UHY Shafiq Hamid Jamal & Co
Chartered Accountants

DA AFGHANISTAN BANK

Audited Financial Statements

For the year ended 21 December 2019 (30 Qaws 1398)

UHY Shafiq Hamid Jamal & Co. Chartered Accountants - A member firm of UHY International (UK)
B-32, 2nd Floor, Muslim Business Centre (AIB Building), Haji Yaqoob Square, Shahra e Naw, Kabul, Afghanistan.

INDEPENDENT AUDITOR'S REPORT TO THE SUPREME COUNCIL OF DA AFGHANISTAN BANK ("DAB")

Opinion

We have audited the consolidated financial statements of Da Afghanistan Bank (the Bank) and its Subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 30 Qaws 1398 (21 December 2019), and the consolidated statement of profit and loss, consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements presents fairly, in all material aspects, the financial position of the Group as at 21 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting and reporting framework as stated in note 2 to the consolidated financial statements.

Basis for Opinion

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

Emphasis of Matter

We draw attention to note 19.3 to the consolidated financial statements, which states that the DAB is not in compliance with Article 74 of the DAB law which requires the Bank to limit its foreign currency liabilities up to 50% of its unimpaired capital and reserves, which works out to be Afs. 82,361.349 million as at 30 Qaws 1398 (21 December 2019). Foreign currency liabilities of the Bank as at the said date stand at Afs. 138,187.613 million, resulting in foreign currency liabilities exceeding the prescribed limit by Afs. 55,826.265 million as at the yearend. Our opinion is not qualified in respect to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in our audit
Preparation of consolidated financial statements	
The Bank has made 100% equity investment in Afghanistan Payments Systems (APS) effective from 01 January 2019. The Bank has determined that it has acquired significant control over APS through the introduction of all Directors who now represent the majority of Board Members in the Bank thereby giving unrestricted control.	We have carried out risk assessment pertaining to consolidation and the adjustments necessary to prepare the consolidated financial statements. We have also carried out an assessment of the inherent limitations to first year consolidation processes to address them.

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Key Audit Matter	How the matter was addressed in our audit
Determination of significant control requires careful assessment of different elements. Furthermore, introduction of a subsidiary requires significant amendments in preparing the financial statements including preparation of consolidated financial statements which requires range of adjustments and additional disclosure requirements. Given that this is the first year for such consolidation of the financial statements for the Bank, it was considered significant to our audit. The Group's disclosures relating to consolidation is included in note 1 of the financial statements.	Finally, we have reviewed the appropriateness and presentation of disclosures against relevant accounting standards and guidelines.
"Adoption of IFRS 9 Financial Instruments" As disclosed in note 5 to the accompanying consolidated financial statements, on 22 December 2018, the Group adopted a new accounting standard for financial instruments, IFRS 9 Financial Instruments, which provides significant changes to the classification, recognition and measurement of financial assets. The new standard also requires the Group to recognize Expected Credit Losses (ECL) on financial instruments which involves significant judgement and estimates to be made by the Group. Given the complexity of the requirements of IFRS 9 which includes the use of significant judgements and estimates by the management, due to first time application of the standard, we considered the above as key audit matter.	Our key procedures included the following: We analyzed the definition of business models used by the Group to manage financial assets by making inquiries of responsible employees, reviewing the Group's internal documentation and analyzing internal business processes on selected significant portfolios of financial instruments. We evaluated the Group's assessment of whether contractual cash flows are solely payments of principal and interest for correctness by analyzing primary documents and contractual terms for a sample of financial instruments. We analyzed all the key aspects of the Group's methodology and policies related to Expected Credit Losses (hereinafter referred to as "ECL") measurement for compliance with the requirements of IFRS 9, including through involvement of our banking and IFRS expert. In order to analyze the adequacy of professional judgment used by management and assumptions made when calculating ECL allowance, we also tested the correctness of credit risk stages assigned by the Group by analyzing financial and non-financial information, as well as assumptions and professional judgments used by the Group. We assessed the overall predictive capacity of the Group's ECL calculation methodology by comparing the estimate made as at 22 December 2018 with the actual results for the year ended 21 December 2019.

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Key Audit Matter	How the matter was addressed in our audit
	We also evaluated that the consolidated financial statements provide an adequate disclosure of key aspects of financial instruments classification and recognition and credit risk description, as well as of the effect of IFRS 9 adoption by the Group.
Accuracy of the Liability for "Currency in Circulation" As disclosed in notes 16 and 16.1 to the accompanying consolidated financial statements, currency in circulation represent the liability of the Bank towards bank notes issued as a legal tender under the Chapter IV Part 1 "Currency" of The Afghanistan Bank Law" (the DAB Law) which comprise of 49% of the total liabilities of the Bank. In view of the significance of liability in relation to the consolidated financial statements of the Group and complexities in the underlying processes relating to issuance of new notes, expansion and contraction of bank notes in circulation and cancellation of bank notes, we have considered the existence and completeness of liability as a key audit matter.	We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls related to process for new notes, expansion and contraction of bank notes in circulation and cancellation of bank notes. We analyzed the changes in the liability for bank notes in circulation during the year together with the underlying reports of banking and issue department. We considered the completeness of the liability by inspecting the year-end statement of affairs of the Issue Circles. Further, we performed cut-off procedures on expansion and contraction of bank notes to assess the completeness of the year-end balances of the liability. We considered the requirements of the DAB Law with regard to underlying assets backing the bank notes in circulation and tested its compliance with the relevant information provided by the Group.
Balances with International Monetary Fund (IMF) As per the arrangement between the Bank and IMF, as Trustee of the Poverty Reduction and Growth Trust, the Bank has been granted an extended credit facility loan (ECF loan) equivalent to SDR 39.565 million for a period of three years which is non-interest bearing. During the year, the Bank has received sixth installment of this ECF loan of SDR 4.5 million. Liabilities with IMF represents around 0.57% of the total liabilities of the Bank. The valuation of liabilities with International Monetary Fund (IMF) was considered significant to our audit as that gives rise to foreign currency translation requirements and periodic interest accruals.	Our audit procedures to address the risks of material misstatement relating to liability with International Monetary Fund, included sending direct confirmation to IMF, checking the SDR amount from IMF website, and subsequently testing the exchange rates used to translate this amount at the closing date. In addition, our procedures included examination of relevant documents of IMF on SDR allocation during the year and re-computation to confirm the amount of liabilities with IMF using the prevailing conversion rate as per IAS 21. The Bank's disclosures about liability with International Monetary Fund are included in Note 20, 20.1, 20.2 & 20.3.

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<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
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Valuation of Gold Reserves

The Bank maintains gold reserves equivalent to Afs. 81.4 billion, which is one of the asset backing for Notes in Circulation. The valuation of the gold is carried out in line with the international market which is subject to market volatility and other external economic factors. Given the unique nature of the asset, the valuation methodology adopted and associated risks, it was considered significant to our audit.

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Our audit procedures included reviewing the valuation methodology adopted and received conformation letter from Federal Reserve Bank, New York (FRB) as the Bank's international reserve of gold. Our procedures also included recalculation of gold value in line with prevailing market rate and management's assessment of asset backing for Currency in Circulation.

The Bank's disclosures about valuation process of gold is included in Note 6.7, 7 & 7.1.

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Foreign Investments

The Bank's assets held in foreign investments amount to Afs 220.3 billion (1397: 207.1 billion), equivalent to 32 % (1397: 32%) of the Bank's total assets as summarized below as per note 9 to the Consolidated Financial Statements:

<table>
<tr><th>Type of security and mode of investment</th><th>Amount in million Afs</th></tr>
<tr><td>US treasury bonds and other securities – through International Bank for Reconstruction and Development (IBRD)</td><td>184,955</td></tr>
<tr><td>US treasury bonds – direct investment</td><td>4,075</td></tr>
<tr><td>USD denominated Government Bonds, foreign currency swaps and other interest bearing securities – through Bank for International Settlements Investment Pool – A</td><td>29,825</td></tr>
<tr><td>Shares in ECOTDB</td><td>1,433</td></tr>
</table>

The valuation and presentation of the foreign investments in the consolidated financial statements pose significant audit risk.

In view of the significance of these investments in relation to the total assets, the variation in type of investments and their management (involvement of Fund Managers, Custodian and in-house team) we have considered "foreign investments" as key audit matter.

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Our key procedures included the following:

For direct investments we obtained understanding of the processes, assessed the design and implementation and tested effectiveness of key controls throughout the year over recognition, de-recognition and valuation of investments and related revenue.

For all investments, we sent direct confirmations to counter-parties to confirm the balances of investment holdings and where relevant, performed physical verification of other investments.

For investment in US treasury Bonds, where valuation techniques with inputs based on observable market data were used, evaluating the appropriateness of the valuation methodologies and the reasonableness of the assumptions, and verifying the inputs to independent sources.

For investments through RAMP and BIS, where valuation techniques with inputs not based on observable market data were used, evaluating the appropriateness of the valuation methodologies and the reasonableness of the assumptions and inputs. We received and reviewed the valuations report for these securities.

For ECOTDB investments we verified the payments to the investee and reconciled the confirmations with the books of accounts.

Further, in respect of the all investment made through fund managers:

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Key Audit Matter	How the matter was addressed in our audit
	- We obtained Type-2 report from Custodian to assess that controls were suitably designed by custodian and operated effectively in respect of its activities. - We obtained the monthly statement of changes in net assets provided by the Custodian used by management for recognizing income in respect of foreign currency securities and traced with the accounting records of the Bank to assess that they are accurately recorded. - We performed substantive audit procedures on year-end balance of portfolio including evaluation of Fund Managers' and Custodian's statements, and re-performance of valuations on the basis of observable data at the year end. We also evaluated the adequacy of the overall disclosures in the financial statements in respect of the investment portfolio in accordance with the requirements of applicable financial reporting framework.
IT systems and controls over financial reporting We identified IT systems and IT general controls over financial reporting as a key audit matter because of the pervasive nature and complexity of the IT environment, the extensive volume of transactions processed daily and the reliance of the Group's financial accounting and reporting process on IT systems and controls	Our audit approach relies on automated controls and therefore procedures were designed to test access and control over IT systems and changes to such systems. Given the specialized nature of this area of audit, we involved our specialist IT team to assist with our audit procedures. We: • Obtained an understanding of the IT governance over the Group's IT organization; • Identified the key IT Systems and application controls which were integral to the Group's financial reporting; • Evaluated the design, implementation and operating effectiveness of IT general controls covering change management, access management and IT operations over in-scope systems and significant accounts-related IT automated controls which were critical to financial reporting; and • We tested the accuracy and completeness of key computer generated reports used in our audit.

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Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statements line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	The Bank financial statements
Overall materiality	……………………	………………………
How we determined it	For Statement of financial position: 1% of total assets; For Statement of profit or loss: 5 % of net profit	For Statement of financial position: 1% of total assets; For Statement of profit or loss: 5 % of net profit
Rational for benchmark applied	DAB is the Central Bank of Afghanistan, mainly relies on its assets to operate and all of its procedures and policies revolve around maintaining assets in order to have higher returns from them. So, total assets selected as benchmark for materiality of statement of financial position and net profit for statement of profit or loss.	

Performance materiality is the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriate low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% of our planning materiality namely for group financial statements and for the separate financial statements of the Bank are;

- For statement of financial position Afs 5,216 million; and
- For statement of profit or loss Afs 821 million.

Other Matter

The stand-alone financial statements of the Bank for the year ended 21 December 2018 and financial statements of APS for the year ended 31 December 2018, were audited by other auditors who expressed an unmodified opinion on those statements vide their reports dated 31 March 2019 and 7 May 2019 respectively.

The financial statements of the subsidiary, Afghanistan Payments systems has also been audited by us and has properly been reflected in the consolidated financial statements.

Other Information

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

Responsibilities of Management and Those Charged with Governance for Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of consolidated financial statements in accordance with the accounting framework as stated in note 2 to the consolidated financial statements and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonable be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulations precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequence of doing so would reasonable be expected to outweigh the public interest benefits of such communication.

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

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UHY Shafiq Hamid Jamal & Co.
Chartered Accountants
Date: __March 2020
Kabul, Afghanistan

DA AFGHANISTAN BANK
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 QAWS 1398 (21 DECEMBER 2019)

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		------------ (Afs in '000') ------------	
ASSETS			
Gold reserves	7	**81,400,561**	66,178,591
Foreign currency cash reserves	8	**19,583,336**	23,048,236
Due from banks and financial institutions	9	**355,570,353**	325,675,327
Investments	10	**218,264,106**	207,146,604
Assistance as lender of last resort	11	**166,793**	6,961,885
Advances and other receivables	12	**1,710,370**	2,046,004
Operating fixed assets	13	**5,376,792**	5,395,913
Intangible assets	14	**23,268**	62,026
Other assets	15	**13,491,650**	13,451,596
Total assets		**695,587,229**	649,966,182
LIABILITIES AND EQUITY			
LIABILITIES			
Currency in circulation	16	**259,348,259**	228,055,578
Capital notes	17	**24,775,173**	33,698,650
Due to banks and financial institutions	18	**97,224,024**	90,651,239
Due to customers	19	**130,121,482**	136,516,279
IMF related liabilities	20	**3,003,600**	2,418,784
Defined contribution obligation	21	**1,769,903**	1,646,033
Deferred grants	22	**142,182**	155,933
Provisions and other liabilities	23	**14,479,909**	10,051,640
Total liabilities		**530,864,532**	503,194,136
EQUITY			
Capital	24	**25,398,034**	24,221,649
Revaluation reserve	24	**82,273,898**	64,987,518
Other components of equity	24	**31,652,731**	33,341,230
General reserve	24	**25,398,034**	24,221,649
Accumulated profits	24	**-**	-
Total equity		**164,722,697**	146,772,046
Total liabilities and equity		**695,587,229**	649,966,182
CONTINGENCIES AND COMMITMENTS	25		

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The annexed notes 1 to 37 form an integral part of these financial statements.

Syed Younas Sadat	**Wahidullah Nosher**	**Muhammad Qaseem Rahimi**
Chief Financial Officer	Acting Governor	2nd Deputy Governor

DA AFGHANISTAN BANK
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 30 QAWS 1398 (21 DECEMBER 2019)

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		(Afs in '000')	
Interest income	26	**9,525,355**	7,386,329
Interest expense	27	**(175,155)**	(127,714)
Net interest income		**9,350,200**	7,258,615
Fee and commission income		**235,884**	269,771
Fee and commission expense		**(141,207)**	(179,079)
Net fee and commission income		**94,677**	90,692
Net gain from dealings in foreign currencies		**21,039,852**	14,435,988
Net gain / (loss) on financial assets measured at FVOCI		**2,239,367**	(1,282,652)
Other income	28	**807,632**	1,049,304
		24,086,851	14,202,640
Operating income		**33,531,728**	21,551,947
Operating expenses			
Personnel expenses	29	**(1,711,974)**	(1,485,394)
Printing cost of bank notes	12.3	**(280,924)**	(81,238)
Other operating expenses	30	**(515,426)**	(661,165)
Depreciation and amortisation	13.2 & 14	**(104,330)**	(82,271)
Net operating income		**30,919,074**	19,241,879
Non-operating income and expenses:			
Grants income recognised against deferred grant	22	**119,244**	39,935
Expenditure against grants	31	**(119,244)**	(39,935)
		-	-
Net unrealised foreign exchange (loss) / gain	24.3	**(1,688,362)**	10,602,145
Profit for the year		**29,230,712**	29,844,024

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The annexed notes 1 to 37 form an integral part of these financial statements.

Syed Younas Sadat
Chief Financial Officer

Wahidullah Nosher
Acting Governor

Muhammad Qaseem Rahimi
2nd Deputy Governor

DA AFGHANISTAN BANK
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 QAWS 1398 (21 DECEMBER 2019)

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000')	-----------
Profit for the year		**29,230,712**	29,844,024
Other comprehensive income			
Items that will be reclassified subsequently to the consolidated profit and loss account:			
Revaluation gain on gold reserve	7	**15,221,968**	4,510,020
Net gains from changes in fair value of debt instruments at FVOCI		**2,057,359**	1,145,020
Changes in allowances for expected credit loss of debt instruments at FVOCI		**(1,317)**	-
Other comprehensive income for the year		**17,278,010**	5,655,040
Total comprehensive income for the year		**46,508,722**	35,499,064

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The annexed notes 1 to 37 form an integral part of these financial statements.

Syed Younas Sadat	**Wahidullah Nosher**	**Muhammad Qaseem Rahimi**
Chief Financial Officer	Acting Governor	2nd Deputy Governor

DA AFGHANISTAN BANK
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 QAWS 1398 (21 DECEMBER 2019)

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000') -----------	
Cash flows from operating activities			
Profit for the year		**29,230,712**	29,844,024
Adjustments:			
Depreciation and amortisation	13.2 & 14	**104,330**	82,271
Interest income	26	**(9,525,355)**	(7,386,329)
Interest expense	27	**175,155**	127,714
Grant income	22	**(119,244)**	(39,935)
Grant expense	31	**119,244**	39,935
Recovery of expected credit loss	28	**(407,700)**	(353,814)
Inter-branch balances written off	30	**26,117**	-
		19,603,259	22,313,866
Working capital adjustments:			
Decrease / (increase) in due from banks and financial institutions	9	**140,790,268**	(111,829,160)
Decrease in assistance as lender of last resort	11	**6,795,092**	7,472,959
Decrease / (increase) in advances and other receivables	12	**316,523**	(61,514)
Decrease in other assets	15	**1,617**	16,324
Increase / (decrease) in currency in circulation	16	**31,292,681**	(578,378)
Increase / (decrease) in due to banks and financial institutions	18	**6,572,785**	(16,268,133)
(Decrease) / increase in due to customers	19	**(6,394,797)**	27,399,802
Increase in IMF related liabilities	20	**584,816**	1,016,118
Increase in defined contribution obligation	21	**123,870**	178,499
Increase in provisions and other liabilities	23	**634,225**	8,789,609
		180,717,080	(83,863,874)
		200,320,339	(61,550,008)
Interest received		**9,485,532**	6,935,659
Interest paid		**(175,155)**	(127,714)
Grant received	22	**12,365**	84,439
Net cash flows from / (used in) operating activities		**209,643,081**	(54,657,624)
Cash flows from investing activities			
Investments made during the year		**(9,060,143)**	(14,581,877)
Net long-term assets of the Subsidiary		**(4,362)**	-
Purchase of property and equipment	13.2	**(71,404)**	(200,269)
Purchase of intangible assets	14	**(2,157)**	(4,570)
Proceeds from sale of property and equipment		**6,126**	(493)
Net cash flows used in investing activities		**(9,131,940)**	(14,787,209)
Cash flows from financing activities			
Repayments against capital notes		**(8,923,477)**	(5,265,212)
Payments of profit to MoF		**(23,989,159)**	-
Net cash flows used in financing activities		**(32,912,636)**	(5,265,212)
Net increase / (decrease) in cash and cash equivalents		**167,598,505**	(74,710,045)
Cash and cash equivalents at beginning of the year		**128,386,892**	203,096,937
Cash and cash equivalents at end of the year	32	**295,985,397**	128,386,892

The annexed notes 1 to 37 form an integral part of these financial statements.

Syed Younas Sadat
Chief Financial Officer

Wahidullah Nosher
Acting Governor

Muhammad Qaseem Rahimi
2nd Deputy Governor

DA AFGHANISTAN BANK

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 QAWS 1398 (21 DECEMBER 2019)

		Revaluation reserve				Other components of equity					
	Capital	Net unrealised gain / (loss) on financial assets measured at fair value	Freehold land	Gold	Total revaluation reserve	Exchange translation reserve	Residual undistributed net unrealised valuation gains	Total other components of equity	General reserve	Accumulated profits	Grand total
	(Afs in '000')										
Balance at 01 Jadi 1396 (22 December 2017)	23,520,250	(40,863)	936,477	58,436,864	59,332,478	137	22,738,948	22,739,085	23,520,250	(8,847,855)	120,264,208
Total comprehensive income for the year:											
Profit for the year	-	-	-	-	-	-	-	-	-	29,844,024	29,844,024
Other comprehensive income:											
Net unrealised gain on financial assets measured at FVOCI	-	1,145,020	-	-	1,145,020	-	-	-	-	-	1,145,020
Revaluation gain on gold reserve	-	-	-	4,510,020	4,510,020	-	-	-	-	-	4,510,020
Total other comprehensive income	-	1,145,020	-	4,510,020	5,655,040	-	-	-	-	-	5,655,040
Total comprehensive income for the year	-	1,145,020	-	4,510,020	5,655,040	-	-	-	-	29,844,024	35,499,064
Transactions recorded directly in equity:											
Transferred to capital	701,399	-	-	-	-	-	-	-	-	(701,399)	-
Transferred to general reserve	-	-	-	-	-	-	-	-	701,399	(701,399)	-
Transferred to MoF	-	-	-	-	-	-	-	-	-	(8,991,226)	(8,991,226)
Transferred to residual undistributed net unrealised valuation gains	-	-	-	-	-	-	10,602,145	10,602,145	-	(10,602,145)	-
Balance at 30 Qaws 1397 (21 December 2018)	24,221,649	1,104,157	936,477	62,946,884	64,987,518	137	33,341,093	33,341,230	24,221,649	-	146,772,046

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DA AFGHANISTAN BANK

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 QAWS 1398 (21 DECEMBER 2019)

	Capital	Revaluation reserve				Other components of equity			General reserve	Accumulated profits	Grand total
		Net unrealised gain on financial assets measured at fair value through OCI	Freehold land	Gold	Total revaluation reserve	Exchange translation reserve	Residual undistributed net unrealised valuation gains	Total other components of equity			
	(Afs in '000')										
Balance at 30 Qaws 1397 (21 December 2018)	24,221,649	1,104,157	936,477	62,946,884	64,987,518	137	33,341,093	33,341,230	24,221,649	-	146,772,046
Impact of adopting IFRS 9	-	8,233	-	-	8,233	-	-	-	-	(809,218)	(800,985)
Balance at 01 Jadi 1397 (22 December 2018)	24,221,649	1,112,390	936,477	62,946,884	64,995,751	137	33,341,093	33,341,230	24,221,649	(809,218)	145,971,061
Total comprehensive income for the year:											
Profit for the year	-	-	-	-	-	-	-	-	-	29,230,712	29,230,712
Other comprehensive income:											
Net gains from changes in fair value of debt instruments at FVOCI	-	2,057,359	-	-	2,057,359	-	-	-	-	-	2,057,359
Change in allowances for expected credit loss of debt instruments at FVOCI	-	(1,317)	-	-	(1,317)	-	-	-	-	-	(1,317)
Revaluation gain on gold reserve	-	-	-	15,221,968	15,221,968	-	-	-	-	-	15,221,968
Total other comprehensive income	-	2,056,042	-	15,221,968	17,278,010	-	-	-	-	-	17,278,010
Total comprehensive income for the year	-	2,056,042	-	15,221,968	17,278,010	-	-	-	-	29,230,712	46,508,722
Transactions recorded directly in equity:											
Transferred to capital	1,176,385	-	-	-	-	-	-	-	-	(1,176,385)	-
Transferred to general reserve	-	-	-	-	-	-	-	-	1,176,385	(1,176,385)	-
Transferred to net unrealised gain on financial assets measured at FVOCI	-	137	-	-	137	(137)	-	(137)	-	-	-
Transferred to MoF	-	-	-	-	-	-	-	-	-	(27,757,086)	(27,757,086)
Transferred to residual undistributed net unrealised valuation gains	-	-	-	-	-	-	(1,688,362)	(1,688,362)	-	1,688,362	-
Balance at 30 Qaws 1398 (21 December 2019)	25,398,034	3,168,569	936,477	78,168,852	82,273,898	-	31,652,731	31,652,731	25,398,034	-	164,722,697

The annexed notes 1 to 37 form an integral part of these financial statements.

Syed Younas Sadat
Chief Financial Officer

Wahidullah Nosher
Acting Governor

Muhammad Qaseem Rahimi
2nd Deputy Governor

1. STATUS AND NATURE OF OPERATIONS

1.1 The Group comprises of Da Afghanistan Bank ("the Bank") as the "Parent entity" and Afghanistan Payments Systems (APS) as "the Subsidiary":

1.2 Da Afghanistan Bank is the Central Bank of Afghanistan and was originally established in 1318 (1939) in accordance with Article 12 of the 1311 (1932) Constitution of Afghanistan. The Bank was operating under the supervision of the Ministry of Finance (MoF), Government of Islamic Republic of Afghanistan. Subsequently, during the transitional government on 27 Sunbula 1382 (18 September 2003), Da Afghanistan Bank Law ("the DAB Law") of the Islamic Republic of Afghanistan was enacted and the Bank was re-established as an independent legal entity. This law and the change in the Bank's status were ratified by an amendment to Article 12 of the Constitution of the Islamic Republic of Afghanistan in Jadi 1382 (January 2004).

1.3 As per the DAB Law, the Bank's main objective is to achieve and maintain domestic price stability with other objectives to foster the liquidity, solvency and effective functioning of a stable market based financial system. The Bank also controls monetary and exchange policy, manages reserves and acts as a bank, advisor and fiscal agent to the Government of Islamic Republic of Afghanistan and other state governed bodies.

1.4 Registered office (Head Office) of the Bank is situated in Kabul. As at 30 Qaws 1398 (21 December 2019), the Bank operates with 48 (1397: 47) branches.

1.5 Details and activities of the subsidiary of the Bank are as follows:

Afghanistan Payments Systems ("the Subsidiary") was incorporated as a limited liability company and got registered with Afghanistan Investment Support Agency, now "Ministry of Commerce and Industry (MOCI)" on January 31, 2011 under license number D-37351. The Company has its registered office located at House No.29, Street 8, Lane 1 District 10, Kabul Afghanistan.

During the year, 100% shares of APS were purchased by the Bank w.e.f. 01 January 2019 (11 Jadi 1387).

The Subsidiary operates under the umbrella of Da Afghanistan Bank (DAB) as the national e-payment switch of Afghanistan. The Subsidiary shall provide support to establish an electronic fund transfer platform for shared Automated Teller Machines (ATMs), creation of shared mobile banking infrastructure and the initiation of point of sale devices. The Subsidiary has launched domestic card scheme (AfPay) with the support of the Bank to enhance and promote financial inclusion.

2. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), the requirements of the DAB Law and accounting policies for gold and silver, bank notes and coins as stated in notes 6.7 and 6.13 respectively. Where the requirements of the DAB Law and accounting policies adopted by the Group differ with requirements of IFRSs, the requirements of DAB Law and accounting policies adopted by the Group take precedence.

These consolidated financial statements comprise consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and the accompanying notes.

Year end of the Subsidiary is 31 December 2019 (10 Jadi 1398).

3. FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Afghani ('Afs'), which is the Group's functional and presentation currency.

4. BASIS OF PREPARATION AND MEASUREMENT

These consolidated financial statements have been prepared on the historical cost convention, except for gold reserves, foreign currency cash reserves, some investments and few items of operating fixed assets as referred to in their respective notes which have been reported at revalued amounts.

New and amended standards and interpretations that are not yet effective

The following standards, amendments and interpretations of IFRSs would be effective from the dates mentioned below against the respective standard or interpretation:

	Effective from accounting period beginning on or after
IFRS 16 'Leases': This standard supersedes IAS 17 'Leases', IFRIC 4, SIC 15 and SIC 27 upon its effective date	January 01, 2019
Amendments to IFRS 9 'Financial Instruments' Prepayment features with negative compensation	January 01, 2019
Amendments to IAS 28 'Investments in Associates and Joint Ventures' Long-term interests in Associates and Joint Ventures	January 01, 2019
Amendments to IAS 19 'Employee Benefits'. Plan amendments, curtailments or settlements	January 01, 2019
IFRIC 23 'Uncertainty over Income Tax Treatments'. Clarifies the accounting treatment in relation to determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 'Income Taxes'	January 01, 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle amendments to: - IFRS 3 Business Combinations; - IFRS 11 Joint Arrangements; - IAS 12 Income Taxes; and - IAS 23 Borrowing Costs.	January 01, 2019
Amendments to References to the Conceptual Framework in IFRS Standards	January 01, 2020
Amendments to IFRS 3 'Business Combinations' Amendment in the definition of business	January 01, 2020
Amendments to IAS 39, IFRS 7 and IFRS 9 – The amendments will affect entities that apply the hedge accounting requirements of IFRS 9 or IAS 39 to hedging relationships directly affected by the interest rate benchmark reform	January 01, 2020
Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Clarifies the definition of 'Material' and align the definition used in the Conceptual Framework and the Standards	January 01, 2020

In addition to the above, certain annual improvements have also been made to a number of IFRSs. UHY.

5. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

There are certain new and amended standards and interpretations that are mandatory for the accounting period beginning on or after 22 December 2018, but are considered not to be relevant or do not have any significant effect on the Group's operations and are, therefore, not disclosed in these consolidated financial statements except for IFRS 9 and IFRS 7.

5.1 IFRS 9 Financial Instruments

The Group has adopted IFRS 9 retro respectively with date of initial application of 22 December 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. IFRS 9 replaces IAS 39 for annual periods beginning on or after 22 December 2018. Therefore, the comparative information for 2018 is reported under IAS 39 and is not comparable to the information presented for 2019. Differences arising from the adoption of IFRS 9 have been recognised directly in statement of changes in equity under 'accumulated profits' and 'net unrealised gain on financial assets measured at fair value through OCI'. The impact on carrying amounts of the financial assets and liabilities is disclosed in Note 5.1(c).

a) Changes to classification and measurement

To determine classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and loans and receivables) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.
- Financial assets at FVPL
  All other financial assets are classified as measured at FVPL.

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Group's classification of its financial assets and liabilities is explained in Note 6.5.2. The quantitative impact of applying IFRS 9 as at 1 July 2018 is disclosed in Note 5.1(d).

b) Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origin.

Details of the Group's impairment method are disclosed in Note 6.5.15. The quantitative impact of applying IFRS 9 as at 1 July 2018 is disclosed in Note 5.1(d).

c) Classification and measurement of financial instruments as at 22 December 2018

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The measurement category of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 22 December 2018 are compared as follows:

	IAS 39		IFRS 9	
	Measurement category	**Carrying amount (Afs in '000')**	**Measurement category**	**Carrying amount (Afs in '000')**
Due from banks and financial institutions	Loans and receivables	325,675,327	Amortised cost	324,874,680
US treasury bonds and other securities-(RAMP)	Available for sale - at fair value	167,358,572	FVOCI	167,358,572
US treasury bonds	Available for sale - at fair value	3,753,196	FVOCI	3,753,196
Bank for International Settlements Investment Pool - A	Available for sale - at fair value	27,362,725	FVOCI	27,362,725
Shares in ECOTDB	Available for sale - at cost	1,164,921	FVOCI	1,164,921
US treasury bond	Held to maturity-amortised cost	7,507,190	Amortised cost	7,507,190
Assistance as lender of last resort	Loans and receivables	6,961,885	Amortised cost	6,961,885
Advances and other receivables	Loans and receivables	1,135,631	Amortised cost	1,135,631

d) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 5.5.2 for more detailed information regarding the new classification requirements of IFRS 9.

	IAS 39 carrying amount as at 21 December 2018	**Pre-measurement of Expected Credit Losses**	**IFRS 9 carrying amount as at 22 December 2018**
	(Afs in '000')		
Amortised cost			
Due from banks and financial institutions	325,675,327	800,647	324,874,680
US treasury notes	7,507,190	338	7,506,852
Assistance as lender of last resort	6,961,885	-	6,961,885
Advances and other receivables	1,135,631	-	1,135,631
Total financial assets at amortised cost	341,280,033	800,985	340,479,048
Fair value through OCI			
US treasury bonds and other securities-RAMP	167,358,572	8,064	167,358,572
US treasury bonds	3,753,196	169	3,753,196
Bank for International Settlements	27,362,725	-	27,362,725
Shares in ECOTDB	1,164,921	-	1,164,921
Total financial assets at fair value through-OCI	199,639,414	8,233	199,639,414

e) IFRS 7

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures were updated and the Group has adopted it together with IFRS 9, for the year beginning 22 December 2018. Changes include transition disclosures as shown in Note 5.1(c), detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 35.1.3.

Reconciliations from opening to closing ECL allowances are presented in Notes 9.4, 10.5 & 12.5.

5.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive revenue recognition framework and replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leasing agreements is outside the scope of IFRS 15 requirements and will be regulated by other applicable standards (IFRS 9 and IFRS 16 Leases). The Group has initially applied IFRS 15 at 1 July 2018. The application of IFRS 15 did not have a material impact on the Group's consolidated financial statements.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in preparation of these consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 30 Qaws 1397 (21 December 2018).

6.1 Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Group at the spot exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of retranslation as at 21 December 2019, the Afghani exchange rates used for the major currencies were:

	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
	----------- Afs	-----------
United States Dollar (USD)	**78.41**	74.96
Euro (EUR)	**86.90**	85.39
British Pound (GBP)	**101.80**	94.53
Pakistani Rupee (PKR)	**0.50**	0.53
Saudi Arabia Riyal (SAR)	**20.84**	19.98
United Arab Emirates Dirham (AED)	**21.36**	20.48
Canadian Dollar (CAD)	**43.35**	43.35

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in statement of profit or loss in the period in which they arise.

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When a gain or loss on a non-monetary item is recognised in consolidated statement of other comprehensive income, any exchange component of that gain or loss is also recognised in consolidated statement of other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in consolidated statement of profit or loss, any exchange component of that gain or loss is also recognised in consolidated statement of profit or loss.

6.2 Interest income and expense

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

The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

6.3 Fees and commission income and expense

Fee and commission income and expenses that are integral to the financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fee, transfer commission, branch coordination commission are recognised as the related services are performed.

Other fee and commission expense relates mainly to transaction service fee and asset management services, which are expensed as the services are received.

6.4 Taxation

Under Article 118.2 of the DAB Law, the Bank is exempt from taxes on income or profits, personal property taxes on assets, taxes on transfer of funds and other financial transactions, stamp duties on issuance of securities and bank notes, customs duties, import duties, sales taxes, value added taxes on import of gold, bank notes and coins; and sales tax on domestic supply of gold, bank notes, and coins etc. Accordingly, no provision for income tax has been made in these consolidated financial statements.

6.5 Financial assets and financial liabilities

Financial instruments carried on the consolidated statement of financial statement include foreign currency cash reserves, due from banks and financial institutions, Investments, assistance as lender of last resort, advances and other receivables, Other assets, currency in circulation, capital notes, due to banks and financial institutions, due to customers, IMF related liabilities, defined contribution obligation and accounts and Provisions and other liabilities. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each consolidated financial instrument.

6.5.1 Financial instruments – initial recognition

All financial assets are initially recognised on the trade date, i.e. the date at which the Group becomes a party to the contractual provisions of the instruments. This includes purchases or sale of financial assets that require delivery of asset within the time frame generally established by regulations in market conventions.

All financial assets and financial liabilities are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction cost is taken directly to the profit and loss account. Any difference between the fair value of consideration given and the amount determined using the valuation techniques detailed in note 6.5.19 is recognised in the consolidated statement of profit or loss.

6.5.2 Classification and subsequent measurement of financial assets and liabilities

From 22 December 2018, the Group classifies all of its financial assets based on two criteria:

i) The Group's business model for managing the assets; and
ii) whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (the 'SPPI test') on the principal amount outstanding, measured at either:

- Amortised cost, as explained in Note 6.5.3
- FVOCI, as explained in Notes 6.5.4 and 6.5.5
- FVPL as explained in Note 6.5.6

i) Business model assessment

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

The Group'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:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, managing the financial assets is achieved and how cash flows are realised; and
- Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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 realised in a way that is different from the Group's original expectations, The Group 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.

ii) The SPPI test

As a second step of its classification process the Group 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. 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 Group applies judgement 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 making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The Group classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 6.5.6 and 6.5.8. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 6.5.6.

Before 22 December 2018, the Group classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to maturity (amortised cost), as explained in Notes 6.5.9, 6.5.10 and 6.5.11.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Notes 6.5.6 and 6.5.8.

6.5.3 Financial assets at amortised cost

From 22 December 2018, the Group classifies its financial assets at amortized cost only if both of the following conditions are met:

i) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, these financial instruments are subsequently measured at amortized cost using the Effective interest Rate (EIR), less impairment (if any).

Before 22 December 2018, loans and receivables included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Subsequent to initial recognition, these assets are carried at amortised cost less impairment losses, if any, and premiums and / or discounts are accounted for using the effective interest method. All loans and receivables were recognized when cash is advanced to borrowers. When a loan became uncollectible, it was written off against the related provision for impairment. Subsequent recoveries were credited in the consolidated statement of profit or loss.

6.5.4 Debt instruments at FVOCI (Policy applicable from 22 December 2018)

From 22 December 2018, the Group classifies its financial assets as debt instruments measured at FVOCI when both of:

i) The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in consolidated profit or loss statement in the same manner as for financial assets measured at amortised cost as explained in Note 6.5.3.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated 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 amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to the consolidated statement of profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

6.5.5 Equity instruments at FVOCI (Policy applicable from 22 December 2018)

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

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group 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.

6.5.6 Financial assets and financial liabilities at fair value through profit or loss (Policy applicable from 22 December 2018)

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:

i) The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;

ii) The liabilities (and assets until 22 December 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

iii) The liabilities (and assets until 22 December 2018 under IAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in profit and 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 earnt on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate.

6.5.7 Financial liabilities at amortised cost

Financial liabilities with a fixed maturity are measured at amortised cost using the effective interest rate. These include currency in circulation, capital notes, due to banks and financial institutions, due to customers, IMF related liabilities, Defined contribution obligation and Provisions and other liabilities.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated 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 amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to the consolidated statement of profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

6.5.8 Derivative financial instruments

The Group uses derivative financial instruments which include forwards, futures and swaps. Derivatives are initially recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivatives are re-measured to fair value on subsequent reporting dates. The resultant gains or losses from derivatives are included in the consolidated statement of profit or loss.

6.5.9 Available-for-sale (Policy applicable before 22 December 2018)

Before 22 December 2018, available for sale financial assets included non derivative financial assets which were either designated in this category or which did not fall in any of the other categories. Subsequent to initial recognition, these securities were measured at fair value, except investments in those securities the fair value of which could not be determined reliably and were stated at cost. Gain or loss on changes in fair value was taken to and kept in equity until the investments were sold or disposed off, or until the investments were determined to be impaired. At that time, cumulative gain or loss previously recognised in equity was re-classified to the profit and loss.

6.5.10 Held-to-maturity (Policy applicable before 22 December 2018)

Before 22 December 2018, at the time of acquisition, investments with fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

Subsequently, these are measured at amortised cost less provision for impairment in value, if any. Amortised cost is calculated by taking into account any discount or premium on acquisition by using the effective yield method.

The difference between the redemption value and the purchase price of the held-to-maturity investments is amortised and taken to the consolidated statement of profit or loss over the term of the investment.

These are reviewed for impairment at year end and any losses arising from impairment in values are charged to the consolidated statement of profit or loss.

6.5.11 Loans and receivables (Policy applicable before 22 December 2018)

Before 22 December 2018 loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Group as fair value through profit or loss or available-for-sale. This includes receivable against sale of investments and other receivables and are carried at amortised cost using the effective yield method, less impairment losses, if any.

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6.5.12 Financial asset designated at fair value through profit or loss (Policy applicable before 22 December 2018)

An instrument is classified at fair value through profit or loss if it is held-for-trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Financial assets which are acquired principally for the purpose of generating profit from short term price fluctuation or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held-for-trading or derivatives.

Upon initial recognition, attributable transaction cost is recognised in the consolidated statement of profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in consolidated statement of profit or loss.

6.5.13 Reclassification of financial assets and liabilities

From 22 December 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

6.5.14 Derecognition of financial asset and financial liabilities

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

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

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of new liability, and the difference in the respective carrying amount is recognised in the consolidated statement of profit or loss.

6.5.15 Impairment of financial assets

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 (LTECL), unless there has been no significant increase in credit risk since origin, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 35.1.1.

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.

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The Group 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.

Based on the above process, the financial assets are grouped into Level 1, Level 2 and Level 3 as described below:

i) Level 1: When financial assets are first recognised, the Group recognises an allowance based on 12mECLs. Level 1 assets also include facilities where the credit risk has improved and the loan has been reclassified from Level 2.

ii) Level 2: When a financial asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Level 2 assets also include facilities, where the credit risk has improved and the asset has been reclassified from Level 3.

iii) Level 3: Financial assets considered credit-impaired (as outlined in Note 35.1.1). The Group records an allowance for the LTECLs.

For financial assets for which the Group 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) derecognition of the financial assets.

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

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

The Probability of Default (PD) 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 derecognised and is still in the portfolio. The concept of PDs is further explained in Note 35.1.3.

The Exposure at Default (EAD) 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 35.1.3.

The Loss Given Default (LGD) 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 realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 35.1.3.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier.

The mechanics of the ECL method are summarised below:

Level 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 Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

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Level 2

When a financial assets has shown a significant increase in credit risk since origination, the Group 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.

Level 3

For financial assets considered credit-impaired (as defined in Note 53.1.3), the Group recognises the lifetime expected credit losses for these loans. The method is similar to that for Level 2 assets, with the PD set at 100%.

Financial guarantee contracts

The Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Group 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-weighing of the three scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions.

6.5.16 Forward looking information

The Group formulates a base case view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios and consideration of a variety of external actual and forecast information. This process involves developing three different economic scenarios, which represent a range of scenarios linked to GDP growth and CPI.

6.5.17 Credit Enhancements: Collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Group seeks to use collateral. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees and demand promissory notes. To the extent possible, the Group uses active market data for valuing financial assets held as collateral.

6.5.18 Offsetting

Financial assets and financial liabilities are offset and a net amount is presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

6.5.19 Amortised cost measurement

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

6.5.20 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 Group has access at that date.

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participant would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in consolidated statement of profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is wholly supported by observable market data or transaction is closed out.

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

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

The fair value of deposits is not less than the amount payable, discounted from the first date on which the amount could be required to be paid.

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

6.5.21 Identification of measurement of impairment (Policy applicable before 22 December 2018)

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

Objective evidence that the financial assets are impaired includes:

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

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

The Group determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the investee and sector performance, changes in technology and operational / financial cash flows.

Impairment losses are recognised in consolidated statement of profit or loss. Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to statement of profit or loss. The cumulative loss that is reclassified from equity to statement of profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in statement of profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through statement of profit or loss; otherwise, any increase in fair value is recognised through other comprehensive income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in other comprehensive income.

6.6 Cash and cash equivalents

Cash and cash equivalents include foreign currency cash on hand and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

6.7 Gold

6.7.1 Gold held as reserve

Refined gold held as foreign reserve is recorded at fair value at the consolidated statement of financial position date. Fair price is determined by reference to the London Bullion Market Association (LBMA) fixings at a discount of USD 2.25 per troy ounce (1397: USD 2.25 per troy ounce). Fair value and foreign exchange changes in gold are taken to revaluation reserve account.

6.7.2 Gold at Bank vault

Non-refined gold and silver held at the Group's vault are stated at cost less impairment (if any), and are included in other assets.

6.8 Property and equipment

Property and equipment, other than free-hold land (which is not depreciated), are stated at cost or revalued amount less accumulated depreciation and accumulated impairment losses, if any. Land is carried at revalued amount less impairment losses, if any.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss as and when incurred.

Depreciation is calculated by the Group using the straight line method which writes down the cost of assets to their residual values over the estimated useful lives. Depreciation is charged from the date when the asset is available for use and no depreciation is charged from the date when the asset is disposed off. The estimated useful lives for the current and comparative periods are as follows:

	1398 (2019)	1397 (2018)
Buildings	**40 years**	40 years
Furniture and fixtures	**5 to 10 years**	5 years
Motor vehicles	**5 years**	5 years
IT and office equipment	**3 to 10 years**	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each reporting date.

Land and buildings are revalued by professionally qualified valuers with sufficient regularity to ensure that their net carrying value does not differ materially from their fair value. A surplus arising on revaluation is credited to the revaluation reserve account. Any deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above-mentioned surplus account. The surplus on revaluation of fixed assets, to the extent of incremental depreciation, is transferred to retained earnings.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets is recognised in the consolidated statement of profit or loss in the year when asset is derecognised.

6.9 Intangible assets

Banking software acquired by the Group is stated at cost less accumulated amortization and accumulated impairment losses, if any.

Subsequent expenditure on software is capitalised only when it is expected to increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Software is amortised on a straight-line basis in consolidated statement of profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of a software for the current period is three years while for comparative periods useful life was five years.

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

6.10 Impairment of non-financial assets (Policy applicable before 22 December 2018)

The carrying amounts of assets are reviewed at each reporting date for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The resulting impairment loss is taken to the statement of profit or loss.

6.11 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each consolidated statement of financial position date and are adjusted to reflect the current best estimate.

6.12 Financial guarantees

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Liabilities arising from financial guarantee are initially measured at fair value and the initial fair value is amortised over the life of the guarantee. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

6.13 Bank notes and coins

Bank notes and coins in circulation represent a demand liability of the Group when issued from the vaults and are recorded in the consolidated statement of financial position at their face value. Expenses on bank notes and coins in circulations include expenses on security, transportation, insurance and other expenses. Expenses on bank notes and coins in circulation are recognised as and when they are incurred. Any un-issued currency notes and coins lying at the presidential palace are not reflected in these financial statements.

6.14 Employee benefits

6.14.1 Defined contribution obligation

In 2016, the Group has introduced an unfunded contribution scheme and operates it for all of its permanent employees. Monthly contributions are made both by the Group and the employees at 8% of employees' basic salary.

6.14.2 Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes the costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then these benefits are discounted.

6.14.3 Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

6.15 Grants

Grants are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all the required conditions attached to it.

Grants for property and equipment are recorded as deferred grants in the consolidated statement of financial position and recognised income on a systematic basis over the useful life of assets acquired from the grant.

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6.16 Deferred cost

The cost of printing of currency is recognised as a deferred expense in other assets. The cost is amortised in the consolidated statement of profit or loss when the printed currency is issued for circulation.

6.17 Allocation of net profit

According to Article 29 of the DAB Law, if the Bank has a net profit for any financial year, it shall be allocated in the following order of priority:

1) to increase the capital to a level equivalent to 5% of the aggregate amount of monetary liabilities at the end of the financial year.

2) to redeem the securities issued by the State to the Bank pursuant to Article 31.

3) to the General Reserve maintained by the Bank to a level equivalent to the amount of capital of the Bank.

4) to any other reserve for specific purposes established by the Bank subject to the approval of the MoF.

5) any residual net profit remaining after the preceding allocations shall be allocated in accordance with the following:

   - the preceding allocations from net profit shall be calculated as if made from net operating revenues, except that, if no operating revenues are included in net profit or after the preceding allocations have exhausted net operating revenues included in net profit, such allocations shall be calculated as if made from net unrealized valuation gains;

   - any residual net operating revenues shall be transferred to the State within four months after the end of the financial year; and

   - residual net unrealized valuation gains if any shall be allocated to a Valuation Reserve Account maintained on the balance sheet of the Bank.

6.18 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

- Useful lives and valuation of property and equipment. Note 6.8

7. GOLD RESERVES

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		(Afs in '000')	
Balance at beginning of the year		**66,178,591**	61,668,571
Gain / (loss) on revaluation		**11,637,505**	(312,666)
Exchange gain		**3,584,465**	4,822,686
Balance at end of the year	7.1	**81,400,561**	66,178,591

7.1 This represents 703,004.944 fine troy ounces (1397: 703,004.944 fine troy ounces) of gold in bar form held at Federal Reserve Bank, New York (FRB) as the Bank's international reserve.

As per FRB, these bars meet the minimum LBMA (London Bullion Market Association) LGD (London Gold Delivery) standards for quality (995.0 parts per thousand) but these do not comply with the requirements for dimension (top surface: 255 x 81 millimeters; bottom surface: 236 x 37 millimeters; thickness: 37 millimeters). In addition, some of these bars present imperfections such as surface roughness, cracks, fissures and holes which are considered unacceptable by the LBMA.

Accordingly, the Bank has obtained an advice for the estimate of discount to the LBMA rate of USD 1,479.00 per troy ounce (1397: USD 1,258.15 per troy ounce) from the Bank for International Settlements (BIS), Switzerland, which has suggested a discount of USD 2.25 per troy ounce (1397: USD 2.25 per troy ounce) to the LBMA rate. Accordingly, the Bank has valued the gold reserves at USD 1,476.75 per troy ounce (1397: USD 1,255.9 per troy ounce) using a discount of USD 2.25 per troy ounce (1397: USD 2.25 per troy ounce) to the LBMA rate as at the reporting date.

8. FOREIGN CURRENCY CASH RESERVES

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		(Afs in '000')	
Cash at presidential palace		**-**	14,991,120
Cash at head office		**18,570,911**	6,764,712
Cash at branches		**1,012,425**	1,292,404
	8.1	**19,583,336**	23,048,236

8.1 Foreign currency profile

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
US Dollars		**19,092,139**	22,529,541
Euro		**365,347**	512,689
GBP		**6,296**	5,846
Pakistani Rupee		**151**	160
UAE Dirham		**2,136**	-
Saudi Riyal		**117,267**	-
	8.2	**19,583,336**	23,048,236

8.2 This represents cash held by the Bank in foreign currency at the presidential palace, the Head office and its branches.

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	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000') -----------	
9. DUE FROM BANKS AND FINANCIAL INSTITUTIONS			
At amortised cost			
Term deposits with foreign banks	9.2	**301,434,893**	296,399,767
Current accounts with foreign banks		**45,776,760**	26,914,459
Overnight deposits with foreign banks	9.3	**8,734,962**	2,361,101
		355,946,615	325,675,327
Expected credit losses	9.4	**(376,262)**	-
		355,570,353	325,675,327

9.1 Comparative amounts as at 21 December 2018 (30 Qaws 1397) reflect the measurements basis under IAS 39.

9.2 These carry interest rates ranging between -0.04% to 2.95% per annum (1397: -0.04% to 2.61% per annum) having maturity ranging from December 2019 to October 2020 (1397:January 2019 to October 2019).

9.3 These represent overnight deposits carrying interest rate at the rate of 0.03% per annum (1397: 0.03% per annum).

9.4 An analysis of changes in the ECL allowances in relation to foreign currency accounts of the Group measured at amortized cost is as follows:

	(Afs in '000')
Level 2	
Opening balance as at 21 December 2018 (30 Qaws 1397)	-
Impact of IFRS 9	**800,647**
Expected credit losses as at 22 December 2018 (1 Jadi 1397)	**800,647**
Impact during the year	**(424,386)**
Balance as at 21 December 2019 (30 Qaws 1398)	**376,262**

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000') -----------	
10. INVESTMENTS			
Investments measured at FVOCI			
US treasury bonds and other securities	10.1	**182,929,450**	167,358,572
US treasury bonds	10.2	**4,075,418**	3,753,196
Bank for International Settlements Investment Pool - A	10.3	**29,825,310**	27,362,725
		216,830,178	198,474,493
Equity instruments at FVOCI			
Shares in ECOTDB	10.4	**1,433,928**	1,164,921
Investments measured at amortised cost			
US treasury note		**-**	7,507,190
		218,264,106	207,146,604

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10.1 The Group has entered into an investment management and consulting agreement with the International Bank for Reconstruction and Development (IBRD), an organisation of the World Bank Group, for Reserves Advisory Management Program (RAMP). The IBRD has placed the funds in government securities, European federal agency securities and deposit accounts maintained with the Federal Reserve Bank of New York (FRB). This portfolio of investments carries return at rates ranging between 1.38% to 3.13% per annum (1397: 1.125% to 3.625% per annum).

10.2 The Group has made investment in US treasury bonds held at the Federal Reserve Bank of New York (FRB). These carry interest rates ranging between 1.375% to 2.750% (1397: 1.50% to 3.63%) per annum. These securities have an aggregate face value of Afs.4,038 million (1397: Afs. 3,763 million).

10.3 The Group holds units of Bank for International Settlements Investment Pool A" (BISIP-A) through an asset management agreement, which has investments in USD denominated Government Bonds, foreign currency swaps and other interest bearing securities. The total units held by the Group at the reporting date were 2,637,453 (1397: 2,637,453) having market value of USD 144.22 (1397: 138.41) per unit.

10.4 The Group holds shares in the Economic Cooperation Organization Trade and Development Bank (ECOTDB), Istanbul, Turkey. As per the agreement, the Group is required to subscribe 500 shares, out of which 350 shares are callable. As of the year end the Group has subscribed 150 (1397: 126) shares.

10.5 An analysis of changes in the ECL allowance in relation to investments of the Group is as follows:

	Note	Investments measured at amortised cost	Investment in Debt instrument measured at FVOCI
		----------- (Afs in '000') -----------	
Level 1			
Opening balance as at 21 December 2018 (30 Qaws 1397)		-	-
Impact of IFRS 9		338	8,233
Expected credit losses as at 22 December 2018 (1 Jadi 1397)		338	8,233
Expected credit losses		(338)	(1,317)
Balance as at 21 December 2019 (30 Qaws 1398)		-	6,916

11. ASSISTANCE AS LENDER OF LAST RESORT

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000') -----------	
Lender of last resort assistance to Kabul Bank	*11.1*	166,793	6,961,885

11.1 This represents the amount paid to Kabul Bank as a lender of last resort ("LoLR") under Article 86 of the DAB Law.

On 21 Hamal 1390 (10 April 2011), the Bank signed a Promissory Note and Agreement ("PNA") with the Ministry of Finance ("MoF"), Government of Islamic Republic of Afghanistan, wherein the MoF agreed to underwrite cost of LoLR facilities to Kabul Bank amounting to Afs.37,620 million (USD 825 million), which was subject to adjustments due to payments of claims against Kabul Bank in receivership. The repayment is subject to other conditions, as mentioned in the PNA, including assignment of claims of the Bank against Kabul Bank to the MoF. As per the terms of repayment the entire amount shall be paid to the Bank in 8 years in 32 quarterly increasing installments beginning from the end of first quarter of 1390.

This carries interest at the annual rate of 2% compounded quarterly on outstanding balance. The terms of repayment schedule under PNA were revised in 1396, wherein the end date of repayment period was extended from 30 Hoot 1397 (21 March 2019) to the end of 1398 (21 December 2019). The movement in this balance during the year is as follows:

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	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000') -----------	
Opening Balance		**6,961,885**	14,588,096
Add: Interest charged for the year		**95,782**	249,034
Add: Unwinding of discount on LoLR	*11.2*	**209,126**	529,312
Less: Recoveries during the year:			
- directly from Kabul Bank receivership		**-**	(504,557)
- received from MoF		**(7,100,000)**	(7,900,000)
		(7,100,000)	(8,404,557)
		166,793	6,961,885

11.2 In 1396, the Bank has used risk free interest rate of 6.67% to amortize the outstanding amount under PNA. During the year, based on the fact that the outstanding amount will be settled in 1399 under PNA, the management has not revised the interest rate to unwind the discount. Further, the management of the Bank believes that it will not have material impact on the financial statements.

The balance amount of Afs 166.793 million will be received as soon as the national budget of Islamic Republic of Afghanistan will be approved by the Government for the year 1399.

12. ADVANCES AND OTHER RECEIVABLES

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000') -----------	
Loans to staff	*12.1*	**603,394**	635,631
Advance for Afghan Deposit Insurance Corporation	*12.2*	**500,000**	500,000
Deferred cost on unissued currency	*12.3*	**493,056**	773,980
Other receivables from employees	*12.4*	**149,960**	149,960
Others		**133,032**	136,394
		1,879,442	2,195,965
Expected credit losses / provision for impairment	*12.5*	**(169,072)**	(149,961)
		1,710,370	2,046,004

12.1 This represent loans provided to employees of the Bank for housing, marriage and general purposes. These loans are interest free and are repayable on monthly basis over a period ranging from 1 to 15 years (1397: 1 to 15 years). These loans are secured against staff defined contribution obligation and personal guarantee of the employees of the Bank.

12.2 This represents contribution of the Bank for Afghan Deposit Insurance Corporation (ADIC).The Group contributed a sum of Afs.500 million being its share in the initial capital of ADIC in the year 2009. Since then, the Group, on behalf of ADIC, has been collecting insurance premium from commercial banks at a certain rate based on their customer deposits (other than inter-bank deposits) and the same is deposited into ADIC's bank account held with the Bank. The salaries of staff and rent expense pertaining to ADIC are also currently being borne by the Group. ADIC has not been incorporated yet as a separate legal entity, as the relevant amendment in the DAB Law has not yet been approved by the Parliament.

12.3 This represents deferred cost incurred in respect of printing of currency. This cost is amortised as an expense in the consolidated statement of profit or loss when the printed currency is issued into circulation. The movement in this balance is as follows:

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	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000') -----------	
Balance at beginning of the year		**773,980**	677,339
Payments during the year		**-**	177,879
Less: amortisation of cost during the year		**(280,924)**	(81,238)
Balance at end of the year		**493,056**	773,980

12.4 This represents advances and receivables on account of misappropriation of cash by the Group's employees in prior years which are fully provided.

12.5 Expected credit losses / provision for impairment

An analysis of changes in the ECL allowances / provision for impairment in relation to trade receivables of the Group measured at amortized cost is as follows:

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000') -----------	
Balance at beginning of the year			
- The Bank		**149,961**	503,775
- The Subsidiary		**770**	-
		150,731	503,775
Recovery of ECL / impairment during the year		**(477)**	(353,814)
Charge during the year		**18,818**	-
Balance at end of the year		**169,072**	149,961

13. OPERATING FIXED ASSETS

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
Capital work in progress	*13.1*	**6,664**	9,925
Property and equipment	*13.2*	**5,370,128**	5,385,988
		5,376,792	5,395,913

13.1 Capital work in progress

	Civil Works (Afs in '000')
Balance as at 21 December 2017	2,336
Capital expenditure incurred / advances made during the year	9,925
Transferred to operating fixed assets	(2,336)
Balance as at 21 December 2018	**9,925**
Transferred to operating fixed assets	**(3,261)**
Balance as at 21 December 2019	**6,664**

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13.2 Property and equipment

	Land	Buildings	Furniture and fixtures	Motor vehicles	IT and office equipment	Total
	(Afs in '000')					
Balance as at 01 Jadi 1396 (22 December 2017)	4,303,486	888,801	128,122	155,975	581,133	6,057,517
Additions	-	2,114	3,749	39,469	145,012	190,344
Transferred from Capital Work In Progress	-	2,336	-	-	-	2,336
Disposals	-	-	(176)	-	(12,630)	(12,806)
Balance as at 30 Qaws 1397 (21 December 2018)	4,303,486	893,251	131,695	195,444	713,515	6,237,391
Balance as at 01 Jadi 1397 (22 December 2018)						
-the Bank	**4,303,486**	**893,251**	**131,695**	**195,444**	**713,515**	**6,237,391**
-the Subsidiary	**-**	**-**	**1,097**	**-**	**188,358**	**189,455**
Additions	**-**	**10,679**	**1,308**	**-**	**59,417**	**71,404**
Transferred from Capital Work In Progress	**-**	**3,261**	**-**	**-**	**-**	**3,261**
Adjustments / write offs	**1,699**	**(3,845)**	**(61,232)**	**41,481**	**14,783**	**(7,114)**
Disposals	**-**	**-**	**(842)**	**-**	**(20,465)**	**(21,307)**
Balance as at 30 Qaws 1398 (21 December 2019)	**4,305,185**	**903,346**	**72,026**	**236,925**	**955,608**	**6,473,090**
Depreciation						
Balance as at 01 Jadi 1396 (22 December 2017)	-	88,271	42,927	139,570	500,653	771,421
Charge for the year	-	22,273	3,029	12,482	55,497	93,281
Adjustments	-	-	-	-	(1,368)	(1,368)
Disposals	-	-	(176)	-	(11,755)	(11,931)
Balance as at 30 Qaws 1397 (21 December 2018)	-	110,544	45,780	152,052	543,027	851,403
Balance as at 01 Jadi 1397 (22 December 2018)						
-the Bank	**-**	**110,544**	**45,780**	**152,052**	**543,027**	**851,403**
-the Subsidiary	**-**	**-**	**514**	**-**	**117,544**	**118,058**
Charge for the year	**-**	**22,549**	**4,230**	**21,300**	**107,717**	**155,796**
Adjustments / write offs	**-**	**-**	**-**	**-**	**(3,138)**	**(3,138)**
Disposals	**-**	**-**	**(764)**	**-**	**(18,393)**	**(19,157)**
Balance as at 30 Qaws 1398 (21 December 2019)	**-**	**133,093**	**49,760**	**173,352**	**746,757**	**1,102,962**
At 30 Qaws 1397 (21 December 2018)	4,303,486	782,707	85,915	43,392	170,488	5,385,988
At 30 Qaws 1398 (21 December 2019)	**4,305,185**	**770,253**	**22,266**	**63,573**	**208,851**	**5,370,128**

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13.2.1 Land and buildings were revalued as at 30 Hoot 1389 by independent property dealer, M/S Pamir Property Dealer, a valuation expert having knowledge and experience in the location and category of property, on the basis of market values. The resulting impact from the revaluation exercise was recorded under revaluation reserve in the consolidated statement of changes in equity. The management is of the view that there are no significant changes in the value of land and building from last revaluation.

13.2.2 Land and buildings include properties having cost of Afs106.557 million (1397: Afs106.557 million) which have been transferred to the Group by different ministries, however, the title to these properties has not yet been transferred in the name of the Group. Further, properties having cost of Afs 51.864 million (1397: Afs 51.864 million) are disputed, mainly due to title / possession issues and are under review by the court of law.

13.2.3 Had no revaluation been carried out, the carrying amount of the land and buildings that would have been recognised in these financial statements is as under:

	30 Qaws 1398 (21 December 2019)		30 Qaws 1397 (21 December 2018)	
	--------- (Afs in '000') ---------		--------- (Afs in '000') ---------	
	Land	**Buildings**	**Land**	**Buildings**
Cost	**3,368,708**	**1,148,382**	3,367,009	1,134,442
Accumulated depreciation	**-**	**(216,468)**	-	(187,758)
Carrying amount	**3,368,708**	**931,914**	3,367,009	946,684

13.2.4 Allocation of depreciation and amortisation

	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
	--------- (Afs in '000') ---------	
Depreciation charged for the year	**155,796**	93,281
Less: Amount classified under grant expense	**(99,318)**	(39,935)
	56,478	53,346

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	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000')	-----------
14. INTANGIBLE ASSETS			
Cost			
Balance at beginning of the year			
- The Bank		**182,702**	178,132
- The Subsidiary		**156,795**	-
Additions		**2,157**	4,570
		341,654	182,702
Amortisation			
Balance at beginning of the year			
- The Bank		**120,676**	91,751
- The Subsidiary		**129,932**	-
Charge for the year		**67,778**	28,925
		318,386	120,676
Carrying amount at end of the year		**23,268**	62,026
15. OTHER ASSETS			
Non-monetary gold bullion and bars		**5,861,728**	5,861,728
Non-monetary silver		**6,711,255**	6,711,255
	15.1	**12,572,983**	12,572,983
Accrued interest on investments measured at FVOCI	*10.2*	**901,617**	861,795
Cash and bank balances held by the Subsidiary		**1,849**	-
Others		**15,201**	16,818
		13,491,650	13,451,596

15.1 These represent the gold bullion and bars and silver coins held in the Bank's vault at the Presidential Palace. Under a Memorandum of Understanding ("MoU") agreed between the Bank and the Ministry of Finance (MoF) in the year 1383, the Bank has been granted clear title to all the gold bullion and bars, as well as certain gold and silver coins, asserted to be owned by the Bank and physically located in the Presidential Palace vault.

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000')	-----------
16. CURRENCY IN CIRCULATION			
Coins		**548,400**	512,400
Bank notes		**273,474,598**	240,295,533
		274,022,998	240,807,933
Bank notes and coins held by the Bank		**(14,674,739)**	(12,752,355)
	16.1	**259,348,259**	228,055,578

16.1 The liability for coins & bank notes issued by the Da Afghanistan Bank is recorded at its face value.

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
17. CAPITAL NOTES			
Face value		**24,905,000**	33,725,000
Un-amortised discount		**(129,827)**	(26,350)
	17.1 & 17.2	**24,775,173**	33,698,650

17.1 These represent debt instruments issued by the Bank to the licensed commercial banks and licensed money changers. These instruments have maturity between 7 days to 364 days (1397: 7 days to 182 days) and are freely transferable between licensed commercial banks, licensed money changers and the Bank.

17.2 These notes carry interest at rates ranging between 0.15% to 2.20% per annum (1397: 0.15% to 0.91% per annum).

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		(Afs in '000')	
18. DUE TO BANKS AND FINANCIAL INSTITUTIONS			
Foreign currency:			
Current accounts		**29,817,126**	26,734,189
Required reserve balance	*18.1*	**17,200,085**	18,314,563
Frozen account	*18.2*	**392,042**	900,349
		47,409,253	45,949,101
Local currency:			
Current accounts		**29,510,518**	28,225,191
Required reserve balance	*18.1*	**5,734,431**	5,696,112
Overnight deposits	*18.3*	**14,569,822**	10,780,835
		49,814,771	44,702,138
		97,224,024	90,651,239

18.1 This represents interest free reserve balances maintained by the commercial banks with the Da Afghanistan Bank in accordance with the requirements of Article 64 of the DAB Law for local currency and circular no.3967 dated 07 Sunbula 1396 (29 August 2017) issued by DAB for foreign currency.

18.2 This represents balance due to a commercial bank which was withheld by the Bank on instructions of the Financial Supervision department.

18.3 These are placed by local banks and carry interest at the rate of 0.1% per annum (1397: 0.1% per annum).

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		(Afs in '000')	
19. DUE TO CUSTOMERS			
Foreign currency:			
Current accounts		**84,107,032**	92,385,936
Dormant accounts	*19.2*	**82,049**	27,004
Margin against letters of credit	*19.4*	**3,567,181**	4,527,576
		87,756,262	96,940,516
Local currency:			
Current accounts		**42,273,576**	39,466,136
Dormant accounts	*19.2*	**63,541**	66,598
Margin against letters of credit	*19.4*	**28,103**	43,029
		42,365,220	39,575,763
	19.1 & 19.5	**130,121,482**	136,516,279

19.1 Due to customers consist of:

	30 Qaws 1398	30 Qaws 1397
Government accounts	**105,990,703**	111,133,304
Others	**24,130,779**	25,382,975
	130,121,482	136,516,279

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19.2 These are prior year's non-operative accounts of the customers of the Bank and non-operative accounts transferred by other commercial banks. According to Article 75 of the DAB Law of Afghanistan, all commercial banks are required to dispatch a notice to each dormant account holder at their registered address and publish a notice in at least one local newspaper mentioning the name and particular of the dormant account holder. If the dormant account holder cannot be located within 90 days after the notice and publication of details, these non-operative accounts are classified as dormant for 10 years and transferred to the Bank which are held in a special account. Thereafter, if any dormant account holder satisfactorily proves his / her ownership, the Bank will repay the amount immediately. If the dormant account holder does not claim back their deposit within the required period, the Bank transfers it to the Ministry of Finance (MoF) for inclusion in the revenues of the Government of the Islamic Republic of Afghanistan.

19.3 The Bank is not in compliance with Article 74 of the DAB law which requires the Bank to limit its foreign currency liabilities up to 50% of its unimpaired capital and reserves, which works out to be Afs.82,361.349 million as at 30 Qaws 1398 (21 December 2019). Foreign currency liabilities of the Bank as at the said date stand at Afs.138,187.613 million, resulting in foreign currency liabilities exceeding the prescribed limit by Afs.55,826.265 million as at the year end.

19.4 These represent the deposits received by the Bank against issuance of letters of credit (LCs). The Bank issues LCs only to the government and governmental organisations against receipt of 100% deposit.

19.5 All these deposits are interest-free.

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		(Afs in '000')	
20. IMF RELATED LIABILITIES			
Account 1	*20.1*	**86,983**	81,808
Account 2	*20.1*	**36**	34
Extended Credit Facility Loan	*20.2*	**2,916,581**	2,336,942
		3,003,600	2,418,784

20.1 The Islamic Republic of Afghanistan is a member of International Monetary Fund (IMF) since 1955. The member country can designate Ministry of Finance, central bank or any other agency as their Fiscal Agent. In addition, each member is statutorily required to designate its central bank as Depository. The Government of the Islamic Republic of Afghanistan has nominated Ministry of Finance as their Fiscal Agent and the Bank as Depository.

As the Depository for the Islamic Republic of Afghanistan, the Bank is required to maintain, in addition to other accounts, the following accounts:

Account 1 (Afghani)
Account 2 (Afghani)

IMF's holding of the member's currency is placed in IMF Account No 1 and Account No 2 in the Bank. The Bank is required to record balances in the IMF No.1 and No. 2 accounts as its liabilities. These balances, although maintained within the Bank, are owned by the IMF. The IMF Account No. 1 is used for the IMF's operational transactions whereas the IMF Account No. 2 is used for operational expenses incurred by the IMF in the member's currency.

20.2 As per the arrangement between the Bank and IMF, as Trustee of the Poverty Reduction and Growth Trust (PRGT), the Bank has been granted an extended credit facility loan (ECF loan) equivalent to SDR 32.38 million (1397: SDR 37.625 million) for a period of three years which is non-interest bearing. During the year, the Bank has received sixth installment of this ECF loan of SDR 4.5 million. The total facility utilised by the Bank is SDR 27 million (1397: SDR 22.5 million). The total credit outstanding balance under PRGT with the Government of Afghanistan is SDR 39.565 million (1397: SDR 42.125 million).

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		---------- (Afs in '000')	----------
20.3 Off-balance sheet balances			
Securities issued to IMF		**34,685,475**	32,622,006

20.3. Government of Islamic Republic of Afghanistan has quota in the IMF. This quota reflects the subscription in the IMF of respective members. The quota in the IMF is secured by the Ministry of Finance promissory note issued to the IMF and denominated in SDR. The Bank is the custodian of the promissory note.

21. DEFINED CONTRIBUTION OBLIGATION

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		---------- (Afs in '000')	----------
Defined contribution obligation	*21.1*	**1,769,903**	1,646,033

21.1 In 1395, the Bank introduced an unfunded contribution scheme and operates it for all of its permanent employees. Monthly contributions are made both by the Bank and the employees at 8% of employees' basic salary.

22. DEFERRED GRANTS

This represents grants received in kind from various donors in the form of information technology and power equipments for the purpose of supporting the government owned entities.

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		---------- (Afs in '000')	----------
Balance at beginning of the year			
-The Bank		**155,933**	111,429
-The Subsidiary		**93,128**	-
Grants received during the year		**12,365**	84,439
		261,426	195,868
Less: Deferred grants recognised as income		**(119,244)**	(39,935)
Balance at end of the year		**142,182**	155,933

23. PROVISIONS AND OTHER LIABILITIES

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
Provision against MOU adjustments	*23.1*	**29,467**	29,467
Payable to Ministry of Finance	*23.2*	**12,759,153**	8,991,226
Payable in respect of defined contribution obligation	*23.3*	**198,600**	231,785
Security deposits	*23.4*	**455,743**	442,591
Sundry payables		**781,246**	239,189
Inter-branch accounts		**185,332**	54,281
Others		**70,368**	63,101
		14,479,909	10,051,640

23.1 The Bank has recognised this provision pending the conclusion of reconciliation process relating to the balances due from / to various ministries of the government.

23.2 This represents payable to Ministry of Finance on account of profit of the Bank transferable to MoF under article 29 of Da Afghanistan Bank Law.

	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
	----------- (Afs in '000') -----------	
Opening balance as at beginning of the year	**8,991,226**	-
Transfer against profit for the year	**27,757,086**	8,991,226
Less: Payment on account of profit during the year	**(23,989,159)**	-
Balance at end of the year	**12,759,153**	8,991,226

23.3 The Bank has discontinued its defined pension scheme with effect from Hamal 1395. The balance of defined benefit obligation is retained in the books of the Bank as a full reconciliation has not yet been finalized and is in process. Hence, the obligation will be transferred to defined contribution obligation on completion of reconciliation process.

23.4 This includes security deposits received from foreign exchange dealers and money service providers.

24. CAPITAL AND RESERVES

24.1 Capital

According to Article 27 of the DAB Law, the authorised capital of the Bank is Afs 8,000 million or such higher amount as shall result form allocations from net profit pursuant to Article 29 of the DAB Law. The capital of the Bank is solely held by the Government of Islamic Republic of Afghanistan, and shall not subject to lien or encumbrances.

According to Article 29 of the DAB Law, if the Bank has a net profit for any financial year, it shall be allocated in the following order of priority:

a) To capital account of Da Afghanistan Bank (DAB) in such amount as shall be required to increase the authorized capital of the Bank to a level equivalent to five percent of the aggregate amount of monetary liabilities shown on the consolidated statement of financial position of the Bank for the end of that financial year;

b) To redeem the securities issued by the State to the Bank pursuant to Article 31 and held by the Bank;

c) To the General Reserve maintained by the Bank in such amount as shall be required to increase the amount of the General Reserve to a level equivalent to the amount of the authorized capital of the Bank; and

d) To any other reserve for specific purposes established by the Bank subject to the approval of the Minister of Finance.

24.2 Revaluation reserve

The Bank's revaluation reserve represents the cumulative unrealised gains on the revaluation of gold reserves at market prices, revaluation of freehold land at fair values and net unrealised valuation gains from available-for-sale financial assets at reporting date.

24.3 Residual undistributed net unrealised valuation gains

The Bank's residual undistributed net unrealised revaluation reserve is created under article 29 of the DAB Law. This represents the cumulative unrealised gains on the valuation of financial assets and liabilities at the closing exchange rate at the reporting date.

25. CONTINGENCIES AND COMMITMENTS

25.1 Contingencies

There are no outstanding financial guarantees and performance guarantees to third parties including the government.

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000') -----------	
25.2 Commitments			
Outstanding letter of credits		**3,595,284**	4,570,605
26. INTEREST INCOME			
Interest income on:			
Due from banks and financial institutions		**5,609,306**	4,136,318
Investments measured at FVOCI		**3,799,172**	2,936,554
Investments measured at amortised cost		**21,095**	64,423
Interest on LoLR	*11.1*	**95,782**	249,034
		9,525,355	7,386,329
27. INTEREST EXPENSE			
Interest expense on:			
Capital notes	*17.2*	**166,846**	108,298
Overnight deposits	*18.3*	**8,309**	19,416
		175,155	127,714
28. OTHER INCOME			
Regulatory income		**181,081**	146,422
Unwinding of discount on LoLR	*11.2*	**209,126**	529,312
Recovery of ECL / provision for impairment	*35.1.2*	**407,700**	353,814
Others		**9,725**	19,756
		807,632	1,049,304
29. PERSONNEL EXPENSES			
Salaries		**1,600,662**	1,395,631
Charge against defined contribution obligation		**111,312**	89,763
		1,711,974	1,485,394

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000') -----------	
30. OTHER OPERATING EXPENSES			
Repairs and maintenance		**46,260**	56,372
Rent		**10,101**	6,444
Auditor's remuneration		**3,759**	6,652
Consultancy fee		**28,909**	-
Staff training		**14,962**	19,054
Printing and stationery		**31,439**	21,805
Office supplies and maintenance		**11,224**	18,839
Transportation	*30.1*	**149,568**	13,853
Fee and subscription		**5,116**	5,129
Communication		**37,101**	109,227
Security services		**9,814**	9,552
Travelling		**37,154**	37,459
Write-off of inter-branch accounts	*30.2*	**26,117**	288,313
Utilities		**37,862**	33,282
Publications for public awareness		**25,924**	-
Others		**40,116**	35,184
		515,426	661,165

30.1 This includes foreign currency transportation cost amounting to Afs 129.192 million incurred during the year.

30.2 This represents the balances written off during the year as a result of the ongoing reconciliation process relating to the inter-branch accounts. These mainly include expenditures of the branches in the inter-branch accounts which have been charged to consoliadetd statement of profit or loss.

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000') -----------	
31. EXPENDITURE AGAINST GRANTS			
Depreciation	*13.2.4*	**99,318**	39,935
Amortisation		**19,926**	-
		119,244	39,935
32. CASH AND CASH EQUIVALENTS			
Foreign currency cash reserve	*8.1*	**19,583,336**	23,048,236
Deposits (having maturity of less than three months)		**221,888,490**	76,063,096
Current accounts with foreign banks	*9*	**45,776,760**	26,914,459
Overnight repo balance with foreign banks	*9*	**8,734,962**	2,361,101
Cash and bank balances held by the Subsidiary	*15*	**1,849**	-
		295,985,397	128,386,892

33. RELATED PARTIES

Transactions with related parties

The Bank is a Government entity and the Government of Islamic Republic of Afghanistan is the ultimate owner of the Bank. Related parties to the Bank include the Government of Islamic Republic of Afghanistan, various departments of the government, government controlled entities and enterprises. The Bank enters into transactions with related parties in its normal course of business and it is impracticable to disclose all transactions with related parties. Generally the Bank enters into the following transactions with the government and its related organizations.

(a) The Bank acts as a depository of the government or its agent, providing banking services to government, governmental organizations and enterprises;
(b) Issues letters of credit on behalf of government, governmental organisation and enterprises;
(c) The Bank does not ordinarily collect any commission, fees or other charges for the services which it renders to the government; and
(d) As an agent of the government, the bank manages foreign reserves.

Members of the Supreme Council
H.E Mr. Wahidullah Nosher, First Deputy and Acting Governor & Chairman of the Supreme Council
H.E Dr. Muhammad Naim Azimi, member of the Supreme Council
H.E Dr. Abdul Wakil Muntazer, member of the Supreme Council
H.E Dr. Shah Mohammad Mehrabi, member of the Supreme Council and Chairman of the Audit Committee
H.E Ms. Katrin Faqiri, member of the Supreme Council

Members of the Executive Board
H.E Mr. Wahidullah Nosher, First Deputy and Acting Governor & Chairman of Supreme Council
H.E Mr. Mohammad Qasim Rahimi, Second Deputy Governor

	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
Transactions with key management personnel	----------- (Afs in '000')	-----------
Key management personnel compensation		
Salary and other employee benefits	**21,337**	14,641

Compensation of the Bank's key management personnel includes salaries and benefits.

The transactions and outstanding balances related to key management personnel were as follows:

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		----------- (Afs in '000')	-----------
Loans to key management personnel			
Loans outstanding at beginning of the year		**19,095**	3,542
Loans advanced during the year		-	16,901
Loan repayments during the year		**(2,303)**	(1,348)
Loans outstanding at end of the year		**16,792**	19,095
Other related party transactions			
Assistance as lender of last resort			
Repayments received during the year	11.1	**7,100,000**	8,404,557
Balance outstanding at the year end	11.1	**166,793**	6,961,885
Advance for Afghanistan Deposit Insurance Corporation			
Balance outstanding at the year end	12.2	**500,000**	500,000
Government accounts			
Opening outstanding balance		**111,133,304**	94,409,729
Deposits during the year		**982,086,583**	895,609,590
Payments during the year		**(987,229,184)**	(878,886,015)
Closing outstanding balance		**105,990,703**	111,133,304

34. FINANCIAL ASSETS AND LIABILITIES

Classification of financial instrument and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities:

	Note	Assets at fair value through profit or loss	Assets at fair value through OCI	Assets at amortised cost	Total
		(Afs in '000')			
30 Qaws 1398 (21 December 2019)					
Financial assets					
Foreign currency cash reserves	8	-	-	**19,583,336**	**19,583,336**
Due from banks and financial institutions	9	-	-	**355,946,615**	**355,946,615**
Investments	10	-	**218,264,106**	-	**218,264,106**
Assistance as lender of last resort	11	-	-	**166,793**	**166,793**
Advances and other receivables	12	-	-	**1,103,394**	**1,103,394**
Other assets	15	-	-	**1,849**	**1,849**
		-	**218,264,106**	**376,801,987**	**595,066,093**
Financial liabilities					
Currency in circulation	16	-	-	**259,348,259**	**259,348,259**
Capital notes	17	-	-	**24,775,173**	**24,775,173**
Due from banks and financial institutions	18	-	-	**97,224,024**	**97,224,024**
Due to customers	19	-	-	**130,121,482**	**130,121,482**
IMF related liabilities	20	-	-	**3,003,600**	**3,003,600**
Defined contribution obligation	21	-	-	**1,769,903**	**1,769,903**
Provisions and other liabilities	23	-	-	**14,265,110**	**14,265,110**
		-	-	**530,507,551**	**530,507,551**
30 Qaws 1397 (21 December 2018)					
Financial Assets					
Foreign currency cash reserves	8	-	-	23,048,236	23,048,236
Due from banks and financial institutions	9	-	-	325,675,327	325,675,327
Investments	10	-	199,639,414	7,507,190	207,146,604
Assistance as lender of last resort	11	-	-	6,961,885	6,961,885
Advances and other receivables	12	-	-	1,135,631	1,135,631
Other assets	15	-	-	-	-
		-	199,639,414	364,328,269	563,967,683
Financial Liabilities					
Currency in circulation	16	-	-	228,055,578	228,055,578
Capital notes	17	-	-	33,698,650	33,698,650
Due from banks and financial institutions	18	-	-	90,651,239	90,651,239
Due to customers	19	-	-	136,516,279	136,516,279
IMF related liabilities	20	-	-	2,418,784	2,418,784
Defined contribution obligation	21	-	-	1,646,033	1,646,033
Provisions and other liabilities	23	-	-	9,967,892	9,967,892
		-	-	502,954,455	502,954,455

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

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

The table below sets out fair values of the Bank's financial assets and liabilities.

		21 Dec 2019 30 Qaws 1398		21 Dec 2018 30 Qaws 1397	
		Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	Note	(Afs in '000')			
Financial assets					
Foreign currency cash reserves	8	**19,583,336**	**19,583,336**	23,048,236	23,048,236
Due from banks and financial institutions	9	**355,946,615**	**355,946,615**	325,675,327	325,675,327
Investments	10	**218,264,106**	**218,264,106**	207,146,604	207,146,604
Assistance as lender of last resort	11	**166,793**	**166,793**	6,961,885	6,961,885
Advances and other receivables	12	**1,103,394**	**1,103,394**	1,135,631	1,135,631
Other assets	15	**1,849**	**1,849**	-	-
		595,066,093	**595,066,093**	563,967,683	563,967,683
Financial liabilities					
Currency in circulation	16	**259,348,259**	**259,348,259**	228,055,578	228,055,578
Capital notes	17	**24,775,173**	**24,775,173**	33,698,650	33,698,650
Due from banks and financial institutions	18	**97,224,024**	**97,224,024**	90,651,239	90,651,239
Due to customers	19	**130,121,482**	**130,121,482**	136,516,279	136,516,279
IMF related liabilities	20	**3,003,600**	**3,003,600**	2,418,784	2,418,784
Defined contribution obligation	21	**1,769,903**	**1,769,903**	1,646,033	1,646,033
Provisions and other liabilities	23	**14,265,110**	**14,265,110**	9,967,892	9,967,892
		530,507,551	**530,507,551**	502,954,455	502,954,455

The following table shows financial instruments recognised at fair value, analysed between those whose fair value is based on:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using 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: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The table below analyses financial instruments measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
	(Afs in '000')			
30 Qaws 1398 (21 December 2019)				
Due from banks and financial institutions	**-**	**355,570,353**	**-**	**355,570,353**
US treasury bonds and other securities	**182,929,450**	-	**-**	**182,929,450**
US treasury bonds	**4,075,418**	-	**-**	**4,075,418**
Bank for International Settlements Investment Pool - A	**29,825,310**	-	**-**	**29,825,310**
Shares in ECOTDB	-	-	**1,433,928**	**1,433,928**
Assistance as lender of last resort	-	-	**166,793**	**166,793**
Other assets	**-**		**1,849**	**1,849**
	216,830,178	**355,570,353**	**1,602,570**	**574,003,101**
30 Qaws 1397 (21 December 2018)				
Due from banks and financial institutions	-	325,675,327	-	325,675,327
US treasury bonds and other securities	167,358,572	-	-	167,358,572
US treasury bonds	11,260,386	-	-	11,260,386
Bank for International Settlements Investment Pool - A	27,362,725	-	-	27,362,725
Shares in ECOTDB	-	-	1,164,921	1,164,921
Assistance as lender of last resort	-	-	6,961,885	6,961,885
Other assets	-	-	-	-
	205,981,683	325,675,327	8,126,806	539,783,816

35. RISK MANAGEMENT POLICIES

The Supreme Council of the Group, chaired by the Governor, has the overall responsibility and oversight of the Group's risk management framework. The Group is primarily subject to credit, liquidity, market (interest and currency) risks and operational risk. The policies and procedures for managing these risks are outlined in notes 35.1 to 35.5. The Group has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and managing of these risks. In addition, International Monetary Fund (IMF) representatives visit the Bank periodically to advise senior management and the Governor on the management of these risks.

The Market Operations Department within the Bank is responsible for monitoring the Foreign Currency Reserves as per the Bank's Reserves Management Policy and Guidelines.

35.1 Credit risk management

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group, resulting in a financial loss to the Group. The Group's primary exposure to credit risk arises through investment in government securities, deposits with banks and financial institutions and investments in FVOCI financial assets. Credit risk arising from deposit with banks and financial institutions is managed by monitoring, reviewing and analyzing these deposits frequently. Investments are made in government securities, securities issued by government entities and other highly reputable organizations; periodic monitoring and review is carried out by the management. The Group manages credit risk arising from issuance of letters of credit by obtaining 100% margin against letters of credit.

Concentration of credit risk

The Group's concentration of credit risk exposure is as follows:

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		---------- (Afs in '000')	----------
Due from banks and financial institutions	9	**355,946,615**	325,675,327
Investments	10	**218,264,106**	207,146,604
Advances and other receivables	12	**1,103,394**	1,135,631
Other assets	15	**1,849**	-
		575,315,964	533,957,562

The Group neither enters into nor is a party to financial instruments and contractual obligations that, under certain conditions, could give rise to or involve elements of, market or credit risk in excess of that shown in the consolidated statement of financial position, such as interest rate swaps, forward foreign exchange contracts, financial guarantees, and commitments to extend credit.

The analysis below summarises the credit quality of the Group's liquid portfolio as on 21 December 2019:

Due from banks and term deposits rating by Rating Category

Short Term	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		---------- (Afs in '000')	----------
A-1+		**14.85%**	11.19%
A-1		**8.91%**	4.83%
A-2		**44.57%**	62.14%
A-3		**25.65%**	20.06%
B		**0.25%**	0.00%
Unrated		**5.77%**	1.78%
		100.00%	100.00%

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

The following table breaks down the Group's main credit exposure by geographical region. For this table, the Group has allocated exposures to the regions based on the country of domicile of counterparties.

	Due from banks and financial institutions	Investments	Advances and other receivables	Assistance as a LoLR	Total
	----------------------	----------------------	(Afs in '000')	----------------------	----------------------
30 Qaws 1398 (21 December 2019)					
Afghanistan	**-**	**-**	**1,103,394**	**166,793**	**1,270,187**
Asia	**98,259,614**	**-**	**-**	**-**	**98,259,614**
Europe	**161,122,031**	**31,259,238**	**-**	**-**	**192,381,269**
America	**96,564,970**	**187,004,868**	**-**	**-**	**283,569,838**
	355,946,615	**218,264,106**	**1,103,394**	**166,793**	**575,480,908**
30 Qaws 1397 (21 December 2018)					
Afghanistan	-	-	1,135,631	6,961,885	8,097,516
Asia	64,950,322	-	-	-	64,950,322
Europe	185,573,454	28,527,646	-	-	214,101,100
America	75,151,551	178,618,958	-	861,795	254,632,304
	325,675,327	207,146,604	1,135,631	7,823,680	541,781,242

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35.1.1 Credit risk measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. For risk management reporting purposes, the Group considers and consolidates loan size as an element of credit risk exposure. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

Expected credit loss measurement

IFRS 9 outlines a 'three-level' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial assets that is not credit-impaired on initial recognition is classified in 'Level 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial assets is moved to 'Level 2' but is not yet deemed to be credit-impaired.
- If the financial assets is credit-impaired, the financial instrument is then moved to 'Level 3'.
- Financial assets in Level 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Assets in Levels 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Level 3).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime PD as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group uses following criteria for determining whether there has been significant increase in credit risk:
- Quantitative test based on movement in PD; and
- Forbearance status.

"Forbearance" occurs upon restructuring, i.e. prolongation in payment terms of payment of interest or principal arising from a deterioration of a borrower's financial condition such that it is not the same as it was at the time of loan origination and a borrower has applied for a change in the payment scheme of the loan. Restructuring only occurs when the appropriate division of the Group is reasonably confident that a borrower is able to service the renewed payment schedule.

Multiple economic scenarios form the basis of determining the PD at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different PD. It is the weighting of these different scenarios that forms the basis of a weighted average PD that is used to determine whether credit risk has significantly increased. Forward-looking information includes the future prospects of Afghanistan economy obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

The contract is past due more than 30 days; or
The credit obligations reflected in the contract is unlikely to be paid to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

The following diagram summarizes the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Level 1	Level 2	Level 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit	Lifetime expected credit losses

35.1.2 Movement in Expected Credit Losses

The following table reconciles the expected allowance for credit losses for the year ended 21 December 2019 by classes of financial instruments:

	Due from Banks and Financial Institutions	Investments	Advances and other receivables	Total
	Note 9.4	Note 10.5	Note 12.5	
	(Afs in '000')			
Opening balance as at 21 December 2018	-	-	150,731	150,731
Impact on initial recognition of IFRS 9	800,647	8,571	-	809,218
Balance as at 22 December 2018	**800,647**	**8,571**	**150,731**	**959,949**
Expected credit (recovery) / loss	(424,386)	(1,655)	18,341	(407,700)
Balance as at 21 December 2019	**376,261**	**6,916**	**169,072**	**552,249**

35.1.3 Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:
- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data.

Probability of default (PD)

The Group defines a financial instrument as in default when the financial asset is credit - impaired and meets one or more of the following criteria:

Quantitative criteria
The borrower is more than 30 days past due on its contractual payments are considered default by the Group.

Qualitative criteria
- a breach of contract, such as default or past due event;
- the lenders of the counterparty have granted a concession to the counterparty for economic or contractual reasons;
- relating to the counterparty's financial difficulty that the lender would not otherwise consider;
- the likelihood or probability that the counterparty will enter bankruptcy or other financial reorganization; or
- the dissolution of an active market for that financial asset due to financial difficulties.

Exposure at default (EAD)

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. To calculate the EAD for a Level 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For Level 2 and Level 3 the exposure at default is considered for events over the lifetime of the instruments. The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

Loss given default (LGD)

Loss given default represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

Significant increase in credit risk

The Group considers a financial asset to have experienced a significant increase in credit risk when:

- credit Rating falls below investment grade in case of investments made in financial assets, or
- the contractual payments are 30 days past due.

Colateral and other credit enhancements

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees and demand promissory notes. The collaterals held against financials assets of the Group have been disclosed in their respective notes, where applicable.

35.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. In order to reduce the level of liquidity risk arising out of the local currency activities, the Bank manages the daily liquidity position of the banking system including advancing and withdrawal of funds from the system for smoothening out daily peaks and troughs.

The table below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

The maturity profile of the Bank's liabilities based on contractual maturities is given below:

	Note	Gross nominal inflow / outflow	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total carrying amount
		(Afs in '000')						
30 Qaws 1398 (21 December 2019)								
Financial assets								
Foreign currency cash reserves	8	19,583,336	19,583,336	-	-	-	-	19,583,336
Due from banks and financial institutions	9	355,946,615	144,892,961	132,167,199	78,886,455	-	-	355,946,615
Investments	10	218,264,106	-	-	380,138	217,883,968	-	218,264,106
Assistance as lender of last resort	11	166,793	-	-	166,793	-	-	166,793
Advances and other receivables	12	1,103,394	11,219	22,438	83,127	240,776	745,834	1,103,394
Other assets	15	1,849	1,849	-	-	-	-	1,849
		595,066,093	164,489,365	132,189,637	79,516,513	218,124,744	745,834	595,066,093
Financial liabilities								
Currency in circulation	16	259,348,259	-	-	-	-	259,348,259	259,348,259
Capital notes	17	24,775,173	6,533,217	8,282,550	9,959,406	-	-	24,775,173
Due to banks and financial institutions	18	97,224,024	73,897,466	-	22,934,516	392,042	-	97,224,024
Due to customers	19	130,121,482	126,526,198	3,595,284	-	-	-	130,121,482
IMF related liabilities	20	3,003,600	3,003,600	-	-	-	-	3,003,600
Defined contribution obligation	21	1,769,903	1,769,903	-	-	-	-	1,769,903
Provisions and other liabilities	23	14,265,110	14,265,110	-	-	-	-	14,265,110
		530,507,551	225,995,494	11,877,834	32,893,922	392,042	259,348,259	530,507,551
Net financial assets		1,125,573,644	390,484,859	144,067,471	112,410,435	218,516,786	260,094,093	64,558,542

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	Note	Gross nominal inflow / outflow	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total carrying amount
		(Afs in '000')						
30 Qaws 1397 (21 December 2018)								
Financial assets								
Foreign currency cash reserves	8	23,048,236	23,048,236	-	-	-	-	23,048,236
Due from banks and financial institutions	9	325,675,327	102,977,555	50,712,353	171,985,419	-	-	325,675,327
Investments	10	207,146,604	-	-	7,507,190	199,639,414	-	207,146,604
Assistance as lender of last resort	11	6,961,885	-	1,832,668	5,129,217	-	-	6,961,885
Advances and other receivables	12	1,135,631	12,503	23,871	141,904	833,709	123,644	1,135,631
Other assets	15	861,795	861,795	-	-	-	-	861,795
		564,829,478	126,900,089	52,568,892	184,763,730	200,473,123	123,644	564,829,478
Financial liabilities								
Currency in circulation	16	228,055,578	-	-	-	-	228,055,578	228,055,578
Capital notes	17	33,698,650	15,873,225	12,367,055	5,458,370	-	-	33,698,650
Due to banks and financial institutions	18	90,651,239	65,740,215	-	24,010,675	900,349	-	90,651,239
Due to customers	19	136,516,279	131,945,674	4,570,605	-	-	-	136,516,279
IMF related liabilities	20	2,418,784	2,418,784	-	-	-	-	2,418,784
Defined contribution obligation	21	1,646,033	1,646,033	-	-	-	-	1,646,033
Provisions and other liabilities	23	9,736,107	9,736,107	-	-	-	-	9,736,107
		502,722,670	227,360,038	16,937,660	29,469,045	900,349	228,055,578	502,722,670
Net financial assets		62,106,808	(100,459,949)	35,631,232	155,294,685	199,572,774	(227,931,934)	62,106,808

35.3 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. The Group is exposed to market risk, as a consequence of its operations to deliver its policy objectives as well as in the course of managing the Group's consolidated statement of financial position, principally through changes in the relative interest rates received on its assets and paid on its liabilities. Exposure may also be incurred to changes in exchange rates and to shifts in general market conditions, such as the liquidity of asset markets.

All market risk is managed within the Bank's Market Operations Department through Reserves Management Policy and Guidelines. The Group is exposed to interest rate risk principally via its investments in available for sale financial assets and short term deposits with other banks and financial institutions bought and held to maturity in normal circumstances with the intention of maintaining the value of the Group's capital and generating income to pay for the Group's policy functions.

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35.4 Interest rate risk exposure

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's investments and short term deposits with other banks and financial institutions are primarily linked to prevailing market conditions. All other liabilities of the Group are non interest bearing except the capital notes and overnight deposits included in due to banks and financial institutions.

The Group does not have any material positions in off-balance-sheet instruments, whose value can be affected by interest rate changes, such as swaps, futures, and forwards; option contracts, such as caps, floors, and options on futures; and firm forward commitments to buy or sell loans, securities, or other financial instruments.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's financial assets and liabilities at carrying or revalued amounts, categorised by earlier of contractual reprising of maturity dates. Non interest bearing financial instruments are shown for reconciliation purposes.

			Interest bearing						
	Note	Interest rates (P.A.)	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total	Non-interest bearing	Total
			(Afs in '000')						
30 Qaws 1398 (21 December 2019)									
Financial assets									
Foreign currency cash reserves	8	-	-	-	-	-	-	19,583,336	19,583,336
Due from banks and financial institutions	9	-0.04 - 2.95%	99,116,201	132,167,199	78,886,455	-	310,169,855	45,776,760	355,946,615
Investments	10	1.38 - 3.13%	-	-	380,138	186,624,730	187,004,868	31,259,238	218,264,106
Assistance as lender of last resort	11	2%	-	166,793	-	-	166,793	-	166,793
Advances and other receivables	12	-	-	-	-	-	-	1,103,394	1,103,394
Other assets	15	-	-	-	-	-	-	1,849	1,849
			99,116,201	132,333,992	79,266,593	186,624,730	497,341,516	97,724,577	595,066,093
Financial liabilities									
Currency in circulation	16	-	-	-	-	-	-	259,348,259	259,348,259
Capital notes	17	0.15 - 2.20%	6,533,217	8,282,550	9,959,406	-	24,775,173	-	24,775,173
Due to banks and financial institutions	18	0.1%	14,569,822	-	-	-	14,569,822	82,654,202	97,224,024
Due to customers	19	-	-	-	-	-	-	130,121,482	130,121,482
IMF related liabilities	20	-	-	-	-	-	-	3,003,600	3,003,600
Defined contribution obligation	21	-	-	-	-	-	-	1,769,903	1,769,903
Provisions and other liabilities	23	-	-	-	-	-	-	14,265,110	14,265,110
			21,103,039	8,282,550	9,959,406	-	39,344,995	491,162,556	530,507,551
On balance sheet interest sensitivity gap			78,013,162	124,051,442	69,307,187	186,624,730	457,996,521	(393,437,979)	64,558,542

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	Note	Interest rates (p.a)	Interest bearing: Less than 1 month	Interest bearing: 1 to 3 months	Interest bearing: 3 months to 1 year	Interest bearing: 1 to 5 years	Interest bearing: Total	Non-interest bearing	Total
			(Afs in '000)						
30 Qaws 1397 (21 December 2018)									
Financial assets									
Foreign currency cash reserves	8	-	-	-	-	-	-	23,048,236	23,048,236
Due from banks and financial institutions	9	-0.01-2.95%	76,063,096	50,712,353	171,985,419	-	298,760,868	26,914,459	325,675,327
Investments	10	0.875-3.63%	-	-	7,507,190	171,111,768	178,618,958	28,527,646	207,146,604
Assistance as lender of last resort	11	2%	-	1,832,668	5,129,217	-	6,961,885	-	6,961,885
Advances and other receivables	12	-	-	-	-	-	-	1,135,631	1,135,631
Other assets	15	-	-	-	-	-	-	861,795	861,795
			76,063,096	52,545,021	184,621,826	171,111,768	484,341,711	80,487,767	564,829,478
Financial liabilities									
Currency in circulation	16	-	-	-	-	-	-	228,055,578	228,055,578
Capital notes	17	0.15-0.91%	15,873,225	12,367,055	5,458,370	-	33,698,650	-	33,698,650
Due to banks and financial institutions	18	0.1%	10,780,835	-	-	-	10,780,835	79,870,404	90,651,239
Due to customers	19	-	-	-	-	-	-	136,516,279	136,516,279
IMF related liabilities	20	-	-	-	-	-	-	2,418,784	2,418,784
Defined contribution obligation	21	-	-	-	-	-	-	1,646,033	1,646,033
Provisions and other liabilities	23	-	-	-	-	-	-	9,736,107	9,736,107
			26,654,060	12,367,055	5,458,370	-	44,479,485	458,243,185	502,722,670
On balance sheet interest sensitivity gap			49,409,036	40,177,966	179,163,456	171,111,768	439,862,226	(377,755,418)	62,106,808

If the interest rate increase / decrease by 100 bps, the effect on profit for the year would have been Afs.4,579.965 million (1397: Afs.4,398.620 million) higher / lower respectively.

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35.5 Currency risk

Currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. Foreign currency activities result mainly from the Bank's holding of foreign currency assets under its foreign reserve management function. The overall level of these assets is determined based on the prevailing extent of credit and liquidity risks. In order to avoid losses arising from adverse changes in the rates of exchange, the Bank's compliance with the limits established for foreign currency positions is required to be monitored by the management. The Bank has not entered in to any foreign currency hedging transaction as at year end.

The Bank's exposure to foreign currency risk is as follow:

	Note	USD	Euro	GBP	PKR	AED	Others	AFN	Total
		(Afs in '000')							
30 Qaws 1398 (21 December 2019)									
Financial assets									
Foreign currency cash reserves	8	19,092,139	365,347	6,296	151	2,136	117,267	-	19,583,336
Due from banks and financial institutions	9	250,218,549	49,455,971	53,938,565	880,667	1,452,863	-	-	355,946,615
Investments	10	216,830,178	-	-	-	-	1,433,928	-	218,264,106
Assistance as lender of last resort	11	-	-	-	-	-	-	166,793	166,793
Advances and other receivables	12	-	-	-	-	-	-	1,103,394	1,103,394
Other assets	15	-	-	-	-	-	-	1,849	1,849
		486,140,866	49,821,318	53,944,861	880,818	1,454,999	1,551,195	1,272,036	595,066,093
Financial liabilities									
Currency in circulation	16	-	-	-	-	-	-	259,348,259	259,348,259
Capital notes	17	-	-	-	-	-	-	24,775,173	24,775,173
Due to banks and financial institutions	18	38,273,368	8,959,923	175,174	788	-	-	49,814,771	97,224,024
Due to customers	19	84,536,721	3,198,626	4,556	10,977	-	5,382	42,365,220	130,121,482
IMF related liabilities	20	-	-	-	-	-	2,916,581	87,019	3,003,600
Defined contribution obligation	21	-	-	-	-	-	-	1,769,903	1,769,903
Provisions and other liabilities	23	105,517	-	-	-	-	-	14,159,593	14,265,110
		122,915,606	12,158,549	179,730	11,765	-	2,921,963	392,319,938	530,507,551
Net foreign currency exposure		363,225,260	37,662,769	53,765,131	869,053	1,454,999	(1,370,768)	(391,047,902)	64,558,542

	Note	USD	Euro	GBP	PKR	AED	Others	AFN	Total
		(Afs in '000')							
30 Qaws 1397 (21 December 2018)									
Financial assets									
Foreign currency cash reserves	8	22,529,541	512,689	5,846	160	-	-	-	23,048,236
Due from banks and financial institutions	9	232,057,131	41,904,822	49,852,427	1,533,834	-	327,113	-	325,675,327
Investments	10	205,981,683	-	-	-	-	-	-	205,981,683
Assistance as lender of last resort	11	-	-	-	-	-	-	6,961,885	6,961,885
Advances and other receivables	12	-	-	-	-	-	-	1,135,631	1,135,631
Other assets	15	861,795	-	-	-	-	-	-	861,795
		461,430,150	42,417,511	49,858,273	1,533,994	-	327,113	8,097,516	563,664,557
Financial liabilities									
Currency in circulation	16	-	-	-	-	-	-	228,055,578	228,055,578
Capital notes	17	-	-	-	-	-	-	33,698,650	33,698,650
Due to banks and financial institutions	18	34,225,847	11,560,130	162,287	837	-	-	44,702,138	90,651,239
Due to customers	19	94,984,689	1,934,505	4,230	11,710	-	5,382	39,575,763	136,516,279
IMF related liabilities	20	-	-	-	-	-	2,336,942	81,842	2,418,784
Defined contribution obligation	21	-	-	-	-	-	-	1,646,033	1,646,033
Provisions and other liabilities	23	148,272	-	-	2,981	-	-	9,577,755	9,729,008
		129,358,808	13,494,635	166,517	15,528	-	2,342,324	357,337,759	502,715,571
Net foreign currency exposure		332,071,342	28,922,876	49,691,756	1,518,466	-	(2,015,211)	(349,240,243)	60,948,986

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35.5.1 Sensitivity analysis on foreign currency financial assets and liabilities

A 1% increase in the exchange rates of USD, Euro, GBP, PKR and UAE Dirham at 21 December 2019 would have increased / (decreased) equity and profit by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	USD	Euro	GBP	PKR	AED	Others	AFN	Total
	(Afs in '000')							
30 Qaws 1398 (21 December 2019)								
Effect of 1% increase in exchange rate								
Financial assets								
Foreign currency cash reserves	190,921	3,653	63	2	21	1,173	-	195,833
Due from banks and financial institutions	2,502,185	494,560	539,386	8,807	-	-	-	3,544,938
Investments	2,168,302	-	-	-	-	14,339	-	2,182,641
Other assets	-	-	-	-	-	-	-	-
	4,861,408	498,213	539,449	8,809	-	15,512	-	5,923,412
Financial liabilities								
Due to banks and financial institutions	382,734	89,599	1,752	8	-	-	-	474,093
Due to customers	845,367	31,986	46	110	-	54	-	877,563
IMF related liabilities	-	-	-	-	-	29,166	-	29,166
Defined contribution obligation	-	-	-	-	-	-	-	-
Provisions and other liabilities	1,055	-	-	-	-	-	-	1,055
	1,229,156	121,585	1,798	118	-	29,220	-	1,381,877
Effect on Equity / Profit	3,632,252	376,628	537,651	8,691	-	(13,708)	-	4,541,535

	USD	Euro	GBP	PKR	AED	Others	AFN	Total
	(Afs in '000')							
30 Qaws 1397 (21 December 2018)								
Effect of 1% increase in exchange rate								
Financial assets								
Foreign currency cash reserves	225,295	5,127	58	2	-	-	-	230,482
Due from banks and financial institutions	2,320,571	419,048	498,524	15,338	-	3,271	-	3,256,752
Investments	2,059,817	-	-	-	-	-	-	2,059,817
Other assets	8,618	-	-	-	-	-	-	8,618
	4,614,301	424,175	498,582	15,340	-	3,271	-	5,555,669
Financial liabilities								
Due to banks and financial institutions	342,258	115,601	1,623	8	-	-	-	459,490
Due to customers	949,847	19,345	42	117	-	54	-	969,405
IMF related liabilities	-	-	-	-	-	23,369	-	23,369
Provisions and other liabilities	1,483	-	-	30	-	-	-	1,513
	1,293,588	134,946	1,665	155	-	23,423	-	1,453,777
Effect on Equity / Profit	3,320,713	289,229	496,917	15,185	-	(20,152)	-	4,101,892

35.5.2 Effect of 1% decrease in exchange rates will have same effect on net unrealised gains / (losses) for both years but in opposite direction.

36. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Supreme Council of the Group on 16 March 2020 (26 Hoot 1398).

37. GENERAL

Figures have been rounded off to the nearest thousand, except as otherwise mentioned. UHY.

Syed Younas Sadat	**Wahidullah Noshe**	**Muhammad Qaseem Rahimi**
Chief Financial Officer	Acting Governor	2nd Deputy Governor