the third quarter of the FY 1398.

AFGHANISTAN'S BALANCE OF PAYMENTS (in million USD)

Items / Years	Q2 - 98	Q3 - 98	Q4 - 98	Q1 - 99	Q2 - 99	Q3 - 99	% change
Current Account	-778.30	-1028.38	-708.35	-946.42	-414.33	-893.51	-13%
<i>Credit</i>	1013.86	851.64	1280.46	815.50	857.16	1261.72	48%
<i>Debit</i>	1792.16	1880.02	1988.81	1761.92	1271.50	2155.22	15%
Goods and Services Account	-1427.22	-1438.50	1368.85	-1250.12	-1041.59	1662.61	16%
<i>Credit</i>	283.90	344.64	516.73	399.73	146.63	380.24	10%
<i>Debit</i>	1711.12	1783.14	1885.57	1649.85	1188.22	2042.85	15%
Goods Account	-1323.05	-1252.91	1259.63	-1177.43	-960.89	1533.00	22%
<i>Credit</i>	143.29	208.77	329.21	203.64	32.00	198.42	-5%
<i>Debit</i>	1466.34	1461.67	1588.84	1381.07	992.89	1731.42	18%
Services Account	-104.17	-185.59	-109.22	-72.69	-80.70	-129.61	-30%
<i>Credit</i>	140.61	135.87	187.52	196.09	114.63	181.82	34%
<i>Debit</i>	244.78	321.47	296.74	268.78	195.33	311.44	-3%
Primary Income Account	101.08	68.84	61.07	63.08	30.21	51.53	-25%
<i>Credit</i>	111.98	75.79	71.48	74.89	42.13	65.35	-14%
<i>Debit</i>	10.89	6.95	10.40	11.82	11.92	13.81	99%

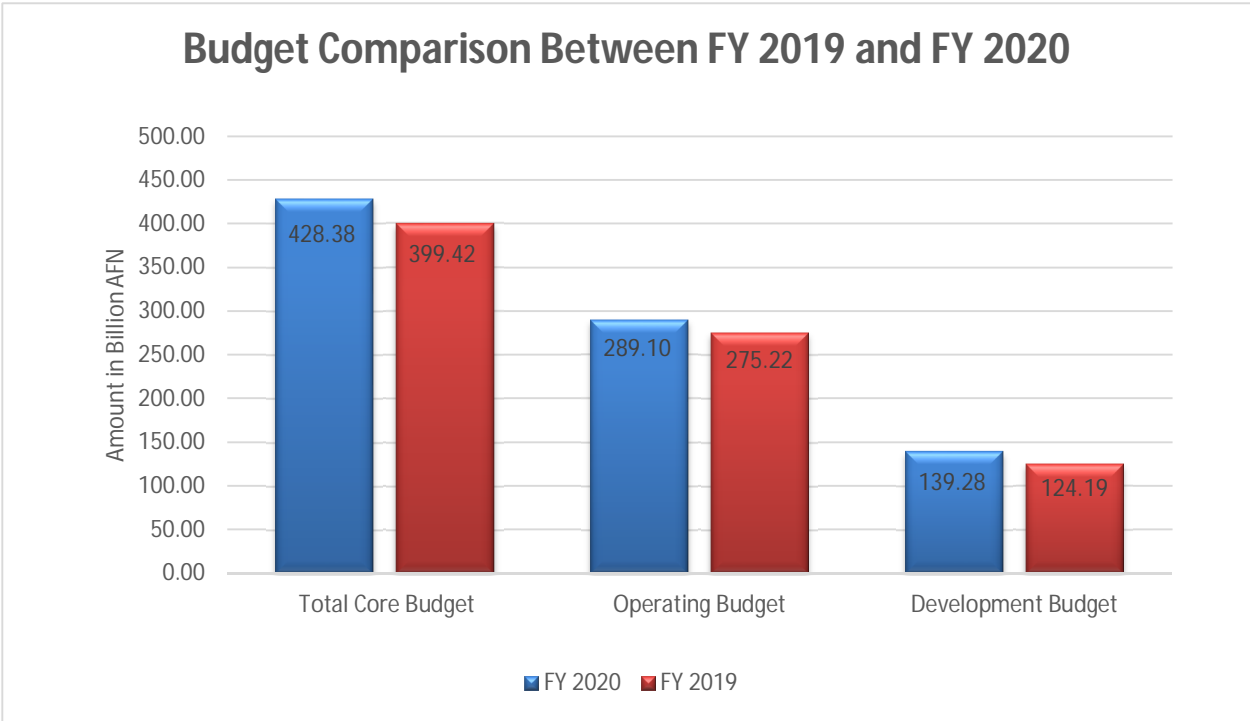
Secondary Income Account	547.83	341.27	599.43	240.62	597.04	717.57	110%
<i>Credit</i>	617.99	431.21	692.26	340.88	668.40	816.12	89%
<i>Debit</i>	70.15	89.93	92.83	100.26	71.36	98.55	10%
Current transfers (Official grants)	432.9	233.1	497.7	177.4	513.7	585.7	151%
<i>Credit</i>	432.91	233.13	497.7	177.4	513.7	585.7	151%
<i>Debit</i>	0.00	0.00	0.0	0.0	0.0	0.0	
Personal transfers	145.36	142.51	139.87	95.91	107.71	176.74	24%
<i>Credit</i>	185.08	198.08	194.51	163.50	154.75	230.38	16%
<i>Debit</i>	39.72	55.57	54.64	67.59	47.04	53.64	-3%
Capital account	241.57	391.57	504.68	48.21	107.17	109.53	-72%
<i>Credit</i>	241.57	391.57	504.68	48.21	107.17	109.53	-72%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	
Capital transfers	241.57	391.57	504.68	48.21	107.17	109.53	-72%
<i>Credit</i>	241.57	391.57	504.68	48.21	107.17	109.53	-72%
<i>Debit</i>	0.00	0.00	0.00	0.00	0.00	0.00	
Financial account	27.9	59.0	10.9	-147.50	346.99	100.42	70%
Direct investment	-6.28	9.04	-1.55	2.91	-0.4	5.2	-42%
Net acquisition of financial assets	5.69	4.86	5.26	6.10	2.59	10.00	106%
Net incurrence of liabilities	11.97	-4.18	6.81	3.19	3.02	4.78	-214%
Portfolio investment	15.42	-33.74	20.16	-18.20	41.19	83.11	-346%
Net acquisition of financial assets	15.42	-33.74	20.16	-18.20	41.19	83.11	-346%
<i>Net incurrence of liabilities</i>	0.00	0.00	0.00	0.00	0.00	0.00	
Other investment	-9.42	-72.99	124.26	-22.54	-290.93	-9.74	-87%
<i>Assets</i>	-23.13	-17.86	89.24	-38.22	-74.09	-0.24	-99%
<i>Liabilities</i>	-13.71	55.14	-35.02	-15.67	216.84	9.50	-83%
Reserve Assets	28.13	156.66	-131.94	-109.67	597.16	21.84	-86%
Net errors and omissions	565	696	215	751	654	884	27%

4. Fiscal Sector

The key objective in the fiscal area is to achieve sustained increase in revenue collection to permit gradual takeover of externally financed operating & development spending to ensure an expenditure allocation consistent with Afghanistan National Peace and Development Framework (ANPDF). Furthermore, other goals include improvements in public expenditure management, fiscal policy formulation and reformation, efficiency in public enterprises, tax and customs administration.

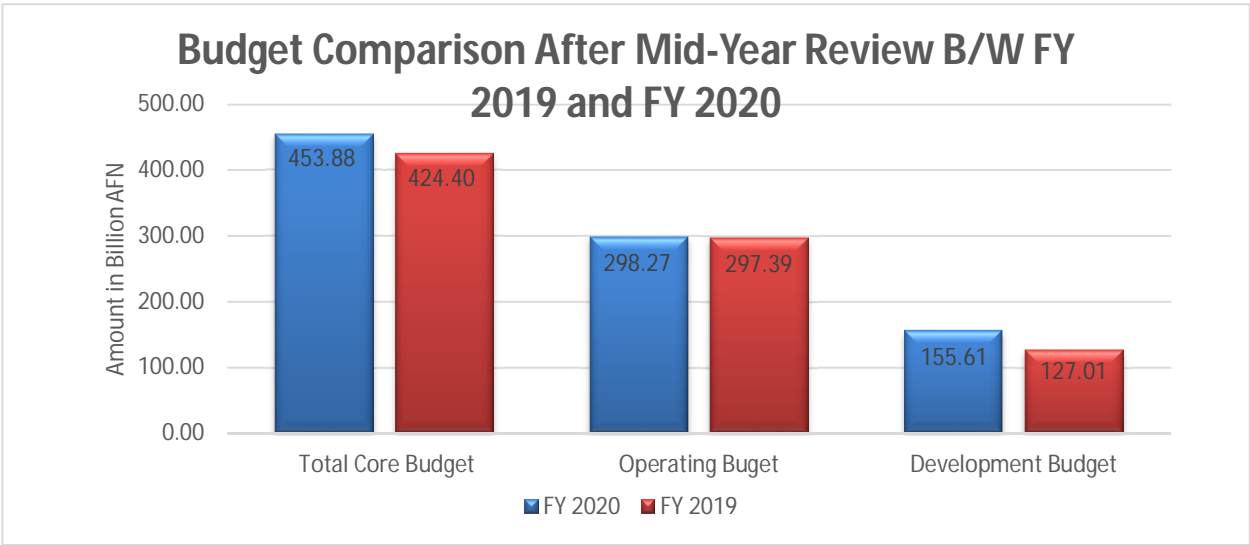
In addition, like other emerging and under developing economies around the world, Afghanistan faces budget imbalance (Budget Deficit), where total core expenditures exceed total revenue (excluding grants).

At the start of fiscal year 2020 total core budget has been estimated AFN 428.38 billion from AFN 399.38 billion in FY 2019, showing 7.25% or AFN 28.96 billion increase in annual budget. From the total of AFN 428.38 billion, operating and development budgets are estimated each AFN 289.10 billion and AFN 139.28 billion respectively.



It has to be mentioned that the budget is always subject to change during the year at any time either due to non-discretionary expenses incurred by the donors, or by Ministry of Finance (MOF) through mid-year review of budget which has to be approved by cabinet following the justification and documentation provided the ministry of finance.

Following chart shows the updated figures for FY 2020 budget, up to November.



Total core budget estimation is increased to AFN 453.88 billion including operating budget and development budget of AFN 298.27 billion and AFN 155.61 billion respectively. This shows an increase of 5.95% in total core budget from the start of FY 2020 indicating increase of amount AFN 25.50 billion and more over it shows AFN29.48 billion increments or 6.95% compared to the FY 2019 budget at the same date.

Total revenue (domestic revenue plus external aids) for the month of November 2020 is AFN 24.16 billion, while in October it was AFN 30.43 billion which shows 20.60% or AFN 6.27 billion decrease in November. Total revenue from the start of FY-2020 till end of November reached to AFN 301.63 billion that is combination of AFN 153.53 billion donor contributions and AFN 148.10 billion domestic revenue respectively.

Likewise, domestic Revenue for the month November is AFN 11.84 billion while it was amount AFN 18.30 billion in the month of October, showing a decrease of AFN 6.47 billion 35.33% in the month of November. On the other hand, donor contributions (including loans) amounted to AFN 12.32 billion in November, where donor contributions in October was AFN 12.13 billion, which indicates AFN 0.20 billion 1.64% increase in donor contributions for the month of November.

Additionally, total Expenditure at the end of November 2020 reached to AFN 336.09 billion, from which operating expenditures and development expenditures were individually, AFN 230.10 billion and AFN 105.99 billion. Likewise, operating expenditures for the month of November is AFN 21.61 billion, where in October it was AFN 24.46 billion. This signifies that, there is AFN 2.85 billion or 11.66 % decrease in operating expenditures in the month of November FY 2020. On the other hand, development expenditures for the month of October was AFN 16.01 billion, while in October decrease by AFN 2.17 billion or 13.54% resulted total expenditure for the month of October FY 2020 amount AFN 13.84 billion.

Description	FY, October 2020	FY, November 2020	From Jan to November FY 2020	Difference Between October and November	Monthly Growth (%)
	Amount in Billion AFN				
Total Revenue	30.43	24.16	301.63	(6.27)	-20.60%
Domestic Revenue	18.30	11.84	148.10	(6.47)	-35.33%
Donor Contribution	12.13	12.32	153.53	0.20	1.64%
Total Expenditures	40.47	35.45	336.09	(5.02)	-12.41%
Operating Expenditure	24.46	21.61	230.10	(2.85)	-11.66%

Developing Expenditure	16.01	13.84	105.99	(2.17)	-13.54%
------------------------	-------	-------	--------	--------	---------

Source: MOF Financial Reports/MPD Staffs Calculations

Execution rate of core budget at the end of October 2020 reached to 70%, Compared to October 2020 where it was 63% which shows 7% increase in budget execution rate for the month of November 2020.

5. Swift

Report of(Outward) Transactions from 1/08/ 1399 to 30/08/1399								
Categories	Remmitter Parties	Message Type	USD	EUR	AED	CHF	AUD	GBP
A	Ministries	MT 103 ,700 & 910	22,626,362.76	2,379,570.00	997	24,520.00	0	0
B	Commercial Banks	202	89,247,589.75	184,490.00				
C	Da Afghanistan Bank	200	577,400,000.00					
Report of(Inward)Transactions fromfrom 1/08/ 1399 to 30/08/1399								
Categories	Beneficiary Parties	Message Type	USD	EUR	AED	GBP		
A	Ministries	MT 103 ,700 & 910	53,254,225.63	1,289,010.73	2,462,272.15	205,770.00		
B	Commercial Banks	202	2,605,326.74					
C	Da Afghanistan bank	200						
بر علاوه به تعداد 5 معامله تبادلوی FX Deal به ارزش مجموعی (57127876.65) دالر امریکانی و همچنان 2 معامله بانک جهانی به ارزش مجموعی مبلغ 536973 دالر امریکانی نیز اجرا گردیده است								

6. Banking Sector

EXECUTIVE SUMMARY

The main financial indicators as Total Assets, deposits, investments and equity capital demonstrated increases in the current quarter; moreover the banking sector remained profitable though decreased since last quarter. Liquidity and CAR position of all banks are above the set regulatory threshold. However, the loan quality still remains weak and is a concern.

Given the spread of C19 second wave, in coming months, the banking sector may experience more NPLs, high provisions leading to declining profitability, capital, and financial ratios. Therefore, banks have to opt for more precautionary measures to cope with the expected financial downturn. The main points of the Post C 19 plan are the expansion of banking activities, disbursement of new credit facilities, cost reduction measures including suspension of dividend payments in 2020, electronic reporting, renewal of loans, relaxation in loan classification and risk weighting of loans guaranteed by the third parties such as ACGF, IFC, USAID etc.

SECTOR AT A GLANCE

Changes in major financial indicators of the banking sector are shown in below table:

Category (in million Af)	Annual Change			Quarterly Change				Quarterly Changes (Amount)
	Sep-19	Sep-20	Percentile	Mar-20	June-20	Sep-20	Percentile	
Total Assets	298,334	317,626	6.46%	297,660	314,981	317,626	0.84%	2,645
Total Loans (Gross)	42,373	39,368	-7.09%	39,772	39,470	39,368	-0.26%	-102
Total Interbank Claims (Gross)	85,126	73,111	-14.11%	76,897	74,154	73,111	-1.41%	-1,043
Investment in Bonds	30,529	36,024	18.00%	31,187	33,798	36,024	6.59%	2,226
Standard Loans	28,792	21,843	-24.13%	27,261	21,628	21,843	0.99%	215
Past Due Loans ¹	13,581	17,525	29.04%	12,510	17,842	17,525	-1.77%	-317
Adversely Classified Loans ²	8,186	13,440	64.18%	8,066	13,503	13,440	-0.46%	-63
NPLs ³	5,573	11,565	107.51%	6,168	11,416	11,565	1.30%	149
Total Deposits	253,919	269,417	6.10%	250,966	267,730	269,417	0.63%	1,687
Total Liabilities	263,641	281,452	6.75%	263,010	279,192	281,452	0.81%	2,260
Financial Capital	34,694	36,174	4.26%	34,650	35,789	36,174	1.07%	385
Regulatory Capital	30,570	31,996	4.66%	30,699	31,689	31,996	0.96%	307
Risk Weighted Asset	118,453	122,367	3.30%	119,838	121,353	122,367	0.83%	1,014
Net Profit/Loss	1,422	1,369	-3.72%	(53)	918	504	-45.09%	-414

Table 1: Major Financial Indicators of the Sector

¹Loans classified in watch, sub-standard, doubtful and loss categories.

²Loans classified as sub-standard, doubtful and loss.

³Loans classified in doubtful and loss categories.

INTRODUCTION

The banking sector in Afghanistan constitutes 22% of the GDP. It consists of 12 duly licensed banking institutions: Three relicensed state-owned banks, six private full-fledged commercial banks, one private full-fledged Islamic bank and two branches of foreign banks.

The number of banking facilities across the country is as follows:

Provided Banking Facilities	Sep-19	Sep-20	Change	%age change
Number of Branches	410	413	3	0.73%
Automated Teller Machines (ATM)	356	359	3	0.84%
Point of Sale (POS)	108	672	564	522.22%
Cash Deposit Machine (CDM)	0	6	6	-
Type 12 Facility ⁴	94	117	23	24.47%
Credit Cards	1,333	1,155	(178)	-13.35%
Debit Cards	643,734	643,240	(494)	-0.08%
ATM Cards	245,300	244,203	(1,097)	-0.45%
Master Cards	7,627	22,724	15,097	197.94%
Prepaid Cards	9,178	90,197	81,019	882.75%
Web Surfer Cards	14,560	5,050	(9,510)	-65.32%
Number of Accounts (Loans)	67,460	58,554	(8,906)	-13.20%
Number of Borrowers ⁵	67,376	58,476	(8,900)	-13.21%
Number of Loan files where borrower president or vice president is a woman	14,200	13,008	(1,192)	-8.39%
Number of Depositors	3,837,216	4,212,554	375,338	9.78%
Number of Deposit Accounts	3,996,501	4,361,357	364,856	9.13%
Number of Employees (Local + Foreign)	9,465	9,942	477	5.04%

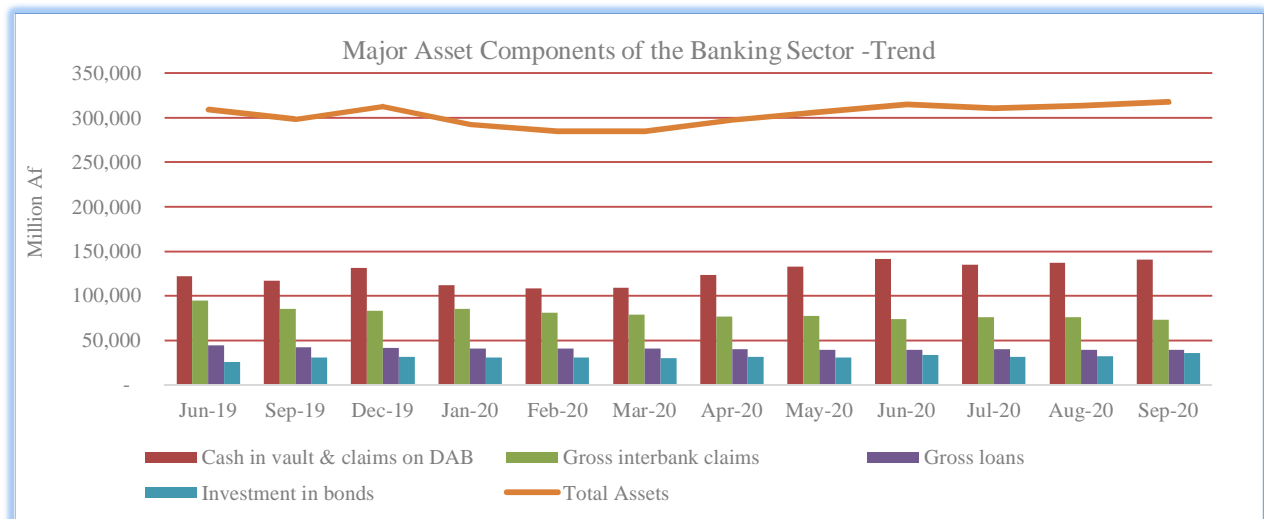
Table 2: Provided Banking Facilities

As demonstrated in the above table, overall the provided banking facilities increased, showing an increasing tendency in the usage of banking services, progress in banking culture and consumer demand for the banking facilities in the country. The most obvious increases were noticed in prepaid cards and depositors that mainly reported by five banking institutions respectively. Increases in branches reported by three banks, while POS increased mainly in one banking institution.

⁴Type 12: type 21, 24 & 25 Counters merged to Type 12 Extension Counter

6.1: ASSETS OF THE BANKING SECTOR

Total assets of the banking sector had an increasing trend showing 0.8% increase comparing to the previous quarter that mainly attributed to deposits inflow (dominant in customer demand deposits). The impact of the increase was observed in investments in bonds and other assets. However, cash in vault & claims on DAB, interbank claims and gross loans decreased in the current quarter, owing to decrease in demand and time deposits with foreign banks and charge off of loans, settlement of loans and less OD utilization of loans.



Graph 1: Major Asset components of the Banking Sector

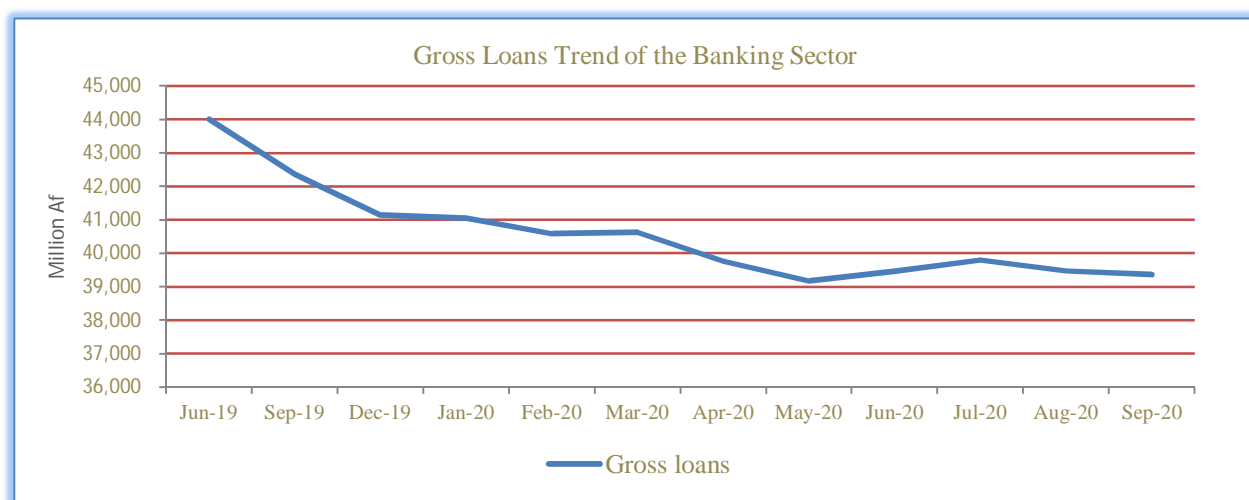
As demonstrated, in the above graph, total assets are mainly concentrated in cash in vault and claim on DAB (44%), followed with the gross interbank claims (23%), gross loans (12%), and the investment in bonds (11%).

Asset Quality Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep
Cash & Balances with DAB (Excluding Capital Notes) to Total Assets	30.75%	30.55%	33.47%	28.00%	34.01	32.14%
Capital Notes to Total Assets	8.61%	8.65%	8.51%	10.30%	10.78%	12.05%
Domestic Claims to Total Assets	1.35%	1.76%	1.63%	2.05%	1.13%	1.13%
Foreign Claims to Total Assets	29.02%	26.54%	25.04%	25.69%	22.33%	21.88%
Total Gross Loans to Customer Deposits	16.99%	17.02%	15.77%	17.31%	15.00%	14.88%
Loan Loss Reserves to Total Gross Loans	10.93%	12.25%	12.24%	12.59%	14.39%	14.24%
Loan Loss Reserves to Total Assets	1.55%	1.74%	1.61%	1.80%	1.80%	1.77%
Aggregate Related Party Loans to Regulatory Capital	1.25%	1.26%	1.27%	0.86%	1.21%	1.17%
Repossessed Assets to Total Assets	0.30%	0.33%	0.35%	0.36%	0.32%	0.32%
Repossessed Assets to Total Loan Portfolio - Gross	2.15%	2.30%	2.64%	2.50%	2.58%	2.58%
NPL to Total Assets	1.82%	1.87%	1.90%	2.14%	3.62%	3.64%

Table 3: Asset Quality Indicators

6.2: Loan Portfolio

Total gross loan portfolio of the banking sector has been following a declining trend from mid-2019, as indicated in the graph below. The decreases in gross loans were attributed mainly to settlement, repayment, charge-off and less OD utilization of loans. However, in the current month Af 1.37 billion (principal amount) new loans were issued as well (corporate + MSME). Lending in the sector is dominated by private banks, constituting 87% of the portfolio, followed by state-owned banks with a 12% share. In comparison, branches of foreign banks have just 1% share with the lowest level of contribution in the economy.



Graph 2: Banking Sector Gross Loans

The gross loan portfolio of the banking sector currently stands at Af 39.4 billion, showing 0.2% decrease compared to previous quarter mainly attributed to settlement, charge-off and less OD utilization of loans, making 15% of the customer deposits and 12% of the sector total assets. By end of Sep, 2020 the total coverage ratio is 11.4% of the total gross loans. As indicated in the table below, loans are mostly concentrated in Af denomination making 51% of the total portfolio followed with USD denominated loans at 49% of the total portfolio. In comparison, the loans designated in other currencies remain negligible (0.1% of portfolio). See the summary of loan portfolio below:

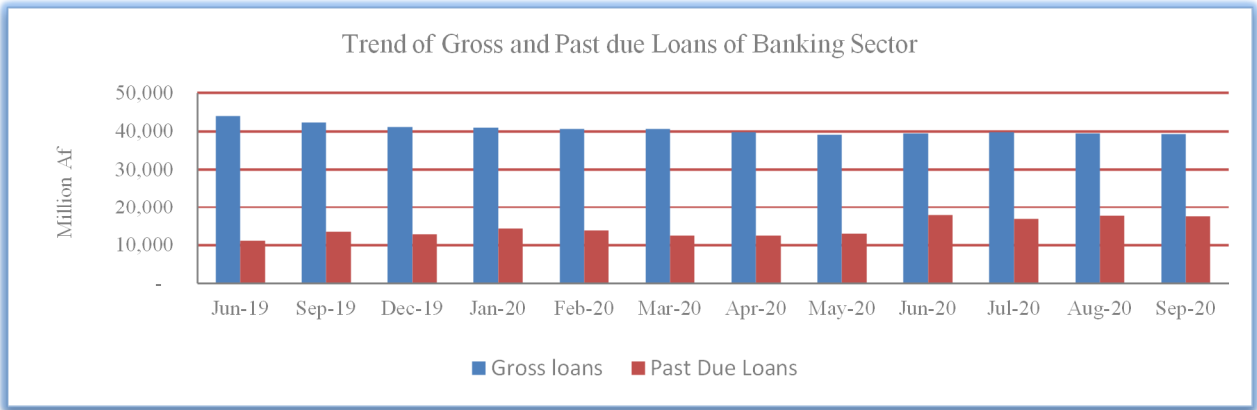
Banking Sector Loans by Currency – amount in million Af							
Currency	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep	%age of Loans
Afghani	20,227	20,439	20,912	20,980	20,172	20,124	51.1%
USD	23,685	21,851	20,171	19,598	19,251	19,193	48.7%
Other Currencies	101	83	68	47	48	51	0.13%

Table 4: Gross Loans Currency Composition

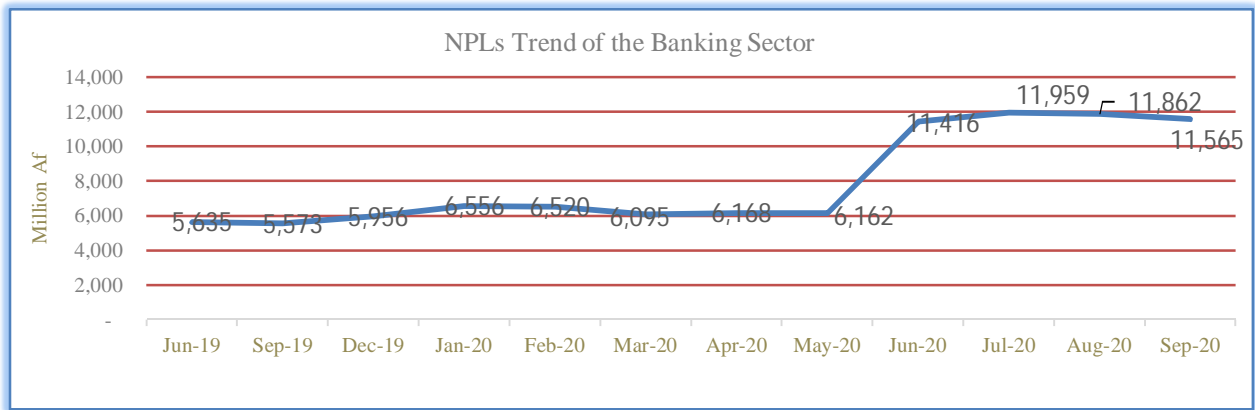
- ✓ Total loan portfolio followed a decreasing trend from mid-2019. Posting 0.2% decrease since previous quarter, attributed to settlement, charge-off and less OD utilization of loans.
- ✓ In the current month 3,953 loan accounts amounting to Af 1.37 billion (corporate + MSME) newly disbursed.

6.2.1: Quality of Loans

The overall quality of loans remains a concern as the NPLs are making 29% of the sector gross loan portfolio, following an accelerating trend from Q1 2019. Out of 29% NPLs, 27% is attributed to four banks the top lenders in the sector. These banks hold 67% of the sector's gross loans and 51% of the sector's regulatory capital. Hence, further deterioration in the loan quality of above mentioned weak banks holding more than 50% of the sector's gross loans and regulatory capital would have a significant impact on the entire sector's NPLs, profitability, equity capital and financial ratios. It's worth mentioning that the increase in the sector NPLs in the graph below from June, 2020 is mainly attributed to implementation of IFRS 9 by one of the private banks.



Graph 3: Trend of Gross & Past due Loans of Banking Sector



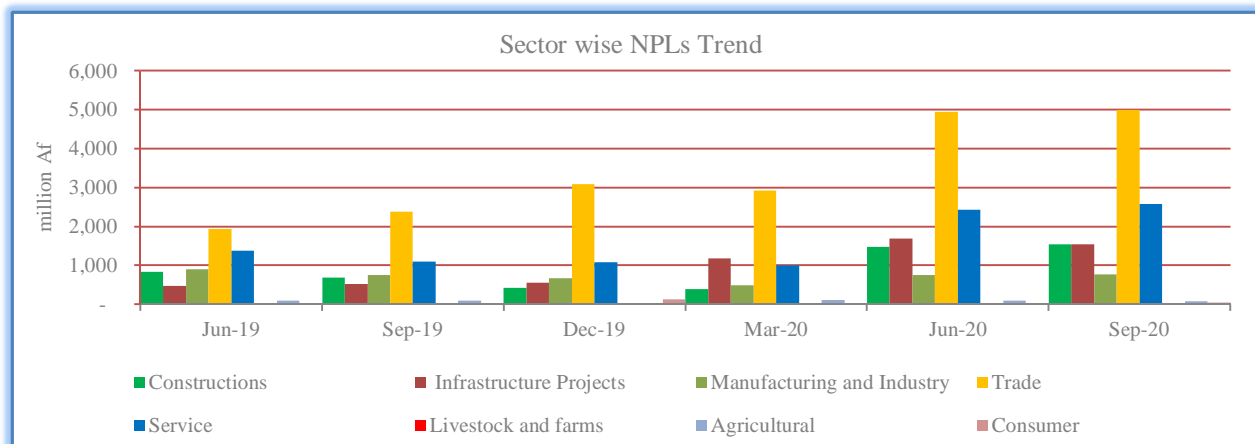
Graph 4: NPLs Trend of Banking Sector

Group-wise analysis of the banking institutions shows that 93% of the total NPLs are coming from Private Banks, while State-Owned Banks and branches of foreign banks have 6% and 1% share in the total NPL portfolio respectively.

Loan Quality Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep
Criticized Loans to Total Gross Loans	25.41%	32.05%	31.37%	30.75%	45.20%	44.52%
Adversely-Classified Loans to Total Gross Loans	16.88%	19.32%	17.90%	19.71%	34.21%	34.14%
Non-Performing Loans to Total Gross Loans	12.80%	13.15%	14.47%	15.00%	28.92%	29.38%
Non-Performing Loans to Total Regulatory Capital	17.91%	18.23%	18.95%	20.23%	36.92%	36.14%
Specific Loan-Loss Reserves to Criticized Loans	38.56%	34.80%	35.50%	37.35%	28.86%	28.81%
Loan Provisions(Specific Provisions) to NPLs	65.24%	68.24%	66.37%	65.02%	38.63%	37.83%
General Loan-Loss Reserves to Standard Loans	1.52%	1.62%	1.56%	1.60%	2.45%	2.56%
(NPLs-Specific Loan Loss Reserves) to Tier 1 Capital	6.33%	5.92%	6.75%	6.89%	22.42%	23.23%
Net NPLs to Total Net Loans	5.00%	4.76%	5.54%	6.01%	20.73%	21.30%
Net NPLs to Total Gross Loans	4.45%	4.18%	4.87%	5.25%	17.75%	18.26%

Table 5: Loan Quality Indicators

Sector wise NPLs show that major portion originates from Trade Sector (43%) dominant in cement & other construction material (8.5%) and petroleum and lubricants (8%), followed by Services Sector (22%) mostly recorded in ground transportation (9%) and Construction & building sector (13%). Increases were observed mainly in Services Sector mostly in all other services and in Construction and building sector.



Graph 5: Sector Wise NPLs

- ✓ Currently 29% of the banking sectors gross loans and 36% of the regulatory capital is at risk. Increases in NPLs (1.3% or Af 148 million) compared to the previous quarter is mainly attributed to deterioration of loans in three banks.
- ✓ The NPL ratio with accelerating trend, 29% in Sep, 2020 could be a red flag, especially for the months ahead considering the effects of COVID 19 on repayment of loans.
- ✓ Concerning the concentration of NPLs by type of loans, out of 29% total sector NPLs 19% is OD, 4% is TL, 6% is Islamic and 0.3% is Consumer Loans.

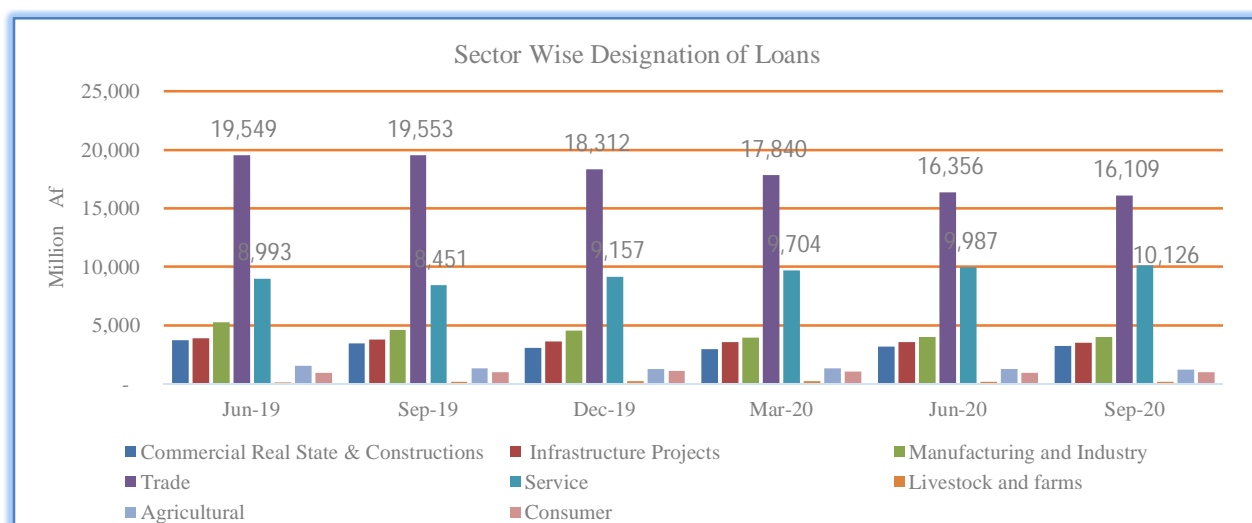
6.2.2: Type of Loans

More than 60% of the banking sector total loan portfolio is concentrated in OD loans designated by eight banks, mostly by top lending banks in the sector, followed by Term Loans at 23.2% and Islamic Loans at 12.6% of the total portfolio. In comparison, Credit Cards are negligible at 0.07%.

- ✓ More than half of the banking sector's loan portfolio is concentrated in OD loans (64%) following with TLs at (23%), while the share of Islamic loans is limited to (13%).
- ✓ In addition, concerning the quality of OD loans, out of total OD portfolio in the sector, 31% are NPLs that mainly came from one banking institution.

6.2.3: Sector-wise Designation of Loans

The trend for the sector-wise designation of loans show that the Trade Sector is on the lead with 41% of the portfolio in which the petroleum and lubricants with 11% is dominant; Services Sector falls second in a row with 26% with telecommunication (8%) as a leading sub-sector. The most COVID 19 effected sectors (Air transportation, Hotel, and Restaurants) make 3% of the total sector portfolio. Manufacturing and Industry and Infrastructure Projects are subsequently on 3rd and 4th places with 10% and 9% share in the sector's total loan portfolio, respectively.



Graph 6: Sector-wise designation of loans

6.2.4: Related Party Exposure

As per the banks reports, total related party exposure of the sector is Af 374 million coming from four banking institutions, making 1% of the sector gross loans and 1% of the regulatory capital of the sector. Related party exposures are under the set regulatory threshold (5% - individual & 25%- total).

6.2.5: Repossessed Assets

Total repossessed assets of the banking sector amount to Af 1.01 billion, decreased by Af 2.6 million compared to the previous quarter attributed to FX rate. Total repossessed assets constitute 0.3% of the banking sector total assets reported by three banking institutions.

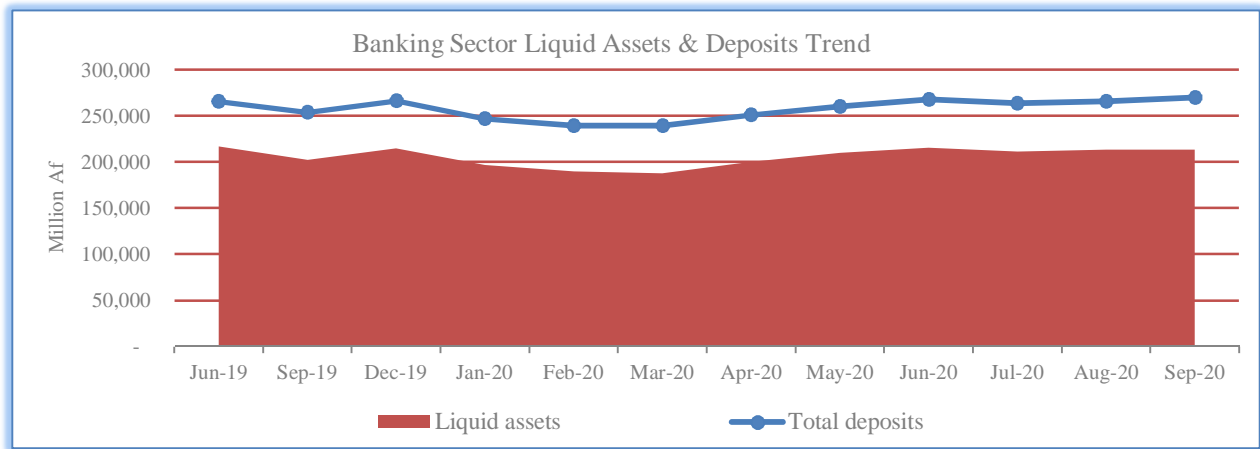
- ✓ The percentage share of all banks repossessed assets and period to retain on the balance sheet are within the regulatory limits (4% of total assets and 4-year period).

6.3: LIQUIDITY OF THE BANKING SECTOR

The banking sector maintains enough liquid assets (cash & cash equivalent). The liquidity position of all banking institutions is above the set minimum threshold for the Broad Liquidity Ratio (15%) and the Quick Liquidity Ratio (20%). The broad liquidity ratio of the banking sector as a median stand at 60% decreased from 61% in June 2020.

6.3.1: Liquid Assets

The banking sector maintains enough liquid assets, comprising of cash and cash equivalent stands at 67% of the total assets and 86% of the short-term liabilities. As compared to the previous quarter, it has not changed significantly.



Graph 7: Banking Sector Liquid Assets & Total Deposits Trend

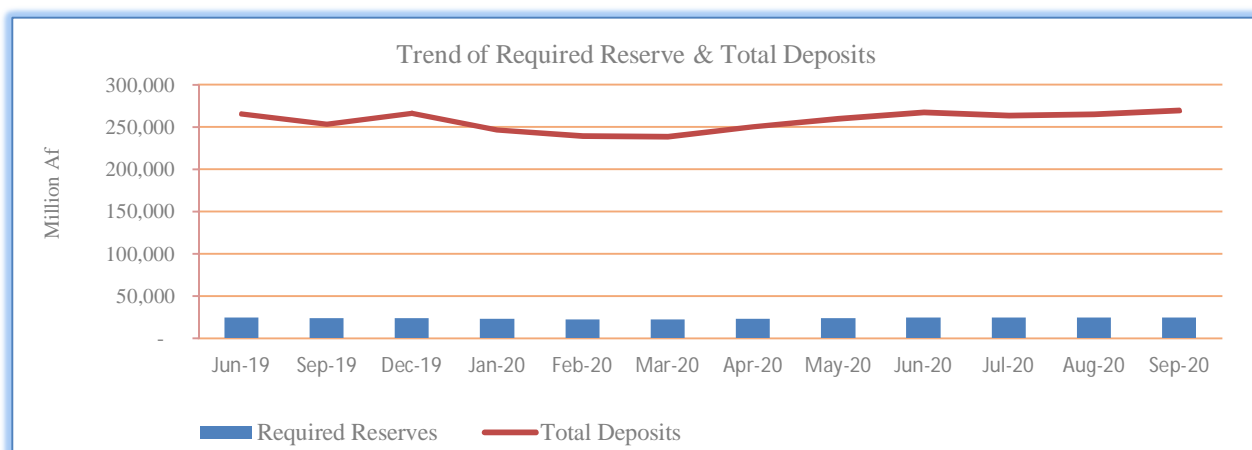
Liquidity Ratio Analysis

Liquidity Ratios	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep
Loans to Deposits	16.56%	16.69%	15.44%	17.00%	14.74%	14.61%
Loans to Assets	14.22%	14.20%	13.14%	14.27%	12.53%	12.39%
Liquid Assets to Short-Term Liabilities	89.06%	86.56%	87.12%	85.33%	86.61%	85.90%
High Liquid Asset to Short-term Liabilities	38.19%	36.89%	38.36%	37.08%	41.16%	39.89%
Liquid Assets to Total Assets	69.97%	67.73%	68.63%	66.57%	68.33%	67.20%
Foreign Currency Deposits to Total Deposits	72.96%	70.57%	69.08%	69.48%	66.37%	65.08%
Customer Loans to Customer Deposits	16.99%	17.02%	15.72%	17.31%	15.00%	14.88%
Volatile Liabilities to Total Liabilities	1.33%	0.98%	0.91%	0.90%	0.72%	0.93%
Domestic Loans to (Total Deposits and Equity)	14.60%	14.68%	13.61%	14.90%	13.00%	12.88%

Table 6: Liquidity Ratios

6.3.2: Required Reserves

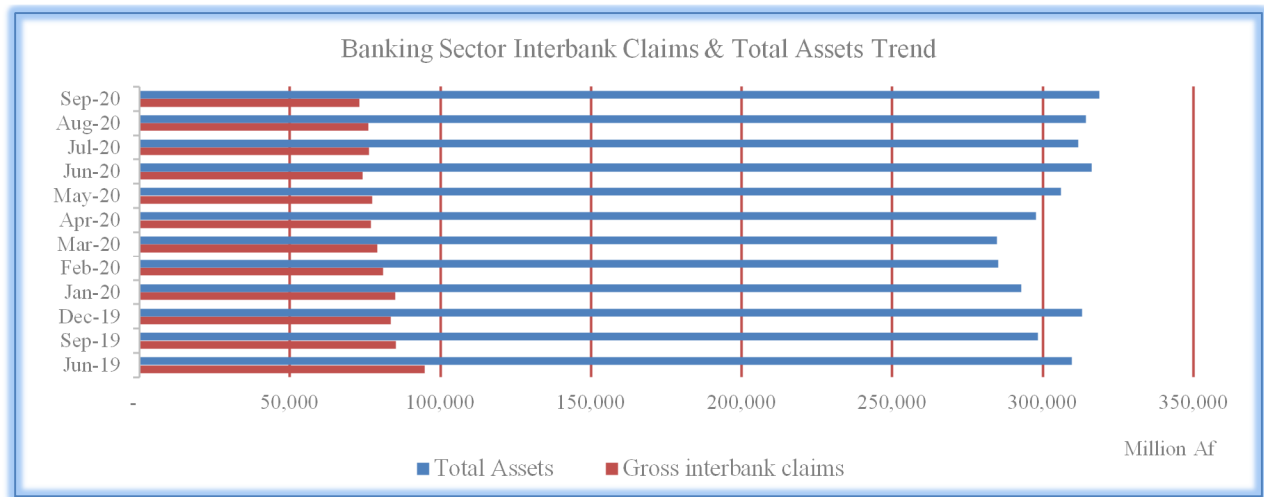
All the banking institutions have complied with reserve requirement regulation; the current requirements are 8% for the Af base deposits and 10% for the EUR and USD base deposits.



Graph 8: Trend of Required Reserve & Total Deposits

6.3.3: Interbank Claims

Gross Interbank Claims– The sum of time and demand deposits with banks and other receivables from banks is the second largest among various asset categories. They are mostly comprised of demand and time deposits placed mainly in foreign banks.



Graph 9: Banking Sector Interbank Claims & Total Assets Trend

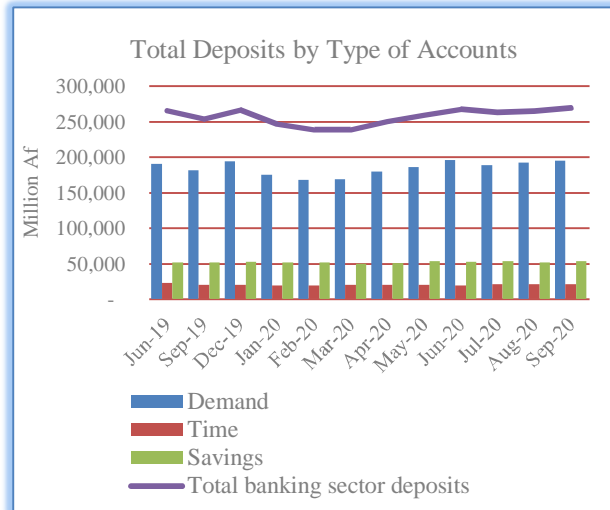
6.3.4: Foreign Accounts and Placements

Total Foreign Interbank Claims constitute 22% of the sector total assets and 26% of the total deposits, which coupled with investments in bonds increases the share of foreign investments to 33% of the sector total assets and 39% of the total deposits, showing that a significant part of funds attracted placed outside the country while the share of loans designated inside the country is limited to 12% of the sector's total assets and 15% of the total sector deposits.

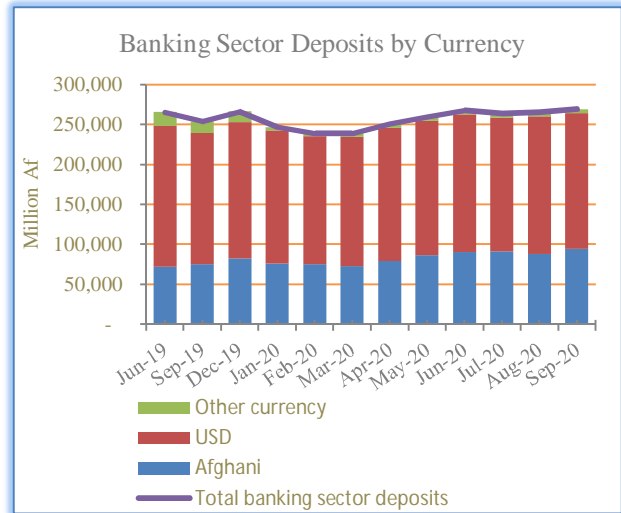
6.3.5: Deposits

Deposits being the main source of funding in the banking sector had a decreasing trend during the first quarter of 2020, but followed an increasing trend in June and Sep, 2020, the increase since last quarter recorded at 0.6%, attributed to increase in time and saving accounts mainly posted by five banking institutions. Currency wise analysis show that Af denominated deposits increased by 4%, accounted for 35% of total deposits, USD denominated deposits were down by 2%, making 63% of

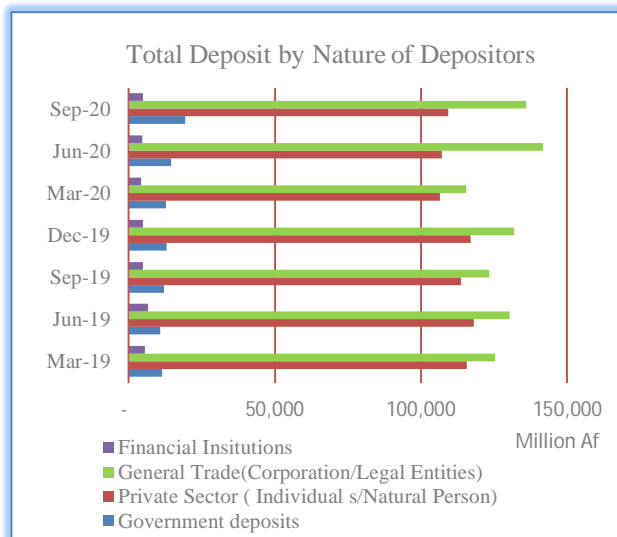
the total deposits, while other currency deposits increased by 17% (mainly in EURO deposits), comprising 2% of the total banking sector deposits.



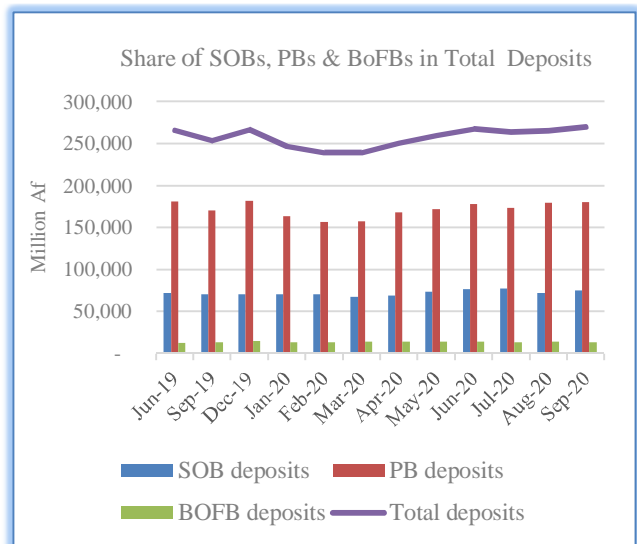
Graph 10: Total Deposits by Type of Accounts



Graph 11: Deposits by Type of Currency



Graph 12: Total Deposits by Nature of Depositors



Graph 13: Share of SOBs, PBs & BOFBs in TD

⁶ SOBs (State Owned Banks), PBs (Private Banks), BOFBs (Branches of Foreign Banks)

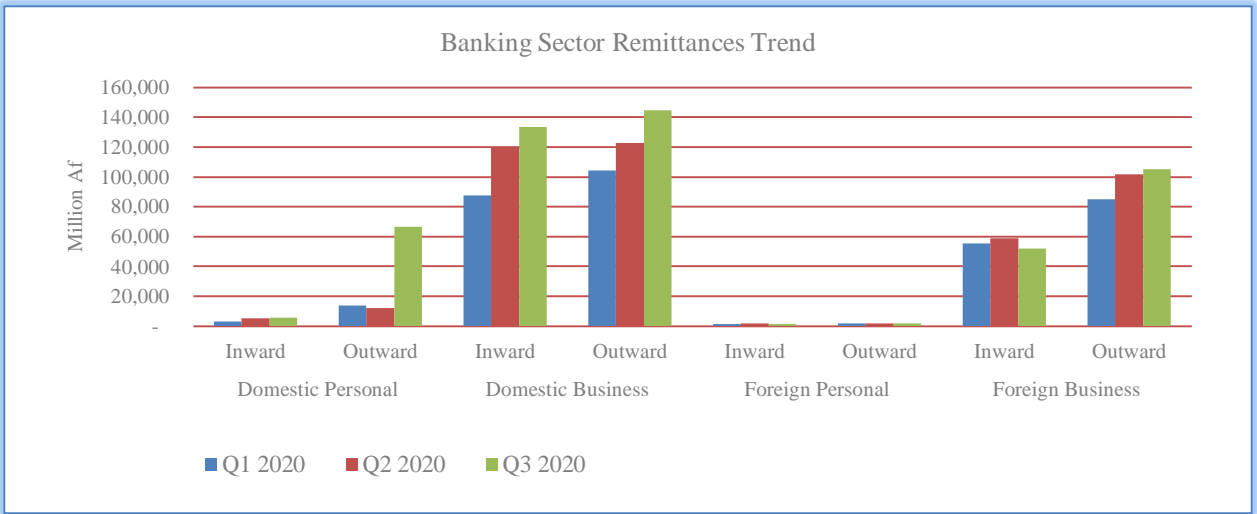
As demonstrated above, corporation/legal entities deposits have the highest share in total deposits of the sector with 50%, followed by individual/natural person deposits with 41%, government deposits are at 7%, and financial institutions constitute 2% share in total deposits. Private Banks have the highest percentage share in total deposits of the sector, standing at 67%, state-owned banks are at the second place with 28% share, while the branches of foreign banks have only 5% share in the sector total deposit bucket.

Banking Sector Deposits Trend Jan-Sep 2020 By Type & Currency -in million Af								
Items	20-Jan	20-Feb	20-Mar	20-Apr	20-May	20-Jun	20-Sep	Quarterly Change
Demand	175,599	168,479	169,068	179,700	186,542	195,857	195,132	-0.37%
Time	19,558	19,400	20,243	20,052	19,931	19,228	20,920	8.79%
Savings	51,813	51,507	49,626	51,214	53,297	52,645	53,365	1.36%
Total	246,970	239,386	238,937	250,966	259,770	267,730	269,417	0.63%
AF	75,988	74,773	72,916	79,148	85,947	90,025	94,084	4.50%
USD	166,612	160,240	161,437	167,027	168,903	172,957	169,780	-1.83%
All Other Currencies	4,370	4,373	4,583	4,791	4,920	4,748	5,553	16.95%
Total	246,970	239,386	238,937	250,966	259,770	267,730	269,417	0.63%

Table 7: Banking Sector Deposits Trend by Type & Currency

Remittances details

Remittances trend for the three quarters of 2020 is illustrated in the below graph.

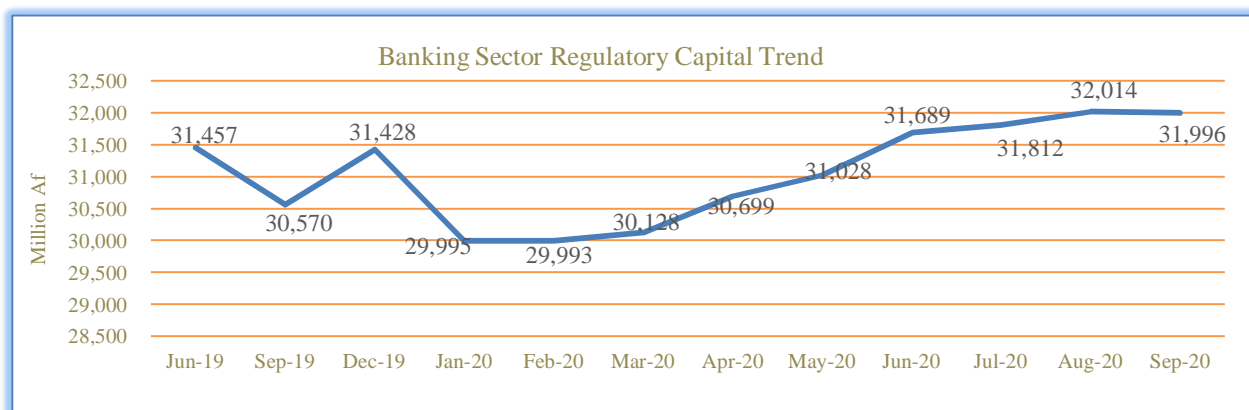


Graph 14: Banking Sector Remittances Trend

6.4: CAPITAL OF THE BANKING SECTOR

The banking sector is well-capitalized, making 11% of the total assets of the sector. The net equity position of the sector recorded at Af 36.1 billion increased by 1% over the quarter, attributed to profitability and gain on Revaluation-Available for Sale Investments. The regulatory capital of the sector stands at AF 31.9 billion, showing 1% increase over the quarter. CAR of the sector is at 26%; CAR of all banks is above the minimum regulatory threshold (12% of RWAs), the Basel benchmark for CAR is 8%.

As demonstrated in the graph below regulatory capital had a fluctuating trend, the decrease in Jan, 2020 is attributed to provisions and the upturn in the month of June, 2020 was due to profitability and increase in Tier II capital in one banking institutions.



Graph 15: Regulatory Capital Trend of Banking Sector

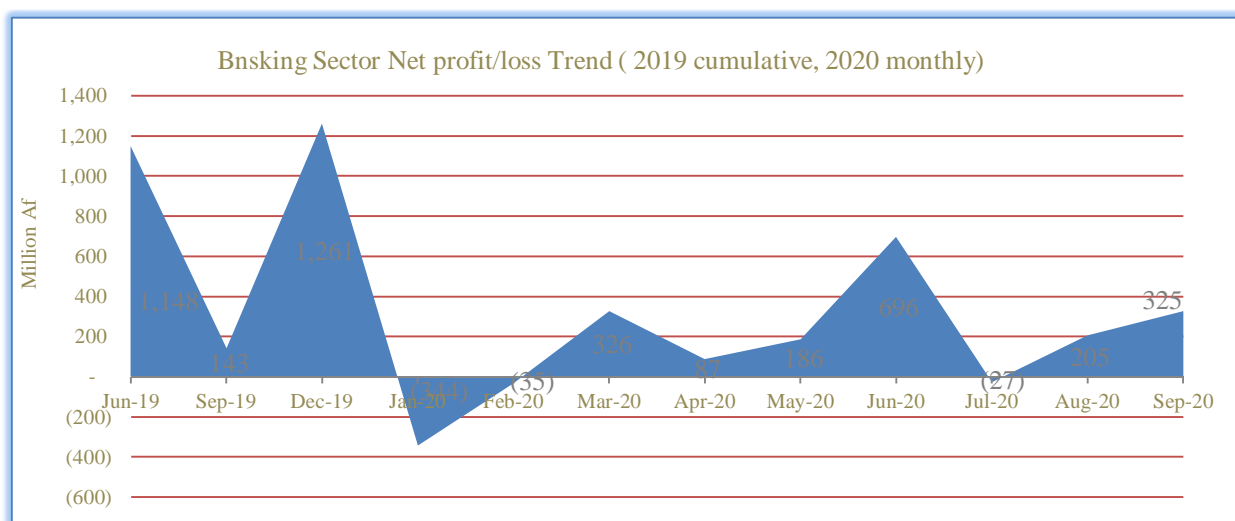
Capital Adequacy Ratio Analysis

Capital Adequacy Indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep
Regulatory Capital to Risk Weighted Assets	26.51%	25.81%	25.93%	25.84%	26.11%	26.15%
Tier 1 Capital To Risk Weighted Assets	26.09%	25.24%	24.50%	26.53%	25.75%	25.30%
Tier 1 Capital To Total Assets	10.00%	10.02%	9.48%	10.87%	9.92%	9.75%
Equity Capital To Total Assets	11.49%	11.63%	11.40%	11.91%	11.36%	11.39%

Table 8: Capital adequacy indicators

6.5: PROFITABILITY OF THE BANKING SECTOR

On a cumulative basis, the banking sector is profitable; the net profitability of the sector for the current year (Jan-Sep 2020) recorded at Af 1.3 billion. For the quarter under review the banking sector earned Af 504 million net profit showing decrease over the last quarter. The decrease in profitability in the quarter under review is attributed to decrease in non-interest income, decrease in interest income owing to settlement and charge-off of loans; and increase in provision. Major profitability components are interest and non-interest income, while main expenses cover non-interest expenses and salary expenses. As indicated in the graph below, the banking sector has been mostly profitable during the last nine months of FY 2020, mainly attributed to reintegration of provisions, FX gains and non-interest income. ROA (annualized) of the sector recorded at 0.22% and ROE (annualized) stands at 1.88% at end Sep, 2020.



Graph 16: Banking Sector Net Profit/Loss Trend

Quarterly Profitability Trend Analysis

Profitability indicators	19-Jun	19-Sep	19-Dec	20-Mar	20-Jun	20-Sep
Net-Interest Income to Total Income	150%	1148%	118%	-2890.50%	152.72%	269.44%
Net-Interest Income to Total Assets	0.56%	0.55%	0.48%	0.54%	0.44%	0.43%
Non-Interest Income to Total Assets	0.61%	0.53%	0.84%	0.55%	0.65%	0.53%
Non-Interest Income to Total Income	163%	1113%	209%	-2977.35%	225.70%	336.11%
Operating Expenses to Total Income	237%	1839%	226%	-4900.0%	282.46%	527.38%
Salaries to Operating Expense	40.68%	40.59%	38.67%	44.47%	41.45%	40.03%
Efficiency Ratio (Non-interest Expenses/ sum of Net-interest income & Non-interest income)	75.65%	81.30%	68.99%	85.71%	74.64	87.09%
Burden (difference between non-interest income and non-interest expense)	-847	-1,036	-213	-1,065	-521	-964
Net Profit/Loss (Cumulative)	1,148	143	1,261	-53	918	504
Return on Asset	0.38%	0.05%	0.42%	-0.07%	0.62%	0.22%
Return on Equity	3.30%	0.41%	3.62%	-0.62%	5.28%	1.88%
Note: the above table data has taken cumulatively in each quarter						

Table 9: Profitability Indicators

As shown in the above table, the efficiency ratio of the sector and the burden (the difference between non-interest income & non-interest expense) deteriorated compared to June, 2020 (An efficiency ratio of 50% or under is considered optimal), attributed to decrease in non-interest income.