

Pashtany Bank

Kabul, Afghanistan

**Un-audited Condensed Interim Financial Statements
Along With Accompanying Information
For The Period Ended As At March 19, 2016**

Report on Review of Interim Financial Statements to Shareholders

Introduction

We have reviewed the accompanying Statement of Condensed Interim Financial Position of **Pashtany Bank** ("the bank") as of **March 19, 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.

Basis for Qualified Conclusion

1. The bank owns investment properties amounting to Afs. 962.183 million (December 21, 2015: Afs. 962.183 million) which is in contravention of the requirements of Article 34 'Prohibited Activities' of law of banking of Afghanistan, which prohibits banks from engaging in such type of business activities.
2. Surplus on revaluation of property, plant and equipment and its corresponding deferred tax liability amounting to Afs 467.65 million (December 21, 2015: Afs 467.65 million) and Afs 116.92 million (December 21, 2015: Afs 116.92 million) respectively remained un-verified due to non-availability of any supporting documentation. As per management representation this pertains to surplus on revaluation of land and building carried out at March 19, 2008. The incremental depreciation was also not charged off periodically as required by the International Accounting Standard – 16 "Property, Plant and Equipment".

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In Furtherance to the above non-compliance of IAS – 12 “Income Taxes”, deferred tax implications of the taxable temporary differences and deductible temporary and permanent differences on property and equipment, impairment of loans and advances, carried forward losses and pension payable have not been accounted for in the financial statements as required by the International Accounting Standard – 12 “Income Taxes”. We were unable to quantify the financial impact of this on financial statements due to unavailability of information.

3. Impairment test of financial assets “Investment in Equity Instruments” as required by International Accounting Standard (IAS) 39 “Financial Instruments: Recognition and Measurement” was not carried out. We therefore, are not in a position to ascertain whether carrying amounts of ‘Investment in Equity Instruments’ of the bank are not stated in excess of their recoverable amount as at March 19, 2016.
4. The bank has a defined benefit pension scheme for its employees however no provision has been made in financial statements and no actuarial valuation was conducted in this regard during the year as required by International Accounting Standards – 19 “Employee Benefit”. We were unable to quantify the financial impact of this on financial statements due to unavailability of information.
5. Opening balance of advance income tax amounting to Afn. 288.130 Million includes an amount of Afn 148.689 Million for which, we have not been provided with the supporting evidence of advance income tax recognized and acknowledged by Ministry of Finance (MoF) in these financial statements.

Qualified Conclusion

Based on our review, with the exception of the matters described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as of **March 19, 2016** and of its financial performance and its 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.


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Auditors & Business Advisors
Kabul





PASHTANY BANK
STATEMENT OF CONDENSED INTERIM FINANCIAL POSITION
AS AT 29 Hoot 1394 (19 March 2016)

		<u>29 Hoot 1394</u>	<u>30 Qaws 1394</u>
	Notes	----- (AFN) -----	
Assets			
Cash and bank balances	5	13,828,598,444	14,440,452,000
Loans and advances to customers	8	-	4,462,000
Investments	7	141,278,912	141,275,000
Property and equipment		858,720,935	863,854,000
Investment properties		962,183,000	962,183,000
Other assets	9	609,510,281	470,183,171
Total assets		<u>16,400,291,572</u>	<u>16,882,409,171</u>
Liabilities			
Deposits from banks	10	1,030,423,221	972,534,000
Deposits from Customers	11	14,174,226,584	14,908,182,000
Deferred tax liabilities		116,912,000	116,912,000
Other liabilities	12	166,994,398	128,067,000
Total liabilities		<u>15,488,556,204</u>	<u>16,125,695,000</u>
Equity			
Share capital		3,820,256,999	3,820,256,999
Retained earnings		(4,497,842,828)	(3,879,713,256)
Profit for the period		155,021,198	(618,129,572)
Surplus on revaluation of property and equipment - net		467,650,000	467,650,000
Other reserves		966,650,000	966,650,000
Total equity		<u>911,735,369</u>	<u>756,714,171</u>
Total liabilities and equity		<u>16,400,291,572</u>	<u>16,882,409,171</u>

CONTINGENCIES AND COMMITMENTS 17

The annexed notes form an integral part of the financial statements from Note 01 to 19.



 Chief Executive Officer

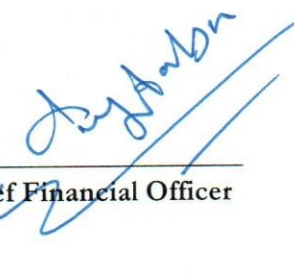

 Chief Financial Officer

PASHTANY BANK
STATEMENT OF CONDENSED INTERIM COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 29 Hoot 1394 (19 March 2016)

		March 19, 2016	March 20, 2015
	Notes	----- (AFN) -----	
Interest / profit income		101,956,372	127,980,512
Interest / profit expense		(12,429,207)	(13,101,139)
Net interest / profit income	13	<u>89,527,165</u>	<u>114,879,373</u>
Fee and commission income		7,702,459	20,237,241
Fee and commission expense		(1,721,323)	(2,526,334)
Net fee and commission income		<u>5,981,136</u>	<u>17,710,907</u>
Net income from trading in foreign currencies		-	-
Other income	14	<u>150,981,270</u>	<u>19,612,516</u>
		150,981,270	19,612,516
Operating income		246,489,571	152,202,795
Impairment reversal / (loss) on loans and advances	8.1	(4,000,000)	(235,776,457)
Personnel expenses	15	(39,254,186)	(47,481,215)
Depreciation		(5,957,118)	(7,463,912)
Other expenses	16	(38,732,131)	(37,383,091)
Exchange gain		11,647,684	4,767,309
Profit before taxation		<u>170,193,820</u>	<u>(171,134,571)</u>
Income tax		(15,172,623)	(20,217,638)
Net profit for the period		<u><u>155,021,198</u></u>	<u><u>(191,352,209)</u></u>
Other comprehensive income		-	-
Total comprehensive income for the period ended		<u><u>155,021,198</u></u>	<u><u>(191,352,209)</u></u>

The annexed notes form an integral part of the financial statements from Note 01 to 19.



 Chief Executive Officer



 Chief Financial Officer

PASHTANY BANK
STATEMENT OF CONDENSED INTERIM CASH FLOWS
FOR THE PERIOD ENDED 29 Hoot 1394 (19 March 2016)

	March 19, 2016	March 20, 2015
	----- (AFN) -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	170,193,820	(171,134,571)
Adjustments for:		
Depreciation	5,957,118	7,463,912
Amorization	-	-
Net impairment loss on loans and advances	4,000,000	235,776,457
Foreign exchange (gain) / loss	(11,647,684)	(4,767,309)
	<u>168,503,254</u>	<u>67,338,489</u>
(Increase) decrease in operating assets and liabilities:		
Loans and advances - net	462,000	(129,307,840)
Other assets	(139,327,110)	(149,006,205)
Deposits from customers and banks	(676,066,195)	(984,419,533)
Other liabilities	38,927,398	(32,986,332)
	<u>(607,500,653)</u>	<u>(1,228,381,421)</u>
Net cash from operating activities before interest and tax	<u>(15,172,623)</u>	<u>(20,217,638)</u>
Tax paid	<u>(622,673,275)</u>	<u>(1,248,599,059)</u>
Net cash from operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(824,053)	(1,442,153)
Investment made	(3,912)	482,100
Net cash used in investing activities	<u>(827,964)</u>	<u>(960,053)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of share capital	-	-
Net cash used in financing activities	-	-
Net increase / (decrease) in cash and cash equivalents	(623,501,240)	(1,249,559,112)
Cash and cash equivalents at beginning of the period	14,440,452,000	14,086,366,000
Effect of exchange differences in cash and cash equivalents	11,647,684	4,767,309
Cash and cash equivalents at the end of the period	<u>13,828,598,444</u>	<u>12,841,574,197</u>

The annexed notes form an integral part of the financial statements from Note 01 to 19.


 Chief Executive Officer


 Chief Financial Officer

PASHTANY BANK

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Chief Executive

Chief Financial Officer

PASHTANY BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 19, 2016

1. STATUS AND NATURE OF OPERATIONS

Pashtany Bank ("the Bank") was registered with Afghanistan Investment Support Agency (AISA) on 26 June 2004 and on 26 June 2004 received formal commercial bank license from Da Afghanistan Bank (DAB), the Central Bank in Afghanistan, to operate nationwide. The Bank is a Limited Liability Company and is incorporated and domiciled in Afghanistan. The Principal business place of the Bank is at Muhammad Jan Khan Watt, Kabul, Afghanistan.

- 1.1 The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The Bank has twenty one branches (2015: twenty one branches) in operation.

2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as 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. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

These financial statements have been prepared on the historical cost basis except as otherwise disclosed in accounting policies.

These financial statements have been authorized to be issue at 11 June 2016 with approval of Board of Supervisors.

3.2 Functional and presentation currency

These financial statements are presented in Afghani (AFN), which is the Bank's functional currency.

3.3 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 pertinent assets and liabilities have been taken into consideration.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Summary of accounting policies will be read with the last year audited financial statements.

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PASHTANY BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 19, 2016

	Note	March 19, 2016	December 21, 2015
		----- (AFN) -----	
5. CASH AND BALANCES WITH DA AFGHANISTAN BANK (DAB)			
Cash in hand			
Local currency		171,254,060	163,743,000
Foreign currency		218,721,868	297,606,000
		389,975,928	461,349,000
Balances with Da Afghanistan Bank	5.1	11,646,352,681	11,374,344,000
		<u>11,646,352,681</u>	<u>11,835,694,000</u>
5.1 Balances with Da Afghanistan Bank			
Local currency			
Required reserve account		1,138,244,000	1,171,040,000
Current accounts		103,095,167	210,641,000
		<u>1,241,339,167</u>	<u>1,381,681,000</u>
Foreign currency			
Current accounts		5,538,877,043	4,599,734,000
Placements			
Capital notes	5.2	4,854,084,468	5,385,764,000
Over night Account with DAB		12,052,005	7,165,000
		<u>11,646,352,681</u>	<u>11,374,344,000</u>
5.2	This represents capital notes issued by DAB from over night 7, 28, 186 and 365 days (2015: from 28, 186 and 365 days) carrying coupon interest at rate ranging from 1.80% to 6.7 % p.a. for the period ended as at March 19, 2016 (December 21, 2015: 1.80% to 7.10% p.a.)		
	Note	March 19, 2016	December 21, 2015
		----- (AFN) -----	
6. BALANCES WITH OTHER BANKS			
In Afghanistan			
Current accounts		8,412,844	1,976,000
Deposit accounts	6.1	1,367,200,000	2,056,207,000
Outside Afghanistan			
Current accounts		414,723,791	544,668,000
Deposit accounts	6.2	1,933,200	1,907,000
		<u>1,792,269,835</u>	<u>2,604,758,000</u>

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PASHTANY BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 19, 2016

6.1 These represent term deposits with Azizi Bank amounting to USD 20 million (AFN 1,220.40 million) at 3% p.a which would mature on 11 May 2016.

6.2 These represent term deposits with MCB Bank Limited amounting to PKR 3million equivalent to Afn 1.933 million at 7.6% p.a.

Note	March 19, 2016	December 21, 2015
	----- (AFN) -----	

7. INVESTMENTS - NET

Investment in associated companies:

Balance at beginning of year

17,359,000	14,593,000
(269,000)	2,766,000

Exchange gain recognized in income statement

Balance at end of year

7.1	17,090,000	17,359,000
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Investment in equity instruments

7.2	104,212,512	104,212,512
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Held-to -Maturity

7.3	19,976,400	19,704,000
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141,278,912	141,275,512
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7.1 The Bank has made investment of USD 250,000 in Afghanistan Payment System (APS) LLC during the year 1389. The Bank currently holds 25% (December 21, 2015: 25%) shares in the company. As per the Articles of Association of the investee company, its shares cannot be sold or transferred or offered to the public.

7.2 Investment in equity instruments

Bank-e-Mille Afghan

9,800,000	9,800,000
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Afghan National Insurance Company

7,660,000	7,660,000
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Shirkat-e-Aryana

281,250	281,250
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Hotel Intercontinental

64,435	64,435
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Afghan Card Corporation

2,822,884	2,822,884
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Pakht-e-Herat

65,542	65,542
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Shirkat Nasaji Afghan

83,518,400	83,518,400
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104,212,512	104,212,512
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7.3 This represents term deposit with United Bank Limited amounting to PKR 31 million for a period of eight years having interest rate at 11% p.a. (2015: 11% p.a.)

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PASHTANY BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 19, 2016

8. LOANS AND ADVANCES - NET

	Note	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		19-Mar-16			21-Dec-15		
Term finance - amortized cost	8.1	4,000,000	(4,000,000)	-	8,000,000	(4,000,000)	4,000,000
		4,000,000	(4,000,000)	-	8,000,000	(4,000,000)	4,000,000

	Note	March 19, 2016	December 21, 2015
		----- (AFN) -----	
8.1 Impairment allowance			
Balance at the beginning of year		4,000,000	383,701,000
Impairment loss for the year		-	924,892,000
Loan written offs		(4,000,000)	(1,310,923,000)
Reversal of provision		-	6,330,000
Balance at end of year		-	4,000,000
9. OTHER ASSETS			
Advances to employees		380,348	-
Advances to suppliers		140,910,980	64,026,000
Interest accrued on capital notes & Demand deposit		189,059,582	138,068,000
Advance income tax		288,130,000	288,130,000
Other assets		33,166,776	22,096,000
Receivable from BCCI-London		108,303,338	108,287,000
		759,951,024	620,607,000
Provision against advances and receivables	9.1	(150,440,743)	(150,423,829)
Net carrying amount		609,510,281	470,183,171
9.1 PROVISION AGAINST ADVANCES RECEIVABLES			
Opening for the year		(150,423,829)	-
Charged for the year		(16,914)	(150,423,829)
Closing for the year		(150,440,743)	(150,423,829)
10. DEPOSITS FROM BANKS			
Agricultural Bank Kabul		1,143,480	5,000
Construction Bank		1,669,940	1,724,830
New Kabul Bank		34,182,670	34,178,000
Bank-e-Millie Afghan		333,000	331,170
Maiwand Bank		777,170	777,000
Afghan United Bank		342,316,961	285,518,000
Azizi Bank		350,000,000	350,000,000
Bakhtar Bank		300,000,000	300,000,000
		1,030,423,221	972,534,000
11. DEPOSITS FROM CUSTOMERS			
Term deposits		497,468,323	496,700,000
Saving deposits		7,139,650,352	7,094,977,000
Current deposits		6,537,107,910	7,316,505,000
		14,174,226,584	14,908,182,000

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PASHTANY BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 19, 2016

	Note	March 19, 2016	December 21, 2015
		----- (AFN) -----	
12 OTHER LIABILITIES			
Withholding tax payable		36,941,019	39,991,000
Other payables		32,918,403	512,000
Creditor payable		97,134,976	78,055,000
		<u>166,994,398</u>	<u>118,558,000</u>
		March 19, 2016	March 20, 2015
		----- (AFN) -----	
13. NET INTEREST INCOME			
Interest income			
Cash and cash equivalents		88,812,861	106,059,135
Loans and advances to customers		13,143,511	21,921,377
		<u>101,956,372</u>	<u>127,980,512</u>
Interest expense			
Deposits from customers	13.1	(12,429,207)	(13,101,139)
Net interest income		<u>89,527,165</u>	<u>114,879,373</u>
13.1 Deposits from customers			
Term deposits		28,916	896,676
Saving deposits		12,400,291	12,204,463
		<u>12,429,207</u>	<u>13,101,139</u>
14. OTHER INCOME			
Rental income		8,507,091	9,754,408
Bad debt recovered			
Loan principal		127,104,718	6,735,083
Loan interest		12,241,115	2,899,290
Income from investments		-	
Other		3,128,346	223,734
		<u>150,981,270</u>	<u>19,612,516</u>
15. PERSONNEL EXPENSES			
Salaries and wages		30,661,568	40,611,031
Contribution towards pension fund		8,034,338	6,474,084
Staff welfare		558,280	396,100
		<u>39,254,186</u>	<u>47,481,215</u>

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PASHTANY BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 19, 2016

	March 19, 2016	March 20, 2015
	----- (AFN) -----	
16. OTHER OPERATING EXPENSES		
Repair and maintenance	348,586	382,335
Travel and conveyance	352,879	466,737
Advertisement and publicity	51,948	185,920
Rent expense	2,124,306	2,752,313
Building tax	448,207	1,173,408
Deposit insurance	9,333,093	9,502,948
Internet expense	6,218,770	5,623,771
Security expense	7,740,186	5,458,091
Printing and stationery	2,156,135	2,155,217
Communication	225,228	315,792
Electricity	1,091,288	1,873,243
Fuel expenses	2,018,739	2,855,828
Auditor's remuneration	402,266	-
Cleaning and water	195,315	139,541
Kindergarten expenses	59,712	52,295
Employees training expenses	15,000	53,028
Others	5,950,474	4,392,624
	<u>38,732,131</u>	<u>37,383,091</u>

17. CONTINGENCIES AND COMMITMENTS

Counter guarantees issued	<u>366,941,860</u>	<u>695,043,524</u>
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18. CAPITAL MANAGEMENT

The Bank's objective when managing capital, which is broader concept than the equity on the face of balance sheets are:

The Bank regulatory capital position as at March 19, 2016 is as follows:

	March 19 2016	December 21 2015
	----- (AFN) -----	
<u>Regulatory capital:</u>		
Core (Tier 1) Capital:		
Total shareholder's equity	911,735,369	756,714,171
Less:		
Profit for the year	(155,021,198)	-
Surplus on revaluation	(467,650,000)	(467,650,000)
	<u>289,064,171</u>	<u>289,064,171</u>
Supplementary (Tier 2) Capital:		
Profit for the period / year	155,021,198	-
Surplus on revaluation	467,650,000	467,650,000
	<u>622,671,198</u>	<u>467,650,000</u>
	<u>911,735,369</u>	<u>756,714,171</u>

19. GENERAL

Figures have been rounded off to the nearest Afghani.

Chief Executive Officer

Chief Financial Officer