

Bakhtar Bank

100% Subsidiary of Azizi Bank

Kabul, Afghanistan

Audited Financial Statements along with
accompanying information

For the period ended as at March 31, 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 March 31, 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 three-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 March 31, 2017 and of its financial performance and its condensed interim cash flows for the three 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.


Horwath MAK
Auditors & Business Advisors
Kabul



BAKHTAR BANK
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS ON MARCH 31, 2017

Un-Audited 31-Mar-17US\$ '000'.....	Audited 31-Dec-16		Note	Un-Audited 31-Mar-17Afs '000'.....	Audited 31-Dec-16
ASSETS					
192,845	175,192	Cash and cash equivalents	5	13,057,565	11,708,109
10,739	13,151	Loans and advances to customers	6	727,171	878,911
11,322	47,155	Investments	7	766,626	3,151,382
4,503	4,550	Property and equipment		304,922	304,054
2,044	2,078	Intangible assets		138,433	138,883
712	764	Non current assets held for sale		48,205	51,036
1,902	1,039	Deferred tax asset		128,752	69,393
20,374	20,802	Other assets	8	1,379,490	1,390,200
244,441	264,731	Total assets		16,551,164	17,691,968
EQUITY AND LIABILITIES					
Equity					
25,476	23,567	Share capital	9	1,725,000	1,575,000
(9,823)	(9,633)	Retained earning		(665,141)	(643,762)
15,653	13,934	Total equity		1,059,859	931,238
Liabilities					
152,545	172,520	Deposits from customers	10	10,328,823	11,529,480
71,930	74,609	Deposits from banks	11	4,870,436	4,986,139
4,313	3,668	Other liabilities	12	292,046	245,111
228,788	250,797	Total liabilities		15,491,305	16,760,730
244,441	264,731	Total equity and liabilities		16,551,164	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

BAKHTAR BANK
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2017

31-Mar-17US\$ '000'.....	31-Mar-16US\$ '000'.....		Note	31-Mar-17Afs '000'.....	31-Mar-16Afs '000'.....
987	1,371	Interest income		66,839	94,124
(582)	(531)	Interest expense		(39,396)	(36,488)
405	840	Net interest income	14	27,443	57,636
902	365	Fee and commission income		61,082	25,049
(82)	(181)	Fee and commission expense		(5,525)	(12,406)
820	184	Net fee and commission income	15	55,557	12,643
276	55	Foreign exchange gain / (loss)	16	18,657	3,780
100	224	Other non-interest income	16	6,796	15,369
1,601	1,303	Operating income		108,453	89,428
618	(117)	Impairment (loss) on loans and advances		41,829	(8,046)
(575)	-	Provision against non-funded facilities		(38,949)	-
(918)	(755)	Employee benefit expenses	17	(62,158)	(51,835)
(272)	(252)	Operating lease expenses		(18,410)	(17,302)
(166)	(141)	Depreciation		(11,241)	(9,704)
(27)	(7)	Amortization		(1,802)	(451)
(1,454)	(999)	Other expenses	18	(98,465)	(68,589)
(2,794)	(2,271)	Operating expenses		(189,196)	(155,927)
(1,193)	(968)	Loss before taxation		(80,738)	(66,499)
877	-	Provision for taxation		59,359	-
(316)	(968)	Loss for the year		(21,379)	(66,499)
-	-	Other comprehensive income		-	-
(316)	(968)	Total comprehensive income for the year		(21,379)	(66,499)

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

Chief Executive Officer

Chief Finance Officer

BAKHTAR BANK
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2017

Share capital	Retained earnings	Total		Share capital	Retained earnings	Total
.....US\$ '000'.....			Afs '000'.....		
22,211	(4,552)	17,659	Balance as at 01 January 2016	1,525,000	(312,544)	1,212,456
			Comprehensive income:			
-	(969)	(969)	Net loss for the period	-	(66,499)	(66,499)
			Transactions with owners:			
728	-	728	Ordinary shares redeemed	50,000	-	50,000
<u>22,939</u>	<u>(5,521)</u>	<u>17,418</u>	Balance as at Mar 31, 2016	<u>1,575,000</u>	<u>(379,043)</u>	<u>1,195,957</u>
23,261	(9,508)	13,754	Balance as at 01 January 2017	1,575,000	(643,762)	931,238
			Comprehensive income:			
-	(316)	(316)	Net loss for the period	-	(21,379)	(21,379)
			Transactions with owners:			
2,215	-	2,215	Ordinary shares Issued	150,000	-	150,000
<u>25,476</u>	<u>(9,824)</u>	<u>15,653</u>	Balance as at March 31, 2017	<u>1,725,000</u>	<u>(665,141)</u>	<u>1,059,859</u>

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



Chief Executive Officer


Chief Finance Officer

BAKHITAR BANK
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2017

31-Mar-17	31-Mar-16		Note	31-Mar-17	31-Mar-16
.....US\$ '000'.....			AFN '000'.....	
CASH FLOWS FROM OPERATING ACTIVITIES					
(1,192)	(969)	Loss before taxation		(80,738)	(66,499)
		Adjustments for:			
166	141	Depreciation		11,241	9,704
27	7	Amortization		1,802	451
(27)	(1,412)	Accrued interest on cash and cash equivalents		(1,854)	(96,917)
(618)	117	Impairment (gain)/ loss on loans and advances		(41,829)	8,046
(1,644)	(2,116)			(111,378)	(145,215)
		Increase / decrease in operating assets and liabilities:			
2,859	4,034	Loans and advances to customers	6	193,569	276,950
186	(173)	Other assets	8	12,564	(11,877)
(17,732)	(30,885)	Deposits from customers	13	(1,200,657)	(2,120,560)
(1,709)	(10,612)	Deposits from banks	14	(115,703)	(728,632)
693	582	Other liabilities	15	46,935	39,931
(17,349)	(39,170)	Net cash generated from operating activities before interest and taxation		(1,174,670)	(2,689,403)
-	-	Net Withholding taxes (paid) / collected		-	-
(17,349)	(39,170)	Net cash generated from operating activities		(1,174,670)	(2,689,403)
CASH FLOWS FROM INVESTING ACTIVITIES					
35,220	16,255	Investments - Net of interest	7	2,384,756	1,116,099
41	-	Non-current assets held for sale		2,831	-
(199)	260	Acquisition of property and equipment - net of disposal		(13,461)	17,853
		Proceeds from sale of property and equipment		-	-
35,062	16,515	Net cash used in investing activities		2,374,126	1,133,952
CASH FLOWS FROM FINANCING ACTIVITIES					
2,215	728	Issuance / Redemption of share capital	12	150,000	50,000
2,215	728	Net cash used in / generated from financing activities		150,000	50,000
19,928	(21,927)	Net increase in cash and cash equivalents		1,349,456	(1,505,451)
172,917	148,944	Cash and cash equivalents at beginning of the year		11,708,109	10,226,404
192,845	127,017	Cash and cash equivalents at the end of the year	5	13,057,565	8,720,953

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 QUARTER ENDED MARCH 31, 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 Charahi Sher Pur, Shahr-e-Naw, District 10, Kabul, Afghanistan.

The Bank has 59 branches & 2 Extension Counters (2016: 59 branches) and 819 staff members (2016: 585 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 last year audited financial statements.

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2017

	Note	31-Mar-2017Afs '000'.....	31-Dec-2016
5. CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	2,071,004	3,133,810
Balances with banks:			
Balances with Da Afghanistan Bank		4,807,514	3,545,710
Balances with other banks	5.2	6,179,047	5,028,589
		10,986,561	8,574,299
		13,057,565	11,708,109
5.1 Cash in hand			
Local currency		735,352	1,056,429
Foreign currency		1,335,652	2,077,381
		2,071,004	3,133,810
5.2 Balances with other banks			
Axis Bank Limited		-	9
Azizi Bank		4,588,120	3,575,783
Yinzhou Bank		8	8
Development Credit Bank Ltd		30,205	5,394
BMCE Bank		1,236,497	1,147,291
Yes Bank India		103	103
Pashtany Bank		300,000	300,001
Axis Bank Limited Shanghai Branch		24,114	-
		6,179,047	5,028,589

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2017

6. LOAN AND ADVANCES TO CUSTOMERS

Note: 31-Mar-2017 31-Dec-2016
.....Afs '000'.....

Loans and advances to customers at amortized cost

6.1 1,114,408 1,309,411

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
	31 March 2017			31 December 2016		
Afs '000'.....					
Retail customers- running finances	632,016	224,534	407,482	662,834	184,709	478,125
Long term commercial loans	381,390	137,363	244,027	374,890	134,894	239,996
Small and medium enterprise loan	74,796	22,786	52,010	75,510	23,080	52,430
Short term loans to employees	4,108	30	4,078	3,777	38	3,739
Other public consumer loans	22,099	2,524	19,575	21,992	2,576	19,416
Residential mortgage loans	-	-	-	170,408	85,203	85,205
	1,114,408	387,237	727,171	1,309,411	430,500	878,911
INVESTMENTS						

7. INVESTMENTS

Capital Notes with DAB

Investment in Afghanistan Payment System

Note: 31-Mar-2017 31-Dec-2016
.....Afs '000'.....
7.1 749,738 3,134,494
16,888 16,888
766,626 3,151,382

7.1 Capital Notes with DAB

Interest rate range

Capital notes - 7 days

2017: 1.80%^a

749,738

Capital notes - 28 days

(2016: 3.535%^a)

- 2,293,697

Capital notes - 91 days

2016: 4.330%^a per annum

- 840,797

749,738 3,134,494

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2017

	31-Mar-17	31-Dec-16
 Afs '000'	
8 OTHER ASSETS		
Prepayments		
Receivable from DAB	72,934	76,858
Required reserve held with DAB	8,933	10,209
Security deposit	912,779	941,004
Advance income tax	1,500	1,500
Western union - In bound balance	131,605	126,115
Accrued interest	117,270	44,572
Others	1,854	15,156
	<u>132,615</u>	<u>174,786</u>
	<u>1,379,490</u>	<u>1,390,200</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>		
1,725,000 ordinary shares (2016: 1,575,000) of Afs 10,000 each	<u>1,725,000</u>	<u>1,575,000</u>
	<u>Number of shares</u>	
	<u>31-Mar-17</u>	<u>31-Dec-16</u>
9.1 Following is the reconciliation of number of shares:		
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>
	<u>31-Mar-17</u>	<u>31-Dec-16</u>
 Afs '000'	
9.2 Following is the reconciliation of amount of share capital:		
Share capital at beginning of the year	1,575,000	1,525,000
Shares issued during the year	150,000	50,000
Share capital at end of the year	<u>1,725,000</u>	<u>1,575,000</u>
10 DEPOSITS FROM CUSTOMERS		
Term deposits	2,050,282	2,027,405
Current deposits	5,673,403	7,001,643
Saving deposits	2,605,139	2,500,432
	<u>10,328,824</u>	<u>11,529,480</u>

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2017

	Note	31-Mar-17Afs '000'.....	31-Dec-16
11 DEPOSITS FROM BANKS			
Azizi Bank		4,870,436	4,986,139
		<u>4,870,436</u>	<u>4,986,139</u>
12 OTHER LIABILITIES			
Withholding tax payable		6,019	5,126
Creditors and accruals		235,333	208,901
Interest Payable		2,436	-
Others		9,309	31,084
Provision against non-funded facilities		38,949	-
		<u>292,046</u>	<u>245,111</u>
13 CONTINGENCIES AND COMMITMENTS			
Guarantees and Letter of credit issued on behalf of cutomers		<u>3,894,870</u>	<u>3,557,475</u>
		31-Mar-17	31-Mar-16
	Afs '000'.....	
14 NET INTEREST INCOME			
Interest income			
Cash and cash equivalents		16,614	51,400
Loans and advances to customers		50,225	42,724
Total interest income		<u>66,839</u>	<u>94,124</u>
Interest expense			
Deposits from customers		39,396	17,970
Deposits from banks		-	18,518
Total interest expense		<u>39,396</u>	<u>36,488</u>
Net interest income		<u>27,443</u>	<u>57,636</u>

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2017

	31-Mar-17	31-Mar-16
Afs '000'.....	
15 NET FEE AND COMMISSION INCOME		
Fee and commission income	60,755	24,932
Commission income	327	117
Account servicing fee	61,082	25,049
Total fee and commission income		
Fee and commission expense	5,525	12,406
Inter-bank transaction fees	5,525	12,406
Total fee and commission expense		
Net fee and commission income	55,557	12,643
16 OTHER NON-INTEREST INCOME		
Foreign exchange gain / (loss)	18,657	3,780
Others	6,796	15,369
	25,453	19,149
17 EMPLOYEE BENEFIT EXPENSES		
Salaries and wages	54,451	45,480
Staff welfare	7,707	6,355
	62,158	51,835
18 OTHER EXPENSES		
Repair and maintenance	6,874	2,129
Travelling expense	4,809	2,224
Advertising and publicity	21,523	10,735
Printing and stationery	4,007	3,587
Communication	670	536
Internet and connectivity	4,333	4,061
Electricity and power	6,883	5,807
Office supplies	776	640
Security expenses	37,049	32,486
Audit fee	254	256
Legal and professional charges	1,623	290
Postage and courier	3	32
Software maintenance fee	1,542	60
Deposit insurance premium	4,574	4,714
Others	3,545	1,032
	98,465	68,589

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.

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 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.

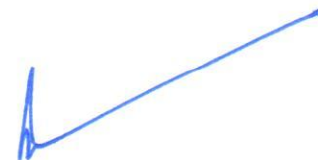
- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank as a going concern.

The Bank's regulatory capital position at 31 March 2017 was as follows:

	31 March 2017	31 December 2016
Afs '000'.....	
Tier 1 capital		
Total equity capital	1,059,859	931,238
Less: Intangible assets	(138,433)	(138,883)
Less: Deferred tax assets	(128,752)	(69,393)
Total tier 1 (core) capital	<u>792,675</u>	<u>722,962</u>
Tier 2 capital		
Total tier 2 (supplementary) capital	-	-
Total regulatory capital	<u>792,675</u>	<u>722,962</u>

20. AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on May, 14 2017.



Chief Executive Officer



Chief Finance Officer