Financial Statements and Auditors' Report

BAKHTAR BANK

FOR THE YEAR ENDED DECEMBER 31, 2011

GrantThornton

Anjum Asim Shahid Rahman
Chartered Accountants

Grant Thornton

Anjum Asim Shahid Rahman

Afghanistan Office
House # 611, Street # 12,
Qualle Fatehullah
Kabul, Afghanistan
T: + 93 781 782 781
M: + 93 789 314 616
W: www.gtpak.com

Pakistan - Head Office
1st Floor, 2 Ali Plaza
1-E, Jinnah Avenue
Blue Area, Islamabad
Pakistan
T: +92 51 2271906, 2274665, 2273883
F: +92 51 2273874
W: www.aasr.com.pk

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BAKHTAR BANK

We have audited the accompanying financial statements of Bakhtar Bank ("the Bank"), which comprises the statement of financial position as at December 31, 2011, and the statements 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 and the requirements of the Law of Banking in Afghanistan, 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 auditor's judgment, 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 the 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.

Basis for Qualified Opinion

As disclosed in note 6.8 to the financial statements, loans and advances amounting to Afs 586 million (2010: Afs 617 million) outstanding at the year end in respect of housing project being developed by Onyx Construction Company are only secured against the land and incomplete structure of these housing projects. These loans have a term of 3 to 5 years and their recoverability is directly linked to the successful completion of these housing projects and sale thereof by Onyx Construction Company. Further, as per project development agreements signed with Onyx Construction Company, these properties were required to be secured either by way of mortgage in favor of Bank or by way of execution of suitable power of attorney in favor of the Bank (Baiee-Jai-Zee registered in court). As at the date of this report, the Bank has not obtained necessary power of attorney or mortgage of the projects and Bank's exposure against these loans is unsecured. However, the Bank has obtained the letter of comfort from Azizi Bank.

Qualified 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, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Law of Banking in Afghanistan.

Emphasis of Matter Paragraph

As disclosed in note 9 to the financial statements, the Bank has recognized a net deferred tax asset of Afs 26 million as at date of financial position. Management has projected future taxable profits against which this asset would be utilized. However, underlying assumptions of these projections are dependent upon future events, occurrence of which is not certain. Our report is not qualified on this matter.

Other Matter Paragraph

The financial statements of Bakhtar Bank for the year ended December 31, 2010 were audited by another auditor who expressed a modified opinion on those statements on April 30, 2011. Reason for qualification was the unsecured loan exposure towards Onyx Construction Company.

Anjum Asim Shahid Rahman

Kabul
Date:
March 31, 2012

Anjum Asim Shahid Rahman
Chartered Accountants

AASB

BAKHTAR BANK

Financial Statements

For the year ended December 31, 2011

BAKHTAR BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011

2011	2010		Note	2011	2010
..........US$ '000'..........				..........Afs '000'..........	
		ASSETS			
32,350	41,188	Cash and cash equivalents	5	**1,595,160**	1,865,804
39,254	38,628	Loans and advances to customers	6	**1,935,618**	1,749,837
1,159	1,250	Property and equipment	7	**57,169**	56,623
2,788	3,100	Intangible assets	8	**137,469**	140,435
531	577	Deferred tax asset	9	**26,186**	26,146
4,856	4,168	Other assets	10	**239,443**	188,806
80,938	88,911	**Total assets**		**3,991,045**	4,027,651
		EQUITY AND LIABILITIES			
		EQUITY			
17,199	18,722	Share capital	11	**848,100**	848,100
(2,445)	(3,246)	Accumulated loss		**(120,570)**	(147,045)
14,754	15,476	**Total equity**		**727,530**	701,055
		LIABILITIES			
48,083	28,739	Deposits from customers	12	**2,370,968**	1,301,890
12,212	38,961	Deposits from banks	13	**602,190**	1,764,953
5,889	5,735	Other liabilities	14	**290,357**	259,753
66,184	73,435	**Total liabilities**		**3,263,515**	3,326,596
80,938	88,911	**Total equity and liabilities**		**3,991,045**	4,027,651

The annexed notes 1 to 26 form an integral part of these financial statements.

Chairman

Deputy Chief Executive Officer

Chief Financial Officer

BAKHTAR BANK
باختر بانک
Bakhtar Bank

BAKHTAR BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011

2011	2010		Note	2011	2010
..........US$ '000'.........				.........Afs '000'..........	
4,874	2,810	Interest income		240,316	127,283
(957)	(1,077)	Interest expense		(47,202)	(48,781)
3,917	1,733	**Net interest income**	15	193,114	78,502
819	1,033	Fee and commission income		40,387	46,811
(28)	(10)	Fee and commission expense		(1,394)	(455)
791	1,023	**Net fee and commission income**	16	38,993	46,356
801	404	Other non-interest income	17	39,483	18,308
5,509	3,160	**Operating income**		271,590	143,166
(44)	(1,971)	Impairment loss on loans and advances	6.9	(2,181)	(89,288)
(1,579)	(1,260)	Employee benefit expenses	18	(77,861)	(57,095)
(498)	(484)	Operating lease expenses		(24,549)	(21,923)
(420)	(387)	Depreciation	7	(20,721)	(17,509)
		Amortisation	8	(2,966)	(2,967)
(2,372)	(1,879)	Other operating expenses	19	(116,877)	(85,113)
(4,913)	(5,981)	**Operating expenses**		(245,155)	(273,895)
536	(2,886)	PROFIT/(LOSS) BEFORE TAXATION		26,435	(130,729)
1	363	Income tax	20	40	17,654
537	(2,496)	PROFIT/(LOSS) FOR THE YEAR		26,475	(113,075)
		Other comprehensive income		-	-
537	(2,496)	TOTAL COMPREHENSIVE INCOME / (LOSS)		26,475	(113,075)

The annexed notes 1 to 26 form an integral part of these financial statements.

BAKHTAR BANK Head Office Kabul

Chairman | Deputy Chief Executive Officer | Chief Financial Officer

BAKHTAR BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011

Share capital	Accumulated loss	Total		Share capital	Accumulated loss	Total
US$ '000'				Afs '000'		
11,068	(750)	10,319	Balance as at January 01, 2010	501,400	(33,970)	467,430
			Total comprehensive income for the year ended December 31, 2010			
-	(2,496)	(2,496)	Loss for the year	-	(113,075)	(113,075)
			Transactions with owners			
7,653	-	7,653	Issuance of share capital	346,700	-	346,700
18,721	(3,246)	15,476	Balance as at December 31, 2010	848,100	(147,045)	701,055
17,199	**(2,982)**	**14,217**	**Balance as at January 01, 2011**	**848,100**	**(147,045)**	**701,055**
			Total comprehensive income for the year ended December 31, 2011			
-	**537**	**537**	Profit for the year	-	**26,475**	**26,475**
17,199	**(2,445)**	**14,754**	**Balance as at December 31, 2011**	**848,100**	**(120,570)**	**727,530**

The annexed notes 1 to 26 form an integral part of these financial statements.

Chairman

Deputy Chief Executive Officer

BAKHTAR BANK
باختر بانک
Bakhtar Bank
Head Office

Chief Financial Officer

AASR

BAKHTAR BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

2011	2010		Note	2011	2010
..........US$ '000'..........				..........Afs '000'..........	
		CASH FLOWS FROM OPERATING ACTIVITIES			
536	(2,886)	Profit / (Loss) before income tax		26,435	(130,729)
		Adjustments for:			
420	387	Depreciation	7	20,721	17,509
60	65	Amortisation	8	2,966	2,967
44	1,971	Impairment loss on loans and advances	6.9	2,181	89,288
-	16	Loss on sale of property and equipment		-	727
1,060	(447)			52,303	(20,238)
		Increase / decrease in operating assets and liabilities:			
(3,812)	(37,952)	Loans and advances to customers	6	(187,962)	(1,719,242)
(1,027)	(3,686)	Other assets	10	(50,637)	(166,987)
21,681	22,039	Deposits from customers	12	1,069,078	998,377
(23,581)	38,961	Deposits from banks	13	(1,162,763)	1,764,953
613	2,763	Other liabilities	14	30,245	125,180
(5,066)	21,678	**Net cash (used in) / generated from operating activities before interest and taxation**		(249,736)	982,043
7	2	Taxes collected		359	112
(5,059)	21,680	**Net cash (used in) / generated from operating activities**		(249,377)	982,155
		CASH FLOWS FROM INVESTING ACTIVITIES			
(431)	(193)	Purchase of property and equipment	7	(21,267)	(8,726)
-	2	Proceeds from sale of property and equipment		-	72
(431)	(191)	**Net cash used in investing activities**		(21,267)	(8,654)
		CASH FLOWS FROM FINANCING ACTIVITIES			
-	7,653	Proceeds from issue of share capital	11	-	346,700
-	7,653	**Net cash from financing activities**		-	346,700
(5,490)	29,142	**Net (decrease) / increase in cash and cash equivalents**		(270,644)	1,320,201
37,840	12,046	Cash and cash equivalents at beginning of the year		1,865,804	545,603
32,350	41,188	**Cash and cash equivalents at the end of the year**	5	1,595,160	1,865,804

The annexed notes 1 to 26 form an integral part of these financial statements.

Chairman　　　Deputy Chief Executive Officer　　　Chief Financial Officer

BAKHTAR BANK
باختـر بانک
Bakhtar Bank
Head Office Kabul

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") since 2009 as "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 in Kabul, Afghanistan and has 19 (2010: 16) branches.

2 STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Law of Banking in Afghanistan. In case requirements differ, the provisions of the Law of Banking in Afghanistan shall prevail.

2.1 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

The following amendments to standards are mandatory for the first time for the financial year beginning January 01, 2011 which may affect these financial statements:

- Amendment to IAS 24 'Related party transactions' (effective for annual periods beginning on or after January 01, 2011). This amendment clarifies the definition of related parties and to provide exemption from the disclosure of certain transactions with government entities. This amendment does not have material impact on these financial statements.

- Amendments to IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This interpretation has no impact on the Bank's financial statements.

- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' (effective for annual periods beginning on or after July 1, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Bank's financial statements.

- IAS 1, Presentation of financial statements (effective January 1, 2011). The amendments clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any significant impact on the Bank's financial statements, other than certain additional disclosures.

- IFRS 7, Financial Instrument (effective 1 January 2011). The amendment emphasizes the interaction between qualitative and quantitative disclosure about the nature and risks associated with financial instruments. The amendment does not have any significant impact on the financial statements of the Bank, other than certain additional disclosures.

During the year, other standards, amendments to standards and interpretations also became applicable. However, these are either not relevant or do not affect financial statements of the Bank.

BAKHTAR BANK
باختر بانک
Bakhtar Bank
Head Office Kabul

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

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board (IASB) but are not yet effective, and have not been adopted early by the Bank. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below:

- Amendment to IAS 12 'Deferred Tax' recovery of underlying assets (effective date 1 January 2012). This amendment provides a practical approach for measuring deferred tax liabilities and deferred tax assets when it would be difficult and subjective to determine the expected manner of recovery. This amendment is not expected to have any material impact on the financial statements of the Bank.

- Amendments to IAS 1 'Presentation of Financial Statements' require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Bank's management expects this will change the current presentation of items in comprehensive income; however, it will not affect the measurement or recognition of such items.

- Amendment to IFRS 7 'Financial Instruments Disclosure' (effective date 1 January 2012). This amendment introduces additional disclosures when an asset is transferred but is not derecognized. It also requires disclosures of assets that are derecognized but where the entity continues to have a continuing exposure to the asset after the sale. The Bank is yet to assess the full impact of the amendments and intends to adopt IFRS 7 no later than the accounting period beginning on or after 1 January 2012.

- IFRS 9 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The management of the Bank is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 13 'Fair Value Measurement' does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Bank's management have yet to assess the impact of this new standard.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2012 but are considered not to be relevant or to have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

BAKHTAR BANK
باختر بانک
Bakhtar Bank

3.2 Functional and presentation currency

These financial statements are presented in Afghani (AFS), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in AFS has been rounded to the nearest thousand.

The US Dollar amounts reported in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows are stated as additional information, solely for the convenient of the user of these financial statement. The US Dollar amounts in the statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows have been translated into US Dollar at the rate of Afs. 49.31 US$ 1 (2010: Afs. 45.30)

3.3 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience, industry trends, legal and technical pronouncements and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised. Significant areas requiring the use of management estimates in these financial statements relate to the useful life of depreciable assets, estimates of recoverable amounts of depreciable and financial assets, provisions for doubtful loans and receivables. However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year.

4 SUMMARY OF 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 translation

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss arising on retranslation is recognized in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of transaction.

4.2 Interest income and expense

Interest income and expense are recognised 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 period. 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 fees 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.

As per regulation issued by DAB title: "Asset Classifications, Monitoring of Problem Assets, Reserve for losses, and Non-accrual Status", accrued interest is reversed in the loans and advances that are classified as non-accrual status. Interest from such loans and advances is recognised on receipt basis.

BAKHTAR BANK
باختر بانک

4.3 Fee and commission

Fees and commission income includes account servicing fees and commissions on issuance of guarantees and are recognized as the related services are performed.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

4.4 Lease payments

Payments under operating leases are recognized in statement of comprehensive income on straight line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

4.5 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in statement of comprehensive income except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax, if any, is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

4.6 Financial assets and financial liabilities

Recognition and initial measurement

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the financial instrument. Regular way purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the assets. Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position.

On Derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in the other comprehensive income is recognized in statement of comprehensive income.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

BAKHTAR BANK
باختر بانک
Bakhtar Bank

Offsetting

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 under IFRSs, or for gains and losses arising from a group of similar transactions.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for the financial instrument is not active, the Bank establishes fair value using a valuation technique.

Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Currently, the Bank has financial assets only in the form of loans and receivables. Therefore, policies related to other categories of financial assets would not be relevant.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Bank's cash and cash equivalents, loans and advances fall into this category of financial instruments.

Identification and measurement of impairment

The Bank determines allowance for impairment loans and advances in accordance with regulation issued by DAB "Asset Classifications, Monitoring of Problem Assets, Reserve for losses, and Non-accrual Status".

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial asset or group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows on the asset(s) that can be estimated reliably.

BAKHTAR BANK

Objective evidence that the financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indication that a borrower or issuer will enter bankruptcy, disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of a borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

The Bank considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

In determining the potential loss in specific loans, groups of loans, or in the aggregate loan portfolio, all relevant factors are considered including, but not limited to: current economic conditions, historical loss experience, delinquency trends, the effectiveness of the Bank's lending policies and collection procedures, and the timeliness and accuracy of its loan review function.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount (if applicable). When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through statement of comprehensive income.

The Bank writes off certain loans and advances when they are determined to be uncollectable.

4.7 Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, unrestricted balances held with central bank, balances in Nostro accounts and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4.8 Loans and advances to customers

These are stated net of provisions. Provision is determined on the basis of the regulations and other directives issued by the DAB and charged to statement of comprehensive income. Loans and advances are written off when there is no realistic prospect of recovery or when the regulation requires.

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 asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset 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 statement of comprehensive income.

BAKHTAR BANK
باختر بانک
Bakhtar Bank

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 statement of comprehensive income as incurred.

Depreciation

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

- Leasehold improvement	5 years
- Furniture and fixture	5-20 years
- Office equipment	5 years
- IT equipment	3 years
- Vehicles	6.67 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

4.10 Intangible assets

Software acquired by the Bank in stated at cost less accumulated amortisation and accumulated impairment losses.

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

Amortisation is recognised in profit and loss 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.

Amortisation methods, useful lives and residual values are reassesed at each financial year end and adjusted, if appropriate.

Acquired customer deposits

Acquired customer deposits 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.

4.11 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

BAKHTAR BANK
باختر بانک
Bakhtar Bank

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

4.12 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 the effective interest method, except where the Bank choose to carry the liabilities at the fair value through statement of comprehensive income.

4.13 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.

4.14 Employee compensation

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

4.15 Share capital

Assigned capital from Azizi Bank is classified as equity.

4.16 Related party transactions

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

4.17 Borrowing cost

Borrowing costs are recognised as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs, if any, are capitalized as part of the cost of that asset.

	Note	2011	2010
		..........Afs '000'..........	
5 CASH AND CASH EQUIVALENTS			
Cash in hand		733,518	801,731
Balances with banks:			
Current account with Da Afghanistan Bank		397,263	564,052
Commerz Bank		266,488	99,074
Azizi Bank	5.1	190,557	321,093
Western Union International Bank GmbH		7,334	-
Capital notes	5.2	-	79,854
		861,642	1,064,073
		1,595,160	1,865,804

5.1 Balances kept with Azizi Bank (parent entity) carries interest at nil rate (2010: 4% to 6.5 % per annum). The Bank has earned interest income amounting to Afs Nil (2010 : Afs 4,108 thousand).

5.2 These were capital notes issued by DAB carrying interest at a rate of 2.3% to 4.9% per annum and having maturity of 28 days.

BAKHTAR BANK

	2011	2010
	..........Afs '000'..........	
6 LOAN AND ADVANCES TO CUSTOMERS		
Loans and advances to customers at amortised cost	**1,935,618**	1,749,837

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 2011			31 December 2010		
		..........Afs '000'..........					
Retail customers- running finances	6.2	799,502	4,601	**794,901**	618,964	4,323	614,641
Long term commercial loans	6.3	351,349	62,390	**288,959**	239,641	1,241	238,400
Small and medium enterprise loan	6.4	270,016	16,716	**253,300**	281,523	17,660	263,863
Short term loans to employees	6.5	2,113	72	**2,041**	3,552	297	3,255
Other public consumer loans	6.6	9,112	982	**8,130**	12,203	3,287	8,916
Trade and commercial loans	6.7	-	-	-	4,599	904	3,695
Residential mortgage loans	6.8	594,995	6,708	**588,287**	678,643	61,576	617,067
		2,027,087	91,469	**1,935,618**	1,839,125	89,288	1,749,837

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 (2010: 12% 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 three years. These facilities carry interest ranging from 12% to 15% per annum (2010: 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 three years. These facilities carry interest of 12% to 15% per annum (2010: 12% 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% to 12% per annum (2010: 12% to 15% 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 15% per annum (2010: 12% to 15% per annum) and are secured against immovable properties and personal guarantees.

6.7 Trade and commercial loans are extended to corporate customers for a period of one to three years. These loans carry interest ranging from 15% to 20% per annum (2010: 12% to 15% per annum) and are secured against immovable properties, stock, receivable and personal guarantees.

6.8 Residential mortgage loans are extended to individuals for purchase of residential units in the six housing projects in Kabul, Afghanistan. These housing projects are being constructed by Onyx Construction Company (Onyx). Under the terms of loan agreements signed by the Banks with borrowers, the loans are disbursed to Onyx. Interest is borne by Onyx until the handover of units to the customer, while customer will pay the interest once the unit is handed over to them. Land and structure of these projects will be mortgaged to Azizi Bank or a power of attorny will be executed in favor of Azizi Bank by way of Baiee-jai-zee registered in court and Azizi Bank will submit letter of comfort to the Bank regarding custody of Qabalas. These loans carry interest of 10% to 12% per annum (2010: 10% per annum) and are also secured against personal guarantees. Loans other than Onyx are for a period of three years and are charged at rate of interest of 12% to 15% per annum (2010: 12% to 15% per annum).

	2011	2010
	..........Afs '000'..........	
6.9 Allowances for impairment		
Collective allowances for impairment:		
Balance at beginning of year	89,288	-
Impairment loss for the year:	2,181	89,288
Balance as at the end of the year	91,469	89,288

BAKHTAR BANK
Bakhtar Bank
Head Office Kabul

7 PROPERTY AND EQUIPMENT

	Leasehold improvements	Office Equipment	Furniture & Fittings	IT equipment	Motor Vehicles	Total
			......Afs '000'......			
Gross carrying amount						
Balance as at January 01, 2010	12,134	23,424	5,072	21,607	8,446	70,683
Acquisitions	2,449	2,134	1,009	1,913	1,221	8,726
Disposal	(742)	(83)	(113)	-	-	(938)
Balance as at December 31, 2010	13,841	25,475	5,968	23,520	9,667	78,471
Balance as at January 01, 2011	**13,841**	**25,475**	**5,968**	**23,520**	**9,667**	**78,471**
Acquisitions during the year	**3,296**	**4,220**	**1,849**	**3,618**	**8,284**	**21,267**
Balance as at December 31, 2011	**17,137**	**29,695**	**7,817**	**27,138**	**17,951**	**99,738**
Depreciation						
Balance as at January 01, 2010	967	1,549	106	1,671	185	4,478
Depreciation for the year	3,174	4,966	550	7,464	1,355	17,509
Adjusted on disposals	(132)	(4)	(3)	-	-	(139)
Balance as at December 31, 2010	4,009	6,511	653	9,135	1,540	21,848
Balance as at January 01, 2011	**4,009**	**6,511**	**653**	**9,135**	**1,540**	**21,848**
Depreciation for the year	**2,842**	**5,901**	**707**	**8,949**	**2,322**	**20,721**
Balance as at December 31, 2011	**6,851**	**12,412**	**1,360**	**18,084**	**3,862**	**42,569**
Carrying amount						
Balance as at December 31, 2010	9,832	18,964	5,315	14,385	8,127	56,623
Balance as at December 31, 2011	**10,286**	**17,283**	**6,457**	**9,054**	**14,089**	**57,169**
Depreciation rates	20%	20%	5-20%	33.33%	15%	

7.1 There were no capitalized borrowing costs related to the acquisition of property and equipment during the year.

BAKHTAR BANK
Bakhtar Bank
Head Office Kabul

AASR

8 INTANGIBLE ASSETS

	Purchased software	Acquired customer deposits	Total
	....Afs '000'....		
Gross carrying amount			
Balance as at January 01, 2010	8,900	135,985	144,885
Acquisitions	-	-	-
Balance as at December 31, 2010	8,900	135,985	144,885
Balance as at January 01, 2011	**8,900**	**135,985**	**144,885**
Acquisitions	-	-	-
Balance as at December 31, 2011	**8,900**	**135,985**	**144,885**
Amortization			
Balance as at January 01, 2010	1,483	-	1,483
Amortization during the year	2,967	-	2,967
Balance as at December 31, 2010	4,450	-	4,450
Balance as at January 01, 2011	**4,450**	-	**4,450**
Amortization during the year	**2,966**	-	**2,966**
Balance as at December 31, 2011	**7,416**	-	**7,416**
Carrying amount as at December 31, 2010	4,450	135,985	140,435
Carrying amount as at December 31, 2011	**1,484**	**135,985**	**137,469**

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

8.2 Acquired customer deposits 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. These acquired customer deposits have 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)

BAKHTAR BANK
Bakhtar Bank
Head Office Kabul

AABR

9 DEFERRED TAX ASSET

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

As at December 31, 2011

	Note	Assets	Liabilities	Net
		...............Afs '000'...............		
Property and equipment		-	(8,114)	(8,114)
Intangible asset		-	(27,494)	(27,494)
Tax loss carry - forward		61,794	-	61,794
	9.1	61,794	(35,608)	26,186

As at December 31, 2010

	Assets	Liabilities	Net
	...............Afs '000'...............		
Property and equipment	-	(6,902)	(6,902)
Intangible asset	-	(27,642)	(27,642)
Tax loss carry-forward	60,690	-	60,690
	60,690	(34,544)	26,146

9.1 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.

10 OTHER ASSETS

	Note	2011	2010
		......Afs '000'.....	
Prepayments		5,869	8,610
Receivable from DAB	10.1	15,313	15,313
Restricted balance held with DAB	10.2	185,646	-
Receivable from Etehad Brothers Money Services	10.3	-	155,436
Remittances in transit		19,063	3,759
Others	10.4	13,552	5,688
		239,443	188,806

10.1 This represents assets receivable form DAB under an agreement on the inception of the Bank (Refer note 8.1).

10.2 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 carries mark-up rates ranging from 1.10% to 1.43% per annum.

10.3 This represents receivable from Etehad Brothers Money Services against transfer of cash to the branches of the Bank.

10.4 Others

	2011	2010
	..........Afs '000'..........	
Gross amount	14,226	5,688
Less: Allowances for impairment losses	(674)	-
	13,552	5,688

11 SHARE CAPITAL

	2011	2010
Authorized		
250,000 ordinary shares of Afs 10,000 each	2,500,000	2,500,000
Issued and paid up		
84,810 ordinary shares of Afs 10,000 each	848,100	848,100

BAKHTAR BANK
باختر بانک
Bakhtar Bank
Head Office Kabul

	Note	2011	2010
		..........Afs '000'..........	
12 DEPOSITS FROM CUSTOMERS			
Term deposits	12.2	**102,327**	159,013
Current deposits		**1,607,351**	570,914
Saving deposits	12.3	**661,290**	571,963
		2,370,968	1,301,890

12.1 None of the deposits from the customers are expected to be settled beyond 12 months after the reporting date.

12.2 These carry interest rate ranging from 2.75% to 8.5% per annum (2010: 2.75% to 7% per annum).

12.3 These carry interest rate ranging from 4% to 7.5% per annum (2010: 4% to 7.5% per annum).

	Note	2011	2010
		..........Afs '000'..........	
13 DEPOSITS FROM BANKS			
Azizi Bank	13.1	**602,190**	731,135
Pashtany Bank	13.2	-	1,033,818
		602,190	1,764,953

13.1 Deposit from Azizi Bank (parent entity) carried interest rate of 8% per annum (2010: 8% to 9% per annum). The management has decided to discontinue paying interest on this deposit from March 2011.

13.2 Deposit from Pashtany Bank carried interest rate of 8% to 8.5 % per annum (2010: 8% to 8.5% per annum).

	Note	2011	2010
		..........Afs '000'..........	
14 OTHER LIABILITIES			
Margin money		**252,004**	246,319
Withholding tax payable		**621**	262
Interest payable on term deposit		**155**	923
Payable to Azizi Bank	14.1	-	6,333
Remittances in transit		**13,918**	2,235
Creditors and accruals		**10,369**	1,248
Others		**13,290**	2,433
		290,357	259,753

14.1 Payable to Azizi Bank (parent entity) is against payment for connectivity charges of the Bank's branches.

BAKHTAR BANK
باختر بانک
Bakhtar Bank
Head Office Kabul

		Note	2011	2010
			..........Afs '000'..........	
15	**NET INTEREST INCOME**			
	Interest income			
	Cash and cash equivalents	15.1	2,059	5,552
	Loans and advances to customers		238,257	121,731
	Total interest income		240,316	127,283
	Interest expense			
	Deposits from customers		33,248	10,303
	Deposits from banks	15.2	13,954	38,478
	Total interest expense		47,202	48,781
	Net interest income		193,114	78,502

15.1 This includes interest income amounting to nil (2010: Afs 4,108 thousand) earned during the year on deposits with parent entity (Refer note 5.1).

15.2 This includes interest expense amounting to Afs nil (2010: Afs 27 million) paid during the year on deposits from parent entity.

		2011	2010
		..........Afs '000'..........	
16	**NET FEE AND COMMISSION INCOME**		
	Fee and commission income		
	Commission on guarantees issued	40,343	46,742
	Account servicing fee	44	69
	Total fee and commission income	40,387	46,811
	Fee and commission expense		
	Inter-bank transaction fees	1,394	455
	Total fee and commission expense	1,394	455
	Net fee and commission income	38,993	46,356
17	**OTHER NON-INTEREST INCOME**		
	Foreign exchange gain/(loss)	13,632	(12,574)
	Others	25,851	30,882
		39,483	18,308
18	**EMPLOYEE BENEFIT EXPENSES**		
	Salaries and wages	70,195	52,339
	Staff welfare	7,666	4,756
		77,861	57,095

BAKHTAR BANK
باختر بانک
Bakhtar Bank
Head Office Kabul

		Note	2011	2010
			..........Afs '000'..........	
19	**OTHER EXPENSES**			
	Repair and maintenance		2,996	1,821
	Travelling expense		4,734	2,058
	Software maintenance fee		2,447	2,236
	Printing and stationery		3,266	1,833
	Communication		2,144	880
	Internet and connectivity		8,246	6,748
	Electricity and power		8,269	6,383
	Security expenses		27,516	18,076
	Audit fee		733	793
	Legal and professional charges		779	1,039
	Business development expenses		40,165	28,662
	Premium paid on deposit insurance	19.1	3,965	1,667
	Khoshnaseeb draw expense		7,475	7,919
	Impairment loss on other assets	10.4	674	-
	Others		3,468	4,998
			116,877	85,113

19.1 This premium is paid to Afghanistan Deposit Insurance Corporation (ADIC) at the rate of 0.25% of total deposits as required by DAB.

			2011	2010
			..........Afs '000'..........	
20	**INCOME TAX**			
	Current			
	- for the year		-	-
	- for prior year		-	-
	Deferred		40	17,654
			40	17,654
	Reconciliation of effective tax rate			
	Profit/(loss) before income tax	Rate	26,435	(130,729)
	Income tax using corporate tax rate	20%	(5,287)	26,146
	Effect of accelerated depreciation and amortization		(1,064)	(18,031)
	Effect of carried forward loss		6,391	9,539
	Total income tax income		40	17,654

BAKHTAR BANK
باختر بانک
Bakhtar Bank
Head Office Kabul

21 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:

	2011 Maximum balance	2011 Closing balance	2010 Maximum balance	2010 Closing balance
	..........Afs '000'..........			
Short term loans to key management personnel	**1,766**	**755**	1,780	720
Deposits with Azizi Bank	**408,485**	**190,557**	710,535	321,093
Deposits from Azizi Bank	**756,443**	**602,190**	1,156,521	731,135
Interest received from on loans to Key management personnel	**45**	**45**	83	83
Interest received from Azizi Bank	-	-	4,108	4,108
Interest paid to Azizi Bank	-	-	27,151	27,151

Interest charged on balances outstanding from related parties fall within the same rates that would be charged in arms length transactions. Loans to related parties are unsecured.

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:

	2011	2010
	..........Afs '000'..........	
Short-term employee benefits	**6,700**	9,815

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

Chief Executive Officer
Deputy Chief Executive Officer
Chief Credit Officer
Chief Finance Officer
Chief Operations Officer

22 CONTINGENCIES AND COMMITMENTS

	2011	2010
	..........Afs '000'..........	
Guarantees issued on behalf of customers	**1,755,598**	1,182,642
Commitment for rent payments		
- not later than one year	**24,019**	19,735
- later than one year	**35,525**	42,006
- not later than five year	-	-
	59,544	61,741

The Bank leases a number of branch 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.

BAKHTAR BANK

23. 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:

		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
in Afs '000'	Note	Held for trading	Designated at FVTPL	Held to maturity	Loans and receivables	Financial liabilities				
December 31, 2011										
Cash and cash equivalents	5	-	-	-	1,595,160	-	-	-	1,595,160	1,595,160
Loans and advances to customers	6	-	-	-	1,935,618	-	-	-	1,935,618	1,935,618
Other assets	10	-	-	-	200,959	-	-	38,484	239,443	239,443
		-	-	-	3,731,737	-	-	38,484	3,770,221	3,770,221
Deposits from customers	12	-	-	-	-	2,370,968	-	-	2,370,968	2,370,968
Deposits from banks	13	-	-	-		602,190	-	-	602,190	602,190
Other liabilities	14	-	-	-	-	289,736	-	621	290,357	290,357
		-	-	-	-	3,262,894	-	621	3,263,515	3,263,515
December 31, 2010										
Cash and cash equivalents	5	-	-	-	1,865,804	-	-	-	1,865,804	1,865,804
Loans and advances to customers	6	-	-	-	1,749,837	-	-	-	1,749,837	1,749,837
Other assets	10	-	-	-	170,749	-	-	18,057	188,806	188,806
		-	-	-	3,786,390	-	-	18,057	3,804,447	3,804,447
Deposits from customers	12	-	-	-	-	1,301,890	-	-	1,301,890	1,301,890
Deposits from banks	13	-	-	-	-	1,764,953	-	-	1,764,953	1,764,953
Other liabilities	14	-	-	-	-	259,491	-	262	259,753	259,753
		-	-	-	-	3,326,334	-	262	3,326,596	3,326,596

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.

BAKHTAR BANK ★ Bakhtar Bank Head Office Kabul ★

AASR

24. FINANCIAL RISK MANAGEMENT

24.1 Introduction and overview

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

a) credit risk
b) liquidity risk
c) market risks

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 Supervisor has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established Management Board, Asset and Liability Committee (ALCO) and a Credit Committee which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees have both executive and non-executive 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.

24.2 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 Deputy Chief Credit Officer (Dy. 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.

BAKHTAR BANK ★ Bakhtar Bank Head Office Kabul

AASR

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	2011	2010
		……….Afs '000'……….	
Classes of financial assets			
Cash and cash equivalents	5	**861,642**	1,064,073
Loans and advances to customers	6	**1,935,618**	1,749,837
Other assets	10	**200,959**	170,749
Total carrying amounts		**2,998,219**	2,984,659

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 1,756 million (2010: 1,183 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.

Allowances for impairment

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

Write-off policy

The Bank writes off loans or advances and any related allowances for impairment losses, when it meets criteria for loss category as required by DAB regulations. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Before allowing to written off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted or legal action is not advisable.

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are 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 4,710 million (2010: Afs 5,395 million).

BAKHTAR BANK
باختر بانک
Bakhtar Bank
Head Office Kabul

AASR

Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 861 million as at December 31, 2011 (2010: 1,064 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with parent bank and other banks.

24.3 Liquidity risk

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

Management of liquidity risk

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

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:

	2011	2010
At the end of the year	38%	61%
Average for the year	36%	74%
Maximum for the year	45%	154%
Minimum for the year	26%	52%

BAKHTAR BANK
Bakhtar Bank
باختر بانک
Head Office Kabul

AASR

Maturity analysis for financial liabilities

in Afs '000'	Note	Carrying amount	Gross nominal inflow/ (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
December 31, 2011								
Deposits from customers	12	2,370,968	2,370,968	461,412	21,087	73,556	1,814,913	-
Deposits from banks	13	602,190	602,190	602,190	-	-	-	-
Other liabilities	14	290,357	290,357	38,353	-	-	252,004	-
Unrecognized loan commitments		85,521	85,521	85,521	-	-	-	-
		3,349,036	3,349,036	1,187,476	21,087	73,556	2,066,917	-
December 31, 2010								
Deposits from customers	12	1,301,890	1,301,890	1,142,877	-	159,013	-	-
Deposits from banks	13	1,764,953	1,764,953	1,764,953	-	-	-	-
Other liabilities		259,753	259,753	11,718	-	923	246,319	-
Unrecognized loan commitments		55,130	55,130	-	55,130	-	-	-
		3,381,726	3,381,726	2,919,548	55,130	159,936	246,319	-

24.4 Market risks

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

Management of market risks

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

BAKHTAR BANK
باختر بانک
Bakhtar Bank
Head Office Kabul

AASR

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	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
December 31, 2011							
Loans and advances to customers	6	1,950,768	413,281	327,394	511,442	698,651	-
Other assets	10	185,646	-	-	-	-	185,646
		2,136,414	413,281	327,394	511,442	698,651	185,646
Deposits from customers	12	763,617	161,029	50,416	23,140	529,032	-
Deposits from banks	13	602,190	602,190	-	-	-	-
		1,365,807	763,219	50,416	23,140	529,032	-
December 31, 2010							
Cash and cash equivalents	5	400,947	400,947	-	-	-	-
Loans and advances to customers	6	1,749,837	-	-	630,507	1,119,330	-
Other assets	10	15,313	15,313	-	-	-	-
		2,166,097	416,260	-	630,507	1,119,330	-
Deposits from customers	12	730,976	571,963	-	159,013	-	-
Deposits from banks	13	1,764,953	1,764,953	-	-	-	-
		2,495,929	2,336,916	-	159,013	-	-

Exposure to currency risk

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

in Afs '000'	Total	Afs	US$	Euro
December 31, 2011				
Cash and cash equivalents	1,595,160	361,928	1,153,511	79,721
Loans and advances to customers	2,027,087	708,133	1,318,954	-
Other assets	233,574	204,127	29,383	64
	3,855,821	1,274,188	2,501,848	79,785
Deposits from customers	2,370,968	650,585	1,677,768	42,615
Deposits from banks	602,190	2,195	599,995	-
Other liabilities	290,357	58,948	228,637	2,772
	3,263,515	711,728	2,506,400	45,387
Net foreign currency exposure	592,306	562,460	(4,552)	34,398
December 31, 2010				
Cash and cash equivalents	1,865,804	1,335,209	508,069	22,526
Loans and advances to customers	1,839,125	450,635	1,388,490	-
Other assets	180,192	167,372	12,820	-
	3,885,121	1,953,216	1,909,379	22,526
Deposits from customers	1,301,890	362,402	916,483	23,005
Deposits from banks	1,764,953	14,513	1,750,440	-
Other liabilities	259,753	43,203	215,052	1,498
	3,326,596	420,118	2,881,975	24,503
Net foreign currency exposure	558,525	1,533,098	(972,596)	(1,977)

BAKHTAR BANK
Bakhtar Bank
Head Office Kabul

AASR

The following significant exchange rates were applied during the period.

	2011		2010	
	Average rate	**Reporting date spot rate**	Average rate	Reporting date spot rate
USD	**46.73**	**48.89**	46.37	45.30
Euro	**65.29**	**64.47**	61.51	59.91

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and euro at 31 December 2011 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.

in Afs '000'	**Equity**	**Profit or loss**
December 31, 2011		
USD	**(364)**	**(364)**
Euro	**2,752**	**2,752**
December 31, 2010		
USD	(9,926)	(9,926)
Euro	227	227

A 10% weakening of the Afghani against the above currencies at 31 December 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

24.5 Capital management

Minimum capital requirement

Current requirement for minimum financial capital is Afs 500 million. However, DAB through Circular Reference No 703/914 dated August 08, 2010 has required all the commercial banks to increase their capital to Afs 1 billion (USD 20 million) within next two years with effect from the date of this circular. The Bank's financial capital is Afs 728 million. The management is devising a plan to meet the requirement.

BAKHTAR BANK
Bakhtar Bank
Head Office Kabul

AASR

Regulatory capital

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

- Tier 1 or core capital, consisting of the highest quality capital elements that fully meet all the essential characteristics of capital; to be 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 2011 was as follows:

	2011	2010
	.........Afs '000'.........	
Tier 1 capital		
Total equity capital	**727,530**	701,055
Less: Intangible assets	**(137,469)**	(140,435)
Less: Deferred tax assets	**(26,186)**	(26,146)
Total tier 1 (core) capital	**563,875**	534,474
Tier 2 capital	**26,475**	-
Total tier 2 (supplementary) capital	**26,475**	-
Total regulatory capital	**590,350**	534,474

25. CORRESPONDING FIGURES

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

26. AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on 31- Mar, 2012.

Chairman

Deputy Chief Executive Officer

BAKHTAR BANK
Bakhtar Bank
Head Office Kabul

Chief Financial Officer

AASR