

Bakhtar Bank
100% Subsidiary of Azizi Bank
Kabul, Afghanistan

Audited Financial Statements along with
accompanying information
For the Year Ended as at December 31, 2014

INDEPENDENT AUDITOR'S REPORT TO 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, 2014, 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 (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.

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 auditors' 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 unmodified audit opinion.

Audit Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2014, and of its financial performance and its cash flows for the year ended in accordance with the requirements of International Financial Reporting Standards (IFRSs), the Law of Banking in Afghanistan and directives issued by the Central Bank of Afghanistan (DAB).


Horwath MAK
Auditors and Business Advisors

Engagement Partner: Muhammad Abdul Basit
Kabul
Business Advisor
Kabul Afghanistan



BAKHTAR BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2014

2014	2013		Note	2014	2013
.....US\$ '000'.....				.....Afs '000'.....	
ASSETS					
128,687	75,580	Cash and cash equivalents	5	7,505,023	4,325,427
25,746	19,342	Loans and advances to customers	6	1,501,502	1,106,940
12,392	31,442	Investments	7	722,728	1,799,448
2,784	2,688	Property and equipment	8	162,385	153,856
2,349	2,376	Intangible assets	9	137,020	135,985
123	275	Deferred tax asset	10	7,162	15,737
12,444	8,998	Other assets	11	725,706	514,911
184,525	140,701	Total assets		10,761,526	8,052,304
EQUITY AND LIABILITIES					
Equity					
23,148	23,589	Share capital	12	1,350,000	1,350,000
(764)	(1,100)	Retained earning		(44,605)	(62,947)
22,384	22,489	Total equity		1,305,395	1,287,053
Liabilities					
131,128	86,824	Deposits from customers	13	7,647,433	4,968,927
29,842	29,694	Deposits from banks	14	1,740,397	1,699,388
1,171	1,694	Other liabilities	15	68,301	96,936
162,141	118,212	Total liabilities		9,456,131	6,765,251
184,525	140,701	Total equity and liabilities		10,761,526	8,052,304
Contingencies and commitments					
			23		

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



Chairman



Deputy Chief Executive Officer



Chief Finance Officer

BAKHTAR BANK
**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014**

2014	2013		Note	2014	2013
.....US\$ '000'.....				.....Afs '000'.....	
6,768	4,524	Interest income		394,736	258,880
(1,210)	(480)	Interest expense		(70,559)	(27,452)
5,558	4,044	Net interest income	16	324,177	231,428
2,296	2,511	Fee and commission income		133,918	143,729
(323)	(147)	Fee and commission expense		(18,861)	(8,388)
1,973	2,364	Net fee and commission income	17	115,057	135,341
227	524	Foreign exchange gain	18	13,229	30,013
661	750	Other non-interest income	18	38,578	42,901
8,419	7,682	Operating income		491,041	439,683
201	(629)	Impairment (loss) / gain on loans and advances	6.8	11,714	(35,987)
(2,963)	(2,244)	Employee benefit expenses	19	(172,793)	(128,443)
(1,016)	(743)	Operating lease expenses		(59,264)	(42,532)
(566)	(389)	Depreciation	8	(33,026)	(22,239)
(1)	-	Amortization	9	(72)	-
(3,613)	(3,165)	Other expenses	20	(210,683)	(181,135)
(7,958)	(7,170)	Operating expenses		(464,124)	(410,336)
461	512	Profit before taxation		26,917	29,347
(147)	(103)	Taxation	21	(8,575)	(5,869)
315	409	Profit for the year		18,342	23,478
-	-	Other comprehensive income		-	-
315	409	Total comprehensive income for the year		18,342	23,478

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

David P. Hay

Chairman

Deputy Chief Executive Officer

Chief Finance Officer

BAKHTAR BANK
**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014**

Share capital	Retained earnings	Total		Share capital	Retained earnings	Total
.....US\$ '000'.....				.....Afs '000'.....		
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
23,148	(1,079)	22,069	Balance as at January 01, 2014	1,350,000	(62,947)	1,287,053
			Comprehensive income:			
-	315	315	Net profit for the year	-	18,342	18,342
			Transactions with owners:			
-	-	-	Ordinary shares redeemed	-	-	-
23,148	(764)	22,384	Balance as at December 31, 2014	1,350,000	(44,605)	1,305,395

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

Dr. P. Herz
Chairman

[Signature]
Deputy Chief Executive Officer

[Signature]
Chief Finance Officer

BAKHTAR BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

2014.....US\$ '000'	2013		Note	2014.....AFN '000'	2013
CASH FLOWS FROM OPERATING ACTIVITIES					
462	513	Profit before taxation		26,917	29,347
		Adjustments for:			
566	389	Depreciation	8	33,026	22,239
1	-	Amortization	9	72	-
(797)	(300)	Accrued interest on cash and cash equivalents		(46,463)	(17,193)
(201)	629	Impairment (gain)/ loss on loans and advances	6.8	(11,714)	35,987
31	1,231			1,838	70,380
		Increase / decrease in operating assets and liabilities:			
(6,565)	3,154	Loans and advances to customers	6	(382,848)	180,521
(3,187)	(4,840)	Other assets	11	(185,840)	(276,976)
45,928	20,329	Deposits from customers	13	2,678,506	1,163,447
703	20,412	Deposits from banks	14	41,009	1,168,172
(515)	1,215	Other liabilities	15	(30,052)	69,536
36,396	41,501	Net cash generated from operating activities before interest and taxation		2,122,613	2,375,080
(405)	(285)	Net Withholding taxes (paid) / collected		(23,539)	(16,274)
35,991	41,216	Net cash generated from operating activities		2,099,074	2,358,806
CASH FLOWS FROM INVESTING ACTIVITIES					
19,259	(19,801)	Investments made - net of interest	7	1,123,183	(1,133,198)
(731)	(2,125)	Purchase of property and equipment	8	(42,661)	(121,624)
18,528	(21,516)	Net cash used in investing activities		1,080,522	(1,254,822)
CASH FLOWS FROM FINANCING ACTIVITIES					
-	(874)	Issuance / Redemption of share capital	12	-	(50,000)
-	(874)	Net cash used in / generated from financing activities		-	(50,000)
54,519	18,416	Net increase in cash and cash equivalents		3,179,596	1,053,984
74,167	57,163	Cash and cash equivalents at beginning of the year		4,325,427	3,271,443
128,687	75,580	Cash and cash equivalents at the end of the year	5	7,505,023	4,325,427

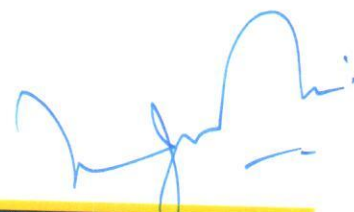
The annexed notes 1 to 27 form an integral part of these financial statements.



Chairman



Chief Executive Officer



Chief Finance Officer

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 57 branches (2013: 54 branches) and 556 staff members (2013: 598 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 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 2014 is 58.32 (2013: 57.23) per US Dollar has been used.

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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.

Foreign currency transactions are translated into functional currency using the exchange rate prevailing at rates.

	<u>USD</u>	<u>Euro</u>	<u>Sterling</u>
The exchange rate for following currencies against AFN were :			
As at 31st December 2014	58.32	70.85	89.95

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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.

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.

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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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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
FOR THE YEAR ENDED DECEMBER 31, 2014

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 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 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, 2014

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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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 Da 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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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
FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014.....Afs '000'.....	2013
5. CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	1,108,327	1,006,340
Balances with banks:			
Balances with Da Afghanistan Bank		1,514,613	1,156,740
Balances with other banks	5.2	4,882,083	2,162,347
		6,396,696	3,319,087
		7,505,023	4,325,427
5.1 Cash in hand			
Local currency		473,709	359,229
Foreign currency		634,618	647,111
		1,108,327	1,006,340
5.2 Balances with other banks			
Commerz Bank		72,561	9,187
Azizi Bank	5.2.1	4,194,362	1,486,263
Western Union International Bank GmbH		61,279	21,392
Aktif Bank	5.2.2	242,768	605,027
Yinzhou Bank		1,776	35,611
Development Credit Bank Ltd		3,206	4,330
Bahrain Middle East Bank		-	537
Yes Bank India		94	-
Pashtany Bank		306,037	-
		4,882,083	2,162,347

- 5.2.1** Balances kept with Azizi Bank (parent entity) carries interest at 5% on USD and 7.25% per annum on Afs on to be calculated on Monthly average of daily balances of each month. (2013: 7.57% per annum on USD and Afs). The Bank has earned interest income amounting to Afs 89,475,666 during the year 2014 (2013 :Afs 31,809,445).
- 5.2.2** Balances kept with Aktif Bank includes 01 year time deposit of 3,000,000 USD carries interest at 2.65% per annum.
- 5.2.3** The aggregate exposure with Azizi Bank is to date 261.55% of regulatory capital as against Da Afghanistan Bank norms of 200%. Subsequently as of February 19, 2015 the exposure has been reduced to 180.61%.
- 5.2.4** Asset concentration with Azizi Bank as at December 31, 2014 was at 225% (Netoff deposit from Azizi Bank - Note: 14.1) of primary capital of the bank. However, subsequently as of February 19, 2015 it has been reduced to 153% (Netoff deposit from Azizi Bank) of primary capital which is excess than the prescribed limit of 40% as per clause 6.1.2 (A) "Asset concentration" of Article Six "Asset Diversification and Limitations on Large Exposures of Banking Organization" of Da Afghanistan Bank rules and regulations.

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BAKHTAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	2014Afs '000'.....	2013
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6. LOAN AND ADVANCES TO CUSTOMERS

Loans and advances to customers at amortized cost	6.1	1,648,218	1,106,940
---	-----	------------------	-----------

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 2014				31 December 2013			
.....Afs '000'.....							
Retail customers- running finances	6.2	1,045,391	24,458	1,020,933	437,003	61,095	375,908
Long term commercial loans	6.3	319,726	99,391	220,335	236,706	95,729	140,977
Small and medium enterprise loan	6.4	96,845	5,707	91,137	162,562	1,403	161,159
Short term loans to employees	6.5	1,942	-	1,942	2,389	-	2,389
Other public consumer loans	6.6	15,097	2,372	12,725	5,498	79	5,419
Residential mortgage loans	6.7	169,218	14,788	154,430	421,214	126	421,088
		1,648,218	146,717	1,501,502	1,265,372	158,432	1,106,940

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 (2013: 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 (2013: 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 (2013: 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 (2013: 6% to 12% per annum) and these loans are extended for a period of one year.

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 (2013: 12% to 15% per annum) and are secured against immovable properties and personal guarantees.

6.7 Residential mortgage loans were not extended to any individual borrower during financial year 2014.

6.8 Impairment loss on loans and advances

Collective allowances for impairment:

	2014.....Afs '000'.....	2013
Balance at beginning of year	158,432	123,848
Allowance for the year	(11,714)	35,987
Currency fluctuation		(1,403)
Charged off during the year	-	-
Balance as at the end of the year	146,717	158,432

7. INVESTMENTS

Held to maturity

	Interest rate range	2014	2013
Capital notes - 28 days	Nil (2013: 3.37% to 3.39%)per annum	-	998,361
Capital notes -182 days	4.97% to 5.18% (2013: 3.33 to 4.96%) per annum	-	97,648
Capital notes - 364 days	7.10% to 7.25% (2013: 5.35% to 7.07%) per annum	722,728	703,439
		722,728	1,799,448

BAKHITAR BANK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

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'							
Gross carrying amount							
Balance as at January 01, 2013	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
Balance as at December 31, 2013	37,337	69,290	16,771	47,807	17,951	50,800	239,956
Balance as at January 01, 2014	37,337	69,290	16,771	47,807	17,951	50,800	239,956
Additions	2,541	4,511	2,045	21,311	333	10,813	41,554
Balance as at December 31, 2014	39,878	73,801	18,816	69,118	18,284	61,613	281,510
Depreciation							
Balance as at January 01, 2013	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
Balance as at December 31, 2013	14,414	26,764	3,098	32,576	9,247	-	86,099
Balance as at January 01, 2014	14,414	26,764	3,098	32,576	9,247	-	86,099
Depreciation for the year	6,836	12,741	1,714	9,021	2,713	-	33,026
Balance as at December 31, 2014	21,250	39,505	4,812	41,597	11,960	-	119,125
Carrying amount							
Balance as at January 01, 2013	9,125	13,592	6,513	13,845	11,397	-	54,472
Balance as at December 31, 2013	22,923	42,526	13,673	15,231	8,704	50,800	153,856
Balance as at December 31, 2014	18,628	34,296	14,004	27,521	6,324	61,613	162,385
Depreciation rates	20%	20%	5-20%	33.33%	15%	Nil	14.4%

BAKHTAR BANK**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014****9 INTANGIBLE ASSETS**

	Purchased software	Goodwill	Total
	.....Afs '000'.....		
Gross carrying amount			
Balance as at January 01, 2013	8,900	135,985	144,885
Additions	-	-	-
Balance as at December 31, 2013	8,900	135,985	144,885
Balance as at January 01, 2014	8,900	135,985	144,885
Additions	1,107	-	1,107
Balance as at December 31, 2014	10,007	135,985	145,992
Amortization			
Balance as at January 01, 2013	8,900	-	8,900
Amortization during the year	-	-	-
Balance as at December 31, 2012	8,900	-	8,900
Balance as at January 01, 2014	8,900	-	8,900
Amortization during the year	72	-	72
Balance as at December 31, 2014	8,972	-	8,972
Carrying amount as at December 31, 2013	-	135,985	135,985
Carrying amount as at December 31, 2014	1,035	135,985	137,020

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

9.2 Goodwill represents 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')
Assets	
Cash and cash equivalents	178,637
Property and equipment	19,872
Other assets	15,313
	213,822
Liabilities	
Customer deposits	349,807
Net liabilities - representing cost of acquisition	(135,985)
Represented by:	
Net liabilities assumed	(135,985)

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BAKHITAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014</i>			
Tax loss carry - forward	15,737	(8,575)	7,162
	<u>15,737</u>	<u>(8,575)</u>	<u>7,162</u>
<i>As at December 31, 2013</i>			
Tax loss carry-forward	21,606	(5,869)	15,737
	<u>21,606</u>	<u>(5,869)</u>	<u>15,737</u>

- 10.1 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

		2014.....Afs '000'.....	2013
Prepayments		34,459	22,489
Receivable from DAB	11.1	15,313	15,313
Restricted balance held with DAB	11.2	567,140	413,610
Security deposit		1,166	9,730
Others	11.3	107,628	53,769
		<u>725,706</u>	<u>514,911</u>

- 11.1 This represents assets receivable from 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.

11.3 Others

	2014.....Afs '000'.....	2013
Gross amount	107,628	53,769
Less: Allowances for impairment losses	-	-
	<u>107,628</u>	<u>53,769</u>

12 SHARE CAPITAL

Authorized

250,000 ordinary shares of Afs 10,000 each

Issued and paid up

1,350,000 ordinary shares of Afs 10,000 each

	2014Afs '000'.....	2013
	2,500,000	2,500,000
	<u>1,350,000</u>	<u>1,350,000</u>

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BAKHTAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Number of shares	
	2014	2013
12.1 Following is the reconciliation of number of shares:		
Number of shares at beginning of the year	135,000	140,000
Shares (redeemed) / issued during the year	-	(5,000)
Number of shares at end of the year	<u>135,000</u>	<u>135,000</u>
	2014	2013
	.....AFN '000'.....	

12.2 Following is the reconciliation of amount of share capital:

Share capital at beginning of the year	1,350,000	1,400,000
Shares (redeemed) / issued during the year	-	(50,000)
Share capital at end of the year	<u>1,350,000</u>	<u>1,350,000</u>

12.3 Bakhtar Bank has submitted application with proposal for provision of full-fledged islamic banking license to the The Director General , Banking Supervision Department of Da Afghanistan Bank on Janaury 31, 2015 in reply to the letter of Finance Supervision Department No. 4039/3995 dated December 22, 2014 for the eligibility of participation in full-fledged islamic banking. The seeked approval from Da Afghanistan Bank (DAB) is still under process.

13 DEPOSITS FROM CUSTOMERS

Term deposits	13.2	1,005,369	802,049
Current deposits		5,275,545	3,022,669
Saving deposits	13.3	<u>1,366,519</u>	<u>1,144,209</u>
		<u>7,647,433</u>	<u>4,968,927</u>

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 (2013: 3.25% to 6% per annum). It includes Afn 999.127 Million (2013: Afn 781.68 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 (2013: 3% to 4% per annum).

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BAKHTAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

		2014	2013
	Note	.....Afs '000'.....	
14 DEPOSITS FROM BANKS			
Azizi Bank	14.1	1,150,584	1,699,388
Pashtany Bank	14.2	589,813	-
		<u>1,740,397</u>	<u>1,699,388</u>

14.1 Balances from Azizi Bank (parent entity) carries interest at 5% on USD and 7.25% per annum on Afs on to be calculated on Monthly average of daily balances of each month. (2013: 7.57% per annum on USD and Afs).

14.2 During the year Bank made arrangement with Pashtany bank for liquidity support of Bakhtar Bank by pledging Capital Notes of 600 Million Afs in the name of Pashtany Bank against which Pashtany Bank has deposits with Bakhtar Bank of 10 Million USD carries interest at 3% per annum. The Bank has paid interest expense amounting to 8.593 Million Afs during the year 2014.

		2014	2013
	Note	....Afs '000'....	'000'.....
15 OTHER LIABILITIES			
Withholding tax payable		3,601	2,184
Interest payable on term deposit		19,114	14,340
Creditors and accruals		45,271	79,547
Others		315	865
		<u>68,301</u>	<u>96,936</u>

16 NET INTEREST INCOME

Interest income

Cash and cash equivalents	14.1	176,814	82,006
Loans and advances to customers		217,922	176,874
Total interest income		<u>394,736</u>	<u>258,880</u>

Interest expense

Deposits from customers		61,966	27,452
Deposits from banks		8,593	-
Total interest expense		<u>70,559</u>	<u>27,452</u>
Net interest income		<u>324,177</u>	<u>231,428</u>

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BAKHTAR BANK**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	2014	2013
	.....Afs '000'.....	
17 NET FEE AND COMMISSION INCOME		
Fee and commission income		
Commission income	133,251	143,255
Account servicing fee	667	474
Total fee and commission income	133,918	143,729
Fee and commission expense		
Inter-bank transaction fees	18,861	8,388
Total fee and commission expense	18,861	8,388
Net fee and commission income	115,057	135,341
18 OTHER NON-INTEREST INCOME		
Foreign exchange gain	13,229	30,013
Others	38,578	42,901
	51,807	72,914
19 EMPLOYEE BENEFIT EXPENSES		
Salaries and wages	151,312	114,385
Staff welfare	21,481	14,058
	172,793	128,443
20 OTHER EXPENSES		
Repair and maintenance	6,013	4,134
Travelling expense	10,132	9,941
Advertising and publicity	35,077	37,050
Printing and stationery	6,060	10,205
Communication	2,137	1,206
Internet and connectivity	14,169	17,516
Electricity and power	22,791	14,519
Office supplies	2,378	1,995
Security expenses	84,062	42,525
Audit fee	758	744
Legal and professional charges	1,110	541
Postage and courier	93	101
Software maintenance fee	3,760	3,766
Deposit insurance premium	20.1 12,270	9,882
Penalty paid to MOF	-	17,828
Others	9,873	9,182
	210,683	181,135

20.1 This premium is paid to Afghanistan Deposit Insurance Corporation (ADIC) at the rate of 0.23% (2013: 0.23%) of total deposits as required by DAB.

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BAKHTAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
	.....Afs '000'.....	.....Afs '000'.....
21 TAXATION		
Current		
- for the year	(5,384)	(5,869)
Deferred	(3,191)	-
	<u>(8,575)</u>	<u>(5,869)</u>

22 RELATED PARTIES

Parent and ultimate control party

The Bank is a 100% owned subsidiary of Azizi Bank, 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:

	2014		2013	
	Maximum balance	Closing balance	Maximum balance	Closing balance
	.....Afs '000'.....			
Loan to M/s German Afghan Industrial Corp.	48,641	48,641	40,971	40,971
Deposits with Azizi Bank	4,355,125	4,194,507	1,263,061	1,254,258
Deposits from Azizi Bank	3,467,112	1,150,584	1,699,388	1,699,388
Net Interest received from Azizi Bank	89,476	89,476	31,809	31,809

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 2014.

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
FOR THE YEAR ENDED DECEMBER 31, 2014**

	2014	2013
	.....Afs '000'.....	
Short-term employee benefits	<u>29,010</u>	<u>22,628</u>

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

	2014	2013
	.....Afs '000'.....	

23 CONTINGENCIES AND COMMITMENTS

Guarantees and Letter of Credit issued on behalf of customers	<u>2,165,377</u>	<u>2,422,351</u>
Commitment for rent payments:		
- not later than one year	8,712	31,869
- later than one year and not later than five years	<u>126,679</u>	<u>27,002</u>
	<u>135,391</u>	<u>58,871</u>

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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BAKHAR BANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

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'.....								
December 31, 2014								
Cash and cash equivalents	5	-	-	7,505,023	-	-	7,505,023	7,505,023
Loans and advances to customers	6	-	-	1,501,502	-	-	1,501,502	1,501,502
Investments	7	-	-	722,728	-	-	722,728	722,728
Other assets	11	-	-	567,140	-	158,566	725,706	725,706
		-	-	722,728	-	158,566	10,454,959	10,454,959
Deposits from customers	13	-	-	-	7,647,433	-	7,647,433	7,647,433
Deposits from banks	14	-	-	-	1,740,397	-	1,740,397	1,740,397
Other liabilities	15	-	-	-	67,986	315	68,301	68,301
		-	-	-	9,455,816	315	9,456,131	9,456,131
December 31, 2013								
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	-	85,988	514,911	514,911
		-	-	1,799,448	-	85,988	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	865	96,936	96,936
		-	-	-	6,764,386	865	6,765,251	6,765,251

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 amounts.

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BAKHTAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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:

	Note	2014	2013
		.....Afs '000'.....	
Classes of financial assets			
Cash and cash equivalents	5 & 7	7,119,424	5,118,535
Loans and advances to customers	6	1,501,502	1,106,940
Other assets	11	582,453	428,923
Total carrying amounts		<u>9,203,379</u>	<u>6,654,398</u>

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. However, noncompliance to asset concentration requirements have been disclosed in Note 5.2.4 to the financial statements.

BAKHTAR BANK**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

In addition to the above, the Bank has issued financial guarantees contracts and letter of credits for which the maximum amount payable by the Bank, assuming all guarantees are called on, is Afs 2,165 million (2013: 2,456 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 6,711 million (2013: Afs 8,891 million).

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 6,396 million as at December 31, 2014 (2013: 5,118 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.



NOTES TO THE FINANCIAL STATEMENTS
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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:

Maturity analysis for financial liabilities

Note	Carrying amount	Gross				
		nominal inflow	Less than 1 month	1-3 months	3 months to 1 year	More than 5 years
				Afs '000'		
December 31, 2014						
Deposits from customers	7,647,433	7,647,433	929,569	275	61,193	-
Deposits from banks	1,740,397	1,740,397	261,060	-	-	-
Other liabilities	68,301	68,301	49,187	-	19,114	-
	<u>9,456,131</u>	<u>9,456,131</u>	<u>1,239,816</u>	<u>275</u>	<u>80,307</u>	<u>-</u>
December 31, 2013						
Deposits from customers	4,968,927	4,968,927	580,482	1,261	3,061	-
Deposits from banks	1,699,388	1,699,388	1,699,388	-	-	-
Other liabilities	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>-</u>

Abstract

BAKHTAR BANK**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014****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
December 31, 2014							
Cash and cash equivalents	5	4,594,403	4,594,403	-	-	-	-
Loans and advances to customers	6	1,648,218	696,592	315,155	462,975	173,496	-
Investments	7	722,728	-	-	722,728	-	-
Other assets	11	567,140	-	-	-	-	567,140
		<u>2,938,086</u>	<u>5,290,995</u>	<u>315,155</u>	<u>1,185,703</u>	<u>173,496</u>	<u>567,140</u>
Deposits from customers	13	3,250,425	1,861	1,230,732	3,516	1,957,050	-
Deposits from banks	14	1,740,397	583,200	1,157,197	-	-	-
		<u>4,990,822</u>	<u>585,061</u>	<u>2,387,929</u>	<u>3,516</u>	<u>1,957,050</u>	<u>-</u>

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BAKHTAR BANK
**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
					Afs '000'		
December 31, 2013							
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>

Exposure to currency risk

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

	Total	Afs	US\$	Euro	INR	CNY
				Afs '000'		
December 31, 2014						
Cash and cash equivalents	7,495,760	4,860,164	2,472,262	160,028	3,300	6
Loans and advances to customers	1,501,501	508,270	993,231	-	-	-
Investments	722,728	722,728	-	-	-	-
Other assets	725,590	708,221	17,369	-	-	-
	<u>10,445,579</u>	<u>6,799,383</u>	<u>3,482,862</u>	<u>160,028</u>	<u>3,300</u>	<u>6</u>
Deposits from customers	7,647,433	4,975,754	2,545,174	126,505	-	-
Deposits from banks	1,740,397	877,146	863,251	-	-	-
Other liabilities	96,936	20,451	76,485	-	-	-
	<u>9,484,766</u>	<u>5,873,351</u>	<u>3,484,910</u>	<u>126,505</u>	<u>-</u>	<u>-</u>
Net foreign currency exposure	<u>(2,685,383)</u>	<u>(2,390,489)</u>	<u>(3,324,882)</u>	<u>(123,205)</u>	<u>6</u>	<u>6</u>

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BAKHTAR BANK

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	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	4,288.00
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	-
	<u>7,905,158</u>	<u>4,654,475</u>	<u>2,918,259</u>	<u>328,136</u>	<u>4,288</u>
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	-	-
	<u>6,765,251</u>	<u>3,672,584</u>	<u>2,995,765</u>	<u>96,902</u>	<u>-</u>
Net foreign currency exposure	<u>1,139,907</u>	<u>981,891</u>	<u>(77,506)</u>	<u>231,234</u>	<u>4,288</u>

The following significant exchange rates were applied during the period.

	2014		2013	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
USD	57.28	58.32	55.49	57.23
EURO	76.11	70.85	73.45	78.01
INR	0.9502	0.9412	-	-
CNY	9.4517	9.6222	-	-

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BAKHTAR BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and Euro at December 31, 2014 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'	.....
December 31, 2014		
USD	(191,239)	(239,049)
Euro	(265,990)	(332,488)
December 31, 2013		
USD	78,551	98,189
Euro	(6,201)	(7,751)

A 10% weakening of the Afghani against the above currencies at 31 December 2014 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 maintained the paid up capital to Afs 1,350 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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BAKHITAR BANK
NOTES TO THE FINANCIAL STATEMENTS
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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 2014 was as follows:

	2014	2013
	.....Afs '000'.....	
Tier 1 capital		
Total equity capital	1,287,052	1,263,574
Less: Intangible assets	(137,020)	(135,985)
Less: Deferred tax assets	(7,162)	(15,737)
Total tier 1 (core) capital	1,142,870	1,111,852
Tier 2 capital		
Total tier 2 (supplementary) capital	18,342	23,478
	18,342	23,478
Total regulatory capital	1,161,212	1,135,330

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.

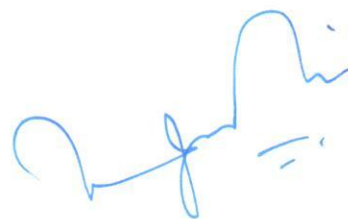
27. AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on 30th March, 2015.



Chairman

Deputy Chief Executive Officer



Chief Finance Officer