BANK-E-MILLIE

AFGHAN

Annual Audited Financial Statements

Along With Accompanying Information

For The Year Ended

21-December-2018 (30-Qaws-1397)

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Bank-e-Mille Afghan

Qualified Opinion

We have audited the financial statements of Bank-e-Mille Afghan ("the Bank"), which comprise the statement of financial position as at December 21, 2018, 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, except for the effects of the matters described in the Basis of Qualified Opinion Section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 21, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), the requirements of the Law of Banking in Afghanistan and Laws and Regulations issued by Da Afghanistan Bank (DAB).

Basis for Qualified 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 Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Afghanistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

1. The bank had invested in a wholly owned subsidiary "Afghan American Trading Co. Inc. (AATC) which has been carried at a cost of USD 2.2 Million (Afs. 164.890 Million). Further the bank has an outstanding current account balance of USD 2.2 Million (Afs. 164.890 Million) with AATC at year end. The bank has not prepared consolidated financial statements in respect of its above subsidiary as required under IFRS -10 'Consolidated Financial Statements' due to lack of financial information relating to its subsidiary. For the reason as disclosed in note 7.2.1 to the financial statements, we have not been able to obtain sufficient and appropriate audit evidence regarding the existence and recoverability of the above referred investment and the current account balance.

2. During the year error of omission was identified for investment in associates in Ariana Afghan Airline Company and Afghan National Insurance Corporation, consequently there has been recognized as per the requirements of International Accounting Standard – 08 "Accounting Policies, Changes in accounting estimates and Errors".

   However, due to non-availability of the audited financial statements of Ariana Afghan Airline Company since 2013, management was unable to recognize the effect of equity method of accounting on the basis of audited financials, therefore, the related effect has just been taken till 2015 on available management accounts. For Afghan National Insurance Company equity method of accounting has been applied till 2016 on audited financial statements and for 2017 management accounts has been taken for recognizing equity method of accounting as required by International Accounting Standard – 28 "Investment in associates and joint venture".

Emphasis of Matter – Khair khwa Property

As more fully explained in note No. 10.3 of the financial statement, during the year bank has transferred the investment property to Ministry of Finance (MoF). At the time of transference re-measurement were different from the revaluation report of the said property. Currently management is in the process of seeking Da Afghanistan Bank

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Approval for the additional identified surplus on the property and have also initiated the process of revaluation of all other investment properties and fixed assets. Our opinion is not qualified for 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there is five key audit matter to communicate in our report.

The key audit matter	How the matter was addressed in our audit
Conclusion of prior year tax assessment for the period from 2010 to 2015	
During the year income tax authorities have concluded their tax assessment for the tax years 2010 to 2015 indicating disallowances of Afs. 1,520.218 Million for the period from 2013 to 2015. Consequently, amounting to Afs. 326.767 Million was paid against total assessment. Payment was inclusive of unrecognized tax exposure and penalties for an amount of Afs. 147.424 Million.	Our audit procedures in this area included, among other; • Reviewed the tax assessment report for tax year under audit; • Re-calculated all the disallowed expenses indicated in the tax assessment report on the basis of relevant Articles of Afghanistan Income Tax Law (AITL) 2009; • Re-calculated the tax and penalty liability on the basis of accurate past due days and rates as per AITL 2009; • Verified that all the payments have been made by the bank against the relevant tax assessment. • Ensured that the relevant effects have been taken appropriately in the books of account as per International Accounting Standard (IAS) – 12 " Income taxes"; • Reviewed the assumptions taken for the working of potential tax exposures including the corporate tax and penalty liability for the tax year ended 2016 to 2018; • Re-calculated the potential exposure with the assumption on the basis of latest tax assessment report by tax authorities. • Reviewed that deliberated revenue concealments, undermining of allowable expenses, any fraudulent activity, delays in submission of income tax returns and incorrect submission of tax returns were not made by the bank. • Reviewed the pertinent disclosures as per the requirements of the International Accounting Standard – 12 "Income taxes".
Voluntary Liquidation of Afghan National Credit and Finance – London	
During the year one of banks' subsidiary i.e. Afghan National Finance and London (ANCF) had ceased off its operations and voluntary liquidation was started on the basis of latest audited financial statements as at March 20, 2018. Resultantly an unrecoverable amount of GBP 503,299 has been recognized as impairment loss against investment in subsidiary in these financial statements.	• Reviewed the ANCF Directors decision regarding liquidation; • Reviewed the Board of Supervisors resolution regarding the liquidation; • Obtained the last financial statements of ANCF prepared on break up basis as at March 20, 2018; • Verified that all the payments have been made by ANCF and subsequently received by bank against the liquidation; • Obtained and reviewed all the documents related to property transfer in the name of bank; • Re-calculated the impact of impairment loss against the investment; • Adjusted the related recognized amounts of exchange fluctuation reserve and its related deferred tax as per requirements of relevant accounting standards;

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	• Reviewed the Board approval for transference of acquired property under liquidation to Islamic banking window investment property; • Reviewed the pertinent disclosures as per the requirements of the International Accounting Standard – 21 "The Effects of Changes in Foreign Exchange Rates", 27 "Separate financial statements", 28 "Investment in associates and joint ventures" and 12 "Income taxes".
Transfer of Investment property to Ministry of Finance and changes in Share holding pattern	
During the year bank had transferred open land area of Khair Khwa investment property to Ministry of Finance (MoF) after due approvals of Da Afghanistan Bank (DAB) and Board of Supervisors (BoS) of the bank. Consequently, after mutual approval of shareholders total revalued amount of Afs. 1,108.208 Million has been adjusted in the form of dividend to MoF and related shareholdings of other parties are duly adjusted as a result of this transaction. Resultantly, MoF shareholding has been reduced from 97.193% to 94.082% in these financial statements.	• Reviewed all the correspondence between bank and Ministry of Finance as initiated in prior year; • Reviewed correspondence between DAB and bank for seeking the approval for transference of investment property; • Reviewed the approvals granted and subsequent changes as made by the Board of Supervisors of the bank; • Reviewed the total revalued amount according to the area specified in the latest available revaluation report of the Khare Khwa property; • Reviewed and re-calculated the impairment recognized as a result of security breached event at the site prior to the final transference; • Reviewed the updated measurement documentation as conducted by the representatives of Ministry of Urban Development, Ministry of Finance and bank management; • Reviewed the de-recognition of the investment property and related revaluation gain as recognized in the prior years against the Khare Khwa property; • Reviewed the resolution of shareholders as approved for amendments in shareholding pattern as a result of this transaction; • Reviewed the pertinent disclosures as per the requirements of International Financial Reporting Standards – 01 "Presentation of the financial statements" and International Accounting Standard – and 12 "Income taxes" and 40 "Investment Properties" and
Rectification of error for recognition of investment in associates as per International Accounting Standard – 08 "Accounting policies, changes in accounting estimates and errors"	
During the year management has rectified an error of omission for recognition of investment in associates i.e. Afghanistan National Insurance Corporation (ANIC) and Ariana Afghan Airline Company, having shareholding of 7.66% and 6. 25% respectively. Management has now recognized these investments based on the evidences of payment made in prior years, omission was made to ensure the appropriate recognition of these investment in associate in books of account.	• Reviewed the related evidence of confirmation as received and addressed to the bank in the year 2009 by ANIC and Article of Association of Ariana Afghan Airline Company as amended in 2012; • Reviewed the latest available audited financial statements of the companies; • Circularized independent confirmations to the parties; • Reviewed the investments in line with the requirements of International Accounting Standard – 28 "Investment in associates and joint ventures"; • Reviewed the pertinent disclosures as per the requirements of International Accounting Standard – 08 " Accounting policies, changes in accounting estimates and errors".

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Mandatory Departure from IFRS – 9 "Financial Instruments"	
As explained in note 2.2 of these financial statements, management has not adopted the implications of International Financial Reporting Standard – 9 "Financial Instruments"	• No further procedures were required to perform.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), the requirements of the Law of Banking in Afghanistan and Laws and Regulations issued by Da Afghanistan Bank (DAB) 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 Responsibility

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 the users taken on the basis of these financial statements.

For the matters communicated with those charged with governance, we determine the matter that was of the most significant in the audit of the financial statements of the current period and is, therefore, the key audit matter. We describe these matters in our auditor's report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Crowe Horwath Afghanistan, Auditors and Business Advisors (A member firm of Crowe Global) website at: www.crowe.com . This description forms part of our auditor's report.

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Auditors and Business Advisors
Kabul, Afghanistan

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Afghanistan
30 MAR 2019
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BANK-E-MILLIE AFGHAN
Statement of Financial Position
As at 21-December-2018 (30-Qaws-1397)

	Note	2018	2017	Re-stated 2016
		30-Qawas-1397	30-Qawas-1396	30-Qawas-1395
Assets		..........................'Afs'........................		
Cash and Cash Equivalents	5	29,215,408,104	33,320,673,941	26,465,421,568
Long Term Murabaha Deposit	5.6	45,420,010	-	-
Loans and Advances to Customers - Net	6	3,875,153,241	2,889,153,749	2,662,578,675
Investments	7	932,570,468	1,119,444,004	1,075,163,893
Property and Equipment's	8	1,190,608,751	1,190,063,060	1,184,860,020
Intangible Assets	9	15,354,066	22,893,285	31,352,141
Investment Properties	10	3,050,513,275	4,082,594,410	4,082,521,861
Non-Current Asset Held for Sale		7,017,349	-	-
Other Assets	11	3,547,306,410	4,025,455,857	2,613,359,324
Total Assets		41,879,351,674	46,650,278,306	38,115,257,482
Liabilities				
Deposits from Bank and Customers	12	33,341,120,487	35,882,804,380	27,760,008,878
Current Tax Liability	13	98,540,238	133,329,240	186,921,586
Deferred Tax Liability - Net	14	644,220,670	891,013,541	905,821,769
Other Liabilities	15	539,097,111	428,815,601	326,922,782
Total Liabilities		34,622,978,506	37,335,962,762	29,179,675,015
Equity				
Share Capital	16	1,000,000,000	1,000,000,000	1,000,000,000
Retained Earnings		5,421,871,391	7,466,751,061	7,060,061,674
Surplus on Revaluations - Net	17	792,247,503	792,247,503	845,612,175
Exchange Translation Reserves	18	34,313,024	47,375,730	21,967,368
General Reserve		7,941,250	7,941,250	7,941,250
Total Equity		7,256,373,168	9,314,315,544	8,935,582,467
Total Liabilities and Equity		41,879,351,674	46,650,278,306	38,115,257,482
Contingencies and Commitments	19	-	-	-

The annexed notes from 01 to 44 form an integral parts of these financial statements.

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

A. Aziz Babakarkhail

BANK-E-MILLIE AFGHAN
Statement of Profit or Loss
For the Year Ended 21-December-2018 (30-Qaws-1397)

	Note	2018 30-Qawas-1397	2017 30-Qawas-1396	Re-stated 2016 30-Qawas-1395
			'Afs'	
Interest Income and Expenses				
Interest Income	21	806,164,053	1,159,390,261	992,046,626
Interest Expense	22	(111,055,517)	(213,671,129)	(131,203,584)
Net Interest Income		695,108,536	945,719,132	860,843,042
Commission Income and Expenses				
Commission Income	23	220,264,886	213,759,479	132,751,849
Commission Expense	24	(10,178,189)	(19,448,341)	(29,595,464)
Net Commission Income		210,086,697	194,311,138	103,156,385
Other Income				
Realized Exchange Gain		123,282,587	37,429,892	81,448,076
Unrealized Exchange Gain / (Loss)		36,855,156	34,873,133	(97,072,028)
Gain on revaluation of investment properties		-	-	3,436,838,772
Other Operating Income	25	324,212,444	295,515,814	350,651,397
Total Other Income		484,350,187	367,818,839	3,771,866,217
Total Operating Income		1,389,545,420	1,507,849,109	4,735,865,644
Operating Expenses				
Impairment (Gain)/Loss on Loans - Net	6	42,810,088	531,424,063	190,614,344
Provision Charge on Off Balance Sheet items		1,184,400	-	-
Provision Charge on Other Assets	11	11,008,206	2,387,676	-
Personnel Expenses	26	264,043,629	244,925,973	193,906,099
Depreciation on Fixed Assets	8	18,348,789	17,974,851	18,171,383
Amortization of Intangibles Assets	9	8,918,519	8,881,044	8,821,031
Other Expenses	27	287,030,810	239,409,175	211,045,043
Total Operating Expenses		633,344,441	1,045,002,782	622,557,900
Total Operating Profit		756,200,979	462,846,327	4,113,307,744
Impairment (Loss) on investment		(55,084,315)	(733,680)	(10,162,727)
Share in profit of associate		63,635,136	10,022,917	352,048,615
		8,550,821	9,289,237	341,885,888
Profit Before Taxation		764,751,800	472,135,564	4,455,193,632
Taxation	28	(81,547,435)	(136,170,931)	(928,272,323)
Profit for the Period		683,204,365	335,964,633	3,526,921,309

The annexed notes from 01 to 44 form an integral parts of these financial statements.

A. Azizbakala

Chairman BOS	Chief Executive Officer	Chief Financial Officer

BANK-E-MILLIE AFGHAN
Statement of Comprehensive Income
For the Year Ended 21-December-2018 (30-Qaws-1397)

	2018	2017	Re-stated 2016
	30-Qawas-1397	30-Qawas-1396	30-Qawas-1395
	..........................'Afs'..........................		
Net Profit	683,204,365	335,964,633	3,526,921,309
Items that are or may be reclassified to profit or loss:			
Exchange gain / (loss) arising on translation of net investment	**27,897,832**	31,760,453	(52,029,117)
Deferred tax attributable to exchange gain / (loss)	**(5,579,566)**	(6,352,091)	10,405,824
	22,318,266	25,408,362	(41,623,293)
Loss / De-recognition of revaluation of property and equipment	-	(66,705,839)	(85,832,283)
Deferred tax attributable to loss on revaluation of	-	13,341,168	17,166,457
	-	(53,364,671)	(68,665,826)
Items that will never be reclassified to profit or loss:			
Share in associate's reserves	**(8,455,873)**	3,168,528	39,213,481
Deferred tax on share in associate's reserves	**1,691,175**	(633,706)	(7,842,696)
	(6,764,698)	2,534,822	31,370,785
Remeasurement gain /(loss)on defined benefit plan	**(23,445,981)**	1,855,116	(12,178,506)
Deferred tax on remeasurement gain /(loss)	**4,689,196**	(371,023)	2,435,701
	(18,756,785)	1,484,093	(9,742,805)
Total Other comprehensive loss	**(3,203,217)**	**(23,937,394)**	(88,661,139)
Total comprehensive income	**680,001,148**	**312,027,239**	**3,438,260,170**

The annexed notes from 01 to 44 form an integral parts of these financial statements.

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

BANK-E-MILLIE AFGHAN
Statement of Changes in Equity
For the Year Ended 21-December-2018 (30-Qaws-1397)

	Note	Share capital	Retained earnings	Revaluation surplus	Exchange translation reserve	General Reserve	Total
				'Afs'			
Balance as at 30 Qaws 1394 (21 December 2015)		1,000,000,000	3,511,512,385	914,278,001	63,590,661	-	5,489,381,047
Profit for the year - Restated	39	-	3,526,921,309	-	-	-	3,526,921,309
Other comprehensive income - Restated	39	-	21,627,980	(68,665,826)	(41,623,293)	-	(88,661,139)
Recoginition of AAA and ANI investment		-	-	-	-	7,941,250	7,941,250
Balance as at 30 Qawas 1395 (21 December 2016)		1,000,000,000	7,060,061,674	845,612,175	21,967,368	7,941,250	8,935,582,467
Balance as at 30 Qawas 1395 (21 December 2016)		1,000,000,000	7,060,061,674	845,612,175	21,967,368	7,941,250	8,935,582,467
Reversal of revaluation reserve of IBW		-	66,705,839	-	-	-	66,705,839
Profit for the year		-	335,964,633	-	-	-	335,964,633
Other comprehensive income		-	4,018,915	(53,364,671)	25,408,362	-	(23,937,394)
Balance as at 30 Qawas 1396 (21 December 2017)		1,000,000,000	7,466,751,061	792,247,503	47,375,730	7,941,250	9,314,315,544
Balance as at 30 Qawas 1396 (21 December 2017)		**1,000,000,000**	**7,466,751,061**	**792,247,503**	**47,375,730**	**7,941,250**	**9,314,315,544**
Profit for the year		**-**	**683,204,365**	**-**	**-**		**683,204,365**
Transfer to Profit and Loss			**-**		**(35,380,972)**	**-**	**(35,380,972)**
Other comprehensive income		**-**	**(25,521,483)**	**-**	**22,318,266**	**-**	**(3,203,217)**
Dividend paid:							**-**
Transfer of investment property to Ministry of finance (MoF)		-	**(1,108,208,690)**	-	-	-	**(1,108,208,690)**
In cash		-	**(1,594,353,862)**	-	-	-	**(1,594,353,862)**
Balance as at 30 Qawas 1397 (21 December 2018)		**1,000,000,000**	**5,421,871,391**	**792,247,503**	**34,313,024**	**7,941,250**	**7,256,373,168**

Chairman BOS

Chief Executive Officer

Chief Financial Officer

BANK-E-MILLIE AFGHAN
Statement of Cash Flows
As at 21-December-2018 (30-Qaws-1397)

	Note	2018 30-Qawas-1397	2017 30-Qawas-1396
CASH FLOWS FROM OPERATING ACTIVITIES		......................Afs......................	
Profit before taxation		**764,751,800**	472,135,564
Adjustments for:			
Depreciation	8	**18,348,789**	17,974,851
Amortization	9	**8,918,519**	8,881,044
Associates profit / (Loss)	7.4	**(63,635,136)**	(10,022,917)
Impairment of investments	7.1.1	**55,084,315**	733,680
Net impairment loss on loans and advances	6.2	**42,810,088**	531,424,063
Unrealized gain / (loss)		**(36,855,156)**	(34,873,133)
Provision for other assets	11.4	**12,192,606**	2,387,676.00
Provision for retirement benefit		**4,101,200**	11,017,700
		40,965,225	527,522,964
		805,717,025	**999,658,528**
(Increase)/decrease in operating assets and liabilities:			
Loans and advances to customers		**(985,999,492)**	(226,575,074)
Other assets		**471,992,836**	(1,412,096,533)
Deposits from banks and customers		**(2,541,683,893)**	8,122,795,502
Other liabilities		**(14,029,766)**	101,892,819
		(3,069,720,315)	6,586,016,714
Tax Paid		**(353,483,260)**	(198,587,157)
Retirement benefit paid		**(19,644,703)**	(11,846,210)
		(373,127,963)	(210,433,367)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**(2,637,131,253)**	7,375,241,875
CASH FLOWS FROM INVESTING ACTIVITIES			
Placements with Banks and DAB	5.4.1	**1,732,336,926**	1,613,678,960
Placements with Banks	5.4.2	**(1,804,217,889)**	(4,867,188,012)
Purchase of intangible assets	9	**(1,379,300)**	(422,188)
Capital expenditure in investment properties	8	**(3,235,585)**	(72,549)
Purchase of property and equipment	10.2	**(19,112,129)**	(23,177,892)
NET CASH USED IN INVESTING ACTIVITIES		**(95,607,977)**	(3,277,181,681)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid/ Decleared		**(1,594,353,862)**	-
NET CASH USED IN FINANCINING ACTIVITIES		**(1,594,353,862)**	-
Net increase in cash and cash equivalents		**(4,327,093,092)**	4,098,060,194
Cash and cash equivalents at beginning of year		**22,147,138,718**	18,049,078,524
Cash and cash equivalents at end of year	20	**17,820,045,626**	22,147,138,718

A. Azizabalel

Chairman BOS | **Chief Executive Officer** | **Chief Financial Officer**

1. STATUS AND NATURE OF OPERATIONS

Bank-e-Millie Afghan (the Bank) is domiciled in The Islamic Republic of Afghanistan. The Bank was incorporated in 1935 and it has been granted license for commercial banking by Da Afghanistan Bank (DAB) on 26 June 2004. The Bank also obtained a private investment license on 08 November 2004 under the Law of Domestic and Foreign Investment and is primarily engaged in the business of banking as mentioned in Law of Banking in Afghanistan. Ministry of Finance is the majority shareholder of the Bank having shareholding of 94.82%. The Bank has 36 branches (2017: 36 branches) in operation.

The registered office of the Bank is at Pashtanistan Square, Kabul, Afghanistan.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and the Law of Banking in Afghanistan and the directives issued by DAB. Whenever the requirement of the Law of Banking in Afghanistan differs with the requirements of the IFRS, the requirement of the Law of Banking in Afghanistan takes precedence.

Bank-e-Millie Afghan holds one wholly owned subsidiaries namely 'Afghan American Trading Co. Inc.'. As per International Financial Reporting Standard (IFRS) 10 'Consolidated Financial Statements', being a parent, Bank-e-Millie Afghan is required to prepare consolidated financial statements, but the same cannot be prepared by the management, due to non-availability of latest audited financial statements of the subsidiaries for the reasons disclosed in note 7.1.

2.2 Mandatory Departure

Mandatory departure of International Financial reporting Standards (IFRS) - 9 "Financial Instruments" as resolved in commercial banks Consultative Group (CBCG) meeting held in Da Afghanistan Bank (DAB) on December 5, 2018, implications of IFRS-9 have been deferred till 2021. Further deliberations of financial decisions would be communicated in the respective years.

2.3 Basis of measurement

The financial statements have been prepared on the historical cost basis except for investment property, land and building which are measured at revalued amount.

2.4 Functional and presentation currency

These financial statements are presented in Afghani, which is the Bank's functional currency. The amounts in the financial statements have been rounded to the nearest Afghani.

2.5 Use of estimates and judgments

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

a) **Provision for loan losses**

The Bank reviews loans to customer balances monthly for possible impairment and records the provision for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in note 6. The Bank maintains a general provision of 1% (2017: 1%) against outstanding loan and advances to customers as at the period end.

b) **Provision for income taxes**

The Bank recognizes tax liability in accordance with the provisions of Income Tax Law 2009. The final tax liability is dependent on assessment by Ministry of Finance, Government of Islamic Republic of Afghanistan.

c) **Useful life of property and equipment and intangible assets**

The Bank reviews the useful life, depreciation method and residual value of property and equipment and intangible assets at each statement of financial position date. Any change in estimates may affect the carrying amounts of the respective items of property and equipment and intangible assets with a corresponding effect on the depreciation / amortization charge.

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

a) Useful lives of property and equipment
b) Impairment of loans and advances to customers
c) Taxation
d) Revaluation of the investment property and property plant and equipment
e) Provision for retirement benefit

3 Standards, interpretations and amendments to approved accounting standards that are not yet effective

The following revised standards, amendments and interpretations with respect to the approved accounting standards would be effective from the dates mentioned below against the respective standard or interpretation:

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

Standards, interpretations and amendments with no significant effect;	**Effective Date**
IFRIC-23: uncertainty over tax treatments	Janaury 01, 2019
Prepayments features with negative compensations - Amendments to IFRS 9	Janaury 01, 2019
Annual improvements to IFRS standards 2015 - 2017 cycle - Various Standards	Janaury 01, 2019
Amendments to references to conceptual framework in IFRS standards	Janaury 01, 2019
Amendment to IFRS-17 "Insurance Contracts"	Janaury 01, 2019
Amendment to IFRS-16 "Leases"	Janaury 01, 2019
Amendment to IFRS - 19 Employees benefits	Janaury 01, 2019
Amendment to IAS- 28 "Investments in associates and joint ventures"	Janaury 01, 2019

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2019 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and cash equivalents

Cash and cash equivalents include cash in hand, balance held with DAB, balance in Nostro accounts, placements 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 Bank in the management of its short-term commitments.

4.2 Financial assets and liabilities

Recognition

The Bank initially recognises loans and advances to customers and deposits from customers on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

De-recognition

The Bank de-recognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank de-recognises a financial liability when its contractual obligations are discharged or cancelled or expired.

The Bank also de-recognises certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet 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.

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

Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or 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.

Identification of measurement of impairment

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

The Bank considers evidence of impairment at a specific asset level and also collectively. 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 then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

In determining the potential loss in specific loans, groups of loans, or in the aggregate loan portfolio, all relevant factors are considered including, but not limited to: current economic conditions, historical loss experience, delinquency trends, the effectiveness of the Bank's lending policies and collection procedures, and the timeliness and accuracy of its loan review function.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount, (if applicable).

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

4.3 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 recognised if the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

4.4 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in income statement except to the extent that it relates to items recognised directly in equity, if any, in which case it is recognised in equity.

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

Deferred tax is provided 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 measured at the 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 to the extent that it is probable that future taxable profits will be available against which temporary difference 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.

4.5 Foreign currency

4.5.1 Foreign currencies transactions and translations

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate prevailing at that date, with the exchange gain or loss on translation recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of transaction. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when fairvalue was measured. For those non monetary items for which gain or loss is recognised in other comprehensive income, the exchange gain loss arising on translation is also recognised in other comprehensive income. While, for those for non monetary items for which gain or loss is recognised in profit or loss, the exchange gain loss arising on translation is also recognised in profit or loss.

4.5.2 Foreign operations

Net investment in foreign subsidiaries is translated to Afghani at the reporting date. Foreign currency differences are recognized directly in other comprehensive income.

4.6 Interest

Interest income and expense are recognised in 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 to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

Interest income and expense presented in profit or loss comprise of interest on financial assets and liabilities at amortised cost on effective interest rate basis.

4.7 Fee and commission

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

Other fee and commission income, including account servicing fee, funds transfer fee and placement fee, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fee are recognised on a straight-line basis over the commitment period.

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

4.8 Rental income

Rental income from investment property is recognised in profit or loss on accrual basis.

4.9 Dividend income

Dividend income is recognized on the date when the Bank's right to receive payment is established.

4.10 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are initially recognised at fair value plus incremental direct transaction cost and subsequently measured at their amortized cost using the effective interest method less allowance for impairment.

Loans and advances classified as loss are written off as required by DAB's regulations.

All loans and advances are classified in accordance with the regulations of DAB.

4.11 Murabaha

In Murabaha transactions, the Bank purchases the goods and after taking the possession, sells them to the customers on cost plus mark-up basis either in a spot or credit transaction. Profit on Murabaha is recognised on receipt basis. Profit on murabaha transactions for the period from the date of disbursement to the date of culmination of murabaha is recognised immediately upon the later date.

4.12 Investments

Investment in subsidiaries are initially recognised at cost, being the aggregate of fair value at the date of acquisition and any cost directly attributable to the acquisition. Investment in subsidiaries are subsequently carried at cost less accumulated impairment losses, if any. Foreign exchange difference on investment in foreign subsidiaries is recognized in equity.

Investments in associates, where the Company has significant influence but not control, are accounted for by using the equity method of accounting. These investments are initially recognised at cost, thereafter the Company's share of the changes in the net assets of the associates are accounted for at the end of each reporting period less impairment loss, if any. Share of profit and loss of associate is accounted for in the Company's profit and loss account, whereas changes in the associate's equity which has not been recognised in the associates profit and loss account, are recognised directly in equity of the Company. The goodwill relating to an associate arising on the acquisition of the investment is included in the carrying value of the investments.

After the application of equity method including recognising the associates losses, the Company determines whether it is necessary to recognise any additional impairment loss with respect to its net investment in associate by comparing the entire carrying amount including goodwill with its recoverable amount i.e. the higher of value in use or fair market price less cost to sell.

4.13 Property and equipment

Recognition and measurement

Items of property and equipment except for land and building are measured at cost less accumulated depreciation and impairment losses, if any, except for land and building which are described below separately.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located.

Land and building are carried under revaluation model, wherein fair value of each item of land and building is determined every year and the resulting increase / decrease in value is recorded in "surplus / (deficit) on revaluation of property and equipment" in equity. Surplus / (deficit) on revaluation of property and equipment is reported in equity, net of deferred tax and incremental depreciation. Incremental depreciation is the excess depreciation arising due to increase in carrying value of the asset due to revaluation and is recognised in profit or loss every year.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognized in profit or loss on a straight line basis over the useful life of an item of property and equipment. The estimated useful lives of the items of property and equipment for the current and comparative periods are as follows:

Land and Building	50 years
Furniture, fixtures and office equipment	5 years
Computer equipment	5 years
Vehicles	20 years
Books	20 years

Depreciation is charged on property and equipment on the basis of days the asset is being used during the year. Gains and losses (if any) on disposals are determined by comparing proceeds with the carrying amount and are taken to the profit or loss.

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

Capital work-in-progress

Capital work in progress is stated at cost less impairment losses, if any.

4.14 Intangible assets

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

Subsequent expenditure on the software is capitalized only when it is expected that it will increases the future economic benefits embodied in the asset. All other expenditures are recognised in profit or loss as incurred.

Amortization is recognized in profit or loss over the useful life of the asset, using straight line method. Amortization is charged from the month the asset is available for use. Gain and loss (if any) on disposal is determined by comparing proceeds with the carrying amount and is recognised in profit or loss.

Amortization method, useful life and residual value are reviewed at each financial year-end and adjusted if appropriate.

4.15 Investment property

The Bank is carrying its investment properties at fair values determined in the year 1386 (2007). In 1393 (2014), the Bank conducted a revaluation exercise for its investment properties and submitted the same to DAB for approval. During the year ended 30 Qaws 1394 (21 December, 2015), DAB through its letter no. 4952 / 5165 dated 19 Jadi 1394 (09 January 2016), has allowed the Bank to take the revaluation impact at value reduced by 20% from the market value assessed by the valuer, for those properties only for which the Bank has Qabala (local title deed) available. The total market value (reduced by 20%) assessed by the valuer in year 1393 (2014) for the properties, for which the Bank has Qabala available is Afs. 3,995,000,341. While the market value (reduced by 20%) assessed by the valuer in year 1393 (2014), for the properties for which the Qabala is not available with the Bank is Afs 626,428,835.

However, the management has decided not to take the impact of revaluations of the properties for which Qabala is not available with the management. Further, due to non-availability of property wise book value, the bank has proportioned the total book value of its investment properties on the basis of proportionate market value of respective property. The management has further decided to arrange court orders for properties for which the Qabala is not available with the Bank to recognise the impact of revaluation in the books.

4.16 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

4.17 Employee benefits

Defined benefit plan

The Bank operates a pension scheme for its current and former employees entitled to pension after normal retirement (65 years of age or 40 years of service), voluntary retirement (55 years of age and 25 years of service), disability and in case of death, their legal heirs. Pension is based on formula which takes into account the years of service, average salary and a percentage and in case of death or disability, number of salaries depending upon the years of service. Deductions are made at the rate of 8% from the monthly salary of employees and the Bank contributes an equivalent amount. Liability of the Bank for this scheme is calculated on the basis of actuarial valuation using the Projected Unit Credit Method. Actuarial gains or losses are recognised in accordance with the requirements of IAS-19 (Revised). The last actuarial valuation of the scheme was carried out as at 21 December 2018.

		Note	30-Qaws-1397	30-Qaws-1396
			..................Afs..................	
5	**CASH AND CASH EQUIVALENTS**			
	Cash in hand	5.1	**2,057,946,616**	2,655,595,386
	Balances with Da Afghanistan Bank	5.2	**3,937,076,300**	7,404,545,256
	Balances with other banks and financial institutions	5.3	**880,425,227**	493,286,842
	Placements	5.4	**22,339,959,961**	22,767,246,457
			29,215,408,104	33,320,673,941
5.1	**Cash in hand**			
	Local Currency	5.1.1	**769,451,693**	1,034,262,680
	Foreign Currency	5.1.2	**1,285,445,542**	1,618,746,011
	Cash in ATM - AFN		**1,687,000**	1,207,060
	Cash in ATM - USD		**1,217,938**	1,245,192
	Investment in Gold Coins	5.1.3	**134,443**	134,443
	Cash Counter at Ministry of Commerce and Industries	5.1.4	**10,000**	-
			2,057,946,616	2,655,595,386

5.1.1 These represent the afghani cash in vault of all branches including main branch as at 30-Qawas-1397.

5.1.2 These represent the foreign currencies balances in vault of all branches including main branch and consist of the following currencies:

Cash in Vault (U.S Dollar)	**520,686,851**	1,037,701,874
Cash in Vault (Sterling)	**16,139,622**	17,699,477
Cash in Vault (PAK Rupees)	**87,086**	206,036
Cash in Vault (Euro)	**748,531,983**	563,138,624
	1,285,445,542	1,618,746,011

5.1.3 These represent gold coins in the vault acquired in the early years after inception of BMA in Afghanistan. Currently management has revalued these items from local association of Gold Smits. However, the related revaluation effect has not been taken in these financial statements.

5.1.4 These represent cash at counter located at Ministry of Commerce and Industries (MOCI) opened during last quarter of 2018.

		Note		
5.2	**Balances with Da Afghanistan Bank**			
	Local currency			
	Current Account	5.2.1	**1,078,625,712**	1,469,010,075
	Overnight Account	5.2.2	**2,200,054,878**	3,898,338,612
			3,278,680,590	5,367,348,687
	Foreign Currency			
	Current Account	5.2.3	**658,395,710**	2,037,196,569
			658,395,710	2,037,196,569
			3,937,076,300	7,404,545,256

5.2.1 The current accounts held with DAB are interest free.

5.2.2 This represents overnight deposit facility provided by DAB. These deposits earn interest at rates 0.10% p.a. (2017:rate applicable to 7 days capital notes reduced by 1%) p.a.

5.2.3 These represent the foreign currencies account maintained with Da Afghanistan Bank (DAB) of some Provincial branches and main branch and consist of the following currencies:

US Dollars	**375,175,447**	2,015,861,847
Sterling	**160,085,095**	14,649,520
Pak - Rupee	**624,578**	740,370
Euro	**122,510,590**	5,944,832
	658,395,710	2,037,196,569