

Annual Report 2017



The
Bank
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Chairman's Message

“The bank remains firmly committed to continuous improvement of the strong and effective governance standards and transparency.”



Sundaram Prabhu *Chairman of the Board of Supervisors*

On behalf of Azizi Bank's Board of Supervisors, I am pleased to present Azizi Bank's Annual Report for the FY 2017.

The Bank, having been set up in 2006 by the visionary entrepreneur, Mr. Mirwais Azizi, enters its second decade of prosperous existence under a challenging environment of economic slowdown, uncertain security situation, migration population, import surplus economy and an air of prevailing uncertain eco-political environment. While the difficult environment has continued to impact profitability, the Bank has delivered a robust performance and the Board was pleased that the Bank has earned a commendable profit of AFN 214 Million and has recorded a vastly improved performance in the FY 2017. This speaks of the strength and stability of Azizi Bank's system, based on a strong and stabilized risk culture and strict adherence to Regulatory control and Compliance issues, well-articulated risk appetite, internal controls; with Azizi Bank's sound strategy and strong leadership and managerial ability, I have every confidence that we will continue

to build on our eleven-year success story and sustained growth.

Amongst the many constraints the economy faces and impacts upon the performance of the bank are slow economic recovery, continued insecurity curtails private investment and lack of consumer demand. Growth remains principally driven by agriculture which is still unsupported by proper infrastructure, legislative reforms and credit support. The fiscal position remained strong in the first half of 2017. Poverty has increased since the start of international troop withdrawal in 2014 with incremental population growth and a burgeoning refugee problem.

GDP growth recorded at 2.6 percent in 2017, is only marginally higher than the 2.2-percent achieved in 2016. The annual trade deficit of around 33 percent of GDP is financed by foreign aid inflows.

The Bank has seen sustained growth during the period 2006-2013. However, with the absence of

foreign spending the persistent upward growth curve has been stunted and has an effect on domestic spending which drives the economy. In spite of that the Bank recorded commendable performance in 2017 with a deposit growth of 32% over the previous year i.e. 2016, and a rise of 46% in 2016 over FY 2015, despite the sluggish economy. This has been possible with the bank driving a brand image, introduction of technological products in the market with a first mover advantage, greater customer confidence and trust. Whilst growth in the banking sector has been 6%, the growth rate of the bank has been phenomenal in an economy showing signs of slowdown.

The year 2017 has seen the bank record its higher profits of AFN 214 Million as against AFN 27 Million in the previous two years which is itself a testimony to its performance.

In the coming years the focus would be greater on the credit expansion into priority areas of agriculture and SME, financing of international trade through export and import financing and opening up investment corridors in overseas markets through placements, bonds and debenture participation, money market instruments etc.

The Bank, through its fully owned subsidiary Bakhtar Bank is starting Islamic banking in the country which in itself is expected to revolutionize the concept of banking, Afghanistan being a predominantly Muslim country. The new concepts and products would very much appeal to the masses and bring in more financial inclusion as well as a surge in banking activity. The necessary policies, procedures are already in place and the requirements of DAB have already been complied upon.

During the FY 2017, the bank has been subjected to a rigorous process of DAB examination. The examination centers around fulfillment/ accomplishment of CAMELS objectives and the rating is an accomplishment of the bank's performance. A higher rating is expected keeping in view the year of enlightened performance in the year 2017.

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 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 Management 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 hopes to receive their continued support.

The Board extends their appreciation to the Management and to the 1600+ employees and especially the female employees for their commitment to delivering valuable service to Shareholders and Clients.

We convey our sincere thanks to the Governor of Da-Afghanistan Bank (Central Bank) and his team 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 helps to fuel the momentum towards an ever brighter future and we expect your continued support in our endeavour in becoming 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 of the Board of Supervisors

President and Chief Executive Officer's Message

Azizi Bank continues to be the largest lender in the country with a business model to facilitate economic growth.



Mohammad Salem Omaid *President and Chief Executive Officer*

2017 was an eventful year for Azizi Bank and for myself. We were able to achieve good results across all operational areas of the bank by registering a growth in net profit by about 700% over the previous year in spite of slow and sluggish economic growth in the last several years.

Increase in customer deposits by 32 % is another hallmark of the year. Competition in the banking industry has intensified with more banks providing multiple offerings to customers as well as providing innovative products.

Introduction of international Master Debit Cards has contributed to customer convenience and branch less banking. An upgraded and advanced version of CBS is being rolled out to ensure better customer convenience, integration with latest technological advances in order to facilitate e-commerce and e-money transfers and the latest security features.

Azizi Bank continues to be the largest lender in the country with a business model that will facilitate economic growth working towards an objective

of mass banking. The credit portfolio of the bank has a very diverse sector-wise distribution i.e. trading, manufacturing, aviation, real estate and public loan etc. Improved earnings from non-fund businesses, i.e. income from Bank Guarantee has increased by 66% as compared to the year 2016.

The bank's credit functioning has improved with the shedding of NPAs, regular performance monitoring, follow up on the measures taken for sale of collaterals as well as by increasing the credit portfolio in a big way. The bank is also projecting to increase its loan portfolio in the coming years at an average compound annual growth rate of 20% to increase profitability. Azizi Bank is endeavoring to tie up with several multi-lateral agencies for capacity building, guarantee participation in lending and onward lending processes. The bank will carry the objective of increased lending activity in priority sectors of the economy i.e. Agriculture and SME. We also recognize that our lending practices play an influential role in shaping the behaviors of our customers towards sustainable development. Improvement in the compliance regime is one of the core focus areas of management. The bank

has invested in the upgradation of the technology for Anti Money Laundering (AML) Software. The Financial Action Task Force (FATF) inspection team lifted the restrictions from Afghanistan from being in the grey list to the white list effective as of June 2017, which is definitely a momentous and significant achievement in the history of the country. Azizi Bank was at the forefront of the inspection process and took the lead in convincing the FATF team.

Other noteworthy achievements in 2017 include:

- Opening of new Correspondent Banking NOSTRO relationship with Trans Kapital Bank, Russia, in USD, Euro and RUB. This has significantly multiplied our remittance business and helped retain our big clientele business. In the next financial year, we expect more NOSTRO relationships in order to ease our remittance business and forex transactions.
- Azizi Bank received several international accreditations from across the globe regarding its persistent efforts to improve customer convenience and digital innovation. The bank has also been highly proactive in the areas of Corporate Social Responsibility by supporting various strata of society.
- Azizi Bank's social media acceptance is the highest in the country which in itself portrays its social acceptability amongst the customer group.
- The fleet of ATMs is 58 as on December 31, 2017 and is projected to increase to 110 as of the end of FY 2018.
- Owing to the decrease in the capital market investment opportunity in Afghanistan, Azizi Bank has taken up the route of Foreign Investment in Sovereign Bonds for gainful deployment of funds. Bonds issued by Corporates are also being considered for more income earning opportunities.

Azizi Bank has introduced several initiatives for capacity building amongst the staff through in-

house and external trainings, as well as overseas trainings. We believe that internal customers are our biggest assets. The relentless efforts being put in by the 1600+ team members of the bank are not only providing banking services to a clientele base of over one million and growing base but also ensure optimum customer service. The bank has a large contingent of female staff and their numbers are growing. Azizi Bank believes in gender equality and provides lots of opportunities for women to come forward and join the mainstream.

We expect 2018 to continue to be challenging. Nevertheless, our core business should be stable as we have the resilience and commitment to overcome challenges and perform even better than we did in 2017. Azizi Bank is not only ready for the future; we are helping to create it.

Azizi Bank will continue to invest in its business, people and brand to deliver customer-centric experiences and to help those we serve feel more confident about their banking needs.

We are grateful for your confidence in Azizi Bank's future, and in our commitment to bringing our purpose to life each and every day. I thank everyone involved for their continuous commitment, and I thank our major shareholder, Mr. Azizi, for having confidence in the individuals who help drive the success of Azizi Bank.

On behalf of the Management Board,



Mohammad Salem Omaid
*President and Chief Executive Officer,
Chairman of Management Board*

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About Us

13% of the bank's work force is female, thus the bank plays an active role in the empowerment and emancipation of women.

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 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 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 1600 employees. 13% 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.

In a span of more than eleven years, Azizi Bank has become a market leader in the country in terms of customer base, absolute business, percentage share and network.

Azizi Bank is now converting its 100% subsidiary bank, Bakhtar Bank into a full-fledged Islamic Bank, thereby establishing the first Islamic Bank in Afghanistan, a country where more than 99% of the population is Muslim. 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 30 million.

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



Core Values

The bank considers the following as its core values:

A commitment to institutional goals

A commitment to achieving institutional goals by delivering quality services to all of its stakeholders

A commitment to goals of economic development

A commitment to goals of financial inclusion

A commitment to best services with a dedicated customer-centric approach

A commitment to continuous improvement by leveraging on technologically oriented products and services

A commitment to bring banking to the doorsteps of all

A commitment to delivering the best banking services to all segments of customers: corporate, retail and otherwise

A commitment to monetizing salvaged assets which would release locked up money as there had previously been a lot of write-offs as per the central bank directives

A commitment to nurturing talent, and increasing staff capabilities through continuous professional education and capacity building

A commitment to building a strong compliance culture across the organization with trainings for on-field staff, monitoring and adherence to DAB guidelines as well as to international best practices

A commitment to building an exhaustive gamut of internal controls to control every facet of operational activity for better regulations and reconciliation

A commitment to promoting growth in non-fund businesses through participation in the bank guarantee participation process where significant opportunities lie as investments are made by multi-lateral funding agencies as well as the Government in areas of infrastructure and health care.

A commitment to providing the highest standards of corporate governance through the workings of various internal committees aimed at best procedures and governance

The outreach of 75 branches and ten extension counters has been complimented with a crop of 58 ATMs, Cash deposit machines, POS devices with agency based banking facilities aimed at bringing more and more people under the banking fold.

Achievements in Compliance

- A dedicated committee was constituted to oversee and manage compliance functions of the bank
- Automated AML software was introduced and integrated with core banking software
- The compliance department was restructured according to International standards
- Various new policies were introduced including the anti-bribery and corruption policy and anti-fraud policy to name a few

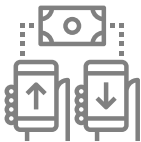
Products



Master Credit / Debit /
Prepaid Card, PoS Terminals



ATMs: Free ATM Cards to
withdraw cash 24x7



M-Paisa-Powered by Roshan:
Mobile Money Transfer



Savings Account in AFN & USD and
Current Account in AFN, USD, EUR
& GBP



Term Deposits in AFN & USD

Services

CBS: Core Banking Solution
Any Branch Banking

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

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

Fast and Easy transfer of funds
through Western Union Money
Transfer

Money Exchange Treasury
Services

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

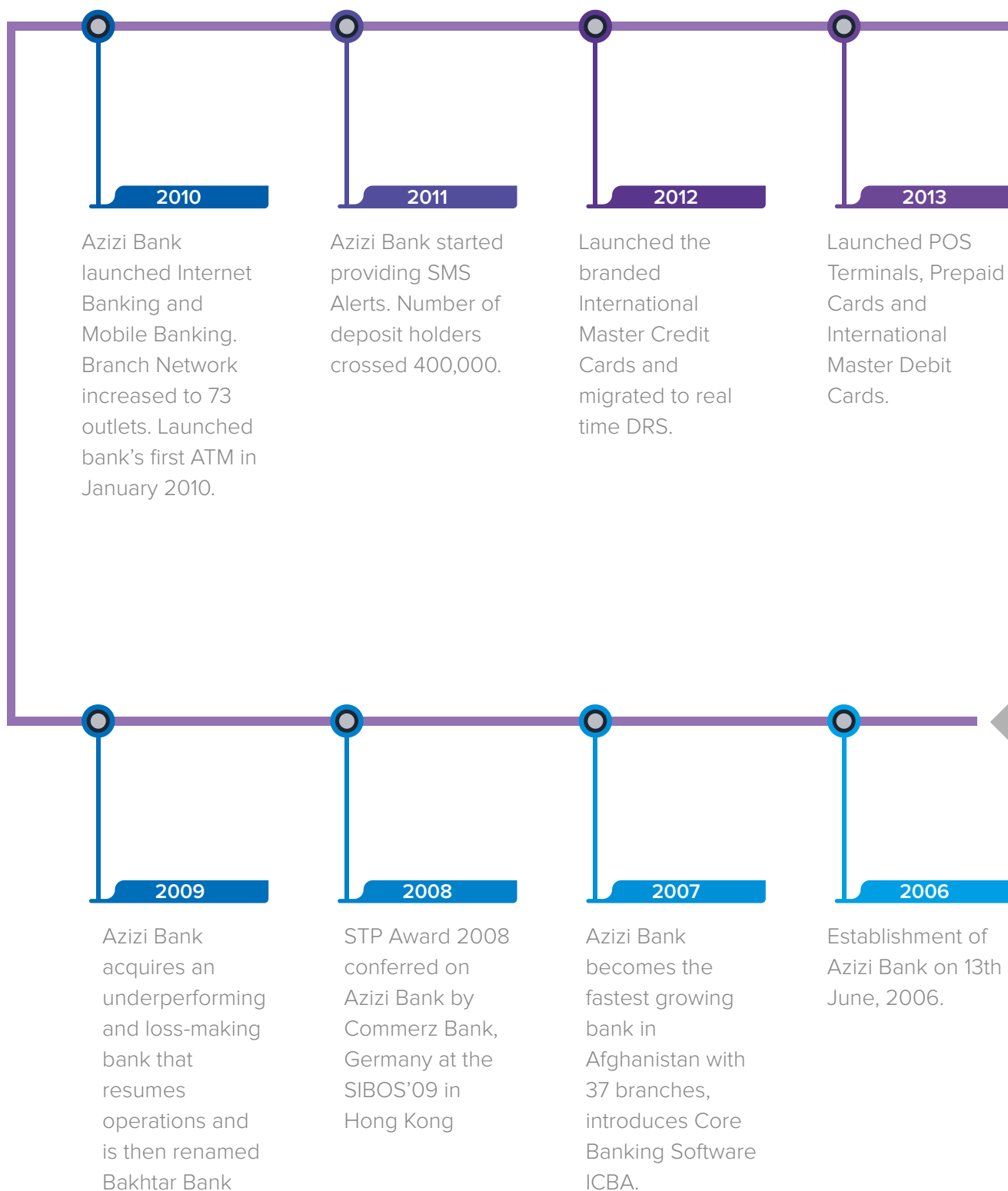
Push SMS Facility: alert for each
transaction

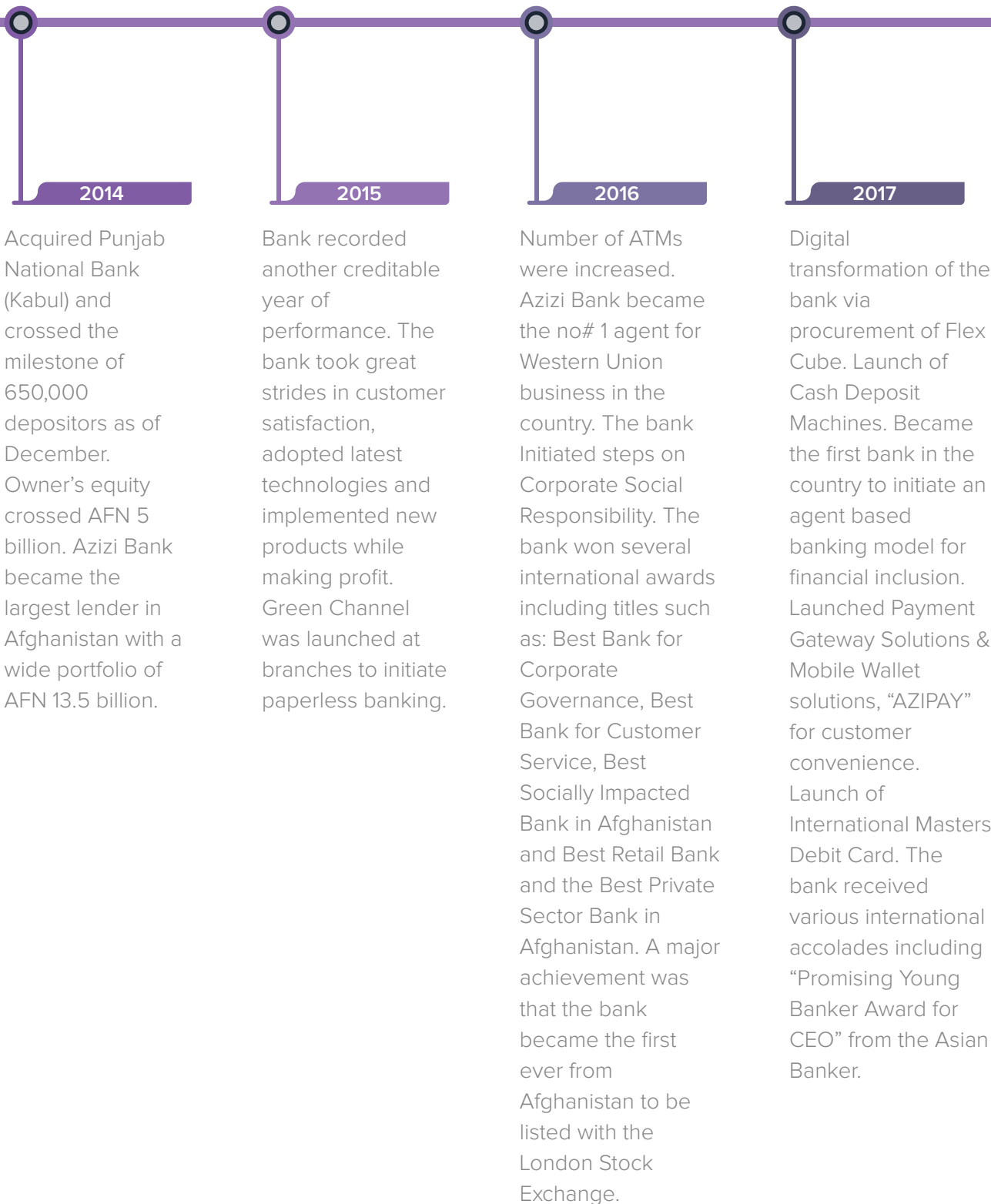
Biometric System: Finger Print
Recognition for enhanced
security

Brishna Electricity Bill Collection



Key Milestones 2006-2017





Azizi Bank Shareholders' Profile



Mr. Mirwais Azizi

Mr. Mirwais Azizi is 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 graduated from the National University of Kabul, and has specialized in Law.



Mr. Humayuon Azizi Hotak

Mr. Humayon Azizi is a leading businessman in Afghanistan who 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 economy 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 circumstance.



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 CEO of Azizi Investments. 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.



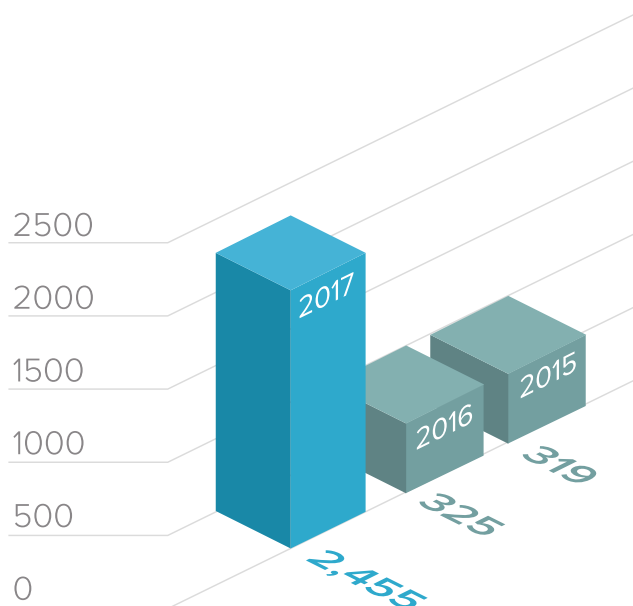
Mr. Abdul Aziz Khan

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. Further, he is a good advisor and a great source of information to the business community.

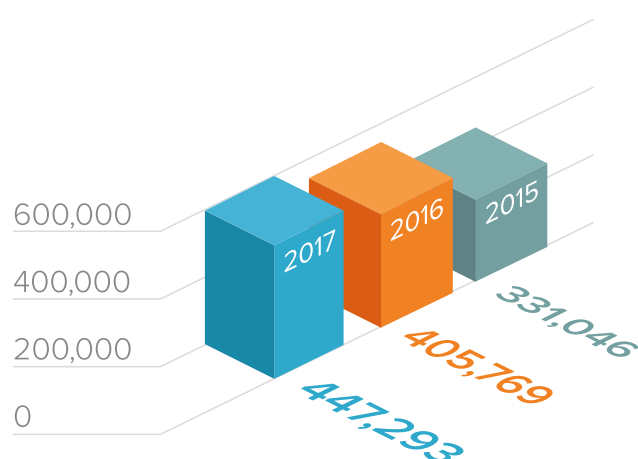
Key Financial Data 2015-2017

(USD '000)

	2017	2016	2015	% change over 2015
Total Assets	536,170	493,720	417,501	28%
Loans to Customers (Gross)	123,258	133,067	190,985	-35%
Total Investments	24,953	49,637	28,045	-11%
Deposits	447,293	405,769	331,046	35%
Shareholder's Fund	83,501	84,684	82,458	1%
Total Income	35,734	35,336	34,234	4%
Net Profit	2,455	325	319	670%
Credit to Deposit (CD) Ratio	28%	32%	60%	-53%
Net Interest Margin (NIM)	1.60%	4.06%	2.52%	-37%
Yield on Advances	10%	15%	12.12%	-17%
Capital Adequacy Ratio (CAR)	22%	30%	20%	10%



Net Profit in USD '000



Deposits in USD '000

Corporate Governance

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in 2017

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Board of Management

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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 five distinguished professionals, of whom four 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 auditing in India and Afghanistan at very high positions. One newly inducted 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 meetings of the BoS are held at regular intervals every month. The BoS, while approving policies also through 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

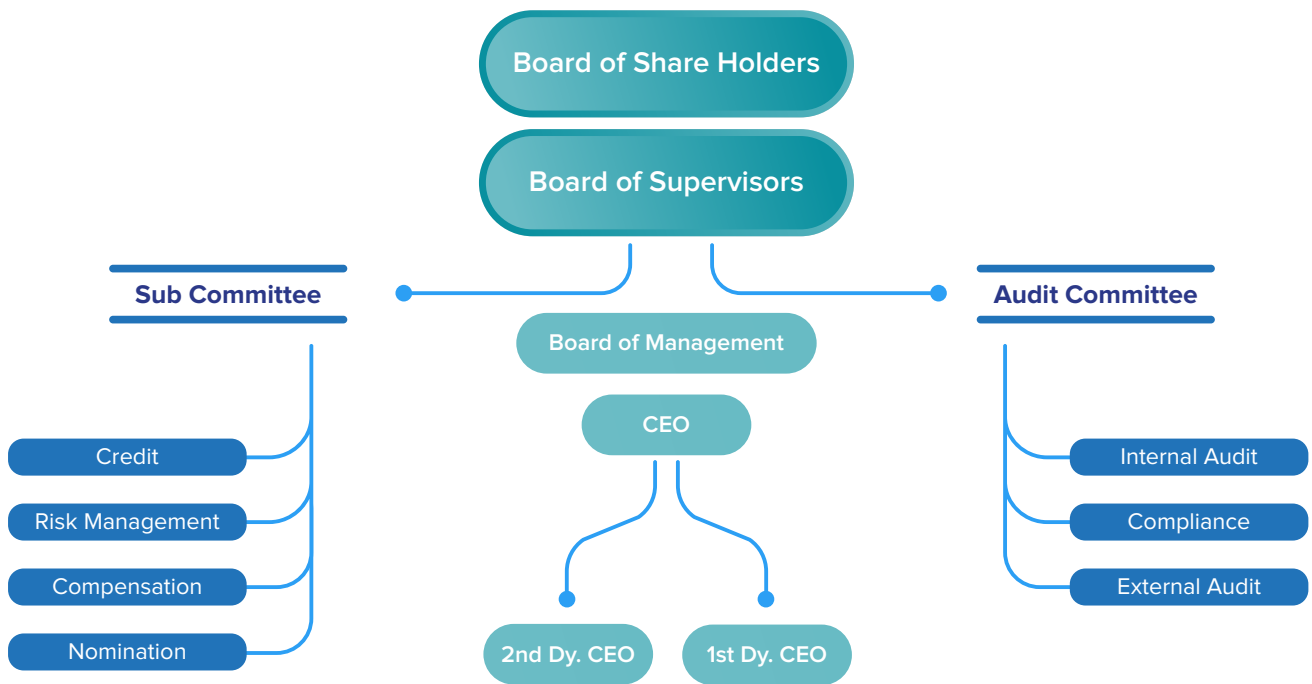
member is a Professor at the American University in Afghanistan. The other three members are Chartered Accountants with good experience and have worked or are working with top 4 Audit firms of the world and /or auditing the UN/World Bank projects. One member is also a prominent systems auditor. Regular meetings of the Audit Committee are held and all internal 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 at the Bank comprises of professional members duly approved by the regulator- Da Afghanistan Bank. The members are a perfect blend of experience and youth. 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 experience in India and abroad 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



Policies

The main characteristics of Azizi Bank’s corporate governance policy includes

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 stake holders.

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 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 corporate governance 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. This framework basically includes the following:

- General Meeting of Shareholders
- Board of Supervisors
- Board of Management
- Audit Committee

However, to improve the quality of decision makings, the bank has also constituted the following committees for detailed analysis of the issues involved by the technical experts:

- Asset Liability Management Committee
- Risk Management Committee
- Investment Committee
- Credit Committee
- HR Committee

Pattern of Shareholders

Beneficial owners:

Mr. Merwais Azizi - holding 45% of the shares.

Other beneficial owner:

Mr. Humayon Azizi - holding 40% of the shares.

Other shareholders:

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

Other shareholders:

Mr. Farhad Azizi - holding 10% 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.

Risk Management and Internal Control System

Azizi Bank's risk management framework has evolved significantly over the years, following the growth of the Bank's business. At present, the risk management function is entrusted to safeguard the Bank through ongoing monitoring that:

- Capital is sufficient to support risk taking activities.
- Individuals who take or manage risks within the Bank clearly understand them and are held accountable for the risks assumed.
- The Bank's risk exposures are within the limits established by the Board of Supervisors / Regulator.
- Risk decisions are aligned to the Bank's business strategy and objectives set by the Board of Supervisors.
- Adequate or reasonable return is received for the risks taken.

The Bank has put in place a comprehensive risk management system, aligned with the requirements set forth by Da Afghanistan Bank, and following international good practices of the banking industry. The scope of ongoing monitoring of risks covers credit and investment risk, compliance, market, business and financial risk, and operational risk, with an additional focus on IT security.

Risk management is considered a joint effort of all Bank Employees, and is effected through a system of 1st level controls implemented by all units of the Bank, 2nd level controls carried out by Risk and Compliance Departments, and 3rd level controls executed by Internal Audit Department. Azizi Bank's system for identification, measurement, monitoring and control of risks to

Risk Management and Internal Control System

which the Bank is exposed starts with ongoing monitoring of the Bank’s performance and an internal reporting system, encompassing all Bank units and branches. Corrective and/or risk mitigating decisions are taken in meetings of committees established on the level of the Board of Management and the Board of Supervisors. The Banks has established Risk Management, Compliance and Internal Audit Departments led by Chief Officers, who report directly to the Board of Supervisors. The control functions are independent of the business units and are not involved in revenue generation.

Risk Management and Audit Committees, established with participation of independent Members of the Board of Supervisors, assist the Board in their oversight responsibility of the robustness of the internal risk governance framework, including anti-money laundering and know your customer matters.

During the year 2017, risk management activities focused on the quality of loans portfolio and

operational risk, both risks considered key to the long-term success of the Bank. Security in Afghanistan has remained a constant concern, and its importance has been recognized in the Bank’s risk profile. The headcount and scope of responsibilities of the Compliance function has been strengthened significantly to ensure the Bank can provide support to Afghan businesses in their cross-border financial flows.

Strategy for the upcoming year entails further mastering of the Bank’s risk performance in the highlighted key domains, additionally taking into account the efficiency of country-wide operations of Azizi Bank, who manages one of the largest networks of branches and ATMs in Afghanistan. The Bank is also planning additional measures to ensure the safety of its resources, as an ongoing concern. The Bank’s risk profile and risk management framework will be periodically revisited to ensure coverage for any newly implemented products and services, both digital and conventional.

Attendance for BoS Meetings held in 2017

Participant	05 Mar	29 Mar	21 Apr	20 Jul	28 Aug	02 Oct	03 Oct	20 Nov	19 Dec
<i>Chairman</i>									
Mr. Sundaram Prabhu	○	●	○	○	○	●	●	●	●
<i>Members</i>									
Mr. Mirwais Azizi	●	●	●	●	●	●	●	●	●
Mr. P. K. Monga	●	●	●	○	○	●	●	●	○
Dr. Dale W. Larson	●	●	●	○	○	●	●	○	○
Mr. Azarakhsh Hafizi	●	●	●	●	●	●	●	●	●

● Present ○ Via Skype ● Absent

Attendance for Audit Committee Meetings held in 2017

Participant	Meeting Number					
	29th 29 Mar	30th 21 May	31st 5 Aug	32nd 03 Oct	33rd 20 Nov	34th 19 Dec
<i>Chairman</i>						
Mr. Sundaram Prabhu	●	○	●	●	●	●
<i>Members</i>						
Dr. Dale W. Larson	●	●	●	●	○	○
Mr. Dipak Sah	●	●	●	●	●	●
Mr. Malik Hamid Jamal	●	●	●	○	●	○
Mr. S. S. N. Badya	○	●	●	○	○	●

● Present ○ Via Skype ● on Leave

Attendance for BoM Meetings held in 2017

Participant	19 Feb	02 Apr	30 Apr	14 May	18 May	17 Aug	19 Nov	16 Dec
<i>(CEO/President & Chairman of the meeting)</i>								
Mr. M. Salem Omaid	●	●	●	●	●	●	●	●
<i>Members</i>								
Mr. Md. Osman Nowrozi	●	●	●	●	●	●	●	●
Mr. Samrat Dutta	●	●	●	●	●	●	●	●
Mr. Sreekumar Vamadevan	●	●	●	●	●	●	●	●
Mr. Kumar Ghosh	●	●	●	●	●	●	●	●
Mr. Veeranna Naidu							●	●
<i>Acting CFO</i>								
Mr. Ahmad Fawad Qaderi			●	●	●	●		

● Present ○ Via Skype ● Absent ● On Leave

Board of Supervisors



Mr. Sundaram Prabhu

Member & Chairman of the Board

Mr. Sundaram Prabhu is member of the Board of Supervisors of Azizi Bank since October, 2015, and Chairman of the Board of Supervisors since January, 2016.

Mr. Prabhu is a qualified and practicing Certified Internal Auditor (CIA), Certified Information System Auditor (CISA) and is certified in Risk and Information Control (CRISC). He has post graduate qualifications in Defense and Strategic Studies, Cyber Law, Patent Law, Alternative Dispute Resolution and SAP Financial Accounting and Control.

Mr. Prabhu functioned as an Indian Audit Accounts Service (IAAS) Officer beginning in 1984 and superannuated in 2013 as Principal Accountant General of Karnataka State, India. He has since worked as expert consultant and international audit advisor in various capacities within India, in the Islamic Republic of Afghanistan and for projects of the World Bank, among others.



Mr. P. K. Monga

Member

Mr. P. K. Monga is 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 team leader of audit assignments for the Audit of Indian High Commission at Kuala Lumpur (Malaysia) and Dhaka (Bangladesh).



Mr. Mirwais Azizi

Director and Promoter

Mr. Mirwais Azizi is 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 graduated from the National University of Kabul, and has specialized in Law.



Mr. Azarakhsh Hafizi

Member

Mr. Hafizi is a member of the Board of Supervisors of Azizi Bank since June 2006. He has a Master's Degree in Economics. He is president of the Central Council of the Afghanistan Peace Association in Europe and the Director of Peace Magazine. He has also served as Chairman of Afghanistan's International Chamber of Commerce and Industry (AICCI).



Dr. Dale W. Larson

Member

Dr. Larson holds a Ph.D. in Economics and has more than forty years of experience in teaching and research, team building, banking, public speaking, publishing, consulting, competitive intelligence and management. He is a member of the Board of Supervisors of Azizi Bank since October, 2015.

Board of Management



Mr. Mohammad Salem Omaid

President and Chief Executive Officer

Mr. Mohammad Salem Omaid has been associated with the bank since 2006 and has been part of the bank's twelve years of illustrious growth. He has a Doctorate in Financial Management from a leading Indian University and is also a post graduate and has a MBA with specialization in Banking, Risk Management and Finance.

Mr. Omaid served the bank in various categories and possesses extensive experience in areas of strategic policy, financial regulations, forex management and banking operations. He has been recognized by the Government of Afghanistan and by international platforms at different occasions for his persistent efforts in developing banking structure within the country. Major accolades include: his naming of "Promising Young Banker" by the Asian Banker, Singapore, the Queen Victorian Badge by the Europe Business Assembly, United Kingdom and title of "Best Private Banking CEO, Afghanistan" by the South Asian Partnership Summit.

Mr. Omaid also holds portfolios and memberships with the Afghanistan Banking Association (ABA), Thames Valley Chamber of Commerce, United Kingdom, World Confederation of Business, United States and the International Chamber of Commerce. Mr. Omaid is presently the Chairman of the Afghanistan Banking Association.



Mr. Kumar Ghosh

Chief Finance Officer

Mr. Kumar Ghosh joined Azizi Bank as CFO in 2014.

He has a CA, CS, ICWA, CAIIB and over 31 years of experience in Finance and Accounting, Corporate Accounts, Trade Finance, Corporate Credit Financing, Operational Banking, Investment Banking & Retail Banking and Risk Management. He has been associated with leading banks in India and also international banks in different capacities including Head of Credit, Chief Finance Officer, Head of Treasury, Merchant Banking Division, Head of Risk Management and Chief Executive Officer with a leading Public Sector bank in India and leading commercial bank in Africa. He is also holding the position of Secretary to the Board.

He is also visiting faculty with the American University of Afghanistan.



Mr. G. Veeranna Naidu

Chief Credit Officer

Mr. G. Veeranna Naidu has over three decades of national and international banking experience in Credit Development, Management & follow up matters. Mr. Naidu guided national and international banks in corresponding policies, procedures, assessments and remediation plans to ensure compliance with the regulators.

Mr. Naidu exhibited strengths in working for three start up banks in Djibouti, East Africa. He was instrumental in drafting credit policy for the Commercial Bank of Djibouti (Dubai based group). He also worked for Exim Bank Djibouti (Exim-Tanzania Banking Group) as Assistant General Manager.



Mr. Sreekumar Vamadevan

Chief Operating Officer

Mr. Sreekumar Vamadevan is Chief Operating Officer of Azizi Bank since January 2017.

Mr. Sreekumar Vamadevan has an MBA in Banking & Finance from the University of Wales in the UK and a Bachelor's Degree in Agriculture from Kerala Agricultural University in India. Prior to joining Azizi Bank, Mr. Vamadevan had held various positions in the banking and health sectors. Starting his career with Canara Bank as an Assistant Manager in 1994 (one of the largest Public Sector Banks in India), he chose to leave the bank in 2008 while serving as the Head of Management Information, Planning & Development and Profit Planning Section.

Later in 2009, he joined as the Head of Region and Chief of Operations of Exim Bank (Tanzania) Ltd having administrative, business and operational control over the entire up-country branches of the bank.



Mr. Samrat Dutta

Chief Marketing Officer & Head of Corporate Communications

Mr. Samrat Dutta was appointed Chief Operating Officer in October 2015. He possesses extensive experience of more than 20 years in banking and financial management, having worked for leading banks in India, such Yes Bank, HDFC Bank, ICICI Bank & American Express Bank in various capacities.

Mr. Dutta carries immense experience in the fields of retail branch banking, corporate banking, Institutional banking, government business, relationship management and advisory, international banking, insurance and corporate advisory. In August 2016, Mr. Dutta was conferred with the 100 most influential market leaders by the World HRD Congress. He was chosen for this award amongst 600 nominations from 60 countries.

He has been given the title of Chief Marketing Officer & Head of Corporate Communications for Azizi Bank since January 2016.

Other Senior Management Officials



Mr. Mohammad Osman Nowrozi

Deputy Chief Executive Officer

Mr. Mohammad Osman Nowrozi is a qualified and seasoned banker with more than a decade of experience with Azizi Bank since its inception in 2006. He is an MBA, holding a Bachelor's Degree too in Business with specialization in Finance. He is currently pursuing his PHD in Management from one of the prestigious Universities in India.

In 2008 Mr. Nowrozi was approved by the Central bank of Afghanistan as a Chief Compliance Officer with Azizi Bank. Since then, he has been looking after all matters pertaining to Compliance, AML & KYC and was actively involved in extending training and resource building to the bank in the various relevant areas.

Ever since from August 2016, he was promoted to the position of Vice President and Deputy Chief Executive Officer, he has been focused on building up the areas under Operations, Credit, Treasury, Marketing, Administration, Finance, Compliance and HR of the Bank. To add to this, he has been consistently adding values to the organization through active involvement in areas of Corporate Management, Governance, Organizational Culture and Strategic Planning.



Mr. Abdul Fatah Karimi

Deputy Chief Executive Officer

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. Mohammad Munir Khan joined Azizi Bank on 30th. November, 2014 as Chief Internal Auditor.

Mr. Khan has a MBA (Banking & Finance), MA (English) & LLB with Diploma in Islamic Banking and Insurance from the Institute of Islamic Banking and Insurance, London. He is a Certified Internal Control Auditor (CICA) from the Institute of Internal Control Auditors (IICA), USA.

Mr. Khan has worked as Auditor and Team Leader for branches & Management Audit of different departments including international audit for more than 20 years at one of the largest Banks (Habib Bank Ltd.) of Pakistan.



Ms. Ewa Janikowska

Chief Risk Officer

Ms. Ewa Janikowska is a banker with over 20 years of experience in executive and advisory roles, focusing on operations, 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. Ms. Janikowska holds a 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 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.



Mr. Santhosh Sebastian

Chief Compliance Officer

Mr. Santhosh Sebastian is a Certified Anti-Money Laundering Specialist (CAMS) from ACAMS United States, and a Certified Financial Crime Specialist (CFCS) from ACFCS.

He has an MBA (International Business) from Edith Cowan University Australia, LLB (Specialization in Corporate Law, Cyber-Crimes & Cyber-Security) along with a Bachelor's degree in Economics.

Mr. Sebastian has worked as senior legal consultant (Regulatory Compliance) in India and the UAE for more than nine years. He has also worked with Barclays Bank PLC in Corporate Banking Department. Mr. Sebastian brings with him rich experience in legal, regulatory compliance and knowledge of International AML laws and best practices in the industry.

He joined Azizi Bank as Chief Compliance Officer on 15th April 2017.



Mr. Samit Kumar Bhatnagar

Chief Information Officer

Mr. Samit Kumar Bhatnagar has a MBA (Finance), B.Com, and is a Certified Associate of the Indian Institute of Bankers (CAIIB). He had previously worked with Canara Bank, India, Central Bank of India, IDBI Intec Ltd, TCG Software Services and FIS in the Indian IT industry. He specializes in Alternate Banking Channels including ATM, Internet/Mobile banking, Card Management and E-Commerce. He also has experience in core banking implementation, retail banking operations and financial inclusion initiatives.

Major projects have included migration of 1600+ ATMs, EMV (chip) card issuance, Mobile Banking implementation and Afghanistan Payment Systems (APS) onboarding. In his previous role as Head of Delivery Channels for Azizi Bank (2014-2016) he set up the ATM operations team, systems and procedures related to ATM and card management. He also launched the Insta-Cards, Green Channel, procured MasterCard membership and implemented many other innovative solutions in Afghanistan.



Mr. Bhushan Chougule

Head of Alternate Delivery Channels

Mr. Bhushan Chougule has a B.Com, BBA, DME (Diploma in Mechanical Engineering) and ITIL® certification. He has previous experience working with IDBI Intech Ltd, NEC India Ltd, NCR Corporation, Diebold India, and Vortex Engineering Ltd.

Mr. Chougule specializes in alternate banking channels including ATM, Internet/Mobile Banking, Card Management, Biometric Implementation and E-Commerce. He is involved in Switch Migration of banks. Mr. Chougule's major projects have included installation of 1000+ ATMs under MOF (Ministry of Finance, GOI) project for IDBI Bank, EMV (Chip) Card issuance, Mobile Banking implementation and Financial Inclusion initiatives.

Mr. Chougule has worked with Azizi Bank since September 2016 as Head of Delivery Channels.

Financial Synopsis



Azizi Bank's net profits

Independent Auditors' Report

Statement Of Financial Position as at 31.12.2017

Statement Of Comprehensive Income for the year ended 31.12.2017

Statement Of Changes In Equity for the year ended 31.12.2017

Statement Of Cash Flows for the year ended 31.12.2017

Notes to the Financial Statements for the year ended 31.12.2017



INDEPENDENT AUDITORS' REPORT

To the shareholders of Azizi Bank

Opinion

We have audited the financial statements of Azizi Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), the Law of Banking in Afghanistan and directives issued by the Central Bank of Afghanistan (DAB).

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Afghanistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined one key audit matter to communicate in our report:

1. As a consequence of in principle permission secured by the 100% subsidiary i.e. Bakhtar Bank of the bank for conversion to full-fledged Islamic bank on November 22, 2015, subsidiary had started the process of conversion as per letter no. 6786/6808 dated 26/10/1396 whereby the certain requirements were placed to be completed by Da Afghanistan Bank. Subsequently, subsidiary bank had submitted the report on completion of the pre-requisites which could be finalized on interim basis to Da Afghanistan Bank on February 14, 2018. Currently subsidiary bank is in the phase of system migration and license will be secured during 2018 after completion of all post-facto items required in the above mentioned letter, in the name of "Islamic Bank of Afghanistan".

CATS



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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and with the requirements of the Law of Banking in Afghanistan and directives issued by the Central Bank of Afghanistan (DAB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility

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

For the matters communicated with those charged with governance, we determine the matter that was of the most significant in the audit of the financial statements of the current period and is, therefore, the key audit matter. We describe these matters in our auditor's report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Crowe Horwath Afghanistan, Auditors and Business Advisors (A member firm of Crowe Horwath International) website at: www.crowehorwath.com. This description forms part of our auditor's report.


Crowe Horwath Afghanistan
Auditors and Business Advisors
Kabul



AZIZI BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

USD '000'		AFN '000'	
2017	2016	2017	2016
ASSETS			
284,386	257,735	Cash and cash equivalents 5	19,858,653 17,224,439
112,451	109,623	Loans and advances to customers 6	7,852,453 7,326,122
54,753	49,637	Investments 7	3,823,370 3,317,251
24,703	23,567	Investment in subsidiary 8	1,725,000 1,575,000
250	250	Investment in APS 9	17,458 16,708
14,546	12,208	Property and equipment 10	1,015,759 815,869
571	678	Intangible assets 11	39,886 45,340
4,202	4,361	Non-current assets held for sale 12	293,451 291,423
40,308	35,661	Other assets 13	2,814,706 2,383,196
536,170	493,720	Total assets	37,440,735 32,995,348
EQUITY AND LIABILITIES			
Liabilities			
2,690	53,535	Deposits from banks 14	187,837 3,577,744
444,603	352,234	Deposits from customers 15	31,046,591 23,539,800
-	-	Current tax liability 16	- -
5,376	3,267	Other liabilities 17	375,424 218,380
452,669	409,036	Total liabilities	31,609,852 27,335,924
Equity			
76,864	80,314	Share capital 18	5,367,400 5,367,400
6,637	4,370	Retained earning	463,483 292,024
83,501	84,684	Total equity	5,830,883 5,659,424
536,170	493,720	Total equity and liabilities	37,440,735 32,995,348

Contingencies and commitments 25

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, 2017

USD '000'			AFN '000'		
2017	2016		2017	2016	
13,675	20,986	Interest income	19	954,922	1,402,526
(8,704)	(12,382)	Interest expense	19	(607,829)	(827,506)
4,971	8,604	Net interest income		347,093	575,020
19,374	13,065	Fee and commission income	20	1,352,906	873,135
(460)	(1,250)	Fee and commission expense	20	(32,089)	(83,510)
18,914	11,815	Net fee and commission income		1,320,817	789,625
23,885	20,419	Operating income		1,667,910	1,364,645
(83)	(2,154)	Net impairment (loss) /gain on loans and advances	6.7	(5,761)	(143,948)
(2,468)	-	Provision against time deposits, accrued interest, account receivable and non-funded		(172,328)	-
(7,424)	(6,826)	Employee benefit expenses	21	(518,399)	(456,160)
(431)	(869)	Depreciation on fixed assets	10	(30,126)	(58,090)
(189)	(123)	Amortization of intangible assets	11	(13,188)	(8,245)
(1,602)	(1,657)	Operating lease expenses		(111,837)	(110,763)
(11,305)	(9,668)	Other expenses	22	(789,425)	(646,139)
(23,502)	(21,298)	Operating expenses		(1,641,064)	(1,423,345)
1,499	635	Foreign Exchange Gain		104,673	42,440
17	36	Gain on disposal of property and equipment		1,216	2,394
1,169	614	Other operating income		81,589	41,015
2,685	1,285	Non-operating income		187,478	85,849
3,069	406	Profit before taxation		214,324	27,149
(614)	(81)	Taxation	23	(42,865)	(5,430)
2,455	325	Profit for the year		171,459	21,719
-	-	Other comprehensive income		-	-
2,455	325	Total comprehensive income for the year		171,459	21,719

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, 2017

	USD '000'		AFN '000'		
Share Capital	Retained Earnings	Total	Share Capital	Retained Earnings	Total
76,864	4,182	81,046	5,367,400	292,024	5,659,424
-	2,455	2,455		171,459	171,459
76,864	6,637	83,501	5,367,400	463,483	5,830,883
80,314	4,045	84,359	5,367,400	270,305	5,637,705
-	325	325		21,719	21,719
80,314	4,370	84,684	5,367,400	292,024	5,659,424

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, 2017

USD '000'		AFN '000'	
2017	2016	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
3,069	406	214,324	27,149
Profit before taxation			
Adjustments for:			
(17)	(36)	(1,216)	(2,394)
Gain on disposal of property and equipment			
431	869	30,126	58,090
Depreciation 10			
189	123	13,188	8,245
Amortization 11			
83	2,153	5,761	143,948
Net impairment (reversal)/loss on loans and advances 6.7			
3,755	3,516	262,183	235,038
Increase / decrease in operating assets and liabilities:			
(7,620)	58,794	13,188	8,245
Loans and advances to customers			
(6,874)	(10,366)	(474,374)	(677,622)
Other assets			
(48,545)	(44,649)	(3,389,907)	(2,983,915)
Deposits from banks			
107,501	111,743	7,506,791	7,467,817
Deposits from customers			
2,249	(820)	157,044	(54,821)
Other liabilities			
50,546	118,217	3,529,645	7,915,698
Net cash used in / generated from investing activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
(7,248)	(20,946)	(506,119)	(1,399,826)
Investment made / investments divested			
(3,294)	(2,116)	(230,016)	(141,421)
Purchase of property and equipment			
(29)	-	(2,028)	(291,423)
Non-current assets held for sale			
(111)	(289)	(7,734)	(19,332)
Purchase of intangible assets			
18	34	1,216	2,394
Proceeds from sale of property and equipment			
(2,159)	(2,810)	(150,750)	(49,615)
Investment in subsidiary and APS			
(12,823)	(26,127)	(895,431)	(1,899,223)
Net cash used in / generated from investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES			
-	-	-	-
Proceeds from issuance of shares			
-	-	-	-
Net cash generated from financing activities			
37,723	90,027	2,634,214	6,016,475
Net increase in cash and cash equivalents			
246,662	167,709	17,224,439	11,207,964
Cash and cash equivalents at beginning of the year			
284,386	257,735	19,858,653	17,224,439
Cash and cash equivalents at the end of the year			

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, 2017

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 75 branches /10 extension counters (2016 :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

- Amendment to IAS-7 “Cash flow statement” with effective date 01 January 2017
- Amendment to IAS-12 “Income taxes” with effective date 01 January 2017
- Amendment to IFRS-12 “Disclosure of interest in other entities” with effective date 01 January 2017

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

- Amendment to IFRS-4 “Insurance Contracts” with effective date 01 January 2018
- Amendment to IFRS-9 “Financial Instruments” with effective date 01 January 2018
- Amendment to IFRS-15 “Revenue from contracts with customers” with effective date 01 January 2018
- Amendment to IAS-40 “Investment Property” with effective date 01 January 2018
- Amendment to IAS-02 “Share based payments” with effective date 01 January 2018
- Amendment to IFRS-16 “Leases” with effective date 01 January 2019
- Amendment to IFRS-17 “Insurance Contracts” with effective date 01 January 2021
- Amendment to IFRIC-22 “Foreign Currency transaction and advance consideration” with effective date 01 January 2018
- Amendment to IFRIC-23 “Uncertainty over income tax treatments ” with effective date 01 January 2019

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 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.

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 2017 is 69.83(2016: 66.83) per US Dollar has been used

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

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.

The exchange rate for following currencies against AFN were:

USD	Euro	Sterling
69.83	83.25	93.55

As at 31st December 2017

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.

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

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

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

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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.

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.

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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.

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.

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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 Schedule Amended 2015. 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 481 days for principal or interest payments are also classified as Loss as per Asset Classification and Provisioning Regulations issued in the month of October 2017. 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

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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.

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.

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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.

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

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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 with in 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.

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		2017	2016
5	CASH AND CASH EQUIVALENTS		
	Cash in hand	19,858,653	5,350,435
	Remittances in transit	687,397	-
	Balances with banks:	3,823,370	
	Balances with Da Afghanistan Bank	11,128,589	5,467,231
	Balances with other banks	3,451,549	6,406,773
		14,580,138	11,874,004
		19,858,653	17,224,439
5.1	Cash in hand		
	Local currency	1,609,829	2,122,523
	Foreign currency	2,981,289	3,227,912
		4,591,118	5,350,435
5.2	Remittances in transit		
	Remittances in transit - others	687,397	-
		687,397	-
5.3	Balances with other banks		
	Western Union International Bank GmbH	142,636	76,696
	Transkapital - Russia	559,432	-
	Nurol Bank - Turkey	442	-
	HDFC Bank Limited - India	29,369	11,972
	Bank of India - India	16,046	11,196
	Punjab National Bank - United Kingdom	393	5,109
	Aktif Bank - Turkey	-	12,670
	CSC Bank - Lebanon	83,292	55,304
	Yinzhou Bank - China	1,945	1,861
	Pashtany Bank - Afghanistan	1,848	8,994
	Banca Popolare-Italy	816,349	796,258
	Habib Bank- Kabul	-	23,838
	Punjab National Bank - India	188	180
	BMCE Bank International- Spain	531,367	35,609
	Axis Bank- Germany	2,097	380,759
	Bank Mili- Afghanistan	361,355	-
	Bakhtar Bank - subsidiary	904,789	4,986,327
		3,451,549	6,406,773

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

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6. LOANS AND ADVANCES TO CUSTOMERS	Note	AFN '000'	
		2017	2016
Loans and advances to customers at amortized cost	6.1	7,852,453	7,326,122

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

6.1	Note	AFN '000'			AFN '000'		
		Gross Amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		31 December 2017			31 December 2016		
Running finances	6.2	6,882,981	(385,595)	6,497,386	6,433,794	(1,108,164)	5,325,631
Terms loans	6.3	1,595,897	(362,867)	1,233,030	1,525,918	(410,925)	1,114,994
Residential mortgage loans	6.4	107,283	(5,364)	101,919	922,745	(46,137)	876,608
Other public consumer loans	6.5	20,935	(817)	20,118	10,379	(1,489)	8,890
		8,607,096	(754,643)	7,852,453	8,892,837	(1,566,715)	7,326,122

6.2 Running finance facilities are extended to retail customers for a maximum period of one year (2016: 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 (2016: 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 (2016: one year to five years). These facilities carry interest ranging from 12% to 20% per annum (2016: 12% to 20% per annum). The facilities are secured against immovable properties, stock and receivables of the borrowers and personal guarantees.

6.4 Residential mortgage loans are extended to individuals for purchase of residential units in three housing projects in Kabul, Afghanistan. These housing projects are being constructed by three companies under the umbrella of M/s Onyx Construction Limited. Under the terms of loans agreements signed by the bank with borrowers, the loans are disbursed to contractors and carrying interest ranging from 10% to 12% (2016: 10% to 12%) per annum for maximum of five years. These loans are secured against equitable mortgage over property under construction and personal guarantees. Subsequent to year end all these loans have been repaid.

6.5 Other public consumer loans are extended to staff and individuals for a period of six months to three years. These loans carry interest ranging from 6% to 12% per annum (2016: 6% to 12% per annum) and are secured against immovable properties and personal guarantees.

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		2017	2016
6.6	Maturity profile of the loans and advances to customers is as under:		
	Current portion	6,882,981	6,433,794
	Long term portion	1,724,115	2,459,042
		8,607,096	8,892,837
	Impairment allowance on loans and advances		
	Balance at beginning of year	1,566,715	1,658,399
	Allowance for the year	5,761	143,948
	Write off during the year	(855,383)	(180,941)
	Currency fluctuation	37,550	(54,691)
	Balance as at the end of the year	754,643	1,566,715
7	INVESTMENTS		
	Capital notes with DAB	7.1 1,798,300	2,340,013
	Placements in other banks	7.2 2,025,070	977,238
		3,823,370	3,317,251
7.1	Held to Maturity		
	Interest rate range		
	Capital notes - 28 days 0.200% per annum (2016: 3.533 % to 3.550%)	999,813	1,396,155
	Capital notes - 91 days 0.800%(2016: 4.33 % per annum)	798,486	593,504
	Capital notes - 364 days 0.00% (2016: 6.675%) per annum	-	350,354
		1,798,300	2,340,013
7.2	Placements in other Banks		
	Bank-e-Millie Afghanistan	7.2.1 -	349,999
	Punjab National Bank - Dubai	7.2.2 907,790	200,490
	Punjab National Bank - Hong Kong	7.2.3 69,830	402,148
	Punjab National Bank - London	7.2.4 -	24,601
	Banca Popolare - Turkey	7.2.5 209,490	-
	RBL - India	7.2.6 488,810	-
	Yes bank - India	7.2.7 349,150	-
		2,025,070	977,238

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- 7.2.1 These are short term time deposits and are carrying interest at 4% per annum.
- 7.2.2 These are short term time deposits and are carrying interest at 1.75% to 1.90% (2016: 1.5%) per annum.
- 7.2.3 These are short term time deposits and are carrying interest at 2.60% (2016: 1.05% to 2.6%) per annum.
- 7.2.4 These are short term time deposits and were carrying interest at 0% (2016: 1.75% 23-Jan-15 to 23-Jan-16 per annum.)
- 7.2.5 These are short term time deposits and are carrying interest at 1.55% (2016: 0%) per annum.
- 7.2.6 These are short term time deposits and are carrying interest at 1.80% to 2.00% (2016: 0%) per annum.
- 7.2.7 These are short term time deposits and are carrying interest at 1.65% (2016: 0%) per annum.

		AFN '000'	
		2017	2016
8	INVESTMENT IN SUBSIDIARY		
	Opening balance	1,575,000	1,525,000
	Issuance of shares	150,000	50,000
	Closing balance	1,725,000	1,575,000

8.1 The Bank owns 100% shares in the Bakhtar Bank. This investment is shown at cost, the decline, if any, of the value of investment is considered to be temporary in nature, not requiring recognition in these financial statements. As a consequence of in principle permission secured by the bank for conversion to full-fledged Islamic bank on November 22, 2015, Bank had started the process of conversion as per letter no. 6786 / 6808 dated 26 / 10 / 1396 whereby the certain requirements were placed to be completed by Da Afghanistan Bank. Subsequently, bank had submitted the report on completion of the prerequisites which could be finalized on interim basis to Da Afghanistan Bank on February 14, 2018. Currently bank is in the phase of system migration and license will be secured during 2018 after completion of all post-facto items required in the above mentioned letter, in the name of "Islamic Bank of Afghanistan".

9	INVESTMENT IN AFGHANISTAN PAYMENT SYSTEM		
	Investment in Afghanistan Payment System	17,458	16,708

9.1 This represents 16.667% (2016: 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 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.

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10 PROPERTY AND EQUIPMENT

	AFN '000'									
	Land	Building - lease hold	Building	Office equipment	Furniture & fittings	IT equipment	Vehicles	ATM	Advance against capital commitments (Note 10.1)	Total
Gross carrying amount										
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 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
Balance as at 01 January 2016	404,059	3,646	148,066	188,362	92,869	349,519	81,441	21,450	104,659	1,394,070
Additions	-	-	3,950	27,761	11,406	37,641	10,658	55,587	-	147,001
Disposal / Adjustment /Write Off	-	-	-	(8,071)	-	-	(827)	-	(5,581)	(14,478)
Balance at 31 December 2016	404,059	3,646	152,016	208,053	104,275	387,160	91,272	77,036	99,078	1,526,594
Depreciation										
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 at 31 December 2017	-	1,573	821	168,865	57,426	368,057	83,096	42,712	-	722,549
Balance as at 01 January 2015	-	1,202	38,703	151,541	50,200	326,889	75,048	17,950	-	661,533
Depreciation for the year	-	185	7,559	14,117	7,517	19,710	4,688	4,312	-	58,090
Adjustment for disposals	-	-	-	(8,071)	-	-	(827)	-	-	(8,898)
Balance at 31 December 2015	-	1,387	46,262	157,587	57,718	346,599	78,909	22,262	-	710,725
Carrying amounts										
Balance at 31 December 2017	404,059	2,073	196,126	80,631	49,675	40,946	17,305	34,588	190,355	1,015,759
Balance at 31 December 2016	404,059	2,259	105,753	50,465	46,557	40,561	12,362	54,774	99,078	815,869
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
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AFN '000'

	Purchased software	Goodwill	Total
11 INTANGIBLE ASSETS			
Gross carrying amount			
Balance as at January 01, 2017	197,889	197,889	227,395
Additions	7,734	7,734	7,734
Balance as at December 31, 2017	205,623	205,623	235,129
Balance as at January 01, 2016	178,557	178,557	208,063
Additions	19,332	19,332	19,332
Balance as at December 31, 2016	197,889	197,889	227,395
Amortization			
Balance as at January 01, 2017	176,072	176,072	182,055
Amortization during the year	10,197	10,197	13,188
Balance as at December 31, 2017	186,268	186,268	195,243
Balance as at January 01, 2016	170,827	170,827	173,810
Amortization during the year	5,245	5,245	8,245
Balance as at December 31, 2016	176,072	176,072	182,055
Carrying amount as at December 31, 2017	19,355	19,355	39,886
Carrying amount as at December 31, 2016	21,817	21,817	45,340

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

11.2 Goodwill represents the amount of purchase consideration paid to Punjab National Bank (PNB) - Kabul Branch amounting to USD 511,111 against the acquisition of fixed assets, deposits from banks and customers amounting to USD 24,429, Afn 4.015 Million and USD 33.294 Million respectively 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 impaired the same @ 10.17% in ten year.

AFN '000'

		2017	2016
12 NON-CURRENT ASSETS HELD FOR SALE			
Opening balance		291,423	-
Currency fluctuation		7,528	
Recognition during the year		-	291,423
Deletion - Property sold out		(5,500)	-
Total non-current assets held for sale	12.1	293,451	291,423
12.1 This represents the re-possessed assets classified as per the requirements of Article 11 and 12 of Assets Classification and Provisioning Regulations issued in the month of October 2017.			
12.1 Non-current assets held for sale (AFN)		121,790	121,790
Non-current assets held for sale (USD)		171,661	169,633
		293,451	291,423

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		AFN '000'	
		2017	2016
13	OTHER ASSETS		
	Accrued interest on capital notes	1,085	20,641
	Accrued interest on Placement with other Banks	10,247	9,419
	Restricted balance held with DAB	2,499,923	1,773,313
	Receivable against sale of collateral	165,148	368,935
	Security deposits	21,538	20,788
	Advances to suppliers	8,522	6,865
	Adjustable withholding tax with MoF	46,033	71,176
	Prepayments	16,139	27,471
	Cash shortages recoverable from staff	1,795	2,917
	Inventory of prizes	16,520	16,520
	Advances to staff and others	-	15,086
	Receivable from Afghanistan Payment System	11,476	3,842
	Mpaise Imprest Account	10,680	13,456
	Others	5,601	32,768
		2,814,706	2,383,196
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 DAB against Currency Auction	1,500	1,500
	CSC Bank	8,743	8,354
	Western Union Bank	9,521	9,084
	Roshan - against M.Paise Imprest Account	1,775	1,850
		21,538	20,788
13.3	Advances to staff and others		
	Gross amount		
	Less:- Allowances for impairment losses	15,086	200,745
	Write off during the year	-	-
		(15,086)	(185,659)
		-	15,086
14	DEPOSITS FROM BANKS		
	Bank-e-Millie Afghan	1,862	1,810
	Bakhtar Bank	185,883	3,575,846
	Pashtany Bank	93	88
		187,837	3,577,744

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NOTES TO THE FINANCIAL STATEMENTS
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		AFN '000'	
		2017	2016
15	DEPOSITS FROM CUSTOMERS		
	Term deposits	1,819,600	1,400,064
	Saving deposits	9,194,027	6,564,088
	Current deposits	15,453,610	11,635,836
	Margin deposits	4,579,355	3,939,813
		31,046,591	23,539,800
15.1	Term and saving deposits carry interest rates ranging from 1% to 4% (2016: 2.25% to 6%) per annum.		
16	CURRENT TAX LIABILITY		
	Opening for the year	-	-
	Charged for the year	42,865	5,430
	Adjustment / Paid during the year	(42,865)	(5,430)
	Closing for the year	-	-
16.1	Current tax liability has been adjusted against the advance income tax.		
17	OTHER LIABILITIES		
	Withholding taxes payable	21,449	19,317
	Remittances payable	14,866	12,019
	Western Union outbound	56,917	23,091
	Accrued interest on term deposits	29,702	81,598
	Others	75,865	82,356
	Provision against other assets and non-funded facilities	176,625	-
		375,424	218,380
17.1	This includes 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.		
18	SHARE CAPITAL		
	Authorized capital		
	750,000 (2015: 750,000) ordinary shares of AFN 10,000 each	7,500,000	7,500,000
	Issued and paid capital		
	536,740 (2015: 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

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		AFN '000'	
		2017	2016
19	NET INTEREST INCOME		
	Interest income		
	Cash and cash equivalents	19.1 86,496	75,363
	Loans and advances to customers	868,426	1,327,163
	Total interest income	954,922	1,402,526
	Interest expense		
	Deposits from banks	19.2 -	32,604
	Deposits from customers	607,829	794,902
	Total interest expense	607,829	827,506
		347,093	575,020
	Net interest income		
19.1	This includes interest income amounting to AFN 51.886 million (2016: AFN 66.2 million) earned during the year from capital notes with Da Afghanistan Bank.		
19.2	Deposits from customers		
	Interest on:		
	Term deposits	62,853	46,772
	Saving deposits	544,976	748,129
		607,829	794,902
20	NET FEE AND COMMISSION INCOME		
	Fee and commission income		
	Commission income	1,107,842	688,676
	Account servicing fee	245,064	184,459
	Total fee and commission income	1,352,906	873,135
	Fee and commission expense		
	Inter-bank transaction fees	32,089	83,510
	Net fee and commission income	1,320,817	789,625
21	EMPLOYEE BENEFIT EXPENSES		
	Salaries and wages	468,029	19,858,653
	Staff welfare	48,759	44,364
	Staff training expenses	1,611	3,823,370
		518,399	456,160

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AFN '000'

		2017	2016
22	OTHER EXPENSES		
	Repair and maintenance	54,694	36,359
	Travelling expense	71,879	60,006
	Advertising and publicity	77,905	75,901
	Printing and stationery	57,902	40,504
	Communication	3,181	2,763
	Internet and connectivity	34,134	28,826
	Electricity and power	53,631	43,481
	Office supplies	5,576	5,241
	Security expenses	194,778	195,653
	Legal and professional charges	98,715	60,749
	Postage and courier	221	163
	Software maintenance	34,579	30,295
	Deposit insurance premium	22.1	55,535
	Others	34,426	10,663
		789,425	646,139

22.1 This premium is paid to Afghanistan Deposit Insurance Corporation (ADIC) at the rate of 0.3% (2016: 0.23%) of total deposits as required by DAB.

23 TAXATION

Profit before tax	214,324	27,149
Current year tax @ 20%	42,865	5,430
	42,865	5,430

23.1 In the year 1390 Ministry of Finance (MoF) had started the tax audit for the year ended 2007 to 2009. Initial un-favorable report was delivered to the bank on 07-09-1390 . Resultantly bank had challenged the MoF Audit Report in the court of law on 22-10-1393 and consequently taken the favorable decision on 22-11-1393, which includes direction for re-auditing and the said MoF audit was concluded subsequent to the year end 2017. On 24-08-1396 bank had received report from MoF indicating the total tax liability and penalties of Afs. 219 Million after the audit and had subsequently deposited Afs. 78.200 Million in government treasury. Afterwards, management had written a letter to MoF for confirming the receipt of the amount excluding penalty amount, as according to principles of tax penalties, the taxpayers, which have not refined their tax penalties during the fiscal years of 1381 – 1396, can be paid with 5% of tax penalties and their treatment of 95% tax penalties will be exempted. This decision is available for 9 months for implementation. Hence owing to non-receipt of their confirmation yet the event has been considered as non-adjusting as per International Accounting Standard - 10 "Events after reporting period" for the reason the reliable estimate could not be made as per Para 25 of IAS - 37 "Provisions, Contingent liabilities and Contingent assets".

AZIZI BANK
NOTES TO THE FINANCIAL STATEMENTS
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24 RELATED PARTIES

Parent and ultimate controlling party

Related parties comprise of 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 Bakhtar Bank (2017: 100%).

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:

	AFN '000'			
	2017		2016	
	Maximum Balance	Closing Balance	Maximum Balance	Closing Balance
Short term loans to key management personnel	3,102	3,102	3,817	-
Deposits with Bakhtar Bank	4,870,435	904,789	5,036,374	4,986,327
Deposits from Bakhtar Bank	4,583,595	185,883	5,720,062	3,575,846
Purchased of vehicles' spare parts from related party	-	-	135	135

Interest on short term loans to key management personnel is charged at 6%, 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 3.1 Million (2016: AFN 2.3 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 11.20 Million (2016:AFN 10.5 Million). Key management personnel includes the following:

Key management personnel compensation for the period comprised:

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

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		AFN '000'	
		2017	2016
25	CONTINGENCIES AND COMMITMENTS		
	Contingencies	-	158,071
	Letter of Credit		
	Guarantees	20,022,116	12,952,198

Lease commitments

Non-cancellable operating lease rentals are payable as follows:

Less than one year	92,434	84,034
Between one to five years	166,992	165,007
Between five to twenty years	29,229	-
	288,655	249,041

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. 598 Million. (2016:Afs. 1,738 Million)

AZIZI BANK

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26 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

AFN '000'

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

	Held for trading	Designated at FVTPL	Held to maturity	Held to maturity	Financial liabilities / Non funded arrangements	"Available for sale financial assets"	"Equity investment at cost"	"Non-financial assets / liabilities"	"Total for line item"	Fair value
31 December 2017										
Cash and cash equivalents	-	-	19,858,653	-	-	-	-	-	19,858,653	19,858,653
Loans and advances to customers	-	-	7,852,453	-	-	-	-	-	7,852,453	7,852,453
Placements and Investment in capital notes	-	-	3,823,370	-	-	-	17,458	-	3,840,828	3,840,828
Other assets	-	-	2,730,615	-	-	-	-	84,091	2,814,706	2,814,706
	-	-	30,441,721	3,823,370	-	-	17,458	84,091	34,366,640	34,366,640
Deposits from Banks	-	-	-	-	187,837	-	-	-	187,837	187,837
Deposits from customers	-	-	-	-	31,046,591	-	-	-	31,046,591	31,046,591
Other liabilities	-	-	-	-	353,975	-	-	21,449	375,424	375,424
Off Balance sheet items	-	-	-	-	31,588,403	-	-	21,449	31,609,852	31,609,852
	-	-	-	-	20,022,116	-	-	-	20,022,116	20,022,116
31 December 2016										
Cash and cash equivalents	-	-	17,224,439	-	-	-	-	-	17,224,439	17,224,439
Loans and advances to customers	-	-	7,326,122	-	-	-	-	-	7,326,122	7,326,122
Investments	-	-	3,317,251	-	-	-	16,708	-	3,333,959	3,333,959
Other assets	-	-	2,274,713	-	-	-	-	108,483	2,383,196	2,383,196
	-	-	26,825,274	3,317,251	-	-	16,708	108,483	30,267,716	30,267,716
Deposits from Banks	-	-	-	-	3,577,744	-	-	-	3,577,744	3,577,744
Deposits from customers	-	-	-	-	23,539,800	-	-	-	23,539,800	23,539,800
Other liabilities	-	-	-	-	199,063	-	-	19,317	218,380	218,380
Off Balance sheet items	-	-	-	-	27,316,608	-	-	19,317	27,335,924	27,335,924
	-	-	-	-	7,141,513	-	-	167,010	7,308,523	7,308,523

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

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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 now 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.

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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:

	AFN '000'	
	2017	2016
Classes of financial assets		
Cash equivalents	14,580,138	11,874,004
Loans and advances to customers	7,852,453	7,326,122
Other assets	2,535,021	1,846,201
	24,967,612	21,046,328

The Bank has issued financial guarantees contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is AFN 20,022 million (2016: AFN 12,952 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 written off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted or legal action is not advisable or passed due for 481 days or more.

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:

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		AFN '000'	
		2017	2016
Gross amount	Note 6	8,607,096	8,892,837
Concentration by sector			
Construction		26,992	784,978
Food stuff		1,214,855	1,011,272
Lubricant, oil & gas		150,170	1,115,935
Textile		-	5,671
Services		1,781,748	1,478,818
Mortgage housing loans		107,282	912,599
Ground transportation		5,169	846,869
Manufacturing and production		498,541	460,259
Others		4,822,339	2,276,436
		8,607,096	8,892,837

Cash equivalents

The cash equivalents include AFN 3,451.549 Million (2016: AFN 6,406.75 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:

	2017	2016
At 31 December	49%	55%
Average for the year	46%	47%
Maximum for the year	56%	71%
Minimum for the year	35%	42%

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Maturity analysis for financial liabilities

	Note	Carrying amount	Gross nominal inflow/ (outflow)	AFN '000'				
				Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
December 31, 2017								
Deposits from Banks	14	187,837	187,837	-	185,883	1,955	-	-
Deposits from customers	15	3,823,370	31,046,591	15,453,610	9,194,027	6,398,955	-	-
Other liabilities	17	375,424	375,424	93,232	29,702	74,973	892	-
		31,609,852	31,609,852	15,546,842	9,409,612	6,475,882	892	-
December 31, 2016								
Deposits from Banks	14	3,577,744	3,577,744	-	3,575,846	1,898	-	-
Deposits from customers	15	23,539,800	23,539,800	11,635,836	6,564,088	5,339,877	-	-
Other liabilities	17	218,380	218,380	54,426	81,598	64,700	50,605	-
		27,335,924	27,335,924	11,690,262	10,221,532	5,406,475	50,605	-

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.

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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:

		AFN '000'					
	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
December 31, 2017							
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	-	-
		23,490,685	14,590,344	8,499,813	400,528	-	-
Deposits from customers	15	11,013,627	1,797,612	327,528	8,742,919	145,568	-
		11,013,627	1,797,612	327,528	8,742,919	145,568	-
December 31, 2016							
Cash and cash equivalents	5	11,874,004	11,874,004	-	-	-	-
Loans and advances to customers (Gross)	6	8,892,837	-	7,970,112	-	922,725	-
Other assets	13	579,822	20,641	41,261	517,919	-	-
		21,346,663	11,894,645	8,011,373	517,919	922,725	-
Deposits from customers	15	7,964,152	1,306,628	252,012	6,293,507	112,005	-
		7,964,152	1,306,628	252,012	6,293,507	112,005	-

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

Exposure to currency risk

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

	Note	Total	AFN	USD	Euro	GBP	Other	
			AFN '000'					
December 31, 2017								
Cash and cash equivalents	5	19,858,653	7,165,940	11,302,897	1,152,321	191,892	45,603	
Loans and advances to customers (Gross)	6	8,607,096	3,378,458	5,228,638	-	-	-	
Other assets	13	2,814,706	2,059,287	755,419	-	-	-	
		31,280,455	12,603,685	17,286,954	1,152,321	191,892	-	
Deposits from banks	14	187,837	125,794	56,484	5,559	-	-	
Deposits from customers	15	31,046,591	14,583,765	15,600,589	791,065	71,172	-	
Other liabilities	17	375,424	330,240	44,814	370	-	-	
		31,609,852	15,039,799	15,701,887	796,994	71,172	-	
December 31, 2016								
Cash and cash equivalents	5	17,224,439	5,307,801	11,342,921	462,290	88,078	23,348	
Loans and advances to customers (Gross)	6	8,892,837	3,805,071	5,087,766	-	-	-	
Other assets	13	2,383,196	1,917,057	466,139	-	-	-	
		28,500,472	11,029,929	16,896,826	462,290	88,078	23,348	
Deposits from banks	14	3,577,744	1,950,774	1,622,449	4,521	-	-	
Deposits from customers	15	23,539,800	9,533,233	13,300,390	667,922	38,256	-	
Other liabilities	17	218,380	67,190	151,152	37	-	-	
		27,335,924	11,551,197	15,073,990	672,480	38,256	-	
Net foreign currency exposure		1,164,548	(521,268)	1,822,836	(210,190)	49,822	-	
Net foreign currency exposure		(329,397)	(2,436,114)	1,585,067	355,327	120,720	-	

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

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

	AFN '000'			
	2017		2016	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
USD	68.33	69.83	62.58	66.83
Euro	76.52	83.25	70.32	69.79
GBP	87.63	93.55	85.83	81.70

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and euro at 31 December 2017 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.

	AFN '000'			
	2017		2016	
	Equity	Profit or loss	Equity	Profit or loss
USD	126,805	158,507	145,827	182,284
Euro	28,426	35,533	(16,815)	(21,019)
GBP	9,658	12,072	3,986	4,982

A 10% weakening of the Afghani against the above currencies at 31 December 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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, 2017

AFN '000'

	2017	2016
--	------	------

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 (2016: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 2017 was as follows:

AFN '000'

	2017	2016
Tier 1 capital		
Total equity capital	5,830,883	5,659,424
Less: Current year profit	(171,459)	(21,719)
Less: Intangible assets	(39,886)	(45,340)
Total tier 1 (core) capital	5,619,538	5,592,365
Tier 2 capital		
Add Current year (loss) / profit	171,459	21,719
Total tier 2 (supplementary) capital	171,459	21,719
Total regulatory capital	5,790,997	5,614,084

28 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. These rearrangements and reclassifications are not significant.

29 AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on 29 March, 2018.


Chairman


Chief Executive Officer


Chief Finance Officer

Outlook for the Future

- We aim to introduce more financial inclusion;
- We aim to introduce the best technological products;
- We strive to become the most dominant player in the market;
- We will initiate steps to service the productive sectors of the economy through credit and other facilities;
- We will initiate more CSR activities for the needy sectors of the economy;
- We aim to become a partner for growth for the private, Governmental and public sector;
- We plan to ensure profit maximization as well as to ensure maximization of values for all stakeholders;
- To become responsible citizens of Afghanistan.

Awards & CSR Initiatives

Awards 2017



Best Retail Enterprise in Afghanistan by the Europe Business Assembly Socrates Committee, London March 2017



The Bizz Award 2017 by the World Confederation of Businesses, USA November 2017



From left to right

- Asian Banker Award
- British Socrates Committee Award
- Quest on the Frontier Award
- South Asian Partnership Summit & Business Awards - Best Banking CEO
- South Asian Partnership Summit & Business Awards - Best Bank





Award for significant performance in Afghanistan by the Indian Empire Magazine, India April 2017



Best Performance Award by Western Union, Dubai August 2017



Best Retail Bank in Afghanistan by Wealth & Finance International Magazine, London March 2017



From left to right

- Euromoney Award
- Indian Empire Award
- The Bizz Award
- Wealth & Finance Magazine Award

CSR Initiatives 2017



Azizi Bank distributed blankets, flour, cooking oil and other essential amenities to the internally displaced persons (IDPs) of Afghanistan, who were forced to leave their dwellings due to insecurity.



Donated school bags, note books and other amenities to more than 50 orphans and deprived children of Sakina's Orphanage, Kabul.



Donated school bags, note books and other amenities to more than 50 orphans and deprived children of Alzahra Orphanage, Kabul.



Azizi Bank officials met patients of hazardous diseases at the Ali Abad Hospital and wished them speedy recovery with some fresh flowers, fruits, juices, biscuits and other essential amenities.

CSR Initiatives 2017



Azizi Bank provided a financial support of USD 2000 for the empowerment of the Afghan women.



Azizi Bank donated school bags, note books and other amenities including food and toys to more than 50 orphans and deprived children of Flower's House Orphanage.



Azizi Bank planted more than 2000 saplings in Kabul and provincial locations on its endeavor to see a greener Afghanistan.



Azizi Bank donated school uniforms, shoes and other stationary to over 50 street children.

CSR Initiatives 2017



Azizi Bank in coordination with the National Blood Bank launched a blood Donation campaign at the Bank's Headquarter and donated more than 60,000 cc blood.



Azizi Bank provided financial assistance to the Ministry of Women Affairs for the cause of Women's Breast Cancer on the occasion on International Women's Day.



Azizi Bank Donated school bags, note books and other amenities to more than 50 orphans and deprived children of Tomorrow's Hope Orphanage.

Correspondent Banks Network as of December 31, 2017



- Aktif Bank, Turkey
- Axis Bank, China
- Banca Popolare Di Sondrio, Italy
- Bank of India, India
- BMCE Bank, Spain
- HDFC Bank, India
- Punjab National Bank, India
- TransKapital Bank, Russia
- Yinzhou Bank, China

Branches & ATMs

Azizi Bank Branches Locations

Kabul Branches

Macroryan
 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

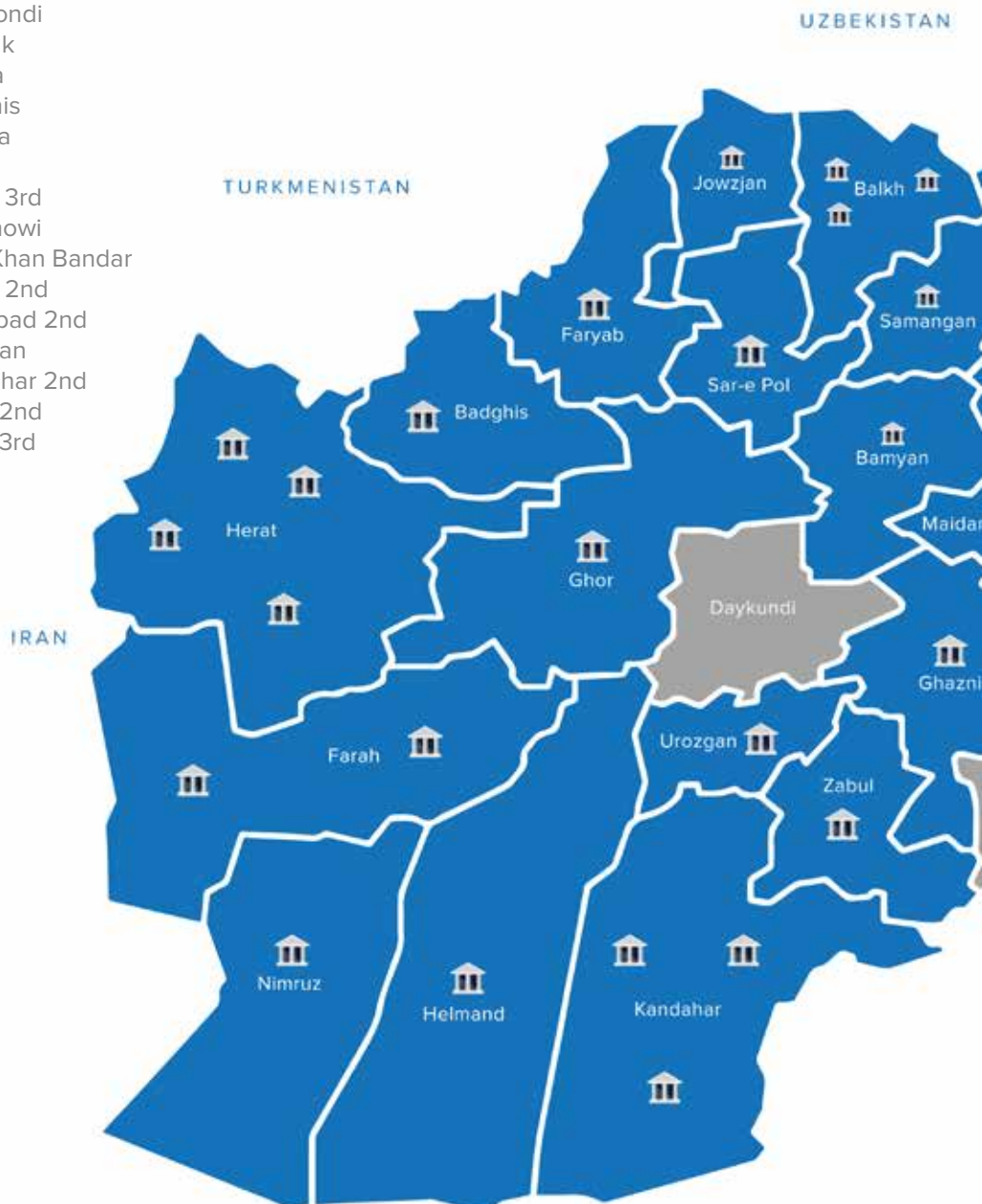
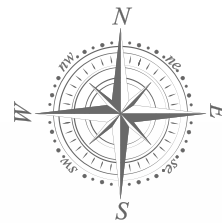
Province Branches

Mazar-e-Sharif
 Khost
 Herat
 Kandahar
 Jalalabad

Parwan
 Kunduz
 Pol-e-Khumri
 Ghazni
 Jawzjan
 Kunar
 Laghman
 Faryab
 Badakhshan
 Takhar
 Hairatan
 Helmand
 Nimrooz
 Farah
 Bamyan
 Spin Boldak
 Gardez
 Sar-e-Pol
 Samangan
 Torkham
 Logar
 Torghondi
 Wardak
 Kapisa
 Badghis
 Paktika
 Zabul
 Mazar 3rd
 Andkhovi
 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
 Counter 2 Helmand Counter
 Herat Counter
 Kandahar Exchange Market
 Kandahar Counter 2



Total

85 Branches

33 in Kabul and **42** in Provinces

10 Extension Counters

Azizi Bank presence in

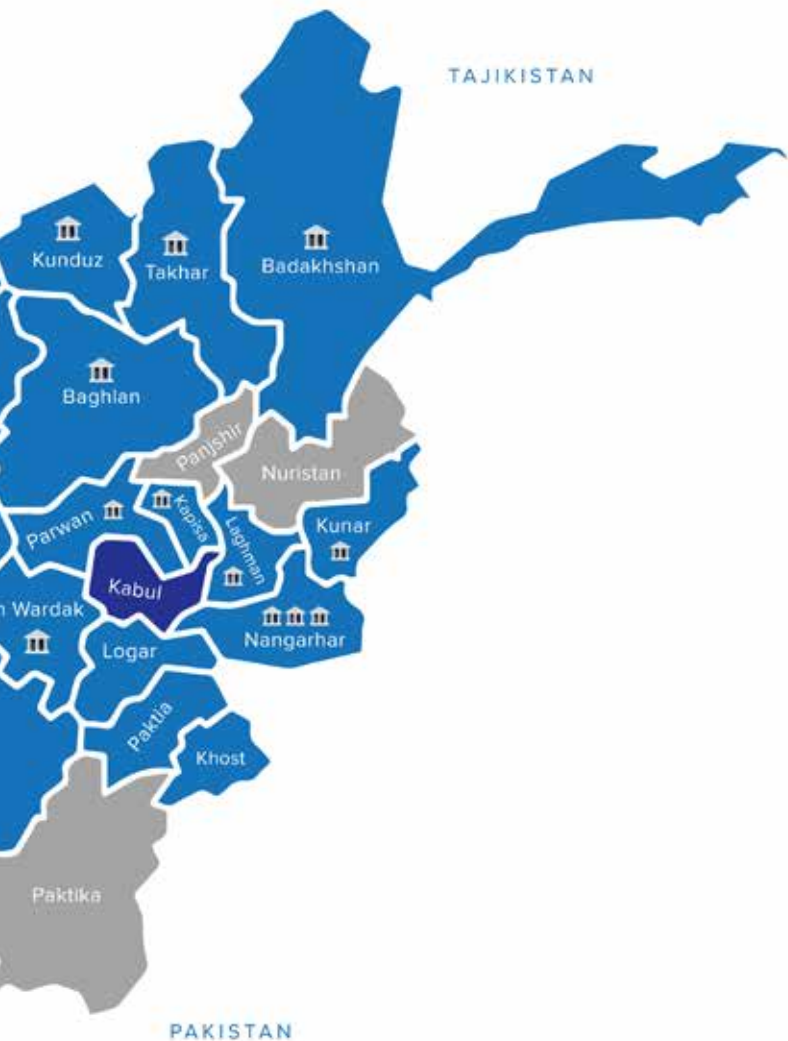
30 provinces out of 34 provinces.

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**



24 Hours Call Center

1515- Call within Afghanistan

+93 701 80 1515 - Call from outside Afghanistan

customerservice@azizibank.af