

**BAKHTAR BANK**

**AUDITED FINANCIAL STATEMENTS**

*for the year ended*

**December 31, 2013**



Crowe Horwath

هوروات مالک

Horwath <sup>1981</sup> *mak* Kabul  
Auditors & Business Advisors

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## INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF SUPERVISORS

We have audited the accompanying financial statements of Bakhtar Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2013, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility 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), the requirements of the Law of Banking in Afghanistan and directives issued by the Central Bank of Afghanistan (Da Afghanistan Bank), 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

HM



Crowe Horwath

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Auditors & Business Advisors

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### Basis for Qualified Opinion

Section 6.2.1 'General Guidance' of 'Part B - Risk Management of Asset Concentrations' of the regulation of Da Afghanistan Bank (DAB) 'Article Six: Asset Risk Diversification and Limitations on large exposures of banking organizations' limits asset concentration (including assets centred in a particular industry) to 40% of a bank's regulatory capital. However, the bank's exposure to the construction industry amounting to Afs. 514 million (2012: 551 million) included within 'Loans and advances to customers (note 6)' constitutes 45.29% of bank's regulatory capital exceeding the DAB's prescribed threshold. Management has not provided us a plan on how it aims at reducing asset concentration to the industry.

Also, 'Loans and advances to customers' include 'Residential mortgage loans' amounting to Afs. 421 million (2012: Afs 551 million) that were extended during the years 2010 to 2012 to four construction companies including Onyx Construction Company, Almaas Sodais Construction and Engineering Company, Asia Khursheed Construction Company and Jawaid Ahmed Zai Construction Company Limited on behalf of individual borrowers to finance the purchase of residential and commercial units constructed by the said companies. These loans were extended for a term of three to five years. We have been unable to obtain sufficient and appropriate audit evidence in respect of credit worthiness and repayment ability of the said borrowers as they are not regular in their repayments. This is further substantiated by the fact that bank has allowed undue principal repayment extensions to these borrowers.

### Audit Opinion

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2013, and of its financial performance and its cash flows for the year 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).

### Other matters

Previous year's financial statements were audited by Anjum Asim Shahid Rahman, Chartered Accountants who gave their qualified opinion on April 20, 2013.

*Horwath MAK*

**Horwath Mak**  
Auditors & Business Advisors  
March 26, 2014  
Kabul





**BAKHTAR BANK**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2013**

2013 .....US\$ '000'.....	2012		Note	2013 .....Afs '000'.....	2012
<b>ASSETS</b>					
75,580	62,816	Cash and cash equivalents	5	4,325,427	3,271,443
19,342	25,412	Loans and advances to customers	6	1,106,940	1,323,448
31,442	12,463	Investments	7	1,799,448	649,057
2,688	1,046	Property and equipment	8	153,856	54,472
2,376	2,611	Intangible assets	9	135,985	135,985
275	415	Deferred tax asset	10	15,737	21,606
8,998	4,227	Other assets	11	514,911	220,138
<b>140,701</b>	<b>108,990</b>	<b>Total assets</b>		<b>8,052,304</b>	<b>5,676,149</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
23,589	26,882	Share capital	12	1,350,000	1,400,000
(1,100)	(1,659)	Retained earning		(62,947)	(86,425)
<b>22,489</b>	<b>25,223</b>	<b>Total equity</b>		<b>1,287,053</b>	<b>1,313,575</b>
<b>Liabilities</b>					
86,824	63,918	Deposits from customers	13	4,968,927	3,800,755
29,694	10,291	Deposits from banks	14	1,699,388	535,941
1,694	9,558	Other liabilities	15	96,936	25,878
<b>118,212</b>	<b>83,767</b>	<b>Total liabilities</b>		<b>6,765,251</b>	<b>4,362,574</b>
<b>140,701</b>	<b>108,990</b>	<b>Total equity and liabilities</b>		<b>8,052,304</b>	<b>5,676,149</b>
<b>Contingencies and commitments</b>					
			23		

The annexed notes 1 to 27 form an integral part of these financial statements.

*Zahir P. Hayat*

Chairman

*Naleena*

Chief Executive Officer



*[Signature]*  
Deputy Chief Executive Officer

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**BAKHTAR BANK**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

2013 .....US\$ '000'.....	2012		Note	2013 .....Afs '000'.....	2012
4,524	4,737	Interest income		258,880	246,723
(480)	(807)	Interest expense		(27,452)	(42,042)
4,044	3,930	<b>Net interest income</b>	16	231,428	204,681
2,511	1,312	Fee and commission income		143,729	68,348
(147)	(27)	Fee and commission expense		(8,388)	(1,430)
2,364	1,285	<b>Net fee and commission income</b>	17	135,341	66,918
524	273	Foreign exchange gain	18	30,013	14,193
750	680	Other non-interest income	18	42,901	35,433
7,682	6,168	<b>Operating income</b>		439,683	321,225
(629)	(622)	Impairment loss on loans and advances	6.8	(35,987)	(32,379)
(2,244)	(1,722)	Employee benefit expenses	19	(128,443)	(89,697)
(743)	(462)	Operating lease expenses		(42,532)	(24,069)
(389)	(409)	Depreciation	8	(22,239)	(21,292)
-	(28)	Amortization	9	-	(1,484)
(3,165)	(2,181)	Other expenses	20	(181,135)	(113,579)
(7,170)	(5,424)	<b>Operating expenses</b>		(410,336)	(282,500)
512	744	<b>Profit before taxation</b>		29,347	38,725
(103)	(88)	Taxation	21	(5,869)	(4,580)
409	656	<b>Profit for the year</b>		23,478	34,145
-	-	Other comprehensive income		-	-
409	656	<b>Total comprehensive income for the year</b>		23,478	34,145

The annexed notes 1 to 27 form an integral part of these financial statements.

*Zani P. Hary*

Chairman

*Salim*

Chief Executive Officer



Deputy Chief Executive Officer

BAKHTAR BANK  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2013

Share capital	Retained earnings	Total		Share capital	Retained earnings	Total
US\$ '000'				Afs '000'		
16,285	(2,315)	13,970	Balance as at January 01, 2012	848,100	(120,570)	727,530
			Comprehensive income:			
-	656	656	Net profit for the year	-	34,145	34,145
			Transactions with owners:			
10,597	-	10,597	Ordinary shares issued	551,900		551,900
26,882	(1,659)	25,223	Balance as at December 31, 2012	1,400,000	(86,425)	1,313,575
24,463	(1,510)	22,954	Balance as at January 01, 2013	1,400,000	(86,425)	1,313,575
			Comprehensive income:			
-	410	410	Net profit for the year	-	23,478	23,478
			Transactions with owners:			
(874)	-	(874)	Ordinary shares redeemed	(50,000)	-	(50,000)
23,589	(1,100)	22,490	Balance as at December 31, 2013	1,350,000	(62,947)	1,287,053

The annexed notes 1 to 27 form an integral part of these financial statements.

*[Signature]*  
Chairman

*[Signature]*  
Chief Executive Officer



*[Signature]*  
Deputy Chief Executive Officer

**BAKHTAR BANK**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

2013	2012		Note	2013	2012
.....US\$ '000'.....				.....AFN '000'.....	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
513	744	Profit before taxation		29,347	38,725
		Adjustments for:			
389	409	Depreciation	8	22,239	21,292
-	28	Amortization	9	-	1,484
(300)	-	Accrued interest on cash and cash equivalents		(17,193)	-
629	622	Impairment loss on loans and advances	6.8	35,987	32,379
1,231	1,803			70,380	93,880
		Increase / decrease in operating assets and liabilities:			
3,154	11,133	Loans and advances to customers	6	180,521	579,791
(4,840)	5	Other assets	11	(276,976)	242
20,329	18,392	Deposits from customers	13	1,163,447	957,861
20,412	(1,272)	Deposits from banks	14	1,168,172	(66,249)
1,215	3,982	Other liabilities	15	69,536	207,406
41,501	34,042	<b>Net cash generated from operating activities before interest and taxation</b>		2,375,080	1,772,931
(285)	1	Net Withholding taxes (paid) / collected		(16,274)	41
41,216	34,043	<b>Net cash generated from operating activities</b>		2,358,806	1,772,972
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
(19,801)	(12,463)	Investments made - net of interest	7.	(1,133,198)	(649,057)
(2,125)	(357)	Purchase of property and equipment	8	(121,624)	(18,595)
(21,926)	(12,820)	<b>Net cash used in investing activities</b>		(1,254,822)	(667,652)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
(874)	10,597	Issuance / Redemption of share capital	12	(50,000)	551,900
(874)	10,597	<b>Net cash used in / generated from financing activities</b>		(50,000)	551,900
18,416	31,820	<b>Net increase in cash and cash equivalents</b>		1,053,984	1,657,220
57,163	30,995	Cash and cash equivalents at beginning of the year		3,271,443	1,614,223
75,580	62,816	<b>Cash and cash equivalents at the end of the year</b>	5	4,325,427	3,271,443

The annexed notes 1 to 27 form an integral part of these financial statements

*Dr. P. H. H.*

Chairman

*Abdullah*

Chief Executive Officer



Deputy Chief Executive Officer

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**1. STATUS AND NATURE OF OPERATIONS**

Bakhtar Bank ("the Bank") is a wholly owned subsidiary of Azizi Bank, Kabul, Afghanistan. The Bank has been registered with Da Afghanistan Bank (DAB) ("the Central Bank of Afghanistan") (refer to Note: 12.3 to the financial statements) since 2009 as a "Commercial Bank". The Bank obtained a business license from Afghanistan Investment Support Agency and is a limited liability company. The registered office of the Bank is located at Charahi Shir Por, Shahre Naw, District 10, Kabul, Afghanistan.

The Bank has 54 branches (2012: 19 branches) and 598 staff members (2012: 285 staff members).

**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
IAS 32 - Offsetting Financial Assets and Financial Liabilities - (Amendment)	January 01, 2014
IAS 36 - Impairment of Assets - (Amendment)	January 01, 2014
IAS 39 - Financial Instruments: Recognition and Measurement (Amendment)	January 01, 2014
IFRIC 21- An interpretation on the accounting for levies imposed by governments	January 01, 2014
IAS 19 - Employee Benefits (Amendment)	July 01, 2014
IAS 24 - Related Party Disclosure	July 01, 2014
IAS 38 - Intangible Assets - (Amendment)	July 01, 2014
IAS 40 - Investment Property	July 01, 2014
IFRS 2 - Share-based Payment	July 01, 2014
IFRS 3 - Business Combinations	July 01, 2014
IFRS 8 - Operating Segments	July 01, 2014

**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 nearest thousand.

The US Dollar amounts shown in the financial statements are stated solely for information convenience. For the purpose of translation to USD Dollars, the rate of AFN for the year 2013 is 57.23 (2012: 52.08) per US Dollar has been used.

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**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 at 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.

	USD	Euro	Sterling
The exchange rate for following currencies against AFN were:			
As at December 31, 2013	57.23	78.01	92.70

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**BAKHITAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**4.2 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 are recognized on an accrual basis when the service has been provided, 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.

**4.3 Operating leases**

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

**4.4 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.

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**4.5 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.

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

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

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

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.

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

b) **Loans and receivables**

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

**Standard**

These are loans and advances, which are paying in a current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any supporting it.

**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 540 days (2012: 91 to 180 days) for principal or interest payments are also classified as Doubtful as per Asset Classification Schedule Amended dated December 04, 2013. 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 540 days (2012: 180 days) for principal or interest payments are also classified as Loss as per Asset Classification Schedule Amended dated December 04, 2013. 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.

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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c) Assets classified as available for sale

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

**Financial Liabilities**

The Bank classifies its financial liabilities in following categories;

a) Financial liabilities at fair value through profit or loss

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

b) Other financial liabilities measured at amortized cost

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

**4.6 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)

**4.7 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.

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4.8 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 Ad Afghanistan Bank (DAB).

**4.9 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.

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:

- Lease hold improvements
- Office equipment
- Furniture and fitting
- IT equipment
- Motor vehicles

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

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4.10 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.

**4.11 Deposits**

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

**4.12 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.

**4.13 Employee compensation**

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

**4.14 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.

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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		2013	2012
	Note	.....Afs '000'.....	
<b>5. CASH AND CASH EQUIVALENTS</b>			
Cash in hand	5.1	1,006,340	1,212,335
Balances with banks:			
Balances with Da Afghanistan Bank		1,156,740	1,160,189
Balances with other banks	5.2	2,162,347	898,919
		3,319,087	2,059,108
		4,325,427	3,271,443
<b>5.1 Cash in hand</b>			
Local currency		359,229	219,673
Foreign currency		647,111	992,662
		1,006,340	1,212,335
<b>5.2 Balances with other banks</b>			
Commerz Bank		9,187	284,440
Azizi Bank	5.2.1	1,486,263	594,758
Western Union International Bank GmbH		21,392	19,721
Aktif Bank		605,027	-
Yinzhou Bank		35,611	-
Development Credit Bank Ltd		4,330	-
Bahrain Middle East Bank		537	-
		2,162,347	898,919

**5.2.1** Balances kept with Azizi Bank (parent entity) carries interest at Nil on USD and 7.57% per annum on Afs balances from 09 Jul 2013 and Nil interest on USD deposit respectively (2012: 1.5% per annum and 2.5% per annum on USD and Afs). The Bank has earned interest income amounting to Afs 31,809,445 during the year 2013 (2012 :Afs 282,000).

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	Note	2013 .....Afs '000'.....	2012 .....Afs '000'.....
<b>6. LOAN AND ADVANCES TO CUSTOMERS</b>			
Loans and advances to customers at amortized cost	6.1	<u>1,106,940</u>	<u>1,323,448</u>

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

6.1

	Note	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		31 December 2013			31 December 2012		
		.....Afs '000'.....					
Retail customers- running finances	6.2	437,003	61,095	375,908	323,609	16,515	307,094
Long term commercial loans	6.3	236,706	95,729	140,977	382,666	49,356	333,310
Small and medium enterprise loan	6.4	162,562	1,403	161,159	184,966	6,605	178,361
Short term loans to employees	6.5	2,389	-	2,389	826	19	807
Other public consumer loans	6.6	5,498	79	5,419	3,587	805	2,782
Residential mortgage loans	6.7	421,214	126	421,088	551,642	50,548	501,094
		1,265,372	158,432	1,106,940	1,447,296	123,848	1,323,448

**6.2** Running finance facilities are extended to retail customers for a maximum period of one year subject to renewal at the end of loan term for another one year. These facilities carry interest ranging from 15% to 20% per annum (2012: 15% 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. These facilities carry interest ranging from 12% to 15% per annum (2012: 12% to 15% per annum) . The facilities are secured against immovable properties, stock and receivables of the borrowers and personal guarantees.

**6.4** Small and medium enterprise (SME) loans are extended for meeting working capital requirements. These SME loans are extended to customers for a maximum period of five years. These facilities carry interest of 12% to 15% per annum (2012: 12% to 15% per annum ). The facilities are secured against movable and immovable fixed assets, stock and receivables of the borrowers and personal guarantees.

**6.5** Short term loans to employees are secured only by personal guarantees. Interest rate on loans to employees is 6% per annum (2012: 6% to 12% per annum) and these loans are extended for a period of one to two years.

**6.6** Other public consumer loans are extended to individuals for a period of one to three years. These loans carry interest ranging from 12% to 17% per annum (2012: 12% to 15% per annum) and are secured against immovable properties and personal guarantees.

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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6.7 Residential mortgage loans are extended to individuals for purchase of residential units in four housing projects in Kabul, Afghanistan. These housing projects are being constructed by Onyx Construction Company, Almaas Sodais Construction and Engineering Company, Asia Khursheed Construction Company and Jawaid Ahmed Zai Construction Company Limited (herein after collectively referred to as contractors). Under the terms of loan agreements signed by the Bank with borrowers, the loans are disbursed to contractors and carry interest ranging from 10% to 12% (2012: 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 except one title deed of Azizi and Milli Plaza and holds these titles through irrevocable power of attorney. These projects have progressed over the last one year and the unsecured portion is now considerably reduced.

	2013	2012
Note	.....Afs '000'.....	

**6.8 Impairment loss on loans and advances**

**Collective allowances for impairment:**

Balance at beginning of year	123,848	91,469
Allowance for the year	35,987	32,379
Currency fluctuation	(1,403)	-
Charged off during the year	-	-
Balance as at the end of the year	<u>158,432</u>	<u>123,848</u>

**7. INVESTMENTS**

*Held to maturity*

**Interest rate range**

Capital notes - 28 days	From 3.37% to 3.39% per annum	998,361	-
Capital notes -182 days	4.96% (2012: 3.33% to 3.38%) per annum	97,648	649,057
Capital notes - 364 days	From 5.35% to 7.07% per annum	703,439	-
		<u>1,799,448</u>	<u>649,057</u>

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**8 PROPERTY AND EQUIPMENT**

	Leasehold improvements	Office Equipment	Furniture & Fittings	IT equipment	Motor Vehicles	Assets held for capitalization / Advance against capital commitments	Total
.....Afs '000'.....							
<b>Gross carrying amount</b>							
Balance as at January 01, 2012	17,137	29,695	7,817	27,138	17,951	-	99,738
Additions	1,780	2,150	723	13,941	-	-	18,594
Balance as at December 31, 2012	18,917	31,845	8,540	41,079	17,951	-	118,332
<b>Balance as at January 01, 2013</b>	18,917	31,845	8,540	41,079	17,951	-	118,332
Additions	18,420	37,445	8,231	6,728	-	50,800	121,624
<b>Balance as at December 31, 2013</b>	37,337	69,290	16,771	47,807	17,951	50,800	239,956
<b>Depreciation</b>							
Balance as at January 01, 2012	6,851	12,412	1,360	18,084	3,862	-	42,569
Depreciation for the year	2,941	5,841	667	9,150	2,692	-	21,292
Balance as at December 31, 2012	9,792	18,253	2,027	27,234	6,554	-	63,861
<b>Balance as at January 01, 2013</b>	9,792	18,253	2,027	27,234	6,554	-	63,860
Depreciation for the year	4,622	8,511	1,071	5,342	2,693	-	22,239
<b>Balance as at December 31, 2013</b>	14,414	26,764	3,098	32,576	9,247	-	86,099
<b>Carrying amount</b>							
Balance as at January 01, 2012	10,286	17,283	6,457	9,054	14,089	-	57,169
Balance as at December 31, 2012	9,125	13,592	6,513	13,845	11,397	-	54,471
<b>Balance as at December 31, 2013</b>	22,923	42,526	13,673	15,231	8,704	50,800	153,856
<b>Depreciation rates</b>	20%	20%	5-20%	33.33%	15%	Nil	

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**9 INTANGIBLE ASSETS**

	Purchased software	Goodwill	Total
	.....Afs '000'.....		
<b>Gross carrying amount</b>			
Balance as at January 01, 2012	8,900	135,985	144,885
Additions	-	-	-
Balance as at December 31, 2012	8,900	135,985	144,885
<b>Balance as at January 01, 2013</b>	<b>8,900</b>	<b>135,985</b>	<b>144,885</b>
Additions	-	-	-
<b>Balance as at December 31, 2013</b>	<b>8,900</b>	<b>135,985</b>	<b>144,885</b>
<b>Amortization</b>			
Balance as at January 01, 2012	7,416	-	7,416
Amortization during the year	1,484	-	1,484
Balance as at December 31, 2012	8,900	-	8,900
<b>Balance as at January 01, 2013</b>	<b>8,900</b>	<b>-</b>	<b>8,900</b>
Amortization during the year	-	-	-
<b>Balance as at December 31, 2013</b>	<b>8,900</b>	<b>-</b>	<b>8,900</b>
Carrying amount as at December 31, 2012	-	135,985	135,985
<b>Carrying amount as at December 31, 2013</b>	<b>-</b>	<b>135,985</b>	<b>135,985</b>

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

9.2 Goodwill represent the difference between the assets acquired and liabilities assumed by the Bank on the acquisition of the business of the Development Bank of Afghanistan ("DBA") which was acquired under an agreement, dated 18 March 2009, between DAB and Azizi Bank (parent entity of the Bank). Da Afghanistan Bank issued fresh license to the Bank on conclusion of the above mentioned agreement. This goodwill has indefinite useful life. Following assets and liabilities were taken over by the Bank:

	Amount (Afs '000')
<b>Assets</b>	
Cash and cash equivalents	178,637
Property and equipment	19,872
Other assets	15,313
	<u>213,822</u>
<b>Liabilities</b>	
Customer deposits	349,807
<b>Net liabilities - representing cost of acquisition</b>	<u><u>(135,985)</u></u>
<b>Represented by:</b>	
Net liabilities assumed	<u><u>(135,985)</u></u>

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**10 DEFERRED TAX ASSET**

*Recognized deferred tax asset*

Deferred tax asset is attributable to the following:

	Assets	Charged to Profit and Loss	Net
Note	.....Afs '000'.....		
<i>As at December 31, 2013</i>			
Tax loss carry - forward	21,606	(5,869)	15,737
10.1	21,606	(5,869)	15,737
<i>As at December 31, 2012</i>			
Tax loss carry-forward	26,186	(4,580)	21,606
	26,186	(4,580)	21,606

- 10.1** A deferred tax asset has been recognized on estimated losses carried forward, in view of management's projections of sufficient taxable profits in the foreseeable future against which such deferred asset could be realized.

**11 OTHER ASSETS**

		2013	2012
		.....Afs '000'.....	
Prepayments		22,489	5,209
Receivable from DAB	11.1	15,313	15,313
Restricted balance held with DAB	11.2	413,610	193,845
Security deposit		9,730	-
Others	11.3	53,769	5,771
		514,911	220,138

- 11.1** This represents assets receivable form DAB under an agreement on the inception of the Bank (Refer note 9.2).

- 11.2** This represent the required reserve account maintained with DAB to meet minimum reserves requirement in accordance with Article 64 "Required reserves of banks" of the Da Afghanistan Bank Law. This carry mark-up rates ranging from 0.7% to 1.2% per annum.

	2013	2012
	.....Afs '000'.....	
<b>11.3 Others</b>		
Gross amount	53,769	6,407
Less: Allowances for impairment losses	-	(636)
	53,769	5,771

**12 SHARE CAPITAL**

*Authorized*

250,000 ordinary shares of Afs 10,000 each	2,500,000	2,500,000
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*Issued and paid up*

1,350,000 ordinary shares of Afs 10,000 each	1,350,000	1,400,000
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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	Number of shares	
	2013	2012
12.1 Following is the reconciliation of number of shares:		
Number of shares at beginning of the year	140,000	84,810
Shares (redeemed) / issued during the year	(5,000)	55,190
Number of shares at end of the year	135,000	140,000
	2013	2012
	.....AFN '000'.....	

12.2 Following is the reconciliation of amount of share capital:

Share capital at beginning of the year	1,400,000	848,100
Shares (redeemed) / issued during the year	(50,000)	551,900
Share capital at end of the year	1,350,000	1,400,000

12.3 During the year 'Azizi Bank' - Holding Company, has entered into an agreement with M/s Rahmat Siddiqi Group for sale of 100% shareholding of Bakhtar bank on December 09, 2013 at a total sale consideration of USD 29.80 Million. As per the terms and conditions of the agreement, 100% transfer of shares will be made upon the receipt of total sale consideration. Da Afghanistan Bank's (DAB) approval for this sale is yet awaited.

**13 DEPOSITS FROM CUSTOMERS**

Term deposits	13.2	802,049	558,351
Current deposits		3,022,669	2,345,592
Saving deposits	13.3	1,144,209	896,812
		4,968,927	3,800,755

13.1 None of the deposits from the customers are expected to be settled beyond 36 months after the reporting date.

13.2 These carry interest rate ranging from 3.25% to 6% per annum (2012: 2.75% to 7.5% per annum). It includes Afn 781.68 Million (2012: Afn 471.92 Million) of fixed deposit against Margin money carrying zero rate of interest payable at maturity of guarantees issued there against.

13.3 These carry interest ranging from 3% to 4% per annum (2012: 3% to 4% per annum).

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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		2013	2012
	Note	.....Afs '000'.....	
<b>14 DEPOSITS FROM BANKS</b>			
Azizi Bank	14.1	<u>1,699,388</u>	<u>535,941</u>

- 14.1** Balances kept with Azizi Bank (parent entity) carries interest at Nil on USD and 7.57% per annum on Afs balances respectively from 09 Jul 2013 (2012: 1.5% per annum and 2.5% per annum on USD and Afs respectively). The Bank has earned interest income amounting to Afs 31,809,445 during the year 2013 (2012: Afs 282,000).

		2013	2012
	Note	.....Afs '000'.....	
<b>15 OTHER LIABILITIES</b>			
Withholding tax payable		2,184	662
Interest payable on term deposit		14,340	1,025
Creditors and accruals		79,547	15,176
Others		865	9,015
		<u>96,936</u>	<u>25,878</u>

**16 NET INTEREST INCOME**

**Interest income**

Cash and cash equivalents	14.1	82,006	17,749
Loans and advances to customers		<u>176,874</u>	<u>228,974</u>
Total interest income		258,880	246,723

**Interest expense**

Deposits from customers		27,452	41,642
Deposits from banks	16.1	-	400
Total interest expense		27,452	42,042
<b>Net interest income</b>		<u>231,428</u>	<u>204,681</u>

- 16.1** This includes interest expense amounting Nil (2012: Afs 400,000 ) paid during the year on deposits from parent entity.

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	2013	2012
	.....Afs '000'.....	
<b>17 NET FEE AND COMMISSION INCOME</b>		
<b>Fee and commission income</b>		
Commission income	143,255	68,321
Account servicing fee	474	27
Total fee and commission income	143,729	68,348
<b>Fee and commission expense</b>		
Inter-bank transaction fees	8,388	1,430
Total fee and commission expense	8,388	1,430
<b>Net fee and commission income</b>	135,341	66,918
<b>18 OTHER NON-INTEREST INCOME</b>		
Foreign exchange gain	30,013	14,193
Others	42,901	35,433
	72,914	49,626
<b>19 EMPLOYEE BENEFIT EXPENSES</b>		
Salaries and wages	114,385	80,126
Staff welfare	14,058	9,571
	128,443	89,697
<b>20 OTHER EXPENSES</b>		
Repair and maintenance	4,134	3,318
Travelling expense	9,941	4,881
Advertising and publicity	37,050	24,678
Printing and stationery	10,205	3,365
Communication	1,206	2,577
Internet and connectivity	17,516	8,695
Electricity and power	14,519	10,194
Office supplies	1,995	-
Security expenses	42,525	40,522
Audit fee	744	781
Legal and professional charges	541	972
Postage and courier	101	-
Software maintenance fee	3,766	2,137
Deposit insurance premium	9,882	3,691
Penalty paid to MOF	17,828	-
Others	9,182	7,768
	181,135	113,579

20.1 This premium is paid to Afghanistan Deposit Insurance Corporation (ADIC) at the rate of 0.23% (2012: 0.23%) of total deposits as required by DAB.

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	2013	2012
	.....Afs '000'.....	
<b>21 TAXATION</b>		
Current		
- for the year	(5,869)	(4,580)
- for prior year	-	-
Deferred	-	-
	<u>(5,869)</u>	<u>(4,580)</u>

**22 RELATED PARTIES**

**Parent and ultimate control party**

The Bank is a 100% owned subsidiary of Azizi Bank (refer to Note 12.3 also), therefore all subsidiaries and associated entities are related parties of the Bank. The related entities also comprise entities in which directors are able to exercise significant influence and key management.

**Transactions with key management personnel and other related parties**

Key management personnel and their immediate relatives have transacted with the Bank during the period as follows:

	2013		2012	
	Maximum balance	Closing balance	Maximum balance	Closing balance
	.....Afs '000'.....			
Loan to M/s German Afghan Industrial Corp.	40,971	40,971	36,923	32,121
Deposits with Azizi Bank	1,263,061	1,254,258	594,758	594,758
Deposits from Azizi Bank	1,699,388	1,699,388	645,142	535,941
Interest received from Azizi Bank	31,809	31,809	282	282
Interest paid to Azizi Bank	-	-	400	400

Interest charged on balances outstanding from related parties fall within the same rates that would be charged in arms length transactions. No loan was granted to related parties during 2013.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and other related parties, and no specific allowance has been made for impairment losses on these balances at the period end.

Key management personnel compensation for the period comprised:

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**BAKHTAR BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	2013	2012
	.....Afs '000'.....	
Short-term employee benefits	22,628	13,158

In addition to their salaries, the Bank also provides non-cash benefits to executives which include furnished accommodation, meals and travel. Key management personnel include the following:

Chief Executive Officer

Deputy Chief Executive Officer

Chief Credit Officer

Chief Finance Officer

Chief Operations Officer

Chief Risk Officer

2013	2012
.....Afs '000'.....	

**23 CONTINGENCIES AND COMMITMENTS**

Guarantees issued on behalf of customers	2,422,351	1,417,300
Commitment for rent payments:		
- not later than one year	31,869	24,214
- later than one year and not later than five years	27,002	16,329
	58,871	40,543

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

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**24 FINANCIAL ASSETS AND LIABILITIES**

**Accounting classifications and fair values**

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

Note	At fair value through profit and loss (FVTPL)		At amortized cost using effective interest rate		Available for sale financial assets	Non - financial assets / liabilities	Total for line item	Fair value
	Held for trading	Designated at FVTPL	Held to maturity	Loans and receivables				
.....Afs '000'								
<b>December 31, 2013</b>								
Cash and cash equivalents	5	-	-	4,325,427	-	-	4,325,427	4,325,427
Loans and advances to customers	6	-	-	1,106,940	-	-	1,106,940	1,106,940
Investments	7	-	1,799,448	-	-	-	1,799,448	1,799,448
Other assets	11	-	-	428,923	-	-	514,911	514,911
		-	1,799,448	5,861,290	-	-	7,746,726	7,746,726
Deposits from customers	13	-	-	-	4,968,927	-	4,968,927	4,968,927
Deposits from banks	14	-	-	-	1,699,388	-	1,699,388	1,699,388
Other liabilities	15	-	-	-	96,071	-	96,936	96,936
		-	-	-	6,764,386	-	6,765,251	6,765,251
<b>December 31, 2012</b>								
Cash and cash equivalents	5	-	-	3,271,443	-	-	3,271,443	3,271,443
Loans and advances to customers	6	-	-	1,323,448	-	-	1,323,448	1,323,448
Investments	7	-	649,057	-	-	-	649,057	649,057
Other assets	11	-	-	209,158	-	-	220,138	220,138
		-	649,057	4,804,049	-	-	5,464,086	5,464,086
Deposits from customers	13	-	-	-	3,800,755	-	3,800,755	3,800,755
Deposits from banks	14	-	-	-	535,941	-	535,941	535,941
Other liabilities	15	-	-	-	16,863	-	25,878	25,878
		-	-	-	4,353,559	-	4,362,574	4,362,574

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

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**25 FINANCIAL RISK MANAGEMENT**

**25.1 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 Board of Supervisors have 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) and a Credit Committee which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees have executive and members and report regularly to the Board of Supervisors on their activities. The Bank's Management Board 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 Management Board is assisted in these functions by the Internal Audit.

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.

**25.2 Credit risk**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers. 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 reportable to the Credit Committee. The Credit department is headed by Chief Credit Officer (CCO). Credit Officer along with credit department staff looks after credit risk matters and conduct portfolio analysis for managing credit risk.

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

**Exposure to credit risk**

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

		2013	2012
	Note	.....Afs '000'.....	
<b>Classes of financial assets</b>			
Cash and cash equivalents	5 & 7	5,118,535	2,696,256
Loans and advances to customers	6	1,106,940	1,323,448
Other assets	11	428,923	209,158
Total carrying amounts		<u>6,654,398</u>	<u>4,228,862</u>

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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.

In addition to the above, the Bank has issued financial guarantees contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is Afs 2,456 million (2012: 1,417 million).

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 Bank's own group with high quality external credit ratings or the central bank of Afghanistan / International Banks

**Allowances for impairment**

The Bank establishes an allowance for impairment loss on assets carried at amortized cost that represent 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.

**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 write off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted or legal action is not advisable.

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered charge over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Value of collateral held by the Bank as at year end amounts to Afs 8,891 million (2012: Afs 5,090 million).

**Cash and cash equivalents**

The Bank held cash and cash equivalents of Afs 5,118 million as at December 31, 2013 (2012: 2,696 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with parent bank and other banks.

**25.3 Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations arising 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. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

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**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 and banks. For this purpose net liquid assets are considered as including cash and cash equivalent net off 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 and banks at the reporting date and during the reporting year was as follows:

	2013	2012
At the end of the year	72%	78%
Average for the year	78%	47%
Maximum for the year	103%	78%
Minimum for the year	65%	33%

**Maturity analysis for financial liabilities**

	Note	Carrying amount	Gross nominal inflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
<b>December 31, 2013</b>								
Deposits from customers	13	4,968,927	4,968,927	580,482	1,261	3,061	4,384,123	-
Deposits from banks	14	1,699,388	1,699,388	1,699,388	-	-	-	-
Other liabilities	15	96,936	96,936	82,596	-	14,340	-	-
		<u>6,765,251</u>	<u>6,765,251</u>	<u>2,362,466</u>	<u>1,261</u>	<u>17,401</u>	<u>4,384,123</u>	<u>-</u>
<b>December 31, 2012</b>								
Deposits from customers	13	3,800,755	3,800,755	481,290	25,611	20,624	3,273,230	-
Deposits from banks	14	535,941	535,941	535,941	-	-	-	-
Other liabilities	15	25,878	25,878	25,878	-	-	-	-
		<u>4,362,574</u>	<u>4,362,574</u>	<u>1,043,109</u>	<u>25,611</u>	<u>20,624</u>	<u>3,273,230</u>	<u>-</u>

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**25.4 Market risk**

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.

**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 managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing 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	.....Afs '000' .....				
			Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
<b>December 31, 2013</b>							
Cash and cash equivalents	5	1,886,304	1,886,304	-	-	-	-
Loans and advances to customers	6	1,106,940	140,721	340,042	188,908	437,269	-
Investments	7.	1,799,448	-	1,799,448	-	-	-
Other assets	11	413,610	-	-	-	-	413,610
		<u>3,319,998</u>	<u>2,027,025</u>	<u>2,139,490</u>	<u>188,908</u>	<u>437,269</u>	<u>413,610</u>
Deposits from customers	13	1,164,578	1,144,209	2,317	744	17,308	-
Deposits from banks	14	1,699,388	1,699,388	-	-	-	-
		<u>2,863,966</u>	<u>2,843,597</u>	<u>2,317</u>	<u>744</u>	<u>17,308</u>	<u>-</u>

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	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
			Afs '000'				
December 31, 2012							
Cash and cash equivalents	5	594,758	594,758	-	-	-	-
Loans and advances to customers	6	1,323,448	400,776	256,300	104,340	390,690	171,342
Investments	7	649,057	-	649,057	-	-	-
Other assets	11	193,845	-	-	-	-	193,845
		2,166,350	995,534	905,357	104,340	390,690	365,187
Deposits from customers	13	893,555	65,381	825,484	2,270	420	-
Deposits from banks	14	535,941	535,941	-	-	-	-
		1,429,496	601,322	825,484	2,270	420	-

**Exposure to currency risk**

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

	Total	Afs	US\$	Euro	INR
	Afs '000'				
December 31, 2013					
Cash and cash equivalents	4,325,427	2,175,556	1,821,944	323,639	4,288
Loans and advances to customers	1,265,372	194,415	1,070,957	-	-
Investments	1,799,448	1,799,448	-	-	-
Other assets	514,911	485,056	25,358	4,497	-
	7,905,158	4,654,475	2,918,259	328,136	4,288
Deposits from customers	4,968,927	2,140,951	2,731,074	96,902	-
Deposits from banks	1,699,388	1,511,182	188,206	-	-
Other liabilities	96,936	20,451	76,485	-	-
	6,765,251	3,672,584	2,995,765	96,902	-
Net foreign currency exposure	1,139,907	981,891	(77,506)	231,234	4,288

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	Total	Afs	US\$ Afs '000'	Euro	INR
December 31, 2012					
Cash and cash equivalents	3,259,534	722,965	2,396,161	140,408	-
Loans and advances to customers	1,447,296	298,973	1,148,323	-	-
Investments	649,057	649,057	-	-	-
Other assets	232,047	219,783	12,264	-	-
	<u>5,587,934</u>	<u>1,890,778</u>	<u>3,556,748</u>	<u>140,408</u>	<u>-</u>
Deposits from customers	3,328,829	778,113	2,497,804	52,912	-
Deposits from banks	535,941	26,714	509,227	-	-
Other liabilities	497,804	131,000	357,089	9,715	-
	<u>4,362,574</u>	<u>935,827</u>	<u>3,364,120</u>	<u>62,627</u>	<u>-</u>
Net foreign currency exposure	<u>1,225,360</u>	<u>954,951</u>	<u>192,628</u>	<u>77,781</u>	<u>-</u>

The following significant exchange rates were applied during the period.

	2013		2012	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
USD	55.49	57.23	51.00	52.08
Euro	73.45	78.01	65.31	68.54

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**Sensitivity analysis**

A 10% strengthening of the Afghani, as indicated below, against the USD, and Euro at December 31, 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Equity	Profit or loss
	.....Afs '000' .....	.....
<b>December 31, 2013</b>		
USD	(7,751)	(7,751)
Euro	23,123	23,123
<b>December 31, 2012</b>		
USD	19,263	19,263
Euro	7,778	7,778

A 10% weakening of the Afghani against the above currencies at 31 December 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

**25.5 Capital management**

**Minimum capital requirement**

Current requirement for minimum financial capital is Afs 1,000 million. DAB through Circular Reference No 703/914 dated August 08, 2010 and 2179/1825 dated March 01, 2011 has required all the commercial banks to increase their capital to Afs 1 billion (USD 20 million) before June 06, 2012. Accordingly the Bank has raised the paid up capital to Afs 1,350 million. As on December 31, 2013 the Bank's financial capital is Afs 1,295 million which is well above the minimum requirement of DAB.

**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.

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

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

Regulatory capital is the sum of Tier 1 and Tier 2 capital and Tier 2 capital cannot exceed amount of Tier 1 capital. The Bank complies with these regulations.

The Bank's regulatory capital position at 31 December 2013 was as follows:

	2013	2012
	.....Afs '000'.....	
<b>Tier 1 capital</b>		
Total equity capital		
Less: Intangible assets	1,263,574	1,279,430
Less: Deferred tax assets	(135,985)	(135,985)
<b>Total tier 1 (core) capital</b>	<u>(15,737)</u>	<u>(21,606)</u>
	<u>1,111,852</u>	<u>1,121,839</u>
<b>Tier 2 capital</b>		
<b>Total tier 2 (supplementary) capital</b>	<u>23,478</u>	<u>34,145</u>
	<u>23,478</u>	<u>34,145</u>
<b>Total regulatory capital</b>		
	<u>1,135,330</u>	<u>1,155,984</u>

**26. CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. These rearrangements and reclassifications were of immaterial nature.

**27. AUTHORIZATION**

These financial statements were authorized for issue by the Board of Supervisors on MARCH 26, 2014.

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*Zaw P. Hey*  
 Chairman

*Alemdad*  
 Chief Executive Officer



*[Signature]*  
 Deputy Chief Executive Officer