Grant Thornton

Afghan United Bank

Financial Statements for the year ended December 31, 2022

Auditors:

Grant Thornton Afghanistan
Member firm of Grant Thornton International Limited

Contents

Grant Thornton

Independent auditors' report

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To the Shareholders of Afghan United Bank

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

We draw attention to note 8.5.1 of the financial statements which describe the effects of suspension of "Assets Classification and Provisioning Regulations" by Da Afghanistan Bank. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.

Grant Thornton Afghanistan

Grant Thornton Afghanistan GTA

Grant Thornton Afghanistan
Chartered Accountants

Engagement Partner: Saqib Rehman Qureshi - FCA
Location: Kabul, Afghanistan
Date: March 23, 2023

AFGHAN UNITED BANK
Statement of Financial Position
As at December 31, 2022

	Note	2022	2021
		AFN '000'	
ASSETS			
Cash and balances with the Central Bank	5	1,941,982	1,615,302
Balances with other banks	6	6,768,499	6,609,547
Investments	7	1,057,162	1,682,585
Loans and advances to customers - net	8	4,807,993	5,767,935
Property and equipment	9	1,173,152	1,204,805
Intangible assets	10	13,602	18,900
Deferred tax asset - net	16	16,062	-
Other assets	11	2,369,155	4,568,144
Total assets		**18,147,607**	**21,467,218**
EQUITY AND LIABILITIES			
EQUITY			
Issued and paid up capital	12	1,925,210	2,022,030
Retained earnings		(97,907)	524,718
Revaluation reserve on property and equipment	13	660,319	671,151
Revaluation reserve on Available for Sale Investments		(75,903)	2,546
Total equity		**2,411,719**	**3,220,445**
LIABILITIES			
Deposits from customers	14	15,073,245	17,244,155
Borrowing from financial institution	15	192,881	296,533
Deferred tax liability - net		-	203,097
Provision for tax		-	54,915
Other liabilities	17	469,762	448,073
Total liabilities		**15,735,888**	**18,246,773**
Total equity and liabilities		**18,147,607**	**21,467,218**
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The annexed notes 1 to 30 form an integral part of these financial statements.

CHIEF FINANCIAL OFFICER	CHIEF EXECUTIVE OFFICER	CHAIRMAN BOS

AFGHAN UNITED BANK
Statement of Comprehensive Income
For the year ended December 31, 2022

	Note	2022	2021
		AFN '000'	
Mark-up/ return/ interest earned		58,928	508,126
Mark-up/ return/ interest expense		(51,648)	(52,779)
Net mark-up/ return/ interest income	*19*	**7,280**	**455,347**
Fee and commission income	*20*	664,251	328,149
Fee and commission expense		(3,561)	(13,965)
Net fee and commission income	*20*	**660,690**	**314,184**
Other income	*21*	(379,216)	545,197
Net operating income		**288,754**	**1,314,728**
Provision against non-performing loans and advances to customers	*8.5*	(462,971)	(314,775)
Net provision against investments, off balance sheet items and other assets		3,437	12,309
Loss on disposal of fixed assets		(1,039)	(1,043)
Depreciation	*9.4*	(170,494)	(163,994)
Amortization	*10*	(10,695)	(9,741)
Employee compensation	*22*	(238,949)	(238,430)
Operating lease expenses		(4,387)	(6,715)
Other expenses	*23*	(324,725)	(308,930)
Profit/Loss before tax		**(921,069)**	**283,409**
Income tax expense	*24*	190,793	(61,113)
Profit/Loss for the year		**(730,276)**	**222,296**
Other comprehensive income			
Other comprehensive income that will not be reclassified to the profit or loss			
Gain/Loss on remeasurement of available for sale investments		(98,004)	3,183
Related deferred tax		19,555	(637)
		(78,449)	**2,546**
Total comprehensive income/loss for the year		**(808,725)**	**224,842**

The annexed notes 1 to 30 form an integral part of these financial statements.

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CHIEF FINANCIAL OFFICER

CHIEF EXECUTIVE OFFICER

CHAIRMAN BOS

AFGHAN UNITED BANK
Statement of Changes in Equity
For the year ended December 31, 2022

	Share capital	Revaluation reserve on property and equipment	Revaluation reserve on Available for Sale Investments	Retained earnings	Total
			AFN '000'		
Balance as at January 01, 2021	2,022,030	756,767	-	216,806	2,995,603
Incremental depreciation on revaluation surplus on property and equipment- net of tax	-	(85,616)	-	85,616	-
Total comprehensive income for the year					
Profit for the year	-	-	-	222,296	222,296
Other comprehensive income	-	-	2,546	-	2,546
	-	-	2,546	222,296	224,842
Balance as at December 31, 2021	**2,022,030**	**671,151**	**2,546**	**524,718**	**3,220,445**
Balance as at January 01, 2022	2,022,030	671,151	2,546	524,718	3,220,445
Adjustment for revaluation surplus - note 12.3	(96,820)	76,198	-	20,622	-
Incremental depreciation on revaluation surplus on property and equipment- net of tax	-	(87,029)	-	87,029	-
Total comprehensive income for the year					
Profit/Loss for the year	-	-	-	(730,276)	(730,276)
Other comprehensive Income/Loss	-	-	(78,449)	-	(78,449)
	-	-	(78,449)	(730,276)	(808,725)
Balance as at December 31, 2022	**1,925,210**	**660,319**	**(75,903)**	**(97,907)**	**2,411,720**

The annexed notes 1 to 30 form an integral part of these financial statements.

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CHIEF FINANCIAL OFFICER

CHIEF EXECUTIVE OFFICER

CHAIRMAN BOS

AFGHAN UNITED BANK
Statement of Cash Flows
For the year ended December 31, 2022

	Note	2022	2021
		AFN '000'	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/Loss before tax		(921,069)	283,409
Adjustments for:			
Net impairment loss on financial assets		462,971	314,775
Net provision against investments, off balance sheet items and other assets		(3,437)	(12,309)
Depreciation	9.4	170,494	163,994
Amortization	10	10,695	9,741
Loss on disposal and de-recognition of fixed assets - net		1,039	1,043
		(279,307)	**760,653**
Increase in current assets			
Loans and advances to customers		496,971	(5,195)
Other assets		2,198,989	(1,708,204)
Decrease in current liabilities			
Deposits from customers		(2,170,910)	(1,515,400)
Other liabilities		19,419	(154,864)
Deferred tax		(219,159)	-
		46,003	**(2,623,010)**
Income tax paid		(52,894)	(34,446)
Net cash used in operating activities		**(6,891)**	**(2,657,456)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9.1 & 9.3	(14,860)	(55,440)
Modification in right-of-use assets		(8,906)	-
Purchase of intangible assets	10	(5,397)	(10,998)
Investments		625,423	911,721
Net cash generated from investing activities		**596,261**	**845,283**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	-
Borrowing from financial institution		(103,652)	296,533
Net cash generated from financing activities		**(103,652)**	**296,533**
Net (decrease)/ increase in cash and cash equivalents		485,718	(1,515,640)
Cash and cash equivalents, beginning of year		8,224,763	9,740,403
Cash and cash equivalents, end of year		**8,710,481**	**8,224,763**

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The annexed notes 1 to 30 form an integral part of these financial statements.

CHIEF FINANCIAL OFFICER	CHIEF EXECUTIVE OFFICER	CHAIRMAN BOS

1 STATUS AND NATURE OF BUSINESS

1.1 The Bank commenced its operations on 4 October 2007 under the license of commercial banking issued by Da Afghanistan bank (DAB) under the Law of Banking in Afghanistan. It is a full fledge bank principally engaged in the business of commercial banking with a network of 25 branches including two full fledge Islamic banking branches in different provinces of Afghanistan. The bank also holds license from Afghanistan Investment Support Agency (AISA) bearing license no: D-27284. The registered office of the Bank is located at Shahr-e-Naw, Kabul, Afghanistan.

2 STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the requirements of the Law of Banking in Afghanistan. In case requirements differ, the provisions of the Law of Banking in Afghanistan shall prevail.

2.2 Standards, amendments and interpretations to publish accounting standards that became effective in the current year

Amendment to standards issued and effective beginning 1 January 2022:

- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The above standards and interpretations do not have a significant impact on the financial statements and therefore the disclosure have not been made.

Da Afghanistan Bank (DAB) vide its circular number 298 dated Hamal 8, 1398 (March 28, 2019), initially deferred the applicability of IFRS 9 "Financial Instruments" till January 1, 2021. DAB in its communication dated January 12, 2021 has indefinitely delayed the implementation of IFRS 9.

2.3 Standards, amendments and interpretations to publish approved accounting standards that are not yet effective and have not been adopted early by the Bank

Standard and amendments	Effective date (annual period beginning on or after)
- IFRS 17: Insurance Contracts and related amendments to IFRS 17	1 January 2023
- IFRS 10 - Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized

- Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023

The above standards, amendments and interpretations are not expected to have a significant impact on the financial statements in the period of initial application and therefore the disclosures have not been made. Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. Management does not intend to adopt any of the above standards, interpretations, and amendments earlier than the applicable date.

3 BASIS OF PREPARATION

3.1 Basis of measurement

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

3.2 Use of critical accounting estimates and judgments

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following:

a) Note 7.5 Provision against investments
b) Note 8.5 Provision against non-performing loans and advances to customers
c) Note 9.1 Depreciation rates for property and equipment
d) Note 10.1 Amortization rates for intangible assets
e) Note 24 Income taxes

3.3 Functional and presentation currency

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless or otherwise stated.

4.1 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise of cash and balances with the Central Bank (unrestricted), balances with other banks and investments having original maturity of less than three months.

4.2 Financial instruments

Recognition, initial measurement and de-recognition

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

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

Classification and subsequent measurement of financial assets and financial liabilities

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

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

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

a) Classification, recognition and subsequent measurement of financial assets

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

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

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

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

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

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

The Bank writes off certain loans and advances when they are determined to be uncollectable.

b) Classification and subsequent measurement of financial liabilities

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

4.3 Investment in equity instruments

Investment in equity instruments is carried at cost less impairment if any.

4.4 Leased assets

The Bank as a Lessee

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

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

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

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

Measurement and recognition of leases as a lessee

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

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

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

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. The Bank has elected to account for short-term leases and leases of low value assets, i.e., less than AFN 750,000, using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment within operating fixed assets and lease liabilities have been included in other liabilities and disclosed in notes to the financial statement.

Extension options for leases

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

4.5 Loans and advances

Loans and advances are stated net of provisions against non–performing loans and advances. Specific and general provision are made based on an appraisal of the loan portfolio that takes into account Regulations and other directives issued by the Da Afghanistan Bank from time to time.

The provisions made / reversed during the year are charged to the statement of comprehensive income and accumulated provision is netted off against loans and advances. Loans and advances are written off when there is no realistic prospect of recovery or when the regulation requires.

In Murabaha transactions, the Bank purchases the goods through its agent or client and after taking the possession, sells them to the customer on cost plus profit basis either in a spot or credit transaction. Under Murabaha financing, funds disbursed for purchase of goods are recorded as 'Advance against Murabaha finance'. On culmination of Murabaha i.e., sale of goods to customers, Murabaha financing are recorded at the deferred sale price. Goods purchased but remaining unsold at the statement of financial position date are shown as inventories.

4.6 Property and equipment

Owned

Property and equipment are stated at cost or revalued amounts less accumulated depreciation and accumulated impairment losses thereon. Cost includes expenditure that is directly attributable to the acquisition of fixed assets. Furniture and fixtures, computer equipment and office equipment are stated at revalued amounts less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to profit or loss during the period in which they are incurred.

Surplus arising on revaluation is credited to the 'revaluation reserve' account (net of deferred tax) whereas deficit (if any) is adjusted against the balance in the above-mentioned surplus account. The revaluation is carried out with sufficient regularity to ensure that the carrying amount does not differ materially form that which would have been determined using fair value at the balance sheet date.

Surplus on revaluation of fixed assets (net of deferred tax) is transferred to retained earnings to the extent of incremental depreciation charged on related assets.

Land is not depreciated. Depreciation on all other fixed assets is calculated using the straight-line method to allocate their depreciable cost or revalued amount to their residual values over their estimated useful lives. The depreciation method, residual values and useful lives of fixed assets are reviewed and adjusted (if appropriate) at each balance sheet date. Net gains and losses on disposal or derecognition of fixed assets are included in statement of comprehensive income currently.

Depreciation

Depreciation is recognized in profit or loss account on straight-line basis from the month an asset is put in use over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

-	Office Buildings	20 years
-	Furniture and fixtures	5 years
-	Computer equipment	3.3 years
-	Vehicles	4 years
-	Office equipment	4 years

4.7 Intangible assets

Intangible assets include computer software which are capitalized on the basis of costs incurred to acquire and bring those to use for intended purpose. Subsequent expenditure on intangible asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

These costs are amortized over their expected useful lives using the straight-line method from the date it is available for use since this most closely reflects the pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful life of software is three to ten years. Amortization methods, useful lives and residual values are reassessed at each financial year end and adjusted, if appropriate.

4.8 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

4.9 Deposits

These are recorded at the amount of proceeds received.

4.10 Taxation

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

Current tax

Current tax is the expected tax payable or receivable on the taxable income for the year (using tax rates enacted or substantively enacted at the balance sheet date), and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on temporary differences relating to: (i) the initial recognition of goodwill; (ii) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and (iii) differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4.11 Employee compensation

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. The Bank does not provide any retirement benefits to its employees.

4.12 Foreign currency transactions

Transactions in foreign currencies are translated to AFN at exchange rates prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to AFN at the exchange rate prevailing at that reporting date. Foreign currency differences arising on retranslation are recognized in profit or loss.

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 transaction.

4.13 Interest income and expense

Mark-up /interest /return on advances and investments is recognized in the profit or loss using effective interest rate method, and in case of advances classified as doubtful or loss, mark-up is recognized on receipt basis. Mark-up /interest /return on rescheduled /restructured loans and advances and investments is recognized as permitted by DAB. Income from Murabaha is accounted for on a time proportionate basis over the period of Murabaha transaction. Gain or loss on sale of investments is recognized in profit or loss in the year in which these arise. The rentals from Ijarah are recognized as income over the term of the contract net of depreciation expense relating to the Ijarah assets.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

4.14 Fee and commission

Fees and commission income include account servicing fees and commission on transfers and are recognized as the related services are performed. Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

4.15 Lease payments

Payments under operating leases are recognized in profit or loss on straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

4.16 Provisions

Provisions for restructuring costs and legal claims are recognized when:

a) the Bank has a present legal or constructive obligation as a result of past events;
b) it is more likely than not that an outflow of resources will be required to settle the obligation; and
c) The amount has been reliably estimated.

Provision for guarantee claims and other off-balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations.

4.17 Off-setting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal 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.

4.18 Dividend and appropriations to reserves

Dividends and appropriations to reserves are recognized in the year in which these are approved, except appropriations required by the law which are recorded in the period to which they pertain.

	2022	2021
	AFN '000'	
5 CASH AND BALANCES WITH THE CENTRAL BANK		
In hand		
Local currency	757,290	444,806
Foreign currencies	407,712	439,921
	1,165,002	**884,727**
With Da Afghanistan Bank:		
Local currency current accounts	715,902	301,715
Foreign currency current accounts	61,071	428,852
Overnight deposit	8	8
	776,980	**730,575**
	1,941,982	**1,615,302**

	2022	2021
6 BALANCES WITH OTHER BANKS		
In Afghanistan-current accounts		
National Bank of Pakistan	671	775
Pashtany Bank	2,179	2,467
New Kabul Bank	36	42
Maiwand Bank	46,025	-
	48,910	**3,284**
In Afghanistan-saving accounts		
Islamic Bank of Afghanistan	**271**	**86**
Outside Afghanistan		
CSC Bank, Lebanon	62,174	110,826
Aktif Bank, Turkey	317,043	501,173
BMCE Bank, Spain	156,543	2,969,489
Nurol Bank, Turkey	2,442,179	1,307,916
Transkapital Bank, Russia	9,419	603,691
Ziraat Bank Uzbekistan	739,571	1,067,405
SBM Bank India	119,177	16,424
AL Salam Bank Bahrain	1,867,310	29,253
Orien Bank, Tajikistan	920,731	-
Yes Bank India	85,170	-
	6,719,318	**6,606,177**
	6,768,499	**6,609,548**

	Note	2022	2021
		AFN '000'	
7 INVESTMENTS			
Placements - held to maturity			
Ziraat Bank Uzbekistan		178,420	-
Islamic Bank of Afghanistan		-	518,650
AL Salam Bank Bahrain		267,630	311,190
	7.1	**446,050**	**829,840**
General provision	*7.6*	(4,461)	(8,298)
Total placements-net of provision		**441,590**	**821,542**
Sovereign Sukuks			
Available for sale	*7.2*	240,608	518,165
Held to maturity	*7.3*	-	40,712
		240,608	**558,877**
Investment in equity securities			
Available for sale	*7.4*	115,527	-
Investment in gold bullion			
Available for sale	*7.5*	259,437	302,166
Investment-net		**1,057,162**	**1,682,585**

7.1 This represents foreign currency fixed term placements under Islamic Wakala agreements carrying profit rates ranging from 1.85% to 2.00% (2021: 1.50% to 4.40%) per annum and having maturities up to June 2023 (2021: June 2022)

7.2 This represents investment in sukuks with Kindom of Saudi Arabia, UAE, and Dubai Islamic Bank having maturity ranging 2026 to 2030 (2021: 2022 to 2030) and carry profit rates ranging from 1.92% to 2.67% (2021: 1.92% to 7.13%) per annum.

7.3 This represents investment in the sukuks with Warba Bank, Kuwait amounting to AFN 35.6 million matured during the year and carried profit rate of 6.50% per annum.

7.4 This represents securities investment in autocallable notes with Barclays and Leonteq amounting to AFN 187.34 million with maturities during 2023 and carry interest ranging from 9.5% to 19.5% per annum.

7.5 This represents investment in gold, delivered under the custody of an specialized agent in UAE. The Bank can dispose the investment with ease and without incurring any other costs.

	2022	2021
	AFN '000'	
7.6 Particulars of provision against investments		
Opening balance	8,298	16,577
(Reversal) / Charge for the year	(3,838)	(8,279)
Write off during the year	-	-
	(3,838)	**(8,279)**
Closing balance	**4,461**	**8,298**

General provision is maintained against held to maturity placements as per the DAB's *Asset Classification and Provisioning Regulation* @ 1% of the gross amount of those investments.

	Note	2022	2021
		AFN '000'	
8 LOANS AND ADVANCES TO CUSTOMERS			
Conventional financing			
Running finance	*8.2*	4,363,250	5,148,498
Term finance	*8.3*	1,536,324	1,696,378
		5,899,574	**6,844,876**
Islamic financing			
Murabaha	*8.4*	160,578	186,714
Loans and advances to customers - gross		**6,060,152**	**7,031,590**
Provision against non-performing loans and advances	*8.5*	(1,252,159)	(1,263,655)
Loans and advances to customers - net of provision		**4,807,993**	**5,767,935**

8.1 Particulars of loans and advances to customers - gross

	2022	2021
In local currency	3,602,395	3,662,480
In foreign currencies	2,457,757	3,369,110
	6,060,152	**7,031,590**

8.2 These carry interest rate ranging between 10% to 15% (2021: 10% to 16%). These are secured against personal guarantees, mortgage of immoveable properties and hypothecation over stock in trade.

8.3 These carry interest rate at 10% to 15% (2021: 10% to 15%) per annum. These loans are secured against personal guarantees, mortgage of immoveable commercial and residential properties and assignment of receivables.

8.4 These represent sale and purchase agreements under which the Bank had paid finance for the purchase of goods and then sold the requisite goods to the customer on profit margin which is ranging from 12% to 15% (2021: 12% to 15%) per annum. These facilities are extended for the period of two months to five years (2021: two months to five years) and secured against personal guarantees, mortgage of immovable properties and goods supplied under the sale and purchase agreement.

	Note	2022	2021
		AFN '000'	
8.5 Particulars of provision against non-performing loans and advances to customers			
Opening balance		1,263,655	2,029,325
Charge for the year	*8.5.1*	462,971	314,775
Write off during the year		(363,581)	(1,490,009)
Impact of translation		(110,886)	409,564
		(11,496)	**(765,670)**
Closing balance		**1,252,159**	**1,263,655**

8.5.1 On December 22, 2021, Da Afghanistan Bank provided exemption to all banks from implementation of “Asset Classification and Provisioning Regulations” (ACPR) from July 2021 till the end of June 2022 and since then extended multiple times till February 2023. The charge for the current year is due to subjective classification proposed by Da Afghanistan Bank.

This regulation deals with provisioning against the loans and advances, suspension of interest on non-performing loans, re-possessed assets, classification of off-balance sheet items, classification of investments and other assets, credit risk management, etc. The objective was to protect the banking sector from imminent risk of default and finanical impact of current economic turmoil.

9 PROPERTY AND EQUIPMENT		2022	2,021
		AFN '000'	
Fixed assets - owned	9.1	1,044,358	1,160,286
Right of use assets - buildings	9.3	128,794	44,519
		1,173,152	**1,204,805**

9.1 Fixed assets - owned

	Land	Office Buildings	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
				AFN '000'			
COST/ REVALUED AMOUNTS							
Balance as at January 01, 2021	305,351	1,248,740	104,140	245,108	122,035	181,092	2,206,467
Additions during the year	-	-	432	16,450	1,255	14,088	32,225
Adjustments/ Write-off during the year	-	-	-	-	1,423	(1,164)	259
Balance as at December 31, 2021	**305,351**	**1,248,740**	**104,572**	**261,558**	**124,713**	**194,016**	**2,238,951**
Additions during the year	-	-	644	4,322	-	9,894	14,860
Adjustments/ Write-off during the year	-	(2,308)	-	-	4,704	-	2,396
Balance as at December 31, 2022	**305,351**	**1,246,433**	**105,216**	**265,880**	**129,416**	**203,910**	**2,256,207**
ACCUMULATED DEPRECIATION							
Balance as at January 01, 2021	-	462,711	77,359	181,244	95,375	128,977	945,666
Charge for the year	-	62,437	6,968	30,790	8,594	22,908	131,697
Adjustments/ Write-off during the year	-	-	-	-	1,423	(121)	1,302
Balance as at December 31, 2021	**-**	**525,148**	**84,327**	**212,034**	**105,392**	**151,764**	**1,078,664**
Charge for the year	-	62,408	6,593	32,778	8,424	19,544	129,746
Adjustments/ Write-off during the year	-	(1,269)	-	-	4,704	-	3,435
Balance as at December 31, 2022	**-**	**586,287**	**90,920**	**244,812**	**118,520**	**171,308**	**1,211,846**
WRITTEN DOWN VALUE AS AT							
- December 31, 2022	**305,351**	**660,146**	**14,296**	**21,067**	**10,896**	**32,602**	**1,044,358**
- December 31, 2021	305,351	723,592	20,244	49,524	19,320	42,252	1,160,287
Rate of depreciation in %		**5**	**20**	**33**	**25**	**25**	

9.2 The cost/ revalued amount of fully depreciated property and equipment still in use are as follows:

	Note	2022	2021
		AFN '000'	
Furniture and fixtures		73,178	63,994
Computer equipment		125,341	122,742
Vehicles		95,720	89,593
Office equipment		83,025	70,786
		377,264	**347,115**

9.3 Right of use assets - buildings

	Note	2022	2021
Cost			
Opening balance		173,268	164,229
Additions		35,258	23,215
Deletion during the year		(8,907)	(14,176)
Modification		8,906	-
Adjustment	*9.3.1*	34,336	-
Closing balance		**242,861**	**173,268**
Accumulated depreciation			
Opening balance		128,749	110,628
Depreciation expense for the year		40,748	32,297
Deletion during the year		(8,907)	(14,176)
Adjustment	*9.3.1*	(46,523)	-
Closing balance		**114,067**	**128,749**
Written down value		**128,794**	**44,519**

9.3.1 The adjustment made during the year by the management was to re-adjust the cost and accumulated depreciation on ROU to comply with IFRS 16 requirements.

9.4 Depreciation expense for the year

	2022	2021
	AFN '000'	
Fixed assets - owned	129,746	131,697
Right of use assets - buildings	40,748	32,297
	170,494	**163,994**

10 INTANGIBLE ASSETS

	2022	2021
	AFN '000'	
Cost		
Opening balance	271,619	260,621
Additions during the year	5,397	10,998
Closing balance	**277,016**	**271,619**
Accumulated amortization		
Opening balance	252,719	242,978
Charge for the year	10,695	9,741
Closing balance	**263,414**	**252,719**
Written down value	**13,602**	**18,900**

10.1 Intangible assets include computer software and licenses. The amortization rate of intangible assets is 33.33% (2021: 33.33%). The gross carrying amount of fully amortized intangible assets still in use is AFN 244,624 thousand (2021: AFN 238,165 thousand).

11 OTHER ASSETS

	Note	2022	2021
		AFN '000'	
Advances to suppliers and employees		17,054	16,416
Security deposits	*11.1*	628,887	744,519
Prepayments		19,124	10,607
Balances with Daman Investments		14,778	56,113
Receivable from Xpress Money and Money Gram		202,879	1,776,410
Restricted deposits with Da Afghanistan Bank	*11.2*	1,233,086	1,608,506
Income/ mark-up accrued	*11.3*	219,008	255,753
Advance Income Tax		23,317	22,559
BG Commission receivable		-	50,440
Others		11,021	26,822
		2,369,154	**4,568,144**

11.1 This includes payment for Property under Sarqolfi contracts amounting to AFN 132 million for the use of property for an indefinite period. The contracts allow the Bank to sell the Sarqulfi rights to a third party. However, under the terms of the Sarqulfi contracts, the title (i.e., Sharia Qabala) is not transferred to the Bank. DAB guidelines require appropriate legal document (like Sharia Qabala) for an asset to be recorded as a fixed asset.

This also includes margin money of AFN 446.05 million deposited with Pashtany Bank for a guarantee in favour of Da Afghanistan Breshna Sherkat (DABS) for the collection of electricity bills by the Bank on behald of DABS.

11.2 This represents statutory reserve maintained with DAB as minimum reserve in accordance with Banking Regulations issued by Da Afghanistan Bank. These minimum reserves carry no interest. During the year minimum reserve rates on deposits for AFN reduced from 8% to 6% and for foreign currency from 10% to 8%.

11.3 This includes the AFN 212.55 million interest receivables on loan and advances which is outstanding from August 2021. The interest receivable is not reversed due to suspension of ACPR as disclosed fully in note 8.5.1.

12 SHARE CAPITAL

12.1 Authorized capital

2022	2021		2022	2021
Number of shares			AFN '000'	
40,000,000	**40,000,000**	Ordinary shares of AFN 250 each	**10,000,000**	**10,000,000**

12.2 Issued and paid up capital

7,700,840	**8,088,120**	Ordinary shares of AFN 250 each fully paid in cash	**1,925,210**	**2,022,030**

12.3 During the current year, following the directions from DAB, through letter # 12525-10859, the share capital of the bank is reduced by AFN 96.820 million which was recorded in 2010 aginst the revaluation of fixed asset. This reduction in the capital of the bank has been transferred to the revluation reserves on the fixed assets.

13 REVALUATION RESERVE ON PROPERTY AND EQUIPMENT

	2022	2021
	AFN '000'	
Vehicles	32,442	32,442
Furniture and fixtures	30,377	30,377
Computer equipment	70,724	70,724
Office equipment	44,588	44,588
Land	294,916	231,996
Building	979,904	946,005
	1,452,952	**1,356,132**
Accumulated incremental depreciation	(582,969)	(475,317)
Related deferred tax liability	(209,664)	(209,664)
	660,319	**671,151**

14 DEPOSITS FROM CUSTOMERS

	Note	2022	2021
		AFN '000'	
Conventional			
Current deposits		8,202,092	8,998,402
Saving deposits	*14.1*	373,512	427,360
Term deposits	*14.2*	496,440	582,851
Margin deposits		3,041,346	3,324,515
		12,113,390	**13,333,128**
Islamic			
Current deposits		1,356,037	1,950,670
Saving deposits	*14.3*	622,667	950,089
Term deposits	*14.4*	449,006	484,461
Margin deposits		532,145	525,807
		2,959,855	**3,911,027**
		15,073,245	**17,244,155**

14.1 Saving deposits carry annual interest rate of 1% for USD and 3% for AFN accounts (2021: 0%)

14.2 Term deposits carry interest ranging from 1.6% to 4% (2021: 1.6% to 4%) per annum with maturity date ranging from three to twelve months (2021: three to twelve months).

14.3 The profit disbursed during the period on the Islamic saving deposits ranged from 0.17% to 0.30% (2021: 0.18% to 0.30%) per annum.

14.4 Profit distribution rates on Islamic term deposits during the year ranged from 2.1% to 2.49% (2021: 0.75% to 2.10%) per annum.

15 BORROWING FROM FINANCIAL INSTITUTION

The Bank obtained renewable Islamic financing from Daman Investments, UAE with lien on sukuk bonds, whereby the haircut and mark-up varies on quarterly basis.

		Note	2022	2021
			AFN '000'	
16	**DEFERRED TAX ASSET - NET**			
	Deferred tax (Asset) and liability on account of:			
	Property and equipment		(191,034)	(211,822)
	Intangible assets		(1,725)	(1,147)
	Surplus on Available for Sale Investments		18,917	(637)
	Lease Liability on buildings		22,883	10,509
	Carry forward losses		167,021	-
	Closing balance		**16,062**	**(203,096)**
	Reconciliation of deferred tax asset and liability is as follows:			
	Opening balance		(203,097)	(218,821)
	Reversal of tax expense - recognized in profit or loss		199,604	16,361
	Tax expense - recognized in OCI		19,555	(637)
	Closing balance		**16,062**	**(203,097)**
17	**OTHER LIABILITIES**			
	Creditors and accruals		38,254	31,924
	Withholding tax payable		4,702	2,432
	Lease Liability on buildings		114,415	52,547
	Murabaha risk and equalization reserve		87,397	83,401
	Mark-up/ return/ interest payable		27,358	29,929
	Deferred income on bank guarantees and letter of credits		19,694	51,793
	Profit in suspense		155,865	174,215
	Others		22,077	21,832
			469,762	**448,073**
18	**CONTINGENCIES AND COMMITMENTS**			
	LCs and BGs issued	*18.1*	**4,377,797**	**8,211,366**
	Un-used commitments		**303,909**	**294,498**

18.1 This include outstanding exposure in bank guarantees amounting to AFN 518 million (2021: 1,298 million) issued in Islamic mode.

	Note	2022	2021
		AFN '000'	
19 NET MARK-UP/ RETURN/ INTEREST INCOME			
Mark-up/ return/ interest earned			
- On loans and advances to customers		15,282	433,229
- On placements and balances with Da Afghanistan Bank		-	18,010
- On held to maturity investments		7,784	34,969
- On available for sale investments		10,786	6,797
- On overnight nostro deposits		25,076	15,036
- On Saving deposits		-	85
		58,928	**508,126**
Mark-up/ return/ interest expense			
- on borrowing from FI	*19.1*	(11,164)	(1,102)
- deposits from customers		(40,484)	(51,677)
		(51,648)	**(52,779)**
		7,280	**455,347**

19.1 This represent mark-up paid on leverage facility which carries a variable interest rate.

	Note	2022	2021
20 NET FEE AND COMMISSION INCOME			
Fee and commission income			
- Commission and processing fee on bank guarantees		58,197	164,103
- Commission and processing fee on letters of credit		183	2,558
- Funds transfer, account maintenance, and other service charges		605,871	161,488
		664,251	**328,149**
Fee and commission expense			
- Inter bank transaction fee		(3,561)	(13,965)
		660,690	**314,184**
21 OTHER INCOME			
Foreign exchange gain/ (loss) - net	*21.1*	(402,462)	405,326
Recovery of loans written off		2,516	95,080
Loan processing fee		-	16,814
Other income		20,730	27,977
		(379,216)	**545,197**
21.1 Foreign exchange gain/(loss) - net			
- On dealing in foreign currencies		710,308	503,656
- On translation of monetary assets and liabilities		(1,112,770)	(98,330)
		(402,462)	**405,326**

	Note	2022	2021
		AFN '000'	
22 EMPLOYEE COMPENSATION			
Salaries and wages		197,684	197,030
Remuneration to the Board of Supervisors		11,346	7,584
Other allowances and benefits		29,919	33,816
		238,949	**238,430**
23 OTHER EXPENSES			
Communication		18,786	24,828
Travelling and conveyance		3,249	3,105
Insurance	*23.1*	28,976	65,754
Advertisement		8,452	5,925
Fuel expenses		17,332	11,014
Food expenses		7,828	3,986
Audit and inspection fee		11,430	12,712
Repairs and maintenance		70,202	69,116
Legal and professional charges		2,301	1,109
Stationery and printing		12,057	7,547
Staff training		560	2,313
Utilities		17,251	14,810
Security services		31,162	42,595
Other expenses		95,139	44,116
		324,725	**308,930**

23.1 These represents charges against deposit insurance as required by the Central Bank and is payable to Afghan Deposit Insurance Corporation (ADIC) @ 0.15% (2021: at 0.35%) per annum of the total deposits.

24 INCOME TAX EXPENSE

The major components of tax expense and reconciliation of tax expense based on applicable tax rates of 20% (2021: 20%) is as follows:

	2022	2021
	AFN '000'	
Taxation:		
Current	-	77,474
Prior	8,811	-
Deferred	(199,604)	(16,361)
	(190,793)	**61,113**

25 RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

The Bank is owned by individual shareholders who owns the Bank's shares in different proportions.

Key management personnel

Key management personnel includes Board of Supervisors, Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Credit Officer, Chief Risk Officer and Chief Compliance Officer.

Transactions with related parties

Transactions and balances with related parties, including remuneration and benefits paid to key management personnel under the terms of their employment are as follows:

	Balances		Transactions	
	2022	2021	2022	2021
	AFN '000'			
Shareholders				
Deposit	2,097	2,391	-	-
Transactions with key management personnel				
Salary and other benefits	-	-	25,223	28,985
Fee to Board of Supervisors			11,346	7,584
Advance salary	137	137	-	-

25.1 In addition to salaries and remuneration, the Bank also provides non-cash benefits to executives which include furnished accommodation, meals and travel.

26 FINANCIAL ASSETS AND LIABILITIES

Categories of financial assets and financial liabilities

Note 26 provides a description of each category of financial assets and financial liabilities and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

	Note	Available for sale financial assets	Held for trading	Fair value through profit or loss	Held to maturity	Loans and receivables	Total
		(carried at fair value)			(carried at amortized cost)		
		AFN '000'					
December 31, 2022							
Financial assets							
Cash and balances with central bank	*5*	-	-	-	-	1,941,982	1,941,982
Balances with other banks	*6*	-	-	-	-	6,768,499	6,768,499
Investments	*7*	500,047	-	-	556,846	271	1,057,162
Loans and advances to customers	*8*	-	-	-	-	4,807,993	4,807,993
Other assets	*11*	-	-	-	-	2,332,977	2,332,977
		500,047	**-**	**-**	**556,846**	**15,851,720**	**16,908,612**

	Note	Derivatives used for hedging	Designated at FVTPL	Other liabilities at FVTPL	Other liabilities (amortized cost)	Total
		(carried at fair value)				
		AFN '000'				
Financial liabilities						
Deposits from customers	*14*	-	-	-	15,073,245	15,073,245
Borrowing from financial institution	*15*	-	-	-	192,881	192,881
Other liabilities	*17*	-	-	-	357,969	357,969
		-	**-**	**-**	**15,624,095**	**15,624,095**

	Note	Available for sale financial assets	Held for trading	Fair value through profit or loss	Held to maturity	Loans and receivables	Total
		(carried at fair value)			(carried at amortized cost)		
		AFN '000'					
December 31, 2021							
Financial assets							
Cash and balances with central bank	5	-	-	-	-	1,615,302	1,615,302
Balances with other banks	6	-	-	-	-	6,609,461	6,609,461
Investments	7	820,331	-	-	862,254	86	1,682,671
Loans and advances to customers	8	-	-	-	-	5,767,935	5,767,935
Other assets	11	-	-	-	-	4,541,121	4,541,121
		820,331	**-**	**-**	**862,254**	**18,533,905**	**20,216,490**

	Note	Derivatives used for hedging	Designated at FVTPL	Other liabilities at FVTPL	Other liabilities (amortized cost)	Total
		(carried at fair value)				
		AFN '000'				
Financial liabilities						
Deposits from customers	14	-	-	-	17,244,155	17,244,155
Borrowing from financial institution	15	-	-	-	296,533	296,533
Other liabilities	17	-	-	-	310,447	310,447
		-	**-**	**-**	**17,851,135**	**17,851,135**

The carrying values approximate fair values as mostly the assets and liabilities have short maturities and are expected to be recovered/settled at their carrying values except for lease liabilities for which liability repreent present value of future lease payments discounted at incremental borrowing rate.

27 FINANCIAL RISK MANAGEMENT

27.1 Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

a) credit risks
b) liquidity risks
c) market risks
d) operational risks

This note presents information about Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Supervisors has overall responsibility for the establishment and oversight of risk management framework of the Bank. The Board has established a Risk Management Committee to review and monitor the various risks faced by the Bank in the regular course of business and guide with suitable strategy and direction for mitigation. Different functional departments are entrusted with the ownership for management of these risks by implementing suitable systems & procedures duly to comply with the regulatory guidelines and laws.

The Bank has established Operational Risk Management Committee and Credit Risk Management Committee at Management level to review and monitor operational risk and credit risk respectively.

The Bank has put in place a Risk Management Policy for Conventional Banking, apart from a separate Islamic Banking Risk Management Policy to deal with the risks relating to Islamic Banking activities. The Bank has developed a stress testing policy covering Credit Risk, Market Risk, and Liquidity Risk, which is a forward looking exercise to evaluate the impact on the Bank's financial position under severe but plausible scenarios. The output shall be used for risk mitigation methods, contingency plans, capital and liquidity management plans in stressed circumstances.

In the overall process of risk management of various risks encountered by the Bank, certain tools, models, frameworks are developed for identification, assessment and monitoring of risks.

The Board's Audit and Risk Committees are responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit and Compliance departments whereas Risk Committee is provided frequent feedback by Risk Department.

a) Credit risk

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

Management of credit risk

The Bank has both Board of Management and Board of Supervisors level Credit Committees to mitigate the credit risks. Credit Department, reporting to the Credit Committee is responsible for managing the Bank's credit risk while the Board is responsible for oversight of same. The Credit Department is headed by the Chief Credit Officer (CCO). The Chief Credit Officer along with Credit Department staff look after credit risk matters and conduct portfolio analysis for managing credit risk.

The Bank has established and maintained a sound loan portfolio in terms of a well-defined credit policy approved by the Board. The credit evaluation system comprises of awell designed credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio.

The amount of credit risk is represented by the carrying amounts of the assets on the balance sheet date. Exposure to credit risk is managed through regular analyses of borrowers to meet interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed through personal guarantees of the borrowers and mortgage of immoveable properties duly registered with the court of law and hypothecation over stock duly verified by the Bank's Credit Officers on a monthly basis.

Exposure to credit risk

The Bank's maximum exposure to credit risk is the carrying amount of financial assets at the reporting date, as summarized below:

	2022	2021
	AFN '000'	
Classes of financial assets		
Balances with other banks	6,768,499	6,609,461
Investments	1,057,162	1,682,671
Loans and advances to customers	4,807,993	5,767,935
Other assets	1,099,891	2,932,615
Total carrying amounts	13,733,544	16,992,683

As at the balance sheet date, all of the loan portfolio of the Bank is recoverable and all the assets which are past due, are provided for as per DAB guidelines.

In addition to the above, the Bank has issued financial guarantees and letter of credits contracts for which the maximum amount payable by the Bank assuming all guarantees/ letter of credits (less margin) are called on, is AFN 3,171 million (2021: AFN 4,361 million).

The Bank's management considers that all the above financial assets that are not impaired or past due on the reporting dates under review, are of good credit quality. The credit risk for cash and balances with central bank, balances with other banks, investments and other assets are considered negligible.

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortized cost that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for the groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off policy

The Bank writes off loans or advances and any related allowances for impairment losses, when the loans are outstanding for more than 481 days, as per DAB regulation. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position or that proceeds from collateral will not be sufficient to pay back the entire exposure. Before allowing the loan to be written off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted.

The Bank holds collateral against loans and advances in the form of property documents, pledge of stocks and scratch cards, assignment of receivables and guarantees.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honor its obligation to deliver cash or other financial assets as contractually agreed.

Concentration of credit risks by industry

The Bank monitors concentrations of credit risk by industry. An analysis of concentrations of credit risk of loans and advances to customers at reporting date is as follows:

	Note	2022	2021
		AFN '000'	
Gros amount	*8*	**6,060,152**	**8,106,840**
Concentration by sector			
Construction		644,748	667,767
Livestock and farms		15,257	41,606
Services		2,379,620	2,844,137
Trade		2,279,355	2,700,609
Manufacturing		580,245	602,024
Others		160,927	175,447
		6,060,152	**7,031,591**

b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities that are settled by delivering cash or another financial assets.

Management of liquidity risk

The Board ensures that the Bank has necessary tools and framework to cater to the requirements of liquidity risk management and the Bank is capable to confronting uneven liquidity scenarios. The Bank's management is responsible for the implementation of sound policies and procedures, keeping in view the strategic direction and risk appetite specified by the Board. The Asset & Liability Committee (ALCO) is entrusted with the responsibility of managing the mismatch in maturities to ensure sufficient available cash flow to meet possible withdrawal of deposits, other commitment or challenges associated with sudden changes in market conditions, whilst enabling the Bank to pursue valued business opportunities. For day to day liquidity risk management, integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problems.

The Bank relies on deposits from customers as its primary source of funding. Deposits from customers generally have shorter maturities and a large proportion of them are repayable on demand. For day to day liquidity risk management, the management relies on several liquidity scenarios to ensure that the Bank is best prepared to respond to any unexpected problems. Currently Central Bank has improved morotorium on withdrawals with limited withdrawals allowed to individual and corporate customers.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquidity assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents less any deposits from banks. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's Regulator (Da Afghanistan Bank). Detail of the reported ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period was as follows:

	2022	2021
At the end of the year	52%	41%
Average for the year	51%	42%
Maximum for the year	58%	47%
Minimum for the year	41%	37%

Maturity analysis for financial liabilities

	Note	Carrying amount	Gross nominal outflow	Less than 1 month	1-3 months	3 months to 1 year	More than 1 to 5 years
		AFN '000'					
December 31, 2022							
Deposits from customers	14	15,073,245	(15,073,245)	(9,558,129)	(996,179)	(4,518,348)	(589)
Borrowing from financial institution	15	192,881	(192,881)		(192,881)		-
Other liabilities	17	469,762	(469,762)	(248,256)	-	(114,415)	(107,091)
		15,735,888	**(15,735,888)**	**(9,806,385)**	**(1,189,060)**	**(4,632,763)**	**(107,680)**
December 31, 2021							
Deposits from customers	14	17,244,155	(17,244,155)	(10,949,072)	(1,377,449)	(4,917,634)	-
Borrowing from financial institution	15	296,533	(296,533)		(296,533)		-
Other liabilities	17	448,073	(448,073)	(260,332)	-	(52,547.00)	(135,194)
		17,988,761	**(17,988,761)**	**(11,209,404)**	**(1,673,982)**	**(4,970,181)**	**(135,194)**

The above table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal out flow disclosed in the above table is the contractual, undiscounted cash flow on the financial liability.

c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/ issuer's credit standing), will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The overall authority for market risk management is vested in the Asset & Liability Committee (ALCO). The Bank's ALCO is responsible for the development of detailed risk management policies and day to day review of their implementation. Risk management Department's scope covers the market risk identification, evaluation and reporting back with its recommendation to the management.

Exposure to interest rate risk

The risk to which the Bank's portfolios are exposed, is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of change in market interest rates. Interest rate risk is managed principally through the monitoring of interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management Department in its day to day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolio is as follows:

	Note	Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
		AFN '000'					
December 31, 2022							
Investments	7	686,658	-	446,050	240,608	-	-
Loans and advances to customers	8	6,060,152	4,667,665	-	368,740	1,023,748	-
		6,746,810	**4,667,666**	**446,050**	**609,348**	**1,023,748**	-
Deposits from customers	14	**15,073,245**	**4,104,092**	**89,717**	**10,878,848**	**589**	-
Borrowing from financial institution	15	**192,881**	**192,881**	-	-	-	-
December 31, 2021							
Investments	7	1,388,803	518,672	311,190	558,942	-	-
Loans and advances to customers	8	7,031,590	4,188,875	1,075,226	213,718	1,553,771	-
		8,420,393	**4,707,548**	**1,386,416**	**772,660**	**1,553,771**	-
Deposits from customers	14	**17,244,155**	**3,945,001**	**143,640**	**13,154,925**	**589**	-
Borrowing from financial institution	15	**296,533**	**296,533**	-	-	-	-

Exposure to currency risk

The Bank's exposure to foreign currency risk based on notional amounts are as follows:

	Note	Total	AFN	USD	EURO	OTHERS
				AFN '000'		
December 31, 2022						
Cash and balances with central bank	5	1,941,982	746,529	426,777	36,121	732,556
Balances with other banks	6	6,768,499	1,981	5,977,686	564,500	224,331
Investments	7	1,061,622	-	1,061,622	-	-
Loans and advances to customers	8	6,060,152	3,602,395	2,457,757	-	-
Other assets	11	2,369,154	748,837	1,615,170	5,146	-
		18,201,409	**5,099,742**	**11,539,014**	**605,767**	**956,887**
Deposits from customers	14	(15,073,245)	(6,171,989)	(8,850,712)	(50,260)	(285)
Borrowing from financial institution	15	(192,881)	-	(192,881)	-	-
Other liabilities	17	(469,762)	(329,857)	(138,008)	(46)	(1,851)
		(15,735,888)	(6,501,846)	(9,181,601)	(50,306)	(2,136)
Net foreign currency exposure		**2,465,521**	**(1,402,105)**	**2,357,413**	**555,462**	**954,751**
December 31, 2021						
Cash and balances with central bank	5	1,615,302	746,529	680,365	181,193	7,215
Balances with other banks	6	6,609,461	1,981	5,977,686	564,500	65,294
Investments	7	1,690,969	-	1,690,969	-	-
Loans and advances to customers	8	7,031,590	3,662,480	3,369,110	-	-
Other assets	11	4,568,144	505,970	4,053,408	8,766	-
		21,515,466	**4,916,960**	**15,771,538**	**754,459**	**72,509**

Deposits from customers	*14*	(17,244,155)	(4,019,026)	(13,152,749)	(71,946)	(434)
Borrowing from financial institution	*15*	(296,533)	-	(296,533)	-	-
Other liabilities	*17*	(502,362)	(312,840)	(189,464)	(58)	-
		(18,043,050)	(4,331,866)	(13,638,747)	(72,003)	(434)
Net foreign currency exposure		**3,472,416**	**585,094**	**2,132,792**	**682,456**	**72,075**

Sensitivity analysis

	December 31, 2022		December 31, 2021	
	Average rate	**Reporting date rate**	**Average rate**	**Reporting date rate**
USD	89.87	89.21	84.47	103.73
EURO	95.06	94.46	98.47	113.36

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD and EURO at December 31, 2022 would have increased/ (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	December 31, 2022		December 31, 2021	
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
	AFN '000'			
USD	(188,593)	(235,741)	(170,623)	(213,279)
EURO	(44,437)	(55,546)	(54,596)	(68,246)

A 10% weakening of the Afghani against the above currencies at December 31, 2022 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

d) Operational risk

We define the operational risk as the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. With the evolution of Operations Risk Management into a separate distinct discipline, the Bank's strategy is to further strengthen its risk management system along new industry standards. Accordingly the Bank has set up a separate Operational Risk Management function within Risk Management department. The Bank's operational risk management process involves a structured and uniform approach across the Bank. It includes risk identification and assessments, the monitoring of Key Risk Indicators and Risk Control Self-Assessment activities for key operational risks.

28 CAPITAL MANAGEMENT

Regulatory capital
The Banks' regulator Da Afghanistan Bank sets and monitors capital requirements for the Bank. The capital adequacy of the Bank is assessed in two tiers as per regulations of the Da Afghanistan Bank.

- Tier 1 or core capital, consisting of the highest quality capital elements that fully meet all the essential characteristics of capital; to be 6% of risk weighted assets.

- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank as a going concern.

- Regulatory capital is the sum of Tier 1 and Tier 2 capital. Besides, Tier 2 capital cannot exceed from total amount of Tier 1 capital. The Bank complies with these regulations.

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

	2022	2021
	AFN '000'	
Tier 1 capital		
Total Equity	2,411,719	3,220,445
Less:		
Intangible assets	13,602	18,900
Net Deferred Tax Assets	16,062	-
Profit for the year	-	222,296
Revaluation reserve on property and equipment	660,319	671,151
Revaluation reserve on Available for Sale Investments	(75,903)	2,546
	614,080	**914,893**
Total tier 1 (core) capital	**1,797,639**	**2,305,552**
Tier 2 capital		
Profit for the year	-	222,296
Revaluation reserve on property and equipment	660,319	671,151
Revaluation reserve on Available for Sale Investments #		
Total tier 2 (supplementary) capital	**626,163**	**894,593**
Total regulatory capital	**2,423,802**	**3,200,145**
Risk-Weight Categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	1,165,002	884,727
Direct claims on DAB	2,010,066	2,339,081
Total	**3,175,068**	**3,223,808**
0% Risk-Weight Total (Above Total x 0%)	-	-

	2022	2021
	AFN '000'	
20% risk weight		
Loans Collateralized by Claims on Central Banks and Central Governments of Category A Countries	-	-
Direct Claims on banks licensed in Category A countries	156,543	2,969,489
Short-term Claims on Banks Licensed In Non-Category A Countries Guaranteed by Multilateral Lending Institutions	7,058,006	4,469,899
Cash Items in Process of Collection	-	-
Other	-	-
Total	**7,214,549**	**7,439,388**
20% Risk-Weight Total (Above Total x 20%)	**1,442,910**	**1,487,878**
100% risk weight		
All Other Assets	9,038,997	12,092,868
Minus: Intangible Assets	13,602	18,900
Net Deferred Tax Assets	16,062	-
Deducted Equity Investments	-	-
Total	**9,009,333**	**12,073,968**
100% Risk-Weight Total (Above Total x 100%)	**9,009,333**	**12,073,968**
Off-balance-sheet items with 0% Credit Conversion Factor		
Unused Portions of Commitments with Original Maturity of 1 Year or Less	303,909	294,498
Unused Portions of Commitments that are Unconditionally Cancelable	-	-
Total	**303,909**	**294,498**
0% Credit Conversion Factor Total (Above Total x 0%)	**-**	**-**
Off-balance-sheet items with 20% Credit Conversion Factor		
Commercial Letter of Credits		
0 % Risk Weight	-	14,269
20% Risk Weight	-	-
50% Risk Weight	-	-
100% Risk Weight	-	128,423
Total	**-**	**142,692**
Risk-Weighted Total	**-**	**128,423**
20% Credit Conversion Factor Total (Risk-Weighted Total x 20%)	**-**	**25,685**

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Notes to the Financial Statements
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	2022	2021
	AFN '000'	
Off-balance sheet items with 100% Credit Conversion Factor		
Guarantees and Standby Letter of Credits		
0 % Risk Weight	1,206,704	2,165,765
20% Risk Weight	-	-
50% Risk Weight	-	-
100% Risk Weight	3,171,094	5,902,908
Total	**4,377,797**	**8,068,673**
100% Credit Conversion Factor Total (Risk-Weighted Totals x 100%)	**3,171,094**	**5,902,908**
Total Risk-Weighted Assets	**13,623,336**	**19,490,438**
Tier 1 Capital Ratio	**13.20%**	**11.83%**
Regulatory Capital Ratio	**17.79%**	**16.42%**

29 General

Figures have been rounded off to the nearest thousand unless otherwise stated

30 APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the bank of supervisors for issue on 21-Mar-2023

GTA

CHIEF FINANCIAL OFFICER

CHIEF EXECUTIVE OFFICER

CHAIRMAN BOS