

Bakhtar Bank

100% Subsidiary of Azizi Bank

Kabul, Afghanistan

Un-audited Condensed interim financial
statements along with accompanying
information

For the period ended as at September 30, 2016

Independent Practitioner's Review Report to Shareholders

Introduction

We have reviewed the accompanying Statement of Condensed Interim Financial Position of **Bakhtar Bank** ("the bank") as of **September 30, 2016**, 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 period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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).

Practitioner Responsibility


Our responsibility is to express a conclusion on this interim financial information based on our review. We conducted our review in accordance with International Standards on Review Engagements (ISRE) 2400, engagement to Review Historical Financial Statements (ISRE) 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial information in accordance with ISRE 2400 is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. 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 September 30, 2016 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 AT 30 SEPTEMBER, 2016

Un-Audited		Note	Un-Audited	
30-Sep-16	31-Dec-15		30-Sep-16	31-Dec-15
.....US\$ '000'.....		Afn '000'.....	
ASSETS				
171,687	149,574	5	11,442,925	10,226,404
14,663	18,944	6	977,320	1,295,179
39,915	55,322	7	2,660,368	3,782,358
1,725	2,465		114,957	168,550
2,091	2,047		139,334	139,920
819	798		54,554	54,554
25,740	16,663	8	1,715,572	1,139,231
256,640	245,813	Total assets	17,105,030	16,806,196
EQUITY AND LIABILITIES				
Equity				
23,631	22,305	9	1,575,000	1,525,000
(9,122)	(4,571)		(607,954)	(312,544)
14,509	17,734	Total equity	967,046	1,212,456
Liabilities				
158,793	141,487	10	10,583,562	9,673,498
74,709	84,623	11	4,979,355	5,785,655
8,628	1,969	12	575,067	134,587
242,130	228,079	Total liabilities	16,137,984	15,593,740
256,640	245,813	Total equity and liabilities	17,105,030	16,806,196
Contingencies and commitments		13		

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

Chief Executive Officer



Chief Finance Officer

BAKHAR BANK

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE PERIOD ENDED 30 SEPTEMBER, 2016

Quarter ended 30 Sept 2016	Nine month ended 30 Sept 2016	Quarter ended 30 Sept 2015	Nine Month ended 30 Sept 2015
	US\$ '000'		
1,068 (571) 497	3,766 (1,859) 1,907	1,801 (723) 1,078	5,153 (2,191) 2,962
			Interest income
			Interest expense
			Net interest income
671 (76) 595	1,831 (351) 1,480	498 (61) 437	1,457 (177) 1,280
			Fee and commission income
			Fee and commission expense
			Net fee and commission income
(398) 554 1,248	(202) 1,205 4,390	287 87 1,889	277 285 4,804
			Foreign exchange (loss) / gain
			Other non-interest income
			Operating income
(89) (683) (290) (107) (68) (1,351) (2,588)	(1,797) (2,406) (788) (281) (205) (3,345) (8,822)	(973) (804) (258) (159) (1) (1,026) (3,221)	(2,219) (2,201) (769) (441) (6) (2,903) (8,539)
			Impairment loss on loans and advances
			Employee benefit expenses
			Operating lease expenses
			Depreciation
			Amortization
			Other expenses
			Operating expenses
			Loss before taxation
			Provision for taxation
			Loss for the period
			Other comprehensive income
			Total comprehensive loss for the period

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

[Signature]
Chief Executive Officer



[Signature]
Chief Finance Officer

BAKHTAR BANK
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE PERIOD ENDED 30 SEPTEMBER, 2016

Share capital	Retained earnings	Total		Share capital	Retained earnings	Total
US\$ '000'				Afn '000'		
21,975	(2,400)	19,575	Balance as at 01 July 2015	1,400,000	(152,910)	1,247,090
			Comprehensive income:			
-	(1,334)	(1,334)	Net loss for the period	-	(85,007)	(85,007)
			Transactions with owners:			
-	-	-	Ordinary shares redeemed	-	-	-
21,975	(3,734)	18,241	Balance as at September 30, 2015 - unaudited	1,400,000	(237,917)	1,162,083
23,631	(7,782)	15,849	Balance as at 01 July 2016	1,575,000	(518,652)	1,056,348
			Comprehensive income:			
-	(1,340)	(1,340)	Net loss for the period	-	(89,302)	(89,302)
			Transactions with owners:			
-	-	-	Ordinary shares Issued	-	-	-
23,631	(9,122)	14,509	Balance as at September 30, 2016 - unaudited	1,575,000	(607,954)	967,046

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


Chief Executive Officer




Chief Finance Officer

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

30-Sep-16	30-Sep-15		Note	30-Sep-16	30-Sep-15
.....US\$ '000'.....			Afn '000'.....	
CASH FLOWS FROM OPERATING ACTIVITIES					
(4,432)	(3,734)	Loss before taxation		(295,411)	(237,917)
		Adjustments for:			
281	441	Depreciation		18,719	28,083
205	6	Amortization		13,658	361
(795)	(796)	Accrued interest on cash and cash equivalents		(53,011)	(50,712)
1,797	2,219	Impairment (gain)/ loss on loans and advances		119,764	141,344
(2,944)	(1,864)			(196,281)	(118,841)
		Increase / decrease in operating assets and liabilities:			
2,972	1,836	Loans and advances to customers	6	198,095	116,979
(8,647)	(7,897)	Other assets	8	(576,341)	(503,110)
13,654	9,043	Deposits from customers	10	910,064	576,145
(12,098)	15,453	Deposits from banks	11	(806,300)	984,514
6,609	(75)	Other liabilities	12	440,480	(4,752)
(454)	16,496	Net cash generated from operating activities before interest and taxation		(30,283)	1,050,935
-	-	Net Withholding taxes (paid) / collected		-	-
(454)	16,495	Net cash generated from operating activities		(30,283)	1,050,935
CASH FLOWS FROM INVESTING ACTIVITIES					
17,059	(11,754)	Investments - Net of interest	7	1,136,993	(748,844)
(65)	(259)	Acquisition of Intangibles - net of adjustment		(4,302)	(16,473)
962	(479)	Acquisition of property and equipment - net of adjustment		64,113	(30,499)
17,956	(12,491)	Net cash used in investing activities		1,196,804	(795,816)
CASH FLOWS FROM FINANCING ACTIVITIES					
750	785	Issuance of share capital	9	50,000	50,000
750	785	Net cash used in / generated from financing activities		50,000	50,000
18,252	4,788	Net increase in cash and cash equivalents		1,216,521	305,119
153,435	115,054	Cash and cash equivalents at beginning of the period		10,226,404	7,330,063
171,687	119,843	Cash and cash equivalents at the end of the period	5	11,442,925	7,635,182

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

Chief Executive Officer



Chief Finance Officer

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED 30 SEPTEMBER, 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, Quway-E-Markaz, Shahr-e-Naw, District 10, Kabul, Afghanistan.

The Bank has 59 branches & 2 Extension Counters(2015: 57 branches) and 758 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 last year audited financial statements.

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED 30 SEPTEMBER, 2016

		<u>30-Sep-16</u>	<u>31-Dec-2015</u>
	NoteAfn '000'.....	
5. CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	4,640,990	1,452,121
Balances with banks:			
Balances with Da Afghanistan Bank		2,524,064	3,046,013
Balances with other banks	5.2	4,277,871	5,728,270
		6,801,935	8,774,283
		<u>11,442,925</u>	<u>10,226,404</u>
5.1 Cash in hand			
Local currency		1,194,087	530,813
Foreign currency		3,446,903	921,308
		<u>4,640,990</u>	<u>1,452,121</u>
5.2 Balances with other banks			
Commerz Bank		-	8,178
Azizi Bank		3,738,185	5,190,151
Western Union International Bank GmbH		-	4,558
Aktif Bank		-	100,796
Yinzhou Bank		8	8
Development Credit Bank Ltd		25,638	3,328
BMCE Bank		212,985	121,147
Yes Bank India		101	104
Pashtany Bank		300,001	300,000
Axis Bank Limited Shanghai Branch		953	-
		<u>4,277,871</u>	<u>5,728,270</u>

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED 30 SEPTEMBER, 2016

	Note	30-September-20Afn '000'.....	31-Dec-2015
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6. LOAN AND ADVANCES TO CUSTOMERS

Loans and advances to customers at amortized cost	6.1	<u>977,320</u>	<u>1,295,179</u>
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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 September 2016			31 December 2015		
Afn '000'.....					
Retail customers- running finances	758,938	193,813	565,124	938,010	66,504	871,506
Long term commercial loans	375,811	130,999	244,811	383,866	125,690	258,176
Small and medium enterprise loan	76,362	23,115	53,247	67,567	18,748	48,819
Short term loans to employees	3,652	37	3,615	10,016	-	10,016
Other public consumer loans	27,447	3,244	24,203	11,333	5,079	6,254
Residential mortgage loans	172,631	86,314	86,318	179,652	79,244	100,408
	1,414,840	437,522	977,320	1,590,444	295,265	1,295,179

7. INVESTMENTS

	Note	30-June-2016Afs '000'.....	31-Dec-2015
Capital Notes with DAB	7.1	<u>2,660,368</u>	3,440,508
Placement with Aktif Bank		-	341,850
		<u>2,660,368</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	747,947	-
Capital notes -91 days	2016: (4.33%) (2015: 3.535%)Per annum	1,088,090	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	824,331	2,121,624
		<u>2,660,368</u>	<u>3,440,508</u>

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED 30 SEPTEMBER, 2016

	30-Sep-16	31-Dec-15
 Afn '000'	
8 OTHER ASSETS		
Prepayments	99,870	53,418
Receivable from DAB	11,485	15,313
Required reserve held with DAB	794,800	684,400
Security deposit	1,500	1,367
Advance income tax	111,865	85,151
Western union - In bound balance	106,861	202,452
Remittance in transit	381,964	-
Accrued interest	53,011	53,490
Others	154,216	43,640
	<u>1,715,572</u>	<u>1,139,231</u>
9 SHARE CAPITAL		
<i>Authorized</i>		
250,000 ordinary shares of Afn 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 Afn 10,000 each	<u>1,575,000</u>	<u>1,525,000</u>
	Number of shares	
	30-Sep-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 period / 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-Sep-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	2,432,735	1,517,586
Current deposits	5,928,489	6,275,024
Saving deposits	2,222,338	1,880,888
	<u>10,583,562</u>	<u>9,673,498</u>

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED 30 SEPTEMBER, 2016

	Note	30-Sep-16Afn '000'.....	31-Dec-15 '000'.....
11 DEPOSITS FROM BANKS			
Azizi Bank		4,979,355	5,101,955
Pashtany Bank		-	683,700
		<u>4,979,355</u>	<u>5,785,655</u>
12 OTHER LIABILITIES			
Withholding tax payable		4,921	6,694
Creditors and accruals		103,627	104,767
Remittances in-transit		435,699	-
Interest Payable		1,460	-
Others		29,360	23,126
		<u>575,067</u>	<u>134,587</u>
13 CONTINGENCIES AND COMMITMENTS			
Guarantees and Letter of credit issued on behalf of cutomers		<u>3,727,852</u>	<u>2,338,420</u>
		30-Sep-16Afs '000'.....	30-Sep-15 '000'.....
14 NET INTEREST INCOME			
Interest income			
Cash and cash equivalents		140,193	193,680
Loans and advances to customers		<u>110,794</u>	<u>134,589</u>
Total interest income		250,987	328,269
Interest expense			
Deposits from customers		123,879	131,842
Deposits from banks		-	7,776
Total interest expense		<u>123,879</u>	<u>139,618</u>
Net interest income		<u>127,108</u>	<u>188,651</u>

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED 30 SEPTEMBER, 2016

	30-Sep-16Afn '000'.....	30-Sep-15
15 NET FEE AND COMMISSION INCOME		
Fee and commission income		
Commission income	121,596	92,555
Account servicing fee	434	274
Total fee and commission income	122,030	92,829
Fee and commission expense		
Inter-bank transaction fees	23,412	11,253
Total fee and commission expense	23,412	11,253
Net fee and commission income	98,618	81,576
16 OTHER NON-INTEREST INCOME		
Foreign exchange gain / (loss)	(13,432)	17,663
Others	80,291	18,153
	66,859	35,816
17 EMPLOYEE BENEFIT EXPENSES		
Salaries and wages	135,407	126,074
Staff welfare	24,969	14,159
	160,376	140,233
18 OTHER EXPENSES		
Repair and maintenance	13,736	3,697
Travelling expense	12,736	6,527
Advertising and publicity	40,976	29,855
Printing and stationery	10,898	6,729
Communication	1,455	1,429
Internet and connectivity	12,448	11,390
Electricity and power	14,708	16,926
Office supplies	1,989	2,253
Security expenses	93,221	86,499
Audit fee	2,037	1,831
Postage and courier	44	-
Software maintenance fee	560	468
Deposit insurance premium	13,883	15,274
Others	4,266	2,044
	222,957	184,922

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED 30 SEPTEMBER, 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.

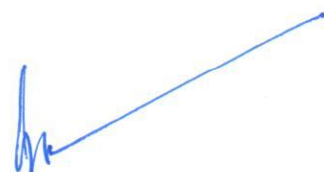
- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank as a going concern.

The Bank's regulatory capital position at 30 September 2016 was as follows:

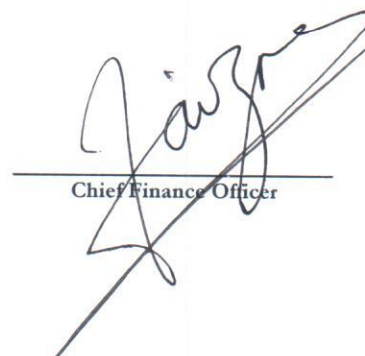
	<u>30 September 2016</u>	<u>31 December 2015</u>
Afn '000'.....	
Tier 1 capital		
Total equity capital	967,046	1,212,456
Less: Intangible assets	(139,334)	(139,920)
Less: Deferred tax assets	(54,554)	(54,554)
Total tier 1 (core) capital	<u>773,159</u>	<u>1,017,982</u>
Tier 2 capital		
Total tier 2 (supplementary) capital	<u>-</u>	<u>-</u>
Total regulatory capital	<u>773,159</u>	<u>1,017,982</u>

20. AUTHORIZATION

These financial statements were authorized for issue by the Board of Supervisors on 14-Nov 2016.



Chief Executive Officer

Chief Finance Officer