Ghazanfar Bank –Financial Statements and Auditors' Report

For the Period from December 21, 2017 to December 31, 2018

Contents

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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 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from December 22, 2017 to December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, and its financial performance and its cash flows for the period from December 22, 2017 to December 31, 2018 in accordance with International Financial Reporting Standards (IFRSs) 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).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the 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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matters	How the matter was addressed in our audit
Loan and advances - net of impairment losses	
Loans and advances have carrying amount of AFN 2,949 million as of yearend and constitute 25% of the total assets. 87% of interest income of the Bank is derived from loans and advances. Management of the loan portfolio is important from management's perspective to ensure compliance with the Central Bank's regulations and to ensure the viability of the business operations. Further, classification of loans and advances affects the income of the Bank as reversal of interest accrued is required along with recording of extra provision upon categorization of loans and advances as doubtful or loss which can also be based on qualitative criteria. Therefore, we have considered valuation of loans and advances as a key audit matter. We refer note 4.2, 4.4 and 4.12 to the financial statements which contain accounting policies for loans and advances recognition and measurement, impairment provision and interest income.	We selected a sample of loans and advances in each category of loans and advances and verified whether approved policies and procedures of the Bank have been followed in sanctioning the loan including proper due diligence procedures to establish the character of the borrower, repayment capacity, appropriateness of the loan product to the purpose and objective of the loan, adequacy, legitimacy and valuation of the collateral. We also checked whether proper loan documentation has been maintained to establish valid claim of the Bank over the borrower. We also verified whether approved policies and procedures of the Bank are in-line with the regulations issued by the Central Bank of Afghanistan. Since the overdue days criteria specified by DAB derives the loan provision, we also verified whether the aging of the loan and advances is correctly carried on by the banking application or not. We also assessed whether there is also objective evidence of impairment of loan present and as a result of which additional provision may be required.
Provision for taxation	
Management has not recorded the provision for deferred tax since management applied the provision of Article 18 of the Income Tax Law of Afghanistan as compared to Article 47 of the Income Tax Law of Afghanistan and temporary difference amounting to	We reviewed the recent tax assessments of the Bank carried by the Ministry of Finance (MoF) to assess the viability of tax position taken by management. Further, we

AFN 36.11 million owing to accelerated tax depreciation (deferred tax liability and related expense in the statement of comprehensive income) has not be recognized in the financial statements if Article 47 of the Income Tax Law of Afghanistan was applied in calculating tax deprecation. Considering the resulting impact would have been material to the financial statements, we consider this as a key audit matter. The related accounting policy has been provided in Note 4.9 to the financial statements.	also reviewed the opinion obtained by management from the MoF in this regard. The resulting audit evidence supports the view point taken by management. Therefore, we consider that recognition of deferred tax liability is not required in the financial statements based on accelerated tax depreciation calculated in accordance with Article 47 of the Income Tax Law of Afghanistan.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs issued by the International Accounting Standards Board (IASB), the requirements of the Law of Banking in Afghanistan and 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 Responsibilities for the Audit of the Financial Statements

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

From the matters communicated with those charged with governance, we determine the matter that was of most significance 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 regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

The financial statements of the Bank for the year ended December 21, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on March 18, 2018.

Grant Thornton Afg.

Grant Thornton Afghanistan
Chartered Accountants
Engagement Partner: Saqib Rehman Qureshi - FCA
Location: Kabul, Afghanistan
Date: March 28, 2019

ANNEXURE – Auditor's Responsibilities

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

GHAZANFAR BANK

Financial Statements

For the Period from December 21, 2017
to December 31, 2018

GHAZANFAR BANK
Statement of Financial Position
As at December 31, 2018

	Note	31-Dec-18	21-Dec-17
		……… Afs '000'	………
ASSETS			
Cash and cash equivalents	5	4,859,829	4,265,210
Investments	6	2,548,439	2,414,757
Loans and advances	7	2,948,782	2,640,764
Property and equipment	8	341,069	247,868
Intangible assets	9	1,438	451
Other assets	10	1,151,672	875,184
TOTAL ASSETS		**11,851,229**	**10,444,234**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	1,247,800	1,247,800
Contingency reserves		21,451	12,706
Accumulated profits		300,594	408,771
TOTAL EQUITY		**1,569,845**	**1,669,277**
LIABILITIES			
Deposits from customers	12	10,250,370	8,664,919
Other liabilities	13	29,832	59,868
Provision for taxation		1,182	50,170
TOTAL LIABILITIES		**10,281,384**	**8,774,957**
TOTAL EQUITY AND LIABILITIES		**11,851,229**	**10,444,234**
Contingencies and commitments	14		

The annexed notes 1 to 26 form an integral part of these financial statements.

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

GHAZANFAR BANK
Statement of Comprehensive Income
For the period from 22 December 2017 to 31 December 2018

	Note	From 22-Dec-2017 to 31-Dec-2018	From 22-Dec-2016 to 21-Dec-2017
		……… Afs '000' ………	
Interest income		444,849	439,532
Interest expense		(35,674)	(39,382)
NET INTEREST INCOME	*15*	**409,175**	**400,150**
Fee and commission income		185,450	134,878
Fee and commission expense		(9,753)	(8,334)
NET FEE AND COMMISSION INCOME	*16*	**175,697**	**126,544**
Other operating income	*17*	113,721	111,134
OPERATING INCOME		**698,593**	**637,828**
Impairment allowances and charge off - net	*7.5*	(50,969)	13,179
Employee compensation	*18*	(126,334)	(102,842)
Operating lease expenditure		(28,407)	(27,635)
Depreciation	*8.1*	(31,438)	(32,968)
Amortization	*9*	(837)	(752)
Administrative expenditure	*19*	(212,924)	(160,065)
		(450,909)	**(311,083)**
PROFIT BEFORE TAX		**247,684**	**326,745**
Taxation	20	(120,916)	(35,250)
PROFIT AFTER TAX		**126,768**	**291,495**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**126,768**	**291,495**

The annexed notes 1 to 26 form an integral part of these financial statements.

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

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Ghazanfar Bank

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رئیس عامل
Chief Executive Officer
GHAZANFAR BANK

GHAZANFAR BANK
Statement of Changes in Equity
For the period from 22 December 2017 to 31 December 2018

	Share capital	Contingency Reserve	Accumulated Profit	Total
	……………………… *Afs '000'* ………………………			
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 20, 2017	**1,247,800**	**12,706**	**408,771**	**1,669,277**
Profit for the period	-	-	126,768	126,768
Dividend distribution	-	-	(226,200)	(226,200)
Contingency reserve fund	-	8,745	(8,745)	-
Balance as at December 31, 2018	**1,247,800**	**21,451**	**300,594**	**1,569,845**

The annexed notes 1 to 26 form an integral part of these financial statements.

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

GHAZANFAR BANK

Statement of Cash Flow

For the period from 22 December 2017 to 31 December 2018

		From 22-Dec-2017 to 31-Dec-2018	From 22-Dec-2016 to 21-Dec-2017
		.... *Afs '000'*	....
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		247,684	326,745
Adjustments for:			
Net impairment loss / (reversal)		50,969	(13,179)
Depreciation		31,438	32,968
Gain on disposal of property and equipment		(97)	-
Amortization		837	752
Provision on other assets		-	2,879
		330,831	**350,165**
(Increase) / decrease in current assets			
Loans and advances		(358,987)	(374,491)
Other assets		(276,488)	(7,464)
Increase / (decrease) in current liabilities			
Deposits from customers		1,585,451	855,822
Other liabilities		(30,036)	8,580
Provision for non funded facilities		-	-
		919,940	**482,447**
		1,250,771	**832,612**
Tax paid		(169,905)	(3,826)
Net cash generated from operating activities	A	**1,080,866**	**828,786**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(20,881)	(9,561)
Additions to capital work in progress		(103,813)	(1,368)
Proceeds from disposal of properyt and equipment		153	-
Purchase of intangible assets		(1,824)	(66)
Net change in investments		(133,682)	(1,086,660)
Net cash used in investing activities	B	**(260,047)**	**(1,097,654)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(226,200)	(20,012)
Net cash used in financing activities	C	**(226,200)**	**(20,012)**
Net increase / (decrease) in cash and cash equivalents (A+B+C)		594,619	(288,880)
Cash and cash equivalents, beginning of period		4,265,210	4,554,090
Cash and cash equivalents, end of period		**4,859,829**	**4,265,210**

The annexed notes 1 to 26 form an integral part of these financial statements.

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Chairman	Chief Executive Officer	Chief Financial Officer

غضنفر بانک

BOS

Ghazanfar Bank

غضنفر بانک

رئیس عامل

Chief Executive Officer

GHAZANFAR BANK

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 March 1, 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 14 branches with Islamic banking operations (2017: 11 branches with Islamic banking operations) in different provinces of Afghanistan and number of employees are 350 (2017: 288) at the year end.

The financial year of the Bank changed from 21 December to 31 December during the year, therefore, the comparative information includes the information for one year and 10 additional days and is not comparable.

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 published accounting standards that became effective in the current year

Following accounting standard and amendments became applicable in the current year;

- IFRS 15 "Revenue from Contracts with Customers"
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments IFRS 2 "Classification and Measurement of Share-based Payment Transactions"
- Amendments to IAS 40 "Transfers of Investment Property"
- Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- Annual Improvements 2014-2016 cycle

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

The following are the standards, interpretations and amendments which have been issued but are not yet effective:

Description	*Effective date for annual accounting period*
• Amendments to IFRS 10 and IAS 28 "IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	Not yet finalize
• IFRS 16 "Leases"	January 1, 2019
• Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures	January 1, 2019
• Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
• Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019
• IFRS 17 "Insurance Contracts"	January 1, 2019
• Annual Improvements 2015-2017 Cycle (issued in December 2017)	January 1, 2019
• IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment"	January 1, 2019
• IFRS 9 "Financial Instruments"	January 1, 2021

Management does not intend to adopt any of the above standards, interpretations and amendments earlier than the applicable date. These will not have a significant impact on the financial statements of the Bank in the year except for IFRS 16 which will have an impact on the financial statements but assessment in this regard is currently under process.

Central Bank of Afghanistan vide its circular No. 298 dated Hamal 8, 1398 (March 28, 2019) deferred the applicability of IFRS 9 "Financial Instruments" till January 1, 2021.

3 BASIS OF PREPARATION

3.1 Basis of measurement

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

3.2 Use of critical accounting estimates and judgments

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

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

a)	Note 7	Provision against non-performing loans and advances to customers
b)	Note 8	Depreciation rates for property and equipment
c)	Note 9	Amortization rates for intangible assets
d)	Note 20	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 and financial liabilities

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

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

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

a) Classification, recognition and subsequent measurement of financial assets

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

The Bank determines allowance for impairment loans and advances in accordance with regulation issued by DAB "Asset Classifications and Provisioning Regulation" issued December 2017.

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

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

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

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

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

b) Classification and subsequent measurement of financial liabilities

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

4.3 Investment in equity instruments

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

4.4 Loans and advances

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

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

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

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.

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

Land is not depreciated. Depreciation on all other fixed assets is calculated using the straight-line method to allocate their depreciable cost to their residual values over their estimated useful lives.

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

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.

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

4.6 Intangible assets

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

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

The estimated useful life of software is three to ten years.

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

4.7 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

These are recorded at the amount of proceeds received.

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 Employee compensation

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

4.11 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.

4.12 Interest income and expense

Mark-up /interest /return on advances and investments is recognized in the statement of comprehensive income using effective interest rate method, and in case of advances classified as doubtful or loss, mark - up is recognized on receipt basis. Mark-up /interest /return on rescheduled /restructured loans and advances and investments is recognized as permitted by DAB. Income from Murabaha is accounted for on a time proportionate basis over the period of Murabaha transaction. Gain or loss on sale of investments are recognized in statement of comprehensive income in the year in which these arise.

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

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

4.13 Fee and commission

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

Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

4.14 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.

4.15 Dividends

Dividend payments are recognized in the year in which these are approved by BOS and DAB with the appropriations to capital reserves required by Corporations and Limited Liability Companies Law of Afghanistan.

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.

		Note	31-Dec-18	21-Dec-17
			.... Afs '000'	
5	**CASH AND CASH EQUIVALENTS**			
	Cash in hand	5.1	852,205	1,021,956
	Balances with banks	5.2	4,007,624	3,243,254
			4,859,829	**4,265,210**
5.1	***Cash in hand***			
	Local currency		136,660	183,243
	Foreign currencies		715,545	838,713
			852,205	**1,021,956**
5.2	***Balances with banks***			
	Balances with central bank			
	Local currency current accounts		1,216,864	1,217,592
	Local currency deposit account		38	38
	Foreign currency current accounts		833,781	848,484
			2,050,683	**2,066,114**
	Balances with other banks			
	Aktif Bank, Turkey		55,810	9,560
	Zirat Bank, Turkey		150,973	155,331
	CSC Bank, Lebanon		2,145	4,589
	Yes Bank, India		5,833	1,300
	Turkiye is Bankasi, Turkey		-	17,844
	Yinzhou Bank, China		322	297
	Axis Bank, India		68	61
	BMCE Bank International Madrid Spain		97,225	232,387
	State Commercial Bank of Turkemenistan		175,802	751,103
	Axis Bank, China		-	1,172
	Pashtany Bank		41	39
	Nural Investment Bank INC		5,318	3,457
	JSC Ziraat Bank Uzbekistan		100,460	-
	Uzpromstroy Bank Uzbekistan		9,313	-
	Infin Bank Uzbekistan		8,056	-
	Transkapital Bank Russia		397,122	-
	JSC Asaka Bank Uzbekistan		9,953	-
	JSC Capital Bank Kazakhstan		904,235	-
	TENGRI Bank JSC		34,265	
			1,956,941	**1,177,140**
			4,007,624	**3,243,254**
6	**INVESTMENTS**			
	Investment in associate	6.1	18,828	17,373
	Placements with foreign banks	6.2	2,372,265	972,165
	Investment in capital notes		-	1,425,219
	Investment in gold - through pofit and loss	6.3	157,346	-
			2,548,439	**2,414,757**

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	Note	31-Dec-18	21-Dec-17
		……… Afs '000'	………
6.1 *Investment in associate*			
Afghan Payment System (APS)		11,323	11,323
Exchange revaluation		7,505	6,050
	6.1.1	**18,828**	**17,373**

6.1.1 This represents 16.67% (2017: 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. This investment is carried at initial cost of USD 250,000 without taking into account any impairment effects and yearly differences are appearing due to currency translations to Afs.

6.2 Placements with foreign banks

This includes short term placement with foreign banks with the maturity dates upto June 2019 carrying interest rate ranging from 2.25% to 4.75% (2017: 2.25% to 4.75%) p.a.

	Note	31-Dec-18	21-Dec-17
		……… Afs '000'	………
6.3 Investment in gold - fair value through profit & loss			
Investment at cost		149,506	-
Unrealized revaluation gain on investment		7,840	-
	6.3.1	**157,346**	-

6.3.1 This represents gold investment through Aktif Bank Turkey.

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7 LOANS AND ADVANCES

	Note	From 22-Dec-2017 to 31-Dec-2018			From 22-Dec-2016 to 21-Dec-2017		
		Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		.... Afs '000'			.... Afs '000'		
Conventional financing							
Running finance	7.1	2,195,131	(173,880)	2,021,251	1,856,051	(132,889)	1,723,162
SME loans	7.2	57,242	-	57,242	43,251	(741)	42,511
Term loans	7.3	246,155	(40,623)	205,532	190,022	(15,546)	174,476
		2,498,528	**(214,503)**	**2,284,025**	**2,089,324**	**(149,175)**	**1,940,149**
Islamic financing							
Murabaha	7.4	664,870	(113)	664,757	707,789	(7,174)	700,615
		3,163,398	**(214,616)**	**2,948,782**	**2,797,113**	**(156,349)**	**2,640,764**

7.1 These represent loans provided to meet working capital requirements and carry interest rates ranging from 10% to 15% (2017: 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.

7.2 These loans are extended to Small and Medium Enterprises with limit up to AFN 15,000,000 and carry interest 5.5% to 15% (2017: 14.5% to 17%) per annum with maturity period of 5 years. 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 .

7.3 These are term loan facilities extended to customers and carry interest rates ranging from 10% to 14.5% (2017: 13% to 16%) per annum. These facilities are extended for maximum period of 7 years. 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.

7.4 These represent receivables (excluding profit receivable) on account of murabaha financing which is provided on cost plus mark-up to customers and are repayable in installments of twelve months. Mark-up on murabaha financing range from 3% to 23% (2017: 13% to 20%) per annum. These are further secured against personal guarantees, hypothecation over stock in trade, charge over fixed assets and mortgage of properties of the borrower.

	31-Dec-18	21-Dec-17
	...... Afs '000'	
7.5 Impairment allowance on loans and advances		
Opening balance	156,349	187,422
Charge for the period / year	205,564	104,143
Reversal made during the period / year	(147,297)	(135,216)
Net impairment allowance on funded facilities	**58,267**	**(31,073)**
Closing balance	**214,616**	**156,349**
Net impairment allowance and charge off		
Net impairment allowance on funded facilities	58,267	(31,073)
Impairment allowance on non-funded facilities	(38,349)	7,600
Exchange loss on currency translation	(12,573)	(4,485)
Loan charged off during the period / year	43,624	14,779
Provisions on funded and non-funded facilities - Net	**50,969**	**(13,179)**

GTA

8 PROPERTY AND EQUIPMENT

	Note	31-Dec-18	21-Dec-17
		-------*AfS '000*-------	
Operating fixed assets	*8.1*	235,888	246,501
Capital work-in progress	*8.2*	105,181	1,368
		341,069	**247,868**

8.1

Description	Land	Building	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
			……… *Afs '000'* ………				
Cost							
Balance as at December 21, 2016	35,362	195,155	42,434	86,284	87,630	33,238	480,103
Additions during the year	-	6,090	2,409	66	-	2,365	10,931
Adjustments during the year	-	-	156	3,566	623	3,223	7,567
Balance as at December 20, 2017	**35,362**	**201,245**	**44,999**	**89,916**	**88,253**	**38,826**	**498,601**
Additions during the period	-	-	5,494	4,187	-	11,200	20,881
Disposals of during the period	-	-	(270)	(88)	-	(443)	(801)
Balance as at December 31, 2018	**35,362**	**201,245**	**50,223**	**94,015**	**88,253**	**49,583**	**518,681**
Accumulated Depreciation							
Balance as at January 01,2016	-	25,838	28,858	75,850	59,896	25,499	215,941
Depreciation for the year	-	6,516	4,055	5,925	11,755	4,717	32,968
Adjustments during the year	-	(490)	(92)	2,101	664	1,008	3,191
Balance as at December 20, 2017	-	**31,864**	**32,821**	**83,876**	**72,315**	**31,224**	**252,100**
Depreciation for the period	-	6,888	4,402	4,169	11,792	4,187	31,438
Disposal of during the period	-	-	(222)	(88)	-	(435)	(745)
Balance as at December 31, 2018	-	**38,752**	**37,001**	**87,957**	**84,107**	**34,976**	**282,793**
Written Down Value							
- December 31, 2018	**35,362**	**162,493**	**13,222**	**6,058**	**4,146**	**14,607**	**235,888**
- December 20, 2017	35,362	169,381	12,178	6,040	15,938	7,602	246,501
Depreciation rates		**3.33%**	**10% - 25%**	**25%**	**16.67%**	**20%**	

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8.2 Capital work-in-progress includes cost of license acquisition and implementation of new core banking software i.e. Oracle Flexcube with the related hardware equipment.

		Note	31-Dec-18	21-Dec-17
			……… Afs '000' ………	
9	**INTANGIBLE ASSETS**			
	Gross carrying amount			
	Opening balance		23,872	16,691
	Additions during the period / year	*9.1*	1,824	66
	Adjustments		-	7,115
	Closing balance		**25,696**	**23,872**
	Accumulated amortization			
	Opening balance		23,421	15,607
	Amortization for the period / year		837	752
	Adjustments		-	7,062
	Closing balance		**24,258**	**23,421**
	Written down value		**1,438**	**451**

9.1 Addition includes purchase of anti-money laundering software (AML) for the Compliance Department.

		Note	31-Dec-18	21-Dec-17
			……… Afs '000' ………	
10	**OTHER ASSETS**			
	Restricted deposits with DAB	*10.1*	953,710	688,555
	Prepayments		33,529	16,119
	Receivable from Western Union		26,069	20,267
	Profit receivable	*10.2*	36,817	17,010
	Interest receivable		2,541	43,435
	Security deposit Hairatan Branch	*10.3*	75,310	69,490
	Security deposits with Western Union	*10.4*	18,074	16,678
	Security deposits of ATM networking		3,763	3,480
	Advance to staff		1,171	-
	Others		688	151
			1,151,672	**875,184**
10.1	**Currency profile of required reserve with DAB**			
	Local currency		113,257	154,015
	US Dollar		826,016	527,264
	Euro		14,437	7,276
		10.1.1	**953,710**	**688,555**

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GHAZANFAR BANK
Notes to the Financial Statements
For the period from 22 December 2017 to 31 December 2018

10.1.1 Da Afghanistan Bank (DAB) made it mandatory for the banks vide its circular issued in July 2017 to maintain required reserve on all customer deposits accepted in local currency at the rate of 8% and on all customer deposits accepted in foreign currency at the rate of 10%.

10.2 This includes profit receivable on account of foreign placements amounting to Afs 31.42 million.

10.3 This represents an amount of USD 1 million, interest free, paid against the operating lease of 10 years as a security deposit to the landlord of the premises. The deposit is refundable at the face value upon maturity. Effect of translation to local currency is included in the current period.

10.4 This represent security deposits which were made between 2010 and 2012 comprising of four equal payments of USD 60,000 each (USD 240,000 in total). Effect of translation to local currency is included in the current period.

		Note	31-Dec-18	21-Dec-17
			……… *Afs '000'* ………	
11	**SHARE CAPITAL**			
	Authorized capital - 124,780 shares of Afs 10,000 each		**1,247,800**	**1,247,800**
	Paid-up share capital - 124,780 shares of Afs 10,000 each fully paid in cash		**1,247,800**	**1,247,800**
12	**DEPOSITS FROM CUSTOMERS**			
	Conventional			
	Current deposits		5,825,491	4,636,040
	Saving deposits	*12.1*	768,656	753,101
	Term deposits	*12.2*	175,739	163,996
			6,769,886	**5,553,137**
	Islamic			
	Al Wadiah current deposits		772,522	696,453
	Mudarabah saving deposits	*12.3*	685,277	563,888
	Mudarabah fixed deposits	*12.4*	1,387,249	1,257,995
			2,845,048	**2,518,336**
	Margin held against guarantees and LCs			
	Margin deposits - expired		35,715	59,881
	Margin deposits - unexpired	*12.5*	599,721	533,565
			10,250,370	**8,664,919**

12.1 Saving deposits carry interest ranging from 1% to 1.5% (2017: 1% to 1.5%) per annum.

12.2 Term deposits carry interest ranging from 1.25% to 2.75% (2017: 2% to 2.75%)per annum with maturity ranging from three months to two years (2017: three months to two years).

12.3 The profit disbursed during the year on the Mudarabah saving deposits ranged from 0.7% to 1.7% (2017: 0.5% to 1%) per annum based on monthly distribution of the return yielded on Islamic investments.

GTA

12.4 Profit distribution rates on Murabaha fixed deposits during the year ranged from 2% to 2.77% (2017: 1.4% to 2.5%) per annum based on monthly distribution of the return yielded on Islamic investments with maturity of one year (2017: One year).

12.5 Margin deposits unexpired represent the cash margin money deposited against bank guarantee which are not yet matured / expired and range from 0% to 100% (2017: 0% to 100%) of the guarantee amount.

		Note	31-Dec-18	21-Dec-17
			……… *Afs '000'* ………	
13	**OTHER LIABILITIES**			
	Accrued expenses		12,478	10,571
	Interest payable on customer deposits		7,819	4,440
	Withholding tax		2,624	4,822
	Unearned commission on bank guarantees		841	1,197
	Provision for non funded facilities	*7.5*	-	35,615
	Other liabilities		6,070	3,223
			29,832	**59,868**
14	**CONTINGENCIES AND COMMITMENTS**			
	Contingencies - Bank guarantees issued		**4,072,426**	**3,561,482**
	Commitments - Un-used portion of Overdraft		**148,152**	**75,314**

		Note	From 22-Dec-2017 to 31-Dec-2018	From 22-Dec-2016 to 21-Dec-2017
			……… *Afs '000'* ………	
15	**NET INTEREST INCOME**			
	Interest income			
	Placements with banks		53,552	24,415
	Loans and advances		386,619	335,820
	Capital notes		4,678	79,297
	Total interest income		**444,849**	**439,532**
	Interest expense			
	Customer deposits	*15.1*	(35,674)	(39,382)
	Net interest income		**409,175**	**400,150**
15.1	**Interest expense on customers deposits**			
	Term deposits		19,973	26,861
	Saving deposits		15,701	12,521
			35,674	**39,382**

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		Note	From 22-Dec-2017 to 31-Dec-2018	From 22-Dec-2016 to 21-Dec-2017
			……… Afs '000' ………	
16	**NET FEE AND COMMISSION INCOME**			
	Fee and commission income			
	Commission on bank guarantees		92,130	77,974
	Commission on letter of credits		271	226
	Fund transfer fee		90,285	55,482
	Deposit accounts servicing		2,764	1,196
	Total fee and commission income		**185,450**	**134,878**
	Fee and commission expense			
	Inter bank transaction fee		(9,753)	(8,334)
	Net fee and commission income		**175,697**	**126,544**
17	**OTHER OPERATING INCOME**			
	Foreign exchange gain		4,241	14,874
	Currency exchange effect on equity investment	*6.1*	1,455	6,050
	Unrealized revaluation gain of gold investment	*6.3*	7,840	-
	Loan processing fee		13,425	12,159
	Recovery of loan previously written off	*17.1*	84,127	70,488
	Other		2,633	7,563
			113,721	**111,134**

17.1 This represents full and partial recovery of loans from the customers which were written-off.

		Note	From 22-Dec-2017 to 31-Dec-2018	From 22-Dec-2016 to 21-Dec-2017
			……… Afs '000' ………	
18	**EMPLOYEE COMPENSATION**			
	Salaries and wages		120,878	101,623
	Staff bonus		5,039	683
	Staff welfare		417	536
			126,334	**102,842**

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		Note	From 22-Dec-2017 to 31-Dec-2018	From 22-Dec-2016 to 21-Dec-2017
			……… *Afs '000'* ………	
19	**ADMINISTRATIVE EXPENDITURE**			
	Security guards expenses		38,394	38,640
	Oracle software annual maintenance	*8.2*	11,146	-
	Insurance	*19.1*	31,140	27,158
	Communication		20,590	17,364
	Advertisement		27,433	18,247
	Travelling and conveyance		11,985	9,123
	Utilities		9,791	8,217
	Fuel		3,164	2,620
	Repair and maintenance		6,965	6,633
	Stationery and printing		4,472	4,077
	Food expenses		6,538	4,367
	Staff training		2,200	2,792
	Legal and audit fee		10,925	4,267
	Other expenses	*19.2*	28,181	16,560
			212,924	**160,065**

19.1 These include insurance charges amounting to Afs 8.74 million (2017: 16.58 million) paid to Afghan Deposit Insurance Corporation (ADIC).

19.2 This majorly includes tax penalty on account of finalization of tax audit by the Ministry of Finance (MoF) for the year from 2010 till 2015 amounting to Afs 8.2 million and penalty imposed by the Central Bank of Afghanistan amounting to Afs 1.144 million.

		Note	From 22-Dec-2017 to 31-Dec-2018	From 22-Dec-2016 to 21-Dec-2017
			……… *Afs '000'* ………	
20	**TAXATION**			
	Current		9,979	65,349
	Prior	*20.1*	110,937	(30,099)
			120,916	**35,250**

20.1 This represents tax payment due as a result of tax assessments by tax authorities for the years 2010, 2011, 2012, 2013, 2014 and 2015 and initial assesment for the year 2016 and 2017 which was finalized and paid during the current Financial Year.

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		From 22-Dec-2017 to 31-Dec-2018	From 22-Dec-2016 to 21-Dec-2017
20.2	Effective tax rate reconciliation is as follows:	……… *Afs '000'* ………	
	Accounting profit before tax	**247,684**	**326,745**
	Tax at applicable rate of 20% (2017: 20%)	49,537	65,349
	Income exempt from tax	-	-
	Non-deductible tax expense	1,975	-
	Dividend income subject to personal tax	(45,200)	-
	Other deductible expenses	3,667	-
		9,979	**65,349**

21 RELATED PARTIES

The Bank is owned by individuals who are the shareholders of Ghazanfar Group of Companies (GGC) and therefore, related parties include all group companies of GGC by virtue of common shareholding.

Transactions with key management personnel

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

		From 22-Dec-2017 to 31-Dec-2018	From 22-Dec-2016 to 21-Dec-2017
		……… *Afs '000'* ………	
Fees paid to the members of the board of supervisors		10,541	4,039
Remuneration of the board of management	*21.1*	21,925	18,067
		32,466	**22,106**

21.1 Board of management of the Bank includes CEO, CFO, CCO and COO. In addition to salaries, the Bank also provides non-cash benefits to the members of board of management which include furnished accommodation, meals and travel associated with the business of the bank.

Transactions with related parties

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

	From 22-Dec-2017 to 31-Dec-2018	From 22-Dec-2016 to 21-Dec-2017
	……… *Afs '000'* ………	
Associates		
Balances at year end		
Loans and advances	70,176	69,893
Prepaid rent	104	110
Customer deposits	16,177	204,085
Security Deposit for Hairatan Branch	75,310	69,490
Transaction during the year		
Interest income on loans and advances	6,403	1,985
Recurring fee paid to Afghanistan Payment Systems	1,351	-
Rent paid	290	104

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22 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	At amortized cost	Available for sale	Total carrying amount
2018	*Note*			*Afs '000'*			
Cash and cash equivalents	*5*	-	-	-	4,859,829	-	4,859,829
Investments	*6*	157,346	-	2,372,265	-	18,828	2,548,439
Loans and advances to customers	*7*	-	-	-	2,948,782	-	2,948,782
Others assets	*10*	-	-	-	1,118,143	-	1,118,143
		157,346	**-**	**2,372,265**	**8,926,754**	**18,828**	**11,508,722**
Deposits from customers	*12*	-	-	-	10,250,370	-	10,250,370
Other liabilities	*13*	-	-	-	26,367	-	26,367
		-	**-**	**-**	**10,276,737**	**-**	**10,276,737**
2017							
Cash and cash equivalents	*5*	-	-	-	4,265,210	-	4,265,210
Investments	*6*	-	-	2,397,384	-	17,373	2,414,757
Loans and advances to customers	*7*	-	-	-	2,640,764	-	2,640,764
Others assets	*10*	-	-	-	859,065	-	859,065
		-	**-**	**2,397,384**	**7,765,039**	**17,373**	**10,179,796**
Deposits from customers	*12*	-	-	-	8,664,919	-	8,664,919
Other liabilities	*13*	-	-	-	18,234	-	18,234
		-	**-**	**-**	**8,683,153**	**-**	**8,683,153**

22.1 The fair values of financial assets and financial liabilities approximates their carrying amounts at the reporting date. Held for trading investment reflect the category 1 as per IFRS 13.

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23 FINANCIAL RISK MANAGEMENT

Introduction and overview

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

23.1 a) credit risk
23.2 b) liquidity risk
23.3 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.

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.

23.1 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.

GTA

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 calculated in accordance with the DAB regulations.

Write-off policy

The Bank recognized 100% provision on loans after 480 days except for SME loans for which 100% provision is recorded after 180 days. These loans are kept on books of account for additional six months and after that 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. Exposure to any sector should not exceed 40% of the regulatory capital at any time.

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Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 4,007 million (2017: 3,243 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with central bank and other banks.

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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.

23.2 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

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:

	31-Dec-18	21-Dec-17
Closing balance for the year ended	57%	56%
Average for the period	52%	58%
Maximum for the period	60%	60%
Minimum for the period	46%	55%

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Maturity analysis for financial liabilities

	Note	Carrying amount	Gros Cash Outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
		Afs '000'						
2018								
Deposits from customers	*12*	10,250,370	10,250,370	6,633,728	1,453,933	599,721	1,562,988	-
Other liabilities	*13*	26,367	26,367	18,548	7,819	-	-	-
		10,276,737	**10,276,737**	**6,652,276**	**1,461,752**	**599,721**	**1,562,988**	-
2017								
Deposits from customers	*12*	8,664,919	8,664,919	5,392,374	1,316,989	533,565	1,421,991	-
Other liabilities	*13*	18,234	18,234	13,794	4,440		-	-
		8,683,153	**8,683,153**	**5,406,168**	**1,321,429**	**533,565**	**1,421,991**	-

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.

23.3 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. The Bank holds the instruments which do not carry variable interest rate and are not subject to future changes in market interest rates.

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Exposure to currency risk

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

Assets		Total	US$	Euro	GBP
31 December 2018	*Note*		*Afs '000'*		
Cash and cash equivalents	*5*	3,505,462	3,383,182	118,958	3,322
Investment	*6*	2,372,265	2,372,265	-	-
Loans and advances to customers	*7*	2,258,735	2,258,735	-	-
Other assets	*10*	984,527	970,090	14,437	-
		9,120,989	**8,984,272**	**133,395**	**3,322**

Liabilities		Total	US$	Euro	GBP
31 December 2018	*Note*		*Afs '000'*		
Deposits from customers	*12*	8,884,734	8,749,488	135,101	145
Other liabilities	*13*	18,240	18,225	15	-
		8,902,974	**8,767,713**	**135,116**	**145**
Net foreign currency exposure		**218,015**	**216,559**	**(1,721)**	**3,177**

Assets		Total	US$	Euro	GBP
21 December 2017	*Note*		*Afs '000'*		
Cash and cash equivalents	*5*	2,862,645	2,791,388	67,596	3,661
Investment	*6*	989,538	989,538	-	-
Loans and advances to customers	*7*	2,790,482	2,790,482	-	-
Other assets	*10*	633,501	626,225	7,276	-
		7,276,166	**7,197,633**	**74,872**	**3,661**

Liabilities		Total	US$	Euro	GBP
21 December 2017			*Afs '000'*		
Deposits from customers	*12*	7,030,085	6,941,710	88,240	135
Other liabilities	*13*	13,629	13,569	60	-
		7,043,714	**6,955,279**	**88,300**	**135**
Net foreign currency exposure		**232,452**	**242,354**	**(13,428)**	**3,526**

GTA

	31-Dec-18		21-Dec-17	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
in Afs				
US$	72.40	75.31	69.49	69.49
Euro	84.10	86.01	82.18	82.18
GBP	93.76	95.21	92.31	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.

	31-Dec-18		21-Dec-17	
	Equity	Profit or loss	Equity	Profit or loss
		.... *Afs '000'*............		
US$	(17,325)	(21,656)	(7,178)	(8,973)
Euro	138	172	1,074	1,343
GBP	(254)	(318)	(282)	(353)

A 10% weakening of the Afghani against the above currencies at 31 December 2018 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.

24 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. **Currently the Bank's regulatory capital is AFN 1.549 billion which is 19.40% of risk weighted assets.**

- 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. **During the period the Bank carries 18.05% 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. GTA

GHAZANFAR BANK

Notes to the Financial Statements

For the period from 22 December 2017 to 31 December 2018

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 31, 2018 is as follows:

	31-Dec-18	21-Dec-17
Tier 1 capital		
Total equity capital	1,569,845	1,669,277
Less: Profit for the year	(126,768)	(291,495)
Less: Intangible assets	(1,438)	182
Total tier 1 (core) capital	**1,441,639**	**1,377,964**
Tier 2 capital		
Less: Equity investment	(18,828)	(23,423)
General allowances on Standard Advances	-	26,097
Add: Profit for the year	126,768	291,495
Total tier 2 (supplementary) capital	**107,940**	**294,169**
Total Regulatory capital = Tier 1 + Tier 2	**1,549,579**	**1,672,133**

25 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on March 28, 2019 by the Board of Supervisors of the Bank.

26 GENERAL

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

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

Chairman	Chief Executive Officer	Chief Financial Officer

غضنفر بانک
BOS
Ghazanfar Bank

غضنفر بانک
رئیس عامل
Chief Executive Officer
GHAZANFAR BANK