

2012

### Bakhtar Bank financial statements and auditors' report

For the year ended December 31, 2012





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### 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, 2012, and the 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 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 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 audit opinion.



### **Basis for Qualified Opinion**

The Bank has provided loans referred to as "Residential Mortgage Loans" amounting to Afn 551 million (2011: Afn 594 million) in which the Bank has advanced loans to four Construction Companies including Onyx Construction Company, Almaas Sodais Construction and Engineering Company, Asia Khursheed Construction Company and Jawaid Ahmed Zai Construction Company Limited (herein after collectively referred to as Developers) on behalf of individual borrowers to finance the purchase of residential and commercial units in four real estate development projects being constructed by the Developers.

Owing to reasons as highlighted below we are unable to confirm the correctness of these advances in so far as it relates to the existence of the borrowers, the recoverability of such advances, the effectiveness of legal arrangements and the adequacy of the property shown as collateral both with respect to enforceability in case of default and value of such property.

As disclosed in note 6.7 to the financial statements the Bank has extended advances for a term of three to five years amounting to Afn 551 million (2011: Afn 594 million) to Developers on behalf of individual borrowers for the purchase of apartments and/or shops in four real estate development projects owned and constructed by the Developers. This entire arrangement is governed through various agreements which include (i) Development Agreement which governs the arrangement under which the Bank provides funds of the individual borrower to the Developer for development/construction of the project, (ii) Term Loan Agreement which governs the arrangement between the Bank, the individual borrowers and the Developer relating to financing provided for purchase of the business units and other working arrangements, and (iii) Qabala & Baiee-Jai-Zee which defines the arrangement between the Bank and the Developers representative by way of which the Bank secures its right on the property on which the project is constructed. Under this arrangement, the individual borrowers' funds are advanced to the Developer for use in project development. Responsibility for principal repayment lies with the individual borrower while responsibility for payment of financial charges is with the Developer.

This exposure, made entirely in the construction sector, constitutes 44.5% of the Bank's regulatory capital substantially exceeding the prescribed sector investment limit of 40% imposed by Da Afghanistan Bank (DAB).

These advances are secured by way of execution of power of attorney or Baiee-Jai-Zee as well as commitments under Term Loan Agreement in favor of the Bank covering the land and structures pertaining to these real estate development housing projects. However, due to inherent weakness in the legal system, the ability of such security arrangements is not fully reliable. Furthermore no mortgage arrangement through Baiee-Jai-Zee has been made on one of the projects namely "Azizi and Milli Plaza" which to this extent continues to be unsecured. Additionally, given that the projects also include property ownerships directly from individuals outside the above scheme, which may restrict the Bank from being able to fully exercise their right over the property in case of default.



The downturn in the construction sector in Afghanistan has led most construction companies to be faced with considerable financial burden raising doubt about their ability to perform and deliver effectively in future. This is also reflected by the considerable delays in the completion of these four real estate development projects. As a result, the Bank has allowed abnormal principal repayment extensions to the individual borrowers ranging between 21 to 27 months which reflects strongly on the implementation risk of these projects and the consequential impact on the advances made in respect thereof.

Further, the four housing projects have been subjected to valuation to determine their realizable value using independent valuation specialist who carried out valuation after year end. This was subjected to independent assessment resulting in highlighting the fact that the valuation estimates on forced sale value were on the higher side as compared with values corresponding to the prevailing market conditions as well as taking into consideration the expected impact of downturn in the real estate market and the future uncertainty from various factors such as the expected withdrawal of US forces from Afghanistan in 2014.

The advances above constitute various individual borrowers whose confirmation is considered essential to confirm the correctness and reliability of the amounts in question. The attempt to identify and obtain direct confirmation from such independent borrowers was not able to be effectively executed due to the inability to reach such parties through direct mailing system. We are therefore unable to perform independent verification of the term and conditions, outstanding balances and existence of the borrowers. Also as a consequence, we are also unable to obtain sufficient and appropriate audit evidence in respect of credit worthiness and repayment ability of the borrowers.

### **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, 2012, 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.

Kabul

Date: April 20, 2013

Anjum Asim Shahid Rahman

Anjum Asim Phohid Rehmon.

Chartered Accountants

### Financial statements

For the year ended December 31, 2012

### **BAKHTAR BANK** STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2012

2012 US\$ '0	2011			2012	2011
	000		Note	Afs '(	000'
		ASSETS			
62,816	32,736	Cash and cash equivalents	5	3,271,443	1,614,223
25,412	39,254	Loans and advances to customers	6	1,323,448	1,935,618
12,463	-	Investments	7	649,057	_
1,046	1,159	Property and equipment	8	54,472	57,169
2,611	2,788	Intangible assets	9	135,985	137,469
415	531	Deferred tax asset	10	21,606	26,186
4,227	4,469	Other assets	11	220,138	220,380
108,990	80,938	Total assets		5,676,149	3,991,045
		EQUITY AND LIABILITIES			
		EQUITY			
26,882	17,199	Share capital	12	1,400,000	848,100
(1,659)	(2,445)	Retained earnings		(86,425)	(120,570)
25,223	14,754	Total equity		1,313,575	727,530
		LIABILITIES			
63,918	48,083	Deposits from customers	13	3,328,829	2,370,968
10,291	12,212	Deposits from banks	14	535,941	602,190
9,558	5,889	Other liabilities	15	497,804	290,357
83,767	66,184	Total liabilities		4,362,574	3,263,515
108,990	80,938	Total equity and liabilities	-	5,676,149	3,991,045
		CONTINGENCIES AND COMMITMENTS	23	18	SHAHAN
The annexed no	tes 1 to 27 fo	orm an integral part of these financial st	atements	F	hartered countains /

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

Chief Executive Officer

Chief Financial Officer

Bakhtar Bank

### **BAKHTAR BANK** STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2012

2012	2011			2012	2011
US\$ '	000'		Note	Afs '	000'
4,737	4,874	Interest income		246,723	240,316
(807)	(957)	Interest expense		(42,042)	(47,202)
3,930	3,917	Net interest income	16	204,681	193,114
1,312	819	Fee and commission income		68,348	40,387
(27)	(28)	Fee and commission expense		(1,430)	(1,394)
1,285	791	Net fee and commission income	17	66,918	38,993
273	276	Foreign exchange gain		14,193	13,632
680	524	Other non-interest income	18	35,433	25,851
6,168	5,508	Operating income		321,225	271,590
(622)	(44)	Impairment loss on loans and advances	6.8	(32,379)	(2,181)
(1,722)	(1,579)	Employee benefit expenses	19	(89,697)	(77,861)
(462)	(498)	Operating lease expenses		(24,069)	(24,549)
(409)	(420)	Depreciation	8	(21,292)	(20,721)
(28)	(60)	Amortization	9	(1,484)	(2,966)
(2,181)	(2,372)	Other operating expenses	20	(113,579)	(116,877)
(5,424)	(4,973)	Operating expenses		(282,500)	(245,155)
744	536	PROFIT BEFORE TAXATION	-	38,725	26,435
(88)	1	Taxation	21	(4,580)	40
656	537	PROFIT FOR THE YEAR	-	34,145	26,475
( <del>-</del>	-	Other comprehensive income	=	-	-
		TOTAL COMPREHENSIVE INCOME			
656	537	FOR THE YEAR	_	34,145	26,475
The annexed	notes 1 to	27 form an integral part of these financial stateme:	nts.	AS IN	ALA CALL

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

Chartered Accountants

Chief Executive Officer

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Chief Financial Officer

FOR THE YEAR ENDED DECEMBER 31, 2012 STATEMENT OF CHANGES IN EQUITY BAKHTAR BANK

Share capital Retained	carnings Afs '000'		эте	ear - 26,475	wners:	uber 31, 2011 848,100 (120,570)	ary 01, 2012 848,100 (120,570)	come	ear 34,145	owners	sued 551,900 -	mber 31, 2012 (86,425)	itements.
		Balance as at January 01, 2011	Comprehensive income	Net profit for the year	Transactions with owners:	Balance as at December 31, 2011	Balance as at January 01, 2012	Comprehensive income	Net profit for the year	Transactions with owners	Ordinary shares issued	Balance as at December 31, 2012	The annexed notes 100 27 lorm an integral part of these financial statements.
Total		14,217		537	T	14,754	13,970		929		10,597	25,223	an integral pa
Retained		(2,982)		537	1	(2,445)	(2,315)		929		ï	(1,659)	otes 110 27 Rorm
Share		17,199		i	1	17,199	16,285		1		10,597	26,882	annexed no

Chief Executive Officer

Chief Financial Officer

Head Office

### BAKHTAR BANK STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2012

2012	2011	_		2012	2011
US\$	'000'		Note	US\$	'000'
		CASH FLOWS FROM OPERATING ACTIVITIES			
744	536	Profit before income tax		38,725	26,435
		Adjustments for:		,	20,100
409	420	Depreciation	8	21,292	20,721
28	60	Amortization	9	1,484	2,966
622	44	Impairment loss on loans and advances	6.8	32,379	2,181
1,803	1,060			93,880	52,303
		Increase / decrease in operating assets and liabilities:			0=,000
11,133	(3,812)	Loans and advances to customers	6	579,791	(187,962
5	(640)	Other assets	11	242	(31,574
18,392	21,681	Deposits from customers	13	957,861	1,069,078
(1,272)	(23,581)	Deposits from banks	14	(66,249)	(1,162,763)
3,982	613	Other liabilities	15	207,406	30,245
		Net cash generated from / (used in) operating			00,210
34,042	(4,679)	activities before interest and taxation		1,772,931	(230,673)
1	7	Withholding taxes collected			
		Net cash generated from / (used in)	_	41	359
34,043	(4,672)	operating activities		1,772,972	(230,314)
		CASH FLOWS FROM INVESTING ACTIVITIES			
(12,463)	-	Investments made	7	(649,057)	
(357)	(431)	Purchase of property and equipment	8	(18,595)	(21,267)
(12,820)	(431)	Net cash used in investing activities	_	(667,652)	(21,267)
		CASH FLOWS FROM FINANCING ACTIVITIES			
10,597	-	Proceeds from issue of share capital	12	551,900	
10,597	-	Net cash generated from financing activities		551,900	-
		Net increase / (decrease) in cash and cash			
31,820	(5,103)	equivalents		1,657,220	(251,581)
30,995	37,840	Cash and cash equivalents at beginning of the year		1,614,223	1,865,804
62,816		Cash and cash equivalents at the end of the year	5	3,271,443	5 1,614,223
			_	197	

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

Chief Executive Officer

Chief Financial 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") 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 at Charahi Shir Por, Shahre Naw, District 10, Kabul, Afghanistan.

The Bank has 19 branches (2011: 19 branches) and 282 staff members (2011: 282 staff members).

### 2 STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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 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 IASB but are not yet effective, and have not been adopted early by the Bank.

Management anticipates that all of the relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the bank's financial statements.

### a) IFRS 9 - Financial Instruments

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after 1 January 2015. Chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues. The Bank's management has yet to assess the impact of this new standard on the Bank's financial statements. However, Management does not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.





### b) IFRS 13 - Fair Value Measurement

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to complete its assessment of their impact on the Bank's financial statements.

### c) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Bank.

### d) Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS-7)

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' relating to gross and net amounts of recognized financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively. Management does not anticipate a material impact on the Bank's financial statements from these amendments.

### 3 BASIS OF PREPARATION

### 3.1 Basis of measurement

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

### 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. 52.08 USD 1 (2011: Afs. 49.31).

### 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 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 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.

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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 recognized on receipt basis.

### 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 at 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 recognized 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.

### 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 amortized 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 of 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 are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the assets that can be estimated reliably.

The criteria that the Bank uses to determine that there is objective evidence that there is an indication to impairment loss includes: 1) default or delinquency by a borrower 2) restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider 3) indication that a borrower or issuer will enter bankruptcy 4) disappearance of an active market for a security 5) 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 6) economic conditions that correlate with defaults in the Bank.

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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.

### 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 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 expenditure is expensed as incurred.

Amortization is recognized 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.

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Amortization methods, useful lives and residual values are reassessed 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.

Acquired customer deposits are measured at cost less accumulated impairment losses. These was no impairment loss during the year.

### 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.

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 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.

### 4.16 Borrowing cost

Borrowing costs are recognized 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.

			2012	2011
5	CASH AND CASH EQUIVALENTS	Note	Afs '000	0'
	Cash in hand Remittances in transit Balances with banks:		1,212,335 11,909	733,518 19,063
	Current account with Da Afghanistan Bank Commerz Bank Azizi Bank Western Union International Bank GmbH	5.1	1,160,189 284,440 594,758 7,812	397,263 266,488 190,557 7,334
			2,047,199 3,271,443	861,642 1,614,223

5.1 Balances kept with Azizi Bank (parent entity) carries interest at 1.5% per annum and 2.5% per annum on USD and Afs balances respectively from 15 Dec 2012 (2011: Nil rate). The Bank has earned interest income amounting to Afs 282,000 during the year (2011: Nil).





			2012	2011
6	LOAN AND ADVANCES TO CUSTOMERS	Note	Afs '0	000'
	Loans and advances to customers at amortized cost	6.1	1,323,448	1,935,618

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

	Note	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		3:	1 December 20	)12	3:	1 December 2	011
		•••••	• • • • • • • • • • • • • • • • • • • •	Afs '(	000'		• • • • • • • • • • • • • • • • • • • •
Retail customers- running finances	6.2	323,609	16,515	307,094	799,502	4,601	794,901
Long term commercial loans	6.3	382,666	49,356	333,310	351,349	62,390	288,959
Small and medium enterprise loan	6.4	184,966	6,605	178,361	270,016	16,716	253,300
Short term loans to employees	6.5	826	19	807	2,113	72	2,041
Other public consumer loans	6.6	3,587	805	2,782	9,112	982	8,130
Residential mortgage loans	6.7	551,642	50,548	501,094	594,995	6,708	588,287
	_	1,447,296	123,848	1,323,448	2,027,087	91,469	1,935,618

- 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 (2011: 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 15% to 20% per annum (2011: 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 (2011: 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 12% per annum (2011: 6% to 12% per annum) and these loans are extended for a period of one to two years.
- 6.6 Other public consumer loans are extended to individuals for a period of one to three years. These loans carry interest ranging from 12% to 15% per annum (2011: 12% to 15% per annum) and are secured against immovable properties and personal guarantees.



6.7 Residential mortgage loans are extended to individuals for purchase of residential units in four housing projects in Kabul, Afghanistan. These housing projects are being constructed by Onyx Construction Company, Almaas Sodais Construction and Engineering Company, Asia Khursheed Construction Company and Jawaid Ahmed Zai Construction Company Limited (herein after collectively referred to as contractors). Under the terms of loan agreements signed by the Bank with borrowers, the loans are disbursed to contractors and carry interest ranging from 10% to 12% (2011: 10% to 12%) per annum for maximum of five years. These loans are secured against equitable mortgage over property under construction and personal guarantees. Further, as per project development agreements signed with contractors, these properties were required to be mortgaged to the Bank or through execution of suitable power of attorney in favor of the Bank by way of Baiee-jai-zee registered in the court. As at the date of this report, the Bank completed Baiee-jai-zee (charge creation in the court of law) of all title deeds except one title deed of Azizi and Milli Plaza and holds these titles through irrevocable power of attorney. These projects have progressed over the last one year and the unsecured portion is now considerably reduced.

6.8	Impairment loss on loans and advances	Note	2012Afs	2011 '000'
	Collective allowances for impairment:			
	Balance at beginning of year		91,469	89,288
	Allowance for the year		32,379	2,181
	Balance as at the end of the year		123,848	91,469
7	INVESTMENTS			
	Held to maturity			
	Capital notes - 182 days	7.1	649,057	
			649,057	-
7.1	These caries interest rate at 3.33% to 3.38% per annum.			AACR



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# 8 PROPERTY AND EQUIPMENT

	Leasehold improvement	Office Equipment	Furniture & Fittings	IT	Motor Vehicles	Total
Gross carrying amount			A	Afs '000'.		
8-6-						
Balance as at January 01, 2011	13,841	25,475	5,968	23,520	199.6	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
Balance as at January 01, 2012	17,137	29,695	7,817	27,138	17,951	99,738
Acquisitions during the year	1,780	2,150	723	13,941	, 1	18,595
balance as at December 31, 2012	18,917	31,845	8,540	41,079	17,951	118,333
Depreciation						
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
Balance as at January 01, 2012	6,851	12,412	1,360	18,084	3,862	42,569
Depreciation for the year	2,941	5,841	299	9,150	2,692	21,292
Balance as at December 31, 2012	9,792	18,253	2,027	27,234	6,554	63,861
Carrying amount						
Balance as at December 31, 2011	10,286	17,283	6,457	9,054	14,089	57.169
Balance as at December 31, 2012	9,125	13,592	6,513	13,845	11,397	54,472
Depreciation rates	20%	20%	5-20%	33.33%	15%	AASA

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



### 9 INTANGIBLE ASSETS

Purchased software	Goodwill	Total
	Afs '000'	******
8,900	135,985	144,885
8,900	135,985	144,885
8,900	135,985	144,885
8,900	135,985	144,885
4,450	1-	4,450
7,416	-	2,966 7,416
7,416 1,484	-	7,416 1,484
8,900	-	8,900
1,484	135,985	137,469
	135,985	135,985
	8,900	Goodwill           software         Goodwill

- 9.1 Purchased software has estimated useful life of 3 years and is being amortized at the rate of 33.33 %.
- 9.2 Goodwill represent the difference between the assets acquired and liabilities assumed by the Bank on the acquisition of the business of the Development Bank of Afghanistan ("DBA") which was acquired under an agreement, dated 18 March 2009, between DAB and Azizi Bank (parent entity of the Bank). Da Afghanistan Bank issued fresh license to the Bank on conclusion of the above mentioned agreement. This goodwill have indefinite useful life. Following assets and liabilities were taken over by the Bank:

	Amount
Assets	(Afs '000')
Cash and cash equivalents	170 (27
Property and equipment	178,637
Other assets	19,872
The Models	15,313
Liabilities	213,822
Customer deposits	
Net liabilities - representing cost of acquisition	349,807
representing cost of acquisition	(135,985)
Represented by:	
Net liabilities assumed	(135,985)
0	AA

### 10 DEFERRED TAX ASSET

### Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	_	Assets	Liabilities	Net
	Note		Afs '000'	
As at December 31, 2012				
Property and equipment		-	-	-
Intangible asset		-	-	-
Tax loss carry - forward	_	21,606	-	21,606
	10.1	21,606	-	21,606
As at December 31, 2011				
Property and equipment		_	(8,114)	(8,114)
Intangible asset		-	(27,494)	(27,494)
Tax loss carry-forward	_	61,794	-	61,794
	_	61,794	(35,608)	26,186

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

			2012	2011
11	OTHER ASSETS		Afs '0	00'
	Prepayments		5,209	5,869
	Receivable from DAB	11.1	15,313	15,313
	Restricted balance held with DAB	11.2	193,845	185,646
	Others	11.3	5,771	13,552
			220,138	220,380

- 11.1 This represents assets receivable form DAB under an agreement on the inception of the Bank (Refer note 9.2).
- 11.2 This represent the required reserve account maintained with DAB to meet minimum reserves requirement in accordance with Article 64 "Required reserves of banks" of the Da Afghanistan Bank Law. This carries mark-up rates ranging from 0.7% to 1.2% per annum.

		_	2012	2011
11.3	Others		Afs '0	00'
	Gross amount Less: Allowances for impairment losses	KHTAE	6,407	14,226
	and the wances for impairment losses	(AP - 1)	(636)	(674)
		La Contract	5,771	13,552

			2012	2011
		Note	Afs '	000'
12	SHARE CAPITAL			
	Authorized			
	250,000 ordinary shares of Afs 10,000 each		2,500,000	2,500,000
	Issued and paid up			
	140,000 ordinary shares of Afs 10,000 each		1,400,000	848,100
			Number of	shares
			2012	2011
12.1	Following is the reconciliation of number of shares:			
	Number of shares at beginning of the year		94 940	0.4.040
	Shares issued during the year		84,810 55,190	84,810
	Number of shares at end of the year		140,000	84,810
	,			04,010
			2012	2011
			AFN '	000'
12.2	Following is the reconciliation of amount of shares capital:			
	Share capital at beginning of the year		848,100	848,100
	Shares issued in cash during the year		551,900	040,100
	Share capital at end of the year		1,400,000	848,100
13	DEPOSITS FROM CUSTOMERS			3
	Term deposits	13.2	86,425	102,327
	Current deposits	13.4	2,345,592	1,607,351
	Saving deposits	13.3	896,812	661,290
			3,328,829	2,370,968

- 13.1 None of the deposits from the customers are expected to be settled beyond 36 months after the ARSP
- 13.2 These carry interest rate ranging from 2.75% to 7.5% per annum (2011: 2.75% to 7% per annum).
- 13.3 These carry interest rate ranging from 3% to 4% per annum (2011: 4% to 7.5% per annum).



14	DEPOSITS FROM BANKS	Note	2012 Afs	2011
	Azizi Bank	14.1	535,941	602,190

14.1 Deposit from Azizi Bank (parent entity) carried interest rate of 1.5% to 2.5% per annum from 15 Dec 2012 (2011: 8% per annum). The management has decided to discontinue paying interest on this deposit from March 2011 in 2011 and in Dec 2012 both Banks agreed to pay 1.5% pa and 2.5% pa on USD Deposits and AFS Deposits respectively, received from each other.

			2012	2011
15	OTHER LIABILITIES	Note	Afs '00	00'
13	OTHER LIABILITIES			
	Margin money		471,926	252,004
	Withholding tax payable		662	621
	Interest payable on term deposit		1,025	155
	Remittances in transit		-	13,918
	Creditors and accruals		15,176	10,369
	Others		9,015	13,290
			497,804	290,357
16	NET INTEREST INCOME			
	Interest income			
	Cash and cash equivalents	16.1	17,749	2,059
	Loans and advances to customers		228,974	238,257
	Total interest income		246,723	240,316
	Interest expense			
	Deposits from customers		41,642	33,248
	Deposits from banks	16.2	400	13,954
	Total interest expense	7	42,042	47,202
	Net interest income		204 604	
	. The medical mediate		204,681	193,114

- 16.1 This includes interest income amounting to Afs 282,000 (2011: Nil) earned during the year on deposits with parent entity (Refer note 5.1).
- 16.2 This includes interest expense amounting to Afs 400 thousand (2011: Afs Nil ) paid during the year on deposits from parent entity.



			2012	2011
48	NET THE IND COLORS		Afs '0	00'
17	NET FEE AND COMMISSION INCOME			
	Fee and commission income			
	Commission on guarantees issued		68,321	40,343
	Account servicing fee		27	44
	Total fee and commission income		68,348	40,387
	Fee and commission expense			
	Inter-bank transaction fees		1,430	1,394
	Total fee and commission expense		1,430	1,394
				353
	Net fee and commission income		66,918	38,993
18	OTHER NON-INTEREST INCOME			
	Foreign exchange gain		14,193	13,632
	Others		35,433	25,851
			49,626	39,483
19	EMPLOYEE BENEFIT EXPENSES		1	8
	Salaries and wages		80,126	70,195
	Staff welfare		9,571	7,666
			89,697	77,861
20	OTHER OPERATING EXPENSES			
	Repair and maintenance		3,318	2,996
	Travelling expense		4,881	4,734
	Software maintenance fee		2,137	2,447
	Printing and stationery		3,365	3,266
	Communication		2,577	2,144
	Internet and connectivity		8,695	8,246
	Electricity and power		10,194	8,269
	Security expenses		40,522	27,516
	Audit fee		781	733
	Legal and professional charges		972	779
	Business development expenses		24,678	40,165
	Premium paid on deposit insurance Khoshnaseeb draw expense	20.1	3,691	3,965
	Impairment loss on other assets	44.0	-	7,475
	Others	11.3	-	674
			7,768	3,468
			113,579	116,877

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

	2012	2011
	Afs '00	00'
21 TAXATION		
Current - for the year	(4,580)	-
- for prior year	-	_
Deferred		40
	(4,580)	40

### 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:

	2012 Maximum balance	2012 Closing balanceAfs '	2011 Maximum balance	2011 Closing balance
Loan to M/s German Afghan Industrial Short term loans to key management	36,923	32,121	- 1766	-
Deposits with Azizi Bank	594,758	594,758	1,766 408,485	755 190,557
Deposits from Azizi Bank Interest received on loans to Key	645,142	535,941	756,443	602,190
management personnel	-	-	45	45
Interest received from Azizi Bank	282	282		-
Interest paid to Azizi Bank	400	400	<b>2</b> 0	-

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 2012.

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:

		2012	2011	
	VHT	Afs '00	00'	AASIL
loyee benefits	BANTIAR	13,158	6,700	
	(4/ (O) \z\			

Short-term employee benefits

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

	2012	2011
23 CONTINGENCIES AND COMMITMENTS	Afs '0	00'
Guarantees issued on behalf of customers	1,417,300	1,755,598
Commitment for rent payments		
- not later than one year	24,214	24,019
- later than one year and not later than five years	16,329	35,525
- later than five years	-	_
	40,543	59,544

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
NOTES TO THE FINANCIAL STATEMENTS
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# 24 FINANCIAL ASSETS AND LIABILITIES

# Accounting classifications and fair values

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

		At fair va profit and 1	At fair value through profit and loss (FVTPL)	At amort	At amortized cost using effective interest rate	g effective	Available	Non -	E	
in Afs '000'	Note	Held for trading	Designated at FVTPL	Held to maturity	Loans and receivables	Financial liabilities	financial assets	nnancial assets / liabilities	Lotal for line item	Fair value
December 31, 2012										
Cash and cash equivalents	5	ť	Ī	1	3,271,443	ī	ı	1	3,271,443	3.271.443
Loans and advances to customers	9 sa	7	1	T	1,323,448	1	ī	1	1,323,448	1,323,448
Investments	7	ı	ť	649,057	1	1	1	ı	649,057	649,057
Other assets	11		1	1	209,158		1	10,980	220,138	220,138
			1	649,057	4,804,049	1	1	10,980	5,464,086	5,464,086
Deposits from customers	13	ď	ī	1	í	3,328,829	1	1	3,328,829	3,328,829
Deposits from banks	14	ı	5	1		535,941	1	i	535,941	535,941
Other habilities	15	ī	,	1	T	488,789	ì	9,015	497,804	497,804
		•	1	1	1	4,353,559	1	9,015	4,362,574	4,362,574
December 31, 2011										
Cash and cash equivalents	2	Ē	1	ï	1,595,160		,	ï	1,595,160	1.595,160
Loans and advances to customers		1	ı	Ē	1,935,618	ī	ĭ	j	1,935,618	1,935,618
Other assets	11	Ĺ	Ė	ï	200,959	1	t	19,421	220,380	220,380
			1	1	3,731,737	E	Ĭ.	19,421	3,751,158	3,751,158
Deposits from customers	13	1	KHTAR	1	1	2,370,968	3		2,370,968	2,370,968
Deposits from banks	14	100/		-	ğ	602,190	ī	I	602,190	602,190
Other habilities	15	1		A.		289,736	1	621	290,357	290,357
			1000	M		3,262,894	,	621	3,263,515	3,263,515
		Hea	Bakhtar R.	食						AASR

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.

### 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
- 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

### 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.

### 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 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.

### 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:

		2012	2011
	Note	Afs '0	000'
Classes of financial assets			
Cash and cash equivalents	5 & 7	2,696,256	861,642
Loans and advances to customers	6	1,323,448	1,935,618
Other assets	11	209,158	200,959
Total carrying amounts		4,228,862	2,998,219

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 1,417 million (2011: 1,756 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 5,090 million (2011: Afs 4,710 million).

### Cash and cash equivalents

The Bank held cash and cash equivalents of Afs 2,696 million as at December 31, 2012 (2011: 861 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 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

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 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 customers and banks at the reporting date and during the reporting year was as follows:

2012 2011	78% 38%			33% 26%
	t the end of the year	verage for the year	ximum for the year	nimum for the year

# Maturity analysis for financial liabilities

			Gross						
in Afs '000'	Note	Carrying	nominal inflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	
December 31, 2012					Afs '000'.				
Deposits from customers	13	3,328,829	3,328,829	481,290	25,611	20,624	2,801,304	,	
Deposits from banks	14	535,941	535,941	535,941	ľ	. 1	. 1	1	
Other liabilities	15	488,789	488,789	16,863	1	1	471,926	ı	
		4,353,559	4,353,559	1,034,094	25,611	20,624	3,273,230	1	
December 31, 2011									
Deposits from customers	13	2,370,968	2,370,968	461,412	21.087	73 556	1 814 913	1	
Deposits from banks	14	602,190	602,190	602,190					
Other liabilities	15	290,357	290,357	38,353	r	ï	252.004	TIL	AA
Unrecognized loan commitments		85,521	85,521	85,521	)	ä		して	
		3,349,036	3,349,036	1,187,476	21,087	73,556	2,066,917	100	Û

## 25.4 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.

# 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 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 change in market interest rates. Interest rate risk managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. Bank's interest rate gap position is as follows:

			Carrying	Carrying Less than 3		6-12		More than
		Note	amount	months	3-6 months	months	1-5 years	5 years
					Afs '000'	00,		
December 31, 2012								
Cash and cash equivalents		2	596,086	596,086	1	•		
Loans and advances to customers		9	1,323,448	400,776	256,300	104,340	390,690	171.342
Investments		7	649,057	1	649,057	, 1		
Other assets		11	193,845	3	. 1	1	1	193,845
			2,166,350	996,862	905,357	104,340	390,690	365,187
Deposits from customers	KAAK BA	13	893,555	65,381	825,484	2,270	420	
Deposits from banks	NA MINES Y	14	535,941	535,941	1	1	1	
	78		1,429,496	601,322	825,481	2,270	420	,

A BY

	Deposits from banks	Deposits from customers		Other assets	Loans and advances to customers	December 31, 2011		
	14	13	I	111	6			Note
1,365,807	602,190	763,617	2,136,414	185,646	1,950,768			Carrying amount
763,219	602,190	161,029	413,281	1	413,281			Carrying Less than 3 amount months
50,416	1	50,416	327,394	1	327,394		Afs '000'	months 3-6 months months
23,140	J	23,140	511,442	3	511,442		0,	6-12 months
529,032	4	529,032	698,651	I	698,651			1-5 years
ř.	ī	1	185,646	185,646	ñ			More than 5 years

# Exposure to currency risk

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

### in Afs '000'

## December 31, 2012

Cash and cash equivalents

Loans and advances to customers

Investments

Other assets

Deposits from customers Deposits from banks Other liabilities

# Net foreign currency exposure



1,225,360 954,951 192,628	4,362,574 935,827 3,364,120	497,804 131,000 357,089	535,941 26,714 509,227	3,328,829 778,113 2,497,804	5,587,934 1,890,778 3,556,748	232,047 219,783 12,264	649,057 649,057 -	1,447,296 298,973 1,148,323	3,259,534 722,965 2,396,161	Afs '000'
28 77,781	20 62,627	89 9,715	27 -	04 52,912	140,408	64 -	ı	23 -	61 140,408	

in Afs '000'

December 31, 2011
Cash and cash equivalents
Loans and advances to customers
Other assets

Deposits from customers
Deposits from banks
Other liabilities

Net foreign currency exposure

The following significant exchange rates were applied during the period.

USD Euro



2/200	(4,552)	562,460	592,306
45,387	2,506,400	711,728	3,263,515
2,772	228,637	58,948	290,357
ı	599,995	2,195	602,190
42,615	1,677,768	650,585	2,370,968
79,785	2,501,848	1,274,188	3,855,821
64	29,383	204,127	233,574
,	1,318,954	708,133	2,027,087
79,721	1,153,511	361,928	1,595,160

20	Average	rate	51.00	65.31
2012	Reporting date spot	rate	52.08	68.54
2011	Average rate		46.73	65.29
11	Reporting date spot	rate	48.89	64.47

PRP

## Sensitivity analysis

reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. 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 A 10% strengthening of the Afghani, as indicated below, against the USD, and Euro at 31 December 2012 would have increased (decreased) equity and profit or loss

	in Afs '000'	
	000	
	Equity	Family
j	loss	Profit or

December 31, 2012

USII	December 31, 2011	EMIO		USD
		7,778	19,200	10 263

A 10% weakening of the Afghani against the above currencies at 31 December 2012 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.

(364) 2,752

(364) 2,752 19,263

# 25.5 Capital management

Euro

# Minimum capital requirement

DAB. raised the paid up capital to Afs 1,400 million. As on 31.12.2012 the Bank's financial capital is Afs 1,314 million which is well above the minimum requirement of 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 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



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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012 **BAKHTAR BANK**

## Regulatory capital

regulations of the Da Afghanistan Bank. 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

- 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.
- the overall strength of a bank as a going concern. - 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

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 2012 was as follows:

### Tier 1 capital

Total tier 1 (core) capital Less: Intangible assets Total equity capital Less: Deferred tax assets

Total tier 2 (supplementary) capital Tier 2 capital

Total regulatory capital



1,155,984	34,145 34,145	Afs 1,279,430 (135,985) (21,606) 1,121,839	2012
616,824	26,475 26,475	Afs '000'	2011



### BAKHTAR BANK FOR THE YEAR ENDED DECEMBER 31, 2012 NOTES TO THE FINANCIAL STATEMENTS

# 26. CORRESPONDING FIGURES

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

## 27. AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on 30th March, 2013.

Chief Executive Officer

Chief Financial Officer

Accountants) Chartered

Head Office.