



Grant Thornton

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Independent Practitioner's Reasonable Assurance Report

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To the Chief Executive Officer of Ghazanfar Bank

We have performed an independent reasonable assurance engagement on the attached report relating to the Ghazanfar Bank as of 31 December 2021 according to Assurance Engagements (ISAE) 3000 – Assurance Engagement Other Than Audit or Review of Historical Financial Information (revised) as published by the International Auditing and Assurance Standards Board (IAASB).

Scope

Our reasonable assurance engagement focused on the evaluation of the loan report presented by the bank for;

- 1) provision against loan and advances made by the bank in accordance with the Asset Classification and Provisioning Regulation (ACPR) of DAB; and
- 2) impact of non-application of ACPR on the equity of the bank as presented in loan report.

Management Responsibilities

Bank's credit department management will be responsible for the development of the loan report in accordance with the ACPR issued by DAB. That report will contain all information necessary for the evaluation and fair presentation of status of loan portfolio of the Bank. In addition, the bank is responsible to provide all information requested by the practitioner for the verification of loans and advances, including, outstanding balances, loan sanctioning documents, credit appraisals, payment history, loan statements, and collateral documentation, etc.

Practitioner Responsibilities

Our objectives are to obtain reasonable assurance about whether the loan report as a whole is 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 ISAE 3000 (Revised) 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 our work in accordance with IASE 3000 (Revised), we exercise professional judgment and maintain professional skepticism throughout the engagement. We:

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- Verify the provision made by the bank to assure that this is calculated in accordance with the DAB regulation of Asset Classification and Provisioning Regulation (ACPR)
- Impact assessment of non-application of ACPR on the equity of the bank.

Our Independence and quality controls

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Conclusion

In our opinion, the accompanying loan report gives a true and fair view of the provision against loans and advance as reported by the Bank in the loan report as of December 31, 2021 in accordance with the Asset Classification and Provisioning Regulation (ACPR) issued by the DAB.

Limitation of use

This report is intended solely for use by the Management of Ghazanfar bank. Our work will be undertaken to enable us to express a reasonable assurance opinion on the loan report (subject matter). We will not accept or assume liability to any party other than the Ghazanfar Bank, for our work, for the assurance report, or for the opinion or conclusions we have reached.



Grant Thornton Afghanistan
Chartered Accountants

Location: Kabul, Afghanistan

Date:



GHAZANFAR BANK
LOAN PORTFOLIO REPORT
FOR THE YEAR ENDED DECEMBER 31, 2021

Introduction

Asset Classification and Provisioning Regulations (ACPR) are developed by Da Afghanistan Bank ("DAB" - Central bank of Afghanistan) which are applicable to all banking institutions licensed by Da Afghanistan Bank. The aim of this regulation is to collect reliable information on the total capital and assets of the bank, used for calculating economic normative regulating banking activities as well as for the purpose of calculating the amount of provision for losses to be deducted as an expense in calculating profit. This regulation encouraged banks to form a general reserve for losses on loans and other funded exposures to their clients while classifying each loan and advance balance in the proposed categories of Watch, Substandard, Doubtful, and Loss based on the time-based criteria of ACPR.

During December 2021, DAB issued a circular whereby banks were instructed for suspending the implementation of ACPR issued by DAB up till the end of June 2022 (12 months). Accordingly, Ghazanfar Bank (the Bank) has complied with the requirement of said circular in preparing the audited financial statements for the year ended on 31 December 2021.

This report presents a factual picture of the bank's loan portfolio as of December 31, 2021, had the ACPR been used to classify and value the loan and advances. This assists management in ascertaining the effect of suspension of provision on the fair value of loan and advances (as per ACPR) and the equity of the bank.

This report has been prepared solely with the objective of internal decision-making by the bank and shall not be suitable for any other purposes.

Provision on Loans & advances

As of December 31, 2021, the bank had different provisioning when computed under the two scenarios, i.e., ACPR applied and ACPR not applied. Following table depicts the total provisioning and carrying value under the two scenarios and the difference of both. The difference is going to impact the profit and loss for the period-end and consequently the equity as on the period-end. Total difference arising on loans and advances is AFN 229.67 million.

As per audited financial statement					As per ACPR				Net impact on loans/ provisions
Description	Gross amount	Guaranteed amount	Provision up to Jun 2021	Carrying amount	Gross amount	Guaranteed amount	Provision up to Dec 2021	Carrying amount	
 AFN '000								
Conventional									
Running finance	1,930,349	-	(258,765)	1,671,585	1,930,349	-	(402,270)	1,528,080	143,505
SME loans	33,223	-	(26)	33,197	33,223	-	(1,606)	31,618	1,580
Term loans	1,304,895	146,734	(107,062)	1,197,833	1,304,895	146,734	(137,659)	1,167,235	30,597
	3,268,467	146,734	(365,853)	2,902,614	3,268,467	146,734	(541,535)	2,726,932	175,682
Islamic financing									
Murabaha	857,245	297,968	(28,022)	829,223	857,245	297,968	(82,011)	775,235	53,988
Total	4,125,712	444,702	(393,875)	3,731,837	4,125,712	444,702	(623,545)	3,502,167	229,670

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Running finance is a short-term loan option for customers to draw money in excess of the bank balance to meet their Capital work in progress requirements. These carry interest ranging between 6.5% to 15.5% per annum. All facilities are extended for a maximum period of 12 months and are expected to be recovered within 12 months of the reporting date. These are secured against personal guarantees, mortgage of immovable properties, and hypothecation overstock in trade.

The SME loans are personal long/short term loans, SME provides borrowers with a lump sum of cash upfront in exchange for specific borrowing terms. Borrowers agree to pay their lenders a fixed amount over a certain repayment schedule with either a fixed or floating interest rate. These carry interest rates between 6.5% to 15% per annum.

The term loan is a long-term loan option for customers. A term loan provides borrowers with a lump sum of cash upfront in exchange for specific borrowing terms. Borrowers agree to pay their lenders a fixed amount over a certain repayment schedule with either a fixed or floating interest rate. These carry interest rates of 5.5% to 15% per annum. Out of 1,304.89m, term loan of 146.73m amount is secured under ACGF and DFC where secured percentage range is between 65% to 90% of principal loan amount.

Murabaha represents Islamic financing structure that works as a sales contract, fixing the price of goods or items as required by a customer, inclusive of a pre-agreed profit margin. Murabaha loan profit margin ranges from 7% to 39%. Out of total outstanding amount of Murabaha, 297.96m is secured under ACGF and DFC where the secured percentage range is between 60% to 90% as well as these loans are secured against personal guarantees, mortgage of immovable properties, and hypothecation overstock in trade

Total impact on the equity of the bank

The below table shows the equity of the bank which would have been reflected in the financial statements, had the ACPR not been suspended by the DAB.

Description	As per audited financial statement	As per ACPR	Impact on equity
 AFN '000		
Share capital	1,267,000	1,267,000	-
Capital reserve	42,632	42,632	-
Retained earnings	668,194	484,457	183,736
Revaluation surplus/ deficit on financial instruments at FVOCI	(52,320)	(52,320)	-
Total equity	1,925,506	1,741,770	183,736

It is concluded that if the bank would have applied ACPR to value its loan and advances as on December 31, 2021, in accordance with the ACPR, the total equity would be AFN 1,741 million and net profit for the year would be AFN 182.28 million (lowered by an amount to AFN 183.73 million).

Different between the impacts on Loans, i.e., AFN 229,670 million and on Equity, i.e., AFN 183,736 million is due to 20% tax applicable on profit before income tax.

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Capital Adequacy Ratio (CAR)

The CAR measures how much capital a bank has available, reported as a percentage of a bank's risk-weighted credit exposures. The purpose is to establish that banks have enough capital on reserve to handle a certain number of losses, before being at risk of becoming insolvent.

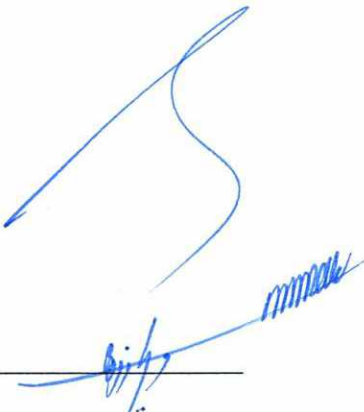
As per the Capital Adequacy Regulation, each bank is required to maintain a minimum regulatory (Total) capital to risk weighted asset ratio of not less than 12% and a core (Tier-1) capital to risk weighted ratio of 6%.

The below table shows the Capital adequacy ratio (CAR) of the bank which would have been reflected in the financial statements, had the ACPR been not suspended by the DAB.

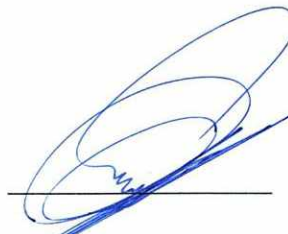
Description	As per Audit Financial Statement	After Considering ACPR impact
 AFN '000	
Tier 1 capital	1,594,362	1,594,362
Tier 2 capital	366,041	182,304
Total Capital	1,960,403	1,776,665
Risk-Weighted Credit Exposures	9,049,425	8,819,755
Capital Adequacy ratio (CAR)	21.66%	20.14%

After considering the impact of ACPR, the capital adequacy ratio of the bank will be reduced from 21.66% to 20.14% as per the financial statements on December 31, 2021, which is still much higher than the DAB benchmark of 12% CAR.

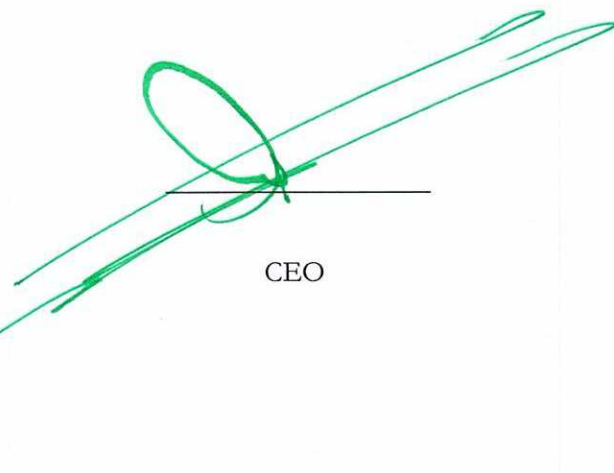
On behalf of Ghazanfar Bank



CFO



CCO



CEO