

## Report on Review of Interim Financial Statements to Shareholders

### *Introduction*


We have reviewed the accompanying Statement of Condensed Interim Financial Position of **New Kabul Bank** ("the bank") as at **September 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 September 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



NEW KABUL BANK  
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION  
AS AT SEPTEMBER 30, 2016

Unaudited	Audited		Unaudited	Audited	
30-Sep-2016	31-Dec-2015		30-Sep-2016	31-Dec-2015	
..... USD .....			Note .....	AFN .....	
ASSETS					
165,650,521	147,291,895	Cash and cash equivalents	5	10,878,269,692	10,082,130,215
19,354,367	27,365,903	Investment in capital notes	6	1,271,001,255	1,873,196,077
1,245,818	1,130,817	Property and equipment	7	81,812,881	77,404,418
-	-	Intangible assets	8	-	-
42,135,831	41,137,428	Claim receivable from MOF	9	2,767,060,020	2,815,856,977
51,494,855	39,175,206	Other assets	10	3,381,667,109	2,681,542,832
279,881,392	256,101,249	Total assets		18,379,810,957	17,530,130,519
EQUITY AND LIABILITIES					
EQUITY					
-	-	Share capital	11	-	-
(51,825,029)	(50,041,300)	Retained earnings		(3,403,349,647)	(3,425,326,970)
(51,825,029)	(50,041,300)	Total equity		(3,403,349,647)	(3,425,326,970)
LIABILITIES					
309,894,146	296,208,604	Deposits from customers	12	20,350,748,509	20,275,478,960
21,812,275	9,933,945	Other liabilities	13	1,432,412,095	679,978,529
331,706,421	306,142,549	Total liabilities		21,783,160,604	20,955,457,489
279,881,392	256,101,249	Total equity and liabilities		18,379,810,957	17,530,130,519

CONTINGENCIES AND COMMITMENTS

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The annexed notes from 1 to 22 form an integral part of these financial statements.

(Chief Financial Officer)

(Chief Executive Officer)



NEW KABUL BANK

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

Nine months ended 30-Sep-2016	Quarter ended 30-Sep-2016	Nine months ended 30-Sep-15	Quarter ended 30-Sep-15	AFN	
				30-Sep-2016	30-Sep-15
				Note	
				USD	
973,480	350,908	2,540,112	726,486	Interest income	46,582,296
973,480	350,908	2,540,112	726,486	Interest expense	46,582,296
				<b>Net interest income</b>	
13,119,006	4,252,885	8,491,700	1,627,289	Fee and commission income	104,341,746
(222,607)	(85,235)	(262,676)	(99,623)	Fee and commission expense	(6,387,835)
12,896,399	4,167,650	8,229,024	1,527,666	<b>Net fee and commission income</b>	97,953,911
1,523,486	516,409	1,040,923	400,898	Other operating income	25,705,572
15,393,365	5,034,967	11,810,059	2,655,050	<b>Net operating income</b>	170,241,779
(6,730,667)	(2,226,386)	(7,482,993)	(2,376,954)	Employee benefit expense	(152,410,288)
-	-	(2,195)	-	Provision against other assets	-
(8,328,035)	(2,593,348)	(8,496,823)	(2,833,291)	Other expenses	(181,670,588)
(15,058,702)	(4,819,734)	(15,982,011)	(5,210,245)	<b>Operating expenses</b>	(334,080,876)
334,663	215,233	(4,171,952)	(2,555,195)	<b>Profit / (Loss) before tax</b>	(163,839,097)
-	-	-	-	Taxation	-
334,663	215,233	(4,171,952)	(2,555,195)	<b>Profit / (Loss) for the period</b>	(163,839,097)
-	-	-	-	Other comprehensive income	-
334,663	215,233	(4,171,952)	(2,555,195)	<b>Total comprehensive income / loss</b>	(163,839,097)

The annexed notes from 1 to 22 form an integral part of these financial statements.

  
(Chief Financial Officer)

  
(Chief Executive Officer)

NEW KABUL BANK  
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

30-Sep-2016	30-Sep-15		30-Sep-2016	30-Sep-15
..... USD .....			..... AFN .....	
		<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
334,663	(4,171,951)	Profit / Loss before tax	21,977,323	(267,505,489)
		<b>Adjustments for:</b>		
(163,924)	(96,444)	Exchange fluctuation (gain) / loss	17 (10,764,890)	(6,184,008)
170,739	(4,268,395)		11,212,433	(273,689,497)
		<b>Increase/decrease in current assets and liabilities</b>		
743,063	(1,645,919)	Claim receivable from MOF	9 48,796,957	(105,536,302)
(9,989,642)	(7,516,283)	Other assets	10 (656,019,782)	(481,944,056)
1,146,179	(21,369,313)	Deposits from customers	12 75,269,549	(1,370,200,324)
11,457,798	(1,779,804)	Other liabilities	13 752,433,566	(114,121,011)
3,528,137	(36,579,714)		231,692,723	(2,345,491,190)
(671,608)	(2,425,845)	Advance tax paid	(44,104,495)	(155,545,208)
2,856,529	(39,005,559)	<b>Net cash generated from / (used in) operating activities</b>	187,588,228	(2,501,036,398)
		<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(67,131)	(67,472)	Purchase of property and equipment	(4,408,463)	(4,326,300)
9,170,014	20,638,710	Investment in capital notes - net	6 602,194,822	1,323,354,101
9,102,883	20,571,238	<b>Net cash (used in)/ generated from investing activities</b>	597,786,359	1,319,027,801
		<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
11,959,412	(18,434,321)	<b>Net increase / (decrease) in cash and cash equivalents</b>	785,374,587	(1,182,008,597)
153,527,185	165,917,833	Cash and cash equivalents at beginning of the period	10,082,130,215	10,638,651,447
163,924	96,444	Effect of exchange differences	10,764,890	6,184,008
165,650,521	147,579,956	<b>Cash and cash equivalents at end of the period</b>	5 10,878,269,692	9,462,826,858

The annexed notes from 1 to 22 form an integral part of these financial statements.

(Chief Financial Officer)

(Chief Executive Officer)



NEW KABUL BANK  
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTMEBER 30, 2016

Share capital	Retained earnings	Total		Share capital	Retained earnings	Total
USD .....				AFN .....		
-	(51,615,274)	(51,615,274)	Balance as at January 01, 2015	-	(3,389,575,016)	(3,389,575,016)
-	(4,073,481)	(4,073,481)	Total comprehensive loss for the nine months ended September 30, 2015	-	(267,505,489)	(267,505,489)
-	(55,688,755)	(55,688,755)	Balance as at September 30, 2015	-	(3,657,080,505)	(3,657,080,505)
-	(52,159,692)	(52,159,692)	Balance as at January 01, 2016	-	(3,425,326,970)	(3,425,326,970)
-	334,663	334,663	Total comprehensive income for the nine months ended September 30, 2016	-	21,977,323	21,977,323
-	(51,825,029)	(51,825,029)	Balance as at September 30, 2016	-	(3,403,349,647)	(3,403,349,647)

The annexed notes from 1 to 22 form an integral part of these financial statements.

(Chief Financial Officer)

(Chief Executive Officer)

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

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**1 STATUS AND NATURE OF BUSINESS**

New Kabul Bank ("the Bank") is a limited liability company incorporated under the Law in Afghanistan. The registered office of the Bank is located in Kabul, Afghanistan and has seventy nine branches and thirty eight extension counters. The Bank was registered with Afghanistan Investment Support Agency (AISA) on August 09, 2011 and received commercial banking license from the Da Afghanistan Bank (DAB) central bank of Afghanistan on April 18, 2011. The Bank started its operation on April 21, 2011 upon the liquidation of Kabul Bank and transfer of all good assets, liabilities and operations to the New Kabul Bank. The control of the bank is with Government of Islamic Republic of Afghanistan and is exercised by the Ministry of Finance who currently intends to hold its control over the Bank. The Bank is primarily engaged in restrictive commercial banking services in Afghanistan including deposits, collection, disbursement and issuance of bank guarantees.

**2 STATEMENT OF COMPLIANCE**

- 2.1 These condensed interim financial statements have been prepared in accordance with requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting issued by the International Accounting Standards Board (IASB) and the requirements of the Law of Banking in Afghanistan. In case requirements differ, the provisions of the Law of Banking in Afghanistan shall prevail.

**3 BASIS OF PREPARATION**

**3.1 Basis of measurement**

These condensed interim financial statements have been prepared on the historical cost basis.

**3.2 Use of critical accounting estimates and judgments**

The preparation of condensed interim financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgments made by management in applying its accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements of the Bank for the year ended December 31, 2015.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those applied in the preparation of the financial statements of the Bank for the year ended December 31, 2015.

The financial risk management objectives and policies are consistent with those disclosed in the financial statements of the Bank for the year ended December 31, 2015.



**NEW KABUL BANK**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTMEBER 30, 2016**

		Unaudited 30-Sep-2016	Audited 31-Dec-2015
	Note	..... AFN .....	
<b>5 CASH AND CASH EQUIVALENTS</b>			
Cash in hand:			
Local currency		763,162,496	775,965,227
Foreign currency		563,629,266	544,080,414
		<u>1,326,791,762</u>	<u>1,320,045,641</u>
Balances with banks:			
Balances with Da Afghanistan Bank	5.1	4,155,962,909	4,231,036,094
Balances with other banks	5.2	5,395,515,021	4,531,048,480
		<u>9,551,477,930</u>	<u>8,762,084,574</u>
		<u>10,878,269,692</u>	<u>10,082,130,215</u>
<b>5.1 Balances with Da Afghanistan Bank</b>			
Current account			
Local currency		1,262,549,397	1,513,036,801
Foreign currency		2,893,413,512	2,717,999,293
		<u>4,155,962,909</u>	<u>4,231,036,094</u>
		<u>4,155,962,909</u>	<u>4,231,036,094</u>
<b>5.2 Balances with other banks</b>			
Current accounts			
Local currency		17,000	17,000
Foreign currency		5,382,364,021	4,517,341,480
		<u>5,382,381,021</u>	<u>4,517,358,480</u>
Deposit accounts			
Foreign currency		13,134,000	13,690,000
		<u>5,395,515,021</u>	<u>4,531,048,480</u>
<b>6 INVESTMENT IN CAPITAL NOTES</b>			
Held to maturity			
28 days capital notes	6.1	99,732,385	-
1 year capital notes	6.2	1,171,268,870	1,873,196,077
		<u>1,271,001,255</u>	<u>1,873,196,077</u>
<b>6.1</b>	These are classified as held to maturity having maximum period of 28 days carrying interest rate of 3.45% (2015: 3.55%) per annum.		
<b>6.2</b>	These are classified as held to maturity having maximum period of 1 year carrying interest rate ranging from 6.64% to 6.65% (2015: 6.69% to 6.7%) per annum.		

NEW KABUL BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

		Unaudited 30-Sep-2016	Audited 31-Dec-2015
	Note	..... AFN .....	
7	PROPERTY AND EQUIPMENT	81,812,881	77,404,418
8	INTANGIBLE ASSETS		
	Gross carrying amount		
	Opening balance	295,161,839	295,161,839
	Additions during the period	-	-
	Closing balance	295,161,839	295,161,839
	Accumulated amortization		
	Opening balance	295,161,839	295,161,839
	Charge for the period / year	-	-
	Closing balance	295,161,839	295,161,839
	Written down value	8.1	-

- 8.1 Intangible assets includes software licensing, customization and implementation costs for oracle database, mobile and point of sale banking applications which are amortized at the rate of 33%. These intangibles are fully amortized.

	Unaudited 30-Sep-2016	Audited 31-Dec-2015
	..... AFN .....	
9	CLAIM RECEIVABLE FROM MOF	
	Gross amount of claim from MOF	13,248,552,164
	Unrealized foreign currency revaluation gain	(10,481,492,144)
		2,767,060,020
		2,815,856,977

- 9.1 Claim represents receivable from Ministry of Finance (MoF), Government of Islamic Republic of Afghanistan against the net liabilities (excess of liabilities over assets) acquired from Kabul Bank Receivership (KBR). It comprises of currency wise amounts using the prevailing exchange rate as at September 30, 2016. The claim has been lodged with MoF for their consideration, however, as confirmed through letter #127793 dated March 11, 2015 MoF will bear the difference of asset and liabilities.

		Unaudited 30-Sep-2016	Audited 31-Dec-2015
	Note	..... AFN .....	
10	OTHER ASSETS		
	Required reserve with Da Afghanistan Bank	10.1	1,583,120,000
	Advances and prepayments	10.2	57,184,908
	Receivable from remittances		140,688,961
	Accrued interest and commission	10.3	150,694,081
	Advance tax		552,408,208
	Staff loan		6,430,026
	Others	10.4	26,711,218
		3,381,667,109	2,681,542,832

- 10.1 This represents the required reserve account maintained with Da Afghanistan Bank to meet minimum reserve



**NEW KABUL BANK**

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTMEBER 30, 2016**

requirement in accordance with Article 64 "Required reserve for banks" of Da Afghanistan Bank Law. This carries no interest (2015: nil) per annum. Required reserve is a restricted balance with DAB and is not available for use in the Bank's day-to-day operations.

	Unaudited 30-Sep-2016	Audited 31-Dec-2015
	..... AFN .....	
<b>10.2 Advances and prepayments</b>		
Advance payment to contractors	25,523,347	45,778,605
Prepaid rent	31,661,561	36,970,180
	<u>57,184,908</u>	<u>82,748,785</u>

- 10.3 This includes accrued interest on capital notes and accrued commission on distribution of government employees salaries receivable from Ministry of Finance.

	Unaudited 30-Sep-2016	Audited 31-Dec-2015
	..... AFN .....	

**10.4 Others**

<b>Gross amount</b>	119,939,255	107,499,974
<b>Allowance for doubtful receivables</b>		
Opening balance	(94,404,363)	(90,486,111)
Charge for the period / year	-	(140,737)
Exchange difference of provision	1,176,325	(3,777,515)
Reversal due to recovery	-	-
Closing balance	(93,228,038)	(94,404,363)
<b>Net amount</b>	<u>26,711,218</u>	<u>13,095,611</u>

- 10.4.1 This include receivable from staff and others on account of cash shortages. Allowance has been recognized on the basis of recoverability of these shortages on case to case basis, while recovery represent amount received from insurer against cash shortages.

	Unaudited 30-Sep-2016	Audited 31-Dec-2015
	..... AFN .....	

**11 SHARE CAPITAL**

**Authorized**

1,000,000 ordinary shares of AFN 1,000 each	1,000,000,000	1,000,000,000
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Issued, subscribed and paid-up capital	-	-
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- 11.1 The bank is owned by Ministry of Finance which had acquired its ownership through the process of splitting Kabul Bank without injection of any capital. As the bank was established as a bridge entity to take over operations of Kabul Bank with an objective of ultimate selling it to a new investor or continue the operations as deemed appropriate by MOF. Subsequently, Supreme Council of Da Afghanistan Bank (DAB) in its meeting held on March 15, 2011 had granted forbearance to the bank for regulatory requirement related to the size and structure of its capital.

**NEW KABUL BANK**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED SEPTMEBER 30, 2016**

	Unaudited 30-Sep-2016	Audited 31-Dec-2015
Note	AFN	
<b>12 DEPOSITS FROM CUSTOMERS</b>		
Local currency		
Current deposits	7,318,270,084	6,437,401,591
Saving deposits	4,599,250,141	4,932,197,957
	11,917,520,225	11,369,599,548
Foreign currency		
Current deposits	4,796,715,743	4,808,136,038
Saving deposits	3,636,512,541	4,097,743,375
	8,433,228,284	8,905,879,413
	20,350,748,509	20,275,478,961
	Unaudited 30-Sep-2016	Audited 31-Dec-2015
Note	AFN	
<b>13 OTHER LIABILITIES</b>		
Margin money against bank guarantees	364,198,067	413,396,327
Remittances payable	914,141,028	103,000,021
CSC bank payables	29,823,367	19,496,752
Withholding taxes payable	3,871,857	4,016,264
Accrued expenses and other liabilities	120,377,776	140,069,165
	1,432,412,095	679,978,529
<b>14 CONTINGENCIES AND COMMITMENTS</b>		
Contingencies		
Guarantees issued on behalf of customers	364,198,067	397,521,562
14.1 All guarantees are secured against 100% cash margin.		
	Unaudited 30-Sep-2016	Unaudited 30-Sep-15
	AFN	
<b>15 NET INTEREST INCOME / (EXPENSE)</b>		
Interest income on:		
Investment in capital notes	58,774,693	142,079,097
Interest bearing bank accounts	5,153,712	20,792,915
	63,928,405	162,872,012
Interest expense on:		
Deposits from customers	-	-
Net interest income	63,928,405	162,872,012



## NEW KABUL BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE NINE MONTHS ENDED SEPTMEBER 30, 2016

	Unaudited 30-Sep-2016	Unaudited 30-Sep-15
	..... AFN .....	
<b>16 NET FEE AND COMMISSION INCOME</b>		
<b>Fee and commission income</b>		
Commission on remittances	63,159,507	45,035,739
Commission on western union operations	66,860,624	64,214,367
Commission on collections	8,503,104	7,901,001
Commission on salary distribution	540,150,826	288,606,015
Commission on bank guarantees	1,197,116	875,737
Account maintenance fee	181,653,979	137,854,942
	<u>861,525,156</u>	<u>544,487,802</u>
<b>Fee and commission expense</b>		
Inter-bank transaction fee	(14,618,577)	(16,842,761)
<b>Net fee and commission income</b>	<u>846,906,579</u>	<u>527,645,041</u>
<b>17 OTHER OPERATING INCOME</b>		
Income from cash operations	28,038,740	31,625,416
Foreign exchange gain	10,764,890	6,184,008
Income from call centre services	51,810,240	22,312,832
Miscellaneous	9,433,472	6,621,738
	<u>100,047,342</u>	<u>66,743,995</u>
<b>18 EMPLOYEE BENEFIT EXPENSE</b>		
Salaries and wages	404,733,716	437,981,764
Food and other amenities	37,269,214	41,827,730
	<u>442,002,930</u>	<u>479,809,493</u>
<b>19 OTHER EXPENSES</b>		
Rent and taxes	86,441,015	113,984,327
Communication expense	65,798,625	63,846,173
Security expense	229,535,588	215,627,582
Insurance	10,578,646	9,917,295
Fuel and electricity	34,943,603	41,654,971
Software services	65,549,333	54,278,386
Advertisement	640,888	4,781,695
Repair and maintenance	10,503,136	11,237,831
Stationery and printing	16,736,248	17,994,655
Audit fee	1,150,000	-
Others	25,024,991	11,493,391
	<u>546,902,073</u>	<u>544,816,307</u>

**20 TAXATION****Current and deferred tax**

No interim provision for the current taxation has been made in these financial statements as it is adjustable against the advance income tax as disclosed in Other assets amounting to Afn 552.408 Million. Management would be calculating the final effect of tax provision at the end of the year which would be than adjusted against advance income tax. No deferred tax asset has been recognized on carried forward losses due to non-availability of future taxable profits.

**21 RELATED PARTIES****Ultimate controlling entity**

Ministry of Finance (MoF) is the ultimate controlling entity of the bank.

**Other related parties**

As the bank is owned by Ministry of Finance therefore the government and all entities owned by the government are related to the bank.

**Key management personnel**

Key management personnel includes Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.

**Transactions with key management personnel**

Key management personnel have executed following transaction with the Bank during the year:

	Maximum balance	Closing balance
Short-term staff advances	..... AFN .....	
Chief Executive Officer	184,000	-
Deputy Chief Executive Officer	-	-
Chief Financial Officer	633,640	-
Chief Operating Officer	240,000	-

No impairment losses have been recorded against balances outstanding during the year with key management personnel.

Moreover, during the year AFN 7.57 million (2015: AFN 5.49 million) are paid to key management personnel as remuneration.

**Other transactions with related parties**


There are no significant related party transaction except for normal banking services to government and its institutions for salary distribution and related deposit accounts.

**22 GENERAL**

The condensed interim financial statements for the nine months period ended September 30, 2016 (including comparatives) have been approved and authorized for issue by the Board of Directors on November 02, 2016 *hmas.*



(Chief Financial Officer)



(Chief Executive Officer)