

GHAZANFAR BANK

**AUDITED FINANCIAL STATEMENTS ALONG
WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED,**

DECEMBER 21, 2017



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 21, 2017, 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 21, 2017, 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, 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).

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, as specified below;

1. Chief Financial Officer (Vacant)	From November 6, 2017 till now
2. Chief Risk Officer (Vacant)	From November 27, 2017 till now
3. Chief Internal Auditor	From December 21, 2016 till November 5, 2017
 - 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 Financial Officer.
2. In Note 5.2.2 of the financial statements 'Cash and cash equivalents', it is disclosed that an amount of US Dollars 2,434,170 has been blocked by Da Afghanistan Bank (DAB) from Ghazanfar bank USD current account on the standing request received from Ministry of Finance (MoF) vide letter no.933463 dated 29-09-1395 (26 December 2016) against bank account of M/s Ghazanfar Naft and Gas Limited (Related Party), owing to the un-resolved tax matters.

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.

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 is located at Crowe Horwath Afghanistan, 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.


Crowe Horwath Afghanistan
Auditors and Business Advisors
Kabul.



GHAZANFAR BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 21, 2017 - (30-QAWAS-1396)

		21-Dec-17	20-Dec-16
	Note	..... Afs '000'	.....
ASSETS			
Cash and cash equivalents	5	4,265,210	4,554,090
Investment in equity instruments	6	17,373	11,323
Investments - Held to Maturity	7	2,397,384	1,370,665
Loans and advances	8	2,640,764	2,313,036
Property and equipment	9	247,868	265,756
Intangible assets	10	451	1,084
Other assets	11	875,184	813,829
Total assets		10,444,234	9,329,782
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	1,247,800	1,247,800
Contingency Reserve Fund		12,706	-
Retained Earnings		408,771	149,994
Total equity		1,669,277	1,397,794
LIABILITIES			
Deferred tax liability-net	13	-	30,099
Deposits from customers	14	8,664,919	7,809,097
Other liabilities	15	74,423	65,843
Provision for non funded facilities		35,615	26,949
Total liabilities		8,774,957	7,931,988
Total equity and liabilities		10,444,234	9,329,782
Contingencies and commitments	22	3,561,482	6,300,662

The annexed notes from 1 to 28 form an integral part of these financial statements. *copy*

CHIEF EXECUTIVE OFFICER



CHAIRMAN



GHAZANFAR BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-QAWAS-1396)

		21-Dec-17	20-Dec-16
		..... Afs '000'	
	Note		
Interest income		439,532	425,475
Interest expense		(39,382)	(29,207)
Net interest income	16	400,150	396,268
Fee and commission income		134,878	145,180
Fee and commission expense		(8,334)	(29,502)
Net fee and commission income	17	126,544	115,678
Other operating income / (loss)	18	111,134	63,693
Operating income		637,828	575,639
Impairment allowances and charge off	8.7	13,179	(126,536)
Employee compensation	19	(102,842)	(93,452)
Operating lease expenses		(27,635)	(30,449)
Depreciation	9.1	(32,968)	(32,285)
Amortization	10	(752)	(1,264)
Other expenses	20	(160,065)	(132,828)
		(311,083)	(416,815)
Profit before tax		326,745	158,824
Tax expense	21	(35,250)	(31,765)
Profit for the period		291,495	127,059
Other comprehensive income		-	-
Total comprehensive income for the period		291,495	127,059

The annexed notes from 1 to 28 form an integral part of these financial statements. *CMA*

CHIEF EXECUTIVE OFFICER

CHAIRMAN

BOS

Ghazanfar Bank

GHAZANFAR BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-QAWAS-1396)

	Share capital	Contingency Reserve	Retained Earnings	Total
	.....AFN '000'.....			
Balance as at January 01, 2016	1,247,800	-	22,935	1,270,735
Profit for the year	-	-	127,059	127,059
Dividend distribution	-	-	-	-
Contingency reserve fund	-	-	-	-
Balance as at December 20, 2016	<u>1,247,800</u>	<u>-</u>	<u>149,994</u>	<u>1,397,794</u>
Balance as at December 21, 2016	1,247,800	-	149,994	1,397,794
Profit for the year	-	-	291,495	291,495
Dividend distribution	-	-	(20,012)	(20,012)
Contingency reserve fund	-	12,706	(12,706)	-
Balance as at December 21, 2017	<u>1,247,800</u>	<u>12,706</u>	<u>408,771</u>	<u>1,669,277</u>

The annexed notes from 1 to 28 form an integral part of these financial statements. *cvr*

CHIEF EXECUTIVE OFFICER



CHAIRMAN



GHAZANFAR BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-QAWAS-1396)

	Note	21-Dec-17 Afs '000'	20-Dec-16
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		326,745	158,824
Adjustments for:			
Net impairment loss on financial assets	8.7	(13,179)	126,536
Provision expense on other assets		2,879	-
Depreciation	9.1	32,968	32,285
Accrued interest		(59,941)	(44,340)
Amortization	10	752	1,264
Exchange gain on equity investment		(6,050)	5,833
		<u>284,174</u>	<u>280,403</u>
(Increase) / decrease in current assets			
Loans and advances		(314,550)	243,133
Other assets		(1,414)	(16,977)
Increase / (decrease) in current liabilities			
Deposits from customers		855,822	907,091
Other liabilities		8,580	9,512
		<u>548,438</u>	<u>1,142,760</u>
		<u>832,612</u>	<u>1,423,162</u>
Tax paid / Adjusted		(3,826)	(39,257)
Net cash generated from operating activities	A	<u>828,786</u>	<u>1,383,904</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9.1	(10,929)	(6,444)
Purchase of intangible assets		(66)	(383)
Investments - Net		(1,086,660)	(866,028)
Net cash used in investing activities	B	<u>(1,097,654)</u>	<u>(872,855)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(20,012)	-
Net cash used in financing activities	C	<u>(20,012)</u>	<u>-</u>
Net increase in cash and cash equivalents (A+B+C)		<u>(288,880)</u>	<u>511,049</u>
Cash and cash equivalents, beginning of year		4,554,090	4,043,040
Exchange Gain / (Loss)		-	-
Cash and cash equivalents, end of year		<u>4,265,210</u>	<u>4,554,090</u>

The annexed notes from 1 to 28 form an integral part of these financial statements. *us*

[Signature]
CHIEF EXECUTIVE OFFICER


[Signature]
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 (2016: eleven branches with Islamic banking operations) in different provinces of Afghanistan. No of employees 288 (2016: 279)

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 not yet effective

- Amendment to IAS-7 "Cash flow statements" with effective date 01 January 2017
- Amendment to IAS-12 "Income taxes" with effective date 01 January 2017
- Amendment to IFRS-12 "Disclosure of interest in other entities" with effective date 01 January 2017
- Amendment to IFRS-4 "Insurance Contracts" with effective date 01 January 2018
- Amendment to IFRS-9 "Financial Instruments" with effective date 01 January 2018
- Amendment to IFRS-15 "Revenue from contracts with customers" with effective date 01 January 2018
- Amendment to IAS-40 "Investment Property" with effective date 01 January 2018
- Amendment to IAS-02 "Share based payments" with effective date 01 January 2018
- Amendment to IFRS-16 "Leases" with effective date 01 January 2019
- Amendment to IFRS-17 "Insurance Contracts" with effective date 01 January 2021
- Amendment to IFRIC-22 "Foreign Currency transaction and advance consideration" with effective date 01 January 2018
- Amendment to IFRIC-23 "Uncertainty over income tax treatments" with effective date 01 January 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, 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.

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)

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 21, 2017

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 "Assets Classification and Provisioning Regulation" issued by DAB.

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

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 21, 2017

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.

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 21, 2017

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.

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

	Note	21-Dec-17 Afs '000'	20-Dec-16
5 CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	1,021,956	837,420
Balances with banks	5.2	3,243,254	3,716,670
		<u>4,265,210</u>	<u>4,554,090</u>
5.1 Cash in hand			
Local currency		183,243	116,313
Foreign currencies		838,713	721,106
		<u>1,021,956</u>	<u>837,420</u>
5.2 Balances with banks			
5.2.1 Balances with central banks			
Local currency current accounts		1,217,592	162,094
Local currency deposit account (Overnight deposit)		38	101
Foreign currency current accounts	5.2.2	848,484	2,894,682
		<u>2,066,114</u>	<u>3,056,877</u>
5.2.2	As per the letter no. 933463 dated 29-09-1395 of Ministry of Finance (MoF), due to tax litigation with M/s Ghazanfar Naft Gas Limited (Related Party), Da Afghanistan Bank (DAB) had blocked an amount of 2,434,170 US Dollars against the cheque no. 9574318 dated 30-11-2016, for foreseeable settlement of the tax litigation. Bank had adjusted its US Bank account balances with DAB with the same amount on standing instructions from Bank Operation Department of DAB vide letter no. 487/95105 dated 05/10/1395.		
5.2.3 Balances with other banks (foreign/domestic)			
Aktif Bank, Turkey		9,560	22
Zirat Bank, Turkey		155,331	133,314
CSC Bank, Lebanon		4,589	4,153
Yes Bank, India		1,300	517
Turkiye is Bankasi, Turkey		17,844	47,554
Yinzhou Bank, China		297	285
Axis Bank, India		61	516
BMCE Bank International Madrid Spain		232,387	301,386
State Commercial Bank of Turkmenistan		751,103	-
Axis Bank, China		1,172	52,949
Pashtany Bank		39	119,098
Nural Investment Bank INC		3,457	-
		<u>1,177,140</u>	<u>659,793</u>
		<u>3,243,254</u>	<u>3,716,670</u>
6 INVESTMENT IN EQUITY INSTRUMENT			
Afghan Payment System (APS)		11,323	17,155
Add: Currency translation gain / (loss)		6,050	(5,832)
		<u>17,373</u>	<u>11,323</u>
6.1	This represents 16.67% (2016: 16.67%) 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 (2016: 250,000) without taking into account any impairment effects and yearly differences are appearing due to currency translations to Afs.		

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

	Note	21-Dec-17 Afs '000'.....	20-Dec-16
5 CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	1,021,956	837,420
Balances with banks	5.2	3,243,254	3,716,670
		<u>4,265,210</u>	<u>4,554,090</u>
5.1 Cash in hand			
Local currency		183,243	116,313
Foreign currencies		838,713	721,106
		<u>1,021,956</u>	<u>837,420</u>
5.2 Balances with banks			
5.2.1 Balances with central banks			
Local currency current accounts		1,217,592	162,094
Local currency deposit account (Overnight deposit)		38	101
Foreign currency current accounts	5.2.2	848,484	2,894,682
		<u>2,066,114</u>	<u>3,056,877</u>
5.2.2	As per the letter no. 933463 dated 29-09-1395 of Ministry of Finance (MoF), due to tax litigation with M/s Ghazanfar Naft Gas Limited (Related Party), Da Afghanistan Bank (DAB) had blocked an amount of 2,434,170 US Dollars against the cheque no. 9574318 dated 30-11-2016, for foreseeable settlement of the tax litigation. Bank had adjusted its US Bank account balances with DAB with the same amount on standing instructions from Bank Operation Department of DAB vide letter no. 487/95105 dated 05/10/1395.		
5.2.3 Balances with other banks (foreign/domestic)			
Aktif Bank, Turkey		9,560	22
Zirat Bank, Turkey		155,331	133,314
CSC Bank, Lebanon		4,589	4,153
Yes Bank, India		1,300	517
Turkiye is Bankasi, Turkey		17,844	47,554
Yinzhou Bank, China		297	285
Axis Bank, India		61	516
BMCE Bank International Madrid Spain		232,387	301,386
State Commercial Bank of Turkmenistan		751,103	-
Axis Bank, China		1,172	52,949
Pashtany Bank		39	119,098
Nural Investment Bank INC		3,457	-
		<u>1,177,140</u>	<u>659,793</u>
		<u>3,243,254</u>	<u>3,716,670</u>
6 INVESTMENT IN EQUITY INSTRUMENT			
Afghan Payment System (APS)		11,323	17,155
Add: Currency translation gain / (loss)		6,050	(5,832)
		<u>17,373</u>	<u>11,323</u>
6.1	This represents 16.67% (2016: 16.67%) 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 (2016: 250,000) without taking into account any impairment effects and yearly differences are appearing due to currency translations to Afs.		

GHAZANFAR BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

		21-Dec-17 Afs '000'.....	20-Dec-16 Afs '000'.....
7 INVESTMENT - HELD TO MATURITY	Note		
Placements and Fixed Deposits with Banks	7.1	972,165	66,840
Capital notes - 07 to 364 days	7.2	1,425,219	1,303,825
		<u>2,397,384</u>	<u>1,370,665</u>
7.1 Placements and Fixed Deposits with Banks			
Placement with Ziraat Katlim Bank - (USD)	7.1.1	555,920	-
Fixed Deposits Aktif Bank - (USD)	7.1.2	347,450	-
Placement with BMCE - (USD)		-	66,840
Placement with Nural Investment Bank INC - (USD)	7.1.3	69,490	-
		<u>972,860</u>	<u>66,840</u>
Impairment on Nural investment Bank	7.1.4	(695)	-
		<u>972,165</u>	<u>66,840</u>
7.1.1 These represent placement with Ziraat katlim Bank in USD under Islamic banking held to maturity having maximum period of 33 - 365 days carrying profit rate ranging from 2.20% to 3.10% p.a. (2016: .60% to 5.55% p.a)			
7.1.2 These represent deposit with Aktif bank in USD under Islamic banking held to maturity having maximum period of 90 - 367 days carrying profit rate ranging from 2.70% to 4.0% p.a. (2016: .60% to 5.55% p.a.)			
7.1.3 These represent placement with Nural investment bank of USD 1,000,000 under conventional banking carrying interest rate @ 2.90% per annum held to maturity having maturity period of 92 days.			
7.1.4 This represent provision made @1% for placement in Nural investment bank. No compulsory provisions for placement and deposit under Islamic banking are required by Da Afghanistan Bank.			
7.2 Capital notes with Da Afghanistan Bank			
Capital notes - 7 days (2016: 1.80%) p.a.		-	30,989
Capital notes - 28 days @0.36% 0.40% (2016: 3.535%) p.a.		-	99,726
Capital notes - 91 days @1.5% - 1.9% (2016: 4.330 %) p.a.		637,182	29,675
Capital notes - 182 days @4.10% (2016: 5.150%) p.a.		195,939	438,971
Capital notes - 364 days @4.98% - 6.665% (2016: 6.650% - 6.780%) p.a.		592,098	704,464
		<u>1,425,219</u>	<u>1,303,825</u>

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

8 LOANS AND ADVANCES

		21 December 2017		20 December 2016			
		Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
Note		..... Afs '000' .....		..... Afs '000'			
Conventional financing							
8.1	Running finance	1,856,051	(132,889)	1,723,162	1,430,261	(82,556)	1,347,705
8.2	SME loans	43,251	(740)	42,511	63,328	(4,357)	58,971
8.3	Term loans	190,022	(15,546)	174,476	274,682	(82,631)	192,051
		2,089,324	(149,175)	1,940,150	1,768,272	(169,544)	1,598,728
Islamic financing							
	Musharakah financing	-	-	-	67,094	(738)	66,356
8.4	Murabaha financing	707,789	(7,174)	700,615	665,092	(17,140)	647,952
		707,789	(7,174)	700,615	732,186	(17,878)	714,308
		2,797,113	(156,349)	2,640,765	2,500,458	(187,422)	2,313,036

- 8.1** The facility to meet working capital requirements carries interest ranging from 13% to 15% (2016: 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 properties of the borrower.
- 8.2** These are extended to the Small and Medium Enterprises with limit up to \$ 2,000,000 (equivalent to Afs 135.76 million) and carry interest 14.5% to 17% (2016: 14.5% to 17%) 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% (2016: 13% to 16%) 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** 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% (2016: 13% to 20%). These facilities are extended for the period from 1 years to 2 years and secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of properties of the borrower.
- 8.5** At reporting date, loans and advances amounting to Afs 2,797.113 million (2016: 2,733.603 million) were classified against which an impairment allowance amounting to Afs 63.510 million (2016: 187.422 million) has been maintained.

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

	21-Dec-17	20-Dec-16
	..... Afs '000'	.....
8.6 Impairment allowance on loans and advances		
Opening balance	187,422	184,749
Charge for the year	99,658	7,527
Exchange fluctuation effect (loss) / gain	4,485	(4,854)
Reversal made during the Period	(135,216)	-
Net impairment allowance on funded facilities	(31,073)	2,673
Closing balance - Loans and advances provision reserves	156,349	187,422
8.7 Break Down of Provisions and Loans written off		
Net impairment allowance on funded facilities	(31,073)	2,673
Impairment allowance on non-funded facilities	7,600	-
Exchange Fluctuations effect loss / (gain)	(4,485)	4,854
Loan charged off during the period / year	14,779	119,009
Provisions on funded and non-funded facilities - Net	(13,179)	126,536

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

9 PROPERTY AND EQUIPMENT

Operating fixed assets
Capital work-in progress (Branches)

[illegible]

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

	21-Dec-17	20-Dec-16
	..... Afs '000'	
10 INTANGIBLE ASSETS		
Gross carrying amount		
Opening balance	16,691	16,308
Adjustments	7,115	
Additions during the year	66	383
Closing balance	23,872	16,691
Accumulated amortization		
Opening balance	15,607	14,343
Adjustments	7,062	
Amortization for the year	752	1,264
Closing balance	23,421	15,607
Written down value	451	1,084

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

	21-Dec-17	20-Dec-16
	..... Afs '000'	
11 OTHER ASSETS		
Restricted deposits with DAB	11.1 688,555	638,675
Prepayments	16,119	17,540
Receivable from Western Union	20,267	25,287
Profit Receivable	17,010	4,411
Interest receivable	43,435	39,928
Security deposits to western union	16,678	16,042
Security Deposit Hairatan Branch	11.3 69,490	66,840
Others	3,630	5106
	875,184	813,829

11.1 Currency profile of required reserve with DAB

Local currency	154,015	638,675
US Dollar	527,264	-
Euro	7,276	-
11.2	688,555	638,675

- 11.2 Da Afghanistan Bank (DAB) made it mandatory vide their circular issued in July, 2017, that all Banks to maintain required reserve on all customer deposits accepted in local currency @8% & on all customer deposits accepted in Foreign Currency @10%.

- 11.3 This represents an amount of US Dollar 01 Million paid against the operating lease of 10 years as security deposit to the landlord of the premises, at maturity the security deposit is refundable.

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

	21-Dec-17	20-Dec-16
	..... Afs '000'	
12 SHARE CAPITAL		
Authorized capital - 124,780 shares of Afs 10,000 each	1,247,800	1,247,800
Issued and paid-up share capital - 124,780 shares of Afs 10,000 each	1,247,800	1,247,800

13 DEFERRED TAX LIABILITY

Deferred taxes arising from temporary differences is summarized below:

Deferred tax liabilities	December 21, 2016	Recognized in profit and loss	December 21, 2017
	..... Afs '000'		
Deferred tax liability			
Property and equipment	(30,099)	30,099	-
	(30,099)	30,099	-

- 13.1 During the year management had de-recognized the deferred tax liability as the income tax authorities are allowing the claimed depreciation and amortization expense as allowable deductions.

Deferred tax assets (liabilities)	January 01, 2016	Recognized in profit and loss	December 21, 2016
	..... Afs '000'		
Deferred tax liability			
Property and equipment	(30,099)	-	(30,099)
	(30,099)	-	(30,099)
Deferred tax asset			
Unused tax losses	1,459	(1,459)	-
	1,459	(1,459)	(30,099)

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

	Note	21-Dec-17 Afs '000'	20-Dec-16
14 DEPOSITS FROM CUSTOMERS			
14.1 Conventional			
Current deposits		4,636,040	4,277,373
Saving deposits	14.1	753,101	698,707
Term deposits	14.2	163,996	178,648
		<u>5,553,137</u>	<u>5,154,728</u>
14.2 Islamic			
Al Wadiah current deposits		696,453	922,913
Mudarabah saving deposits	14.3	563,888	600,280
Mudarabah fixed deposits	14.4	1,257,995	871,348
		<u>2,518,336</u>	<u>2,394,541</u>
14.3 Margin deposits			
Margin Deposit - Expired		59,881	-
Margin Deposit - Not Expired		533,565	259,828
		<u>593,446</u>	<u>259,828</u>
		<u>8,664,919</u>	<u>7,809,097</u>

14.1 Conventional saving deposits carries interest ranging from 1% to 3% (2016: 1% to 3%) per annum.

14.2 Conventional term deposits carries interest ranging from 1.25% to 2.750% (2016: 1.25% to 3.50%) 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 @1% (2016: @1%) per annum.

14.4 Islamic term deposits carry profit rates of 2.5% (2016: 2%) per annum with maturity of 6 months to 1 year.

	Note	21-Dec-17 Afs '000'	20-Dec-16
15 OTHER LIABILITIES			
Provision for taxation - net		50,170	-
Accrued interest		4,440	5,854
Withholding tax		4,822	533
Unearned commission on bank guarantees		1,197	24,114
Accrued expenses		10,571	10,707
Other's		3,223	24,634
		<u>74,423</u>	<u>65,843</u>

GHAZANFAR BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

	Note	21-Dec-17 Afs '000'	20-Dec-16
16 NET INTEREST INCOME			
Interest income on:			
Cash and cash equivalents		24,415	5,686
Loans and advances		335,820	360,619
Capital notes		79,297	59,171
Total interest income		439,532	425,475
Interest expense			
Deposits from customers	16.1	(39,382)	(29,207)
Net interest income		400,150	396,268
16.1 Deposits from customers			
Interest on:			
Term deposit's		26,861	18,600
Saving deposit's		12,521	10,607
		39,382	29,207
17 NET FEE AND COMMISSION INCOME			
Fee and commission income			
Commission on Bank Guarantees		77,974	67,913
Commission on letter of credits		226	278
Fund transfer fee		55,482	76,111
Deposit accounts servicing		1,196	878
Total fee and commission income		134,878	145,180
Fee and commission expense			
Inter bank transaction fee		(8,334)	(29,502)
Net fee and commission income		126,544	115,678
18 OTHER OPERATING (LOSS) / INCOME			
Foreign exchange (loss) / gain		14,874	3,364
Currency translation gain on equity investment		6,050	(5,918)
Loan processing fee		12,159	11,727
Recovery of loan previously written off		70,488	52,376
Sale of obsolete items		5	-
Other		7,558	2,144
		111,134	63,693

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

		21-Dec-17	20-Dec-16
		..... Afs '000'	.....
19	EMPLOYEE COMPENSATION		
	Salaries and wages	101,623	92,497
	Bonus to staff	683	655
	Staff welfare	536	300
		<u>102,842</u>	<u>93,452</u>
20	OTHER EXPENSES		
	Security guards expenses	38,640	33,476
	Insurance	27,158	28,620
	Communication	17,364	18,112
	Advertisement	18,247	10,965
	Travelling and conveyance	9,123	6,140
	Utilities	8,217	5,925
	Fuel	2,620	2,482
	Repair and maintenance	6,633	4,838
	Stationery and printing	4,077	4,756
	Food expenses	4,367	4,066
	Staff training	2,792	1,013
	Legal & Audit fee	4,267	2,240
	Provision expense other asset and accrued interest	2,879	-
	Other expenses	13,681	10,195
		<u>160,065</u>	<u>132,828</u>

20.1 These include insurance charges amounting to Afs 14.055 Million (2016: 16.58 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	21-Dec-17	20-Dec-16
		..... Afs '000'	.....
Current	21.1	65,349	31,765
Deferred	13.1	(30,099)	-
		<u>35,250</u>	<u>31,765</u>

21.1 Currently Afghanistan Revenue Department - Large Taxpayers Office (LTO) tax audit is in process for the period from December 2010 to December 2014. However, no initial assessment order has been given by the tax authorities, hence no provision has been recognized in these financial statements.

GHAZANFAR BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

22	CONTINGENCIES AND COMMITMENTS	3,636,796	6,489,298
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22.1 *Contingencies*

Guarantees issued on behalf of customers

Bank Guarantees Issued [AFN]	293,820	6,161,772
Bank Guarantees Issued [EUR]	7,553	-
Bank Guarantees Issued [USD]	3,260,109	138,890
	<u>3,561,482</u>	<u>6,300,662</u>

22.2 *Commitments*

Non-cancellable operating lease rentals are payable as follows:

Less than one year	-	-
Between one to five years	-	-
Un-used portion of commitment of Overdraft	75,314	188,636
	<u>75,314</u>	<u>188,636</u>

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	21-Dec-17	20-Dec-16
		..... Afs '000'	.....

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:

	21-Dec-17	20-Dec-16
	..... Afs '000'	.....
Salary paid to the members of the board of supervisors	4,039	4,461
Benefits to the management board	18,067	13,234
	<u>22,106</u>	<u>17,695</u>

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.

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

23.3 Transactions with related parties

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

	Note	21-Dec-17 Afs '000'	20-Dec-16
Associates			
<i>Balances at year end</i>			
Loans and advances		69,893	67,094
Amount blocked by DAB for GNG tax litigation as per MoF Letter	5.2.2	169,150	-
Prepaid rent		110	109
Customer deposits		204,085	665
Security Deposit for Hairatan Branch		69,490	69,490
<i>Transaction during the year</i>			
(Repayment) / disbursement of loans and advances		-	66,840
Issuance of bank guarantees		-	334
Interest income on loans and advances		1,985	16,859
Commission on bank guarantees		-	10,105
Rent paid		104	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.

GHAZANFAR BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

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:

	Note	Held for Trading	Designated at Fair Value	Held to Maturity	Loans and receivables	Available for sale	At Amortized Cost	Total carrying amount
					Afs '000'			
2017								
Cash and cash equivalents	5	-	-	-	-	-	4,265,210	4,265,210
Investments	7	-	-	2,397,384	-	-	-	2,397,384
Loans and advances to customers	8	-	-	-	2,640,764	-	-	2,640,764
Others assets	11	-	-	60,445	814,739	-	-	875,184
		-	-	2,457,829	3,455,503	-	4,265,210	10,178,542
Deposits from customers	14	-	-	-	-	-	8,664,919	8,664,919
Other liabilities	15	-	-	-	-	-	24,253	24,253
		-	-	-	-	-	8,689,172	8,689,172
2016								
Cash and cash equivalents	5	-	-	66,840	4,554,090	-	-	4,620,930
Investments	7	-	-	1,343,579	-	-	-	1,343,579
Loans and advances to customers	8	-	-	-	2,313,036	-	-	2,313,036
Others assets	11	-	-	4,586	663,962	-	-	668,547
		-	-	1,415,005	7,531,087	-	-	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

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

25 FINANCIAL RISK MANAGEMENT

Introduction and overview

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

25.1 a) credit risk

25.2 b) liquidity risk

25.3 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.

GHAZANFAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 21, 2017 - (30-Qawas-1396)

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.

25.1 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 immovable 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.

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All loans and other assets are classified into one of the five classification grades mentioned below for provisioning in accordance with the regulations of DAB. General and specific allowance for impairment is made by the Bank with the following percentages:

	Days past Percentage	Standard 1-30 days 1%	Watch 31-60 days 5%	Substandard 61-120 days 25%	Doubtful 121-480 days 50%	Loss 481 days or more 100%
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Write-off policy

The Bank recognized 100% provision on loans after 480 days and keeping these on books of account for additional 06 months after expiry of additional 06 months these loans would be written off as per Da Afghanistan bank regulations. 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 or legal action is not advisable.

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:

	Gross amount	Note	21-Dec-17 Afs '000'	20-Dec-16
Concentration by sector				
1 Health and Hygienic			<u>2,797,113</u>	<u>2,500,458</u>
2 Wholesales			116,898	99,305
3 Machineries			173,725	99,007
4 Petroleum and Lubricants			-	10,247
5 Electronics			261,626	269,028
6 Food Items			-	24,728
7 All Other services and companies			275,851	319,165
8 Retail Trading			745,326	608,544
9 Road and Railway			44,426	59,779
11 Other infrastructure projects			69,893	67,094
12 Manufacturing & Products of Metal, Wood, Plastic, Rubber, Leather and Paper			260,540	239,275
13 Manufacturing, Handmade and Machine products			35,019	2,507
14 Cement and Construction Materials			300,758	234,052
15 Power			59,747	82,485
16 Construction and Buildings			140,683	150,014
			312,621	235,226

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Cash and cash equivalents

The Bank held cash and cash equivalents of Af\$ 4,265 million (2016: 3,716.670 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.

25.2 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, whilst enabling the Bank to pursue valued business opportunities. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

The Bank relies on deposits from customers as its primary source of funding. Deposits from 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:

	21-Dec-17	20-Dec-16
Closing balance for the year ended	56%	46%
Average for the period	58%	42%
Maximum for the period	60%	50%
Minimum for the period	55%	35%

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Maturity analysis for financial liabilities

	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
				..... Afs '000'				
2017								
Deposits from customers	14	8,664,919	8,664,919	5,392,374	1,316,989	533,565	1,421,991	-
Other liabilities	15	74,423	74,423	18,616	5,637	50,170	-	-
		8,739,342	8,739,342	5,410,990	1,322,626	583,735	1,421,991	-
2016								
Deposits from customers		7,809,097	7,809,097	5,200,286	1,298,988	1,220,026	89,798	-
Other liabilities		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	-

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.

25.3 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:

	Note	Carrying amount	Less than three months	3-6 months	6-12 months	1-5 years	More than 5 years
			..... Afs '000'				
2017							
Loans and advances to customers	8	2,640,764	700,615	1,723,162	42,511	174,476	-
Investments	7	2,397,383	-	637,182	1,760,202	-	-
		5,038,148	700,615	2,360,343	1,802,713	174,476	-
Deposits from customers	14	8,664,919	5,332,493	1,376,870	1,421,991	533,565	-
		702,902	6,033,108	3,737,213	3,224,704	708,041	-

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	Note	Carrying amount	Afs '000'				
			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	-
Investments	7	3,768,048	130,715	29,675	1,210,275	-	2,397,383
		6,268,504	652,367	788,003	2,143,075	287,676	2,397,383
Deposits from customers	14	(2,348,983)	(1,298,988)	(879,743)	(80,454)	(89,798)	-
		3,919,521	(646,620)	(91,740)	2,062,621	197,878	2,397,383
Exposure to currency risk							
The Bank's exposure to foreign currency risk was as follows based on notional amounts.							
Assets							
21 December 2017		Total	Afs	US\$	Euro	GBP	
Cash and cash equivalents	5	4,265,210	1,402,565	2,791,388	67,596	3,662	
Investment in associate	6	17,373	-	17,373	-	-	
Investment	7	2,397,384	1,425,219	972,165	-	-	
Loans and advances to customers	8	2,797,113	6,631	2,790,482	-	-	
Other assets	11	890,363	241,683	641,404	7,276	-	
		10,367,443	3,076,098	7,212,812	74,872	3,662	
Liabilities							
21 December 2017		Total	Afs	US\$	Euro	GBP	
Deposits from customers	14	8,838,771	1,634,834	7,115,562	88,240	135	
Other liabilities	15	108,170	94,541	13,569	60	-	
		8,946,941	1,729,375	7,129,131	88,300	135	
Net foreign currency exposure							
		1,420,502	1,346,723	83,681	(13,428)	3,527	
Assets							
20 December 2016	Note	Total	Afs	US\$	Euro	GBP	
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	1,370,665	1,303,825	66,840	-	-	
Loans and advances to customers	8	2,313,036	9,654	2,303,382	-	-	
Other assets	11	813,829	661,321	112,754	-	-	
		9,062,942	2,266,699	6,651,863	101,190	3,436	

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Liabilities	Total	Afs	US\$ Afs '000'	Euro	GBP
20 December 2016					
Deposits from customers	7,809,097	986,777	6,754,533	67,678	109
Other liabilities	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	1,247,079	(135,642)	33,484	3,327

	21-Dec-17	20-Dec-16
	Average rate	Reporting date spot rate
in Afs		
US\$	68.17	69.49
Euro	76.05	82.18
GBP	87.60	92.31

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, euro and GBP at 21 December 2017 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.

	21-Dec-17	20-Dec-16
	Equity	Profit or loss
US\$	(6,694)	(8,368)
Euro	1,074	1,343
GBP	(282)	(353)

A 10% weakening of the Afghani against the above currencies at 21 December 2017 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.

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.

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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 21, 2017 is as follows:

	21-Dec-17	20-Dec-16
	..... Afs '000'	.....
Tier 1 capital		
Total equity capital	1,669,277	1,397,794
Less: Profit for the year	(291,495)	(127,059)
Less: Intangible assets	(451)	(1,084)
Total tier 1 (core) capital	1,377,331	1,269,651
Tier 2 capital		
Less: Equity investment	(17,373)	(11,323)
General allowances on Standard Advances	26,097	18,543
Add: Profit for the year	291,495	127,059
Total tier 2 (supplementary) capital	300,219	134,280
Total Regulatory capital = Tier 1 + Tier 2	1,677,550	1,403,931
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	1,021,956	837,420
Direct claims on DAB	4,181,388	4,999,377
Direct claims on other Governments	-	-
Others	-	-
Total	5,203,344	5,836,797
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Demand Deposits with Banks	1,177,140	659,793
Time Deposits with Banks	972,860	66,840
Total	2,150,000	726,633
20% Risk-Weight Total (Above Total x 20%)	430,000	145,327
50% risk weight:		
Qualifying Residential Mortgage Loans	-	-
Qualifying Real Estate Construction Loans	-	-
Total	-	-
50% risk-weight total (above total x 50%)	-	-

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	21-Dec-17	20-Dec-16
 Afs	'000'
100% risk weight		
Loans gross amount		
Property & Equipment's	2,797,113	2,500,458
All Other Assets	247,868	265,756
Total	186,629	175,154
100% Risk-Weight Total (Above Total x 100%)		
100% Risk-Weight Total (Above Total x 100%)	3,231,610	2,941,368
Off-balance-sheet items with 0% Credit Conversion Factor		
Undrawn loan and overdraft facilities		
Guarantees		
Total	75,314	188,636
0% Credit Conversion Factor Total (Above Total x 0%)		
0% Credit Conversion Factor Total (Above Total x 0%)	75,314	188,636
Off-balance-sheet items with 20% Credit Conversion Factor		
Commercial letters of credit		
Total	-	-
20% Credit Conversion Factor Total (Risk-Weighted Total x 20%)		
20% Credit Conversion Factor Total (Risk-Weighted Total x 20%)	-	-
Off-balance sheet items with 100% Credit Conversion Factor		
Guarantees and Standby Letters of Credit		
20% Risk Weight	467,050	127,003
100% Risk Weight	692,671	5,737,275
Total	1,159,721	5,864,278
100% Credit Conversion Factor Total (Risk-Weighted Totals x 100%)		
100% Credit Conversion Factor Total (Risk-Weighted Totals x 100%)	1,159,721	5,864,278
Total risk-weighted assets		
Total risk-weighted assets	4,821,331	8,950,972
Tier 1 Capital Ratio	29	14
Regulatory Capital Ratio	35	16

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27 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on March 17, 2018 by the Board of Supervisors of the Bank.

28 General

28.1 Figures have been re-arranged and re-classified, wherever necessary, for the purpose of better presentation.

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

Mamunul Karim
CHIEF EXECUTIVE OFFICER


Mamunul Karim
CHAIRMAN
