

THE
BANK
YOU
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TRUST

**ANNUAL
REPORT**
2018





عزیزی بانک
Azizi Bank

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CHAIRMAN'S MESSAGE

On behalf of Azizi Bank's Board of Supervisors, I am pleased to present Azizi Bank's Annual Performance Report for the FY 2018.



The Bank, having been set up in 2006 by the visionary entrepreneur, Mr. Mirwais Azizi, continued on its projected path of Service and Profitability, more net centric products to enhance customer's convenience, increased the introduction of m-commerce product, increased financial inclusion and all-round business growth through planned exposure in different sectors. In the coming years, the bank intends to partner with several donor agencies in the path for credit expansion. The journey towards growth and accessing new markets is continuing amidst challenging environments of economic slowdown, uncertain security situation, unusual migration population, import surplus not adequately supported by export substitution economy and the prevailing uncertain political

“Our social and customer centric approach lays the foundation for a strong and proud culture. We understand our role and our purpose, and that at Azizi, WE exist to serve others. We want to serve our customers in the best possible way.”

environment. While the difficult environment continued to impact the Service and Profitability, Bank's performance was severely constrained by the several write offs mandated by the Central Bank. The takeover of bad loans from the subsidiary bank owing to conversion to Islamic fold also limited the operations of the Bank.

In spite of all the hurdles, the Bank has poised and recorded commendable profits with AFN 306 Million (Pre-Tax). Although the volume of business reduced marginally, Bank managed to record sizeable revenues through gains in the non-fund business. The Bank would be endeavoring with new products in the coming years to improve the credit portfolio through retail bank lending especially in the Small Scale Sectors, Loans to Women Entrepreneurs and Export Promotion and Import Substitution Sectors. Bank has successfully deployed the excess Afghani Fund Liquidity in loans to local business units for profitable revenue generation. Such endeavors became necessary to stabilize the fledgling economy of the country and compensate the revenue loss of the reduction of interest rate on the Capital Notes by the Central Bank.

Bank has successfully deployed the available USD liquidity in the "Investment" portfolio, both for managing short term liquidity as also for generation of revenue gains. During the course of the year, Treasury department has performed very creditably and generated revenue of USD 4.3 Million, which was more than their target. Investment portfolio has been totally concentrated in carefully selected sovereign bonds with high global ratings and better returns. Bank has made all out efforts to contain the risk as well as to ensure good returns. A major portion of the portfolio was under "Available for Sale" categories which were sold based on the volatility and nature of the market to improve profitability. Bank has also made sizeable profits through sale of currency.

In spite all the odds and prevailing environmental impediments, the deposit portfolio has recorded a marginal growth during the year. The core deposit portfolio remained stable at around USD 380 Million to USD 400 Million. There was not much fluctuation in the deposit portfolio as was witnessed during the previous year(s) which encouraged us to work with more vigor and optimism in the coming years for sustaining our profit growth in a better way.

Even though the projections are made in a conservative manner, during the coming years, bank plans for significant growth in redefining the areas of operations to suit the needs of the prevailing situation in the country. There are scopes for improvement in the loan portfolio with advances to potential sectors.

Donor funds are being received for infrastructure developments of SME portfolio. However, the challenges persist in the areas of vertical and horizontal integrations and educating the borrowers in the usage of credit inputs.

There have been substantial efforts from the Marketing Department to rope in large depositors. With this in view a large number of Non-Governmental Organizations (NGO's) accounts have been opened which promises of further growth. This speaks of the strength and stability and systems Integration of Azizi Bank based on a strong and stabilized risk culture and its management and strict adherence to Regulatory Norms and Compliance Issues, well-articulated Risk Appetite, Internal Controls; with Azizi Bank's sound strategy and strong Leadership Direc-

tion, Policy Design and Managerial Ability, I am confident that we will continue to build on our Eleven Years success story and sustained growth.

Profitability:

Bank has ended the year with profits for the sixth year in succession. This is a stupendous achievement whilst managing credit risks, liquidity risks, sovereign risks, people and process risks. All risks are magnified in an economy where the deposits comprises of 97% CASA deposits and the economy continues to be fledgling, without proper infrastructure and Governmental Sponsorship of creation of economic climate.

Economic Growth:

Amongst the many constraints the economy faces and impacts upon the performance of the bank are slow economic recovery, continued insecurity, lack of investment – both Private, External and Governmental investments. Infrastructural investments are mostly being shouldered by NGO with the patronage from the International donors.

However it is expected that the growth (GDP) would be around 2.5% during the current fiscal year which should translate into more deposits and business opportunities.

Financial Inclusion:

With an extensive layout of branches, agency banking and more than 100 ATMs, the bank has been striving the best to bring about financial inclusion to the masses. This step has taken a big boost with enhanced m-commerce facilities which facilitate off-site transactions. However the bank already has a customer base of more than 1.2 Million customers which could be increased with concerted efforts. Other than the business motives, the Bank has also been trying to increase the population under the banking fold with the objective of expansion. The world of traditional branch banking is changing at a rapid pace. Our clients don't need to have a branch right around the corner anymore, but they do need to have a mobile app that is easy to use and can fulfill the majority of the tasks that once required a trip to the branch.

Corporate Social Responsibility:

The bank has always been making earnest endeavors to contribute to the social upliftment. The following are the programs participated/ sponsoring activities undertaken during the course of the year. The activities sponsored during the course of the



year include:

- Planting of trees at Kabul, Mazhar and Jalalabad
- Distribution of food, warm clothes to the destitute and orphanage(s)
- Distribution of food items to flood victims
- Educational tour of the Bank from different Institutes
- Other environmental sustainability initiatives

Improvement in CAMEL rating:

The improvement in the ratings have come as a big boost which should help in international corporate deposit mobilization and the start of on line banking transaction facility. Bank would strive to keep up the progress record and would strive for improvements in all segments and parameters

Management of Risks:

The deposit position increased marginally over the previous year. However, the liquidity position was well managed with a broad liquidity position of 42% on an average.

After the write offs the portfolio is cleansed off the Non-performance, Assets has been reduced to 3.41% of the gross loan portfolio. Processes are continuing to recover through the sale of the assets within definite time lines. We are passionate about promoting financial well-being for our clients, communities and teammates.

It is my firm belief that banks have a tremendous opportunity and responsibility to promote and enable financial confidence. Our Net Interest Income and Return on equity needs improvement and we have planned accordingly in the coming years. We are poised for significant growth.

Islamic banking:

Another milestone for the bank has been the license to start Islamic banking operations through our subsidiary bank. We created history with this conversion with the creation of the first Islamic bank in the country and is expected to have a large footfall considering the conservative history of the country.

The Board acted as key advisors in the development of strategic business plans and will continue to contribute to the bank's goals for growth over the medium and long term. The Bank's goal is to foster a culture of shared values and integrity Transparency and Public Accountability that is critical to the long-term success. The bank remains firmly committed to continuous improvement of the strong and effective governance standards and transparency.

The Board has utilized its collective strength and experience to supervise and guide the Manage-

ment in enhancing the stability of the enterprise and creating long-term value for Shareholders. The Board is proud to be actively engaged in the achievements of the Bank.

The Board expresses its gratitude for the support, commitment and loyalty shown by the Bank's customers and clients throughout the year and hope to receive their continued support.

The Board extends their appreciation to the Management and its mammoth 1750 odd employees and especially the women employees for their commitment for delivering valuable service to Shareholders and Clients.

We convey our sincere thanks to the Honorable Governor of Da-Afghanistan Bank (Central Bank of Afghanistan) and His Excellency's Team of Senior Management and the Officers and the Shareholders for their guidance and continued support as well as to my fellow Board Members and the Management and Staff for their concerted efforts and hard work.

Finally, I express my sincere gratitude to the Shareholders for their confidence in us, which encourages to fuel the momentum towards an ever brighter future and we expect your continued support in our endeavour to become Afghanistan's Premier Bank and to be able to cater to the financial demands of the entire Country.

On behalf of the Board of Supervisors,

Sundaram Prabhu.
Chairman
Board of Supervisors

PRESIDENT AND Chief Executive Officer's Message

“We made a good progress on our strategy, delivering strong operating performance and cost efficiencies, as well as solid returns.”

Dr. Mohammad Salem Omaid





An Eventful Year

In 2018, the fiscal position of the country remained strong inspite of the other economic challenges. An overall fiscal surplus of around 0.7 percent of GDP was achieved in 2018. Despite slow growth, domestic revenues reached a record high of Afs 189.7 billion, an increase of 12 percent from 2017 levels.

Against this backdrop, we made good progress on our strategy, delivering strong operating performance and cost efficiencies, as well as solid returns. Our incremental profit earnings grew by 18% against the budgeted numbers. Our deposits grew by over 10%. We made substantial reduction on our cost of deposits. We achieved a healthy Capital Adequacy Ratio of 21.24% much above the Central Bank's norms and which is an indicative factor of the inherent strength of the organization. Our Treasury portfolio has had positive buoyancy during the year to touch USD 106 Million portfolio. The income from the treasury portfolio has been USD 4.3 Million during the year, which is much above the budgeted numbers. The bank has been highly active in the forex markets as well as in placement of deposits and acquisition of bonds. These results are commendable.

The Bank leveraged its potential business growth through expansion in the Investment portfolio and growth through non-fund portfolio.

A Strong, Resilient Franchise

Over the years, our strategy for growth has been categorized on three primary strategies of (1) growing and deepening client relationships; (2) improving efficiency; and (3) optimizing the balance sheet to enhance returns.

Digitalization also improved the efficiency of the bank which witnessed a reduction on our cost-income ratio.

The Bank reiterates its commitment to make further improvements through more stringent controls, improved corporate governance, proper MIS reporting and further cleansing of the loan portfolio. The Bank has tied up with International Finance Corporation for conducting assessment/ surveys and to revamp the processes and procedures including improvement in Corporate Governance procedures.

Azizi Bank continues to be the largest lender in the

country with a business model to facilitate economic growth with an objective of mass banking. Azizi bank is also in the process of teaming up with ACGF and other institutions to promote guarantee participation in loan in selected sectors with high growth potential. The Bank is also projecting to increase its Loan portfolio in the coming years at an average CAGR of 20% to increase the profitability. The Bank will carry the objective of increased lending activity in priority sectors of the economy i.e. Agriculture and SME.

With a growth strategy based on improvement through control, the bank has made sustained efforts and has improved in all the areas of Banking and Management. A very significant area was the improvement in the CAMELS rating of the Bank on the following parameters:

- ▶ Capital;
- ▶ Quality Assets;
- ▶ Management;
- ▶ Earnings/Profits;
- ▶ Liquidity;
- ▶ General grade.

Another feather on our cap during the year was the successful conversion of our 100% subsidiary Bakhtar Bank to Islamic Bank, the first full-fledged Islamic bank in the country.

Embracing Digital

Azizi Bank has invested comprehensively into technology on its endeavor for superior customer service. In 2018, we launched AZIPAY, the first mobile based wallet application in the country that supports both financial and non-financial transactions including mobile top-up and payment of utility bills. Improvement in the Compliance regime was one of core focus area of the management and as such the bank has invested in the up-gradation of the technology for Anti Money Laundering (AML) Software.

As we move forward, we aim to adopt the practices of global technology companies known for their ability to constantly experiment, automatically scale and rapidly bring new features to market.

Embedding Ourselves in the Customer's Journey

To become more customer-centric, we have made

it a priority to embed ourselves in the customer's journey. This means thinking about banking not as a separate activity, but as one that should be seamlessly interwoven into a customer's everyday life. We believe that the internal customers are the biggest assets. They are the face of the bank to the large corpus of customers across different strata of the society. The relentless efforts being put in by over 1750 team members are not only providing banking services to its over one million and growing clientele base but also ensuring optimum customer service as well as compliance with all the relevant guidelines and prescribed legislations.

The Bank has taken a mission to develop the local staff efficiency level through an entire gamut of external and internal trainings. Succession planning has been done for every position in the organization so that there is continuity of the business flow in case of a sudden gap in the organization.

The Bank is on the upswing and has cautiously invested in capacity building of resources. The Bank has also a large contingent of female staff and their population is growing. Azizi Bank believes in gender equality and provides lots of opportunities for women to come forward and join the main stream.

Corporate Social Responsibility

Azizi Bank have a sustained CSR Policy and practices Responsible Banking. We consider CSR as one of the important aspect for the growth and also support the important cause of the govt. in terms of sustainability initiatives and also support the society at large. Our involvement on CSR initiatives have made a great impact of our brand in the society. The bank has been quite active on various initiatives across the country and have received considerable amount of appreciation from the govt. and the society at large. From community services perspective, we have supported multiple hospitals and homes in terms of providing medicines, essential utilities, infrastructure development, food materials, stationeries and also organizing blood donation camps etc. From environmental sustainability initiatives, we started the go-green initiative by planting thousands of trees across the country, campaigns on saving water, pollution control etc. From capacity building perspective, we have been providing free trainings to college graduates and management students on

various subjects related with banking, finance, economy etc.

Sustainability

Sustainability has always been at the core of our purpose-driven DNA. We recognize that not all returns can be found in financial statements and that our responsibility to shareholders is complemented by responsibility to society at large.

In serving our customers, we are committed to a culture that is sensitive to regulations and suitability of transactions, and we hold ourselves accountable at every level, starting at the very top.

We also recognize that our lending practices play an influential role in shaping the behaviors of our customers towards sustainable development, and are committed to supporting and implementing responsible banking in line with the guidelines on Responsible Financing. To this end, we have amended our Core Credit Risk Policy to incorporate the principles and approach to managing environmental, social and governance (ESG) issues in our lending practices and capital market activities.

We are on a journey, and in the coming years, will continue to work on integrating ESG, including climate change considerations, into our business processes to more fully live our ethos of making banking a joyful experience.

Going Forward

We expect 2019 to be challenging again. Nevertheless, our core business parameters in deposit mobilization, enhancement of revenue generating portfolio should be stable and increase progressively as we have the resilience and commitment to overcome challenges. Azizi Bank will continue to invest on its business, people and brand to deliver customer-centric convenient products. We will also maintain a strong risk & compliance culture, initiate all measures to comply with the regulators, aim for operational excellence while adhering to all norms and minimize risky initiatives.

On behalf of the Management Board,



Dr. Mohammad Salem Omaid
President and Chief Executive Officer



ABOUT Us

Azizi Bank is a commercial bank in the Islamic Republic of Afghanistan, established in the year 2006. The bank was envisioned and set up by Mr. Mirwais Azizi of the distinguished Azizi Hotak Group & Family in order to provide banking services to all sectors -sections of the population, at a time when banking services experienced their own set of challenges in the country., during the early 2000s.-

The bank was initially set up with a capital of USD 7.5 Million and employed 25 employees. Today the bank has a statutory paid up capital of more than USD 80 Million with the Central Bank of Afghanistan,- and employs around 1750 employees. Twelve percent of the bank's work force is female, thus the bank plays an active role in the empowerment and emancipation of women in the country by providing employment to them. Bank is an equal opportunity employer.

Bank has extensive plans to improve its work force through a regular process of capacity building including internal and external trainings.

In a span of more than twelve years, Azizi Bank has become a market leader in the country in terms of customer base, absolute business, percentage share and network as well as innovation in customer centric products to cater to all sections of the population and technological products. Azizi Bank has 76 branches, eight Extension Counters and 101 ATMs placed across the country with all types of Banking Services as available in any developed country.

Azizi Bank has converted its 100% subsidiary bank, Bakhtar Bank into a full-fledged Islamic Bank of Afghanistan, thereby establishing the first Islamic Bank in Afghanistan, a country where more than 99% of the population is Muslim. The subsidiary Bank has started its operations since April 2018 and is shaping up to the demands of the conventional population with a large bouquet of products. Introduction of Islamic banking in the country will further increase the demographic of the total banking population, which is presently less than 11% of the total population



of around 34 million.

Azizi Bank will remain a conventional bank considering the large number of its international clientele base.

The Bank is enshrined to the principles of innovation, financial inclusion and customer convenience as well as married to the principles of the Corporate Social Responsibility. The Bank has plans for global expansion in the near future.

Caption:

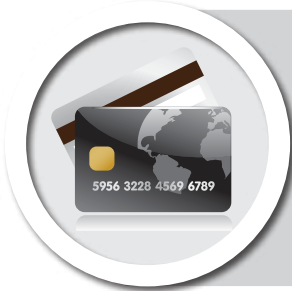
A Customer Centric Bank With An Objective Of Mass Banking.

CORE VALUES

The bank considers the following as its core values:

Three white circles of increasing size arranged in a diagonal line from the top left towards the center of the page.

AZIZI BANK
PRODUCTS
&
SERVICES



Master Credit / Debit / Prepaid
Card, PoS Terminals

Savings Account in Afghani & USD and
Current Account in Afghani, USD, Euro & GBP,



Salary Savings Accounts with “Zero Balance
Facility” in AFN & USD

Term Deposits in AFN & USD



Fund-based (Term/Working Capital Loans) and Non-fund
based facilities e.g. Letters of Credit and
Bank Guarantees.

Senior Citizen, Kids & VIP Accounts





SERVICES

CBS: Core Banking Solution
Any Branch Banking

Local/International-SWIFT
(USD/EUR/GBP/AED/TRY/INR)
remittance facilities

Biometric System: Finger Print
Recognition for enhanced
Security

Fast and Easy transfer of funds
through Westrn Union Money
Transfer

Breshna Electricity Bill Collection

Foreign Exchange & Treasury
Services

ATMs: Free ATM Cards to
withdraw cash 24/7

Push SMS Facility: alert of each transaction

Mobile Money Transfer

KEY MILESTONES 2006-2018

2006

Establishment of Azizi Bank on 13th June 2006.

2007

Became the fastest growing bank in Afghanistan with 37 branches, Started Core Banking Software ICBA.

2008

STP Award 2008 conferred on Azizi Bank by Commerz Bank, Germany at the SIBOS'09 in Hong Kong.

2009

Azizi Bank acquires a sick bank and started its operations renaming it as Bakhtar Bank

2010

Azizi Bank launched Internet Banking and Mobile Banking. Branch Network increased to 73 outlets. Launched bank's first ATM in January 2010.

2011

Azizi Bank started providing SMS Alerts. Number of deposit holders crossed 400,000.

2012

Launched the branded International Master Credit Cards and Migrated to Real Time DRS.

2013

Launching- POS Terminals, Prepaid Cards and International Master Debit Cards.



2014

Acquired Punjab National Bank (Kabul) and crossed the milestone of 650,000 depositors as on December. Owner's equity crossed AFN 5 Bn. Largest lender in Afghanistan with a wide portfolio of AFN 13.5 Bn.

2015

Another creditable year of performance with the Bank has taken great strides in Customer Satisfaction, adopting latest technologies, implemented new products and above all continued on its profit making trends even through economic downturns. Launched Green Channel at branches.

2016

Taken advanced steps on improving the technology of the bank. Steps taken to increase the ATM network. Became the no# 1 agent for Western Union business in the country. Initiated steps on Corporate Social Responsibility initiatives. Won several international awards from across the globe, the prominent amongst which are the Best Bank for Corporate Governance, Best Bank for Customer Service, Best Socially Impacted Bank in Afghanistan and Best Retail Bank and the Best Private Sector Bank in Afghanistan. The first bank from the Country to be invited at the London Stock Exchange & BBC Studio, London for an in depth analysis of the banking system in Afghanistan. Most socially accepted bank in the country. Azizi Bank is a brand name in Afghanistan.

2017

Digital transformation of the bank. Procurement of Flex Cube to migrate from its existing software. Launch of Cash Deposit Machines. The first bank in the country to initiate the Agent Based Banking Model for financial inclusion. First bank in the country to launch Payment Gateway Solutions & Mobile Wallet solutions – AZIPAY for customer convenience. Procurement of more than 60 ATMs to emerge as market leaders in the country. Launch of International Masters Debit Card. Several international accolades from across the globe including the Promising Young Banker Award for CEO from the Asian Banker, the first banker from Afghanistan to be recognised. Sustained CSR initiatives.

2018

Achieved the milestone of more than 100 ATMs in the country. Introduced new products to expand the retail base. Continued with our endeavor on corporate social responsibilities. Launched new campaign on environmental sustainability initiatives and social awareness like save water, food wastage, child education and traffic awareness. Launched the chip based debit card. Improved the CAMELS rating. More global recognitions from various financial & media houses on its initiatives for super banking and customer services as per international standards.

SHAREHOLDERS PROFILE

Mirwais Azizi Hotak



“The personal attention we give to each client is the reason behind our success. To accommodate the needs of our clients, we work with community leaders to identify the best methods and practices to achieve high level customer satisfaction.”- Mr. Mirwais Azizi

In 1989, the seeds of what became the present-day Azizi Group were planted. In a span of three decades, Azizi Group has progressively achieved dominance in various sectors and international markets. The group is dedicated to success within infrastructure, banking and energy sectors, and believe these as vital components to the growth of an economy. The core strengths of Azizi Group are its dedicated employees, management capabilities, successful planning and unique designs.

Mr. Mirwais Azizi is the Chairman of Azizi Hotak Group, Azizi Investments in Dubai, UAE and Director and Promoter of Azizi Bank since the inception of the bank. He was also the first Chairman of Azizi Bank in the years 2006 to 2011.

The Azizi Hotak Group is a leading importer of petroleum products in Afghanistan, and owner of petroleum/LPG tankages in Afghanistan and CIS countries.

Mr. Azizi also contributed towards the growth of education in Afghanistan and is one of the founding pillars in the establishment of the American University in Afghanistan.

As a continuation of such efforts, Mr. Azizi has established the Azizi Foundation--an autonomous non-profit organization which works closely with marginalized populations to strengthen capacity building. This foundation is built on the principles of human dignity, gender and social equality, sustainability and social transformation, it seeks to support projects in education, health, infrastructure provision and economic empowerment.

Mr. Azizi is a graduate in law from the National University of Kabul, Afghanistan. A strong leader in himself and a person with pioneering visionary skills.



Mr. Humayuon Azizi Hotak



Mr. Humayuon Azizi is a leading businessman in Afghanistan and deals in the import of Petroleum products and their distribution in Afghanistan. He is a trusted and known personality who plays a key role in the economic development of Afghanistan. Further, he has close relations with the majority of business men in the country and abroad, and is capable of managing business in any kind of circumstances.

Mr. Farhad Mirwais Azizi



Mr. Farhad Mirwais Azizi is a young entrepreneur with a Master's in Business Administration (MBA) from the United States (Boston, MA), and a Bachelor's degree in International Business. He looks after the businesses of Azizi Hotak Group and is the CEO of Azizi Investments, Dubai.

Mr. Farhad is a well-educated person equipped with the international knowledge of managing business and is successful in all areas under his domain. He is a strategic planner who can promote business in a way that can help to reach short and long term goals.



Mr. Abdul Aziz Khan



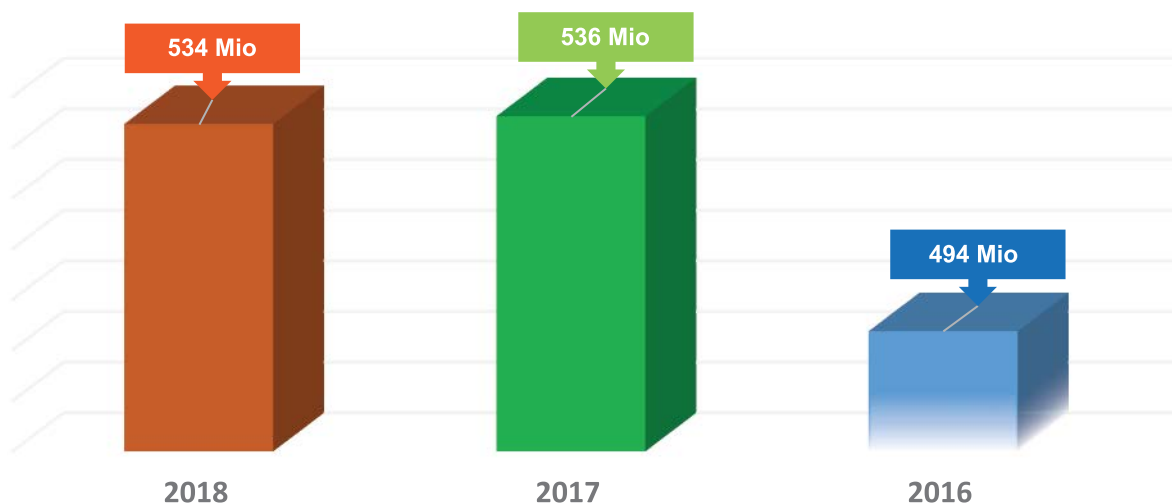
Mr. Abdul Aziz Khan is an administrative leader, as well as an important community leader in the Islamic Republic of Afghanistan. Since a long time he has administered different projects that have resulted in prosperity and welfare of the country. Further, he is a good advisor and a great source of information to the business community.



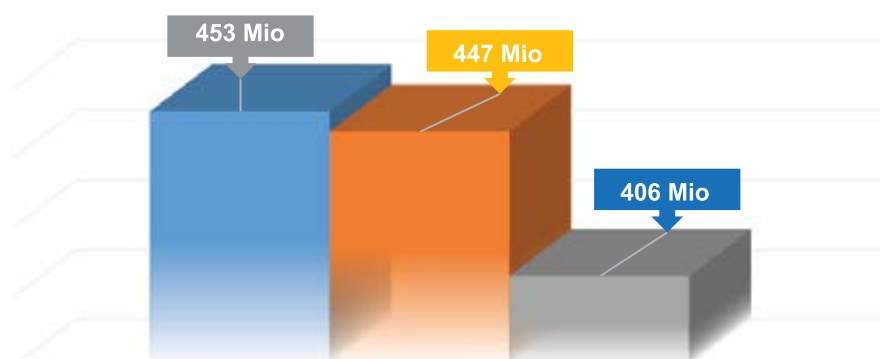
KEY FINANCIAL DATA 2016-2018

Key Business Parameters	2018		2017		2016	
	USD '000	AFN '000	USD '000	AFN '000	USD '000	AFN '000
Total Assets	534,621.26	40,454,791.00	536,170.34	37,440,775.00	493,720.60	32,995,348.00
Loans & Advances to Customers (Gross)	102,132.72	7,728,383.00	123,257.85	8,607,096.00	133,066.54	8,892,837.00
Investments	170,088.11	12,870,567.00	54,752.54	3,823,370.00	49,637.15	3,317,251.00
Total Deposits	453,052.24	34,282,463.00	447,292.40	31,234,428.00	405,769.03	27,117,544.00
Shareholder's Funds	78,753.71	5,959,293.00	83,501.12	5,830,883.00	84,683.88	5,659,424.00
Total Income	43,091.58	3,260,740.00	35,734.01	2,495,306.00	35,336.08	2,361,510.00
Net Profits	2,209.46	167,190.00	2,455.38	171,459.00	21,719.00	21,719.00
Credit to Deposit Ratio (C/D)	22.54	22.54	27.56	27.56	32.16	32.16
Net Interest Margin (NIM)	2.59	2.59	1.60	1.60	4.06	4.06
Yield on Advances	11.99	11.99	10.09	10.09	15.22	15.22
Capital Adequacy Ratio (CAR)	21.24	21.24	22.45	22.45	29.51	29.51
Return on Assets (RoA)	0.41	0.41	0.46	0.46	0.64	0.64
Return on Equity (RoE)	3.11	3.11	3.19	3.19	3.93	3.93
Cost of Deposits	1.61	1.61	2.48	2.48	3.50	3.50
Efficiency Ratio	54.47	54.47	59.92	59.92	57.71	57.71

TOTAL ASSETS (USD/MN)



TOTAL DEPOSITS (USD/MN)

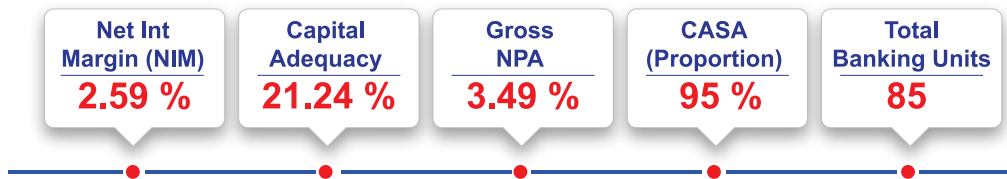


■ 2018 ■ 2017 ■ 2016

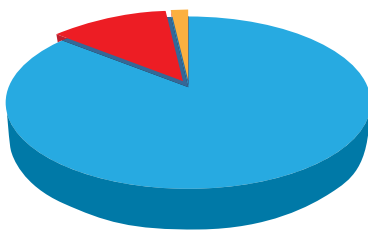


AZIZI BANK

2017-18 RESULTS

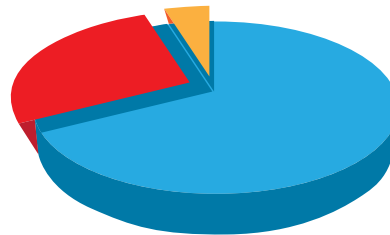


Loan Portfolio Product Wise (USD/Mio)



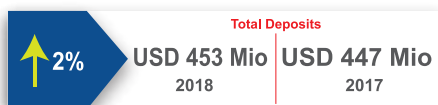
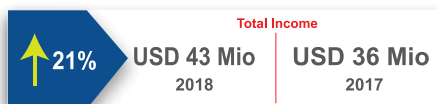
■ Overdraft ■ Term Loan ■ Consumer Loan

Deposit Growth Product Wise (USD/Mio)



■ Current Account ■ Savings Account ■ Term Deposits

2017-18 RESULTS



CORPORATE GOVERNANCE

- Introduction and Objectives
- Organizational Structure
- Pattern of Shareholders
- Voting Rights
- Policies
- Attendance for BOS, Audit Committee, BOM Meetings held in 2018
- Key Department Notes
- Board of Supervisors
- Board of Management
- Other Senior Management Officials



INTRODUCTION

A set of relationships between a company's management, its board, its shareholders and other stakeholders which provides the structure through which the objectives of the company are set, and the means of attaining those objectives are defined and targets are defined for monitoring performance.

It helps define the way authority and responsibility are allocated and how corporate decisions are made.

1. Duty of care: The duty of board members to decide and act on an informed and prudent basis with respect to the bank. Often interpreted as requiring board members to approach the affairs of the company the same way that a "prudent person" would approach his or her own affairs.

2. Duty of loyalty: The duty of board members is to act in good faith in the interest of the company. The duty of loyalty should prevent individual board members from acting in their own interest, or the interest of another individual or group, at the expense of the company and shareholders.

OBJECTIVES

1. The primary objective of corporate governance should be safeguarding stakeholders' interest in conformity with public interest on a sustainable basis. Amongst the different stakeholders, shareholders' interest would be secondary to depositors' interest. Corporate governance determines the allocation of authority and responsibilities by which the business and affairs of a bank are carried out by its board and senior management, including the following activities

- ▶ Set the bank's strategy and objectives;
- ▶ Select and oversee performance of personnel;
- ▶ Operate the bank's business on a day-to-day basis;
- ▶ Protect the interests of depositors, meet shareholder obligations, and take into account the interests of other recognized stakeholders;
- ▶ Align corporate culture, corporate activities and behavior with the expectation that the bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations; and
- ▶ Establish control functions

2. Promote a sound corporate culture, ethics, values and tone at the top for the Bank.

3. Setting and adhering to corporate values that create expectations that all business should be conducted in a legal and ethical manner, and overseeing the adherence to such values by senior management and other employees.

4. Induct personnel who has required balance of skills, diversity and expertise, who collectively possess the necessary qualifications commensurate with the size, complexity and risk profile of the bank.

5. Promote a better understanding of the important elements of corporate governance such as effective board oversight, rigorous risk management, strong internal controls, compliance and other related areas. In addition, many banks have made progress in assessing collective board skills and qualifications, instituting standalone board risk committees, integrating discussions between board audit and risk committees.

ORGANIZATIONAL STRUCTURE

As per the DAB's regulation the term corporate governance means a set of relationships amongst the Board of Management, Board of Supervisors, Shareholders, Audit Committee and other stakeholders. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the banks are set, and the means of attaining these objectives as well as monitoring performance are determined. Thus, the key aspects of good corporate governance include transparency of corporate structures and operations, accountability of Board of Management and Board of Supervisors to General Assembly of Shareholders, safeguarding interest of depositors, and meeting obligations toward shareholders after considering the interest of other recognized stakeholders.

All the four Shareholders are well experienced businessmen having exposure to diverse fields/industries internationally and through their regular interaction with the members of the Board of Supervisors, have been guiding the bank for safeguarding the interests of all the stakeholders.

Presently the Board of Supervisors (BoS) is composed of three distinguished professionals, all of whom including the Chairman of the Board are independent directors. The Chairman of the BoS is an Indian professional with over 40 years of experience in accounting and auditing in India and Afghanistan at very high positions. The other Board Member, who is an American National, is a Professor in Economics in the American University in Afghanistan. He is a highly qualified professional and has immense experience in Finance, Economics and Auditing. The third member is also an Official of the Indian Accounts and Audit service and has rich experience in conducting audit along with a finance background.

The meetings of the BoS are held at regular intervals every month. The BoS, approved the performance of the bank along with determined and pre-defined targets while analyzing the performance in each of the respective parameters. The BoS also monitors the entire gamut of internal controls, process flows and monitors the exceptional reports.

It approves the entire set of policies after an

exhaustive review. It also enquires about any deviation in operations. Monitoring at regular intervals ensures that the bank takes care of the interests of all the stakeholders.

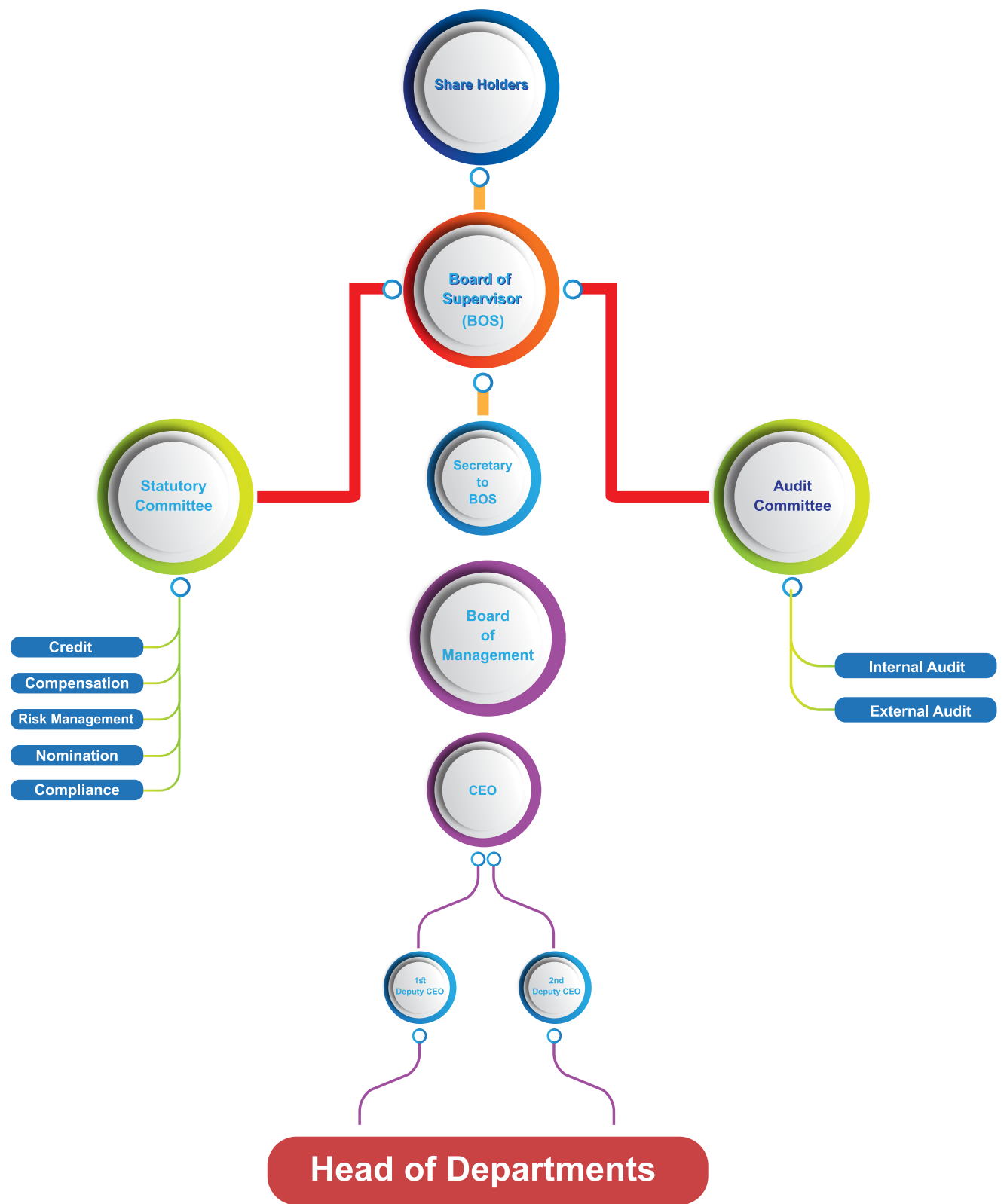
Similarly the Audit Committee is constituted of 5 members. The Chairman of the Audit Committee is an Indian National with over 40 years of experience in Auditing and Accounting. Another member is a Professor at the American University in Afghanistan. The other three members are Chartered Accountants with good experience and have worked or are working with top 4 Audit firms of the world and /or auditing the UN/World Bank projects. Regular meetings of the Audit Committee are held and all the internal audit areas are reviewed by the committee.

The Chief Risk Officer (CRO), Chief Internal Auditor (CIA) and Chief Compliance Officer are working independently. The CRO is reporting directly to the Board, Chief Compliance Officer and CIA are reporting to the Audit Committee.

The bank's Board of Management is composed of eminent individuals with a wealth of experience in public policy, administration, industry and commercial banking. The Management Board of the Bank comprises of professional members duly approved by the regulator- Da Afghanistan Bank. The members are a perfect blend of experience and knowledge. While ensuring implementation of the policies approved by the BoS; they have been taking adequate care of the laws of the land as also that of the stakeholders. Senior banking professionals with substantial international experience head various businesses and functions and report to the CEO.

The bank understands that the good corporate governance inter alia encompasses variety of issues, including the disclosure of information to Shareholders and Board members, the remuneration of senior executives, potential conflicts of interest among managers and directors, supervisory structures and other stakeholders etc. which are being duly addressed by the concerned bodies in discharge of their duties.

ORGANIZATIONAL CHART



PATTERN OF SHAREHOLDERS

Beneficial owners:

Mr. Merwais Azizi - 45% of the shares.

Other beneficial owner:

Mr. Humayuon Azizi - 40% of the shares.

Other shareholders:

Mr. Farhad Azizi - 10% of the shares.

Other shareholders:

Mr. Abdul Aziz Khan - 5% of the shares.

VOTING RIGHTS

- ▶ Voting shall be through a show of hands.
- ▶ If a poll is demanded voting shall be determined as per the number of shares held.
- ▶ Chairman to have casting vote.

In BoS and in other Committee meeting:
Single person single vote.

POLICIES

Azizi Bank has a whole gamut of policies defining performance in various areas and disciplines to ensure adequate and documented functioning. Policies are a mechanism for controlling the behavior of an organization by governing the process flow and behavior of people under different specified situations. Policies exist to ensure, in a given situation, that people will behave in a way that is predictable, advisable and in the best interests of the organization and all the stakeholders.

Policy: A policy is a high level overall plan that embraces the general goals and directives of a bank. Such functioning is comprehensively guided and monitored under such policy framework to avoid discrepancy, frauds and to boost up customer, investor and regulator confidence.

Procedure: A procedure is documented with controlled steps or activities that accomplish the goals and directives of a related policy. Procedure documents are less formal by nature, and the subject matter normally requires only the approval of senior management. The bank has procedural definition at all places to ensure adequate human functioning lesser errors and deviations and uniformity in performance

and employee motivation.

The main characteristics of Azizi Bank's policy includes and connotes the following characteristics:

▶ **Discipline:** Employees & Senior Management members are committed to adhering to procedures, processes and hierarchies established by the bank. These are recognized and deemed to be correct and proper.

▶ **Transparency:** This is mentioned in almost every policy. All actions implemented and the procedures that led to them, will be available for inspection by authorized entities and stakeholders.

▶ **Independence:** Mechanisms and regulations have been put in place to minimize or avoid potential conflicts of interest such as undue dominance by Chairman, Chief Executive Officer or other shareholders. This mechanism ranges from the composition of the board to committee appointments and involves external parties such as the auditors.

▶ **Responsibility:** Azizi Bank believes that responsible

management would whenever necessary take appropriate actions to set and keep the bank on the right path. While the board is accountable to the bank, it must act responsively to and with the responsibility towards all stakeholders.

► **Accountability:** At Azizi Bank, the individuals and committees who makes decisions and take actions are held accountable for their decisions and actions.

► **Fairness:** Azizi Bank’s systems that exist within the bank are balanced and take into account all those that have an interest in the bank and its future. The rights of the various groups have to be acknowledged and respected.

To attain the Bank’s objectives, the policy framework adopted by the bank practically covers all spheres of the activities such as management, action plans and internal controls to performance measurement and corporate disclosure.

Attendance for BOM Meetings 2018

Participant	FEB/14th	APR/23rd	MAY/28th	JUN/28th	JUL/21st	AUG/13th	SEP/13th	OCT/14th	NOV/14th	DEC/16th
Chairman										
► Mohammad Salem Omaid	●	●	●	●	●	◦	●	●	●	●
Members										
► Kumar Ghosh	●	●	●	●	●	●	●	●	●	●
► Samrat Dutta	●	●	●	●	●	◦	◦	●	◦	●
► Sreekumar Vamadevan 	●	●	●	●	●	◦	◦	◦	◦	◦
► G V Naidu 	●	●	●	●	◦	◦	●	●	●	●
► Syed Anwar Raza	◦	◦	◦	◦	●	●	◦	●	●	●
► Saeedullah Jan Yousafzai	◦	◦	◦	◦	◦	◦	◦	◦	◦	●





● Present ◦ Via Skype ◦ Absent

Attendance for BOS Meetings 2018

Participant	FEB/17th	MAR/29th	APR/26th	MAY/30th	JUN/30th	JUL/29th	SEP/15th	OCT/18th	NOV/21st	DEC/18th	DEC/19th
Chairman											
► Sundaram Prabhu	●	●	●	●	●	●	●	●	●	●	●
Members											
► Praveen Monga	●	●	●	●	●	●	●	●	●	●	●
► Dr Dale Larson	●	●	●	◦	●	●	●	●	●	●	●
► Azaraksh Hafizi	●	●	●	●	◦	◦	◦	◦	◦	◦	◦
► Merwais Azizi	●	●	◦	●	●	●	●	●	●	●	●

● Present ◦ Via Skype ◦ Absent

Attendance for Audit Committee 2018

Participant	Meeting Number			
	35th	36th	37th	38th
Chairman				
► Sundaram Prabhu	●	●	●	●
Members				
► Dale W. Larson	●	●	●	●
► Dipak Sah 	●	●	●	●
► Malik Hamid Jamal 	◦	●	●	●
► Fazal Hadi Fazal 	◦	●	●	◦
► SSN Badya 	◦	◦	◦	◦

● Present ◦ Via Skype ◦ Absent

KEY DEPARTMENT NOTES TO THE ANNUAL REPORT

AUDIT

In 2018 Internal Audit Department (IAD) has completely implemented its approved Annual Audit Plan in a befitting manner, as no backlog was noted. All the 75 Branches of the Bank (75) were twice audited on six-month frequency and reports were released to the stakeholders accordingly.

Management Audit of all fifteen (15) departments of Head Office including Credit, Finance, Operations, Compliance, Information Technology/ System Audit, Human Resources Management, Risk Management, Treasury Operations and Payment departments was also conducted during the year.

Quarterly Compliance Audit of the Bank and Quarterly Assessment of Credit Department for the facilities equal to AFN 10 Mn and above was also conducted and reports were shared with the stakeholders. Audit of Corporate Governance structure was additionally conducted. In order to have effective follow up of unresolved Issues, the department vehemently pursued the branches and departments for rectification of majority of outstanding issues with the help of senior management and more than 71% issues stand resolved.

Surprise visits/cash verifications of all branches were

conducted and the Auditors paid 170 visits on surprise bases. The surprise visits covered the local, provincial branches and extension counters and the reports were shared with management.

IAD also investigated 28 different untoward incidents reported during the year and investigation reports with recommendations were shared with senior management for remedial action.

In order to improve and further enhance the capacity building of auditors, against a target of 15 trainings, 30 various in house and external trainings were imparted to all audit staff in 2018.

Four (4) meetings of Audit Committee were conveyed during the year where all important areas of the working of Audit Function viz a viz assessment of internal controls, High Risk Issues and other important areas of interests necessary for value addition were discussed. The Chief Internal Auditor regularly attended all meetings of the Board of Supervisors held during the year and presented Audit department performance before the Board.

OPERATIONS

The performance of the bank under deposit business growth had been admirable despite facing major problems of security and reduced inflow of donor funds in to the country.

The deposit position has increased during the year and is comfortable at USD 453 Million. A number of new products have been introduced in accordance with customer convenience. Like Kids Account, VIP Account and Senior Citizen A/c. Internal controls measures have been introduced so that proper checks and balances are maintained. This is subject to regular reviews on a weekly basis. Target monitoring has been prioritized.

The number of customer has increased to 1.2 Million as an indicator of carrying banking to the door steps of all. Off line banking products have also been prioritized. Of the 75 branches, 23 branches achieved the year-end target for deposits as at December 2018. During the year we opened a Branch inside Baron Compound, Kabul which is dedicatedly catering to Multi-National Companies.

CREDIT

Azizi Bank is one of the largest lenders in the Country with a portfolio of almost 18% of the total loans sanctioned by the banking sector. The Bank has allowed extended loans to all the progressive sectors of the economy keeping in view the extensive DAB legislations and the requirements for financial inclusion amongst the masses keeping in view that the Banking population is less than 12% of the total population.

The bank has performed admirably in the area of non-fund business quantum of AFN 22 Billion (USD 345 Million) and plays a significant role in the economy's progress through participation in projects of National importance.

The bank also has the objective of increased lending to SME sectors, agricultural and agro based sectors to promote economic activity. Working Capital Loans constitutes 85% of the total loan portfolio and the bank has an

extensive portfolio of Bank Guarantees and letter of credits. Bank has participated in all the developmental sectors of the economy as well as to most of the entrepreneurs who have business ventures of repute and adequate standing.

Bank does a proper risk assessment for each exposure and also has proper follow up machinery and is also developing the internal credit rating model for risk assessment.

The bank has also participated in several lending schemes to boost the economic performance and the different sectors of the economy as also a boost to the entrepreneurs. The department has an adequate capacity of 26 well trained staff members who takes care of the requirement of the department.



COMPLIANCE

As of 2018, Compliance Department consisted of 40 plus independent officers at Head Office and at all the branches who are experienced in Compliance, AML, CFT laws and policies and are engaged with checking of compliance function regarding remittances, account opening, monitoring of account performance, usage and source of funds etc.

We also improved the quality of the branch visits & the reports were more comprehensive as compared to previous years.

During 2018, department improved its structure, that resulted in the improvements on various compliance functions like transactions monitoring, STR/ SAR & LCTR reporting, customer due diligence/ enhanced customer due diligence, applying strict due diligence measures on cross-border wire transfers, PEP monitoring etc. and

assigned specific officers for the same.

More emphasis was placed on the identification of the PEPs with the help of Thomson Reuter's World check, Afghan Bio, Google check and so on. Advanced risk categorization was imposed on the accounts which all of these caused the rating of the department to be improved to the satisfactory level as on 2018's internal audit report of the department.

Compliance Department introduced to the bank the Anti-fraud, Bribery & Corruption policies during 2018 beside having approved AML/ CFT & CDD & compliance policies.

It also played a big part in showcasing the procedures and practices to representatives of FATF and was instrumental to get the country out of the "grey" list. The department holds regular trainings for the improvement of compliance functions.

MARKETING AND CORPORATE COMMUNICATIONS

Azizi Bank developed a strategic marketing plan in 2018 and an implementation vision till 2020. It laid initiatives to better its position itself within the market through implementing of new marketing initiatives, leveraging its existing network and distinguishing itself from its main competitors. A proper marketing survey within the country was initiated and the bank analyzed the SWOT and did a proper STP of its initiatives. The key marketing focus went on creating a customer centric approach through offering a seamless customer experience, integrating sales and service across all the channels. This was done through understanding customers and recognizing their unique requirements, conducting customer analytics of customer data to tailor the Bank's offerings to customers so as to help generate sales opportunities, build leads and contacts and enhance sales effectiveness.

The Bank expanded its product portfolio range and customer reach & planned to introduce new products that will target specific customer segments such as senior citizens, students, women and minors. The Bank developed a digital department, whose one of the responsibility included sending bi-weekly emails to all internal customers on the various initiatives, existing products and features. The Bank initiated the SMS service wherein internal customers were informed of the various products/services and other alert messages. The Bank's social media activity had been very active on LinkedIn, Facebook, and YouTube. To enhance the level of customer service at the branches, designated Customer Care Officers have been appointed at selected branches which

has maximum footfall, who prima facie responsibility was to guide customers properly, check the level of the services at the specified counters and TAT. Customer level satisfaction survey was initiated.

A separate incentive model for the outbound executives have been initiated to bolster performance and enhanced productivity. This has contributed to the overall growth of the deposits in the bank. In 2018, Azizi Bank continued with its Corporate Social Responsibility initiatives by providing aids and financial assistance to local educational institutions which included schools, colleges, universities and NGOs. In addition, the bank also took active steps in supporting various environmental sustainability initiatives and created awareness videos on save water and public awareness campaigns on traffic, food wastage and child education. The bank also planted more than 15,000 trees across the country on its greener Afghanistan initiative. More than 100,000 cc of blood was donated to the blood bank from the various blood donation campaigns. Within our endeavors to sustain the brand image and provide world class customer service, Azizi Bank have also received several international awards and recognitions from across the globe in 2018.

HUMAN RESOURCE

As the Bank embarks on its journey to consolidate its position as the largest private sector Bank in Afghanistan, employees continue to be the critical and enabling pillar to translate this vision into reality. The Bank remained focused on building an organization which continuously innovates, nurtures and develops its people and provides them with a great workplace environment which supports and enables each employee to realize his/her full potential. For the Bank, with key changes in the Management team that have taken place. FY 2018 was a milestone year for Human Resources Management, supporting these organizational changes has been one of the greatest challenges.

Some of the major highlights for the year 2018, are as follows. The staff strength of the Bank as on end of 2018 was 1750, which is an increase of 13% over the previous year. The annualized staff attrition rates remained low at 8%. The Bank maintained its focus on increasing its female employee count in order to increase the diversity at work. The percentage of female employees as on end of 2018 stood at 13%. During the year, the Bank also launched employee recognition programs to felicitate Target Achievers on a yearly basis and also for best performers from all branches and departments. The best performers were appreciated on a quarterly basis in a glorious function held in any prominent hotel in Kabul, in the presence of the Board Members and the Top Management. The staffs were rewarded with Certificates of Appreciation. Incentive program was started for target achievers. In addition, to strengthen the branch operations structure, the bank initiated the Zonal Managers positions in six zones to provide better leadership and oversight to branches operating in the provinces. As the Bank embarks on its journey to consolidate its position as

the largest private sector Bank in Afghanistan, employees continue to be the critical and enabling pillar to translate this vision into reality. The Bank remained focused on building an organization which continuously innovates, nurtures and develops its people and provides them with a great workplace environment which supports and enables each employee to realize his/her full potential. Talent management as a component of strategic management becomes increasingly important in order to ensure the bank long-term success. At Azizi Bank, the yearly process of talent reviews offers a good visibility of talent and risk within the organization, ensuring a ready, credible and high-quality internal talent pipeline. This will fill both expected and unexpected vacancies. In the reviews the focus remains on positions where we do not have sufficient succession plans in place. Efforts are on for the functions/branches to pro-actively drive their succession plans together with HR.

The learning strategy of the Bank supports and complements the organizational and business strategy. Many new interventions were launched in 2018, namely Refresher Training programs covering all Branch Technical Staff, Branch Managers, CSO I CSR, Tellers & Record Keeper; training interventions in association with the Afghanistan Institute of Banking & Finance which included long term courses such as diploma in Banking & Finance, English language courses, General Banking course etc.

The Human Resource function did a commendable task of streamlining the work permit, biometric and health clearance for the employees during the year and successfully ran the On-line leave processing and creation of users to all Azizi Bank staff individually.

INFORMATION TECHNOLOGY & ADC

Banking today is run by technology and Azizi bank has been a front runner in extending world class technology-oriented banking services to its esteemed customers. We understand that technology is the back bone of banking services today and are fully geared to excel in this era of Digital banking. 2018 was a year of consolidation for the bank from technology perspective. Bank has made good progress on implementation of world class banking software and it will be running across branches next year. Bank went for a complete technology upgrade in order to ensure that infrastructure and IT systems are never a bottleneck for the fast progress of the bank. Bank procured new servers, new storages, did virtualization and implemented the backup and data replication solutions to strengthen the base for extending the technology oriented new services. Network redundancy was also ensured in multiple zones.

On the Digital banking front, bank made a huge stride by launching the first Mobile wallet of the nation - AZIPAY, with features like card-based loading of wallet, transfers from wallet to wallet, wallet to bank account as well as account to account, bill payments, mobile top up services, QR code based payments and many more. Bank is further going to leverage on the mobile based products keeping in view of good mobile penetration in the country. Many newer services are planned through Mobile wallet next year. Bank has also started the implementation of a new Contact center solution with latest features and services. New HRMS solution is also under implementation. With a fleet of 100+ ATMs, bank is the pioneer in terms of card-based transactions and already issuing contactless Master Debit cards to its customers for a convenient and safe banking experience. Azizi Bank will continue its dominance in technology and digital banking space in coming year when many new initiatives will be planned and the existing ongoing projects will be completed and start reaping the benefits.



Mr. Praveen Kumar Monga

Member. Nationality: India

Mr. Monga is the former Chairman of the Board of Supervisors of Azizi Bank.

He has a M.Sc. and MBA in Finance and more than 34 years of experience working in government accounts, audit and finance, at the national and sub-national levels including with public sector enterprises. Among other achievements, Mr. Monga has been the team leader of audit assignments for the Audit of the Indian High Commission at Kuala Lumpur (Malaysia) and Dhaka (Bangladesh).

Dr. Dale W Larson

Member. Nationality: USA

Dr. Larson holds a Ph.D. in Economics and has more than 40 years of experience in teaching and research, team building, banking (economist), government, public speaking, newsletter publishing, consulting, competitive intelligence and management. He is a member of the Board of Supervisor since October, 2015.





BOARD OF MANAGEMENT

Dr. Mohammad Salem Omaid



Chief Executive Officer and President- Chairman of the Board

Born in the Nangarhar province of Afghanistan in 1983, Dr. Omaid always dreamt of creating a niche of himself. Over the years, he developed himself as a strategist with excellence in formulating, developing & implementing business plans and policies to ensure attainment of business goals and profitable sell-through.

Raised by a well-educated family of doctors, Dr. Omaid graduated from Afghanistan and went on to complete his post-graduation in Banking & Finance from Pakistan & India. Later, he also completed his thesis on Business Administration and Financial Management and obtained the PHD from one of the premier institution in India.

A result oriented proficient starting his professional journey with Azizi Bank in 2006 as a Finance Officer and successfully ascending the steps to become the President and CEO. In his career span of more than 13 years, Dr. Omaid handled diverse roles having rich & extensive experience in Finance & Accounting, Corporate Accounts Trade Finance, Corporate Credit Financing, Operational Banking, Investment Banking and Retail Banking. Initiated several measures, Bank Products, Technological products aimed at promoting the bank and its objectives.

Dr. Omaid's contribution towards refining the banking structure in the country earned him appreciations & accolades not only from the Govt. & Public body within the country but also from the international agencies worldwide.

He has been the founding pillar in ensuring Azizi Bank reaches the top of the helm and considered as the most preferred bank in the country. Today he is the leader of one of the top bank in the country, internationally recognized for its digital innovation and strong corporate governance.

Dr. Omaid's experience and knowledge for a sustainable growth earned him several international accreditations and he is also the only afghan conferred with the honorary professorship of Academics, Oxford. He is also the Chairman of the Afghanistan Banking Association and the Banking Commission of the International Chamber of Commerce, Afghanistan chapter in addition to being the Member of the Europe Business Assembly, UK and the World Confederation of Businesses, USA.



Mr. Kumar Ghosh
Chief Finance Officer



Mr. Ghosh is CA, CS, ICMA, CAIIB (Chartered Accountant, Company Secretary, Cost & Management Accountant, Associate of Indian Institute of Bankers & holding Diploma in Personnel Management and Bank Management (all from India). He is having over 35 years of rich & extensive experience in Finance & Accounting, Corporate Accounts, Trade Finance, Corporate Credit Financing, Operational Banking, Investment Banking & Retail Banking, Risk Management as well as Board Secretary with a leading PSU-Public Sector Bank in INDIA as well as in International Banks. He was Associated with a leading Multi-National Bank in Africa as Chief Executive Officer. Later he joined First Merchant Bank, Malawi, Africa as Head of Credit looking into the credit portfolio of five countries. Previous assignment was Chief Manager, United Bank of India in India for 25 years. He joined Azizi Bank in October 2014 as CFO and has been looking after all finance functions of the Bank, including finalization of Balance sheet, External Audit and liaison with regulatory authorities. He had been functioning as the Secretary to the Board of Supervisors till June 2018. He is also in charge of updating all policies and the entire MIS functioning, reporting and liaising with DAB and other monitoring authorities in all correspondence. He had also been the Chief Credit Officer for the period July, 2016 to October, 2017. He is also a visiting faculty with the American University of Afghanistan and teaches Finance and Management at the MBA level.

Mr. Syed Anwar Raza
Chief Operations Officer



Mr. Raza has been working with the Bank since June 2018 as the Chief Operations Officer. He is a career banker having more than 24 years of commercial banking experience across all domains like Operations, Foreign Exchange, Credit, Trade Finance and Sales & Marketing. He specialises in Branch business expansion and service delivery. He has worked at senior positions in India and Africa with prestigious Banks with proven resulted oriented track record. He holds an MBA in Finance and Marketing from Jamia Millia Islamia University, a prestigious Central University in New Delhi and is a Certified Associate of Indian Institute of Bankers.





Mr. Saeedullah Jan Yousafzai



Chief Credit Officer

Mr. Yousafzai is a Master in Business Administration (MBA- Finance) in 1999 from the Institute of Management Studies (IMS), University of Peshawar Pakistan, Mr. Yousafzai started his banking career with MCB Bank Ltd in 1999. He is a Banking & Finance professional with more than 19 years of experience both in banking and private sector.

He has worked in one of the reputed banks both in Pakistan & Afghanistan in the area of Credit Management, Audit & Operations. Working as Group CFO with one of the leading groups in Afghanistan, Mr. Yousafzai got a hand on experience in different sectors of the economy including oil & gas exploration and production, trading, security, services and logistics. He has got an in-depth experience of Afghanistan market by serving the Banking & Private sector by more than 12 years.



Mr. Samrat Dutta



Chief Marketing Officer and Head Corporate Communications:

Mr. Dutta was initially appointed as Chief Operating Officer in October 2015 in Azizi Bank. He has more than 20 years of experience in Retail Branch Banking, Corporate & Institutional Banking business, Operations, Investment Advisory and International Banking Business. Previously he held senior positions with Yes Bank and HDFC Bank, the largest private sector commercial banks in India in the capacity of Regional Heads and managing a larger gamut of business. He has also worked for ICICI Bank & American Express Bank. Mr. Dutta is a MBA in Sales & Marketing from one of the premier institute in Kolkata, India. He held additional responsibility of Marketing with the bank and since Jan 2017, he is the Chief Marketing Officer and Head Corporate Communications. He has been highly instrumental in framing and revising the marketing initiatives of the bank over the last 3 years and creating a niche image of the bank as a brand both nationally and internationally. He manages relationship with international corporates and Embassies and is also responsible for the brand recognition initiatives of the bank across the globe. He has received several recognitions for his performance both within the bank and internationally.



SENIOR MANAGEMENT OFFICIALS



Mr. Mohammad Osman Nowrozi

Deputy Chief Executive Officer and Vice President



Mr. Nowrozi is a qualified and experienced banker with experience of more than eleven years and is working since 2006 with Azizi Bank. He is holding a bachelor's degree in business management with specialization in finance and completed diploma course in English language and having experience of three years in teaching English. Presently he is doing his Ph.D. from UK. In 2008, Mr. Nowrozi has been approved by the Central Bank of Afghanistan as the Chief Compliance Officer of Azizi Bank. Since then; he is taking care of all compliances, AML & KYC and involved in extending training to all members of the staff of the Bank in AML & KYC areas. He is working in close coordination with external & internal auditors in matters of compliance issues. He has been promoted to the post of Dy. Chief Executive Officer and Vice President at the BoS meeting held in August, 2016. Since then he has been looking into all areas of Operations, Credit, Treasury, Marketing and HR.

Mr. Abdul Fatah Karimi

Deputy Chief Executive Officer and Vice President



Mr. Abdul Fatah Karimi is a well-educated and experienced banker. He did his Bachelor degree in economics from Kabul University. He had a long stint with the Central Bank of Afghanistan and worked in different positions especially with Financial Supervision Department.

Subsequently he joined Azizi Bank and has helped the bank to become a successful organization from the humble beginning in 2006. He worked with Azizi Bank in various key positions. He was an accomplished Chairman of Supervisory Board and is currently assigned as Dy. Chief Executive Officer. He is a capable leader as he is well versed with all banking related affairs in Afghanistan and has in-depth knowledge of all the banking related policies which have been implemented in Afghanistan by DAB. Besides his intelligence and experience he is a well-known person in banking sector of Afghanistan for his integrity, management skills and leadership.





Mr. Mohammad Munir Khan



Chief Internal Auditor

Mr. Khan is a MBA (Banking & Finance), MA (English) & LL.B. with Diploma in Islamic Banking and Insurance from Institute of Islamic Banking and Insurance, London UK etc. Mr. Khan has worked as Auditor and Team Leader for branches & Management Audit of different departments including international audit for more than 20 years in one of the largest Bank (Habib Bank Ltd) of Pakistan. Mr. Khan is also a Certified Course Leader/Master Trainer in Customer Service by Ron Kaufman of Up Your Service College Singapore. As Master Trainer, he has conducted/trained more than five hundred Bank staff including Front Office personnel and Executives viz a viz customer service. He has also worked as English Teacher at Pakistan Air Force Inter College Risalpur, KPK Pakistan.

In his last assignment, he worked as Senior Auditor at Habib Bank Ltd, Pakistan since Jan 2005 and is in Audit since 1995. He is having above eighteen years' experience in Internal Audit of the Bank. He is having experience in Audit of Branches and Departments in all areas of Banking including Audit of Credit, IT Dept. Finance etc. and involved in statutory Audit of the Bank. Developed Audit Plan, guidelines and manuals besides conducted various fraud investigations. He has been approved by DAB on 20th Oct 2014 and joined on 1st Dec 2014 at Azizi Bank as Chief Internal Auditor.

Ms. Ewa Janikowska



Chief Risk Officer

Ms. Janikowska is a banker with over 20 years of experience in executive and advisory roles, focusing on operational, quality, risk, compliance and internal audit management. She has provided services to large financial groups and small boutique firms, banks and investment firms, mainly in Europe and the Middle East. Her professional experience covers corporate and investment banking, asset management, brokerage, retail and consumer finance, credit cards, insurance, microfinance and remittance services. Ms. Janikowska holds MBA degree from the



University of Illinois, and has been certified as ISO 31000 Risk Manager and ISO 27000 Social Responsibility Manager. Since 2011, she has been appointed as a court expert in banking, compliance and risk management. Throughout her career, Ms. Janikowska has sat on the boards of different financial institutions (banks and investment companies), and has held the positions of Chief Risk Officer and Chief Compliance Officer. Further, she has worked for public and NGO entities, and advised private businesses on corporate social responsibility, social entrepreneurship and financial inclusion. Ms. Janikowska is a former member of the Management Board of the Polish Bank Association (2005–2008) and the Banking Arbitrage Council (2005-2008). In 2008 she was awarded the Honorary Badge of the Polish Bank Association for her contribution to the banking community.

Since 2012 she has acted as the Ambassador of Women Entrepreneurship. Since 2013, she has been the microfinance advisor to the Conference of Financial Enterprises.

Ms. Janikowska is an economist committed to social issues, a strong believer that passions change the world. Since 2009, she has been a publisher and promoter of Muhammad Yunus, social innovator and Nobel Peace Laureate.



Ms. Indira Mallela



Head Treasury

Ms. Indira Mallela is a certified Management Accountant from the Chartered Institute of Management Accountants, UK and holds membership from CPA Australia. She is a finance professional working in the areas of treasury investments, financial planning and liquidity management. She is also a certified Project Manager (PRINCE2, UK).

As a management consultant, she has provided advisory services to various financial institutions in multiple countries. During her career, she has performed work related assignments in Afghanistan, Bhutan, Ethiopia, India, Mozambique, Nepal and Tajikistan. Her career spans implementation of projects from international donor agencies such as KfW, UNDP, Ford Foundation, UNCDF, IFC, ILO and AKF being awarded by the organizations, she has worked with. She is working with Azizi Bank since October 2018.

INDEPENDENT AUDITOR'S REPORT

STATEMENT OF

- ▶ FINANCIAL POSITION AS AT 31.12.2018
- ▶ COMPREHENSIVE INCOME FOR THE YEAR ENDED 31.12.2018
- ▶ CHANGES IN EQUITY FOR THE YEAR ENDED 31.12.2018
- ▶ CASH FLOWS FOR THE YEAR ENDED 31.12.2018
- NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31.12.2018

AZIZI BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

	Note	2018.....AFN	2017 '000'.....
ASSETS			
Cash and cash equivalents	5	12,724,347	19,858,653
Loans and advances to customers	6	7,385,811	7,852,453
Investments	7	12,870,567	3,823,370
Investment in subsidiary	8	1,775,000	1,725,000
Investment in APS	9	18,918	17,458
Property and equipment	10	1,046,611	1,015,759
Intangible assets	11	39,578	39,886
Non-current assets held for sale	12	307,807	293,451
Deferred tax		9,695	-
Other assets	13	4,276,457	2,814,706
Total assets		40,454,791	37,440,735
EQUITY AND LIABILITIES			
Liabilities			
Deposits from banks	14	3,624	187,837
Deposits from customers	15	34,278,839	31,046,591
Current tax liability	16	33,676	-
Other liabilities	17	179,359	375,424
Total liabilities		34,495,498	31,609,852
Equity			
Share capital	18	5,367,400	5,367,400
Revaluation surplus / deficit on available for sale investments		(38,780)	-
Retained earning		630,673	463,483
Total equity		5,959,293	5,830,883
Total equity and liabilities		40,454,791	37,440,735
Contingencies and commitments	25	<i>Nil.</i>	

The annexed notes 1 to 29 form an integral part of these financial statements.



Chairman



Chief Executive Officer



Chief Finance Officer

AZIZI BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018.....AFN '000'.....	2017
Interest income	19	1,070,477	954,922
Interest expense	19	(472,446)	(607,829)
Net interest income		598,031	347,093
Fee and commission income	20	1,216,996	1,352,906
Fee and commission expense	20	(32,876)	(32,089)
Net fee and commission income		1,184,120	1,320,817
Operating income		1,782,151	1,667,910
Net impairment (loss) on loans and advances	6.6	(887,788)	(5,761)
Provision against time deposits, accrued interest, account receivable and non-funded facilities		176,625	(172,328)
Employee benefit expenses	21	(671,320)	(518,399)
Depreciation on fixed assets	10	(110,308)	(30,126)
Amortization of intangible assets	11	(14,186)	(13,188)
Operating lease expenses		(119,340)	(111,837)
Other expenses	22	(822,363)	(789,425)
Operating expenses		(2,448,680)	(1,641,064)
Foreign Exchange Gain		140,227	104,673
Gain on disposal of property and equipment		4,633	1,216
Other operating income		828,407	81,589
Non-operating income		973,267	187,478
Profit before taxation		306,738	214,324
Taxation	23	(139,548)	(42,865)
Profit for the year		167,190	171,459
Other comprehensive income:			
Items that are or may be reclassified to profit or loss;			
		(48,475)	-
Surplus / Deficit on revaluation of available for sale investments		9,695	-
Related Deferred tax		(38,780)	-
Total comprehensive income for the year		128,410	171,459

The annexed notes 1 to 29 form an integral part of these financial statements.



Chairman



Chief Executive Officer



Chief Finance Officer

AZIZI BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	Share capital	Surplus / (Deficit) on revaluation of available for sale investments	Retained earnings	Total
.....AFN '000'.....				
Balance as at January 01, 2018	5,367,400	-	463,483	5,830,883
Profit for the year	-	-	167,190	167,190
Other comprehensive income:				
Fair value reserve	-	(48,475)	-	(48,475)
Related tax	-	9,695	-	9,695
Total comprehensive income	-	(38,780)	167,190	128,410
Transactions with owners				
Ordinary share issue/Redemption	-	-	-	-
Balance as at December 31, 2018	5,367,400	(38,780)	630,673	5,959,293
Balance as at January 01, 2017	5,367,400	-	292,024	5,659,424
Profit for the year	-	-	171,459	171,459
Other comprehensive income:				
Fair value reserve	-	-	-	-
Related tax	-	-	-	-
Total comprehensive income	-	-	171,459	171,459
Transactions with owners				
Ordinary share issue/Redemption	-	-	-	-
Balance as at December 31, 2017	5,367,400	-	463,483	5,830,883

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The annexed notes 1 to 29 form an integral part of these financial statements.



Chairman



Chief Executive Officer



Chief Finance Officer

AZIZI BANK

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
Note	.....AFN	'000'.....
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	306,738	214,324
Adjustments for:		
Gain on disposal of property and equipment	(4,633)	(1,216)
Depreciation 10	110,308	30,126
Amortization 11	14,186	13,188
Net impairment (reversal)/loss on loans and advances 6.6	887,788	5,761
Provision against non-funded facilities, time deposits and other assets	(176,625)	-
Foreign exchange gain	(140,227)	(104,673)
	997,535	157,510
Increase / decrease in operating assets and liabilities:		
Loans and advances to customers	(421,146)	(532,092)
Other assets	(1,461,751)	(474,374)
Deposits from banks	(184,213)	(3,389,907)
Deposits from customers	3,232,248	7,506,791
Other liabilities	(19,440)	157,044
	2,143,233	3,424,972
Tax paid	(105,872)	-
Net cash generated from /used in operating activities	2,037,361	3,424,972
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment made / investments divested	(9,095,672)	(506,119)
Purchase of property and equipment	(142,312)	(230,016)
Non-current assets held for sale	(14,356)	(2,028)
Purchase of intangible assets	(13,878)	(7,734)
Proceeds from sale of property and equipment	5,785	1,216
Investment in subsidiary and APS	(51,460)	(150,750)
Net cash used in / generated from investing activities	(9,311,894)	(895,431)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	-
Net cash generated from financing activities	-	-
Net increase in cash and cash equivalents	(7,274,533)	2,529,541
Cash and cash equivalents at beginning of the year	19,858,653	17,224,439
Effect of exchange rate changes	140,227	104,673
Cash and cash equivalents at the end of the year	12,724,347	19,858,653

The annexed notes 1 to 29 form an integral part of these financial statements.



Chairman



Chief Executive Officer



Chief Finance Officer

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

1. STATUS AND NATURE OF OPERATIONS

Azizi Bank ("the Bank") is a commercial bank registered and operating in Afghanistan. The bank obtained a business license from Afghanistan Investment Support Agency and is a limited liability company. The Bank commenced its operations on 13 June 2006 under the license for commercial banking issued to it by Da Afghanistan Bank, the central bank of Afghanistan ("DAB") under the law of banking in Afghanistan. The principal activity of the bank is to provide commercial and retail banking services within Afghanistan.

The Registered office of the bank is located at ZANBAQ Square, Kabul, Afghanistan and has 76 branches / 05 extension counters (2017 :75 and 10 extension counters).

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB). Whenever, the requirements of the Law of Banking in Afghanistan differs with the requirements of IFRS, the requirement of the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB) takes precedence.

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

	Effective Date
IFRIC-23: uncertainty over tax treatments	1-Jan-19
Prepayments features with negative compensations - Amendments to IFRS 9	1-Jan-19
Annual improvements to IFRS standards 2015 - 2017 cycle - Various Standards	1-Jan-19
Amendments to references to conceptual framework in IFRS standards	1-Jan-19
Amendment to IFRS-17 "Insurance Contracts"	1-Jan-19
Amendment to IFRS-16 "Leases"	1-Jan-19
Amendment to IFRS - 19 Employees benefits	1-Jan-19
Amendment to IAS- 28 "Investments in associates and joint ventures"	1-Jan-19

2.2 Basis of measurement

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

2.3 Mandatory Departure

Mandatory departure of International Financial reporting Standards (IFRS) - 9 "Financial Instruments" as resolved in commercial banks Consultative Group (CBCG) meeting held in Da Afghanistan Bank (DAB) on December 5, 2018, implications of IFRS-9 have been deferred till 2021. further deliberations of financial decisions would be communicated in the respective years.

2.4 Functional and presentation currency

These financial statements are presented in Afghani ("AFN") which is the bank's functional currency. Except or otherwise indicated, the financial information presented in AFN has been rounded to be nearest thousand.

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

The US Dollar amounts shown in the financial statements are stated solely for information convenience. For the purpose of translation to USD Dollars, the rate of AFN for the year 2018 is 75.67(2017: 69.83) per US Dollar has been used.

3. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial years. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgment will, by definition, rarely equal the related actual results. The material estimates, assumptions and judgments used to measure and classify the carrying amounts of assets and liabilities are outlined below:

a) Provision for loan losses

The Bank reviews loan to customer balances quarterly for possible impairment and records the provisions for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in Note: 6.

b) Provision for income taxes

The Bank recognizes tax liability in accordance with the provisions of Income Tax Law 2009. The final tax liability is dependent on assessment of Ministry of Finance, Afghanistan.

c) Useful life of property and equipment and intangible assets

The Bank reviews the useful life and residual value of property and equipment and intangible assets on regular basis. Any change in estimates may effect the carrying amounts of the respective items of property and equipment and intangible assets with a corresponding effect on the depreciation / amortization charge.

d) Held to maturity investments

Investments classified as 'held to maturity' are non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

4. 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 stated.

4.1 Foreign currency transaction and translation

Foreign currency transactions are translated into functional currency using the exchange rate prevailing on the date of the transaction. Foreign currency assets and liabilities are translated using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of assets and liabilities denominated in foreign currencies are recognized in income currently.

	<u>USD</u>	<u>Euro</u>	<u>Sterling</u>
The exchange rate for following currencies against AFN were :			
As at 31st December 2018	75.67	85.93	95.55

4.2 Equity Investment in Subsidiary

Investment in subsidiary is initially recognized at cost less impairment losses and carrying amount of investment is adjusted accordingly. Impairment losses are recognized as expense. Where impairment losses subsequently reverse, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of initial cost of investment. A reversal of impairment loss is recognized in the income statement.

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

4.3 Revenue recognition

- a) Interest income and expense is recognized in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant periods. 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 fee 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.
- b) Due but unpaid interest income is accrued on overdue advances for periods up to 120 Days in compliance with the regulations issued by DAB. After 120 days, overdue advances are classified as non-performing loans and further accrual of unpaid interest income ceases.
- c) Gains and losses on disposal of property and equipment are recognized in the period in which disposal is made.
- d) Fees and commission income and expenses are recognized on an accrual basis when the service has been provided / received, except commission on guarantee and letter of credit which is non-refundable and recognized at the time of issuance of guarantees and letter of credit.
- e) Fees and commission income that are integral part to the effective interest rate on financial assets and financial liabilities are included in the measurement of effective interest rate. Other fees and commission expenses related mainly to the transactions are service fee, which are expensed as the services are received.

4.4 Operating leases

Operating lease rentals are recorded in profit and loss account on a time proportion basis over the term of the lease arrangements.

4.5 Taxation

Current

The current income tax is calculated in accordance with the Income Tax Law, 2009. Management periodically evaluates position taken in tax return with respect to situation in which applicable tax regulation is subject to interpretation and establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that the taxable profits will be available against which those deductible temporary can be utilized. Such differences of deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that effect neither the taxable profit nor the accounting profit.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they 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.

4.6 Financial assets and Financial liabilities

Financial Assets

The Bank classifies its financial assets in four categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held-for-trading if it is acquired principally for the purpose of selling in the short term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

b) Loans and receivables

Loans and receivables are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market, other than:

i) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit and loss;

ii) those that the entity upon initial recognition designates as available for sale; or

iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Cash and balances with Da Afghanistan Bank (DAB), balances with banks and receivables from financial institution, loan and advances to customers and security deposits and other receivables are classified under this category.

c) Held-to-maturity financial assets

Held-to-Maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity financial assets before its maturity, the entire category would be reclassified as available for sale. Short term placements are classified under this category.

d) Available-for-sale financial assets

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to need for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale financial assets (AFS) are non-derivatives that are either designated as AFS or are not classified as (i) loans and receivables, (ii) held-to-maturity investment or (iii) financial assets at fair value through profit or loss.

Recognition, subsequent measurement and adjustments of fair values of financial assets

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale are recognized on trade-date the date on which the Bank commits to purchase or sell the asset.

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss category are presented in the statements of comprehensive income as a part of other income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gain and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Impairment of financial assets

a) Assets carried at amortized cost except for loans and advance

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash Flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);

- Breach of loan covenants or conditions;
- Initiations of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration below investment grade level.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credits losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in impairment charge for credit losses.

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

b) Loans and receivables

These are stated net of general provisions on loan and advances considered "Standard" and specific provisions for non-performing loans and advances, if any. The outstanding principal of the advances are classified in accordance with the Classification and Loss Reserve Requirement (CLRR) issued by DAB.

Standard

These are loans and advances, which are paying in a current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any supporting it. A provision is maintained in the books of account @ 1% of value of such loans and advances.

Watch

These are loans and advances, which are adequately protected by the collateral, if any supporting it, but are potentially weak. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification of Substandard. further, all loans and advances which are past due by 31 to 60 days for principal or interest payment are classified as Watch. A provision is maintained in the books of account @5% of value of such loans and advances.

Substandard

These are loans and advances, which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral, if any, supporting it. Further, all loans and advances which are past due by 61 or 120 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account @25% of value of such loans and advances.

Doubtful

These are loans and advances, which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. further, all loans and advances which are past due by 120 to 480 days for principal or interest payments are also classified as Doubtful as per Asset Classification and Provisioning Regulations. A provision is maintained in the books of account @50% of value of such loans and advances.

Loss

These are loans and advances, which are not collectable and or such little value that in continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 480 days for principal or interest payments are also classified as Loss as per Asset Classification and Provisioning Regulations. A provision is maintained in the books of account @100% of value of such loans and advances and then these loans are charged off and the reserve for losses is reduced immediately upon determination of Loss status.

c) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired in the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on those financial assets previously recognized in the statements of comprehensive income is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instrument are not reversed through the statement of comprehensive income, If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income, related to an event occurring after the impairment loss was recognized.

Financial Liabilities

The Bank classifies its financial liabilities in following categories;

a) **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified in this category if incurred principally for the purpose of trading or payment in the short term. Derivatives (if any) are also categorized as held for trading unless they are designed as hedges.

b) **Other financial liabilities measured at amortized cost**

These are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These are recognized initially at fair value., net of transaction costs incurred and are subsequently stated at amortized cost; any differences between the proceed (net of transaction costs) and the redemption value is recognized in the income statements.

4.7 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Non-financial assets that are subject to depreciation /amortization are reviewed for impairment whenever events or changes in circumstances indicates that the carrying amount may not be recoverable. An impairment loss or reversal of impairment loss is recognized in the statement of comprehensive income. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. (cash-generating units)

4.8 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprises balances with less than three months maturity from the date of acquisition including cash in hand, unrestricted balances with Da Afghanistan Bank (DAB) and balances with other banks. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4.9 Loans and advances

Loans and advances initially measured at fair value plus incremental direct transaction cost and subsequently measured at their amortized cost using the effective interest method. Determination of allowance for impairment, reserve for losses and non-accrual status cases is made in accordance with the regulations issued by Da Afghanistan Bank (DAB).

4.10 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, (if any).

Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. During the year management has performed impairment testing on Owned Building and had recognized the impairment loss and consequently useful life of the asset has been re-assessed.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of an item of property and equipment, and are recognized net within other income in profit or loss.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each items of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Full month's depreciation is charged on property and equipment in the month of addition and no depreciation is charged in the month of deletion. The estimated useful lives of the items of property and equipment for the current and comparative period are as follows:

- Building	20 years	- Office equipment	05 years
- IT equipment	03 years	- Furniture and fitting	05 - 20 years
- Motor vehicles	6.67 years	- ATM	03 years

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

Leased

Leasehold building is amortized over the period of the lease .i.e. 20 years.

4.11 Intangible assets

Software acquired by the bank is stated at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure on software asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Amortization is recognized in the statement of comprehensive income on a straight line basis over the estimated useful life of the software from the date it is available for use since this most closely reflects the pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years. Amortization methods, useful lives and residual values are reassessed at each financial year end and adjusted, if appropriate.

4.12 Recognition and Measurement of Goodwill

Goodwill has been recognized by the bank as of the acquisition date measured as the aggregate of the consideration transferred in accordance with IFRS - 3 "Business Combination" which generally requires acquisition date fair value. Measurement of goodwill is the consideration transferred to the acquire. The fair value of the goodwill recognized is being amortized over ten years period starting from January 2015 @ 10% per year.

4.13 Investment in associate

Investment in associate is carried at cost less impairment if any.

4.14 Deposits

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

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

4.15 Provisions

A provision is recognized if, as a result of a past event, the bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

4.16 Employee compensation

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

4.17 Off-setting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gain and losses arising from a group of similar transactions.

4.18 Non-current assets held for sale

Non-current assets held for sale signifies those assets taken up by the bank from collaterals held against the written off and doubtful loans and advances. For classifying these assets criteria set forth in the relevant standard has been followed i.e. management is committed to plan to sell, the asset is immediately available for sale, an active programme to locate the buyer has been initiated, the sale is highly probable within 60 months of classification as held for sale, the assets is being actively marketed for sales price reasonable in relation to its fair value and actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn. Bank is allowed to classify only 4% of its total assets to non-current asset held for sale.

At the time of classification as held for sale. Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset will be measured in accordance with applicable IFRSs and Asset Classification and Provisioning Regulations Article 11 and 12. After classification as held for sale, Non-current assets that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

At the time of classification as held for sale; Immediately prior to classifying an asset or disposal group as held for sale, impairment is measured and recognized in accordance with the applicable IFRSs.

After classification as held for sale; Calculate any impairment loss based on the difference between the adjusted carrying amounts of the asset and fair value less costs to sell. Any impairment loss that arises by using the measurement principles in IFRS 5 must be recognized in profit or loss.

Subsequent increases in fair value. A gain for any subsequent increase in fair value less costs to sell of an asset can be recognized in the profit or loss to the extent that it is not in excess of the cumulative impairment loss that has been recognized in accordance with the relevant IFRSs.

AZIZI BANK

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018.....AFN	2017 '000'.....
5. CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	4,413,482	4,591,118
Remittances in transit	5.2	232,955	687,397
		4,646,437	5,278,515
Balances with banks:			
Balances with Da Afghanistan Bank		5,183,257	11,128,589
Balances with other banks	5.3	2,894,653	3,451,549
		8,077,910	14,580,138
		12,724,347	19,858,653
5.1 Cash in hand			
Local currency		1,949,090	1,609,829
Foreign currency		2,464,393	2,981,289
		4,413,482	4,591,118
5.2 Remittances in transit			
Remittances in transit - others	5.2.1	232,955	687,397
		232,955	687,397
5.2.1	Subsequently the in transit remittances are settled till January 05 2019.		
5.3 Balances with other banks			
Western Union International Bank GmbH		144,822	142,636
Transkapital - Russia		927,387	559,432
Nurol Bank - Turkey		2	442
HDFC Bank Limited - India		213,317	29,369
Bank of India - India		232	16,046
Punjab National Bank - United Kingdom		419	393
Aktif Bank - Turkey		8	-
CSC Bank - Lebanon		131,955	83,292
Yinzhou Bank - China		2,109	1,945
Pashtany Bank - Afghanistan		105	1,848
Banca Popolare-Italy		1,080,300	816,349
Punjab National Bank - India		204	188
Shuaa Capital		11,585	-
Bank MISR UAE		180,389	-
BMCE Bank International - Spain		201,813	531,367
Axis Bank- Germany		-	2,097
Bank-e-Millie Afghan		6	361,355
Islamic Bank of Afghanistan - subsidiary		-	904,789
		2,894,653	3,451,549

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018	2017
		.....AFN '000'	.....
6. LOANS AND ADVANCES TO CUSTOMERS			
Loans and advances to customers at amortized cost	6.1	7,385,811	7,852,453

All loans and advances are expected to be recovered within five years of the balance sheet date.

6.1		Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		31 December 2018			31 December 2017		
	Note	.....AFN '000'.....					
Running finances	6.2	6,627,131	(235,346)	6,391,785	6,882,981	(385,595)	6,497,386
Terms loans	6.3	968,467	(105,634)	862,833	1,595,897	(362,867)	1,233,030
Residential mortgage loans		-	-	-	107,283	(5,364)	101,919
Other public consumer loans	6.4	132,785	(1,592)	131,193	20,935	(817)	20,118
		7,728,383	(342,572)	7,385,811	8,607,096	(754,643)	7,852,453

6.2 Running finance facilities are extended to retail customers for a maximum period of one year (2017: one year) subject to renewal at the end of loan term for another one year. These facilities carry interest ranging from 11% to 20% per annum (2017: 11% to 20%). The facilities are secured against immovable properties, stock and receivables of the borrowers and personal guarantees in certain cases.

6.3 Long term loan are extended to corporate customers for period of one to five years (2017: one year to five years). These facilities carry interest ranging from 12% to 20% per annum (2017: 12% to 20% per annum) . The facilities are secured against immovable properties, stock and receivables of the borrowers and personal guarantees.

This includes USD 2,184,370 term loan of M/s Bahman Cyclet Motorcycle Assembling Co. that has been taken over from the Islamic Bank of Afghanistan (100% subsidiary) during the transition from conventional to full Islamic bank. After taking over the loan bank had classified this loan as "Watch". Instead of classifying the loan in the same category of loan as kept in subsidiary books of account, management is committed to recover the same through ordinary process of selling out the collateral. However, had there been no such intent the loan would have been classified in the doubtful category.

6.4 Other public consumer loans are extended to staff and individuals for a period of six months to two years. These loans carry interest ranging from 4% to 12% per annum (while charging only 1% processing fee without any interest from those employees having more than 7 years of tenure with the Bank) (2017: 6% to 12% per annum) and are secured against immovable properties and personal guarantees. These also include Master Credit Card issued which carry interest of 2% per month on balance outstanding after 7th of the month after the month of usage of the facility, along with surcharge of USD 50 or USD 25 if these are Titanium or Platinum card respectively.

	2018	2017
	.....AFN '000'	.....
6.5 Maturity profile of the loans and advances to customers is as under:		
Recoverable within one year	6,627,131	6,882,981
Recoverable after more than one year	1,101,252	1,724,115
	7,728,383	8,607,096

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018.....AFN	2017 '000'.....
6.6 Impairment allowance on loans and advances			
Balance at beginning of year		754,643	1,566,715
Allowance for the year		887,788	5,761
Write off during the year		(1,308,614)	(855,383)
Currency fluctuation		8,755	37,550
Balance as at the end of the year		342,572	754,643

7. INVESTMENTS

Available for sale

Foreign Bonds	7.1	1,217,714	-
Revaluation gain / (loss)		(48,475)	-
		<u>1,169,239</u>	<u>-</u>

Held to maturity

Bonds	7.2	378,729	-
Capital notes with DAB	7.3	4,698,423	1,798,300
Placements in other banks	7.4	6,624,176	2,025,070
		<u>11,701,328</u>	<u>3,823,370</u>
		<u><u>12,870,567</u></u>	<u><u>3,823,370</u></u>

7.1 Foreign Bonds - AFS

	Interest rate range	Rating by Moody's		
Oman	5.625% per annum	Baa3	227,698	-
Saudi Arabia	2.375% per annum	A1	145,967	-
Srilanka	5.750% per annum	B2	56,838	-
Srilanka	5.750% per annum	B2	94,588	-
Indonesia	4.100% per annum	Baa2	75,599	-
Poland	3.000% per annum	A2	74,232	-
Egypt	5.577% per annum	B3	73,854	-
Egypt	5.577% per annum	B3	36,473	-
Maldives	7.000% per annum	B2	110,100	-
Kenya	6.875% per annum	B2	74,232	-
South Africa	5.875% per annum	Baa3	75,443	-
Senegal	6.250% per annum	Ba3	18,672	-
Investment Corporation of Dubai Fund			154,018	-
			<u>1,217,714</u>	<u>-</u>

These bonds are listed at Borse Berlin AG (Berlin Stock Exchange).

7.2 Bonds - HTM

	Interest rate range	Rating by Moody's		
Oman	4.125% per annum	Baa2	151,401	-
Srilanka	6.000% per annum	B1	113,572	-
Srilanka	5.125% per annum	B1	113,756	-
			<u>378,729</u>	<u>-</u>

These bonds are listed at Borse Berlin AG (Berlin Stock Exchange).

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018.....AFN '000'.....	2017
7.3 Capital Notes			
	Interest rate range		
Capital notes - 91 days	0.560%(2017: 4.33 % per annum)	699,011	798,486
Capital notes - 28 days	0.340% per annum (2017: 3.533 % to 3.550%)	1,999,471	999,813
Capital notes - 7 days	0.152% per annum (2017: 3.533 % to 3.550%)	1,999,941	-
		4,698,423	1,798,300
7.4 Placements in other Banks			
Punjab National Bank - Hong Kong		624,727	69,830
Yes Bank Limited - India		624,278	349,150
Ratnakar Bank Limited - India		529,690	488,810
Bank Alfalah Limited - Bahrain		529,690	-
Nurol Bank - Turkey		151,340	-
BMCE Bank - Spain		529,690	-
Transkapital Bank - Russia		2,799,790	-
Allied Bank Limited - Bahrain		302,680	-
Banque Misr - UAE		532,292	-
Punjab National Bank - Dubai		-	907,790
Banca Popolare - Turkey		-	209,490
		6,624,176	2,025,070

7.4.1 These are short term time deposits with interest rates ranging from 1.40% per annum to 2.30% per annum (2017: 1.65% to 4.00% per annum) for the period of one month to one year.

8. INVESTMENT IN SUBSIDIARY

Opening balance		1,725,000	1,575,000
Issuance of shares		50,000	150,000
Closing balance	8.1	1,775,000	1,725,000

8.1 This represents investment in Islamic Bank of Afghanistan (Formerly: Bakhtar Bank), 100 % subsidiary of Azizi Bank has been shifted from conventional banking to fully Islamic banking with approval from the Da Afghanistan Bank (DAB) dated April 09, 2018 and have secured License No. 13704.

9. INVESTMENT IN AFGHANISTAN PAYMENT SYSTEM

Investment in Afghanistan Payment System		18,918	17,458
	9.1	18,918	17,458

9.1 This represents 16.667% (2017: 16.667%) equity investment in Afghanistan Payment Systems (APS) incorporated as limited liability company with AISA on January 31, 2011. APS, a special purpose entity created with the support of World Bank and under special permission of Da Afghanistan Bank (DAB), was established to provide a non-cash domestic payments switch and related processing services to all the banks operating in Afghanistan and as such will benefit the banking industry as a whole. APS intends to support an electronic fund transfer platform for shared ATMs, creation of shared mobile banking infrastructure and the initiation of point of sale devices.

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

10. PROPERTY AND EQUIPMENT

	Land	Building - lease hold	Building	Office equipment	Furniture & fittings	IT equipment	Vehicles	ATM	Advance against capital commitments (Note 10.1)	Total
.....AFN '000'										
Gross carrying amount										
Balance as at 01 January 2018	404,059	3,646	196,947	249,496	107,101	409,002	100,401	77,301	190,355	1,738,308
Additions	-	-	687	52,647	16,407	22,023	47,547	32,875	18,687	190,872
Disposal / Adjustment / Write Off	-	-	-	(16,354)	-	-	-	-	(48,561)	(64,914)
Balance at 31 December 2018	404,059	3,646	197,634	285,789	123,508	431,025	147,948	110,176	160,482	1,864,266
Balance as at 01 January 2017	404,059	3,646	152,016	208,053	104,275	387,160	91,272	77,036	99,078	1,526,594
Additions	-	-	64,188	50,945	11,648	21,843	9,129	264	91,277	249,294
Disposal / Adjustment / Write Off	-	-	(19,256)	(9,502)	(8,822)	-	-	-	-	(37,580)
Balance as at 31 December 2017	404,059	3,646	196,947	249,496	107,101	409,002	100,401	77,301	190,355	1,738,308
Depreciation										
Balance as at 01 January 2018	-	1,572	821	168,865	57,426	368,057	83,096	42,712	-	722,549
Depreciation for the year	-	185	10,010	29,495	9,506	23,976	7,761	29,373	-	110,308
Adjustment for disposals	-	-	-	(15,202)	-	-	-	-	-	(15,202)
Balance at 31 December 2018	-	1,757	10,831	183,159	66,932	392,033	90,857	72,085	-	817,655
Balance as at 01 January 2017	-	1,387	46,262	157,587	57,718	346,599	78,909	22,262	-	710,725
Depreciation for the year	-	185	7,872	20,780	8,508	21,458	4,187	20,450	-	83,440
Impairment effect - reassessed useful life	-	-	(53,314)	-	-	-	-	-	-	(53,314)
Adjustment for disposals	-	-	-	(9,502)	(8,800)	-	-	-	-	(18,302)
Balance as at 31 December 2017	-	1,572	821	168,865	57,426	368,057	83,096	42,712	-	722,549
Carrying amounts										
Balance at 31 December 2018	404,059	1,889	186,803	102,630	56,576	38,992	57,091	38,091	160,482	1,046,611
Balance at 31 December 2017	404,059	2,074	196,126	80,631	49,675	40,946	17,305	34,588	190,355	1,015,759
Depreciation rates	Nil	5%	5%	20%	5% - 20%	33.33%	15%	33.33%	Nil	

10.1 These are assets that have been acquired but not ready for use. Depreciation is not being charged on these assets.

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

11. INTANGIBLE ASSETS

	Purchased software	Goodwill	Total
	.....AFN '000'.....		
Gross carrying amount			
Balance as at January 01, 2018	205,623	29,506	235,129
Additions	13,877	-	13,877
Balance as at December 31, 2018	219,500	29,506	249,006
Balance as at January 01, 2017	197,889	29,506	227,395
Additions	7,734	-	7,734
Balance as at December 31, 2017	205,623	29,506	235,129
Amortization			
Balance as at January 01, 2018	186,268	8,974	195,242
Amortization during the year	11,194	2,992	14,186
Balance as at December 31, 2018	197,462	11,966	209,428
Balance as at January 01, 2017	176,072	5,983	182,055
Amortization during the year	10,196	2,992	13,188
Balance as at December 31, 2017	186,268	8,974	195,243
Carrying amount as at December 31, 2018	22,038	17,540	39,578
Carrying amount as at December 31, 2017	19,355	20,532	39,886

11.1 Purchased software has estimated useful life of 3 years and is being amortized at the rate of 33.33 %.

11.2 Goodwill recognized at the time of acquisition of Punjab National Bank (PNB) - Kabul Branch in concurrence with the Memorandum of Understanding dated July 21, 2014 between both the parties and with due approval of Da Afghanistan Bank vide letter no. 2273/2612 dated September 22, 2014. In the prior year in the absence of active share trading market management has decided to impair the same @ 10.14% p.a. in a ten year period.

12. NON-CURRENT ASSETS HELD FOR SALE

	2018	2017
	.....AFN '000'.....	
Opening balance	293,451	291,423
Currency fluctuation	14,356	7,528
Deletion - Property sold out	-	(5,500)
Total non-current assets held for sale	12.1 307,807	293,451

12.1 This represents the re-possessed assets classified as per the requirements of Article 11 of Assets Classification and Provisioning Regulations issued in the month of December 2017.

	2018	2017
	.....AFN '000'.....	
12.1.1 Non-current assets held for sale (AFN)	121,789	121,790
Non-current assets held for sale (USD)	186,018	171,661
	307,807	293,451

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018.....AFN '000'.....	2017
13. OTHER ASSETS			
Accrued interest on capital notes		621	1,085
Accrued interest on Placement with other Banks		22,687	10,247
Accrued interest on Bonds		21,248	-
Restricted balance held with DAB	13.1	2,810,843	2,499,923
Receivable against sale of collateral		755,411	165,148
Security deposits	13.2	371,483	21,538
Advances to suppliers		25,130	8,522
Payment against tax assessment / advance tax	13.3	175,729	46,033
Prepayments		33,636	16,139
Cash shortages recoverable from staff		1,918	1,795
Inventory of prizes		16,520	16,520
Pool account for Afghanistan Payment System and CDM		8,267	11,476
M-Paisa Imprest Account		24,008	10,680
Others		8,956	5,601
		4,276,457	2,814,706

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

13.2 Security Deposits

Deposits with Bank-e-Millie for Brishna	350,000	-
CSC Bank	9,474	8,743
Western Union Bank	10,317	9,521
Roshan - against M.Paisa Imprest Account	1,693	1,775
Deposit with DAB against currency auction	-	1,500
	371,483	21,538

13.3 Payment against tax assessments

It includes the payment against potential exposure against the assessment order received from Ministry of Finance (MoF) for the year 2010 to 2014 in December 2018, amounting to Afs. 279,880,704 however, amounting to 107,133,662 was adjusted against the prior payments and advance tax, as the company reserved the right to lodge petition within 45 days and subsequently no claim has been officially lodged. Balance payment amounting to Afs.172,747,042 has been recognized as payment against tax assessment which has been finally charged as expense in first quarter of 2019.

14. DEPOSITS FROM BANKS

Bank-e-Millie Afghan	1,965	1,862
The Islamic Bank of Afghanistan (formerly: Bakhtar Bank)	-	185,883
Pashtany Bank	1,658	93
	3,624	187,837

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

15. DEPOSITS FROM CUSTOMERS	Note	2018	2017
		.....AFN '000'.....	
Term deposits	15.1	1,632,364	1,819,600
Saving deposits		9,629,257	9,194,027
Current deposits		17,962,425	15,453,610
Margin deposits		5,054,793	4,579,355
		34,278,839	31,046,591

15.1 Term and saving deposits carry interest rates ranging from 1% to 4% (2017: 1% to 4%) per annum.

16. CURRENT TAX LIABILITY

Opening for the year		-	-
Charged for the year		61,348	42,865
Adjustment / paid during the year		(27,672)	(42,865)
Closing for the year	16.1	33,676	-

16.1 Current tax liability represents 20% of the profit before tax, out of which Afn 27.672 Million has been adjusted against the closing tax credits/adjustable with the tax authorities.

17. OTHER LIABILITIES

Withholding taxes payable		19,885	21,449
Remittances payable		3,864	14,866
Western Union outbound		31,764	56,917
Accrued interest on term deposits		30,384	29,702
Others		93,462	75,865
Provision against other assets and non-funded facilities	17.1	-	176,625
		179,359	375,424

17.1 This was including provision made against the other assets and time deposits @ 1% amounting to Afs. 22.198 Million and on non-funded facilities @ 1% amounting to Afs. 154.427 Million. The same has been allowed as optional by the DAB, so the management decided not to create provision against such assets and the previously created provision has been reversed.

18. SHARE CAPITAL

Authorized capital			
750,000 (2017: 750,000) ordinary shares of AFN 10,000 each		7,500,000	7,500,000
Issued and paid capital			
536,740 (2017: 536,740) ordinary shares of AFN 10,000 each		5,367,400	5,367,400

18.1 Following is the reconciliation of amount of shares capital:

Share capital at beginning of the year		5,367,400	5,367,400
Shares issued in cash during the year		-	-
Share capital at the end of the year		5,367,400	5,367,400

18.2 Following is the reconciliation of number of shares:

		.....No. of Shares.....	
Number of shares at beginning of the year		536,740	536,740
Shares issued during the year		-	-
Number of shares at end of the year		536,740	536,740

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018	2017						
	AFN '000'.....AFN '000'.....						
19. NET INTEREST INCOME									
Interest income									
Cash and cash equivalents	19.1	143,585	86,496						
Loans and advances to customers		926,892	868,426						
Total interest income		1,070,477	954,922						
Interest expense									
Deposits from banks		-	-						
Deposits from customers	19.2	472,446	607,829						
Total interest expense		472,446	607,829						
Net interest income		598,031	347,093						
19.1 This includes interest income amounting to Afn 4.781 million and Afn 52.802 million (2017: Afn 51.886 million and Afn 0) earned during the year from capital notes and foreign bonds respectively.									
<table border="1" style="width: 100%;"> <thead> <tr> <th></th> <th style="text-align: right;">2018</th> <th style="text-align: right;">2017</th> </tr> <tr> <th></th> <th style="text-align: right;">.....AFN '000'.....</th> <th style="text-align: right;">.....AFN '000'.....</th> </tr> </thead> </table>					2018	2017	AFN '000'.....AFN '000'.....
	2018	2017							
AFN '000'.....AFN '000'.....							
19.2 Deposits from customers									
Interest on:									
Term deposits		42,645	62,853						
Saving deposits		429,801	544,976						
		472,446	607,829						
20. NET FEE AND COMMISSION INCOME									
Fee and commission income									
Commission income		891,554	1,107,842						
Account servicing fee		325,442	245,064						
Total fee and commission income		1,216,996	1,352,906						
Fee and commission expense									
Inter-bank transaction fees		32,876	32,089						
Net fee and commission income		1,184,120	1,320,817						
21. EMPLOYEE BENEFIT EXPENSES									
Salaries and wages		615,587	468,029						
Staff welfare		51,982	48,759						
Staff training expenses		3,751	1,611						
		671,320	518,399						

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018.....AFN '000'.....	2017
22. OTHER EXPENSES			
Repair and maintenance		51,239	54,694
Travelling expense		65,279	71,879
Advertising and publicity		111,172	77,905
Printing and stationery		77,240	57,902
Communication		3,531	3,181
Internet and connectivity		37,559	34,134
Electricity and power		58,891	53,631
Office supplies		5,995	5,576
Security expenses		203,753	194,778
Legal and professional charges		58,211	98,715
Postage and courier		168	221
Software maintenance		36,028	34,579
Deposit insurance premium	22.1	72,895	67,804
Others		40,403	34,426
		822,363	789,425
22.1	This premium is paid to Afghanistan Deposit Insurance Corporation (ADIC) at the rate of 0.2% (2017: 0.3%) of total customer deposits as required by DAB.		
23. TAXATION			
Profit before tax		306,738	214,324
Current year tax @ 20%		61,348	42,865
Prior period - finalized tax assessment payment		78,201	-
		139,548	42,865

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

24. RELATED PARTIES

Parent and ultimate controlling party

Related parties comprise of The Islamic Bank of Afghanistan (formerly Bakhtar Bank), Azizi Hotak Group Company Limited, Azizi investments, related group companies in which shareholders of the bank have ownership or management rights and includes all management personnel.

Subsidiary

The Bank owns 100% shares in the Islamic Bank of Afghanistan (formerly Bakhtar Bank) (2017: 100%).

The Bank has sold 10 ATM machines to its 100% subsidiary (i.e. Islamic Bank of Afghanistan) on which gain of Afn 567,761 has been secured.

Transactions with key management personnel and other related parties

Key management personnel and related parties have transacted with the Bank during the period as follows:

	2018		2017	
	Maximum balance	Closing balance	Maximum balance	Closing balance
	.....AFN '000'.....			
Short term loans to key management personnel	7,172	7,172	3,102	3,102
Deposits with Bakhtar Bank	904,789	-	4,870,435	904,789
Deposits from Bakhtar Bank	185,883	-	4,583,595	185,883

Interest on short term loans to key management personnel is charged at 6% per annum for expat staff, and from only 1 % processing fee up to 6% per annum interest for local staff depending upon their tenure of employment with the Bank, which is lower than the interest rate charged on other loans. Loans to related parties are secured against personal guarantees. No impairment losses have been recorded against balances outstanding with key management personnel and other related parties, and no specific allowance has been made for impairment losses on these balances at the year end. Key management personnel compensation comprised of short term employee benefits amounting to AFN 4.3 Million (2017: AFN 3.1 Million).

In addition to salaries and cash benefits, the Bank also provides non-cash benefits to executives which includes furnished accommodation, meals and travel equivalent to a sum of AFN 12.40 Million (2017:AFN 11.20 Million). Key management personnel includes the following:

Key management personnel compensation for the period comprised:

- Chief Executive Officer
- Deputy Chief Executive Officers
- Chief Credit Officer
- Chief Operations Officer
- Chief Finance Officer
- Chief Risk Officer
- Chief Internal Auditor
- Head Treasury
- Head Delivery Channel

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

24. RELATED PARTIES

Parent and ultimate controlling party

Related parties comprise of The Islamic Bank of Afghanistan (formerly Bakhtar Bank), Azizi Hotak Group Company Limited, Azizi investments, related group companies in which shareholders of the bank have ownership or management rights and includes all management personnel.

Subsidiary

The Bank owns 100% shares in the Islamic Bank of Afghanistan (formerly Bakhtar Bank) (2017: 100%).

The Bank has sold 10 ATM machines to its 100% subsidiary (i.e. Islamic Bank of Afghanistan) on which gain of Afn 567,761 has been secured.

Transactions with key management personnel and other related parties

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	2018		2017	
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- Deputy Chief Executive Officers
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- Chief Operations Officer
- Chief Finance Officer
- Chief Risk Officer
- Chief Internal Auditor
- Head Treasury
- Head Delivery Channel

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>2018</u>	<u>2017</u>
	.....AFN '000'.....	
25. CONTINGENCIES AND COMMITMENTS		
Contingencies		
Letter of Credit	-	-
Guarantees	<u>21,720,732</u>	<u>20,022,116</u>
SWAP agreement	25.1 <u>264,845</u>	<u>-</u>

25.1

Subsequently, this SWAP agreement has been terminated with effect from February 02, 2019 with the mutual consent of both the parties to the agreement, without any additional monetary payments to each other.

Lease commitments

Non-cancellable operating lease rentals are payable as follows:

Less than one year	110,740	92,434
Between one to five years	184,887	166,992
Between five to twenty years	<u>57,349</u>	<u>29,229</u>
	<u>352,976</u>	<u>288,655</u>

The Bank leases a number of branch office premises under operating leases. The leases typically run for a period between one to five years, with an option to renew the lease after that period.

Credit Commitments

Unveiled limits of overdraft facility for the year ended was Afs. 1,270.92 Million. (2017: Afs. 598 Million)

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

26. FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

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

	Note	At fair value through profit and loss (FVTPL)		At amortized cost using effective interest rate		Available for sale financial assets	Equity investment at cost	Non - financial assets / liabilities	Total for line item	Fair value
		Held for trading	Designated at FVTPL	Held to maturity	Loans and receivables						Financial liabilities / Non funded arrangements
31 December 2018										
Cash and cash equivalents	5	-	-	-	12,724,347	-	-	-	12,724,347	12,724,347
Loans and advances to customers	6	-	-	-	7,385,811	-	-	-	7,385,811	7,385,811
Placements and Investments	7	-	-	11,701,328	-	1,169,239	18,918	-	12,889,485	12,889,485
Other assets	13	-	-	-	3,712,725	-	-	563,732	4,276,457	4,276,457
		-	-	11,701,328	23,822,883	1,169,239	18,918	563,732	37,276,100	37,276,100
Deposits from Banks	14	-	-	-	-	-	-	-	3,624	3,624
Deposits from customers	15	-	-	-	-	-	-	-	34,278,839	34,278,839
Other liabilities	17	-	-	-	-	-	-	19,885	179,359	179,359
		-	-	-	-	-	-	19,885	34,461,822	34,461,822
Off Balance sheet items		-	-	-	-	-	-	-	21,985,577	21,985,577
31 December 2017										
Cash and cash equivalents	5	-	-	-	19,858,653	-	-	-	19,858,653	19,858,653
Loans and advances to customers	6	-	-	-	7,852,453	-	-	-	7,852,453	7,852,453
Investments	7	-	-	3,823,370	-	-	17,458	-	3,840,828	3,840,828
Other assets	13	-	-	-	2,730,615	-	-	84,091	2,814,706	2,814,706
		-	-	3,823,370	30,441,721	-	17,458	84,091	34,366,640	34,366,640
Deposits from Banks	14	-	-	-	-	-	-	-	187,837	187,837
Deposits from customers	15	-	-	-	-	-	-	-	31,046,591	31,046,591
Other liabilities	17	-	-	-	-	-	-	21,449	375,424	375,424
		-	-	-	-	-	-	21,449	31,609,852	31,609,852
Off Balance sheet items		-	-	-	-	-	-	-	20,022,116	20,022,116

The carrying values approximate fair values as mostly the assets and liabilities have short maturities and are expected to be recovered/ settled at their carrying values.

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

27. FINANCIAL RISK MANAGEMENT

27.1 Introduction and overview

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

- a) credit risk;
- b) liquidity risk; and
- c) market risk.

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 Chief Risk Officer is independently and directly reporting to the Board of Supervisors. There is a separate RMD - Risk Management Department headed by the Chief Risk Officer. The Board of Supervisors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established Management Board, Asset and Liability Committee (ALCO), a Credit Committee and a Risk Management committee which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees report regularly to the Board of Supervisors on their activities. The Bank's Audit Committee is 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. The Bank's Audit Committee is assisted in these functions by the Internal Audit. In absence of Audit Committee, Board of Supervisors is responsible for this. The Audit Committee functioning since April 2012 and then reconstitute on December 16, 2015 as per new law of banking.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed are described below.

27.2 Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Bank. The Bank is exposed to this risk mainly due to loans and advances, placements, current account and Nostro account balances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board of Supervisors has delegated responsibility for the oversight of credit risk to its Credit Committee. A separate Credit department has been established by the Bank that is responsible for oversight of the Bank's credit risk and is reporting to the Credit Committee. The Credit department is headed by Chief Credit Officer (CCO). CCO along with credit department staff looks after credit risk matters and conduct portfolio analysis for managing credit risk.

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board of Supervisors. The credit evaluation system comprises of credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio.

Exposure to credit risk

The Bank's maximum exposure to credit risk is the carrying amount of financial assets at the reporting date, as summarized below:

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	.....AFN '000'.....	
Classes of financial assets		
Cash equivalents	8,077,910	14,580,138
Loans and advances to customers	7,385,811	7,852,453
Other assets	3,252,808	2,535,021
	18,716,529	24,967,612

The Bank has issued financial guarantees contracts including an exchange rate SWAP agreement for which the maximum amount payable by the Bank, assuming all guarantees are called on, is AFN 21,986 million (2017: AFN 20,022 million).

As at balance sheet date, all the loan portfolio of the Bank are recoverable and all the assets which are past due are provided for as per DAB guidelines.

The Bank's management considers that all the above financial assets that are not impaired or past due for the reporting dates under review are of good credit quality. The credit risk for cash and cash equivalents comprising of capital notes, balances with other banks, nostro accounts and short term placements is considered negligible, since the counterparties are either the branches of banks with high quality external credit ratings or the central bank of Afghanistan.

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortized cost that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for the groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired. Given schedule details the allowance for different classes of non-performing loans.

Write-off policy

The Bank writes off loans or advances and any related allowances for impairment losses, when it meets criteria for loss category as required by DAB 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 be fully written off from accounts, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted or legal action is not advisable or past due for 6 months after the loan has been fully provisioned (481 days or more i.e. Loss category).

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated as per the policy of the bank.

Concentration of credit risks by sector

The Bank monitors concentrations of credit risk by sector. An analysis of 32 sectors as per Da Afghanistan Bank regulation has been merged and disclosed as under at reporting date is as follows:

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Note	2018.....AFN '000'.....	2017
Gross amount	6	7,728,383	8,607,096
<i>Concentration by sector</i>			
Construction		1,019,000	26,992
Food stuff		661,040	1,214,855
Lubricant, oil & gas		901,618	150,170
Services		2,820,036	1,781,748
Mortgage housing loans		-	107,282
Ground transportation		846,185	5,169
Manufacturing and production		444,833	498,541
Others		1,035,671	4,822,339
		7,728,383	8,607,096

Cash equivalents

The cash equivalents include AFN 2,894.65 Million (2017: AFN 3,451.55 Million) represents the Bank's maximum credit exposure on these assets which comprise of balances held with other banks.

27.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter in meeting obligations from its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Board ensures that the Bank has necessary tools and framework to cater the requirements of liquidity risk management and the Bank is capable to confronting uneven liquidity scenarios. The Bank's management is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board. Asset & Liability Committee (ALCO) is entrusted with the responsibility of managing the mismatch in maturities to ensure sufficient available cash flow to meet possible withdrawal of deposits, other commitment or challenges associated with sudden changes in market conditions, whilst enabling the Bank to pursue valued business opportunities. Management considers liquidity risk based on developing various liquidity scenarios.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquidity assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalent net of deposits from banks. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's regulator (Da Afghanistan Bank). Detail of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period was as follows:

	2018	2017
At 31 December	47%	49%
Average for the year	43%	46%
Maximum for the year	50%	56%
Minimum for the year	36%	35%

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Maturity analysis for financial liabilities

Note	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
			.....AFN '000'				
December 31, 2018							
14	3,624	3,624	-	-	3,624	-	-
15	34,278,839	34,278,839	17,962,425	9,629,257	6,687,157	-	-
17	179,359	179,359	55,513	30,384	91,507	1,955	-
	<u>34,461,822</u>	<u>34,461,822</u>	<u>18,017,939</u>	<u>9,659,641</u>	<u>6,782,288</u>	<u>1,955</u>	<u>-</u>
December 31, 2017							
14	187,837	187,837	-	185,883	1,955	-	-
15	31,046,591	31,046,591	15,453,610	9,194,027	6,398,955	-	-
17	375,424	375,424	93,232	29,702	74,973	892	-
	<u>31,609,852</u>	<u>31,609,852</u>	<u>15,546,842</u>	<u>9,409,612</u>	<u>6,475,882</u>	<u>892</u>	<u>-</u>

27.4 Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures with in acceptable parameters, while optimizing the return on risk.

Management of market risks

Overall authority for market risk is vested in ALCO. The Bank's Assets and Liability Committee (ALCO) is responsible for the development of detailed risk management policies and day to day review of their implementation.

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Exposure to interest rate risk

The Bank risk to which not-trading portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day to day monitoring activities. A summary of the Bank's interest rate gap position is as follows:

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
.....AFN '000'.....							
December 31, 2018							
Cash and cash equivalents	5	8,077,910	8,077,910	-	-	-	-
Loans and advances to customers (Gross)	6	7,728,383	-	-	6,759,916	968,467	-
Other assets	13	1,465,614	23,307	21,248	1,421,059	-	-
		<u>17,271,907</u>	<u>8,101,217</u>	<u>21,248</u>	<u>8,180,974</u>	<u>968,467</u>	<u>-</u>
December 31, 2017							
Deposits from customers	15	11,261,621	2,113,658	359,120	8,658,254	130,589	-
		<u>11,261,621</u>	<u>2,113,658</u>	<u>359,120</u>	<u>8,658,254</u>	<u>130,589</u>	<u>-</u>
Cash and cash equivalents	5	14,580,138	14,580,138	-	-	-	-
Loans and advances to customers (Gross)	6	8,607,096	-	8,499,813	107,283	-	-
Other assets	13	303,451	10,206	-	293,245	-	-
		<u>23,490,685</u>	<u>14,590,344</u>	<u>8,499,813</u>	<u>400,528</u>	<u>-</u>	<u>-</u>
Deposits from customers	15	11,013,627	1,797,612	327,528	8,742,919	145,568	-
		<u>11,013,627</u>	<u>1,797,612</u>	<u>327,528</u>	<u>8,742,919</u>	<u>145,568</u>	<u>-</u>

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Exposure to currency risk

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

December 31, 2018

	Total	AFN	USD	Euro '000'	GBP	Other
Cash and cash equivalents	12,724,347	4,866,609	5,741,379	1,699,142	143,581	273,636
Loans and advances to customers (Gross)	7,728,383	3,747,411	3,980,972	-	-	-
Other assets	4,276,457	1,520,167	2,659,317	96,970	5	-
	24,729,187	10,134,186	12,381,668	1,796,112	143,586	273,636
Deposits from banks	3,624	620	3,004	-	-	-
Deposits from customers	34,278,839	14,125,373	19,192,077	871,179	90,210	-
Other liabilities	179,359	84,674	94,685	-	-	-
	34,461,822	14,210,668	19,289,765	871,179	90,210	-
Net foreign currency exposure	(9,732,635)	(4,076,481)	(6,908,097)	924,932	53,376	273,636

December 31, 2017

Cash and cash equivalents	19,858,653	7,165,940	11,302,897	1,152,321	191,892	45,603
Loans and advances to customers (Gross)	8,607,096	3,378,458	5,228,638	-	-	-
Other assets	2,814,706	2,059,287	755,419	-	-	-
	31,280,455	12,603,685	17,286,954	1,152,321	191,892	45,603
Deposits from banks	187,837	125,794	56,484	5,559	-	-
Deposits from customers	31,046,591	14,583,765	15,600,589	791,065	71,172	-
Other liabilities	375,424	330,240	44,814	370	-	-
	31,609,852	15,039,799	15,701,887	796,994	71,172	-
Net foreign currency exposure	(329,397)	(2,436,114)	1,585,067	355,327	120,720	45,603

The following significant exchange rates have been applied during the period:

AZIZI BANK
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 2018 2017
Average rate	Reporting date spot rate	Average rate
AFN '000'	
USD	72.75	68.33
Euro	84.59	76.52
GBP	94.55	87.63
		Reporting date spot rate
		.....AFN '000'
		69.83
		83.25
		93.55

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and euro at 31 December 2018 would have increased (decreased) 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.

	..... 2018 .....	..... 2017
Equity	Profit or loss	Equity
	.....AFN '000'	
USD	(552,648)	126,805
Euro	73,995	28,426
GBP	4,270	9,658
		Profit or loss
		.....AFN '000'
		158,507
		35,533
		12,072

A 10% weakening of the Afghani against the above currencies at 31 December 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Foreign currency risks are mainly managed through matching of assets and liabilities denominated in foreign currency and are closely monitored for large gaps.

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

27.5 Capital management

Minimum Capital Requirement

Current requirement for minimum financial capital is AFN. 1 billion as per the requirements of DAB through its Circular Reference No. 703/904 dated August 08, 2010. The Bank's financial capital is Afn 5.367 billion (2017:A FN 5.367 billion).

Regulatory capital

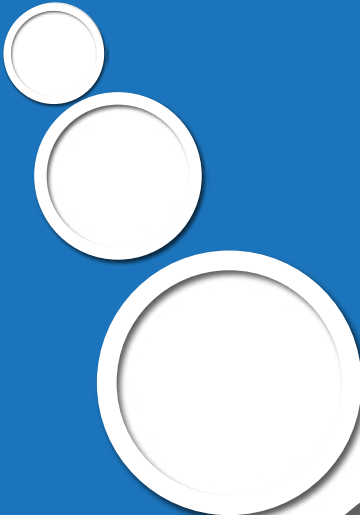
The Bank's regulator Da Afghanistan Bank sets and monitors capital requirements for the Bank. The capital adequacy of the Bank is assessed in two tiers as per regulations of the Da Afghanistan Bank.

- Tier 1 or core capital, consisting of the highest quality capital elements that fully meet all the essential characteristics of capital; to be minimum 6% of risk weighted assets.

- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank as a going concern.

Regulatory capital is the sum of Tier 1 and Tier 2 capital and Tier 2 capital cannot exceed amount of Tier 1 capital. The Bank's regulatory capital position at 31 December 2018 was as follows:

	2018	2017
	.....AFN '000'.....	
Tier 1 capital		
Total equity capital	5,959,293	5,830,883
Add back revaluation deficit	38,780	-
Less: Current year profit	(167,190)	(171,459)
Less: Intangible assets	(39,578)	(39,886)
Less: Deferred tax asset	(9,695)	-
Total tier 1 (core) capital	5,781,610	5,619,538
Tier 2 capital		
Add Current year profit	167,190	171,459
General loss reserves	-	45,510
Deducted equity capital	(1,793,918)	(1,742,458)
Total tier 2 (supplementary) capital	(1,626,728)	(1,525,488)
Total regulatory capital	4,154,883	4,094,050
Risk-Weight Categories		
<i>0% risk weight:</i>		
Cash in Afghanis and foreign currencies	4,413,482	4,591,118
Balance with the Da Afghanistan Bank (DAB)	5,183,257	11,128,589
Restricted balance held with DAB	2,810,843	2,499,923
Capital notes with DAB	4,698,423	1,798,300
Security deposit with DAB against currency auction	-	1,500
Total	17,106,005	20,019,430
<i>0% Risk-Weight Total (Above Total x 0%)</i>	-	-



STRATEGIC
PRIORITIES
2019-2023



The bank have entered the next phase of our strategic plan 2019-23, focused on growth and creating value for our stakeholders, return on growth and value creation.

Azizi Bank outlined eight strategic priorities to deliver growth, improve returns, empower our people, and enhance our customer experience. Each priority has a target or set of targeted outcomes year on year.

Growth from areas to strengthen the strategic priority.

▶ Made a strong start in accelerating growth from deposits as also after making selected investments in sovereign bonds with a balance of risk and returns.

▶ Despite some market uncertainty, we continued to support customers and target loan growth by 20%.

▶ Extended support to our retail customers' purchasing of homes, as we plan to have a big say in the retail loan market including mortgage loan.

▶ For our business clients, the bank plans to launch SME products to cater to the small & medium enterprises.

▶ To enhance returns for our shareholders, the bank have committed to improving our capital efficiency. In 2019, our revenue over risk-weighted assets ('RWAs') is projected to grow through broad-based revenue growth across our business lines by putting the customer at the center of strategic priority.

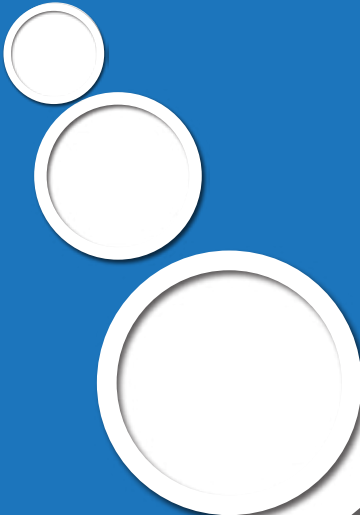
▶ Aim to create the capacity to invest in growth and technology through a combination of cost discipline and revenue growth.

▶ The bank exist, at our core, to serve our customers and we made a commitment in 2018 to improve customer service. We are measuring our performance against customer satisfaction indices.

▶ Empowering our people's strategy has been prioritized. We have committed to simplifying the organization and investing in the future skills of our employees. We continue to improve our employee engagement, as reflected in the improvement of our employee advocacy.

AZIZIBANK عزیز بنک

AZIZI BANK عزیز بنک



CORPORATE
SOCIAL
RESPONSIBILITIES



donate
blood



Azizi Bank in coordination with the National Blood Bank organised several blood donation camps and collected more than 120,000 cc of blood.

Empowering
Women



Azizi Bank provided a financial support of USD 10000 for the empowerment and capacity building of the Afghan women. The amount was donated to Women Campaign International and the trainings and workshops is monitored by the Ministry of Women Affairs.

Go
Green



As part of its Corporate Social Responsibility program for a Greener Afghanistan, the bank planted more than 15,000 trees across the country.

Relief
Services



Azizi Bank distributed flour, cooking oil & other essential amenities to the internally displaced persons (IDP). More than 100 families of Northern Afghanistan were supported, who lost their home due to heavy floods and landslides.

Kardan
University



Kateb
University



Mashal
University



Bakhtar
University

Save Water



ENVIRONMENTAL SUSTAINABILITY & SOCIAL



AWARENESS INITIATIVES

Educate
your Children



Never Share Your Password





AWARDS
&
ACCOLADES



PEAK OF SUCCESS

PEAK OF SUCCESS Award 2018 by World Confederation of Businesses (World COB), Miami, Florida, United States.



QUALITY STANDARDS

European Quality Award for its leadership sustainability in the country and the quality of products and services that comply with European standards



HONORARY PROFESSORSHIP

Dr. Mohammad Salem Omaid, President and Chief Executive Officer of Azizi Bank was recently felicitated with the honorary professorship of the Academic Union, Oxford, United Kingdom in a program hosted in Barcelona Spain in his honor



BEST DIGITAL BANK

Capital Finance International (CFI.Co), London announces Azizi Bank as winner of the Best Digital Bank Afghanistan 2018 Award

CORRESPONDENT BANKS NETWORK AS OF DECEMBER 31, 2018



BANKS LOGO





Azizi Bank Branches Locations

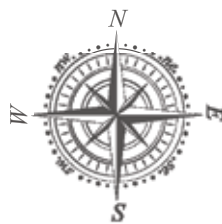
Kabul Branches

Main Branch
 Khair Khana
 Karte Now
 Karte Parwan
 Kot-e-Sangi
 Jada-e-Maiwand
 Old Macroryan
 Qalai Fathullah
 Ministry Of Defence
 Dasht-e-Barchi
 Arzan Qimat
 Kart Sih
 Dehmazang
 Charahi Qambar
 Sarai Shahzada
 Share Now
 Taimani
 Mandawi
 Metropol
 Logistic Compound
 Paghman
 Kolola Pushta
 Macroryan 4
 Company
 Panjsad Family
 Hotel Parwan
 Shah Shahed
 Khair Khana Part 1
 Khair Khana-315
 Sar-e-Kotal
 Qowai Markaz
 Wazir Akbar Khan
 Macroryan
 Baron Compound

Parwan
 Kunduz
 Pol-e-Khumri
 Ghazni
 Jawzjan
 Kunar
 Laghman
 Faryab
 Badakhshan
 Takhar
 Hairatan
 Helmand
 Nimrooz
 Farah
 Bamiyan
 Spin Boldak
 Gardez
 Sar-e-Pol
 Samangan
 Torkham
 Logar
 Torghondi
 Wardak
 Kapisa
 Badghis
 Paktika
 Zabul
 Mazar 3rd
 Andkhowi
 Sher Khan Bandar
 Mazar 2nd
 Jalalabad 2nd
 Oruzgan
 Kandahar 2nd
 Herat 2nd
 Herat 3rd
 Ghor

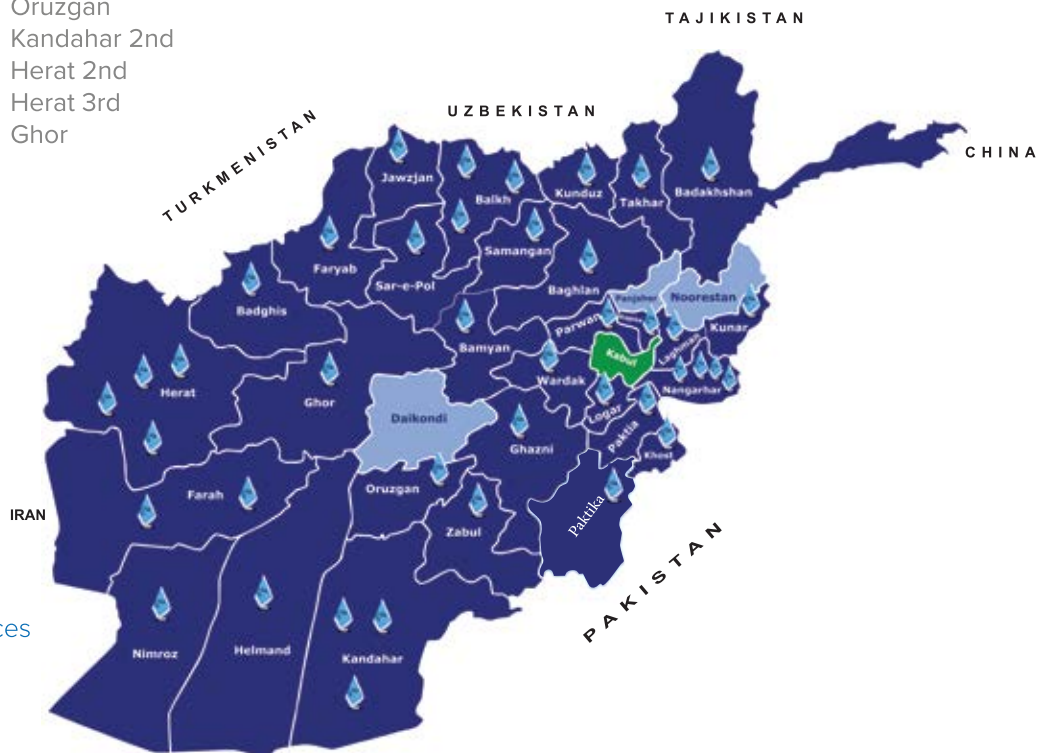
Extn. Counters

Mazar Counter 1 Jalalabad
 P.H.Q Counter Mazar
 Kandahar Exchange Market
 Kandahar Counter 2



Province Branches

Mazar-e-Sharif
 Khost
 Herat
 Kandahar
 Jalalabad



Total
80 Branches
34 in Kabul and **42** in Provinces

4 Extension Counters

Azizi Bank presence in
31 provinces out of 34 provinces.

Azizi Bank ATM Network

Kabul ATMs Locations

Ministry of Defence
Main Branch, ZANBAQ Square
Macrorayan Branch
Ministry of Rural rehabilitation
Ministry of Foreign Affairs
Taimani Branch
City Centre
Kot-e-Sangi Branch
Kher Khana Part 1 Branch
Arzan Qemat Branch
Kart-e-Now Branch
Kart-e-Parwan Branch
Dasht-e-Barchi Branch
Kart-e-Se Branch
Jada-e-Maiwand Branch
India Embassy Branch
First Macrorayan Branch
Ministry of Communications & IT




Wazir Akbar Khan Branch
Macrorayan 4 Branch
Qalai Fatullah Branch
Dehmazang Branch
Company Branch
Afghan Market
Khair Khana Part 3 Branch
Kair Khana Lesa-e-Maryam
Kolola Pushta Branch
Sar-e-Kotal Branch
Khair Khana 315 Branch
Family Branch 500
Afghan German Hospital
Paghman Branch
Qazi Plaza
Amiri Hospital
Ministry of Economy
Bakhtawar Palace
Ministry of Energy and Water
Bed Counter 400
Kawsar Hospital, Arzan Qemat
Charahi Qambar Branch
Shahshaheed Branch
Kefayat Market Kabul
Shahraki Aria
JAM Super Market
Gul Bahar Center

Province Branches

Mazar-e-Sharif Branch
Mazar 2nd Branch
Herat Branch
Herat 2nd Branch
Kandahar Branch
Jalal Abad Branch
Paktia Branch
Ghazni Branch
Jawzjan Branch
Bamyan Branch
Helmand Branch
Parwan Branch

Expansion Plans

ATM Network to be increased to 110 ATMs by 31 December 2018

-
-  Kabul Branches
 -  Province Branches
 -  Opening soon
-

Total ATMs **58**

ANNUAL REPORT 2018



24 Hours Call Center
1515- Call within Afghanistan
+93 701 80 1515- Call from outside Afghanistan