

OFFICE COPY

Bakhtar Bank
Kabul, Afghanistan

Condensed Interim Financial Statements along with
Accompanying Information

For the Quarter ended as at June 30, 2017

INDEPENDENT REVIEW REPORT TO SHAREHOLDERS

Introduction

We have reviewed the accompanying Statement of Condensed Interim Financial Position of **Bakhtar Bank** ("the bank") as of **June 30, 2017**, and the related Statement of Condensed Interim Comprehensive Income, Statement of Condensed Interim Changes in Equity and Statement of Condensed Interim Cash Flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards (IFRSs), the requirements of the Law of Banking in Afghanistan and directives issued by the Da Afghanistan Bank (DAB). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standards on Review Engagements (ISRE) 2410, which applies to review the historic financial information performed by the independent auditor of the entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that cause to believe that accompanying interim financial information does not give a true and fair view of the condensed interim financial position of the bank as at June 30, 2017 and of its financial performance and its condensed interim cash flows for the six month period then ended in accordance with International Financial Reporting Standards (IFRSs), the requirements of the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB) rules and regulations.

Emphasis of matters

Without qualifying our audit opinion, we draw attention to the Note no. 2.4 to the financial statements, which disclose that bank is currently sustaining accumulated losses due to delay in securing the Full Fledge Islamic Bank License from Da Afghanistan Bank, however, continuous support from shareholders have been ensured for the transitional period from Conventional to Islamic banking.


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Auditors & Business Advisors
Kabul



BAKHTAR BANK
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UN-AUDITED)

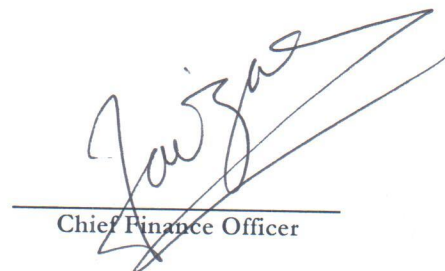
As at June 30, 2017

Un-Audited			Un-Audited			
30-Jun-17	31-Dec-16		30-Jun-17	31-Dec-16		
.....US\$ '000'.....		NoteAfn '000'.....			
ASSETS						
115,171	175,192	Cash and cash equivalents	5	7,842,022	11,708,109	
11,797	13,151	Loans and advances to customers	6	803,281	878,911	
31,996	47,155	Investments	7	2,178,610	3,151,382	
4,441	4,550	Property and equipment		302,408	304,054	
2,026	2,078	Intangible assets		137,982	138,883	
708	764	Non current assets held for sale		48,205	51,036	
1,891	1,038	Deferred tax asset		128,752	69,393	
26,313	20,803	Other assets	8	1,791,646	1,390,200	
194,343	264,731	Total assets		13,232,906	17,691,968	
EQUITY AND LIABILITIES						
Equity						
25,334	23,567	Share capital	9	1,725,000	1,575,000	
(10,595)	(9,633)	Retained earning		(721,421)	(643,762)	
14,739	13,934	Total equity		1,003,579	931,238	
Liabilities						
118,561	172,520	Deposits from customers	10	8,072,865	11,529,480	
51,996	74,609	Deposits from banks	11	3,540,444	4,986,139	
9,047	3,668	Other liabilities	12	616,018	245,111	
179,604	250,797	Total liabilities		12,229,327	16,760,730	
194,343	264,731	Total equity and liabilities		13,232,906	17,691,968	
Contingencies and commitments					13	-

The annexed notes 1 to 20 form an integral part of these financial statements.


 Chief Executive Officer




 Chief Finance Officer

BAKHITAR BANK

Health,

Chief Finance Officer

BAKHTAR BANK

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

Share capital	Retained earnings	Total
.....US\$ '000'US\$ '000'
22,819	(4,677)	18,142
-	(4,956)	(4,956)
-	-	-
748	-	748
23,567	(9,633)	13,934
23,131	(9,455)	13,676
-	-	-
-	(1,140)	(1,140)
-	-	-
2,203	-	2,203
25,334	(10,595)	14,739
Balance as at 01 January 2016		
1,525,000	(312,544)	1,212,456
-	(331,218)	(331,218)
-	-	-
50,000	-	50,000
1,575,000	(643,762)	931,238
Balance as at 01 January 2017		
1,575,000	(643,762)	931,238
-	-	-
-	(77,659)	(77,659)
-	-	-
150,000	-	150,000
1,725,000	(721,421)	1,003,579

The annexed notes 1 to 20 form an integral part of these financial statements. *WPM*

For
Chief Executive Officer



[Signature]
Chief Finance Officer

BAKHTAR BANK
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2017

30-Jun-17US\$ '000'.....	30-Jun-16		Note	30-Jun-17Afn '000'.....	30-Jun-16
CASH FLOWS FROM OPERATING ACTIVITIES					
(2,012)	(3,012)	Loss before taxation		(137,018)	(206,111)
372	290	Adjustments for:			
13	13	Depreciation		25,332	19,814
(333)	(1,807)	Amortization		901	901
537	-	Accrued interest on cash and cash equivalents		(22,659)	(123,652)
(915)	1,672	Impairment (gain)/ loss on Non Funded Facilities		36,588	-
		Impairment (gain)/ loss on loans and advances		(62,293)	114,383
(2,338)	(2,844)			(159,149)	(194,665)
2,026	2,081	Increase / decrease in operating assets and liabilities:			
(5,563)	(6,826)	Loans and advances to customers	6	137,923	142,359
(50,765)	4,564	Other assets	8	(378,787)	(467,032)
(21,232)	(10,785)	Deposits from customers	10	(3,456,615)	312,259
4,910	3,481	Deposits from banks	11	(1,445,695)	(737,882)
		Other liabilities	12	334,319	238,146
(72,962)	(10,331)	Net cash generated from operating activities before interest and taxation		(4,968,004)	(706,815)
-	-	Net Withholding taxes (paid) / collected		-	-
(72,962)	(10,331)	Net cash generated from operating activities		(4,968,004)	(706,815)
CASH FLOWS FROM INVESTING ACTIVITIES					
14,287	9,337	Investments - Net of interest	7	972,772	638,823
42	-	Non-current assets exchange fluctuation		2,831	-
(341)	937	Acquisition of property and equipment - net of adjustment		(23,235)	64,113
13,988	10,274	Net cash used in investing activities		952,368	702,936
CASH FLOWS FROM FINANCING ACTIVITIES					
2,203	731	Issuance of share capital activities	9	150,000	50,000
2,203	731			150,000	50,000
(56,771)	674	Net increase in cash and cash equivalents		(3,865,636)	46,121
171,950	149,465	Cash and cash equivalents at beginning of the period		11,708,109	10,226,404
(8)	-	Exchange fluctuation effect		(451)	-
115,171	150,139	Cash and cash equivalents at the end of the period	5	7,842,022	10,272,525

The annexed notes 1 to 20 form an integral part of these financial statements.


Chief Executive Officer




Chief Finance Officer

BAKHTAR BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2017

1. STATUS AND NATURE OF OPERATIONS

Bakhtar Bank ("the Bank") is a wholly owned subsidiary of Azizi Bank, Kabul, Afghanistan. The Bank has been licensed by Da Afghanistan Bank (DAB) ("the Central Bank of Afghanistan"). 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 Malalai Zezhantoon Square Square, Quway – E – Markaz, Shahr – E – Naw, District 10, Kabul, Afghanistan.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB). Whenever, the requirements of the Law of Banking in Afghanistan differs with the requirements of IFRS, the requirement of the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB) takes precedence.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

These financial statements are presented in Afghani ("AFN") which is the bank's functional & National currency. Except or otherwise indicated, the financial information presented in AFN has been rounded to nearest thousand.

2.4 Da Afghanistan Bank had granted in principle approval for Islamic Banking business to the bank in January 2016. After in principle the bank initiated the process of procurement of Core banking system for Islamic banking, appointment of experienced Islamic banking management and development of Islamic banking policies and procedures to comply with DAB's requirements. As of now the bank is in process of securing license from DAB. Further during the period under review there is a decline in deposits by 29% due to decrease in two major clients. However the management is making efforts to recover the same with potential customers. In addition to the above to strengthen the equity due to accumulated losses in conversion process, shareholders confirmed their support to the bank during conversion period.

3. USE OF CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

- a) Provision for loan losses
- b) Provision for income taxes
- c) Useful life of property and equipment and intangible assets
- d) Held to maturity investments

4. SIGNIFICANT ACCOUNTING POLICIES

Summary of accounting policies will be read with the half year audited financial statements.

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BAKHTAR BANK
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2017**

	Note	30-June-2017Afn '000'.....	31-Dec-2016				
6. LOAN AND ADVANCES TO CUSTOMERS							
Loans and advances to customers at amortized cost	6.1	<u>803,281</u>	<u>878,911</u>				
All loans and advances are expected to be recovered within five years of the balance sheet date.							
6.1							
		Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		30 June 2017			31 December 2016		
	Afn '000'.....					
Retail customers- running finances		650,018	135,165	514,853	662,834	184,709	478,125
Long term commercial loans		404,696	171,685	233,011	374,890	134,894	239,996
Small and medium enterprise loan		74,372	48,212	26,160	75,510	23,080	52,430
Short term loans to employees		3,376	34	3,342	3,777	38	3,739
Other public consumer loans		28,459	2,544	25,915	21,992	2,576	19,416
Residential mortgage loans				-	170,408	85,203	85,205
		<u>1,160,921</u>	<u>357,640</u>	<u>803,281</u>	<u>1,309,411</u>	<u>430,500</u>	<u>878,911</u>

7. INVESTMENTS

	Note	30-June-2017Afs '000'.....	31-Dec-2016
Capital Notes with DAB	7.1	<u>2,161,722</u>	<u>3,134,494</u>
Investment		<u>16,888</u>	<u>16,888</u>
		<u>2,178,610</u>	<u>3,151,382</u>

7.1 Capital Notes with DAB

	Interest rate range		
Capital notes - 28 days	(2016: 3.535 %) Per annum	-	2,293,697
Capital notes -91 days	(4.30%) (2016: 4.330%)Per annum	1,187,097	840,797
Capital notes -182 days	(5.15%) per annum	974,625	-
		<u>2,161,722</u>	<u>3,134,494</u>

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BAKHTAR BANK
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2017**

	30-Jun-17	31-Dec-16
 Afn '000'	
8 OTHER ASSETS		
Prepayments	97,579	76,858
Receivable from DAB	7,657	10,209
Required reserve held with DAB	781,877	941,004
Security deposit	1,500	1,500
Advance income tax	132,456	126,115
Western union - In bound balance	269,398	44,572
Accrued interest	22,659	15,156
Remittance in transit	335,784	-
Others	142,736	174,786
	<u>1,791,646</u>	<u>1,390,200</u>

9 SHARE CAPITAL
Authorized

250,000 ordinary shares of Afn 10,000 each

	<u>2,500,000</u>	<u>2,500,000</u>
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Issued and paid up

1,725,000 ordinary shares (2015: 152,500) of Afn 10,000 each

	<u>1,725,000</u>	<u>1,575,000</u>
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Number of shares
9.1 Following is the reconciliation of number of shares:

	30-Jun-17	31-Dec-16
Number of shares at beginning of the period	157,500	152,500
Shares issued during the year	15,000	5,000
Number of shares at end of the period	<u>172,500</u>	<u>157,500</u>

	30-Jun-17	31-Dec-16
 Afn '000'	

9.2 Following is the reconciliation of amount of share capital:

Share capital at beginning of the period	1,575,000	1,525,000
Shares issued during the period	150,000	50,000
Share capital at end of the period	<u>1,725,000</u>	<u>1,575,000</u>

10 DEPOSITS FROM CUSTOMERS

Term deposits	2,252,431	2,027,405
Current deposits	3,726,629	7,001,643
Saving deposits	2,093,805	2,500,432
	<u>8,072,865</u>	<u>11,529,480</u>

BAKHTAR BANK
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2017**

	Note	<u>30-Jun-17</u>	<u>31-Dec-16</u>
		<u>.....Afn '000'.....</u>	
11 DEPOSITS FROM BANKS			
Azizi Bank		3,540,444	4,986,139
		<u>3,540,444</u>	<u>4,986,139</u>
12 OTHER LIABILITIES			
Withholding tax payable		5,165	5,126
Creditors and accruals		554,997	208,901
Interest Payable		2,838	-
Loss Reserves for off-Balance Sheet Commitments		36,588	31,084
Others		16,430	-
		<u>616,018</u>	<u>245,111</u>
13 CONTINGENCIES AND COMMITMENTS			
Guarantees and Letter of credit issued on behalf of cutomers		3,658,711	3,557,475
		<u>30-Jun-17</u>	<u>30-Jun-16</u>
		<u>.....Afs '000'.....</u>	
14 NET INTEREST INCOME			
Interest income			
Cash and cash equivalents		41,637	100,363
Loans and advances to customers		70,980	79,434
Total interest income		<u>112,617</u>	<u>179,797</u>
Interest expense			
Deposits from customers		67,660	85,813
Deposits from Banks		-	-
Total interest expense		<u>67,660</u>	<u>85,813</u>
Net interest income		<u>44,957</u>	<u>93,984</u>

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BAKHTAR BANK
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2017**

	30-Jun-17Afn '000'.....	30-Jun-16
15 NET FEE AND COMMISSION INCOME		
Fee and commission income		
Commission income	121,245	77,075
Account servicing fee	482	261
Total fee and commission income	121,727	77,336
Fee and commission expense		
Inter-bank transaction fees	9,842	18,351
Total fee and commission expense	9,842	18,351
Net fee and commission income	111,885	58,985
16 OTHER NON-INTEREST INCOME		
Foreign exchange gain / (loss)	29,859	13,089
Others	17,163	43,373
	47,022	56,462
17 EMPLOYEE BENEFIT EXPENSES		
Salaries and wages	108,263	86,335
Staff welfare	16,345	16,127
	124,608	102,462
18 OTHER EXPENSES		
Repair and maintenance	14,871	4,317
Travelling expense	9,040	7,136
Advertising and publicity	27,937	26,036
Printing and stationery	7,440	7,037
Communication	948	955
Internet and connectivity	9,569	7,789
Electricity and power	12,541	11,883
Office supplies	1,655	1,234
Security expenses	68,191	63,410
Audit fee	2,906	3,715
Postage and courier	7	35
Software maintenance fee	2,082	184
Deposit insurance premium	18.1 10,289	8,741
Others	5,268	2,180
	172,744	144,652

18.1 This premium is paid to Afghanistan Deposit Insurance Corporation (ADIC) at the rate of 0.20% (2016: 0.20%) of total deposits as required by DAB.

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BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2017

19. Capital management

Regulatory capital

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

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

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

The Bank's regulatory capital position at 30 June 2017 was as follows:

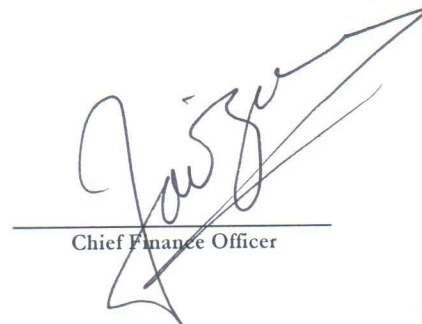
	30 June 2017	31 December 2016
Afn '000'.....	
Tier 1 capital		
Total equity capital	1,003,579	931,238
Less: Intangible assets	(137,982)	(138,883)
Less: Deferred tax assets	(128,752)	(69,393)
Total tier 1 (core) capital	736,846	722,962
Tier 2 capital		
Total tier 2 (supplementary) capital	-	-
Total regulatory capital	736,846	722,962

20. AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on _____ 2017.


 Chief Executive Officer




 Chief Finance Officer