

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, 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 **September 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 September 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.

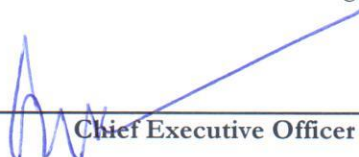
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Auditors & Business Advisors
Kabul

BAKHITAR BANK
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER, 2017

		Un-Audited 30-Sep-17	Audited 31-Dec-16
	NoteAfn '000'.....	
ASSETS			
Cash and cash equivalents	5	5,619,954	11,708,109
Loans and advances to customers	6	864,153	878,911
Investments	7	2,574,262	3,151,382
Property and equipment		299,906	304,054
Intangible assets		137,545	138,883
Non current assets held for sale		48,205	51,036
Deferred tax asset		128,752	69,393
Other assets	8	1,647,701	1,390,200
Total assets		11,320,478	17,691,968
EQUITY AND LIABILITIES			
Equity			
Share capital	9	1,725,000	1,575,000
Retained earning		(791,371)	(643,762)
Total equity		933,629	931,238
Liabilities			
Deposits from customers	10	8,766,933	11,529,480
Deposits from banks	11	1,181,012	4,986,139
Other liabilities	12	438,904	245,111
Total liabilities		10,386,849	16,760,730
Total equity and liabilities		11,320,478	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
FOR THE PERIOD ENDED 30 SEPTEMBER, 2017

		Un-Audited			
		Quarter ended 30 Sept 2017	Nine month ended 30 Sept 2017	Quarter ended 30 Sept 2016	Nine Month ended 30 Sept 2016
Note	 Afn '000'			
Interest income		60,033	172,650	71,189	250,987
Interest expense		(26,758)	(94,418)	(38,067)	(123,879)
Net interest income	14	33,275	78,232	33,122	127,108
Fee and commission income		47,469	169,196	44,694	122,030
Fee and commission expense		(3,858)	(13,700)	(5,060)	(23,412)
Net fee and commission income	15	43,611	155,496	39,634	98,618
Foreign exchange (loss) / gain	16	9,510	39,369	(26,521)	(13,432)
Other non-interest income	16	37,249	54,412	36,918	80,291
Operating income		123,645	327,509	83,153	292,585
Impairment gain / (loss) on loans and advances		14,582	76,875	(5,938)	(119,764)
Provision against non-funded facilities		(9,339)	(45,927)	-	-
Employee benefit expenses	17	(65,963)	(190,571)	(45,522)	(160,376)
Operating lease expenses		(18,297)	(61,299)	(19,300)	(52,523)
Depreciation		(13,178)	(38,510)	(7,110)	(18,719)
Amortization		(437)	(1,338)	(4,552)	(13,658)
Other expenses	18	(100,962)	(273,706)	(90,033)	(222,956)
Operating expenses		(193,594)	(534,476)	(172,455)	(587,996)
Loss before taxation		(69,949)	(206,967)	(89,302)	(295,411)
Provision for taxation		-	59,359	-	-
Loss for the period		(69,949)	(147,608)	(89,302)	(295,411)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the period		(69,949)	(147,608)	(89,302)	(295,411)

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
FOR THE PERIOD ENDED 30 SEPTEMBER, 2017

	Un-Audited		
	Share capital	Retained earnings	Total
Afn '000'.....		
Balance as at 01 July 2016	1,575,000	(518,652)	1,056,348
Comprehensive income:			
Net loss for the period		(89,302)	(89,302)
Transactions with owners:			
Ordinary shares redeemed			
Balance as at September 30, 2016	<u>1,575,000</u>	<u>(607,954)</u>	<u>967,046</u>
Balance as at 01 July 2017	1,725,000	(721,422)	1,003,578
Comprehensive income:			
Net loss for the period		(69,949)	(69,949)
Transactions with owners:			
Ordinary shares Issued			
Balance as at September 30, 2017	<u>1,725,000</u>	<u>(791,371)</u>	<u>933,629</u>

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



Chief Executive Officer



Chief Finance Officer

BAKHTAR BANK
CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER, 2017

		Un-Audited	
		30-Sep-17	30-Sep-16
Note	Afn '000'.....	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(206,967)	(295,411)
Adjustments for:			
Depreciation		38,510	18,719
Amortization		1,338	13,658
Accrued interest on cash and cash equivalents		(33,101)	(53,011)
Impairment (gain)/ loss on Non Funded Facilities		45,927	-
Impairment (gain)/ loss on loans and advances		(76,875)	119,764
		(231,168)	(196,281)
Increase / decrease in operating assets and liabilities:			
Loans and advances to customers	6	91,633	198,095
Other assets	8	(224,400)	(576,341)
Deposits from customers	10	(2,762,547)	910,064
Deposits from banks	11	(3,805,127)	(806,300)
Other liabilities	12	147,866	440,480
Net cash generated from operating activities before interest and taxation		(6,783,743)	(30,283)
Net Withholding taxes (paid) / collected		-	-
Net cash generated from operating activities		(6,783,743)	(30,283)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - Net of interest	7	577,120	1,136,993
Acquisition of Intangibles - net of adjustment		-	(4,302)
Non-current assets exchange fluctuation		2,831	-
Acquisition of property and equipment - net of adjustment		(34,363)	64,113
Net cash used in investing activities		545,588	1,196,804
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of share capital	9	150,000	50,000
Net cash used in / generated from financing activities		150,000	50,000
Net increase in cash and cash equivalents		(6,088,155)	1,216,521
Cash and cash equivalents at beginning of the period		11,708,109	10,226,404
Cash and cash equivalents at the end of the period	5	5,619,954	11,442,925

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
FOR THE PERIOD ENDED 30 SEPTEMBER, 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, Quway-E-Markaz, Shahr-e-Naw, District 10, Kabul, Afghanistan.

The Bank has 59 branches & 2 Extension Counters(2016: 59 branches & 3 extension counters) and 758 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.

- 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. Paralell to this management had managed to reduce the declining trends in deposits. 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 last year audited financial statements.

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER, 2017

		Un-Audited 30-Sep-17	Audited 31-Dec-2016
	NoteAfn '000'.....	
5. CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	1,905,619	3,133,810
Balances with banks:			
Balances with Da Afghanistan Bank		1,590,158	3,545,710
Balances with other banks	5.2	2,124,177	5,028,589
		3,714,335	8,574,299
		5,619,954	11,708,109
5.1 Cash in hand			
Local currency		718,058	1,056,429
Foreign currency		1,187,561	2,077,381
		1,905,619	3,133,810
5.2 Balances with other banks			
Azizi Bank		184,763	3,575,783
Aktif Bank		136,892	-
Yinzhou Bank		8	8
Development Credit Bank Ltd		12,495	5,394
BMCE Bank		1,465,569	1,147,291
Yes Bank India		105	103
Pashtany Bank		300,001	300,001
Axis Bank Limited Shanghai Branch		24,344	9
		2,124,177	5,028,589

BAKHTAR BANK
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER, 2017**

		Un-Audited	Audited
		30-September- 2017	31-Dec-2016
Note	Afn '000'.....	
6. LOAN AND ADVANCES TO CUSTOMERS			
Loans and advances to customers at amortized cost	6.1	<u>864,153</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 September 2017			31 December 2016		
Afn '000'.....					
Retail customers- running finances	690,913	140,626	550,287	662,834	184,709	478,125
Long term commercial loans	409,305	151,422	257,883	374,890	134,894	239,996
Small and medium enterprise loan	73,005	48,395	24,610	75,510	23,080	52,430
Short term loans to employees	6,203	62	6,141	3,777	38	3,739
Other public consumer loans	27,787	2,555	25,232	21,992	2,576	19,416
Residential mortgage loans	-	-	-	170,408	85,203	85,205
	1,207,214	343,060	864,153	1,309,411	430,500	878,911

7. INVESTMENTS

	Un-Audited	Audited
Note	30-Sep-2017	31-Dec-2016
	Afn '000'	

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER, 2017

	Un-Audited 30-Sep-17 Afn '000'	Audited 31-Dec-16
8 OTHER ASSETS		
Prepayments	85,494	76,858
Receivable from DAB	6,381	10,209
Required reserve held with DAB	749,597	941,004
Security deposit	1,500	1,500
Advance income tax	137,125	126,115
Western union - In bound balance	283,301	44,572
Remittance in transit	197,873	-
Accrued interest	33,101	15,156
Others	153,329	174,786
	<u>1,647,701</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>		
172,500 ordinary shares (2016: 157,500) of Afs 10,000 each	<u>1,725,000</u>	<u>1,575,000</u>
	Number of shares	
	<u>30-Sep-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 period / year	15,000	5,000
Number of shares at end of the period	<u>172,500</u>	<u>157,500</u>
	Un-Audited 30-Sep-17 Afn '000'	Audited 31-Dec-16
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	2,299,545	2,027,405
Current deposits	4,201,128	7,001,643
Saving deposits	2,266,260	2,500,432
	<u>8,766,933</u>	<u>11,529,480</u>

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER, 2017

	Note	Un-Audited 30-Sep-17Afn '000'.....	Audited 31-Dec-16
11 DEPOSITS FROM BANKS			
Azizi Bank		1,181,012	4,986,139
		<u>1,181,012</u>	<u>4,986,139</u>
12 OTHER LIABILITIES			
Withholding tax payable		4,141	5,126
Creditors and accruals		202,927	208,901
Remittances in-transit		166,578	-
Interest Payable		3,339	-
Provision against non-funded facilities		45,927	31,084
Others		15,992	-
		<u>438,904</u>	<u>245,111</u>
13 CONTINGENCIES AND COMMITMENTS			
Guarantees on behalf of customers		<u>4,592,617</u>	<u>3,557,475</u>
		Un-Audited 30-Sep-17	Un-Audited 30-Sep-16
	Afs '000'.....	
14 NET INTEREST INCOME			
Interest income			
Cash and cash equivalents		73,584	140,193
Loans and advances to customers		99,066	110,794
Total interest income		<u>172,650</u>	<u>250,987</u>
Interest expense			
Deposits from customers		94,418	123,879
Deposits from banks		-	-
Total interest expense		<u>94,418</u>	<u>123,879</u>
Net interest income		<u>78,232</u>	<u>127,108</u>

BAKHTAR BANK**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER, 2017**

	Un-Audited 30-Sep-17Afn '000'.....	Un-Audited 30-Sep-16
15 NET FEE AND COMMISSION INCOME		
Fee and commission income		
Commission income	168,529	121,596
Account servicing fee	667	434
Total fee and commission income	169,196	122,030
Fee and commission expense		
Inter-bank transaction fees	13,700	23,412
Total fee and commission expense	13,700	23,412
Net fee and commission income	155,496	98,618
16 OTHER NON-INTEREST INCOME		
Foreign exchange gain / (loss)	39,369	(13,432)
Others	54,412	80,291
	93,781	66,859
17 EMPLOYEE BENEFIT EXPENSES		
Salaries and wages	164,323	135,407
Staff welfare	26,248	24,969
	190,571	160,376
18 OTHER EXPENSES		
Repair and maintenance	23,322	13,736
Travelling expense	13,664	12,736
Advertising and publicity	41,626	40,976
Printing and stationery	11,036	10,898
Communication	1,726	1,455
Internet and connectivity	12,442	12,448
Electricity and power	18,947	14,708
Office supplies	2,302	1,989
Security expenses	116,641	93,221
Audit fee	4,359	2,037
Postage and courier	21	44
Software maintenance fee	3,304	560
Deposit insurance premium	15,521	13,883
Others	8,795	4,266
	273,706	222,956

BAKHTAR BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER, 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 September 2017 was as follows:

	30 September 2017	31 December 2016
Afn '000'.....	
Tier 1 capital		
Total equity capital	933,629	931,238
Less: Intangible assets	(137,545)	(138,883)
Less: Deferred tax assets	(128,752)	(69,393)
Total tier 1 (core) capital	<u>667,331</u>	<u>722,962</u>
Tier 2 capital		
Total tier 2 (supplementary) capital	<u>-</u>	<u>-</u>
Total regulatory capital	<u>667,331</u>	<u>722,962</u>

20. AUTHORIZATION

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


 Chief Executive Officer


 Chief Finance Officer