

Bakhtar Bank
100% Subsidiary of Azizi Bank
Kabul, Afghanistan

Un-audited Condensed interim financial
statements along with accompanying
information

For the half year ended as at June 30, 2016

Report on Review of Interim Financial Statements to Shareholders

Introduction

We have reviewed the accompanying Statement of Condensed Interim Financial Position of **Bakhtar Bank** ("the bank") as of **June 30, 2016**, and the related Condensed Interim income statement, Statement of Condensed Interim changes in equity and Statement of Condensed Interim cash flows for the 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 (2410), "Review of Interim Financial Information Performed by the Independent auditor of the entity". A review of interim financial information consist of making enquiries, 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 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, 2016 and of its financial performance and its condensed interim cash flows for the three month period than 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.



Horwath MAK
Auditors & Business Advisors
Kabul



BAKHTAR BANK
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS at June 30, 2016

Un-Audited		Note	Un-Audited	
30-Jun-16	31-Dec-15		30-Jun-16	31-Dec-15
.....US\$ '000'.....			.....Afn '000'.....	
ASSETS				
150,139	149,574	5	10,272,525	10,226,404
15,177	18,944	6	1,038,437	1,295,179
47,412	55,322	7	3,243,898	3,782,358
1,566	2,465		107,147	168,550
2,043	2,047		139,785	139,920
797	798		54,554	54,554
23,477	16,663	8	1,606,263	1,139,231
240,611	245,813	Total assets	16,462,609	16,806,196
EQUITY AND LIABILITIES				
Equity				
23,020	22,305	9	1,575,000	1,525,000
(7,580)	(4,571)		(518,654)	(312,544)
15,440	17,734	Total equity	1,056,346	1,212,456
Liabilities				
145,948	141,487	10	9,985,757	9,673,498
73,776	84,623	11	5,047,773	5,785,655
5,447	1,969	12	372,733	134,587
225,171	228,079	Total liabilities	15,406,263	15,593,740
240,611	245,813	Total equity and liabilities	16,462,609	16,806,196
Contingencies and commitments		13	-	-

The annexed notes 1 to 19 form an integral part of these financial statements.

Chief Executive Officer



Chief Finance Officer

BAKHTAR BANK


The annexed notes 1 to 19 form an integral part of these financial statements.


Chief Finance Officer

BAKHTAR BANK
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016

Share capital	Retained earnings	Total		Share capital	Retained earnings	Total
US\$ '000'				Afn '000'		
23,148	(1,079)	22,069	Balance as at 01 March 2015	1,350,000	(44,605)	1,305,395
			Comprehensive income:			
-	315	315	Net loss for the period	-	(152,907)	(152,907)
			Transactions with owners:			
-	-	-	Ordinary shares redeemed	-	-	-
23,148	(764)	22,384	Balance as at Jun 30, 2015 - unaudited	1,350,000	(197,512)	1,152,488
22,289	(4,568)	17,721	Balance as at 01 March 2016	1,525,000	(312,543)	1,212,458
			Comprehensive income:			
-	(3,012)	(3,012)	Net loss for the period	-	(206,111)	(206,111)
			Transactions with owners:			
731	-	731	Ordinary shares Issued	50,000	-	50,000
23,020	(7,580)	15,440	Balance as at June 30, 2016 - unaudited	1,575,000	(518,654)	1,056,347

The annexed notes 1 to 19 form an integral part of these financial statements.


Chief Executive Officer Bakhtar Bank
Head Office - Kabul


Chief Finance Officer

BAKHTAR BANK
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE QUARTER ENDED JUNE 30, 2016

<u>30-Jun-16</u>	<u>30-Jun-15</u>		<u>30-Jun-16</u>	<u>30-Jun-15</u>
.....US\$ '000'.....			.....Afn '000'.....	
CASH FLOWS FROM OPERATING ACTIVITIES				
(3,012)	(2,652)	Loss before taxation	(206,111)	(152,907)
		Adjustments for:		
290	313	Depreciation	19,814	18,032
13	3	Amortization	901	184
(1,807)	(1,013)	Accrued interest on cash and cash equivalents	(123,652)	(58,374)
1,672	1,376	Impairment (gain)/ loss on loans and advances	114,383	79,347
(2,844)	(1,973)		(194,665)	(113,718)
		Increase / decrease in operating assets and liabilities:		
2,081	107	Loans and advances to customers	142,359	6,145
(6,826)	(5,024)	Other assets	(467,032)	(289,662)
4,564	8,488	Deposits from customers	312,259	489,316
(10,785)	14,898	Deposits from banks	(737,882)	858,870
3,481	1,916	Other liabilities	238,146	110,463
(10,331)	18,411	Net cash generated from operating activities before interest and taxation	(706,815)	1,061,414
-	-	Net Withholding taxes (paid) / collected	-	-
(10,331)	18,410	Net cash generated from operating activities	(706,815)	1,061,414
CASH FLOWS FROM INVESTING ACTIVITIES				
9,337	(11,148)	Investments - Net of interest	638,823	(642,676)
937	(424)	Acquisition of property and equipment - net of adjustment	64,113	(24,415)
10,274	(11,571)	Net cash used in investing activities	702,936	(667,091)
CASH FLOWS FROM FINANCING ACTIVITIES				
731	-	Issuance of share capital	50,000	-
731	-	Net cash used in / generated from financing activities	50,000	-
674	6,839	Net increase in cash and cash equivalents	46,121	394,323
149,465	127,148	Cash and cash equivalents at beginning of the period	10,226,404	7,330,063
150,139	133,988	Cash and cash equivalents at the end of the period	10,272,525	7,724,386

The annexed notes 1 to 19 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, 2016

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.

The Bank has 59 branches & 2 Extension Counters (2015: 57 branches) and 705 staff members (2015: 570 staff members).

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

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.

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.

BAKHTAR BANK
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016**

	Note	30-Jun-16.....Afn '000'.....	31-Dec-2015
5. CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	4,252,628	1,452,121
Balances with banks:			
Balances with Da Afghanistan Bank		1,230,637	3,046,013
Balances with other banks	5.2	4,789,260	5,728,270
		6,019,897	8,774,283
		10,272,525	10,226,404
5.1 Cash in hand			
Local currency		840,261	530,813
Foreign currency		3,412,367	921,308
		4,252,628	1,452,121
5.2 Balances with other banks			
Commerz Bank		-	8,178
Azizi Bank		4,086,886	5,190,151
Western Union International Bank GmbH		-	4,558
Aktif Bank		-	100,796
Yinzhou Bank		8	8
Development Credit Bank Ltd		7,471	3,328
BMCE Bank		394,526	121,147
Yes Bank India		101	104
Pashtany Bank		300,001	300,000
Axis Bank Limited Shanghai Branch		267	-
		4,789,260	5,728,270

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016

	Note	30-June-2016.....Afn '000'.....	31-Dec-2015
6. LOAN AND ADVANCES TO CUSTOMERS			
Loans and advances to customers at amortized cost	6.1	<u>1,038,437</u>	<u>1,295,179</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 2016			31 December 2015		
	.....Afn '000'.....					
Retail customers- running finances	807,232	175,584	631,647	938,010	66,504	871,506
Long term commercial loans	392,157	139,840	252,316	383,866	125,690	258,176
Small and medium enterprise loan	57,861	329	57,532	67,567	18,748	48,819
Short term loans to employees	2,443	-	2,443	10,016	-	10,016
Other public consumer loans	9,932	5,020	4,912	11,333	5,079	6,254
Residential mortgage loans	178,459	88,873	89,587	179,652	79,244	100,408
	1,448,083	409,646	1,038,437	1,590,444	295,265	1,295,179

7

INVESTMENTS

7. INVESTMENTS	Note	30-June-2016.....Afs '000'.....	31-Dec-2015
Capital Notes with DAB			
Placement with Aktif Bank	7.1	<u>2,901,798</u>	<u>3,440,508</u>
		<u>342,100</u>	<u>341,850</u>
		<u>3,243,898</u>	<u>3,782,358</u>

7.1 Capital Notes with DAB	Interest rate range		
Capital notes - 28 days	2016: 3.530 to 3.535% (2015: -%) Per annum	728,000	-
Capital notes -91 days	2016: (4.33%) (2015: 3.535%) Per annum	98,918	997,258
Capital notes -182 days	2016: 5.15% to 5.19% (2015: 5.15% to 5.19%) per annum	-	321,626
Capital notes - 364 days	2016: 6.678% to 6.679% (2015: 6.678% to 6.679%) per annum	<u>2,074,880</u>	<u>2,121,624</u>
		<u>2,901,798</u>	<u>3,440,508</u>

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016

	30-Jun-16	31-Dec-15
	..... Afn '000'	
8 OTHER ASSETS		
Prepayments	66,837	53,418
Receivable from DAB	12,761	15,313
Required reserve held with DAB	773,353	684,400
Security deposit	1,500	1,367
Advance income tax	92,212	85,151
Western union - In bound balance	123,851	202,452
Accrued interest	123,652	53,490
Others	412,097	43,640
	<u>1,606,263</u>	<u>1,139,231</u>
9 SHARE CAPITAL		
<i>Authorized</i>		
250,000 ordinary shares of Afs 10,000 each	<u>2,500,000</u>	<u>2,500,000</u>
<i>Issued and paid up</i>		
157,500 ordinary shares (2015: 152,500) of Afs 10,000 each	<u>1,575,000</u>	<u>1,525,000</u>
	Number of shares	
	30-Jun-16	31-Dec-15
9.1 Following is the reconciliation of number of shares:		
Number of shares at beginning of the period	152,500	135,000
Shares issued during the year	<u>5,000</u>	<u>17,500</u>
Number of shares at end of the period	<u>157,500</u>	<u>152,500</u>
	30-Jun-16	31-Dec-15
	..... Afn '000'	
9.2 Following is the reconciliation of amount of share capital:		
Share capital at beginning of the period	1,525,000	1,350,000
Shares issued during the period	<u>50,000</u>	<u>175,000</u>
Share capital at end of the period	<u>1,575,000</u>	<u>1,525,000</u>
10 DEPOSITS FROM CUSTOMERS		
Term deposits	2,315,425	1,517,586
Current deposits	5,358,285	6,275,024
Saving deposits	<u>2,312,047</u>	<u>1,880,889</u>
	<u>9,985,757</u>	<u>9,673,499</u>

BAKHTAR BANK
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016**

		<u>30-Jun-16</u>	<u>31-Dec-15</u>
	Note	.....Afn '000'.....	
11 DEPOSITS FROM BANKS			
Azizi Bank		5,047,773	5,101,955
Pashtany Bank		-	683,700
		<u>5,047,773</u>	<u>5,785,655</u>
12 OTHER LIABILITIES			
Withholding tax payable		9,570	6,694
Creditors and accruals		334,120	104,767
Interest Payable		983	-
Others		28,060	23,126
		<u>372,733</u>	<u>134,587</u>
13 CONTINGENCIES AND COMMITMENTS			
Guarantees and Letter of credit issued on behalf of cutomers		<u>3,683,467</u>	<u>2,338,420</u>
		<u>30-Jun-16</u>	<u>30-Jun-15</u>
		.....Afs '000'.....	
14 NET INTEREST INCOME			
Interest income			
Cash and cash equivalents		100,363	125,014
Loans and advances to customers		79,434	88,535
Total interest income		179,797	213,549
Interest expense			
Deposits from customers		85,813	85,800
Deposits from banks		-	7,776
Total interest expense		85,813	93,576
Net interest income		<u>93,984</u>	<u>119,973</u>

BAKHTAR BANK
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016**

	<u>30-Jun-16</u>	<u>30-Jun-15</u>
	.....Afn	'000'.....
15 NET FEE AND COMMISSION INCOME		
Fee and commission income		
Commission income	77,075	60,950
Account servicing fee	261	179
Total fee and commission income	<u>77,336</u>	<u>61,129</u>
Fee and commission expense		
Inter-bank transaction fees	18,351	7,392
Total fee and commission expense	<u>18,351</u>	<u>7,392</u>
Net fee and commission income	<u>58,985</u>	<u>53,737</u>
16 OTHER NON-INTEREST INCOME		
Foreign exchange gain / (loss)	13,089	(594)
Others	43,373	12,610
	<u>56,462</u>	<u>12,016</u>
17 EMPLOYEE BENEFIT EXPENSES		
Salaries and wages	86,335	79,467
Staff welfare	16,127	9,513
	<u>102,462</u>	<u>88,980</u>
18 OTHER EXPENSES		
Repair and maintenance	4,317	2,535
Travelling expense	7,136	4,358
Advertising and publicity	26,036	17,278
Printing and stationery	7,037	4,027
Communication	955	948
Internet and connectivity	7,789	7,300
Electricity and power	11,883	12,346
Office supplies	1,234	1,340
Security expenses	63,410	56,132
Audit fee	3,715	1,108
Postage and courier	35	-
Software maintenance fee	184	174
Deposit insurance premium	18.1 8,741	10,560
Others	2,180	1,429
	<u>144,652</u>	<u>119,535</u>

18.1 This premium is paid to Afghanistan Deposit Insurance Corporation (ADIC) at the rate of 0.23% (2014: 0.23%) of total deposits as required by DAB.

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2016

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 2016 was as follows:

	30 June 2016	31 December 2015
	.....Afn '000'.....	
Tier 1 capital		
Total equity capital	1,056,346	1,212,456
Less: Intangible assets	(139,785)	(139,920)
Less: Deferred tax assets	(54,554)	(54,554)
Total tier 1 (core) capital	862,008	1,017,982
Tier 2 capital		
Total tier 2 (supplementary) capital	-	-
Total regulatory capital	862,008	1,017,982

20. AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on August 17 2016. *HMA*



Chief Executive Officer





Chief Finance Officer