GHAZANFAR BANK
AUDITED FINANCIAL STATEMENTS FOR THE PERIOD FROM 01 JANUARY, 2016 TO 20 DECEMBER 2016

Crowe Horwath
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INDEPENDENT AUDITORS' REPORT

To the shareholders of Ghazanfar Bank

Opinion

We have audited the financial statements of Ghazanfar Bank ("the Bank"), which comprise the statement of financial position as at December 20, 2016, 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 financial statements present fairly, in all material respects, the financial position of the Bank as at December 20, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), the Law of Banking in Afghanistan, directivities issued by the Central Bank of Afghanistan (DAB) and the Islamic Accounting Standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Basis of 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 opinion.

Key Audit Matters

We have determined that there are two key audit matters to communicate in our report;

1. During our audit following deficiencies in the Code of Corporate Governance of the bank were observed;
   a) Vacant / unapproved key positions were observed, however, CEO and CFO were appointed and approved before the year end as specified below;

1.	Chief Executive Officer (unapproved)	From January 01, 2015 to November 08, 2016
2.	Chief Financial Officer (unapproved)	From February 16, 2016 to July 31, 2016
3.	Chief Internal Auditor (Vacant)	From August 01, 2016 to December 20, 2016
4.	Chief Risk Officer (Vacant)	From November to December 2016

   b) As per requirements of Article 56.1 of Law of Banking in Afghanistan minimum number of Board of Members were not ensured i.e. Dy. CEO and Chief Credit Officer.

2. In the absence of income tax depreciation calculation for prior years we were unable to quantify accelerated depreciation, its resultant temporary difference effect and adjustment of deferred tax liability in these financial statements as required by IAS "12" Income Taxes.

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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) and with the requirements of the Law of Banking in Afghanistan, directives issued by the Central Bank of Afghanistan (DAB) and the Islamic Accounting Standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), 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.

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

Horwath MAK

Auditors and Business Advisors

Kabul

Crowe Horwath
Horwath MAK هـــوروات مــالك
03 MAR 2017
Auditors & Business Advisor
Kabul, Afghanistan

GHAZANFAR BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 20, 2016

As At December 20, 2016	As At December 31, 2015		Note	As At December 20, 2016	As At December 31, 2015
...... USD '000'				.... Afs '000'	
		ASSETS			
68,134	58,919	Cash and cash equivalents	5	**4,554,090**	4,043,040
169	250	Investment in equity instruments	6	**11,323**	17,155
21,101	7,933	Investments - Held to Maturity	7	**1,410,419**	544,391
34,606	39,106	Loans and advances	8	**2,313,036**	2,683,421
3,976	4,226	Property and equipment	9	**265,756**	290,003
16	29	Intangible assets	10	**1,084**	1,965
11,581	10,280	Other assets	11	**774,075**	705,402
139,584	120,743	**Total assets**		**9,329,782**	8,285,377
		EQUITY AND LIABILITIES			
		EQUITY			
18,668	18,184	Share capital	12	**1,247,800**	1,247,800
2,244	334	Accumulated Profit		**149,994**	22,935
20,913	18,518	**Total equity**		**1,397,794**	1,270,735
		LIABILITIES			
450	417	Deferred tax liability-net	13	**30,099**	28,640
116,833	100,583	Deposits from customers	14	**7,809,097**	6,902,006
985	821	Other liabilities	15	**65,843**	56,331
403	404	Provision for non funded facilities		**26,949**	27,665
118,671	102,225	**Total liabilities**		**7,931,988**	7,014,642
139,584	120,743	**Total equity and liabilities**		**9,329,782**	8,285,377
		Contingencies and commitments	22	**6,300,662**	7,449,979

The Annexed Note No. 1- 28 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

CEO Office
Ghazanfar Bank

CHAIRMAN

BOS
Ghazanfar Bank

GHAZANFAR BANK

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM JANAURY 01, 2016 TO DECEMBER 20, 2016

2016	2015		Note	2016	2015
…… USD '000' ……				……… Afs '000' ………	
6,366	6,169	Interest income		425,475	423,303
(437)	(416)	Interest expense		(29,207)	(28,522)
5,929	5,753	**Net interest income**	16	396,268	394,781
2,172	2,720	Fee and commission income		145,179	186,622
(441)	(514)	Fee and commission expense		(29,502)	(35,254)
1,731	2,206	**Net fee and commission income**	17	115,678	151,368
953	864	Other operating income / (loss)	18	63,693	59,301
8,613	8,823	**Operating income**		575,639	605,450
(1,893)	(3,235)	Impairment allowances and charge off	8.8	(126,536)	(221,988)
(1,398)	(1,653)	Employee compensation	19	(93,451)	(113,435)
(456)	(352)	Operating lease expenses		(30,449)	(24,156)
(483)	(507)	Depreciation	9.1	(32,285)	(34,821)
(19)	(19)	Amortization	10	(1,264)	(1,278)
(1,987)	(2,303)	Other expenses	20	(132,828)	(158,032)
(6,236)	(8,069)			(416,815)	(553,710)
2,377	754	**Profit before tax**		158,824	51,740
(475)	(151)	Tax expense	21	(31,765)	(10,348)
1,901	603	**Profit for the year**		127,059	41,392
-	-	Other comprehensive income		-	-
1,901	603	**Total comprehensive income for the year**		127,059	41,392

The Annexed Note No. 1- 28 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

CHAIRMAN

GHAZANFAR BANK
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM JANAURY 01, 2016 TO DECEMBER 20, 2016

2016	2015		Note	2016	2015
.... USD '000'				.... Afs '000'	
		CASH FLOWS FROM OPERATING ACTIVITIES			
2,376	754	Profit before tax		158,824	51,740
		Adjustments for:			
1,893	3,235	Net impairment loss on financial assets	8.8	126,536	221,988
483	507	Depreciation	9.1	32,285	34,821
(69)	(175)	Accrued interest		(4,586)	(12,035)
19	19	Amortization	10	1,264	1,278
-	(9)	Gain on disposal of fixed assets	18	-	(592)
4,703	4,331	**Working Capital Changes**		314,324	297,200
		(Increase) / decrease in current assets			
3,648	(5,104)	Loans and advances		243,849	(350,251)
(849)	1,026	Other assets		(56,731)	70,384
		Increase / (decrease) in current liabilities			
13,571	(8,740)	Deposits from customers		907,091	(599,733)
142	59	Other liabilities		9,512	4,041
(11)	60	Provision for non funded facilities		(716)	4,092
16,502	(12,699)			1,103,006	(871,467)
21,205	(8,368)			1,417,330	(574,267)
(587)	(60)	Tax paid		(39,257)	(4,101)
20,617	(8,428)	**Net cash generated from operating activities**	A	1,378,073	(578,368)
		CASH FLOWS FROM INVESTING ACTIVITIES	Note		
(96)	(179)	Purchase of property and equipment	9.1	(6,444)	(12,306)
(6)	(13)	Purchase of intangible assets		(383)	(915)
-	19	Proceed from disposal of property and equipment	10	-	1,320
(12,957)	60	Investments		(866,028)	16,126
87	(37)	Investment in equity instruments		5,833	(2,537)
(12,972)	(150)	**Net cash used in investing activities**	B	(867,023)	1,688
		CASH FLOWS FROM FINANCING ACTIVITIES			
-	252	Capital Injection		-	17,290
-	252	**Net cash used in financing activities**	C	-	17,290
7,646	(8,152)	**Net increase in cash and cash equivalents (A+B+C)**		511,050	(559,390)
60,488	67,071	Cash and cash equivalents, beginning of Period / Year		4,043,040	4,602,430
68,134	58,919	**Cash and cash equivalents, end of period / year**		4,554,090	4,043,040

The Annexed Note No. 1- 28 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

CHAIRMAN

GHAZANFAR BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM JANAURY 01, 2016 TO DECEMBER 20, 2016

Share capital	Accumulated Profit / (losses)	Total		Share capital	Accumulated Profit / (losses)	Total
	USD '000'				AFN '000'	
21,045	(416)	20,629	Balance as at December 31, 2014	1,230,511	(24,422)	1,206,089
17,932	(356)	17,576	Balance as at January 01, 2015	1,230,511	(24,421)	1,206,090
252	87	339	Capital Injection/adjustment	17,290	5,964	23,254
			Total comprehensive income for the year			
-	603	603	Profit for the year	-	41,392	41,392
18,184	334	18,518	Balance as at December 31, 2015	1,247,800	22,935	1,270,735
18,668	**343**	**19,012**	**Balance as at January 01, 2016**	**1,247,800**	**22,935**	**1,270,735**
			Total comprehensive income for the period			
-	**1,901**	**1,901**	Profit for the period	-	**127,059**	**127,059**
18,668	**2,244**	**20,913**	**Balance as at December 20, 2016**	**1,247,800**	**149,994**	**1,397,794**

The Annexed Note No. 1- 28 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER

CHAIRMAN

1 STATUS AND NATURE OF BUSINESS

Ghazanfar Bank ("the Bank") is a commercial bank incorporated under the Law in Afghanistan. The registered office of the bank is located at Wazir Akbar Khan Street, Sher Pur, District 10, and Kabul, Afghanistan.

The Bank obtained business license from Afghanistan Investment Support Agency (AISA) bearing license no: D-29098 renewed in 2016 and is registered as a limited liability company. The Bank commenced its operations on 01 March 2009 under the license for commercial banking issued by the Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan. Currently, the Bank is being operated with eleven branches with Islamic banking operations (2015: eleven branches with Islamic banking operations) in different provinces of Afghanistan. No of employees 279 (2015: 265)

The financial statements for the period ended December 20, 2016 (including comparatives) have been approved and authorized for issue by the Board of Supervisors on March 06, 2017.

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 and the Islamic Accounting Standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In case requirements differ, the provisions of the Law of Banking in Afghanistan shall prevail.

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

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 01, 2015:

- **IAS 1** ' Presentation of financial statements, amendments in disclosure initiatives
- **IAS 7** ' Cash Flow Statements and amendments in disclosure initiatives

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2017.

Amendment to IAS 7 on disclosure initiative	January 01, 2017
Amendment to IAS 12 on recognition of deferred tax assets for unrealized losses	
IFRS 2, Share-based payment Amendment on clarifying sharebased payment transactions	
IFRS 9, Financial instruments	January 01, 2018
Amendment to IFRS 9, Financial instruments on general hedge accounting	
Amendment to IFRS 10 and IAS 28 on sale or contribution of assets IFRS 15, 'Revenue from contracts with customers'	Annual periods beginning on or after 1 January 2018 to be determined
Amendments to IFRS 15 ' Revenue from contracts with customers' - Clarifications	

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2017 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.

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 effect 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 8 Provision against non-performing loans and advances to customers
b) Note 9 Depreciation rates for property and equipment
c) Note 10 Amortization rates for intangible assets
d) Note 13 Deferred taxation
e) Note 21 Income taxes

3.3 Functional and presentation currency

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

3.4 Change in accounting period

During the year as per Article No. 92 of Law of Banking in Afghanistan, banks has changed its financial accounting year from (Gregorian calendar) December 31, to (Shamsi Calendar) i.e. from 01st Jadi to End of Qaus Month every year (2016: December 20). These financial statements are from 11 Jadi to 30 Qaus 1394, which is equivalent to 11 months and 20 days, therefore, the comparative figures are not comparable.

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 state.

4.1 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise of cash and balances with central bank (unrestricted) and balances with other banks.

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

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:

a) loans and receivables
b) investment held to maturity (HTM)

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. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Currently, the Bank has financial assets only in the form of loans and receivables and held to maturity investments. Therefore, policies related to other categories of financial assets would not be relevant.

a) Loans and receivables

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. Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, loans and advances to customers and other assets fall into this category of financial instruments.

The Bank determines allowance for impairment loans and advances in accordance with regulation issued by DAB "Asset Classifications, Monitoring of Problem Assets, Reserve for Losses, and Non-accrual Status".

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. 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 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.

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 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. Losses are recognized in statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount. 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.

a) Investment held to maturity (HTM)

HTM investment are non-derivative financial assets with fixed or determinable payments in fixed maturity other than loans and receivables. Investments are classified at HTM if the bank has intension and ability to hold them till maturity. The bank currently holds 'terms placements with other Banks' designated into this category.

HTM investment are measured subsequently at amortized cost using effective interest method. If there is objective evidence that the investments is impaired, determined by reference to external credit rating, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in statement of comprehensive income.

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 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 general provision is for the inherent risk of losses which are known from experience to be present in any loan portfolio.

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.

Murabaha financings are reflected as receivables at the sale price. Actual sale and purchase is not reflected as the goods are purchased by the customer as agent of the Bank and all documents relating to purchase are in customer's name.

In Musharaka financing, the Bank provides the facility on profit and loss sharing basis for specific tenors to the customers.

4.5 Property and equipment

Owned

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses thereon. Cost includes expenditure that is directly attributable to the acquisition of fixed assets.

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 statement of comprehensive income during the financial period in which they are incurred.

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 residual values and useful lives of fixed assets are reviewed, and adjusted (if appropriate) at each balance sheet date.

Depreciation

Depreciation is recognized in profit and loss account on straight-line basis from the month of 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. Land is not depreciated.

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

-	Building	30 years
-	Furniture and fixture	4-10 years
-	Computer equipment	4 years
-	Vehicles	6 years
-	Office equipment	5 years

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

Gains and losses on disposal of fixed assets are included in statement of comprehensive income currently.

4.6 Intangible assets

Acquired computer software's are capitalized on the basis of costs incurred to acquire and bring to use the specific software. Subsequent expenditure on software 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 years.

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

4.7 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.

4.8 Deposits

Deposits are the Bank's sources of funding. Deposits are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the bank choose to carry the liabilities at fair value through profit or loss.

4.9 Taxation

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in the statement of comprehensive 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.

4.10 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of the debt instrument. Financial guarantee liabilities are recognized initially at their fair value, and the initial fair value is amortized over the life of financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees, if any, are included within other liabilities.

4.11 Employee compensation

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

4.12 Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Afghani at the exchange rate prevailing at that reporting date. Foreign currency differences arising on retranslation are recognized in statement of comprehensive income.

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

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that 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.

As per regulation issued by DAB title: "Asset Classifications, Monitoring of Problem Assets, Reserve for Losses, and Non-accrual Status", accrued interest is reversed on the loans and advances that are classified as non-accrual status. Interest from such loans and advances is recognized on receipt basis.

Profit under Murabaha financing is recognized on monthly basis, while it is recoverable at maturity.

4.14 Fee and commission

Fees and commission income includes account servicing fees and sales commissions and are recognized as the related services are performed.

Fees and commission expense relates 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 statement of comprehensive income 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 Appropriations subsequent to date of statement of financial position

Appropriations subsequent to year end are recognized during the year in which those appropriations are made.

	Note	2016	2015
		-------Afn '000 -------	
5 CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	837,420	665,195
Balances with banks	5.2	3,716,670	3,377,846
		4,554,090	4,043,040
5.1 Cash in hand			
Local currency		116,313	118,451
Foreign currencies		721,106	546,744
		837,420	665,195
5.2 Balances with banks			
Balances with central banks			
Local currency current accounts		162,094	277,794
Local currency deposit account (Overnight deposit)		101	112,006
Foreign currency current accounts		2,894,682	1,660,036
		3,056,877	2,049,836
Balances with other banks (foreign/domestic)			
Aktif Bank, Turkey		22	375,818
Zirat Bank, Turkey		133,314	94,235
Commerz Bank, Germany		-	23,023
Agriculture Bank of China, China		-	481,223
CSC Bank, Lebanon		4,153	5,153
Yes Bank, India		517	531
Turkiye is Bankasi, Turkey		47,554	16,963
Yinzhou Bank, China		285	293
Axis Bank, India		516	121,024
BMCE Bank International Madrid Spain	5.2.1	301,386	209,047
Heleba Bank		-	700
Axis Bank, China		52,949	-
Pashtany Bank		119,098	-
		659,793	1,328,010
		3,716,670	3,377,846

5.2.1 This includes short term placement for the period of 03 months with the bank with the maturity date of February 13, 2017 carrying interest rate at 1.30% p.a.

6 INVESTMENT IN EQUITY INSTRUMENT

	2016	2015
Afghan Payment System (APS)	11,323	17,155

This represents 16.66% (2015: 25%) equity investment in Afghanistan Payment Systems (APS) incorporated as limited liability company with AISA on January 31, 2011. APS, a special purpose entity created with the support of World Bank and under special permission of Da Afghanistan Bank (DAB), was established to provide a non-cash domestic payments switch and related processing services to all the banks operating in Afghanistan and as such will benefit the banking industry as a whole. APS intends to support an electronic fund transfer platform for shared ATMs, creation of shared mobile banking infrastructure and the initiation of point of sale devices. This investment is carried at initial cost of USD 250,000 (2015: 250,000) without taking into account any impairment effects and yearly differences are appearing due to currency translations to Afs.

	Note	2016	2015
		.... Afs '000'	
7 INVESTMENT - HELD TO MATURITY			
Placement with BMCE	7.1	66,840	-
Capital notes - 07 to 364 days	7.2	1,343,579	544,391
		1,410,419	544,391

7.1 This includes short term placement for the period of 06 months with the bank with the maturity date of May 09, 2017 carrying interest rate at 1% p.a.

7.2 These are classified as held to maturity having maximum period of 07 - 364 days (28 to 182 days) carrying interest rate ranging from 1.80% to 6.678% per annum. (2015: 3.55% to 3.56% p.a.)

8 LOANS AND ADVANCES

	Note	2016 Gross amount	2016 Impairment allowance	2016 Carrying amount	2015 Gross amount	2015 Impairment allowance	2015 Carrying amount
Conventional financing							
Running finance	8.1	1,430,261	(82,556)	1,347,705	1,423,775	(133,518)	1,290,257
SME loans	8.2	63,328	(4,357)	58,971	84,814	(9,510)	75,304
Term loans	8.3	274,682	(82,631)	192,051	352,387	(23,886)	328,501
		1,768,272	(169,544)	1,598,728	1,860,976	(166,914)	1,694,062
Islamic financing							
Musharakah financin	8.4	67,094	(738)	66,356	207,313	(2,070)	205,243
Murabaha financing	8.5	665,092	(17,140)	647,952	799,881	(15,765)	784,116
		732,186	(17,878)	714,308	1,007,194	(17,835)	989,359
		2,500,458	(187,422)	2,313,036	2,868,170	(184,749)	2,683,421

8.1 The facility to meet working capital requirements carries interest ranging from 13% to 15% (2015: 13% to 15%) per annum. These facilities are extended for maximum period of twelve months. These are secured against personal guarantees, hypothecation over current assets, charge over fixed assets and mortgage of residential or commercial property of the borrower.

8.2 These are extended to the Small and Medium Enterprises with limit up to $ 2,000,000 (equivalent to Afs 133.68 million) and carry interest 14.5% to 17% (2015: 15% to 18%) per annum with maturity period of twelve months. These are secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of residential or commercial properties of the borrower .

8.3 These are term loan facilities extended to customers carries interest ranging from 13% to 16% (2015: 13% to 18%) per annum. These facilities are extended for maximum period of twelve months. These are secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of residential or commercial properties of the borrower.

8.4 Financing under musharakah agreement are to meet the working capital and other requirements of the borrower on a profit and loss sharing basis ranging from 15% (2015: 15% to 18%) per annum of the musharakah amount. These facilities are extended for the maximum period of twelve months and secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of residential or commercial properties of the borrower.

8.5 These represent financing under murabaha agreement under which the Bank has paid finance to meet capital and other requirements of the borrower on a fixed profit sharing basis ranging from 13% to 20% (2015: 13% to 18%). These facilities are extended for the maximum period of twelve months and secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of properties of the borrower.

8.6 At reporting date, loans and advances amounting to Afs 689.732 million (2015: 445.791 million) were classified against which an impairment allowance amounting to Afs 187.422 million (2014: 184.749 million) has been maintained.

	2016	2015
	...... Afs '000'	
8.7 Impairment allowance on loans and advances		
Opening balance	184,749	144,154
Charge for the year	7,527	73,578
Exchange fluctuation effect (loss) / gain	(4,854)	33,012
Reversal made during the year	-	(65,995)
Net impairment allowance on funded facilities	2,673	40,595
Closing balance	187,422	184,749
8.8 Impairment allowances and charge off		
Net impairment allowance on funded facilities	2,673	40,595
Exchange Fluctuations effect loss / (gain)	4,854	(33,012)
Loan charged off during the year	119,009	214,405
General provision on non funded facilities	-	-
	126,536	221,988

9 PROPERTY AND EQUIPMENT

	Note	2016	2015
		-------Afn '000-------	
Operating fixed assets	9.1	264,162	290,003
Capital work-in progress (Branches)		1,594	-
		265,756	290,003

9.1

	Land	Building	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
		....	....	Afs '000'	....	....	
Gross Carrying amount							
Balance as at January 01, 2015	35,362	194,847	38,896	79,920	87,567	27,629	464,221
Additions during the year	-	290	2,029	2,698	2,253	5,036	12,306
Disposals during the year	-	-	-	-	(2,190)	(678)	(2,868)
Balance as at December 31, 2015	35,362	195,137 0	40,925	82,618	87,630	31,987	473,659
Balance as at January 01, 2016	**35,362**	**195,137**	**40,925**	**82,618**	**87,630**	**31,987**	**473,659**
Additions during the year	-	**18**	**1,509**	**3,666**	-	**1,251**	**6,444**
Disposals during the year	-	-	-	-	-	-	-
Balance as at December 20, 2016	**35,362**	**195,155**	**42,434**	**86,284**	**87,630**	**33,238**	**480,103**
Accumulated Depreciation							
Balance as at January 01,2015	-	13,036	19,774	65,752	36,188	16,224	150,975
Depreciation for the year	-	6,496	4,746	5,221	13,550	4,808	34,821
Depreciation on disposals	-	-	(4)	(353)	(1,454)	(329)	(2,140)
Balance as at December 31, 2015	-	19,532	24,516	70,620	48,284	20,703	183,656
Balance as at January 01,2016	-	**19,532**	**24,516**	**70,620**	**48,284**	**20,703**	**183,656**
Depreciation for the year	-	**6,306**	**4,341**	**5,230**	**11,612**	**4,796**	**32,285**
Depreciation on disposals	-	-	-	-	-	-	-
Balance as at December 20, 2016	-	**25,838**	**28,858**	**75,850**	**59,896**	**25,499**	**215,941**
Net Book Value (Gross Value less Depreciation)							
- December 20, 2016	**35,362**	**169,317**	**13,576**	**10,434**	**27,734**	**7,739**	**264,162**
- December 31, 2015	35,362	175,605	16,409	11,998	39,346	11,284	290,003
Depreciation rates	**Nil**	**3.33%**	**10% - 25%**	**25%**	**16.67%**	**20%**	

10 INTANGIBLE ASSETS

	2016	2015
	.... Afs '000'	
Gross carrying amount		
Opening balance	16,308	15,771
Additions during the year	383	915
Disposal-Fully amortised	-	(378)
Closing balance	16,691	16,308
Accumulated amortization		
Opening balance	14,343	13,160
Amortization for the year	1,264	1,183
Disposal-Fully amortised	-	-
Closing balance	15,607	14,343
Written down value	1,084	1,965

10.1 Intangible assets comprise one softwares i.e. Vermati accounting system software. Useful life of each software is three years.

11 OTHER ASSETS

	Note	2016	2015
		.... Afs '000'	
Restricted deposits with DAB	11.1	638,675	563,085
Prepayments		17,540	17,956
Advances against property		-	-
Receivable from Western Union		25,287	9,893
Interest receivable		4,586	12,035
Security deposits to western union		16,042	16,469
Advance income tax		0	11,942
Security Deposit Hairatan Branch		66,840	68,620
Others		5,106	5402
		774,075	705,402

11.1 This represents non- interest bearing local currency statutory reserves maintained with DAB as minimum reserve in accordance with Banking Regulations.

	2016	2015
	.... Afs '000'	

12 SHARE CAPITAL

	2016	2015
Authorized capital - 150,000 shares of Afs 10,000 each (2015: 114,000 shares of Afs 10,000 each)	1,500,000	1,140,000
Issued and paid-up share capital - 124,780 shares of Afs 10,000 each (2015: 124,780 shares of Afs 10,000 each)	1,247,800	1,247,800

13 DEFERRED TAX LIABILITY

Deferred taxes arising from temporary differences and unused tax losses are summarized as follows:

Deferred tax liabilities	January 01, 2016	Recognized in profit and loss	December 20, 2016
		.... Afs '000'	
Deferred tax liability			
Property and equipment	(29,852)	-	(29,852)
Intangible assets	(247)	-	(247)
	(30,099)		(30,099)
Deferred tax asset			
Unused tax losses	1,459	(1,459)	-
	(28,640)	(1,459)	(30,099)

Deferred tax assets (liabilities)	January 01, 2015	Recognized in profit and loss	December 31, 2015
Deferred tax liability			
Property and equipment	(29,852)	-	(29,852)
Intangible assets	(247)	-	(247)
	(30,099)	-	(30,099)
Deferred tax asset			
Unused tax losses	1,459	-	1,459
		-	(28,640)

Deferred tax asset was recognized on estimated carried forward tax losses based on projected future profitable operations and taxable profits against which the deferred tax asset could be realized.

		Note	2016	2015
			.... Afs '000'	
14	**DEPOSITS FROM CUSTOMERS**			
14.1	**Conventional**			
	Current deposits		4,277,373	3,440,119
	Saving deposits	14.1	698,707	624,986
	Term deposits	14.2	178,648	161,713
			5,154,728	4,226,818
14.2	**Islamic**			
	Al Wadiah current deposits		922,913	905,583
	Mudarabah saving deposits	14.3	600,280	551,212
	Mudarabah fixed deposits	14.4	871,348	904,197
			2,394,541	2,360,992
14.3	**Margin deposits**		259,828	314,196
			7,809,097	6,902,006

14.1 Conventional saving deposits carries interest ranging from 1% to 3% (2015: 1% to 5%) per annum.

14.2 Conventional term deposits carries interest ranging from 1.25% to 3.50% (2015: 1.25% to 2.75%) per annum with maturity of 3 months to 5 years on the conventional side.

14.3 Profit disbursed during the year, on Islamic saving deposits ranged from 1% (2015: 0.4% to 1%) per annum.

14.4 Islamic term deposits carry profit rates ranging from 2% (2015: 0.8% to 3.5%) per annum with maturity of 6 months to 1 year.

		Note	2016	2015
			.... Afs '000'	
15	**OTHER LIABILITIES**			
	Accrued interest		5,854	6,776
	Withholding tax		533	1,394
	Unearned commission on bank guarantees		24,114	25,275
	Accrued expenses		10,707	8,652
	Others		24,634	14,234
			65,843	56,331

15.1 This amount represents payable to Deutsche Investitions- und Enwicklungsgesellschaft mbH (DEG) for insurance agianst recovery of defaulted term loan and those defaulted loans have been recovered subsequently during the year.

		Note	2016	2015
			.... Afs '000'	
16	**NET INTEREST INCOME**			
	Interest income on:			
	Cash and cash equivalents		5,686	22,004
	Loans and advances		360,619	376,606
	Capital notes		59,171	24,693
	Total interest income		425,475	423,303
	Interest expense			
	Deposits from customers	16.1	(29,207)	(28,522)
	Net interest income		396,268	394,781
16.1	**Deposits from customers**			
	Interest on:			
	Term deposits		18,600	18,468
	Saving deposits		10,607	10,054
			29,207	28,522
17	**NET FEE AND COMMISSION INCOME**			
	Fee and commission income			
	Commission on Bank Guarantees		67,913	66,820
	Commission on letter of credits		278	153
	Fund transfer fee		76,111	118,848
	Deposit accounts servicing		878	802
	Total fee and commission income		145,179	186,622
	Fee and commission expense			
	Inter bank transaction fee		(29,502)	(35,254)
	Net fee and commission income		115,678	151,368

		Note	2016	2015
			.... Afs '000'	
18	**OTHER OPERATING (LOSS) / INCOME**			
	Foreign exchange (loss) / gain		(2,554)	36,320
	Loan processing fee		11,727	18,337
	Recovery of loan previously written off		52,376	2,473
	Gain on disposal of fixed assets		-	592
	Others		2,144	1,579
			63,693	59,301
19	**EMPLOYEE COMPENSATION**			
	Salaries and wages		92,497	112,237
	Bonus to staff		655	786
	Staff welfare		300	412
			93,451	113,435

20 OTHER EXPENSES

Security guards expenses		**33,476**	38,876
Insurance	20.1	**28,620**	27,741
Communication		**18,112**	20,285
Advertisement		**10,965**	18,945
Travelling and conveyance		**6,140**	12,470
Utilities		**5,925**	7,945
Fuel		**2,482**	3,319
Repair and maintenance		**4,838**	4,651
Stationery and printing		**4,756**	4,417
Food expenses		**4,066**	4,482
Staff training		**1,013**	1,516
Legal & Audit fee		**2,240**	543
Others		**10,195**	12,841
		132,828	158,032

20.1 These include insurance charges amounting to Afs 16.58 Million (2015: 14.847 million) paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.23% per annum of total deposits as per instructions of DAB.

21 INCOME TAX EXPENSE

The major components of tax expense and the reconciliation of the expected tax expense based on the effective tax rate of 20% and the reported tax expense in statement of comprehensive income are as follows:

	Note	2016	2015
		.... Afs '000'	
Current		**31,765**	10,348
		31,765	10,348

22 CONTINGENCIES AND COMMITMENTS

22.1 *Contingencies*

Guarantees issued on behalf of customers	**6,300,662**	7,449,979

22.2 Lease commitments

Non-cancellable operating lease rentals are payable as follows:

Less than one year	**10,578**	17,356
Between one to five years	**-**	17,572
	10,578	34,928

The Bank leases a number of branches and office premises under operating leases. The leases typically runs for a period of up to five years, with an option to renew the lease after that period.

23 RELATED PARTIES

23.1 Parent and ultimate controlling party

The Bank is owned by individuals who are shareholders of Ghazanfar Group of Companies (GGC), and own the Bank's shares in different proportions. Therefore, related parties include all group companies of GGC as associates.

23.2 Transactions with key management personnel

Key management personnel and their immediate relatives have transacted with the Bank during the period as follows:

	2016	2015
	.... Afs '000'	
Salary paid to the members of the board of supervisors	4,461	4,184
Benefits to the management board	13,234	4,552
	17,695	8,736

In addition to salaries, the Bank also provides non-cash benefits to executives which includes furnished accommodation, meals and travel associated with the business of the bank.

23.3 Transactions with related parties

Following are transactions with related parties, during the period, and outstanding balances at the reporting date:

	2016	2015
	.... Afs '000'	
Associates		
Balances at year end		
Loans and advances	67,094	207,313
Bank guarantees	3,216,566	3,495,189
Advance against property	-	-
Prepaid rent	109	-
Customer deposits	665	2,509
Payable to GNG	-	-
Security Deposit for Hairatan Branch	66,840	68,620
Transaction during the year		
Purchase of armoured vehicles	-	-
(Repayment) / disbursement of loans and advances	66,840	205,860
Issuance of bank guarantees	334	397,588
Interest income on loans and advances	16,859	28,461
Commission on bank guarantees	10,105	52,532
Rent paid	104	-

23.4 There were no related party transactions and outstanding balances other than those disclosed above in notes 23.1, 23.2 and 23.3 to the financial statements.

24 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

The table below sets out the carrying amounts of the Bank's financial assets and financial liabilities:

in Afs '000'	Note	Held for trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount
2016								
Cash and cash equivalents	5	-	-	66,840	4,487,250	-	-	4,554,090
Investment in capital notes	7	-	-	1,410,419	-	-	-	1,410,419
Loans and advances to customers	8	-	-	-	2,313,036	-	-	2,313,036
Others assets	11	-	-	4,586	663,962	-	-	668,547
		-	-	1,481,845	7,464,247	-	-	8,946,092
Deposits from customers	14	-	-	-	-	-	7,809,097	7,809,097
Other liabilities	15	-	-	-	-	-	43,597	43,597
		-	-	-	-	-	7,852,694	7,852,694
2015								
Cash and cash equivalents	5	-	-	-	4,043,040	-	-	4,043,040
Investment in capital notes	7	-	-	544,391	-	-	-	544,391
Loans and advances to customers	8	-	-	-	2,683,421	-	-	2,683,421
Others assets	11	-	-	12,035	585,013	-	-	597,048
		-	-	556,426	7,311,474	-	-	7,867,900
Deposits from customers	14	-	-	-	-	-	6,902,006	6,902,006
Other liabilities	15	-	-	-	-	-	44,589	44,589
		-	-	-	-	-	6,946,595	6,946,595

24.1 The fair values of financial assets and financial liabilities approximates their carrying amounts at the reporting date.

25 FINANCIAL RISK MANAGEMENT

25.1 Introduction and overview

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

a) credit risk
b) liquidity risk
c) market 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 Supervisor has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Management Board, Asset and Liability Committee (ALCO), and a Credit Committee which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Supervisors on their activities. The Bank's Management Board is assisted in these functions by the internal audit department.

The Bank's Internal Audit and Compliance Departments 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.

25.2 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 Board has delegated responsibility for the management of credit risk to its Bank's Credit Committee. Credit department reporting to the Bank Credit Committee is responsible for oversight of the Bank's credit risk.

A separate credit department has been established by the Bank that is responsible for oversight of the Bank's credit risk and which is reportable to the Credit Committee. The Credit department is headed by Chief Credit Officer (CCO). Chief Credit Officer along with credit department staff looks 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 well-defined credit policy approved by the Board. The credit evaluation system comprises of well 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 in this regard is represented by the carrying amounts of the assets at the reporting date. Exposure to credit risk is managed through regular analysis of borrower to meet interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed against personal guarantee of the borrower and mortgage of immoveable property duly registered with the court of law and hypothecation over stock duly verified by the Bank's Credit Officer on monthly basis.

In addition to the above, there were no lending commitments which is pending for disbursement.

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due but the Bank believes impairment is not appropriate.

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 Bank's Credit department determines that the loans are uncollectible and past due more than 360 days as per Da Afghanistan bank regualtions. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Before allowing to 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 mortgage interest over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

Concentration of credit risks by sector

All the loans have been disbursed in geographical territory of Afghanistan. The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of loans and advances to customers at reporting date is as follows:

	in Afs '000'	Note	2016	2015
	Gross amount	8		
	Concentration by sector		**2,500,458**	2,868,170
1	Agriculture		-	57,506
2	Health and Hygienic		**99,305**	162,587
3	Wholesales		**99,007**	102,930
4	Machineries		10,247	6,096
5	Petroleum and Lubricants		**269,028**	326,839
6	Electronics		**24,728**	33,058
7	Food Items		**319,165**	314,582
8	All Other services and companies		**608,544**	399,950
9	Retail Trading		**59,781**	90,458
10	Road and Railway		**67,094**	207,313
11	Mines		-	4,785
12	Other infrastructure projects		**239,275**	31,273
13	Manufacturing & Products of Metal, Wood, Plastic, Rubber, Leather and Paper		**2,507**	224,726
14	Manufacturing, Handmade and Machine products		**234,052**	271,766
15	Cement and Construction Materials		**82,485**	278,694
16	Power		**150,014**	151,388
17	Construction and Buildings		**235,226**	204,217

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 3,716.670 million (2015: 3,377.81 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with central bank and other banks.

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 failure of an entity to honor its obligation to deliverable cash, other assets as contractually agreed.

25.3 **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 asset.

Management of liquidity risk

The Board ensures that the Bank has necessary tools and framework to cater 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. 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, whist 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 problem.

The Bank relies on deposits from customers as its primary source of funding. Deposits form customers generally has shorter maturities and large proportion of them are repayable on demand. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalent 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 Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period was as follows:

	2016	2015
Closing balance for the year ended	46%	36%
Average for the period	42%	38%
Maximum for the period	50%	44%
Minimum for the period	35%	34%

Maturity analysis for financial liabilities

in Afs '000'	Note	Carrying amount	Gross nominal outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
2016								
Deposits from customers	14	7,809,097	7,809,097	5,200,286	1,298,988	1,220,026	89,798	-
Other liabilities	15	65,843	65,843	17,094	21,713	27,036	-	-
		7,874,940	7,874,940	5,217,380	1,320,700	1,247,062	89,798	-
2015								
		6,902,006	6,902,006	5,055,914	332,011	1,421,155	92,927	-
		56,331	56,331	20,708	12,638	22,986	-	-
		6,958,337	6,958,337	5,076,622	344,649	1,444,141	92,927	-

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 inflow/(out flow) disclosed in the above table is the contractual, undiscounted cash flow on the financial liability.

25.4 **Market risks**

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 with in acceptable parameters, while optimizing the return on risk.

Management of market risks

To manage and control market risk, a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. Overall authority for market risk is vested in ALCO. The Bank's Assets and Liability Committee (ALCO) is responsible for the development of detailed risk management policies and day to day review of their implementation.

Exposure to interest rate risk

The Bank risk to which not-trading 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 managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day to day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolio is as follows:

in Afs '000'	Note	Carrying amount	Less than three months	3-6 months	6-12 months	1-5 years	More than 5 years
2016							
Loans and advances to customers	8	2,500,456	521,652	758,328	932,800	287,676	-
Restricted deposits with DAB	11.1	638,675	-	-	-	-	638,675
		3,139,131	521,652	758,328	932,800	287,676	638,675
Deposits from customers	14	(2,348,983)	(1,298,988)	(879,743)	(80,454)	(89,798)	-
		702,902	(777,336)	(121,415)	852,346	197,878	638,675

in Afs '000'	Note	Carrying amount	Less than three months	3-6 months	6-12 months	1-5 years	More than 5 years
2015							
Loans and advances to customers		2,868,170	803,159	860,686	1,322,942	-	-
Restricted deposits with DAB		563,085	-	-	-	-	563,085
		3,431,255	803,159	860,686	1,322,942	-	563,085
Deposits from customers		(2,242,108)	(728,027)	(159,431)	(1,261,724)	(92,927)	-
		1,189,147	75,132	701,255	61,218	(92,927)	563,085

Exposure to currency risk

The Bank's exposure to foreign currency risk was as follows based on notional amounts.

in Afs '000'	Note	Total	Afs	US$	Euro	GBP
				Equivalent Afs '000'		
20 December 2016						
Cash and cash equivalents	5	4,554,090	280,576	4,168,887	101,190	3,436
Investment in associate	6	11,323	11,323	-	-	-
Investment	7	1,410,419	1,343,579	66,840	-	-
Loans and advances to customers	8	2,313,036	9,654	2,303,382	-	-
Other assets	11	774,075	661,321	112,754	-	-
		9,062,942	2,306,453	6,651,863	101,190	3,436
Deposits from customers	14	7,809,097	986,777	6,754,533	67,678	109
Other liabilities	15	65,843	32,843	32,972	28	-
		7,874,940	1,019,620	6,787,505	67,706	109
Net foreign currency exposure		1,188,002	1,286,833	(135,642)	33,484	3,327

in Afs '000'	Note	Total	Afs	US$	Euro	GBP
2015				Equivalent Afs '000'		
Cash and cash equivalents		4,043,040	509,753	3,382,885	138305	12097
Investment in associate	5	17,155	-	17,155	-	-
Investment	6	544,391	544,391	-	-	-
Loans and advances to customers	7	2,868,170	10,699	2,857,471	-	-
Other assets	8	705,402	650,815	54,580	7	-
		8,178,158	1,715,658	6,312,091	138,312	12,097
Deposits from customers	14	6,902,006	766,764	6,018,821	107,998	8,423
Other liabilities	15	56,330	18,321	37,968	41	-
		6,958,336	785,085	6,056,789	108,039	8,423
Net foreign currency exposure		1,219,822	930,573	255,302	30,273	3,674

	2016		2015	
in Afs	**Average rate**	**Reporting date spot rate**	Average rate	Reporting date spot rate
US$	67.73	66.84	57.31	68.62
Euro	72.41	69.91	74.22	74.91
GBP	92.06	82.89	91.10	101.22

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, euro and GBP at 31 December 2016 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.

	2016		2015	
	Equity	**Profit or loss**	Equity	Profit or loss
in Afs '000'				
US$	10,851	13,564	(20,424)	(25,530)
Euro	(2,679)	(3,348)	(2,422)	(3,027)
GBP	(266)	(333)	(294)	(367)

A 10% weakening of the Afghani against the above currencies at 31 December 2016 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.

26 Capital management

Regulatory capital

Da Afghanistan Bank (DAB) sets and monitors capital requirements for all Banks. Bank is required to maintain at all times the paid up capital plus reserves in excess of Afs 1 billion and regulatory capital to be 12% of the risk weighted assets. The capital adequacy of the Bank is assessed in two tiers as per regulations of the DAB.

- 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 and Tier 2 capital cannot exceed amount of Tier 1 capital. The Bank complies with these regulations.

The Bank's regulatory capital position as on December 20, 2016 is as follows:

	2016	2015
	.... Afs '000'	
Tier 1 capital		
Share holders' equity	**1,247,800**	1,247,800
Less: (Profit) for the year	**(127,059)**	(41,392)
Less: Intangible assets	**(1,084)**	(1,965)
Total tier 1 (core) capital	**1,119,657**	1,204,443
Tier 2 capital		
Profit for the year	**127,059**	41,392
Total tier 2 (supplementary) capital	**127,059**	41,392
Total regulatory capital	**1,246,716**	1,245,835

27 **Corresponding Figures**

Comparative figures for the period ended are not comparable as explained in Note: 3.4 to the financial statements.

28 **General**

Figures have been rounded off to the nearest Afghanis / US Dollars.

CHIEF EXECUTIVE OFFICER

CEO Office
Ghazanfar Bank

CHAIRMAN

BOS
Ghazanfar Bank