

Ghazanfar Bank

Financial Statements for the year ended December 31, 2019

Auditors:

Grant Thornton Afghanistan

Member firm of Grant Thornton International Limited





Independent Auditors' Report

To the shareholders of Ghazanfar Bank

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Opinion

We have audited the accompanying financial statements of Ghazanfar Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), the requirements of the Law of Banking in Afghanistan, other laws and regulations issued by Da Afghanistan Bank 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.

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, the requirements of the Law of Banking in Afghanistan, other laws and regulations issued by Da Afghanistan Bank and the Accounting Islamic Standards developed by 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.

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.

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Grant Thornton Afghanistan Chartered Accountants

Engagement Partner: Saqib Rehman Qureshi - FCA

Location: Kabul, Afghanistan Date: March, 14, 2020

Statement of Financial Position As at December 31, 2019

		31-Dec-19	31-Dec-18
	Note	Afs	000'
Assets			
Cash and cash equivalents	5	4,950,867	4,859,829
Placements	6	2,227,099	2,372,265
Investments	7	361,093	176,174
Loans and advances	8	2,876,288	2,948,782
Loans to financial institutions	9	70,000	-
Operating fixed assets	10	346,813	341,069
Intangible assets	11	57,351	1,438
Other assets	12	1,105,690	1,151,672
Total assets		11,995,201	11,851,229
Equity and Liabilities			
Equity			
Share capital	13	1,247,800	1,247,800
Contingency reserve fund		27,789	21,451
Retained earnings		327,310	300,594
Unrealized gain on AFS investment		912	-
Total equity		1,603,811	1,569,845
Liabilities			
Deposits from customers	14	10,181,286	10,250,370
Deposits from financial institutions	15	32,008	-
Other liabilities	16	67,894	29,832
Lease liability	17	96,390	4
Deferred tax liability		228	-
Provision for taxation		13,584	1,182
Total liabilities		10,391,390	10,281,384
Total equity and liabilities	-	11,995,201	11,851,229
Continuosia and assessing	10		
Contingencies and commitments	18		

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

Chairman

Chief Executive Officer

Statement of Comprehensive Income For the year ended December 31, 2019

		31-Dec-19	22-Dec-17 to 31-Dec-18	
	Note	Afs 'C	000'	
Interest income		430,131	444,849	
Interest expense		(44,734)	(35,674)	
Net interest income	19	385,397	409,175	
Fee and commission income		186,855	198,875	
Fee and commission expense		(7,966)	(9,753)	
Net fee and commission income	20	178,889	189,122	
Income from dealing in foreign currencies		14,809	5,696	
		579,095	603,993	
Other income	21	68,258	94,600	
Impairment allowances and charge off	8.7	(62,283)	(50,969)	
Employee compensation	22	(132,595)	(126,334)	
Operating lease expenses		(271)	(28,407)	
Finance cost on lease liability	17	(12,393)	-	
Depreciation	10	(49,485)	(31,438)	
Amortization	11	(22,523)	(837)	
Administrative expenses	23	(225,847)	(212,924)	
		(505,397)	(450,909)	
Profit before tax		141,956	247,684	
Taxation	24	(12,402)	(120,916)	
Profit for the year		129,554	126,768	
Other comprehensive income				
Items to be reclassified subsequently to profit or loss): 			
- Unrealized gain on revaluation of available for sale	investments	1,140	-	
- Related deferred tax		(228)	9	
		912	(2)	
Items not to be classified subsequently to profit & los	s	-	-	
Total comprehensive income for the year		130,466	126,768	

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Chairman

Chief Executive Officer

Statement of Changes in Equity For the year ended December 31, 2019

	Share capital	Contingency Reserve	Retained Earnings	Unrealized Gain /(loss) on Available for Sale Investments	Total
	******		Afs '000'		
Balance as at December 20, 2017	1,247,800	12,706	408,771	-	1,669,277
Profit for the period	-		126,768		126,768
Other comprehensive income, net of tax	-	<u>=</u>	-	-	-
Total comprehensive income	-	-	126,768	*-	126,768
Fransfers to contingency reserve	-	8,745	(8,745)		
Fransactions with owners of the bank					
Dividend distribution		-	(226,200)	-	(226,200)
Balance as at December 31, 2018	1,247,800	21,451	300,594	-	1,569,845
Profit for the year	-		129,554	-	129,554
Other comprehensive income, net of tax	-		-	912	912
otal comprehensive income		1.5	129,554	912	130,466
ransfers to contingency reserve		6,338	(6,338)	~	-
ransactions with owners of the bank			/D6 ED03		(00 500)
Balance as at December 31, 2019	1 247 900	27.700	(96,500)	- 040	(96,500)
palatice as at December 31, 2019	1,247,800	27,789	327,310	912	1,603,811

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

Chairman

Chief Executive Officer

Statement of Cash Flows
For the year ended December 31, 2019

	31-Dec-19	22-Dec-17 to 31- Dec-18
	Afs 'C	000'
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	141,956	247,684
Adjustments for:		
Net impairment loss/ (reversal) on financial assets	62,283	50,969
Loss on disposal of fixed assets	16	(97)
Loss on disposal of investment in associate	17,608	-
Depreciation	49,485	31,438
Amortization	22,523	837
	293,871	330,831
(Increase) / decrease in current assets		200000 # 500000
Loans and advances	10,211	(358,987)
Loans to financial institutions	(70,000)	-
Other assets	45,981	(276,488)
Increase / (decrease) in current liabilities		,,,
Deposits from customers	(60.084)	1 505 454
Deposits from financial institutions	(69,084)	1,585,451
Other liabilities	32,008	(00.000)
Other habilities	38,062	(30,036)
	(12,822)	919,940
Tax paid	281,049	1,250,771
Net cash generated from / (used in) operating activities	204.040	(169,905)
Net cash generated from / (used in) operating activities	281,049	1,080,866
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2.502)	(404.004)
Proceeds from disposal of property and equipment	(2,583)	(124,694)
	98	153
Additions to capital work-in-progress	(8,898)	-
Purchase of intangible assets Placements	-	(1,824)
	145,166	-
Proceeds from disposal of investment in associate Investments	1,938	
	(203,325)	(133,682)
Net cash used in investing activities	(67,604)	(260,047)
CASH FLOWS FROM FINANCING ACTIVITIES		
Lease liability - principal and interest paid	(25,908)	-
Dividend paid	(96,500)	(226,200)
Net cash used in financing activities	(122,408)	(226,200)
Net decrease in cash and cash equivalents	01.027	E04 840
Cash and cash equivalents, beginning of period	91,037	594,619
Cash and cash equivalents, end of period	4,859,829	4,265,210
one of all alones, one of period	4,950,866	4,859,829

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

Chairman

Chief Executive Officer

Notes to the Financial Statements
For the period ended December 31, 2019

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.

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, other laws and regulations issued by Da Afghanistan Bank 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 and regulation issued by DAB will prevail.
- 2.2 Standards, amendments and interpretations to published accounting standards that became effective in the current year

The Bank has adopted the following accounting standards and the amendments and interpretation of IFRSs which became effective for the current year:

Standard or Interpretation

- IFRS 16, "Leases"
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
- Investments in Associates and Joint Ventures Long-term Interests in Associates and Joint Ventures (amendments to IAS 28)
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

Annual Improvements to IFRS Standards 2015-2017 Cycle

- IFRS 3 Business combination previously held interest in a joint operation
- IFRS 11 Joint Agreements- previously held interest in a joint operation
- IAS 12 Income Taxes- Income tax consequences on payments on financial instruments classified as equity
- IAS 23 Borrowing cost Borrowing cost eligible for capitalization

The above standards and interpretations did not have a material impact on the financial statements except for the IFRS 16 Leases for which the impact is discussed as below.

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:

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Notes to the Financial Statements
For the period ended December 31, 2019

Standard or Interpretation IFRS 10 - Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between	(annual periods beginning)
an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IFRS 9 – Financial Instruments*	January 1, 2021
IFRS 17 – Insurance Contracts	January 1, 2022
IAS 1/ IAS 8 - Definition of Material (Amendments)	January 1, 2020
Definition of business - Amendment to IFRS 3	January 1, 2020
The Conceptual Framework of Financial Reporting	January 1, 2020

*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 from original applicable date of January 1, 2018.

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 9 which will have an impact on the financial statements but assessment in this regard has not been carried out by management.

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 8 Provision against non-performing loans and advances to customers
- b) Note 10 Depreciation rates for property and equipment
- c) Note 11 Amortization rates for intangible assets
- d) Note 24 Income taxes



Effective date

Notes to the Financial Statements
For the period ended December 31, 2019

3.3 Functional and presentation currency

These financial statements are presented in Afghani (Afs), which is the Bank's functional currency.

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 Adoption of IFRS 16 Leases

In these financial statements, the Bank has applied IFRS 16, effective for annual periods beginning on or after January 1, 2019, for the first time.

4.1.1 IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The adoption of this new Standard has resulted in recognition of a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach. There has been no impact on the opening equity upon adoption of IFRS 16. The comparative information for 2018 is reported under IAS 17 and is not comparable to the information presented for 2019. Right-of-use asset amounting to AFN 119,451 thousand has been recognized along with lease liability of AFN 119,451 thousand with remaining impact recognized in reversal of prepaid rent expense as of the date of adoption.

For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4. The Bank has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being January 1, 2019. At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for prepaid/ accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16. On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. The Bank did not had any finance lease. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 10.48% to 12.26% per annum. The Bank has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

Following accounting policy change has been adopted by the Bank pursuant to IFRS 16:



Notes to the Financial Statements For the period ended December 31, 2019

4.1.2 Leased assets

The Bank as a Lessee

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

- a) The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- b) The Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- c) The Bank has the right to direct the use of the identified asset throughout the period of use. The Ban assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

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

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

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

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

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

Notes to the Financial Statements For the period ended December 31, 2019

the statement of financial position.

Extension options for leases

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

4.2 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.

4.3 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:

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

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

a) Classification, recognition and subsequent measurement of financial assets

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

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

Notes to the Financial Statements For the period ended December 31, 2019

Loans and advances to customers

The outstanding principal of the advances are classified in accordance with the Asset Classification and Provisioning Regulation issued by DAB as follows:

- a) Standard: These are loans and advances, which are paying in a current manner or at most past due for the period of 1-30 days, fully secured and is supported by sound net worth, profitability, liquidity and cash flow of the obligor. Standard assets are sufficiently secured with respect to the repayment of both the principal amount and interest. An overdraft would be regarded as Standard if monthly interest payments and other charges are past due for 1-30 days, and there was regular activity on the account with no sign of a hard core of debt developing. The Bank does not maintain provision on standard loans.
- b) Watch: These are loans and advances which are adequately protected but are potentially weak. Such an asset constitutes an unwarranted credit risk, but not to the point of requiring a classification of Substandard. The credit risk may be minor, and most instances, bank management can correct the noted deficiencies with increased attention. Further, all loans and advances which are past due by 31 to 60 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account not less than 5% of value of such loans and advances.
- c) Substandard: These are loans and advances which show clear manifestations of credit weaknesses that jeopardize the liquidation of the debt. Substandard loans and advances include loans to borrowers whose cash flows are not sufficient to meet currently maturing debts, loans to borrowers which are significantly undercapitalized, and loans to borrowers lacking sufficient working capital to meet their operating needs.

Further, all loans and advances which are past due by 61 to 120 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account not less than 25% of value of such loans and advances.

- d) Doubtful: These are loans and advances which display all the weaknesses inherent in loans and advances classified as Substandard but with the added characteristics that they are not well secured and the weaknesses make collection or liquidation in full, on the basis of currently available information, highly questionable and improbable. The possibility of loss is extremely high, but because of certain mitigating circumstances, which may work to the advantage and strengthening of the facility, its classification as an estimated loss is postponed until its more defined status is ascertained. Further all loans and advances which are past due by 121 to 480 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account not less than 50% of value of such loans and advances.
- e) Loss: These are loans and advances which are considered uncollectible and of such little value that their continuation as recoverable facilities is not defensible. This classification does not imply that the facility has absolutely no recoverable value, but rather it is not practical or desirable to defer making full provisions for the facility even though partial recover in future may not be entirely ruled out. Loans and advances classified as Loss include those to bankrupt companies and insolvent firms with negative working capital and cash flow or those to judgment debtors with no means or foreclosable collateral to settle the debts. Further, all loans and advances which are past due over 481 days for principal and interest payments are classified as Loss. This category of loans shall be retained in bank balance sheet for the period of 6 month for recovery purposes and 100% loan loss

Notes to the Financial Statements
For the period ended December 31, 2019

provisioning should be made. After 6 months, they shall be immediately written off with the provisioning made.

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.

4.4 Investment in equity instruments

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

4.5 Loans and advances

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

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

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

4.6 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 straightline method to allocate their depreciable cost to their residual values over their estimated useful lives.

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Notes to the Financial Statements
For the period ended December 31, 2019

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
-	Right-of-use assets	3 -10 years

4.7 Intangible assets

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

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

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

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

4.8 Impairment of non-financial assets

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

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

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

4.9 Deposits

These are recorded at the amount of proceeds received.



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Notes to the Financial Statements
For the period ended December 31, 2019

4.10 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.

4.11 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

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

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Notes to the Financial Statements
For the period ended December 31, 2019

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.

4.14 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.

4.15 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 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.

4.17 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;
- 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.

4.18 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.

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Notes to the Financial Statements For the year ended December 31, 2019

Fort	ne year ended December 31, 2019			04 Dec 40
		-	31-Dec-19	31-Dec-18
			AIS 00	
5	CASH AND CASH EQUIVALENTS	Note		
	Cash in hand	5.1	889,639	852,205
	Balances with Da Afghanistan Bank	5.2	3,006,513	2,050,683
	Balances with local and foreign banks	5.3	1,054,715	1,956,941
	Balainees was recall and recall and		4,950,867	4,859,829
5.1	Cash in hand			
0.1	Local currency		196,992	136,660
	Foreign currencies		692,647	715,545
		-	889,639	852,205
5.2	Balances with Da Afghanistan Bank			
	Current accounts:			
	Local currency		1,211,851	1,216,864
	Foreign currencies	_	1,794,624	833,781
			3,006,475	2,050,645
	Local currency deposit account (Overnight deposit)	5.2.1	38	38
		-	3,006,513	2,050,683
		-	31-Dec-19 Afs '00	31-Dec-18 0'
5.3	Balances with local and foreign banks			
	In Afghanistan:			
	Pashtany Bank		42	41
	Outside Afghanistan:			
	Aktif Bank, Turkey	Γ	12,143	55,810
	BMCE Bank International Madrid Spain		121,305	97,225
	CSC Bank SAL, Lebanon		3,736	2,145
	Zirat Bank, Turkey		36,689	150,973
	Infin Bank Uzbekistan		199,329	8,056
	JSC Asaka Bank Uzbekistan		17,816	9,953
	JSC Capital Bank Kazakhstan		230,035	904,235
	JSC Ziraat Bank Uzbekistan		20,293	100,460
	Nural Investment Bank INC		714	5,318
	SHUAA Capital PSC UAE	5.3.1	2,369	-
	State Commercial Bank of Turkemenistan		100,628	175,802
	TENGRI Bank JSC		93,737	34,265
	Transkapital Bank Russia		206,161	397,122
	Uzpromstroy Bank Uzbekistan		3,997	9,313
	Yes Bank, India		5,188	5,833
	Yinzhou Bank, China		329	322
	Axis Bank, India		70	68
	HDFC Bank India	L	1,054,673	1,956,900
		-		1,956,941
		=	1,054,715	1,500,541

5.3.1 This represents the amount held with the investment advisor as a non-interest bearing balance.



Notes to the Financial Statements For the year ended December 31, 2019

			31-Dec-19	31-Dec-18
			Afs '000'	
6	PLACEMENTS	Note		
		6.1	2,227,099	2,372,265

6.1 These include time deposits with foreign banks with original maturity from three months to one year and carry interest rate ranging from 2.40% to 5.40% (2018: 2.25% to 4.75%) per annum.

			31-Dec-19	31-Dec-18
			Afs '000'	
7	INVESTMENTS	Note		
	Investment in associate	7.1	-	18,828
	Investment in gold - Fair value through profit and loss	7.2	78,434	157,346
	Investment in bonds - Available for Sale (AFS)	7.3	282,659	-
	The state of the s		361,093	176,174
7.1	Investment in associate			
	Afghanistan Payments Systems (APS)		18,828	11,323
	Currency translation effect		718	7,505
	Proceeds from disposal		(1,938)	-
	Loss on disposal of investment		(17,608)	(#2)
		7.1.1		18,828

- 7.1.1 The Bank held 16.67% shareholding in Afghanistan Payments Systems (APS) and Da Afghanistan Bank (DAB) acquired the entire shareholding in APS on September 11, 2019. The Bank received an amount of AFN 1,938 thousand on December 6, 2019 from DAB against its share held in APS and balance of AFN 17,624 thousand was written-off as loss on disposal of investment.
- 7.2 This represents gold investment in Istanbul (Commodity Exchange of Turkey) through Aktif Bank Turkey.
- 7.3 These represent investments in Sovereign bonds issued by Sri lanka, Kingdom of Saudi Arabia, Bahrain, Oman and Sharjah which carry coupon ranging from 2.894% to 5.75% per annum and latest maturity till October 29, 2029. These bonds on listed on different stock exchanges. SHUAA Capital PSC UAE, investment advisor, is acting as the custodian of these investments.



Notes to the Financial Statements For the year ended December 31, 2019

8	LOANS AND ADVANCES		3	1 December 201	9	3	1 December 2018	3
	The state of the s		Gross	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		Note -		Afs '000'		****	Afs '000'	***
	Conventional:							0.010.00040
	Running finance	8.1	1,952,111	(102,921)	1,849,190	2,195,131	(173,880)	2,021,251
	SME loans	8.2	24,156	(29)	24,127	57,242	-	57,242
	Term loans	8.3	339,182	(39,698)	299,484	246,155	(40,623)	205,532
			2,315,449	(142,648)	2,172,801	2,498,528	(214,503)	2,284,025
	Islamic:							
	Murabaha	8.4	706,707	(3,220)	703,487	664,870	(113)	664,757
			3,022,156	(145,868)	2,876,288	3,163,398	(214,616)	2,948,782
		-						

- 8.1 The facility to meet working capital requirements carries interest ranging from 9% to 15.5% (2018: 10% to 15%) per annum. These facilities are extended for maximum period of twelve months and these are secured against personal guarantees and mortgage of residential and/or commercial properties of the borrowers.
- 8.2 These are extended to the Small and Medium Enterprises carry interest from 6.5% to 15% (2018: 5.15% to 15%) per annum with maximum period of four years. These are secured against personal guarantees and mortgage of residential properties of the borrower
- 8.3 These are term loan facilities extended to customers carries interest ranging from 5.5% to 15% (2018: 10% to 14.5%) per annum. These facilities are extended for maximum period of ten years. These are secured against personal guarantees, corporate guarantee, and mortgage of residential and/or commercial properties of the borrowers. These include loans and advances to SMEs amounting to AFN 2 million which are also partially backed by Afghanistan Credit Guarantee Foundation (ACGF) guarantees to the extent defined in agreement with ACGF.
- 8.4 These represents murabaha agreements under which the Bank provided funds to meet capital and other requirements of the borrower on a fixed profit sharing basis ranging from 1.6% to 32% (2018; 3% to 23%) per annum. These facilities are extended for a maximum period of thirty six months and secured against personal guarantees and mortgage of residential and/or commercial properties of the borrower. The underling assets are not subject to lien.
- 8.5 The credit quality of the loan and advances according to the Asset Classification and Provisioning Regulation is as follows:

			Sub-			
	Standard	Watch	standard	Doubful	Loss	Total
As at 31-Dec-2019				000'		
Conventional:						
Running finance	1,746,269		-	205,842	-	1,952,111
SME loans	23,581	575	-	-	-	24,156
Term loans	180,080	386	158,716			339,182
Islamic:						
Murabaha	686,375	15,492		4,840		706,707
	2,636,305	16,453	158,716	210,682	-	3,022,156
As at 31-Dec-2018						
Conventional:						
Running finance	1,673,525		347,691	173,915	-	2,195,131
SME loans	57,242	12	-			57,242
Term loans	82,703	1,201	162,251		-	246,155
Islamic:						
Murabaha	662,610	2,260	-		-	664,870
	2,476,080	3,461	509,942	173,915		3,163,398
					31-Dec-19	31-Dec-18
					160	'nno'

8.6	Impairment allowance on loans and advances	Afs '00	0'
	Opening balance	214,616	156,349
	Charge for the year/ period	19,071	205,564
	Reversal made during the year/ period	(87,818)	(147,297)
	Net (reversal)/ charge for the year/ period	(68,747)	58,267
	Closing balance	145,869	214,616

Notes to the Financial Statements For the year ended December 31, 2019

			31-Dec-19	22-Dec-17 to 31-Dec-18
			Afs	000'
8.7	Net impairment allowance and charge off			
	Net (reversal)/ charge for the year/ period		(68,747)	58,267 (38,349)
	Impairment allowance on non funded facilities Exchange loss / (gain) on currency translation		(5,980)	(12,573)
	Net provision on accrued interest/ profit		246	-
	Loans charged-off/ writte-off during the year/ period		136,764	43,624
	Amount charged to profit or loss		62,283	50,969
			31-Dec-19	31-Dec-18
9	LOANS TO FINANCIAL INSTITUTIONS	Note	Afs	000'
	FINCA Afghanistan	9.1	70,000	
	T MOA Algranious		70,000	

9.1 This represents term loan to FINCA Afghanistan with an interest rate of 10% per annum having maturity date of September, 2020, 60% of this loan is secured against the guarantee by "USAID-DCA" and the remaining 40% is secured against the cash held as collateral in US Dollars.



GHAZANFAR BANK
Notes to the Financial Statements
For the year ended December 31, 2019

OPERATING FIXED ASSETS 10

Property and equipment Capital work-in progress

235,888

244,954

10.1

Note

10.1

Property and equipment							
Description	Land	Building	Furmiture and fixtures	Computer	Vehicles	Office	Total
Coet				Afs '000'			
Balance as of December 20, 2017	35,362	201,245	44,999	89.916	88.253	38,826	498,601
Additions during the period		. 1	5,494	4,187		11,200	20,881
Disposals of during the period			(270)	(88)	,	(443)	(802)
Balance as at December 31, 2018	35,362	201,245	50,223	94,015	88,253	49,583	518,681
Additions during the year	ï		853	3	,	1,730	2,583
Transfer from capital work-in-progress		1	1	34,556	1	1	34,556
Disposals of during the year		ı	(435)	(202)	(12)	(688)	(1,340)
Balance as at December 31, 2019	35,362	201,245	50,641	128,366	88,241	50,625	554,480
Depreciation							
Balance as of December 20, 2017	t	31,864	32,821	83,876	72,315	31,224	252,101
Depreciation for the period	ć	6,888	4,402	4,169	11,792	4,187	31,438
Adjustments on disposals	r	ī	(222)	(88)	1	(435)	(745)
Balance as at December 31, 2018		38,752	37,001	87,957	84,107	34,976	282,794
Depreciation for the year		6,701	3,698	9,579	3,571	4,410	27,959
Adjustments on disposals		ı	(363)	(204)	(12)	(648)	(1,226)
Balance as at December 31, 2019		45,453	40,336	97,332	87,666	38,738	309,526
Carrying Amount							
- December 31, 2019	35,362	155,792	10,305	31,034	575	11,887	244,954
- December 31, 2018	35,362	162,493	13,222	6,058	4,146	14,607	235,888
Donorosistica retes							1

For the year ended December 31, 2019 Notes to the Financial Statements

10.2 Capital work-in-progress includes the advances to suppliers for the purchase of different equipments and items held awaiting installation or issuance. The movement in the

1,368 103,813

> 8,898 34,556

78,436 1,087

105,181

31-Dec-18

31-Dec-19 3

105,181

31-Dec-18

31-Dec-19

..... Afs '000'

119,451 2,847 122,298

21,526 21,526

100,772

ear is as follows:	
capital work-in-progress during the year is as follows:	Opening balance Additions during the year/ period Transfer to property and equipment Transfer to intangible assets Closing balance

10.3 Right-of-use assets - branches

Balance as of January 1, 2019 upon adoption of IFRS 16 Additions during the year/ period

Balance as at December 31, 2019

Accumulated depreciation: Balance as of January 1, 2019 upon adoption of IFRS 16 Depreciation expense for the year/ period Balance as at December 31, 2019

Carry amount as of December 31, 2019

10.4 Depreciation expense

Right-of-use assets - branches Property and equipment

31,438	19,485
1	526
31,438	,959

Notes to the Financial Statements
For the year ended December 31, 2019

7,000		31-Dec-19	31-Dec-18
		Afs '(000'
INTANGIBLE ASSETS	Note		
Cost			
Opening balance		25,696	23,872
Transfer from capital work-in-progress	11.1	78,436	
Additions during the year/ period		-	1,824
Closing balance		104,132	25,696
Amortization			
Opening balance		24,258	23,421
Amortization for the year/ period		22,523	837
Closing balance		46,781	24,258
Carrying Amount		57,351	1,438
	Cost Opening balance Transfer from capital work-in-progress Additions during the year/ period Closing balance Amortization Opening balance Amortization for the year/ period	INTANGIBLE ASSETS Cost Opening balance Transfer from capital work-in-progress Additions during the year/ period Closing balance Amortization Opening balance Amortization for the year/ period Closing balance Closing balance	Note State State

11.1 This represents the cost of Core banking software (Flexcube) from Oracle.

			31-Dec-19	31-Dec-18
			Afs '0	00'
12	OTHER ASSETS	Note		
	Required reserves with Da Afghanistan Bank	12.1	888,051	953,710
	Prepaid expenses		27,230	33,529
	Receivable from Western Union		23,407	26,069
	Profit receivable	12.2	36,544	36,817
	Interest receivable		6,308	2,541
	Security deposit Hairatan Branch	12.3	77,460	75,310
	Security deposits with Western Union	12.4	18,590	18,074
	Other security deposits	12.5	24,936	3,763
	Others		3,164	1,859
			1,105,690	1,151,672
12.1	Required reserves with Da Afghanistan Bank			
	Local currency		112,123	113,257
	Foreign currencies		775,927	840,453
		12.1.1	888,051	953,710

- 12.1.1 Required reserves are maintained with DAB to meet minimum reserve requirement in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB. These balances are interest free.
- 12.2 This includes profit receivable on account of Murabaha investments, Sovereign sukuks and Murabaha facility.
- 12.3 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.



Notes to the Financial Statements
For the year ended December 31, 2019

- 12.4 This represent security deposits made between 2010 and 2012 in four equal payments of USD 60,000 each (total amounting to USD 240,000). Effect of translation to local currency is included in the current period.
- 12.5 This includes an amount AFN 20,914 thousand deposit held by Nural Investment Bank INC against the counter guarantee issued by them on behalf of a customer of the Bank.

			31-Dec-19	31-Dec-18
		Note	Afs 'C	000'
13	SHARE CAPITAL			
	Authorized share capital 24,780 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
			31-Dec-19	31-Dec-18
			Afs 'C	000'
14	DEPOSITS FROM CUSTOMERS	Note		
	Conventional			
	Current deposits		5,167,428	5,825,491
	Saving deposits	14.1	758,315	768,656
	Term deposits	14.2	245,385	175,739
			6,171,128	6,769,886
	Islamic			
	Al Wadiah current deposits		705,404	772,522
	Mudarabah saving deposits	14.3	797,634	685,277
	Mudarabah fixed deposits	14.4	1,218,584	1,387,249
			2,721,622	2,845,048
	Margin deposits			
	Margin deposits - expired		41,158	35,715
	Margin deposits - unexpired	14.5	1,247,378	599,721
			10,181,286	10,250,370

- 14.1 Saving deposits carry interest ranging from 1% to 1.5% (2018: 1% to 1.5%) per annum.
- 14.2 Term deposits carry interest ranging from 1.25% to 2.75% (2018: 1.25% to 2.75%) per annum with maturity ranging from three months to two years (2018: three months to two years).

Notes to the Financial Statements For the year ended December 31, 2019

- 14.3 The profit disbursed during the year on the Mudarabah saving deposits ranged from 0.46% to 0.90% (2018: 0.7% to 1.7%) per annum based on monthly distribution of the return yielded on Islamic investments.
- 14.4 Profit distribution rates on murabaha fixed deposits during the year ranged from 0.93% to 1.79% (2018: 2% to 2.77%) per annum based on monthly distribution of the return on Islamic investments with maturity of one year (2018: One year).
- 14.5 Margin deposits unexpired represent the cash margin money held against bank guarantee which are not yet matured / expired and range from 10% to 100% of the guarantee amount.

			31-Dec-19	31-Dec-18
			Afs	000'
15	DEPOSITS FROM FINANCIAL INSTITUTIONS	Note		
	Current deposits		3,249	-
	Term deposits		28,759	-
		15.1	32,008	-

15.1 These represent deposit balances maintained by FINCA Afghanistan. Term deposit carry interest rate of 1.75% per annum and is maturing in September 2020. The Bank has marked lien on the term deposit of USD 369,978 (equivalent to AFN 28,658 thousand) held as cash collateral against term loan to FINCA Afghanistan.

			31-Dec-19	31-Dec-18
16	OTHER LIABILITIES	Note	Afs 'C	000'
	Interest payable on customer deposits		11,692	7,819
	Withholding tax		271	2,624
	Unearned commission on bank guarantees		18,752	841
	Accrued expenses		12,937	12,478
	Other liabilities		24,242	6,070
			67,894	29,832
17	LEASE LIABILITY			
	Balance as of 01 January 2019 upon adoption	of IFRS 16	119,451	-
	Addition during the year		2,847	-
	Payment during the period - principal		(15,260)	-
	Accrued finance cost		(12,393)	-
	Exchange rate fluctuation		1,745	*
	As at Dec 31 2019		96,390	-
				aA

Notes to the Financial Statements
For the year ended December 31, 2019

18 CONTINGENCIES AND COMMITMENTS

	Contingencies			
	Bank guarantees issued		4,780,539	4,072,426
	Letters of credits		98,678	-
	Commitments - Unused portion of overdraft		58,181	148,152
	Section (Control of the Control of t		4,937,398	4,220,578
				22-Dec-17 to 31
			31-Dec-19	Dec-18
		Note	Afs '0	000'
19	NET INTEREST INCOME			
	Interest income			
	Placements		106,514	53,552
	Loans and advances		314,592	386,619
	Loans to financial institutions		1,899	_
	Capital notes		-	4,678
	Bonds and Sukuk		7,126	-
	Borids and Cakak		430,131	444,849
	Interest expense			
	Deposits from customers	19.1	44,579	35,674
	Short term borrowing (inter-bank deal)		21	_
	Deposits from financial institutions		134	_
	Deposits from imancial institutions		44,734	35,674
				409,175
	Net interest income		385,397	403,175
19.1	Interest expense on customers deposits			
	Term deposits		30,149	19,973
	Saving deposits		14,430	15,701
	Caving deposits		44,579	35,674
	NET FEE AND COMMISSION INCOME			
20	NET FEE AND COMMISSION INCOME			
	Fee and commission income			
	Commission on bank guarantees		66,985	92,130
	Commission on letter of credits		1,773	271
	Fund transfer fee		98,697	90,285
	Loan processing fee		15,797	13,425
	Deposit accounts servicing		3,603	2,764
	Total fee and commission income		186,855	198,875
				AW.

Notes to the Financial Statements
For the year ended December 31, 2019

on expense ion fee		7,966	9,753
ssion income		178,889	189,122
vestment in associate		(17,608)	-
assets		(16)	-
sale Investments		4,332	-
vestment in gold		21,868	7,840
eviously written off		58,675	84,127
		1,007	2,633
		68,258	94,600
		31-Dec-19	22-Dec-17 to 31- Dec-18
	Note	Afs	000'
ENSATION			
		130,647	120,878
		1,752	5,039
		196	417
		132,595	126,334
EXPENSES			
enses		38,702	38,394
ntenance		14,760	11,146
		29,899	31,140
		19,243	20,590
		27,128	27,433
yance		14,319	11,985
		10,795	9,791
		4,546	3,164
nce		11,061	6,965
ng		6,070	4,472
		8,433	6,538
		2,119	2,200
al charges		7,428	10,925
		31,344	28,181
		225,847	212,924
ai char	ges	ges	31,344

Notes to the Financial Statements
For the year ended December 31, 2019

			31-Dec-19	22-Dec-17 to 31- Dec-18
		Notes	Afs	'000'
24	TAXATION			
	Current	24.1	12,402	9,979
	Prior		-	110,937
			12,402	120,916
24.1	Effective tax rate reconciliation is as follows:			
	Accounting profit before tax		141,956	247,684
	Tax at applicable rate of 20% (2018: 20%)		28,391	49,537
	Non-deductible tax expense		13,673	1,975
	Dividend - deductible expense		(19,300)	(45,200)
	Other deductible expenses		(10,362)	3,667
			12,402	9,979

25 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 year as follows:

		31-Dec-19	22-Dec-17 to 31- Dec-18
	Notes	Afs	'000'
Fees paid to the members of the board of supervisors		9,754	10,541
Remuneration of the board of management	25.1	21,388	21,925
		31,142	32,466

25.1 Board of management of the Bank includes CEO, Deputy CEO, CFO, COO and CIBO. 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.

Notes to the Financial Statements
For the year ended December 31, 2019

Transactions with related parties

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

		31-Dec-19	22-Dec-17 to 31- Dec-18
	Notes	Afs	'000'
Associates			
Balances at year end			
Loans and advances		69,385	70,176
Prepaid rent		-	104
Customer deposits		14,411	16,177
Security Deposit for Hairatan Branch		77,460	75,310
Non-funded Facility		3,873	-
Transaction during the year/ period			
Interest income on loans and advances		6,698	6,403
Commission on Non-Funded facility		59	-
Recurring fee paid to Afghanistan Payment Systems		5	1,351
Rent paid		156	290

For the year ended December 31, 2019 Notes to the Financial Statements

FINANCIAL ASSETS AND LIABILITIES 26

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

Cash and cash equivalents Placements Investments Loans and advances to customers Loans to financial institutions Others assets Deposits from customers Deposits from financial institutions Other liabilities Lease liabilities Lease liability 2018 Cash and cash equivalents Placements Investments Cash and davances to customers Cash and advances to customers Cothers assets			Maturity	cost	sale	carrying
and cash equivalents ments and advances to customers to financial institutions s assets sits from customers sits from financial institutions liabilities and cash equivalents ments tments s and advances to customers s assets	***************************************		Afs	. Afs '000'		
ments and advances to customers to financial institutions s assets sits from customers sits from financial institutions liabilities and cash equivalents ments tments s and advances to customers s assets	ř.	r		4,950,867	1	4,950,867
ments and advances to customers to financial institutions s assets sits from customers liabilities liabilities and cash equivalents ments tments s and advances to customers s assets	ī	•	2,227,099	ı	I.	2,227,099
and advances to customers to financial institutions s assets sits from customers sits from financial institutions liabilities liability and cash equivalents ments tments s and advances to customers s assets	78,434	1	٠	•	282,659	361,093
to financial institutions s assets sits from customers sits from financial institutions liabilities liability and cash equivalents ments tments s and advances to customers s assets	1	•	•	2,876,288	1	2,876,288
s assets sits from customers sits from financial institutions liabilities liability and cash equivalents ments tments s and advances to customers s assets	,	i	. 1	70,000		70,000
sits from customers sits from financial institutions liabilities liability and cash equivalents ments tments s and advances to customers s assets	1	1	4	1,078,460		1,078,460
sits from customers sits from financial institutions liabilities and cash equivalents ments tments s and advances to customers s assets	78,434		2,227,099	8,975,615	282,659	11,563,807
sits from financial institutions liabilities liability and cash equivalents ments tments s and advances to customers s assets	9	ı	1	10,181,286	1	10,181,286
liabilities liability and cash equivalents ments tments s and advances to customers s assets	1	i	1	32,008	1	32,008
and cash equivalents ments tments s and advances to customers s assets		,	1	48,871	ı	48,871
and cash equivalents ments tments s and advances to customers s assets	•		•	96,390		96,390
and cash equivalents ments iments s and advances to customers s assets	1		,	10,358,555		10,358,555
tomers						
dvances to customers	•	i	•	4,859,829	1	4,859,829
dvances to customers	•	,	2,372,265	1	1	2,372,265
	157,346	1		1	18,828	176,174
		•	ï	2,948,782	ı	2,948,782
	•	1	1	1,118,143		1,118,143
	157,346		2,372,265	8,926,754	18,828	11,475,193
Deposits from customers 14	ï	1	1	10,250,370	1	10,250,370
Other liabilities 17	1	1	1	26,367	1	26,367
	ı			10,276,737	ı	10,276,737

Notes to the Financial Statements For the year ended December 31, 2019 The fair values of financial assets and financial liabilities approximates their carrying amounts at the reporting date. Held for trading investment categorized in Level 1 of IFRS 13 while available for sale investments are categorized in Level 2 of IFRS 13. 26.1

27 FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- a) credit risk
- b) liquidity risk
- c) market risks

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

Risk management framework

The Board of Supervisor has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established 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 responsible for developing and monitoring Bank's risk management policies in their specified areas. All Board committees have both executive and nonthe Management Board, Asset and Liability Committee (ALCO), Risk Management committe of the board (RMCB) and a Credit Committee which are 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.

27.1 Credit risk

principally from the Bank's loans and advances to customers and placements with other banks. For risk management reporting purposes, the Bank considers 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 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.



Notes to the Financial Statements For the year ended December 31, 2019

Committee. The Credit department is headed by Chief Credit Officer (CCO). Chief Credit Officer along with credit department staff looks after credit risk matters 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 and conduct portfolio analysis for managing credit risk.

comprises of well designed credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the 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 high quality of asset portfolio.

regular analysis of borrower to meet interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is 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 also managed against personal guarantees of the borrowers and mortgage of immoveable property duly registered with the court of law.

In addition to the above, there were no lending commitments which is pending for disbursement except as disclosed in Note 18.

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.

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 The Bank holds collateral against loans and advances in the form of mortgage interest over residential and/or commercial properties and guarantees. Estimates

B

Notes to the Financial Statements

For the year ended December 31, 2019

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 and as of the balance sheet date, except for Petroleum and Lubricants sector where it exceeds marginally, sector exposures are within regulatory limit.

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 1,055 million (2018: Afs 1,957 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.

27.2 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.

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 The Bank relies on deposits from customers as its primary source of funding. Deposits form customers generally has shorter maturities and large proportion of an unexpected problem.

Exposure to liquidity risk

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 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 from customers at the reporting date and during the reporting period was as follows:

Notes to the Financial Statements For the year ended December 31, 2019 Closing balance for the year ended Average for the period Maximum for the period Minimum for the period

31-Dec-18

31-Dec-19 54% 52% 60% 46%

64%

26%

Maturity analysis for financial liabilities

		Carrying	Gros Cash Outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
	Note				Afs '000'	Afs '000'		
2019								
Deposits from customers	14	10,181,286	10,181,286	5,913,990	1,555,949	1,247,378	1,463,969	í
Deposits from financial institutions	15	32,008	32,008	3	3	32,008	1	,
Other liabilities	16	48,871	48,871	40,428	11,692	28,759	1	1
Lease liability	17	96,390	96,390	1,687	342	18,225	67,973	8,162
		10,358,555	10,358,555	5,956,105	1,567,983	1,326,370	1,531,942	8,162
2018								
Deposits from customers	14	10,250,370	10,250,370	6,633,728	1,453,933	599,721	1,562,988	
Other liabilities	16	26,367	26,367	18,548	7,819	ī	ï	ı
		10,276,737	10.276.737	6.652.276	1.461.752	599.721	1.562.988	

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.

27.3 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

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 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 day to day review of their implementation.

Notes to the Financial Statements For the year ended December 31, 2019

Exposure to interest rate risk

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

Exposure to currency risk

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

31 December 2019		Total	\$SN	Euro	GBP
Assets	Note		Afs '000'	,000,	
Cash and cash equivalents	5	3,541,987	3,375,847	162,629	3,511
Placements	9	2,227,099	2,227,099	ı	•
Investments	7	282,659	282,659	£	٠
Loans and advances to customers	8	1,858,757	1,858,757	,	1
Other assets	10	947,912	932,928	14,984	1
		8,858,414	8,677,290	177,613	3,511
		Total	ns\$	Euro	GBP
Liabilities			AfsAfs	Afs '000'	
Deposits from customers	14	8,564,631	8,393,591	170,917	123
Deposits from financial institutions	15	28,760	28,760		
Other liabilities	16	47,384	43,175	4,190	19
Lease liabilities	17	71,708	71,708	t	1
		8,712,483	8,537,234	175,107	142
Net foreign currency exposure		145,931	140,056	2,506	3,369

For the year ended December 31, 2019 Notes to the Financial Statements

Note 5	}		2 2	ā
5 N C		Afs	Afs '000'.	
7	3,505,462	3,383,182	118,958	3,322
C	2,372,265	2,372,265	•	1
Loans and advances to customers	2,258,735	2,258,735	9	
Other assets 10 984	984,527	970,090	14,437	
9,120	9,120,989	8,984,272	133,395	3,322
Liabilities	Total	\$SN	Euro	GBP
31 December 2018			,000,	
Deposits from customers 8,884	8,884,734	8,749,488	135,101	145
Other liabilities 18	18,240	18,225	15	1
8,902	8,902,974	8,767,713	135,116	145
Net foreign currency exposure 218	218,015	216,559	(1,721)	3,177
	218,015	216,559	(1,721)	1 1 11
	31-Dec-19	6-19	31-Dec-18	-18

Net

Sensitivity analysis

Bel A 10% strengthening of the Afghani, as indicated below, against the USD, Euro and GBP at 31 December 2019 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.

Notes to the Financial Statements For the year ended December 31, 2019

Equity Profit or loss (11,204) (14,006) (251) (270) (337)	31-Dec-18	Equity Profit or loss	Afs '000'.	(17,325) (21,656)		(254) (3
31-De Equity (11,204) (200) (270)	c-19				(251)	(337)
	31-De	ty		204)	(200)	(270)
		Equi		11		
		Equi		(11,		
		Equi		(11)		
		Equi		(11)		
		Equi		(11)		
		Equi		(11)		

Euro

US\$

3/6 A 10% weakening of the Afghani against the above currencies at 31 December 2019 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.

Notes to the Financial Statements For the year ended December 31, 2019

Capital management

Regulatory capital

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

- Tier 1 or core capital, consisting of the highest quality capital elements that fully meet all the essential characteristics of capital; to be 6% of risk weighted assets.
- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank as a going concern.

Regulatory capital is the sum of Tier 1 and Tier 2 capital and Tier 2 capital cannot exceed amount of Tier 1 The Bank's regulatory capital position as on December 31, 2019 is as follows:

	31-Dec-19	31-Dec-18
Tier 1 capital	Afs	000'
Total equity capital	1,603,811	1,569,845
Less: Other Equity Components	(912)	-
Less: Profit for the year	(129,554)	(126,768
Less: Intangible assets	(57,351)	(1,438
Total tier 1 (core) capital	1,415,994	1,441,639
Tier 2 capital		
General allowances on Standard Advances	18	-
Revaluation Reserves on Available-for Sale Investments	410	14
Add: Profit for the year	129,554	126,768
Total tier 2 (supplementary) capital	129,982	126,768
Less: Equity investment	(+)	18,828
Total Regulatory capital = Tier 1 + Tier 2	1,545,976	1,549,579
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	889,639	852,203
Direct claims on DAB	3,894,564	3,004,393
Direct claims on other Governments	-	
Loans Collateralized by Blocked Deposits	28,000	
Others	-	-
Total	4,812,203	3,856,596
(%D x listor avoids) later their well well and	-	
113h-Weight total jabove total x 470)		
20% risk weight:		
	1,054,715	1,956,939
20% risk weight:	1,054,715 2,227,099	
20% risk weight: Demand Deposits with Banks		1,956,939 2,372,265
20% risk weight: Demand Deposits with Banks Time Deposits with Banks	2,227,099	



Notes to the Financial Statements For the year ended December 31, 2019

CONTROL CONTROL CONTROL AND	31-Dec-19	31-Dec-18
	Afs '	000'
50% risk weight:		
Qualifying Residential Mortgage Loans	-	-
Qualifying Real Estate Construction Loans	-	-
Total		-
50% risk-weight total (above total x 50%)		-
100% risk weight		
Loans gross amount	3,022,156	3,163,398
Property & Equipment's	346,813	341,069
All Other Assets	580,059	355,309
Total	3,949,028	3,859,776
100% Risk-Weight Total (Above Total x 100%)	3,949,028	3,859,776
Off-balance-sheet items with 0% Credit Conversion Factor		
Undrawn loan and overdraft facilities	58,181	148,152
Guarantees		-
Total	58,181	148,152
0% Credit Conversion Factor Total (Above Total x 0%)	-	*
Off-balance-sheet items with 20% Credit Conversion Factor		
Commercial letters of credit		
100% Risk Weight	84,046	
Total	84,046	
20% Credit Conversion Factor Total (Risk-Welghted Total x 20%)	16,809	-
Off-balance sheet items with 100% Credit Conversion Factor		
Guarantees and Standby Letters of Credit	15.943	53,066
20% Risk Weight	3,468,076	3,207,376
100% Risk Weight	3,484,019	3,260,441
Total 100% Credit Conversion Factor Total (Risk-Weighted Totals x 100%)	3,484,019	3,260,441
Total risk-weighted assets	8,114,619	7,986,059
Fier 1 Capital Ratio	17.45	18.05
Regulatory Capital Ratio	19.05	19.40
DATE OF AUTHORISATION FOR ISSUE		
These financial statements were authorized for issue on	by the Bo	oard of

29

These financial statements were authorized for issue on ___ by the Board of Supervisors of the Bank.

GENERAL 30

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

g. 9/10 Chairman

Chief Executive Officer