



عزیزی بانک  
**Azizi Bank**

**Azizi Bank**  
The Bank You Can Trust



**2016**  
**Annual Report**





# CHAIRMAN'S MESSAGE

On behalf of Azizi Bank's Board of Supervisors, I am pleased to present Azizi Bank's Annual Performance Report for the year 2016. Banking environment in the country continues to be challenging in the face of a very modest improvement recorded in the overall economic performance. While the difficult environment continued to impact profitability, nevertheless, the Bank has delivered a modest but significantly improved performance and the Board is pleased to note that the Bank has earned profit. This speaks of the strength and stability of Azizi Bank's systems, system integration, robust internal controls, which ensures Azizi Bank to function with better Strategic Plan and strong Managerial Leadership. Azizi Bank's success story has been formidable and stands tall in the country with the support of customers and different stake-holders i.e. around 12% population within the banking ambit.



The journey began in 2006 through an unassuming beginning and has survived the times of high and low tides Country's fledgling economy. Through its meaningful and fruitful existence, it became the Bank that everyone can trust & also became a household name and entrepreneur's window for their growth and prosperity. It has also outreached the needy ones through its widespread and remote areas existence of 85 Branches. The fleet of Automated Teller Machines (ATMs) is rapidly growing, expecting to be around 150 by the end of 2017. This will ensure Azizi Bank to be the bank with the largest reach to customers at their doorsteps through ATMs in the country. A rapid expansion based on technological innovations through Point-of-Sales devices (PoS), and Point of Service at their locations, paved the way for remote banking/mobile banking rather than brick and mortar banking. The proposed installation of e- lobby and cash deposit machines are underway as part of its strategic expansion on technological advancements.

The bank has also launched the Mobile based banking services in collaboration with local mobile operators. The mobile banking is expected to bring about a big fillip in the bank's foray in the rural countryside and remote areas. The Bank will bring many more technological marvels like mobile wallets and a full-fledged internet banking services shortly.

Under the Digital Banking initiatives, the bank is taking steps to have a giant leap. Credit and Pre-paid Master Card are already available and Debit Master Card will be launched within the second quarter of 2017.

The bank has started Agent Based Banking services aiming towards financial inclusion. It is for the first time that a bank in Afghanistan is reaching out to the unbanked strata of society by sending its agents to their door steps. The agents will carry devices that will support full-fledged banking services including account opening and biometric authentication of customers. The Bank believes in ushering in more and more customer beneficial services bring banking to the doorsteps of all through improved technological services.

The bank has also prioritized financing to Small and Medium Enterprises (SME), which is expected to be the pivot for future developmental activities in Afghanistan.

Even though, the economy continues to be stable, however without any notable investments except in certain infrastructure sectors. There have been substantial investments through World bodies in infrastructural projects. The economic depression apart, substantial quantum of investments have been planned in the Road Infrastructure, Power Sector, Power Transmission Lines, Power Generations, Agriculture Sector, Oil and Gas Sector, IT Sector etc. There is also a pledge for infusion of USD 75 Bn. through the various sectors from the donor agencies with the main aim of poverty eradication. The funds are expected to be channeled into the productive sectors wherein the banking system would be a significant player and Azizi Bank with its dominant position, is expected to be a bigger partner.

Azizi Bank is starting the first full-fledged Islamic Bank in the country through the conversion of its 100% subsidiary bank – Bakhtar Bank and renaming it as “The Islamic Bank of Afghanistan”. The endeavor would be able to include larger proportion of the population into the banking fraternity with the availability of Sharia based Islamic products and contribute to the financial inclusion program of the country. Azizi Bank will remain as a conventional bank considering its large quantum of international clientele base.

Within its endeavors to sustain the brand image and provide a world class customer service, Azizi Bank have received several international awards and recognitions from across the globe in 2016.

- Best Bank-Customer Service, Afghanistan 2016 by International Finance Magazine, London.
- Best Corporate Governed Bank in Afghanistan 2016 by Quest on the Frontier, Singapore
- Best Socially Impact Bank in Afghanistan 2016 by Capital Finance International, London
- Best Private Sector Bank, Afghanistan 2016 by South Asian Partnership Summit, Sri Lanka-an award specifically aimed at recognizing institutions from the SAARC Countries
- Best CEO Award by South Asian Partnership Summit, Sri Lanka
- Best Retail Banking CEO Award, 2016 by International Finance Magazine, London.
- The first bank from Afghanistan to be interviewed by India Empire- The magazine which connects the political, diplomatic and the business community diaspora of the world from India
- Industry Leadership Award 2016 by the World Leadership Congress, Mauritius
- Only Bank from Afghanistan to be invited at the London Stock Exchange for an exclusive interview on the financial, economic & banking reforms in the country.
- Exclusive Interview of the CEO at the BBC, London studio.

The bank is also into the following initiatives as part of its improvised strategy & contribution towards the banking growth in the country.

- Financial Inclusions programs
- Capacity Building programs

Azizi Bank has also taken a strong lead in the Corporate Social Responsibility initiatives by providing aids and financial assistance to local educational institutions which included schools, colleges, universities and NGOs. The Bank provides a platform to the youths from universities to work as interns and learn the practical modern day banking facilities. The following CSR activities were performed during the course of the year 2016.

- Azizi Bank distributed school bags, note books and other essential amenities to more than 200 deprived children on the occasion of International Children’s day in association with Afghan Women’s Educational Center (AWEC).
- Azizi Bank provided winter assistance to more than 150 deprived families in Kunduz, Afghanistan.
- Azizi Bank donated the first of its kind digital library to more than 500 students at the Kardan University inaugurated by HE- The Ambassador of India to Afghanistan.
- Azizi Bank donated stationaries and other essentials to more than 100 orphans at the Hazrat Mohammad Nursery in Kabul.
- Azizi Bank donated to the victims of earthquake in Afghanistan.

Azizi Bank has initiated several measures, aimed at vigorous marketing efforts specifically branding of the Bank, co-branding with other organizations, tie ups, technological innovations with an eye to cater and partner all in the developmental cycle.

The Bank has planned an aggressive growth strategy through various marketing strategies including tie-ups with Corporates, various joint venture initiatives for investment in the Country.

On its Vision 2020 initiative, the Bank will witness a significant growth in all sectors thereby maintaining its position as clear market leader and catering to the customer requirements and expectations. Azizi Bank with its huge outreach and vigorous marketing initiatives is poised to sustained significant growth in the years to come. There is an ample scope for earning non fund earnings. With the initiatives taken in the past and the proposed tie-ups, the Bank is poised for a buoyant phase in the coming years. The Bank has also set up extensive machinery for recovery from recalcitrant borrowers. NPA percentage, although presently high would reduce in the coming months with follow ups from all concerned i.e. shareholders, Dept. officials, Govt. machineries. The bank is engaging in expanding the business activities into other areas through cross sale of other products such as Insurance policies, acting as collection agents for bill collections to several service providers. The Bank also expects to partner development credit agencies to introduce new credit products to the rural areas which has the potential for growth and employment generation.

The bank is also in compliant with all DAB (The Central Bank of Afghanistan) regulations and Governmental legislations and has received creditable recognition from International inspection authorities in this respect.

The unifying theme at Azizi Bank ever since it started 10 years ago, is the goal-driven investment on experience and innovation, which it took as its starting point when it developed the bank's corporate motto. With its strong customer centric approach, extensive knowledge of the industry, dedicated employees, the bank have been successful in becoming the leading bank in the country.

The Bank is being run by a family of a very well-known Afghan businessmen. They have large interests in many sectors in Afghanistan and outside countries, especially the booming construction sector in Dubai as well as other investments in oil and transport.

Our stakeholders expect that the bank will demonstrate a strong risk discipline and the key priority of the board is embedding a prudent risk management culture throughout the organization.

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

The Board has utilized its collective strength and experience to supervise and guide the Management in enhancing the stability of the enterprise and creating a long-term value for Shareholders. The Board is proud to be actively engaged in the achievement of the bank.

The Board expresses its gratitude for the support and loyalty shown by the bank's customers and clients throughout the year and hope to receive their continued support & loyalty in the coming years.

The Board extends its appreciation to the Management and to the 1200+ employees for their commitment throughout the challenges of 2016 delivering value for Shareholders & Clients.

I express our sincere gratitude to the Shareholders for your esteemed reposed confidence in us, which helped to fuel the momentum towards an ever brighter future and we expect your continued support in our endeavor to become Afghanistan's Premier Bank and to be able to service better and better and to cater to the financial requirements of the entire Country.

We wholeheartedly convey our sincere gratitude to His Excellency, The Governor of Da-Afghanistan Bank, His Team of Experts and the Senior Management of the Bank and the Shareholders for their Great and Valuable Guidance and Continued Support.

On behalf of the Board of Supervisors,

Sundaram Prabhu.

Chairman of the Board of Supervisors  
Azizi Bank, Afghanistan



## President and Chief Executive Officer's Message

Azizi Bank since commencing its operations 10 years ago has a goal-driven investment on experience and innovation. With our strong customer centric approach, extensive knowledge of the industry, dedicated employees & superior technology, we have been successful in becoming the leading bank in the Islamic Republic of Afghanistan.

Performance of the Bank is dependent on various eco-political factors. There has been marginal growth on the major sectors of the economy. The fiscal pressure continued in the face of an insufficient GDP (Gross Domestic Product) growth which continued to be around 1.2% p.a., only marginally ahead of 0.8% in the preceding year. However, the World Bank estimates that growth—after the transition towards Afghan control of security—will be around 5% a year under the baseline scenario during the period 2016- 2018.

The year 2016 marked a phase of consolidation. The growth of deposits was heartening in an economy threatened with many prohibitive factors. The loan portfolio improved owing to some significant recoveries. The growth in the loan portfolio is based on a cautious assessment. Our non-fund business has grown remarkably since 2015 and we hope to keep up the momentum in the coming years.

The projects funded by multi-lateral agencies for developmental projects are expected to generate sizeable banking business. The investments are mostly through World Bank/ Asian Development Bank developmental projects. Although there are more prospects about investments from large corporate bodies in specified sectors, the customer investor confidence continued to be low.

However Azizi Bank experienced a significant increase on deposits. A substantial rise of around 45% has been recorded in customer deposits for the current year. The rise is noteworthy as compared to the performance of the industry overall. A significant increase of around 250% has been recorded as commissions from non-fund incomes.

A significant recovery of approx. 11% of the outstanding court cases has been made during the year 2016.

Yield on Advance has increased from 12.12 % as at the end of the preceding year to 15.22 % as at the end of the current year 2016.

The bank still retains the largest lending portfolio amounting to around 32% of the total loans in the country trying to usher in financial inclusion and bring in economic benefits to the society at large.

However, the Bank with rich legacy of more than ten years and having a network of 75 branches and 10 extension counters spread across the length & breadth of the country, delivered a qualitatively improved performance both on business and profit, demonstrating a significant shift towards sustainable and managed low to medium risk.



Despite all odds the Bank's Performance under key parameters has remained as under:

- Bank's total business stood at AFN 34.5 Bn.
- Deposits increased significantly by 20% to AFN 27.1 Bn. from 22.6 Bn.;
- Customer deposits increased by 47 % from AFN 16 Bn. to 23.5 Bn., a very significant rise
- Bank has been in profits for the last five years, Revenue reserves stood at AFN 270 Mio. The promoters have not withdrawal dividends on any of the years. They have also committed not to withdraw any dividend till the Share Capital reaches USD 100 Mio.
- Return on Assets (ROA) stood at 0.64 % and Return on Equity (ROE) stood at 3.93% for the year.
- The Bank has maintained a healthy cash to deposit ratio of around 20% and ratio of cash and cash equivalents to deposits of around 55% to cater to the adverse liquidity position.
- The Bank's total income stood at USD 34 Mio (AFN 2.28 Bn.) comprising of Interest Income of USD 21 Mio (AFN 1.40 Bn.) and Net Interest Margin (NIM) of non-Interest income of USD 13 Mio. (AFN 873 Mio.).
- The Bank is sufficiently capitalized with a Capital Adequacy Ratio (CAR) of 27% against stipulated norms of 12%. This indicates the inherent strength of the organization.

Apart from the financial progressions, Azizi Bank has ensured that responsible and value-driven management practices are adhered to throughout its system of corporate governance, which is built on key elements of discipline, transparency, independence and fairness. As it strengthens its presence, Azizi Bank continues to strictly review compliance, risk management skills, internal controls, systems & processes and where appropriate –it aimed to enhance these further.

There had been considerable improvements made in coordination with the central bank in the strengthening of the internal controls. The commitment applies to Azizi Bank relationship with its shareholders, customers, employees, suppliers, regulators and the community in which it operates.

The bank views that expansions is a way to spread of financial inclusions considering that the population is largely unbanked. The bank has initiated Agent based banking in a big way so that banking is available at the doorsteps. Bank has also launched the cash deposit machines, being the first in the Country to accept dual currencies – AFN & USD, to bring in customer convenience. These machines will enable customers to deposit money 24/7 as a self-service channel without visiting the branch. Azizi Bank has the largest salary-distribution network in the country. The bank has entered into various agreements with a number of NGO's/organizations for distribution of funds to various beneficiaries.

The bank is also in the process of starting various IT initiatives i.e. M-paisa, E-wallet etc. for cash less transfers which could go a long way in financial inclusion as well as it eliminates the need for traditional banking as well as is more customer friendly.

The bank is also the largest distributor of Western Union payments received in the Country and along with its 100% subsidiary, Bakhtar Bank, controls roughly 60% of the market. The bank has plans to start merchant acquiring business by setting up a decent network of Point of Sale (POS) devices across the country. These devices will enable the customers to make retail payments using their cards or biometrics. ATM network is rapidly increasing and we are well on plan to become the bank with the highest number of ATMs in the Country. Payment Gateway is getting launched shortly that will enable online shopping for the customers using their cards or net banking. International Master Debit Card will be launched before the end of Q2 of 2017. Initiatives are also underway to get it co-branded with a global company of repute. There is a special focus on internal controls & operational efficiency and keeping that in perspective, Azizi Bank is migrating to Flex Cube. The first Centralized Processing Unit (CPU) by any bank in Afghanistan is poised to be set up by Azizi Bank very shortly. The Bank is engaging professional IT Auditors and planning a full-fledged IT Systems Audit. This exercise will strengthen the IT governance of the bank and mitigate the IT Risk Management. It will also review the IT systems and procedures and improve the IT Operational efficiency of the bank. Our bank trust in providing international standards of customer service and accessibility and we are moving gradually into the digitalization phase. We have opened more than 140,000 new accounts in 2016 as compared to 91,000 accounts in 2015, which is an increase of 165% productivity on new acquisitions. Azizi Bank has persuaded various marketing initiatives in the recent past and has taken radical steps to improve the marketing initiatives in the Country and thereby increase the market share.

The bank has introduced various products and services to live up to its image of becoming more customer's friendly and increase its outreach. Separate Desk by the name of Customer Care Officers created in branches to boost the level of customer service experience and minimize complaints and Turnaround time (TAT) at the branches. The observations are strictly monitored. The efficiency of the Call Center Department has been increased to focus more on customer service level.

The bank has entered into a strategic partnership with M/s Alvarez and Marshal, one of the top consultant based in the United States to guide and advice on improved Corporate Governance, improved performance on all areas/parameters and developing a distinguished framework. As part of its vision 2020 plans, the bank plans to increase the scope of work and expand its services for initiating superior customer service. The bank has been endeavoring to foster co-operation and collaboration with the objective to reinforce private sector led growth in Afghanistan, foster knowledge building, generating the key performance indicators (KPIs) for enhanced productivity and performance and support inclusive economic development.

The bank has a vision to succeed through profit maximization, ensuring channelization of deposits for infrastructure development, building up an image of trust, and acting as a financial partner for economic development as well as wealth maximization for all stakeholders. Furthermore, the bank intends to focus on customer centric service, financial inclusion, and overall banking for the masses.

Azizi Bank plans to reach its vision through fulfilling Corporate Social Responsibilities to all stakeholders and providing excellent professional services by using the latest technologies that will meet customers' needs. The Bank considers its employees as one the most important core resources and therefore has been continuously evolving policies to strengthen its employees' motivation and/or morale. The Bank strongly believes that only the satisfied and motivated employees carry the potential to convert the challenges into opportunities. Our accomplishments would not have been possible without the heartfelt commitment and unified efforts of our dedicated staff, board members and shareholders. Their passion is truly inspiring and I am continuously encouraged by their steadfast desire to serve the Azizi Bank movement. I thank them for their continuous commitment and I would also take this opportunity to thank our shareholders for having the confidence in these individuals who helped drive the success of Azizi Bank.

I, on behalf of the Management Board extended my humble gratitude to the Customers, the Regulators, the Govt. Agencies/Ministries & the Shareholders for their continued support and confidence reposed into the Bank.

On behalf of the Management Board



Mohammad Salem Omaid.  
President and Chief Executive Officer,  
(Chairman of Management Board)  
Azizi Bank, Kabul  
Afghanistan.



# About Us

Azizi Bank, a commercial bank of Afghan vision and enterprise, has been promoted by one of the leading businessmen Mr. Mirwais Azizi of the well-known Azizi Hotak Group and Family. It has commenced its banking business from 13th June 2006.

The promoters have shown their unflinching commitment towards making the bank as one of the most financially sound and operationally vibrant financial entity of the country. They have not only inducted fresh funds by way of equity capital as and when required but also ensured to retain entire profits in the business. The promoters are committed to build a sound financial institution and, with a view to offer the utmost safety to the bank's customers, set up the bank with an initial paid-up capital of USD 7.5 million that was 150% of the Central Bank stipulated minimum of USD 5 million. The capital is Afs.5367.40 million (USD 80 million) as on 31 Dec, 2016.

Largest Banking Group: (Azizi Bank along with its 100% Subsidiary- Bakhtar Bank is having 134 Branches and 6 Extension Counters), having presence in 30 provinces out of the 34 provinces.

Azizi Bank is the only Bank which has taken over two commercial banks in Afghanistan in the last one decade – The Development Bank of Afghanistan (later named as Bakhtar Bank) & Punjab National Bank, India – Kabul Operations.



# Products and Services

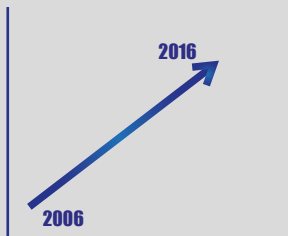
## CBS: Core Banking Solution - Any Branch Banking

- Savings Account in Afghani & USD and Current Account in Afghani, USD, Euro & GBP,
- Term Deposits in Afghani & USD
- Salary Savings Accounts with “Zero Balance Facility” in Afghani & USD
- Money Exchange /Treasury Services.
- Local/International-SWIFT (USD/Euro/GBP/AED/TRY/INR) remittance facilities.
- Fund-based (Term/Working Capital Loans) and Non-fund based facilities e.g. Letters of Credit and Financial/Performance Guarantees.
- Fast and Easy transfer of funds through Western Union Money Transfer.
- Internet /Mobile/SMS Banking
- Push SMS Facility: alert for each transaction
- ATMs: Free ATM Cards to withdraw cash 24x7.
- Biometric System: Finger Print Recognition for enhanced security
- M-Paisa- Powered by Roshan: Mobile Money Transfer
- Brishna Electricity Bill Collection
- Master Credit / Debit / Prepaid Card, PoS Terminals

## Our Auditors

- KPMG (Prior to 2011)
- Grant Thornton International Limited (2011-12)
- Crowe Horwath (2013-2016)

# KEY Milestones



**2006**

Establishment of Azizi Bank on 13th June 2006.

**2007**

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

**2008**

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

**2009**

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

**2010**

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

**2011**

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

**2012**

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

**2013**

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

**2014**

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

**2015**

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

**2016**

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

# Management Team

The Management team at the Bank is a mix of youth and experienced and ably supported by a young and well-trained dynamic operating team offering a truly professional and pleasurable experience to the customers. The Board of Management consists of expatriates with over 18 years of experience in the banking & financial management industry. Similarly the Board of Supervisors consists of members having experience of more than 30 years in various fields and expatriates from the United States & India. The Bank today has a 1200+ strong team of employees and with a 12% female work force, is playing a quiet but effective role in women's emancipation and empowerment.

The Professional Internal Training Department ensured periodic trainings for all caterogies of staff. We also nominated our employes for external training programs within the country and abroad for a healthier and more professional work force.

## Correspondent Bank Network as on 31st Dec 2016.

- Aktif Bank, Turkey
- Yinzhou Bank, China
- Bank of India, India
- HDFC Bank, India
- PNB, London
- Banca Popolare Di Sondrio, Italy
- Banca Ubae SPA, Spain.

## Financial Data 2014-2016

(USD '000)

Particulars	2016	2015	2014
Total Assets	493,720	417,501	507,747
Loans to Customers ( Gross)	133,067	190,985	231,833
Total Investments	49,637	28,045	45,574
Deposits	405,769	331,046	417,458
Shareholders' Equity	84,684	82,458	86,006
Total Income	35,336	34,234	51,254
Total Profit	406	399	4,307
Net Profit	325	319	3,445

## Shareholders Profile

### Mr. Mirwais Azizi, Nationality: Afghan



Mr. Mirwais Azizi is an international businessman and he leads a multi-national company- Azizi Hotak Group (AHG) which runs several lines of businesses.

Mr. Azizi graduated from the National University of Kabul with Law. The group is the leading importer (Azizi Hotak Group) of petroleum products in Afghanistan and owner of petroleum/LPG tankages in Afghanistan and CIS countries.

Mr. Azizi is also the Chairman of the Azizi Hotak Group, Azizi Investments in Dubai, UAE and Director cum Promoter of Azizi Bank since inception. He had been the first Chairman of Azizi Bank from June 2006 to September 2011.

### Mr. Humayuon Azizi Hotak, Nationality: Afghan



Mr. Humayuon Azizi is a leading businessman in Afghanistan and mainly dealing in the import of Petroleum products and its distribution in Afghanistan.

### Mr. Farhad Mirwais Azizi, Nationality: Afghan



Mr. Farhad Azizi is a young and a budding entrepreneur with Master's in Business Administration (MBA) from Boston University, USA, MA from USA and Bachelor degree in International Business.

Mr. Azizi is looking after the business of Azizi Hotak Group and working as the CEO of Azizi Investments in Dubai, UAE.

### Mr. Abdul Aziz Khan, Nationality: Afghan



Mr. Aziz Khan has good administrative qualities and an important community leader in the Islamic Republic of Afghanistan.



# Azizi Bank Board of Supervisors

## Mr. Sundaram Prabhu: Member & Chairman of the Board, Nationality: India



Mr. Sundaram Prabhu is the Member of the Board of Supervisors of Azizi Bank since October, 2015. He has been appointed as Chairman of the Board of Supervisors on 31st January, 2016.

Mr. Prabhu functioned as an Indian Audit Accounts Service (IAAS) Officer from 1984 and superannuated in May, 2013 as Principal Accountant General of Karnataka State, India. Later Mr. Prabhu functioned as an Expert Consultant and International Audit Advisor, in various Capacities within the Supreme Audit Institutions (SAI) of India and Islamic Republic of Afghanistan and with different State Governments, Banks, Insurance Companies, World Bank Projects and other Public and Private Corporates.

Mr. Prabhu is a qualified and practicing Certified Internal Auditor (CIA), Certified Information System Auditor (CISA) and Certified in Risk and Information Control (CRISC) member and a Post Graduate in Defense and Strategic Studies apart from Post Graduate in Cyber Law, Patent Law and Alternative Dispute Resolution and SAP Financial Accounting and Control.

Mr. Prabhu has participated in the capacity building exercises of many organizations and enabled them to meet the public's trust and confidence in the independence, transparency, accountability, integrity, fairness, justice and other core values of the organizations.

## Mr. P. K. Monga: Member, Nationality: India



Mr. P K. Monga is a M.Sc. & MBA (Finance) and having more than 34 years of experience in Governmental Accounts, Audit and Finance- both at the National and Sub-national levels including Public Sector Enterprises. As a carrier officer of Indian Audit & Accounts Service (1995), retired on superannuation on 30 April 2011. Specific experience includes Government Accounting, Budgeting, Training, Finance, Audit planning and Supervision.

Mr. Monga was involved with capacity building as visiting faculty at the Institute of Government Accounts and Finance as also various training institutes of the Indian Audit & Accounts Department. Previously Mr. Monga had worked as a full time faculty in Training Institute, Ministry of Urban Development, for four years.

Mr. Monga was the Team Leader of audit assignments such as Audit of Indian High Commission at Kuala Lumpur (Malaysia) and Dhaka (Bangladesh). He is the senior most and highly qualified member in the Board and having more than 35 years of experience in accounting; finance and auditing and worked at very high senior positions in Government of India and other organisations.

Mr. Monga is presently involved in Auditing of World Bank projects in Afghanistan.

Mr. Monga was the Chairman of the Board of Supervisor since 30th Dec 2014. However at the BoS meeting dated 31st January, 2016, he had stepped down from the Chairmanship of the BOS. Previously, he was the Member to the Board of Supervisors since 20th. October 2014.

## Mr. Mirwais Azizi: Promoter and Director, Member, Nationality: Afghan



Mr. Mirwais Azizi is an international businessman and he leads a multi-national company- Azizi Hotak Group (AHG) which runs several lines of businesses.

Mr. Azizi graduated from the National University of Kabul in Law. He is a leading importer (Azizi Hotak Group) of petroleum products in Afghanistan and owner of petroleum/LPG tankages in Afghanistan and CIS countries.

Mr. Azizi is the Chairman of the Azizi Hotak Group, Azizi Investment in Dubai, UAE etc. He is also the Director cum Promoter of Azizi Bank since inception of the bank. He is a well-respected citizen of the Islamic Republic of Afghanistan and the United Arab Emirates.

Mr. Azizi was the first Chairman of Azizi Bank from June 2006 to September 2011.

## Mr. Azarakhsh Hafizi: Member, Nationality: Afghan



Mr. Azarakhsh Hafizi is having a Master's Degree in Economics and he is also the President of the Central Council of Afghanistan Peace Association in Europe & Director - Voice of Peace Magazine.

Earlier Mr. Hafizi was the Chairman of the Afghanistan International Chamber of Commerce and Industry (AICCI).

Mr. Hafizi is member of the Board of Supervisor since June 2006.

## Dr. Dale W Larson: Member, Nationality: United States of America



Dr. Dale Larson holds a Ph.D. in Economics and possess more than 45 years of experience in teaching and research, team building, banking (economist), government, public speaking, newsletter publishing, consulting, competitive intelligence and management.

Dr. Larson is the Professor of Economics & Chair of Business at the American University in Afghanistan since 2015. He is a member of the Board of Supervisor since October, 2015.

## Azizi Bank Members of the Audit Committee

### Mr. Sundaram Prabhu

#### Chairman of the Audit Committee, Nationality: India



Mr. Sundaram Prabhu functioned as an Indian Audit Accounts Service (IAAS) Officer from 1984 and superannuated in May, 2013 as Principal Accountant General of Karnataka State, India.

Later Mr. Prabhu functioned as an Expert Consultant and International Audit Advisor, in various Capacities within the Supreme Audit Institutions (SAI) of India and Islamic Republic of Afghanistan and with different State Governments, Banks, Insurance Companies, World Bank Projects and other Public and Private Corporates.

Mr. Prabhu is a qualified and practicing Certified Internal Auditor (CIA), Certified Information System Auditor (CISA) and Certified in Risk and Information Control (CRISC) member and a Post Graduate in Defense and Strategic Studies apart from being a Post Graduate in Cyber Law, Patent Law and Alternative Dispute Resolution and SAP Financial Accounting and Control.

Mr. Prabhu has participated in the capacity building exercises of many organizations and enabled them to meet the public's trust and confidence in the independence, transparency, accountability, integrity, fairness, justice and other core values of the Organizations.

Mr. Prabhu is the member of the Board of Supervisors of Azizi Bank since October 2015. He is also a member of the Audit Committee of the Board.

### Dr. Dale William Larson

#### Member, Nationality: United States of America



Dr. Dale Larson holds a Ph.D. in Economics and possess more than 45 years of experience in teaching and research, team building, banking (economist), government, public speaking, newsletter publishing, consulting, competitive intelligence and management.

Dr. Larson is the Professor of Economics & Chair of Business at the American University in Afghanistan since 2015. He is a member of the Board of Supervisor since October, 2015.

Dr. Larson is also the Audit Committee member since December, 2015.

### Mr. Malik Hamid Jamal: Member, Nationality: Pakistan



Mr. Malik Jamal is a Chartered Accountant from the Chartered Accountants Panel of Pakistan and completed his article ship with Deloitte.

Mr. Jamal is presently working as Partner with Saeed Methani Mushtaq & Co. Mr. Jamal has immense experience in auditing of financial institutions and other sectors

Mr. Jamal is an Audit Committee member in Azizi Bank since Jan 2015

### Mr. Dipak Sah: Member, Nationality: India



Mr. Dipak Sah is a Chartered Accountant from The Institute of Chartered Accountants of India, New Delhi since 2007 and active member of the Institute of Chartered Accountants of India (ICAI), All India Chartered Accountants Society and Member of the International Accountant, United Kingdom.

Mr. Sah is having wide experience as job in charge in finance, statutory and system audits of the International Development Association (World Bank) and European Commission financed projects in Kabul & India and statutory and system audits of the United Nation Development Programme (UNDP), United Nations Office for Project Services (UNOPS) and United States Agency for International Development (USAID) projects in Kabul- Middle East, Nepal & India.

Mr. Sah is an Audit Committee Member in Azizi Bank since Jan 2015.

### Mr. S S N Badya: Member, Nationality: India



Mr. SSN Badya is a qualified Chartered Accountant (FCA), Company Secretary (ACS) from India, Certified Public Accountant (CPA) from AICPA, USA and a Certified Systems Auditor (CISA) from ISACA, USA, having vast experience in statutory audit, internal audit, information systems audit and finance functions in manufacturing, software, telecom, services, banking, trading and other sectors.

Mr. Badya has more than 18 years of rich experience in driving strong business performance, developing strategies, governance, financial analysis, budgeting, forecasting and ensuring compliance with all administrative matters including legal & tax requirements.

Mr. Badya has a proven track record of successfully employing best business practices that improves efficiency, reducing operating costs, whilst increasing performance in tight time scales and within budgets.

Mr. Badya has successfully handled multinational & multicultural teams.

# Azizi Bank Board of Management

## President and Chief Executive Officer

### Mr. Mohammad Salem Omaid, Nationality: Afghan



Mr. Mohammad Salem Omaid has been associated with the bank since 2006 and has been the part of the bank's 10 years of illustrious growth. As a professional entrepreneur, he is progressively establishing a high quality "state-of-the-art" private Afghanistan Bank with a vision of "Building the Best Quality Afghanistan Bank with World Class Services" by 2020. Under his leadership, Azizi Bank has steadily evolved as the "Professionals' Bank of Afghanistan" with exemplary business and financial outcomes as evidenced in the results and performance since inception and thus building the largest banking group in Afghanistan.

Prior to his current role, Mr. Omaid has been the Deputy CEO of the bank for more than 5 years since September 2011.

He is a Doctorate in Financial Management from a leading Indian University. He is also a Post Graduate & an MBA with specialization in Banking, Risk Management & Finance. He also possesses a Diploma in Information Technology.

Mr. Omaid served the bank in various categories including being the Chief Finance Officer. His vision to create a top class bank in Afghanistan has resulted in the bank significant growth and its continuous endeavor to provide the best and effective world class customer service. He has been guiding and influencing the national policies in the diverse areas of financial sector regulation and supervision, development and regulation of financial markets, capital account management, management of government borrowings, forex reserves management and payment and settlement systems. He has been also associated with maintaining International business relations with key corporates & stake holders.

Mr. Omaid has been a great influencer & motivator in structuring the bank and guiding the bank to its present zenith. A strong leader in himself and a person with pioneering visionary skills. He has been widely responsible in developing the local human resources and the founder of the capacity building program for the bank.

Mr. Omaid have been awarded by the Government of Afghanistan, International Agencies & Azizi Bank on different occasions, some of them listed as under:

- Awarded by the Parliament of Afghanistan for playing an effective role in the development of the Afghan Banking Sector.
- Awarded by the Ministry of Defense for establishment of a proper & transparent salary payment system for the Afghan soldiers in the county.
- Outstanding performance and lasting contribution to e-Banking Cut-Over Project.
- Best Private Banking CEO, Afghanistan by the South Asian Partnership Summit, a SAARC Country initiative awarded in Colombo, Sri Lanka in Oct 2016
- Best Retail Banking CEO, Afghanistan – International Finance Magazine, London and awarded in Singapore in Dec 2016
- Felicitated at other international awards programs for the success of the bank

Mr. Omaid also holds the following portfolio in the Country.

- Chairman- Afghanistan Payments System (APS), an initiative to ensure inter-operability of ATMs in the Country.
- Chairman - Afghanistan Banking Association (ABA)
- Executive Board Member of the International Chamber of Commerce, Afghanistan wing
- Board Member, Bakhtar Bank, 100% subsidiary of Azizi Bank
- Guest Faculty at the various Universities of Afghanistan



## Vice President and Deputy Chief Executive Officer Mr. Mohammad Osman Nowrozi, Nationality: Afghan



Mr. Nowrozi is a qualified and experienced banker with experience of more than 8 years with Azizi Bank since 2008. He is holding a bachelor's degree in B.B.A with specialization in finance and completed diploma course in English language and having experience of three years in teaching English. Presently he is doing M.B.A. In 2008 Mr. Mohammad Osman Nowrozi has been approved by Central bank of Afghanistan as a Chief Compliance Officer of Azizi Bank. Since then; he has been taking care of all the compliances, AML & KYC and involved in extending training to all members of the staff of the Bank in AML & KYC areas.

Mr. Nowrozi has been working in close coordination with the external & internal auditors in matters of compliance issues. He has been promoted to the post of Vice President and Deputy Chief Executive Officer at the Board of Supervisors meeting held in August, 2016. Since then he has been looking into all areas of Operations, Credit, Treasury, Marketing and HR.

## Chief Operating Officer and Chief Marketing Officer Mr. Samrat Dutta, Nationality: India



Mr. Samrat Dutta was appointed as Chief Operating Officer in October 2015 post the Central Bank's confirmation. He carried with him immense experience of more than 18 years in the banking and financial management, having worked for the leading banks in India viz. Yes Bank, HDFC Bank, ICICI Bank & American Express Bank in various capacities which included leading regions in the capacity of Regional Head – Retail Branch Banking and covered a wide gamut of provinces and employees.

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 global influential market leaders by the World HRD Congress. He was chosen for this award amongst 600 nominations from 60 countries.

Mr. Dutta is a MBA in Sales & Marketing from one of the premier institute in Kolkata, India.

He has been given the additional responsibility of Chief Marketing Officer & Head – Corporate Communications for Azizi Bank wef January 2016.

## Chief Credit Officer Mr. Kumar Ghosh, Nationality: India



Mr. Kumar Ghosh is CA, CS, ICWA, CAIIB (Chartered Accountant, Company Secretary, Cost & Works Accountant, Associate of Indian Institute of Bankers & holding Diploma in Personnel Management all from India) with over 31 years of rich & extensive experience in Finance & Accounting, Corporate Accounts, Trade Finance, Corporate Credit Financing, Operational Banking, Investment Banking & Retail Banking, Risk Management as well as Board Secretary with a leading PSU-Public Sector Bank in INDIA and also in International Banks.

Mr. Ghosh was associated with a leading Multi-National Bank in Africa as Chief Executive Officer handling Corporate Accounts, Credit, Treasury mgt. Risk Management and all other functions of the Bank, involved in finalization of accounts, accounts monitoring, implementation of GL controls, conducted due inspection of Branches and implementing Audit controls for smooth functioning of the Bank and also implementing Operational controls. Later he joined First Merchant Bank, Malawi as Head of Credit. Mr. Ghosh held previous assignment as Chief Manager, United Bank of India in India for more than two decades.

Mr. Ghosh joined Azizi Bank in October 2014 as Chief Finance Officer post confirmation from the Central Bank of the Country. He looked after all the finance functions of the bank, including finalization of Balance sheet, External Audit and liaison with regulatory authorities.



Mr. Ghosh is also in charge of organizing all board meetings, minutes and the entire gamut of secretarial functions. He is also the Secretary to the Board of Supervisors. He is also in charge of updating all policies and the entire compliance function and liaising with DAB (the Central Bank) and other monitoring authorities.

Since July 2016, Mr. Ghosh has been in charge of the credit portfolio of the Bank as Chief Credit Officer. Additionally Mr. Ghosh is the Chairperson of Credit monitoring committee of Afghanistan Bank's Association & is also a visiting faculty with the American University of Afghanistan.

## Chief Finance Officer

### Mr. Ahmad Fawad Qaderi, Nationality: Afghan



Mr. Ahmad Fawad Qaderi joined Azizi Bank as a Finance Officer in February 2010. He has been all through in the Finance Dept. since his joining and been promoted to the position of Deputy Chief Finance Officer. He is a Bachelors in Business Administration from Kardan University and carries immense experience in Accounting, Balance Sheet analysis & compilation, Asset & .Liability Management

He has been instrumental in coordinating & liaising with the external auditors of the bank in the finalization of the accounts report and the balance sheet. Mr. Fawad is also the acting Liaison Officer of Azizi Bank with the Central Bank of Afghanistan and the Ministry of Finance on all the bank related issues. Presently he is the Chief Finance Officer (acting) for Azizi Bank since Aug'2016

# Other Senior Management Officials at Azizi Bank

## Chief Internal Auditor: Mr. Munir Khan, Nationality: Pakistan



Mr. Munir Khan is a MBA (Banking & Finance), MA (English) & LL.B. with Diploma in Islamic Banking and Insurance from Institute of Islamic Banking and Insurance, London UK.

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

Mr. Khan is also a Certified Course Leader/Master Trainer in Customer Service by Ron Kaufman of Up Your Service College, Singapore. As a Master Trainer, Mr. Khan has conducted/trained more than five hundred bank staffs including Front Office personnel and Executives viz a viz customer service.

Mr. Khan has also worked as English Teacher at Pakistan Air Force Inter College Risalpur, KPK Pakistan.

In his last assignment, Mr. Khan worked as Senior Auditor at Habib Bank Ltd, Pakistan since Jan 2005 and in Audit since 1995. He has 18+ years' experience in Internal Audit of the bank. Having experience in audit of branches and departments in all areas of banking including audit of Credit, IT Dept. Finance etc. and involved in statutory audit of the bank. Developed audit plans, guidelines and manuals besides conducted various fraud investigations.

Mr. Khan has been approved by the Central Bank of Afghanistan on 20th October 2014 and joined on 1st Dec 2014 at Azizi Bank as Chief Internal Auditor.

## Chief Risk Officer: Mr. Rajendra Singh Sunda, Nationality: India



Mr. Rajendra Singh Sunda is an accredited FRM ( Financial Risk Manager ) from GARP, USA; MBA - Finance and PGDHRM from IGNOU, New Delhi; CAIIB and DTIRM from Indian Institute of Banking & Finance, Mumbai; M. A. , M. Com. & LL.B. From Rajasthan University, Jaipur.

Mr. Sunda has over 29 years of experience in diverse fields of banking such as Resource Mobilization, Quality Credit Deployment, Direct Interaction with Corporate Clients, Identification, Controlling, Mitigating & Managing credit, operational & legal risks, Marketing Of Financial Services, Development of Merchant Banking & Foreign Exchange Business, Marketing Of Bank's IPO, Incharge of Retail Assets at Corporate Office etc.

Before joining Azizi Bank, Mr. Sunda was acting as AGM-Risk Management with India's largest nationalized bank (Punjab National Bank) spearheading the implementation of Advanced Approaches of Credit Risk under Basel II/III guidelines. Besides being the Convener of Credit Risk Management Committee, Mr. Sunda was also In-charge of secretariat for Risk Management Committee (RMC), a board level sub-committee.

### **Head -Treasury: Mr. Nijay Kumar Gupta, Nationality: India**



Mr. Nijay Kumar Gupta is a CAIIB, AICWA & Post Graduate Diploma in Law of International Institutions with over 35 years of Experience in PSU, Private, and International Banks & MNC's in India in the area of Forex, Treasury and Trade Finance. Mr. Gupta has acted as Trainer in Banking, Forex, Treasury and Trade Finance for various Banks, Corporates & Business Schools in India/Overseas. Mr. Gupta started his career with Canara Bank in 1978 and moved on to work with other banks of repute like Abu Dhabi Commercial Bank, Krung Thai Bank PCL, Bank Muscat, IndusInd Bank & Antwerp Diamond Bank.

### **Head- Alternate Delivery Channels: Mr. Bhushan Chougule, Nationality: India**



Mr. Bhushan Chougule is a B.Com, BBA, DME (Diploma in Mechanical Engineering) and Certified ITIL®. 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 included installation of 1000+ ATM's under MOF (Ministry of Finance, GOI) project for IDBI Bank, EMV (Chip) Card issuance, Mobile Banking implementation and Financial Inclusion initiatives. Mr. Chougule is having more than 10 years of experience in Alternate Delivery Channels related technologies and implementation. Mr. Chougule is working with Azizi Bank since September 2016 as Head- Delivery Channels and looking after all ATMs & Card Management Products.

## Corporate Governance

# Structure

Corporate Governance in Banks refers to the set of systems, principles and processes by which a Bank is governed. The bank understands that effective corporate governance practices are essential for achieving and maintaining public trust and confidence in the bank which are so critical for its proper functioning. Indeed, in addition to the responsibilities to Shareholders, the bank also has a responsibility to the depositors and to other recognized stakeholders.

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 having immense experience in Finance, Economics and Auditing. The meetings of the BoS are held at regular intervals every month. The BoS while approving the policies as also through its monitoring at regular intervals ensures that the Bank takes care of the interests of all the stakeholders.

Similarly the Audit Committee is reconstituted with 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 the Professor in the American University in Afghanistan. The other three members are Chartered Accountants with good experience and have worked/ 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 & 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.

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

- **Discipline:** Employees & senior management members are committed to adhere 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 range from the composition of the board to committee appointments and involve 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 exists 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.

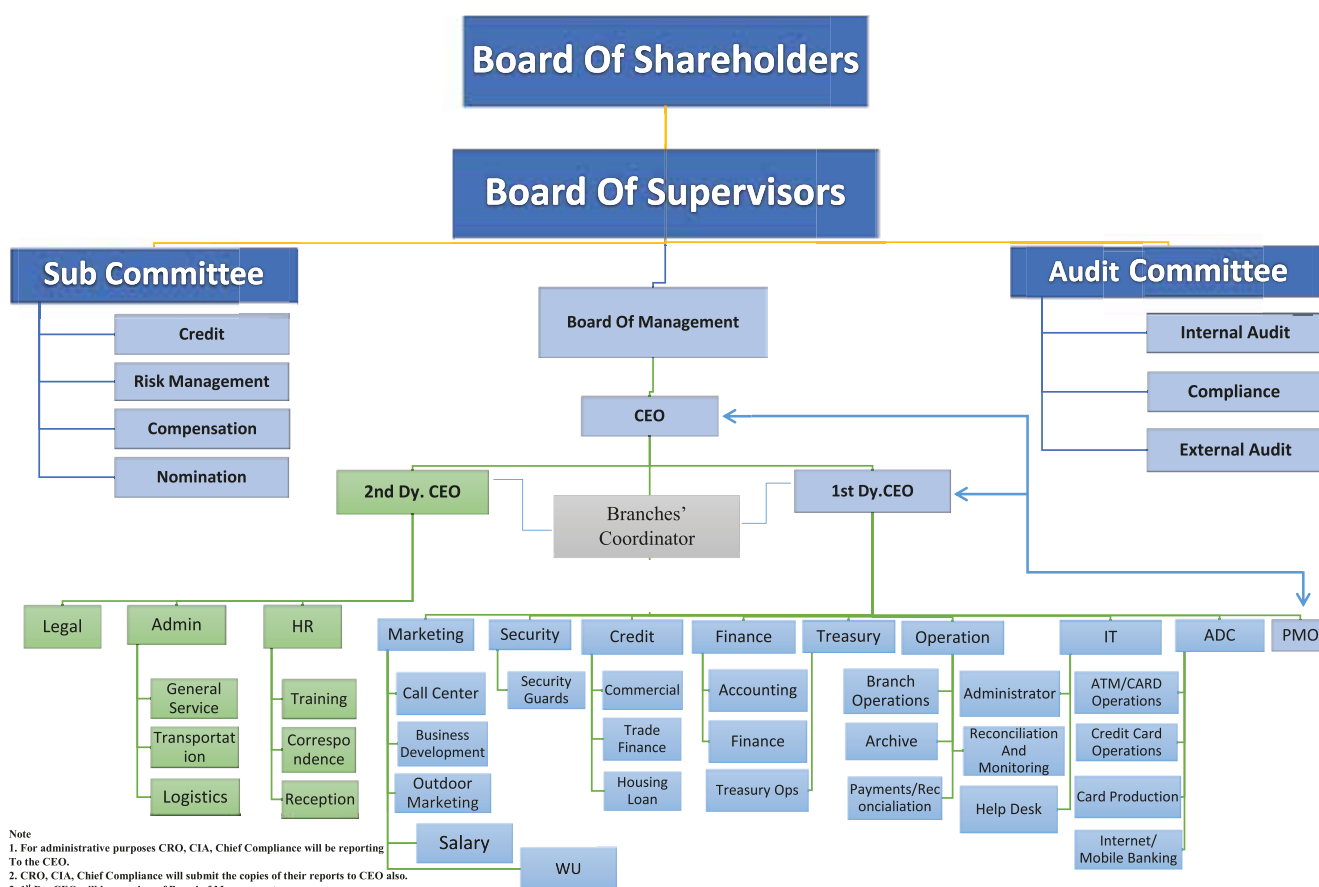
However, to improve the quality of decision makings, the bank has also constituted the following committees for detailed analysis of the issues involved by the technical experts:

- Strategic Planning Committee
- Asset Liability Management Committee
- Risk Management Committee
- Investment Committee
- Credit Committee
- HR Committee
- Business Process Re-engineering Committee

# Azizi Bank

## Organizational Chart

Azizi Bank Organizational Chart June-2017



Note  
 1. For administrative purposes CRO, CIA, Chief Compliance will be reporting To the CEO.  
 2. CRO, CIA, Chief Compliance will submit the copies of their reports to CEO also.  
 3. 1<sup>st</sup> Dy. CEO will be member of Board of Management  
 4. 2<sup>nd</sup> Dy. CEO will not be member of Board of Management



# Key Department Notes to the Annual Report

## Audit Department

During 2016, the Audit department implemented the Annual Audit Plan in a befitting manner as no backlog was noted. All the branches of the Bank (75) were audited twice i.e. on six monthly basis and reports were released to the stakeholders accordingly. Management Audit of six (6) departments of Head Office including Credit, Information Technology, Human Resources, Risk Management, Treasury and Payment departments was also conducted during the year. In order to have effective follow up of unresolved Issues, the department vehemently pursued the branches and departments for rectification of all outstanding issues with the help of senior management and more than 90% issues stand resolved. Cash on Hand of 42 branches was also checked on surprise basis and reports were shared with management.

In addition, the department also investigated 26 different untoward incidents reported during the year and reports / recommendation were shared with senior management. In order to bring qualitative improvement in the internal control framework of the bank, a special initiative in the form of Special Review of various functions of the Bank was undertaken and six (6) such reviews were held during 2016. In order to improve and further enhance the capacity building of auditors, against a target of 15 trainings, 28 various in house and external trainings were imparted to all audit staff in 2016.

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

## Operations Department

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

Since 2013, the bank was facing an unprecedented dip in deposit growth, which was reversed as at December 2016 by registering a deposit growth of 24.40% over the year 2015. The deposits had moved from USD 333.15m as at Dec 2015 to USD 414.43 as at end of year 2016 Shared growth had been seen in all the major heads under deposits.

Of the 75 branches, 29 branches achieved the year-end target for deposits as at December 2016.

Internal control had been kept as one of the key areas of performance. Our internal controls over financial reporting is a progression intended under the supervision of Chief Operating Officer and our Chief Financial Officer to offer judicious guarantee regarding the consistency of financial reporting and the preparation of the bank's consolidated financial statements for external reporting purposes in agreement with International Financial Reporting Standards (IFRS) which includes our disclosure controls and measures intended to avert misstatements.

## Human Resource Department

As the Bank embarks on its journey to consolidate its position as the largest private sector Bank in Afghanistan, employees continue to be the critical and enabling pillar to translate this vision into reality. The Bank remained focused on building an organization which continuously innovates, nurtures and develops its people and provides them with a great workplace environment which supports and enables each employee to realize his/her full potential.

For the Bank, with key changes in the Management team that have taken place, 2016 was a milestone year. For Human Resources Management, supporting these organizational changes has been one of the greatest challenges of 2016.

Talent management as a component of strategic management becomes increasingly important in order to ensure the bank long-term success. At Azizi Bank, the yearly process of talent reviews offers a good visibility of talent and

risk within the organization, ensuring a ready, credible and high-quality internal talent pipeline. This will fill both expected and unexpected vacancies. In the reviews the focus remains on positions where we do not have sufficient succession plans in place. Efforts are on for the functions/branches to pro-actively drive their succession plans together with HR.

Effective talent discussions and assessments enable us to identify the talents and their potential. This ensures a clear fit between skills, capabilities, aspirations and roles. Effective and efficient development of employee talent keeps the organizations employee base engaged and ensures long-term retention.

Some of the major highlights for the year 2016, are as follows:

- The staff strength of the Bank as on end of 2016 was 1511, which is an increase of 13% over the previous year. The annualized staff attrition rates remained low at 8%
- The Bank maintained its focus on increasing its female employee count in order to increase the diversity at work. The percentage of female employees as on end of 2016 stood at 10%.
- During the year, the Bank also launched employee recognition programs to felicitate Target Achievers on a monthly, quarterly and yearly basis and also for best performers from all branches and departments. The best performers were appreciated on a quarterly basis in a glorious function held in any prominent hotel in Kabul, in the presence of the Board Members and the Top Management. The staffs were rewarded with Certificates of Appreciation.
- As part of our efforts to strengthen the marketing reach of the bank, we increased the number of marketing personnel from 5 to 25. In addition, to strengthen the branch operations structure, the bank initiated the Zonal Managers positions in six zones to provide better leadership and oversight to branches operating in the provinces.
- The learning strategy of the Bank supports and complements the organizational and business strategy. Many new interventions were launched in 2016, namely Refresher Training programs covering all Branch Technical Staff, Branch Managers, CSO / CSR, Tellers & Record Keeper; training interventions in association with the Afghanistan Institute of Banking & Finance which included long term courses such as diploma in Banking & Finance, English language courses and General Banking course etc.
- The Human Resource function did a commendable task of streamlining the work permit, biometric and health clearance for the employees during the year and successfully ran the On-line leave processing and creation of users to all Azizi Bank staff individually.

## Compliance Department

As of 2016, Compliance Department consisted of 22 independent officers who are experienced in Compliance, AML, CFT laws and policies as compared to 12 in year 2015. We also increased the frequency of branch visits as compared to 2015 and the quality of branch visit report has increased substantially.

During 2016, department made specific improvements on various compliance functions like transaction monitoring, LCTR filing, PEP monitoring etc. and assigned specific officers for the same. More emphasis were placed on the identification of the PEPs with the help of Safe watch, World check, Afghan Bio, Google check and so on. Advanced risk categorization were imposed on the accounts.

Compliance Department has revised its AML/CFT policies during 2016 and rectified various downfalls, modified it and submitted the same for the Central Bank's approval. The department also framed three new circulars for better monitoring of the functionalities.

Compliance functions were done manually during 2015 and it was decided to implement automated systems for compliance during 2016 and contracted Virmati Software (from India) for the implementation. We are also reporting STR's, SAR's on a timely basis and more accurately. Training programs were increased during the year for all the departments

## Credit Department

Azizi Bank is the largest lender in the Country with a portfolio of almost 23% of the total loans sanctioned by the

Banking sector. The Bank has allowed loans to all the progressive sectors of the economy keeping in view the extensive DAB legislations and the requirements for financial inclusion amongst the masses keeping in view that the Banking population is 12% of the total population. The bank has performed admirably in the area of non-fund business with a total earning of USD 14 Mio. an increase of 250% from the previous year. The Interest Income is 17% of the cumulative interest earned by all the banks and amounted to USD 21 Mio. The bank also has an average yield on Income of above 15% p.a.

The bank has also sanctioned additional loans amounting to USD 6.6 Mio during the current year and renewed a total quantum of USD 79 Mio. There has been sizeable recovery of USD 5.9 Mio. during the current year from outstanding accounts, which is a sizeable achievement. The bank has an objective of further reduction of its NPA portfolio to 25 % of gross loans with reduction by about USD 20 Mio. through recovery. The bank also has the objective of increased lending to SME sectors and agricultural and agro based sectors to promote increased economic activity. Working Capital Loans constitutes 72% of the total loan portfolio and the bank has an extensive portfolio of Bank Guarantees and letter of credits. The department has an adequate capacity of 16 well trained staff members who takes care of the requirement of the department.

## Marketing and Corporate Communications Department

Azizi Bank developed a strategic marketing plan in 2016 and an implementation vision till 2020. It laid initiatives to better its position itself within the market through implementing of new marketing initiatives, leveraging its existing network and distinguishing itself from its main competitors. A proper marketing survey within the country was initiated and the bank analyzed the SWOT and did a proper STP of its initiatives.

The key marketing focus went on creating a customer centric approach through offering a seamless customer experience, integrating sales and service across all the channels. This was done through understanding customers and recognizing their unique requirements, conducting customer analytics of customer data to tailor the Bank's offerings to customers so as to help generate sales opportunities, build leads and contacts and enhance sales effectiveness.

The Bank expanded its product portfolio range and customer reach & planned to introduce new products that will target specific customer segments such as senior citizens, students, women and minors.

The Bank developed a digital department, whose one of the responsibility included sending bi-weekly emails to all internal customers on the various initiatives, existing products and features. The Bank initiated the SMS service wherein internal customers were informed of the various products/services and other alert messages. The Bank's social media profile has been enhanced by introducing Linked In, Facebook, and YouTube as additional media channels on the Bank's website that will connect the customers directly with the Bank's professional network. Digital Officer is recruited to ensure social media advertisement and promotional campaigns on all the official social media pages of the bank which will include Face Book, Linked IN, and Twitter. Media Officer is recruited to take care of all print and electronic advertisement of the bank.

To enhance the level of customer service at the branches, designated Customer Care Officers have been appointed at selected braches which has maximum footfall, who prima facie responsibility was to guide customers properly, check the level of the services at the specified counters and TAT.

A separate incentive model for the outbound executives have been initiated to bolster performance and enhanced productivity. This has contributed to the overall growth of the deposits in the bank.

In 2016, Azizi Bank has also taken a strong lead in the Corporate Social Responsibility initiatives by providing aids and financial assistance to local educational institutions which included schools, colleges, universities and NGOs.

Within our endeavors to sustain the brand image and provide world class customer service, Azizi Bank have also received several international awards and recognitions from across the globe in 2016.

# Awards 2016



Best Corporate Governed Bank,  
Afghanistan by Quest on the  
Frontier, Singapore - Aug 2016



Industry Leadership Award by  
World Leadership Congress &  
Innovation, Mauritius- Dec 2016



Best Social Impact Bank,  
Afghanistan by Capital Finance  
International (CFI.co), London -  
Jul 2016



Best Private Sector Bank,  
Afghanistan by South Asian  
Partnership Summit, Sri Lanka  
-Oct 2016

# Awards 2016



Best Banking CEO- Afghanistan  
by International Finance  
Magazine, London - Dec 2016



Best Bank - Customer Service,  
Afghanistan by International  
Finance Magazine, London -  
Dec 2016



# CSR Activities 2016



Azizi Bank donated school bags, note books and other amenities to more than 200 children of Anna Educational Center for Street Children on the occasion of International Children's Day - June 2016



Azizi Bank donates stationaries to orphans and deprived children of Hazrat Muhammad (SAW) Nursery located at the vicinity of 17th district of Kabul City – Nov 2016



Azizi Bank contributed to the first of its kind Digital Library in Afghanistan at Kardan University - April 2016



Azizi Bank distributed quilts to more than 150 families displaced during the evolving unrest and insecurity in the Northern Kunduz Province of Afghanistan - Oct 2016



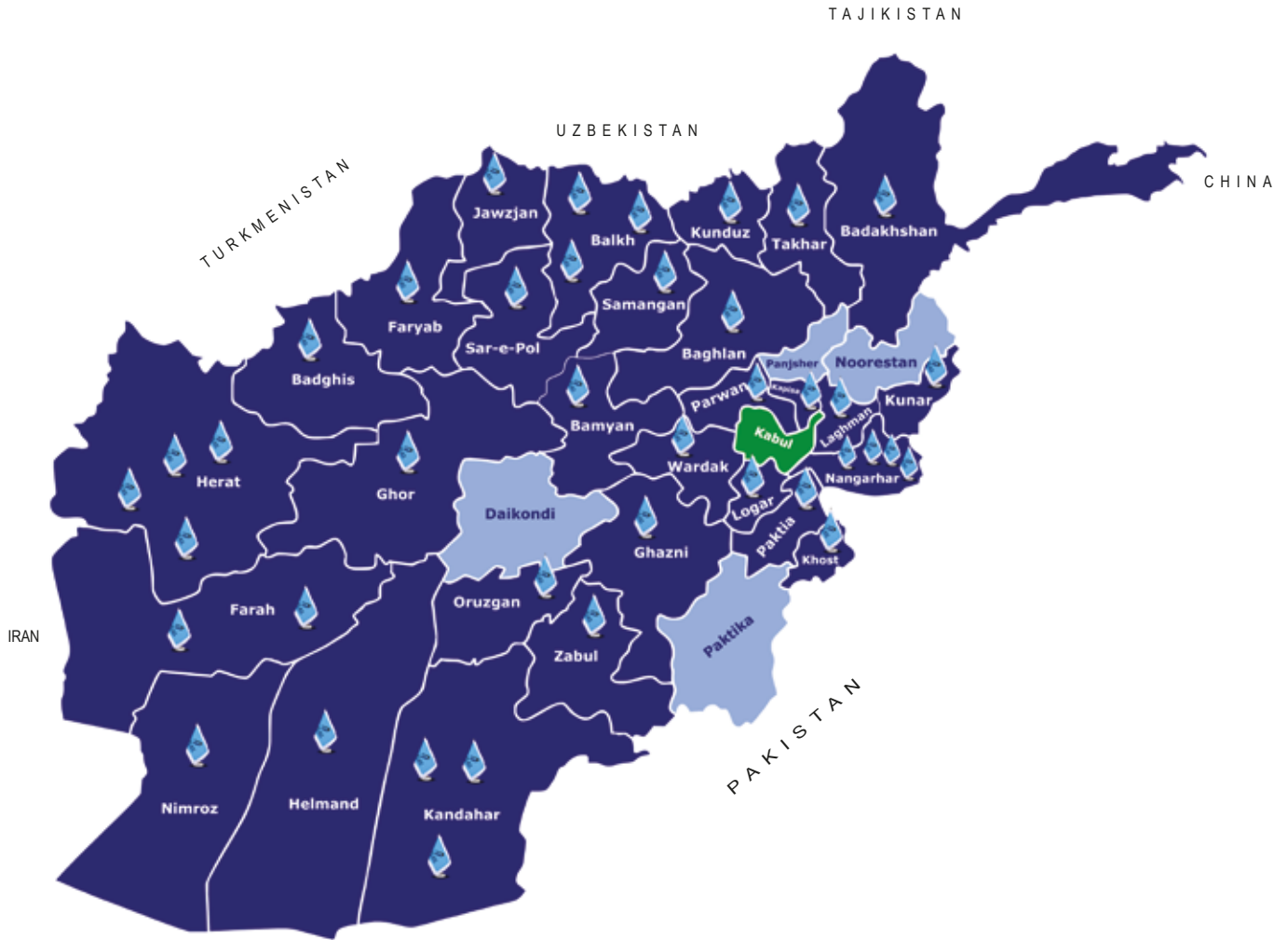


عزیزی بانک  
Azizi Bank

Annual Report

2016

# عزیزی بانک Azizi Bank



## Azizi Bank ATM Network

### Kabul Branches

#### Locations

Ministry of Defence  
Main Branch, ZANBAQ Square  
Macrorayan Branch  
Ministry of Rural Rehabilitation  
Ministry of Foreign Affairs  
Taimani Branch  
City Center  
Kot-e-Sangi Branch  
Khairkhana 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

### Province Branches

Mazar-e- Sharif Branch  
Herat Branch  
Herat 2nd Branch  
Kandahar Branch  
Jalal Abad Branch

### Expansion Plans

ATM Network to be Increased to 60 ATMs by 31 December 2016

## Azizi Bank Branches Locations

### Kabul Branches




Main Branch  
Sarai Branch  
Shar-e-Naw  
Jad-e-Maiwand  
Kart-e-Parwan  
Khairkhana  
Macrorayan-3  
Macrorayan-1  
Kot-e-Sangi  
Dasht-e-Barchi  
Arzan Qemat  
MOD  
Kart-e-Se  
Dehmazang  
Qalai Fathullah  
Charahi Qambar  
Taimani  
Metropol  
MOD Logistic  
Paghman  
Kololaposhta  
Macrorayan-4  
Company  
Panjsad Family  
Khairkhana Part-3  
Shahshahid  
Khairkhana part-1  
Khairkhana -315  
Sar-e-Kotal  
Quwai Markaz  
400-Beds  
Wazir Akbar Khan

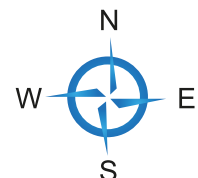
### Province Branches

Ghazni  
Parwan  
Herat  
Herat 2nd  
Herat 3rd  
Herat Custom  
Mazar-e-Sharif  
Mazar 2nd  
Mazar 3rd  
Pul-e-Khumri  
Kunduz  
Kunar  
Laghman  
Jawzjan  
Faryab  
Khost  
Badakhshan  
Jalalabad  
Jalalabad 2nd  
Jalalabad Qumandani  
Takhar  
Hairatan  
Kandahar  
Kandahar 2nd  
Helmand  
Nimroz  
Farah  
Bamyan  
Spinboldak  
Gardiz  
Sar-e-pol  
Samangan  
Torkham  
Logar  
Torghondi  
Wardak  
Kapisa  
Badghis  
Grishk  
Zabul  
Andkhoy  
Sherkhan Bandar  
Oruzgan  
Ghor

### Extn. Counters

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

-  Kabul Branches
-  Province Branches
-  Opening soon



- ▶ Total 85 Branches = 33 in Kabul & 42 in Provinces
- ▶ 10 Extension Counters
- ▶ Azizi Bank presence in 30 provinces out of 34 provinces.

## 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, 2016, 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, 2016, 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 that there are two key audit matters to communicate in our report;

1. During our audit following deficiencies in the Code of Corporate Governance of the bank were observed and Vacant / unapproved key positions were observed and detail is as under;
  1. Chief Financial Officer (unapproved) From December 04, 2016 to date
  2. Deputy Chief Executive Officers – (unapproved)
  3. Chief Compliance Officer – Position vacant throughout this financial year
  4. Chief Credit Officer- From January 08, 2016 to December 03, 2016

However, deliberations have been started to fill the vacant position and suitable candidates have been forwarded to Da Afghanistan Bank to seek necessary approval.

2. According to article 56.1, chapter No. 05 of the law of banking in Afghanistan, board of management should comprise of five members. However, we observed that minimum number of members of board of management are not complied with the referred requirements.

*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.

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

  
Horwath *MAK*

Auditors and Business Advisors

Kabul

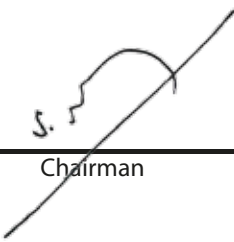

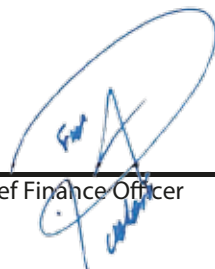




AZIZI BANK  
STATEMENT OF FINANCIAL POSITION  
AS AT DECEMBER 2016,31

2016	2015		2016	2015
.....USD '000'.....		Note	.....AFN '000'.....	
<b>ASSETS</b>				
257,735	163,931	Cash and cash equivalents	17,224,439	11,207,964
109,623	166,729	Loans and advances to customers	7,326,122	11,399,271
49,637	28,045	Investments	3,317,251	1,917,425
23,567	22,305	Investment in subsidiary	1,575,000	1,525,000
250	250	Investment in APS	16,708	17,093
12,208	10,714	Property and equipment	815,869	732,538
678	501	Intangible assets	45,340	34,253
4,361	-	Non-current assets held for sale	291,423	-
35,661	25,026	Other assets	2,383,196	1,710,998
<b>493,720</b>	<b>417,501</b>	<b>Total assets</b>	<b>32,995,348</b>	<b>28,544,542</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Liabilities</b>				
53,535	95,973	Deposits from banks	3,577,744	6,561,659
352,234	235,073	Deposits from customers	23,539,800	16,071,983
-	-	Current tax liability	-	-
3,267	3,996	Other liabilities	218,380	273,201
<b>409,036</b>	<b>335,042</b>	<b>Total liabilities</b>	<b>27,335,924</b>	<b>22,906,843</b>
<b>Equity</b>				
80,314	78,505	Share capital	5,367,400	5,367,400
4,370	3,953	Retained earning	292,024	270,299
<b>84,684</b>	<b>82,458</b>	<b>Total equity</b>	<b>5,659,424</b>	<b>5,637,699</b>
<b>493,720</b>	<b>417,501</b>	<b>Total equity and liabilities</b>	<b>32,995,348</b>	<b>28,544,542</b>
		<b>Contingencies and commitments</b>	25	

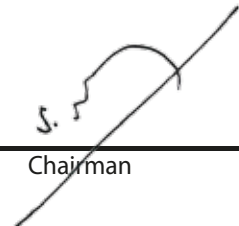
The annexed notes 1 to 29 form an integral part of these financial statements.

 Chairman	 Chief Executive Officer	 Chief Finance Officer
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AZIZI BANK  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 2016 ,31

2016	2015		Note	2016	2015
.....USD '000'.....				.....AFN '000'.....	
20,986.47	24,100	Interest income	19	1,402,526	1,647,730
(12,382)	(16,106)	Interest expense	19	(827,506)	(1,101,161)
8,604	7,994	<b>Net interest income</b>		575,020	546,569
13,065	7,245	Fee and commission income	20	873,135	495,307
(1,250)	(768)	Fee and commission expense	20	(83,510)	(52,523)
11,815	6,476	<b>Net fee and commission income</b>		789,625	442,784
20,419	14,470	<b>Operating income</b>		1,364,645	989,353
(2,154)	302	Net impairment (loss) /gain on loans and advances	6.7	(143,948)	20,633
(6,826)	(6,309)	Employee benefit expenses	21	(456,160)	(431,314)
(869)	(881)	Depreciation on fixed assets	10	(58,090)	(60,256)
(123)	(121)	Amortization of intangible assets	11	(8,245)	(8,306)
(1,657)	(1,489)	Operating lease expenses		(110,763)	(101,789)
(9,668)	(8,463)	Other expenses	22	(646,139)	(578,597)
(21,298)	(16,961)	<b>Operating expenses</b>		(1,423,345)	(1,159,629)
635	2,566	Foreign Exchange Gain		42,440	175,440
36	-	Gain on disposal of property and equipment		2,394	-
614	324	Other operating income		41,015	22,119
1,285	2,890	<b>Non-operating income</b>		85,849	197,559
406	399	<b>Profit before taxation</b>		27,149	27,283
(81)	(80)	Taxation	23	(5,430)	(5,457)
325	319	<b>Profit for the year</b>		21,719	21,826
-	-	Other comprehensive income		-	-
325	319	<b>Total comprehensive income for the year</b>		21,719	21,826

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

  
Chairman

  
Chief Executive Officer


  
Chief Finance Officer



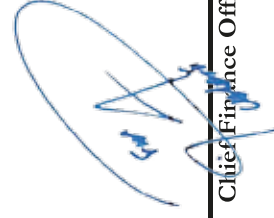
**AZIZI BANK**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

Share capital	Retained earnings	Total	Share capital	Retained earnings	Total
.....USD '000' .....	.....AFN '000' .....		.....AFN '000' .....		
80,314	4,045	84,359	5,367,400	270,305	5,637,705
Balance as at January 01, 2016					
Comprehensive income					
-	325	325	-	21,719	21,719
Net Profit for the year					
Transactions with owners					
<u>80,314</u>	<u>4,370</u>	<u>84,684</u>	<u>5,367,400</u>	<u>292,024</u>	<u>5,659,424</u>
Balance as at December 31, 2016					
69,729	3,634	73,363	4,767,400	248,479	5,015,873
Balance as at January 01, 2015					
Comprehensive income					
-	319	319	-	21,826	21,826
Net Profit for the year					
Transactions with owners					
8,776	-	8,776	600,000	-	600,000
Ordinary share issue					
<u>78,505</u>	<u>3,953</u>	<u>82,458</u>	<u>5,367,400</u>	<u>270,305</u>	<u>5,637,699</u>
Balance as at December 31, 2015					

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, 2016**

2016	2015		2016
.....USD '000'.....		Note	.....AFN '
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
406	399	Profit before taxation	27,149
<b>Adjustments for:</b>			
(36)	-	Gain on disposal of property and equipment	(2,394)
869	881	Depreciation	58,090
123	121	Amortization	8,245
2,154	(301)	Net impairment (reversal)/loss on loans and advances	143,948
3,516	1,101		235,038
<b>Increase / decrease in operating assets and liabilities:</b>			
58,794	7,268	Loans and advances to customers	3,929,201
(10,220)	7,507	Other assets	(677,622)
(44,649)	17,313	Deposits from banks	(2,983,915)
111,743	(42,588)	Deposits from customers	7,467,817
(820)	343	Other liabilities	(54,821)
118,445	(9,057)	<b>Net cash generated from /used in operating activities</b>	<b>7,915,698</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
(20,946)	10,830	Investment made / investments divested	(1,399,826)
(2,116)	(2,495)	Purchase of property and equipment	(141,421)
(4,361)	-	Non-current assets held for sale	(291,423)
(289)	(84)	Purchase of intangible assets	(19,332)
35	-	Proceeds from sale of property and equipment	2,394
(743)	(2,810)	Investment in subsidiary and APS	(49,615)
(28,420)	5,441	<b>Net cash used in / generated from investing activities</b>	<b>(1,899,223)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
-	8,776	Proceeds from issuance of shares	-
-	8,776	<b>Net cash generated from financing activities</b>	<b>-</b>
90,027	5,386	<b>Net increase in cash and cash equivalents</b>	<b>6,016,475</b>
167,709	158,545	Cash and cash equivalents at beginning of the year	11,207,964
257,735	163,931	<b>Cash and cash equivalents at the end of the year</b>	<b>17,224,439</b>

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, 2016**

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**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 (2015 : 75).

**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**

The following revised standards, amendments and interpretations with respect to the approved accounting standards would be effective from the dates mentioned below against the respective standard or interpretation:

Effective from accounting period beginning on or after

Amendment to IAS 7 on disclosure initiative	January 01, 2017
Amendment to IAS 12 on recognition of deferred tax assets for unrealized losses	
IFRS 2, Share-based payment Amendment on clarifying sharebased payment transactions	
<hr/>	
<b>IFRS 9, Financial instruments</b>	January 01, 2018
<hr/>	
Amendment to IFRS 9, Financial instruments on general hedge accounting	
<hr/>	
Amendment to IFRS 10 and IAS 28 on sale or contribution of assets IFRS 15, 'Revenue from contracts with customers'	Annual periods beginning on or after 1 January 2018 to be determined
Amendments to IFRS 15 ' Revenue from contracts with customers' - Clarifications	

**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.

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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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 2016 is 66.83 (2015: 68.37) per US Dollar has been used.

**3. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

a) Provision for loan losses

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

b) Provision for income taxes

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

c) Useful life of property and equipment and intangible assets

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

d) Held to maturity investments

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

**4. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless or otherwise stated.

**4.1 Foreign currency transaction and translation**

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

	<u>USD</u>	<u>Euro</u>	<u>Sterling</u>
The exchange rate for following currencies against AFN were :			
As at 31st December 2016	66.83	69.79	81.70

**4.2 Equity Investment in Subsidiary**

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

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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**4.3 Revenue recognition**

- a) Interest income and expense is recognized in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant periods. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fee paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.
- b) Due but unpaid interest income is accrued on overdue advances for periods up to 90 Days in compliance with the regulations issued by DAB. After 90 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.

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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**4.6 Financial assets and Financial liabilities**

**Financial Assets**

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

a) Financial assets at fair value through profit or loss

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

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

b) Loans and receivables

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

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

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

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

c) Held-to-maturity financial assets

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

d) Available-for-sale financial assets

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

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

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



**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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

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

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

**Impairment of financial assets**

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

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

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

- Delinquency in contractual payments of principal or interest;
- Cash Flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
  
- Breach of loan covenants or conditions;
- Initiations of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration below investment grade level.

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

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

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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b) Loans and receivables

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

**Standard**

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

**Watch**

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

**Substandard**

These are loans and advances, which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral, if any, supporting it. Further, all loans and advances which are past due by 61 or 90 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 91 to 360 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 360 days for principal or interest payments are also classified as Loss as per Asset Classification Schedule Amended 2015. 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.

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Financial Liabilities**

The Bank classifies its financial liabilities in following categories;

a) Financial liabilities at fair value through profit or loss

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

b) Other financial liabilities measured at amortized cost

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

**4.7 Impairment of non-financial assets**

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

**4.8 Cash and cash equivalents**

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

**4.9 Loans and advances**

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

**4.10 Property and equipment**

***Recognition and measurement***

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

Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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

***Subsequent costs***

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

***Depreciation***

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

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

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

***Leased***

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

**4.11 Intangible assets**

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

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

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

**4.12 Recognition and Measurement of Goodwill**

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

**4.13 Investment in associate**

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

**4.14 Deposits**

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

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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**4.15 Provisions**

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

**4.16 Employee compensation**

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

**4.17 Off-setting**

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

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

**4.18 Non-current assets held for sale**

Non-current assets held for sale signifies those assets taken up by the bank from collaterals held against the written off and doubtful loans and advances. For classifying these assets criteria set forth in the relevant standard has been followed i.e. management is committed to plan to sell, the asset is immediately available for sale, an active programme to locate the buyer has been initiated, the sale is highly probable 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.

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. After classification as held for sale, Non-current assets that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

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

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

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



**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Subsidiary**

The Bank owns 100% shares in Bakhtar Bank (2015: 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:

	2016		2015	
	Maximum balance	Closing balance	Maximum balance	Closing balance
	.....AFN '000'.....			
Short term loans to key management personnel	3,817	-	2,642	2,642
Deposits with Bakhtar Bank	5,036,374	4,986,327	5,095,753	5,095,753
Deposits from Bakhtar Bank	5,720,062	3,575,846	5,506,346	5,192,330
Purchased of vehicles' spare parts from related party	135	135	41	41

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 2.3 Million (2015: AFN 2.0 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 10.5 Million (2015:AFN 9.6 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 - Acting
- Chief Risk Officer
- Chief Internal Auditor
- Head Treasury
- Head Delivery Channel

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Note	2016		2015	
		.....AFN '000'.....			
<b>6. LOANS AND ADVANCES TO CUSTOMERS</b>					
Loans and advances to customers at amortized cost	6.1	<b>7,326,122</b>		11,399,271	
All loans and advances are expected to be recovered within five years of the balance sheet date.					
6.1		<b>Gross amount</b>	<b>Impairment allowance</b>	<b>Carrying amount</b>	
		<b>31 December 2016</b>			<b>Gross amount</b>
					<b>Impairment allowance</b>
					<b>Carrying amount</b>
	Note	.....AFN '000'.....			
Running finances	6.2	6,433,794	(1,108,164)	5,325,631	10,048,213
Terms loans	6.3	1,525,918	(410,925)	1,114,994	2,031,188
Residential mortgage loans	6.4	922,745	(46,137)	876,608	962,283
Other public consumer loans	6.5	10,379	(1,489)	8,890	15,986
		<b>8,892,837</b>	<b>(1,566,715)</b>	<b>7,326,122</b>	<b>13,057,670</b>
					<b>(1,658,399)</b>
					<b>11,399,271</b>
6.2	Running finance facilities are extended to retail customers for a maximum period of one year (2015: 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 (2015: 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 (2015: one year to five years). These facilities carry interest ranging from 12% to 20% per annum (2015: 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 Almaas Sodais Construction and Engineering Company, Asia Khursheed Construction Company and Jawaid Ahmad Zai Construction Company Limited (herein after collectively referred to as "contractors"). 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 % (2015: 10 % to 12 %) per annum for maximum of five years. These loans are secured against equitable mortgage over property under construction and personal guarantees. Further, as per project development agreements signed with contractors, these properties were required to be mortgaged to the bank or through execution of suitable power of attorney in favor of the bank by way of Baiee-jai-zee registered in the court. As at the date of this report, the bank completed Baiee-jai-zee (charge creation in the court of law) of all title deeds and holds these titles through irrevocable power of attorney. The current portion of each housing project is as follows: i. Almaas Sodais Construction and Engineering Company AFN 418,395,265 ii. Asia Khursheed Construction Company AFN 279,797,526 iii. Jawaid Ahmad Zai Construction Company Limited AFN 224,551,950				
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 (2015: 6% to 16% per annum) and are secured against immovable properties and personal guarantees.				
6.6	<b>Maturity profile of the loans and advances to customers is as under:</b>			<b>2016</b>	<b>2015</b>
				.....AFN '000'.....	
	Current portion			6,433,794	10,048,213
	Long term portion			2,459,042	3,009,457
				<b>8,892,837</b>	<b>13,057,670</b>
6.7	<b>Impairment allowance on loans and advances</b>				
	Balance at beginning of year			1,658,399	1,644,971
	Allowance for the year			143,948	(20,633)
	Write off during the year			(180,941)	(124,169)
	Currency fluctuation			(54,691)	158,230
	Balance as at the end of the year			<b>1,566,715</b>	<b>1,658,399</b>

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Note	2016 .....AFN	2015 '000'.....
<b>7. INVESTMENTS</b>			
Capital notes with DAB	7.1	2,340,013	1,270,698
Placements in other banks	7.2	977,238	646,727
		<u>3,317,251</u>	<u>1,917,425</u>

**7.1 Held to maturity**

	<u>Interest rate range</u>		
Capital notes - 28 days	3.533 % to 3.550 per annum (2015: 3.535%)	1,396,155	99,726
Capital notes - 91 days	4.33 % per annum	593,504	-
Capital notes - 364 days	6.675% ( 2015: 6.675% to 6.677% ) per annum	350,354	1,170,972
		<u>2,340,013</u>	<u>1,270,698</u>

**7.2 Placements in other Banks**

Bank-e-Millie Afghanistan	7.2.1	349,999	-
Punjab National Bank - Dubai	7.2.2	200,490	298,664
Punjab National Bank - Hong Kong	7.2.3	402,148	254,525
Punjab National Bank - London	7.2.4	24,601	25,168
BMCE - Madrid ES		-	68,370
		<u>977,238</u>	<u>646,727</u>

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 1.5% (2015: 0.6% to 1%) per annum.

7.2.3 These are short term time deposits and are carrying interest at 1.05% to 2.6% (2015: 0.6% to 1%) per annum.

7.2.4 These are short term time deposits and were carrying interest at 1.75% (23-Jan-15 to 23-Jan-16 per annum.)

**8. INVESTMENT IN SUBSIDIARY**

Opening balance		1,525,000	1,350,000
Issuance of shares		50,000	175,000
Closing balance	8.1	<u>1,575,000</u>	<u>1,525,000</u>

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. Moreover, shareholders seeked approval for the eligibility of participation in full-fledged Islamic banking from Da Afghanistan Bank is still in process.

**9. INVESTMENT IN AFGHANISTAN PAYMENT SYSTEM**

Investment in Afghanistan Payment System		16,708	17,093
	9.1	<u>16,708</u>	<u>17,093</u>

9.1 This represents 16.667% (2015: 25%) equity investment in Afghanistan Payment Systems (APS) incorporated as limited liability company with AISA on January 31, 2011. APS, a special purpose vehicle created with the support of World Bank and under special permission of Da Afghanistan Bank (DAB), was established to provide a non-cash domestic payments switch and related processing services to all the banks operating in Afghanistan and as such will benefit the banking industry as a whole. APS intends to support an electronic fund transfer platform for shared ATMs, creation of shared mobile banking infrastructure and the initiation of point of sale devices.

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**10. PROPERTY AND EQUIPMENT**

	Land	Building - lease hold	Building	Office equipment	Furniture & fittings	IT equipment	Vehicles	ATM	Advance against capital commitments (Note 10.1)
	.....AFN '000'.....								
<b>Gross carrying amount</b>									
Balance as at 01 January 2016	404,059	3,646	148,066	188,362	92,869	349,519	81,441	21,450	104,659
Additions	-	-	3,950	27,761	11,406	37,641	10,658	55,587	-
Disposal / Adjustment	-	-	-	(8,071)	-	-	(827)	-	(5,581)
<b>Balance at 31 December 2016</b>	<b>404,059</b>	<b>3,646</b>	<b>152,016</b>	<b>208,053</b>	<b>104,275</b>	<b>387,160</b>	<b>91,272</b>	<b>77,036</b>	<b>99,078</b>
Balance as at 01 January 2015	404,059	3,646	138,341	164,224	82,654	333,486	81,427	16,812	28,302
Additions	-	-	9,725	24,138	10,215	16,033	1,182	4,638	104,659
Disposal / Adjustment	-	-	-	-	-	-	(1,168)	-	(28,302)
<b>Balance at 31 December 2015</b>	<b>404,059</b>	<b>3,646</b>	<b>148,066</b>	<b>188,362</b>	<b>92,869</b>	<b>349,519</b>	<b>81,441</b>	<b>21,450</b>	<b>104,659</b>
<b>Depreciation</b>									
Balance as at 01 January 2016	-	1,202	38,703	151,541	50,200	326,889	75,048	17,950	-
Depreciation for the year	-	185	7,559	14,117	7,517	19,710	4,688	4,312	-
Adjustment for disposals	-	-	-	(8,071)	-	-	(827)	-	-
<b>Balance at 31 December 2016</b>	<b>-</b>	<b>1,387</b>	<b>46,262</b>	<b>157,587</b>	<b>57,718</b>	<b>346,599</b>	<b>78,909</b>	<b>22,262</b>	<b>-</b>
Balance as at 01 January 2015	-	1,017	29,225	138,619	42,781	303,184	70,808	16,812	-
Depreciation for the year	-	185	9,478	12,922	7,419	23,705	5,409	1,138	-
Adjustment for disposals	-	-	-	-	-	-	(1,169)	-	-
<b>Balance at 31 December 2015</b>	<b>-</b>	<b>1,202</b>	<b>38,703</b>	<b>151,541</b>	<b>50,200</b>	<b>326,889</b>	<b>75,048</b>	<b>17,950</b>	<b>-</b>
<b>Carrying amounts</b>									
<b>Balance at 31 December 2016</b>	<b>404,059</b>	<b>2,259</b>	<b>105,753</b>	<b>50,465</b>	<b>46,556</b>	<b>40,561</b>	<b>12,363</b>	<b>54,774</b>	<b>99,078</b>
Balance at 31 December 2015	404,059	2,444	109,363	36,821	42,669	22,630	6,393	3,500	104,659
<b>Depreciation rates</b>	<b>Nil</b>	<b>5%</b>	<b>5%</b>	<b>20%</b>	<b>5% - 20%</b>	<b>33.33%</b>	<b>15%</b>	<b>33.33%</b>	<b>Nil</b>

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

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**11. INTANGIBLE ASSETS**

	Purchased software	Goodwill	Total
	.....AFN '000'.....		
<b>Gross carrying amount</b>			
Balance as at January 01, 2016	178,557	29,506	208,063
Additions	19,332	-	19,332
<b>Balance as at December 31, 2016</b>	<b>197,889</b>	<b>29,506</b>	<b>227,395</b>
Balance as at January 01, 2015	172,814	29,506	202,320
Additions	5,743	-	5,743
Balance as at December 31, 2015	178,557	29,506	208,063
<b>Amortization</b>			
Balance as at January 01, 2016	170,827	2,983	173,810
Amortization during the year	5,245	3,000	8,245
<b>Balance as at December 31, 2016</b>	<b>176,072</b>	<b>5,983</b>	<b>182,055</b>
Balance as at January 01, 2015	165,504	-	165,504
Amortization during the year	5,323	2,983	8,306
Balance as at December 31, 2015	170,827	2,983	173,810
<b>Carrying amount as at December 31, 2016</b>	<b>21,817</b>	<b>23,523</b>	<b>45,340</b>
Carrying amount as at December 31, 2015	7,730	26,523	34,253

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 current year in the absence of active share trading market management has decided to amortize the same @ 10.17% in ten year rather than to keep this purchase consideration as indefinite goodwill.

	2016	2015
	.....AFN '000'.....	
<b>12. NON-CURRENT ASSETS HELD FOR SALE</b>		
Opening balance	-	-
Recognition during the year	12.2 <b>291,423</b>	-
De-recognition during the year	-	-
Declassifications	-	-
<b>Total non-current assets held for sale</b>	<b>12.1 <u>291,423</u></b>	<u>-</u>

12.1 This includes the collaterals transferred in the name of Azizi Bank taken against the non-performing loans customers as per the final court decision. Management has recognized lower of carrying value and fair value less cost of selling. Parallel to this, the Da Afghanistan Bank has allowed the Azizi Bank vide letter No. 3250/4335 dated 6/6/1395 to recognize these properties as per IFRS 5 - "Non-currents Assets held for sale and discontinued operations" by submitting a plan to DAB to sell these properties within five years.

	2016	2015
	.....AFN '000'.....	
12.2 Non-current assets held for sale (AFN)	<b>121,790</b>	-
Non-current assets held for sale (USD)	<b>169,633</b>	-
	<b><u>291,423</u></b>	<u>-</u>



**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Note	2016 .....AFN '000'.....	2015
<b>13. OTHER ASSETS</b>			
Accrued interest on capital notes		20,641	50,331
Accrued interest on Placement with other Banks		9,419	-
Restricted balance held with DAB	13.1	1,773,313	1,101,668
Receivable against sale of collateral		368,935	-
Security deposits	13.2	20,788	371,140
Advances to suppliers		6,865	2,427
Adjustable withholding tax with MoF		71,176	56,650
Prepayments		27,471	66,211
Cash shortages recoverable from staff		2,917	3,049
Inventory of prizes		16,520	16,520
Advances to staff and others	13.3	15,086	15,355
Receivable from Afghanistan Payment System		3,842	-
Mpaise Imprest Account		13,456	18,537
Others		32,768	9,110
		<u>2,383,196</u>	<u>1,710,998</u>

13.1 This represent the non-interest bearing local currency statutory required reserve account maintained with DAB to meet minimum reserves requirement in accordance with the Law Banking in Afghanistan.

**13.2 Security Deposits**

Deposits with DAB against Currency Auction	1,500	1,500
CSC Bank	8,354	8,546
Western Union Bank	9,084	9,294
Roshan - against M.Paise Imprest Account	1,850	1,800
Pashtany Bank	-	350,000
	<u>20,788</u>	<u>371,140</u>

**13.3 Advances to staff and others**

Gross amount	200,745	205,292
Less:- Allowances for impairment losses	(185,659)	(189,937)
	<u>15,086</u>	<u>15,355</u>

**14. DEPOSITS FROM BANKS**

Bank-e-Millie Afghan	1,810	1,837
Bakhtar Bank	3,575,846	5,192,330
Pashtany Bank	88	1,367,492
	<u>3,577,744</u>	<u>6,561,659</u>

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Note	2016	2015
		.....AFN '000'.....	
<b>15. DEPOSITS FROM CUSTOMERS</b>			
Term deposits	15.1	1,400,064	674,135
Saving deposits	15.1	6,564,088	5,512,127
Current deposits		11,635,836	6,844,697
Margin deposits		3,939,813	3,041,024
		<u>23,539,800</u>	<u>16,071,983</u>

15.1 Term and saving deposits carry interest rates ranging from 2.25% to 6% (2015: 3% to 6%) per annum.

**16. CURRENT TAX LIABILITY**

Opening for the year		-	-
Charged for the year		5,430	5,457
Adjustment / Paid during the year		(5,430)	(5,457)
Closing for the year	16.1	<u>-</u>	<u>-</u>

16.1 Current tax liability has been adjusted against the advance income tax.

**17. OTHER LIABILITIES**

Withholding taxes payable		19,317	27,377
Remittances payable		12,019	51,276
Creditors and accruals		23,091	22,785
Accrued interest on term deposits		81,598	56,458
Others		82,356	115,305
		<u>218,380</u>	<u>273,201</u>

**18. SHARE CAPITAL**

Authorized capital			
750,000 (2015: 750,000) ordinary shares of AFN 10,000 each		<u>7,500,000</u>	<u>7,500,000</u>
Issued and paid capital			
536,740 (2015: 536,740) ordinary shares of AFN 10,000 each		<u>5,367,400</u>	<u>5,367,400</u>

18.1 Following is the reconciliation of amount of shares capital:

Share capital at beginning of the year		5,367,400	4,767,400
Shares issued in cash during the year		-	600,000
Share capital at the end of the year		<u>536,740</u>	<u>5,367,400</u>

18.2 Following is the reconciliation of number of shares:

		.....No. of Shares.....	
Number of shares at beginning of the year		536,740	476,740
Shares issued during the year		-	60,000
Number of shares at end of the year		<u>536,740</u>	<u>536,740</u>

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

		2016	2015
		.....AFN '000'.....	
<b>19. NET INTEREST INCOME</b>			
	<b>Interest income</b>		
	Cash and cash equivalents	19.1 75,363	137,134
	Loans and advances to customers	1,327,163	1,510,596
	Total interest income	<u>1,402,526</u>	<u>1,647,730</u>
	<b>Interest expense</b>		
	Deposits from banks	19.2 32,604	201,203
	Deposits from customers	19.3 794,902	899,958
	Total interest expense	<u>827,506</u>	<u>1,101,161</u>
	<b>Net interest income</b>	<u>575,020</u>	<u>546,569</u>
19.1	This includes interest income amounting to AFN 66.2 million (2015: AFN 121 million) earned during the year from capital notes with Da Afghanistan Bank.		
19.2	This includes interest paid against deposits from Bakhtar Bank which carries interest rate at 4% on USD and 6.80% per annum on Afs on to be calculated on Monthly average of daily balances of each month. (2015: 4% per annum on USD and 6.80% on Afs).		
		2016	2015
		.....AFN '000'.....	
<b>19.3 Deposits from customers</b>			
	Interest on:		
	Term deposits	46,772	157
	Saving deposits	748,129	899,801
		<u>794,902</u>	<u>899,958</u>
<b>20. NET FEE AND COMMISSION INCOME</b>			
	<b>Fee and commission income</b>		
	Commission income	688,676	338,043
	Account servicing fee	184,459	157,264
	Total fee and commission income	<u>873,135</u>	<u>495,307</u>
	<b>Fee and commission expense</b>		
	Inter-bank transaction fees	83,510	52,523
	Net fee and commission income	<u>789,625</u>	<u>442,784</u>

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Note	2016 .....AFN '000'.....	2015
<b>21. EMPLOYEE BENEFIT EXPENSES</b>			
Salaries and wages		409,407	396,756
Staff welfare		44,364	34,244
Staff training expenses		2,389	314
		<u>456,160</u>	<u>431,314</u>
<b>22. OTHER EXPENSES</b>			
Repair and maintenance		36,359	27,254
Travelling expense		60,006	52,469
Advertising and publicity		75,901	59,507
Printing and stationery		40,504	23,339
Communication		2,763	2,118
Internet and connectivity		28,826	25,883
Electricity and power		43,481	40,862
Office supplies		5,241	5,867
Security expenses		195,653	187,756
Legal and professional charges		60,749	37,294
Postage and courier		163	177
Software maintenance		30,295	24,119
Deposit insurance premium	22.1	55,535	40,182
Others		10,663	51,770
		<u>646,139</u>	<u>578,597</u>
22.1	This premium is paid to Afghanistan Deposit Insurance Corporation (ADIC) at the rate of 0.23% (2015: 0.23%) of total deposits as required by DAB.		
<b>23. TAXATION</b>			
Profit before tax		<u>27,149</u>	<u>27,283</u>
Current year tax @ 20%		<u>5,430</u>	<u>5,457</u>
		<u>5,430</u>	<u>5,457</u>
<b>24. RELATED PARTIES</b>			
<b>Parent and ultimate controlling party</b>			
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.			

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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**Subsidiary**

The Bank owns 100% shares in Bakhtar Bank (2015: 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:

	2016		2015	
	Maximum balance	Closing balance	Maximum balance	Closing balance
	.....AFN '000'.....			
Short term loans to key management personnel	3,817	-	2,642	2,642
Deposits with Bakhtar Bank	5,036,374	4,986,327	5,095,753	5,095,753
Deposits from Bakhtar Bank	5,720,062	3,575,846	5,506,346	5,192,330
Purchased of vehicles' spare parts from related party	135	135	41	41

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 2.3 Million (2015: AFN 2.0 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 10.5 Million (2015:AFN 9.6 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 - Acting
- Chief Risk Officer
- Chief Internal Auditor
- Head Treasury
- Head Delivery Channel



**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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	<u>2016</u>	<u>2015</u>
	<u>.....AFN '000'.....</u>	
<b>25. CONTINGENCIES AND COMMITMENTS</b>		
<b>Contingencies</b>		
Letter of Credit	<u>158,071</u>	<u>542,319</u>
Guarantees	<u>12,952,198</u>	<u>7,412,198</u>
<b>Lease commitments</b>		
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	<u>84,034</u>	63,985
Between one and five years	<u>165,007</u>	<u>121,791</u>
	<u>249,041</u>	<u>185,776</u>

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

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**26. FINANCIAL ASSETS AND LIABILITIES**

**Accounting classifications and fair values**

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

	Note	At fair value through		At amortized cost using effective interest		Available for sale financial assets	Equity investment at cost	Non - financial assets / liabilities	Total for line item	Fair value
		Held for trading	Designated at FVTPL	Held to maturity	Loans and receivables					
<b>31 December 2016</b>										
Cash and cash equivalents	5	-	-	-	17,224,439	-	-	-	17,224,439	17,224,439
Loans and advances to customers	6	-	-	-	7,326,122	-	-	-	7,326,122	7,326,122
Placements and Investment in capital notes	7	-	-	3,317,251	-	-	16,708	-	3,333,959	3,333,959
Other assets	13	-	-	-	2,274,713	-	-	108,483	2,383,196	2,383,196
		-	-	3,317,251	26,825,274	-	16,708	108,483	30,267,716	30,267,716
Deposits from Banks	14	-	-	-	-	3,577,744	-	-	3,577,744	3,577,744
Deposits from customers	15	-	-	-	-	23,539,800	-	-	23,539,800	23,539,800
Other liabilities	17	-	-	-	-	199,063	-	19,317	218,380	218,380
		-	-	-	-	27,316,607	-	19,317	27,335,924	27,335,924
Off Balance sheet items		-	-	-	-	13,110,269	-	-	13,110,269	13,110,269
<b>31 December 2015</b>										
Cash and cash equivalents	5	-	-	-	11,207,964	-	-	-	11,207,964	11,207,964
Loans and advances to customers	6	-	-	-	11,399,271	-	-	-	11,399,271	11,399,271
Investments	7	-	-	1,917,425	-	-	17,093	-	1,934,518	1,934,518
Other assets	13	-	-	-	1,266,688	-	-	444,310	1,710,998	1,710,998
		-	-	1,917,425	23,873,923	-	17,093	444,310	26,252,751	26,252,751
Deposits from Banks	14	-	-	-	-	6,561,659	-	-	6,561,659	6,561,659
Deposits from customers	15	-	-	-	-	16,071,983	-	-	16,071,983	16,071,983
Other liabilities	17	-	-	-	-	245,824	-	27,377	273,201	273,201
		-	-	-	-	22,879,466	-	27,377	22,906,843	22,906,843
Off Balance sheet items		-	-	-	-	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**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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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.

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

***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:

	<u>2016</u>	<u>2015</u>
	<u>.....AFN '000'.....</u>	
<b>Classes of financial assets</b>		
Cash equivalents	11,874,004	7,126,267
Loans and advances to customers	7,326,122	11,399,271
Other assets	1,846,201	1,560,080
	<u>21,046,328</u>	<u>20,085,618</u>

The Bank has issued financial guarantees contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is AFN 12,952 million (2015: AFN 7,412 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 360 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:

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Note	2016 .....AFN '000'.....	2015
<b>Gross amount</b>	6	<b>8,892,837</b>	<b>13,057,670</b>
<b><i>Concentration by sector</i></b>			
Construction		784,978	1,209,055
Food stuff		1,011,272	1,329,174
Agriculture		-	-
Lubricant, oil & gas		1,115,935	1,671,521
Textile		5,671	978,269
Services		1,478,818	786,456
Mortgage housing loans		912,599	962,283
Ground transportation		846,869	1,542,148
Manufacturing and production		460,259	734,538
Others		2,276,436	3,844,226
		<b>8,892,837</b>	<b>13,057,670</b>

***Cash equivalents***

The cash equivalents include AFN 6,406.75 Million (2015: AFN 5,964 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:

	2016	2015
At 31 December	55%	46%
Average for the year	47%	47%
Maximum for the year	71%	49%
Minimum for the year	42%	43%



**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**Maturity analysis for financial liabilities**

Note	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
<b>December 31, 2016</b>							
14	3,577,744	3,577,744	-	3,575,846	1,898	-	-
15	23,539,800	23,539,800	11,635,836	6,564,088	5,339,877	-	-
17	218,380	218,380	54,426	81,598	59,031	23,325	-
	<u>27,335,924</u>	<u>27,335,924</u>	<u>11,690,262</u>	<u>10,221,532</u>	<u>5,400,805</u>	<u>23,325</u>	<u>-</u>
<b>December 31, 2015</b>							
14	6,561,659	6,561,659	-	5,192,330	1,369,329	-	-
15	16,071,983	16,071,983	6,844,697	5,512,127	3,715,159	-	-
17	273,201	273,201	101,438	56,458	64,700	50,605	-
	<u>22,906,843</u>	<u>22,906,843</u>	<u>6,946,135</u>	<u>10,760,915</u>	<u>5,149,188</u>	<u>50,605</u>	<u>-</u>

**27.4 Market risks**

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

**Management of market risks**

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

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**Exposure to interest rate risk**

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

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
.....AFN '000'.....							
<b>December 31, 2016</b>							
Cash and cash equivalents	5	11,874,004	11,874,004	-	-	-	-
Loans and advances to customers (Gross)	6	8,892,837	-	7,970,092	-	922,745	-
Other assets	13	579,822	30,061	-	1,773,313	-	-
		21,346,663	11,904,065	7,970,092	1,773,313	922,745	-
Deposits from Banks	14	3,577,744	3,577,744	-	-	-	-
Deposits from customers	15	18,199,923	-	9,099,962	9,099,962	-	-
		21,777,667	3,577,744	9,099,962	9,099,962	-	-
<b>December 31, 2015</b>							
Cash and cash equivalents	5	7,126,267	7,126,267	-	-	-	-
Loans and advances to customers (Gross)	6	13,057,670	-	12,095,407	-	962,263	-
Other assets	13	1,151,999	50,331	-	1,101,668	-	-
		21,335,936	7,176,598	12,095,407	1,101,668	962,263	-
Deposits from Banks	14	6,561,659	6,561,659	-	-	-	-
Deposits from customers	15	12,356,824	-	6,178,412	6,178,412	-	-
		18,918,483	6,561,659	6,178,412	6,178,412	-	-

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**Exposure to currency risk**

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

**December 31, 2016**

	Total	AFN	USD	AFN '000'	Euro	GBP	Other
Cash and cash equivalents	17,224,439	5,307,801	11,342,921	462,290	88,078	23,348	
Loans and advances to customers (Gross)	8,892,837	3,805,071	5,087,766	-	-	-	
Other assets	2,383,196	1,917,057	466,139	-	-	-	
	<b>28,500,472</b>	<b>11,029,930</b>	<b>16,896,826</b>	<b>462,290</b>	<b>88,078</b>		
Deposits from banks	3,577,744	1,950,774	1,622,448.63	4,521	-	-	
Deposits from customers	23,539,800	9,533,233	13,300,389.50	667,922	38,256	-	
Other liabilities	218,380	67,190	151,152.98	37	-	-	
	<b>27,335,924</b>	<b>11,551,197</b>	<b>15,073,991</b>	<b>672,480</b>	<b>38,256</b>		

**December 31, 2015**

Cash and cash equivalents	11,207,964	4,233,948	6,342,389	574,519	34,401	22,708	
Loans and advances to customers (Gross)	13,057,670	6,192,406	6,865,264	-	-	-	
Other assets	1,710,998	1,261,488	449,510	-	-	-	
	<b>25,976,632</b>	<b>11,687,842</b>	<b>13,657,162</b>	<b>574,519</b>	<b>34,401</b>	<b>22,708</b>	
Deposits from banks	6,561,659	2,480,014	4,076,819.00	4,826	-	-	
Deposits from customers	16,071,983	6,418,180	8,916,156.00	716,415	21,232	-	
Other liabilities	273,201	93,954	179,164.00	83	-	-	
	<b>22,906,843</b>	<b>8,992,148</b>	<b>13,172,139</b>	<b>721,324</b>	<b>21,232</b>		
Net foreign currency exposure	3,069,789	2,695,694	485,023	(146,805)	13,169	-	
Net foreign currency exposure	<b>1,164,548</b>	<b>(521,267)</b>	<b>1,822,835</b>	<b>(210,190)</b>	<b>49,822</b>		

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

**AZIZI BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	..... 2016 .....	..... 2015 .....
Average rate	Reporting date spot rate	Average rate
	.....AFN '000'.....	
USD	67.60	63.35
Euro	70.32	70.85
GBP	85.83	89.95

**Sensitivity analysis**

A 10% strengthening of the Afghani, as indicated below, against the USD, and euro at 31 December 2016 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.

	..... 2016 .....	..... 2015 .....
Equity	Profit or loss	Equity
	.....AFN '000'.....	
USD	145,827	182,283
Euro	(16,815)	(21,019)
GBP	3,986	4,982
		38,802
		(11,744)
		1,054
		48,502
		(14,681)
		1,317

A 10% weakening of the Afghani against the above currencies at 31 December 2016 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, 2016**

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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 (2015:AFN 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 2015 was as follows:

	<u>2016</u>	<u>2015</u>
	.....AFN '000'.....	
<b>Tier 1 capital</b>		
Total equity capital	5,659,424	5,637,699
Less: Current year profit	(21,719)	(21,826)
Less: Intangible assets	(45,340)	(34,253)
<b>Total tier 1 (core) capital</b>	<u>5,592,365</u>	<u>5,581,620</u>
<b>Tier 2 capital</b>		
Add Current year (loss) / profit	<u>21,719</u>	21,826
<b>Total tier 2 (supplementary) capital</b>	<u>21,719</u>	<u>21,826</u>
<b>Total regulatory capital</b>	<u><u>5,614,084</u></u>	<u><u>5,603,446</u></u>

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, 2017.

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Chairman	Chief Executive Officer	Chief Finance Officer





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