2018

PASHTANY BANK ANNUAL REPORT

Pashtany Bank

Annual Report 2018

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Profile of the Board of Directors

Mr. Wadir Safi

Chairman Board of Supervisor

Mr. Wadir Safi was born on December 25, 1948, in Afghanistan. He has wide experience and excellent background of quality leadership, political and as well as in the academic field in different national and international educational institutions and universities. Mr. Safi has been the Chairman of the Board of Director since 2018. Besides being chairman to the Board of Supervisors, Mr. Wadir Safi is serving as a Lecturer, member the Public Law and Head of International Relation and a Senior Legal Officer for the Kabul University of Afghanistan. Mr. Wadir Safi holding a Ph.D. degree in International Laws and Politics, MA in International Relation from the Charles University, Prague Czechoslovakia, earned B.A Journalism from Faculty of Literature and Human Science – Kabul University Afghanistan. Mr. Safi visited and participated in numerous academic conferences throughout his life career for sharing his rich leadership and spread his political experience of Afghanistan in different academic institutions and different countries of the world namely: The Boston University – USA, Washington University – USA, HELSINKI – Finland, Leyster University – Belgium, Oxford University – United Kingdom, Lyon and South Paris Universities – France. Mr. Wadir Safi also participated in the Professional youth seminar between Afghanistan and Pakistan in Germany, IHL conference New Delhi – India, SAARC conference – Nepal, UNODC – UAE, Bridging Gap between Afghanistan and Pakistan, G8 Forum Rome – Italy, Durand – Line forum between Afghanistan and Pakistan – Madrid, Conflict Resolution – Indonesia, International Peace Conference – Paris France, Reconstruction of Afghanistan – New Delhi India. Mr. Wadir Safi authored 30 printed books on topics of the Public International Law, Human Right of Self Determination of Nations and issued various articles in the academic magazines.

Mr. Khalil Rahman Baheer

Member of Board of Supervisor

Khalil Baheer is Operations Director of MISFA (Micro Finance Investment Support Facility Afghanistan). Since July 2009, he has been in senior Management of MISFA, an independent Budgetary Unit of the Government of Afghanistan, supporting the microfinance and SME sectors at the national level.

Mr. Baheer has over 20 years of experience in design, management, implementation, monitoring and evaluation of large complex development and humanitarian projects in Afghanistan, Pakistan, United Kingdom, and Thailand. He has worked with UN agencies (ILO, UNDP, UNOPS); INGOs, including IRC; and donor agencies, USAID, World Bank, and DFID.

He holds a Master in Business Administration awarded by the London Metropolitan University. He completed his Bachelors from Orient University. Mr. Baheer also earned a Management and leadership certificate from Harvard University in the United State; United Kingdom. He has been a Chairman of Mutahid DFI Audit Committee since 2016.

Mr. Mohammad Nasib

Member of Board of Supervisor

Mr. Mohammad Nasib was born on 4th April, 1965 in Shirzad district, Nangarhar province Afghanistan. Prior to his joining member of Board of Director for Pashtany Bank, Mr. M. Nasib used to work as a Country Director for the Center of International Private Enterprise – Afghanistan, Managing Director of Welfare Association for the Development of Afghanistan, where he was responsible for the overall management of the devising policy, strategic plans for the effective implementation of project as well as for future growth. He worked in for different national and international organizations of successfully implementation of responsibilities; as a Country Coordinator in the International Republican Institute, work for Democracy in Afghanistan, Afghan Media Resources Center, Afghan NGOs Coordination Bureau, Coordinated activities and donors. Mr. Nasib has also played a vital role of empowering the community leadership program, district administration and civil education programs. Mr. Mohammad Nasib was assigned to the World Bank and UNDP as a Project Officer for Afghanistan and Pakistan, worked as Program Officer-in-Charge in the United Nations Drug Control Program for Jalalabad and Peshawar. He is awarded for a Democracy Award in 2005 by Senator Jhon McCain – United Nation, he has honored with a Ghazi Mir Masjidi Khan Medal in 2006 by the former President Mohammad Zahir Shah, honored with a Distinguished International Alumni Award in 2006 by Alma Mater – University of Pennsylvania USA. Mr. Mohammad Nasib is holding degree of Executive-Master in Business Administration from the Preston University Peshawar – Pakistan, Fellowship on Democracy, Development and the Rules of Law in 2005 and bachelor degree in Public Administration and International Comparative Policies from the Slippery Rock University of Pennsylvania – USA.

Profile of the Board of Management

Mr. Ahmad Javed Wafa

President/Chief Executive Officer

Ahmad Javed Wafa is a professional economist and banker. He is appointed as the President/CEO of Pashtany Bank after approval of DAB on March 16, 2019. Before his current assignment, Mr. Wafa was appointed in December 21, 2015 as the President/CEO of Bank-e-Millie Afghan (BMA) and successfully completed his assignment in March 15, 2019. During his tenure at BMA, BMA was leading bank in terms of profitability with sustainable base. The bank underwent significant reforms, strategic planning and expansion in its market share. Moreover, international corporate governance standards, internal controls and compliance measures were put in place. During his tenure, the bank successfully completed its modernization goals. During February 2016-March 2019, he was First Vice Chairman of Afghanistan Banks Association (ABA) and remained as Acting Chairman. He previously worked as Director Economic and Strategic Planning at the Administrative Office of the President, Chief Risk Officer at Bank e Millie Afghan (BMA), Deputy Director General Research Monetary and Fiscal Sector & Senior Analyst External Sector at Monetary Policy Department with Da Afghanistan Bank. Mr. Wafa has also worked as a National Economic Specialist, Afghanistan at Sub-national Governance Program (ASGP) project/ UNDP. During his professional career as a senior economist and banker in various capacities, he has had substantial contributions to financial and monetary stability of the Afghanistan economy, his contributions to monetary stability during years 2009-2011 were remarkable. Mr. Wafa completed bachelor degree in economics from international Islamic university in 2008 and joined National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan in 2011 where he successfully completed master in public policy with specialization in economic policy in 2012. After completing his master degree, he started working with the commercial banking sector, during his tenure as Executive Director at

Afghanistan Banks Association (ABA), he has implemented strategic plan for the flourishing future of ABA & its members and strengthen coordination among commercial banks and commercial banks with DAB and ministry of finance, Mr. Wafa was able to successfully bring stability to the ABA operations and attain confidence of members, donors and other stakeholders. During his tenure as Director Economic and Strategic Planning at the Administrative Office of the President, he had significant role in improving 100 days strategic planning of ministries by holding seminars & meetings. Moreover, he had contributed in resolving issues faced by ministries in the implementation of development projects; Mr. Wafa participated in WTO final working party negotiations, and had role in improving the overall capacity of the directorate. Mr. Wafa has authored several papers and articles on various national and international issues related to banking sector, monetary policy, fiscal policy and international trade. He attended on job training in Central Bank of Italy, Macroeconomic Diagnostics in IMF, Washington D.C. USA, Monetary Policy, Exchange rate and Capital flows in Central Bank of Switzerland and attended several seminars, conferences and meetings on national and international platform where he represented his country.

Mr. Abdul Wahid Rahimi

<u>Chief Finance Officer (CFO)</u>

Mr. Abdul Wahid Rahimi has been working at Pashtany Bank on the capacity of Chief Finance Officer (CFO) since November, 2016. Mr. Rahimi is approved CFO from Da Afghanistan Bank. He has done BSc. (Hon) in Banking and Finance and MSc in Economics and Finance from International Islamic University, Islamabad in the year 2012. After his graduation from university, he started working with Bank-e-Millie, Afghan in the capacity of Accounting General Manager and after two years of rich experience in finance department in the year 2014, he started working with Adam Smith International on the capacity of technical tax adviser for Tax Administration Project Afghanistan. After joining Pashtany Bank, he has started his work as Deputy CFO and later on as CFO and through the horizon of his career in the bank, he strengthened financial and accounting system in the bank. His contributions to liquidity management and financial reporting system has been vital in the bank. As per the international accounting standards, the bank underwent significant reforms and positive progress has been evident in the bank since he joined Pashtany in 2014. Working with the new team he has deliver best practices in general management and financial leadership highly adopted transformation, commercial strategy, business growth and he is enjoying complex work environment, with immense capability and powerful skill he set, has been well evidenced in his current role of comprehensive controller oversight of financial, treasury, investment and banking relationship that brings good return from the established relationship from international business partners in different areas including but limited to international finance (L/C), international payment, liquidity management and working capital management. He successfully laid strong foundation for cash management, liquidity management, bill payment, financial statement preparation, financial management and development of the risk based policies for finance and treasury department and in complaint development of workflow.

Mr. Aimal Mangal

<u>Chief Credit Officer (CCO)</u>

Mr. Aimal Mangal has been working as a Chief Credit Officer at Pashtany Bank Since 2013 after successfully getting the approval of Da Afghanistan Bank. He is professionally a senior banker with broad experience in different banks of Afghanistan. Mr. Mangal earned his Master's in Finance and Banking from Economics Faculty of Kabul University during 2015-2016. Mr. Mangal has worked in different capacities at Azizi Bank during 2006-2011. During his tenure at Azizi Bank, Mr. Mangal worked as Internal Audit Officer, Credit Officer, Credit Manager, Deputy Chief Credit Officer. He was part of new loan products and services for the bank and he contributed in laying a strong foundation for the credit department of Azizi Bank. In addition to this, He worked as a Deputy Chief Credit Officer in Bakhtar Bank during 2011-2012 where he had strong achievements in loan portfolio growth and its management. At Pashtany Bank, Mr. Mangal had numerous achievements on maintaining strong loan portfolio and his efforts on recovery is significant. Mr. Mangal introduced strong credit strategy through reforms in credit department products and services. Moreover, He represented bank in international meetings, seminars and events where he was part of establishing new business relations with internationally recognized banks.

Mr. Lemar Rahmani Stanikzai

Chief Operating Officer (COO)

Mr. Lemar Rahmani Stanikzai has been working as a Chief Operations Officer at Pashtany Bank after successfully getting the approval of Da Afghanistan Bank. Mr. Stanikzai completed his Master's degree in Business Administration from Kardan University. He is a professional banker having seven years of experience in commercial banking where he worked on different positions in Operation Department of the bank. His specialization is in retail banking, sales and marketing, relationship management, Anti-Money Laundering (AML), compliance and product development. During his extensive career, he held various positions including Teller, Deputy Branches Manager, General Manager Operations and Deputy Chief Operation Officer. He has passion for Business Development and Operational Excellence. His contribution to business development in operations, strategic planning, treasury management, revenue generation and marketing innovation has brought success to Pashtany bank in the market. In addition to this, Mr. Stanikzai worked with different organizations on senior level in the field of finance. Mr. Stanikzai represented Pashtany bank in different international meetings, seminars.

Pashtany Bank Financial Highlights

Statement of Financial Position

PASHTANY BANK

Statement of Financial Position

	December 21, 2018	December 21, 2017	December 20, 2016
	AFN	AFN	AFN
Assets			
Cash and bank balances	16,673,499,096	18,503,549,962	15,241,736,274
Investments	122,952,512	121,585,012	120,922,512
Property and equipment	824,813,888	826,621,686	842,411,632
Investment properties	962,183,000	962,183,000	962,183,000
Non-current asset held for sale		323,128,500	310,806,000
Deferred tax asset - net	162,056,156	235,527,558	438,503,958
Other assets	1,800,728,994	436,793,672	896,257,482
Total assets	**20,546,233,647**	**21,409,389,389**	**18,812,820,858**
Equity and Liabilities			
Equity			
Share capital	3,820,257,000	3,820,257,000	3,820,257,000
Accumulated losses	(2,134,875,746)	(2,329,239,265)	(2,360,249,197)
Surplus on revaluation - net	444,913,400	447,463,800	450,014,200
Total equity	**2,130,294,654**	**1,938,481,535**	**1,910,022,003**
Liabilities			
Deposits from banks	756,598,119	8,384,659	457,149,697
Deposits from customers	17,441,007,603	18,822,135,472	15,587,474,140
Deferred tax liabilities	-	111,129,800	111,767,400
Deferred income - Non current assets held for sale	-	323,128,500	310,806,000
Other liabilities	218,333,271	206,129,424	435,601,618
Total liabilities	**18,415,938,993**	**19,470,907,854**	**16,902,798,855**
Total equity and liabilities	**20,546,233,647**	**21,409,389,390**	**18,812,820,858**

Statement of Comprehensive Income

PASHTANY BANK

Statement of Comprehensive Income

	December 21, 2018	December 21, 2017	December 20, 2016
	AFN	AFN	AFN
Interest / profit income	65,331,722	272,589,468	371,303,113
Interest / profit expense	(5,640,818)	(47,477,454)	(53,332,516)
Net interest / profit income	**59,690,905**	**225,112,014**	**317,970,597**
Fee and commission income	56,180,714	50,392,354	58,513,577
Fee and commission expense	(1,371,020)	(4,250,923)	(4,514,020)
Net fee and commission income	**54,809,694**	**46,141,432**	**53,999,556**
Other income	401,502,306	397,218,982	413,133,364
	401,502,306	**397,218,982**	**413,133,364**
Operating income	**516,002,905**	**668,472,427**	**785,103,517**
Other income from sale of collaterals		-	384,062,640
	4,509,045	(8,874,247)	(4,000,000)
Impairment reversal / (loss) and other asset			
Personnel expenses	(194,884,873)	(195,799,380)	(160,471,599)
Depreciation	(23,456,657)	(27,590,794)	(30,276,612)
Other expenses	(170,290,805)	(181,196,134)	(167,571,022)
Exchange gain / (loss)	53,049,682	35,878,877	(17,307,387)
Profit before taxation	**184,929,297**	**290,890,749**	**789,539,537**
Income tax	36,277,967	(263,068,817)	(31,731,370)
Net profit for the period	**221,207,264**	**27,821,932**	**757,808,167**

Financial Ratios:

Ratio	December 21, 2018	December 21, 2017	December 20, 2016
Total Assets (Million AFN)	20,546,233,647	21,409,389,389	18,812,820,858
Total Deposit (Million AFN)	18,415,938,993	19,470,907,854	16,902,798,855
Total Equity (Million AFN)	2,130,294,654	1,938,481,535	1,910,022,003
Net profit for the period	221,207,264	27,821,932	757,808,167
Return on Assets (Net Profit)	1.077%	0.130%	4.028%
Return on Equity (ROE)	10.384%	1.435%	39.675%
Debt to Equity/Gear Ratio	11.568%	9.956%	11.300%
Capital to Average Assets	10.368%	9.054%	10.153%
Tier 1 Capital Ratio	39.4%	50.0%	10.6%
Regulatory Capital Ratio	55.9%	63.2%	41.4%

Chart Presentation

Pashtany Bank's assets and deposits mainly remained stable during FY 2016-2018 with a growth in FY 2017. Equity of the bank increased showing profitable position in the last three consecutive years. the trend of bank indicators are depicted in **Chart-1**.

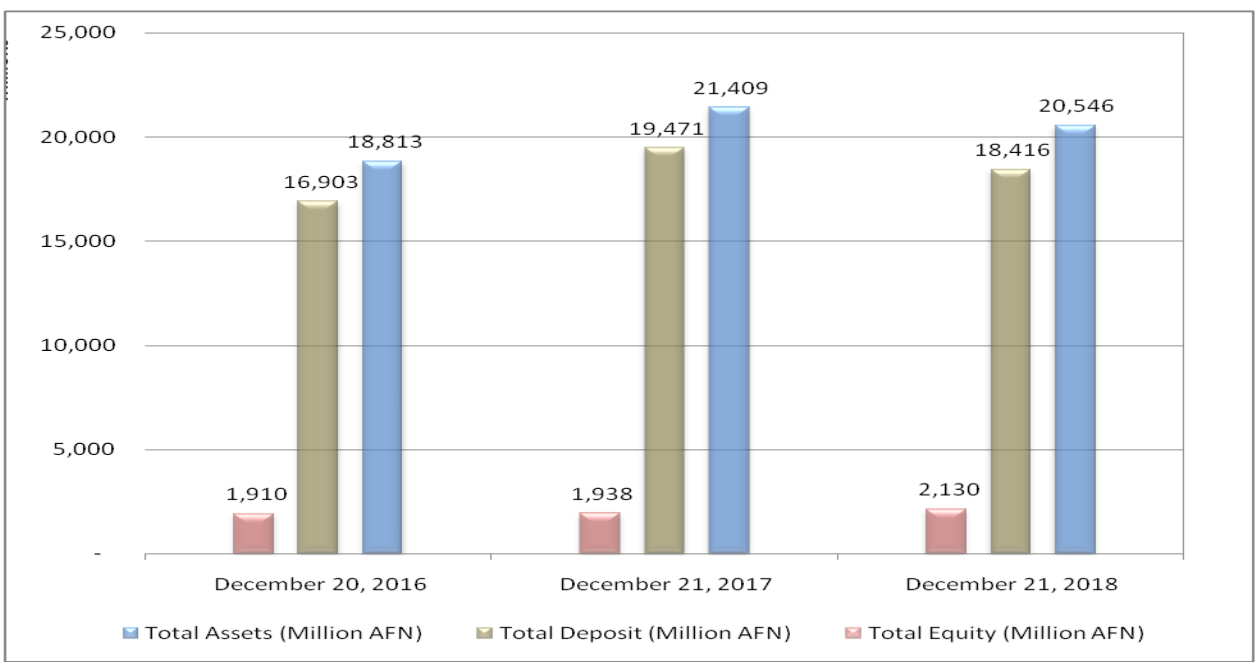

Chart-1

ROA indicates profitable position of the bank relative to its total assets and gives an idea of how the bank uses its assets to generate earnings. Pashtany Bank's ROA had fluctuations during these three years and was at a peak of 4.02% in 2016 and 1.07% in 2018.Further details are depicted in **Chart-2.**

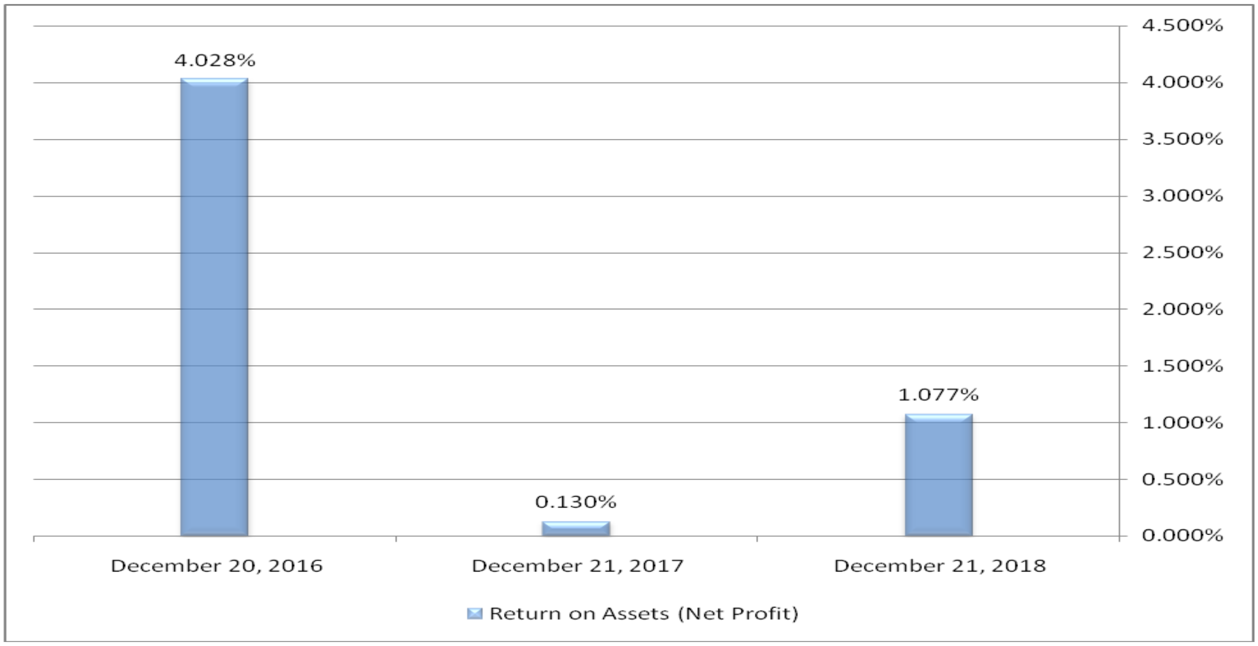

Chart 2

Return on Equity indicates the financial performance of a company and measures how effectively management is using a company's assets to create profits. A good or bad ROE will depend on what's normal for the industry or company peers. Pashtany Bank's ROE had fluctuations during these three years and reached to a peak of 39.6% on 2016 and 10.3% in 2018. Overall the return on equity of Pashtany Bank was good in these years. Chart 3 shows RoE of the bank during FY 2016-2018.

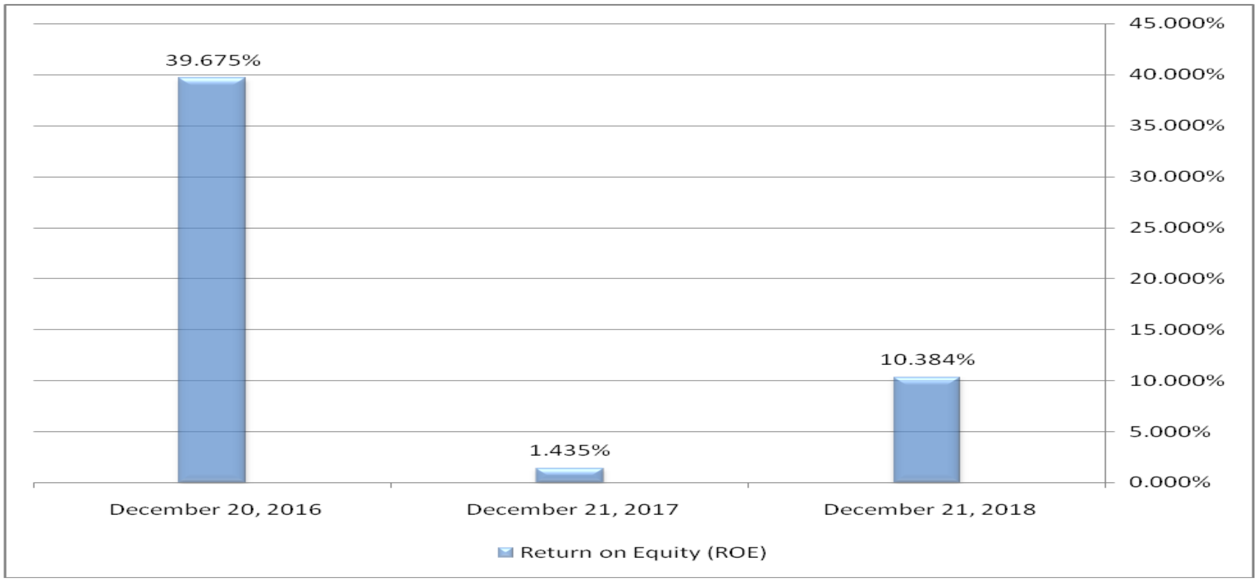

Chart 3

Pashtany Bank's net profit increased from AFN 28 million in FY 2017 to AFN 221 million in FY 2018. Fluctuation in the profitability of bank is reflected from certain changes in the balance sheet of bank based on the recommendation of external auditors. Chart 4 shows the profitability of the bank during FY 2016-2018.

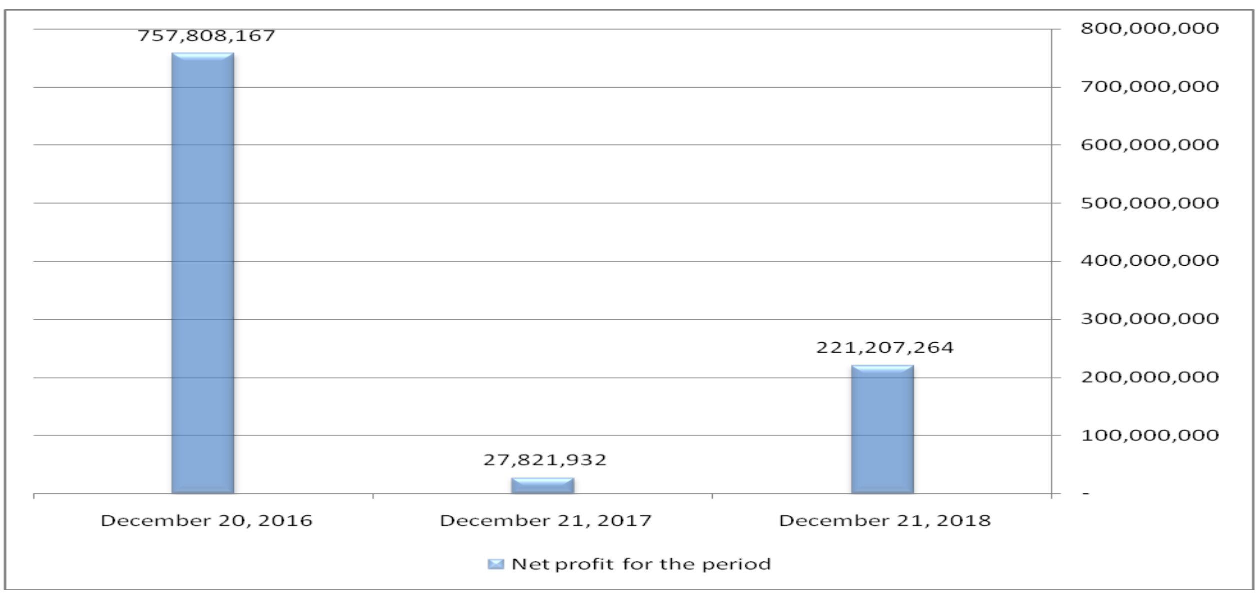

Chart 4

This ratio is aimed to evaluate bank's financial leverage. It is a measure of the degree to which bank is financing its operations through debt versus wholly owned funds. More specifically, it reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn. A high debt/equity ratio is often associated with high risk; it means that bank has been aggressive in financing its growth with debt. Gear ratio of the bank is depicted in Chart 5.

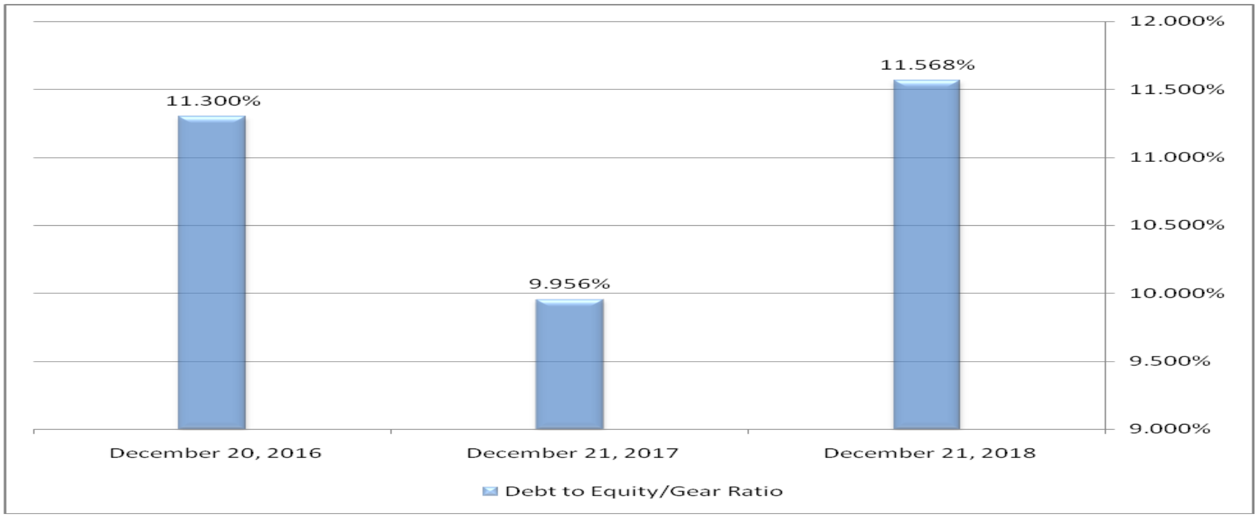

Chart 5

The capital to average assets ratio had an increasing trend from FY 2017 to 2018 and reached to 10.3% in 2018, that indicates that Pashtany Bank equity capital increases with yearly profit during FY 2016-2018. Chart 6 describes capital to average asset ratio during FY 2016-2018.

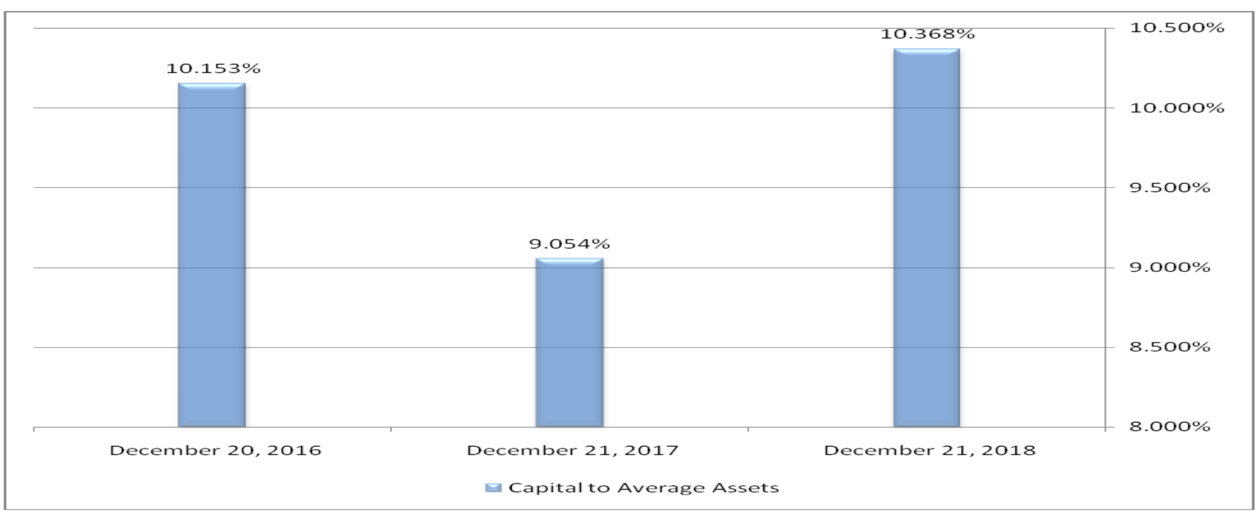

Chart 6

The Tier 1 capital ratio measures bank's core equity capital against its total risk-weighted assets which include all the assets the bank holds that are systematically weighted for risk associate with the different financial and non-financial investment. Tier 1 capital ratio is 36 percent in 2018 higher than the regulatory threshold of minimum 6 percent showing strong capital base of the bank.

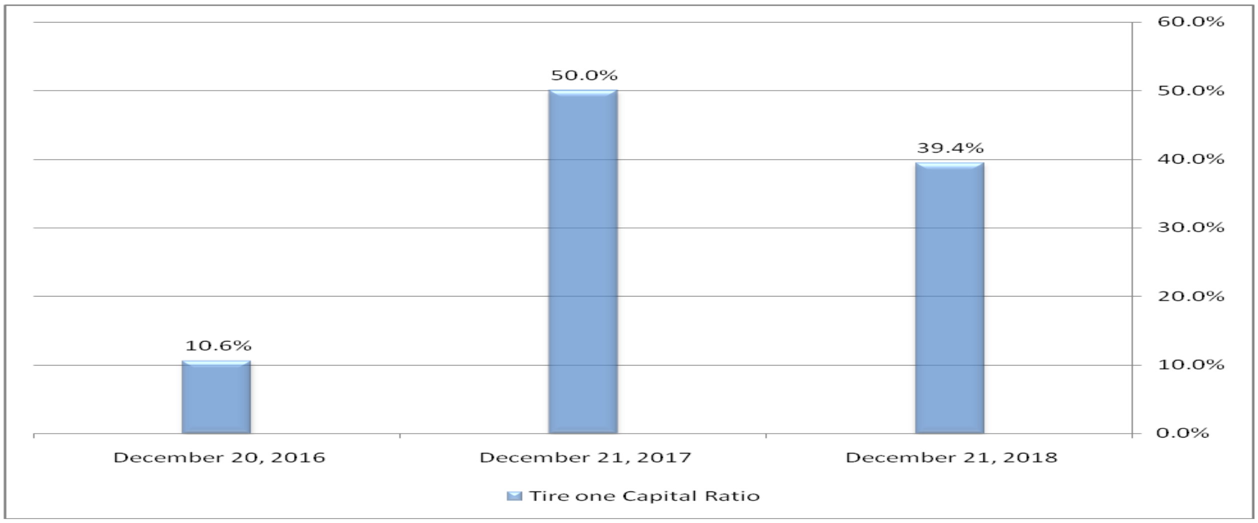

Chart 7

The regulatory capital ratio measures a bank's core and supplementary capital against its total risk-weighted assets which include all the assets the bank holds that are systematically weighted for risk associate with the different financial and non-financial investment risk. Regulatory capital reached to 55.9% in 2018. This is mainly resulting from higher level interbank placement with banks overseas, and yet the required threshold by capital regulation of the 12% but the reporting years bank is far above the regulatory level.

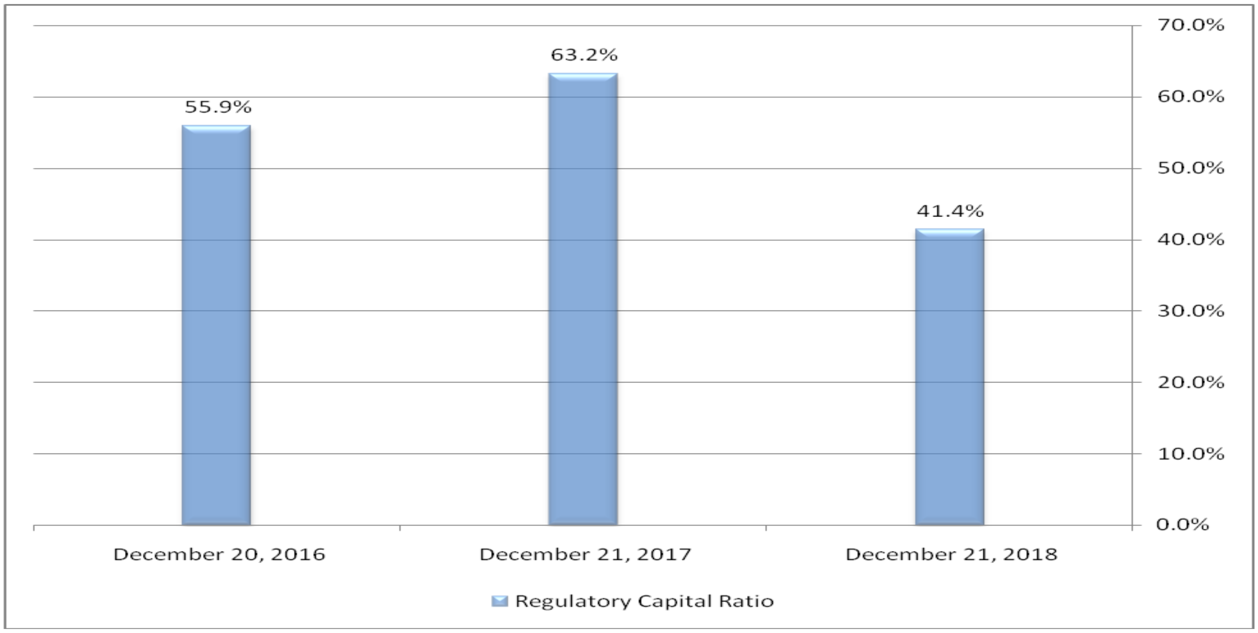

Chart 8

Corporate Governance

Pashtany Bank is leading bank in terms of corporate governance implementing higher corporate governance standards on all levels. The objectives of corporate governance are specifying responsibilities between board of supervisor, board of management and board of shareholders based on Afghanistan banking laws and regulations.2. Corporate governance at Pashtany Bank provides detail regarding recommended makeup and qualifications for members of the Board of Supervisors, the Board of Management and other sub committees of boards. It detail the responsibilities of the Board of Supervisors and Board of Management and their appropriate places in the governance of a bank.

Good corporate governance practices help Pashtany bank support and strengthen corporate decisions aimed at achieving the corporate objective, especially those decisions that have an important effect on the interest of shareholders. In fact the corporate governance helped Pashtany Bank define clear relationship amongst the Board of Management, Board of Supervisors, General Assembly, Audit Committee and other sub-committees. These relationships, which involve various rules and incentives, provide the structure through which the objectives of the bank is set, and the means of attaining these objectives as well as monitoring performance are determined. Thus, the key aspects of good corporate governance include transparency of corporate structures and operations, accountability of Board of Management and Board of Supervisors to General Assembly of shareholders, safeguarding interest of depositors, and meeting obligations toward shareholders after considering the interest of other recognized stakeholders.

The corporate governance structure in the regulatory directive of the Da Afghanistan Bank has advised to have:

1. General Assembly;
2. Board of Supervisors;
3. Audit Committee; and
4. Board of Management.

The Board of Supervisors is ultimately responsible, and is accountable to all stakeholders (including the General Assembly, depositors, and DAB) for the conduct of the bank's activities and financial position. Although the board members cannot guarantee success, they are expected to supervise bank operations to ensure that they reflect sound planning, are effectively governed by comprehensive policies and internal control procedures, and are administered by competent management. While the Board of Supervisors may depend upon the Management Board's technical, industrial, and managerial expertise to run the bank's day-to-day operations, the board members remain responsible for ensuring that those operations are properly controlled, comply with the policies adopted by the Board of Supervisors and applicable laws and regulations, and are consistent with sound banking practices. In meeting its overall commitment to the bank's General Assembly, depositors, and community, the Board of Supervisors must:

a. Ensuring Competent Management
b. Ensuring Appropriate Policies and Procedures
c. Monitoring Operations, Ensuring Adequate Internal Controls and Compliance with
d. Laws and Regulations
e. Overseeing Financial Performance
f. Prevention of Conflicts of Interest

Committees under Board of Supervisors

Board of Supervisors have certain specialized Board committees. The committees are created and mandated by the full Board. The number and nature of committees depend on many factors, including the size of the bank and its Board the nature of the business areas of the bank, and its risk profile, following committees are working under the mandate of the DAB regulation.

- Audit Committee
- Nomination Committee
- Risk Management Committee
- Compensation and Remuneration Committee
- Management Committee

Pashtany Bank is committed to recruit competent Risk and Audit committee members and currently the function of both committees is carried out by the Board of Supervisors. There are sub other committee operating for better management and oversight function and each committee have a charter and other instrument that sets out its mandate, scope and working procedures those committees are:

- ALCO committee
- Credit committee
- HR committee
- Compliance committee
- IT and CBS committee
- Marketing committee
- Procurement committee
- Discipline committee

Additionally, corporate governance regulation of the central bank also proposed to have following listed department and function mandatory.

1. Risk Management Department/Section;
4. Compliance Department/Section;

5. Operations Department;
6. Internal Audit Department/Section;
7. Credit Department;
8. Islamic Banking Division or Department (If licensed to have an Islamic Banking Window);
9. Finance Department; and
10. Human Resources Management Department;
2. Information Technology Department;
3. Legal Advisor or Department.

The only department is Islamic banking department that is in the stage of proposal Fundamental work, steps and road map required for opening an IBW are taken. and with the approval of DAB it will be launched as per Pashtany Bank Strategic Plan 2019-2023.

Independent Auditor's Report

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Independent Auditors' Report

To the shareholders of Pashtany Bank

Qualified Opinion

We have audited the financial statements of Pashtany Bank ("the Bank"), which comprise the statement of financial position as at December 21, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for effects of the matters described in the *Basis of Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 21, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and the requirements of the Law of Banking in Afghanistan.

Basis for Qualified Opinion

1) As referred in Note 6, the Bank has investments in equity instruments of various entities of which investment in Shirkat Nasaji Afghan has a carrying value of AFN 83.518 million. The most recent financial information on the entity is not available with the Bank and financial condition of the entity is also not known to the Bank, therefore, we are unable to determine whether the carrying value of the investment is appropriate or not.

2) The Bank has property and equipment with written down value of AFN 756.182 million and this includes land having value of AFN 352.591 million and buildings having written down value of AFN 367.695 million. As per the accounting policy of the Bank, land and building are carried at revalued amounts, however, we noted that revaluation of these assets has not been carried out since 2009. We understand that the fair values of land and buildings can significantly change over a period of more than five years. Paragraph 34 of IAS 16, "Property, Plant and Equipment", states that *frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.* In absence of the related information, we are unable to conclude whether these values are fairly stated or not.

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3) Article 66 of the Banking Law of Afghanistan provides the list of allowed activities for the banks which includes banking operations only. Activities outside Article 66 are further specified in Article 67 of the Banking Law of Afghanistan as prohibited activities and the banks cannot be engaged in such activities with maximum period allowed to disengage from such activities was originally set out at five years with two extensions of one year each from the date of promulgation of the Banking Law of Afghanistan i.e. December 14, 2003. However, the Bank continue to hold investment properties and interest in those properties has not been disposed-off till date. Any effect of such non-compliance is currently not determinable.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Afghanistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter – Material Uncertainty Related to Going Concern

We draw attention to note 1.2 in the financial statements, which indicates that the Bank has accumulated losses amounting to AFN 2.209 billion (equivalent US$ 32.835 million) which have significantly eroded the equity of the Bank. The Bank is not currently lending, and the deposits from customers and banks are largely invested in capital notes issued by the Central Bank of Afghanistan and placements with other banks. The Bank is unable to generate sufficient return from investment in capital notes issued by the Central Bank of Afghanistan since return on capital notes has been significantly reduced in the current year and short-term placements with other banks are also not generating adequate returns. Therefore, the income from operating activities i.e. interest income and commission income is not sufficient to meet the operating expenditure of the Bank with substantial shortfall would result in the absence of loan recoveries. During the current year, cashflows from operating activities of the Bank also went into negative by AFN 142.972 million. In the absence of sufficient income to meet expenditure and negative operating cashflows, the Bank may not be in position to meet its current liabilities amounting to AFN 201.150 million. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matter

Except for the matters described in the *Basis of Qualified Opinion* section and the matter described in *Material Uncertainty Related to Going Concern* Section, we have determined that there are no other key audit matters to communicate in our report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs issued by the International Accounting Standards Board (IASB) and the requirements of the Law of Banking in Afghanistan, and for such internal control as

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management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Further auditor's responsibilities are annexed to this report.

From the matters communicated with those charged with governance, we determine the matter that was of most significance in the audit of the financial statements of the current period and is, therefore, the key audit matter. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

The financial statements of the Bank for the year ended December 21, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on March 20, 2018.

Grant Thornton Afg

Grant Thornton Afghanistan
Chartered Accountants
Engagement Partner: Saqib Rehman Qureshi - FCA
Location: Kabul, Afghanistan
Date: 26 March 2019

Chartered Accountants and Management Consultants
Member firm of Grant Thornton International Ltd

Statement of Financial Position

PASHTANY BANK

Statement of Financial Position

As of 30 Qaws 1397 (21 December 2018)

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
		AFN	
Assets			
Cash and bank balances	*5*	16,673,499,096	16,869,697,707
Investments	*6*	122,952,512	121,585,011
Property and equipment	*7*	824,813,888	826,621,686
Investment properties	*8*	962,183,000	962,183,000
Deferred tax asset - net	*9*	162,056,156	124,397,759
Repossessed assets	*10*	-	323,128,500
Other assets	*11*	1,800,728,994	2,090,782,311
Total assets		**20,546,233,647**	**21,318,395,975**
Equity and Liabilities			
Equity			
Share capital	*12*	3,820,257,000	3,820,257,000
Accumulated losses		(2,134,875,746)	(2,329,239,263)
Surplus on revaluation - net	*13*	444,913,400	447,463,800
Total equity		**2,130,294,654**	**1,938,481,537**
Liabilities			
Deposits from banks	*14*	756,598,119	8,384,659
Deposits from customers	*15*	17,441,007,603	18,822,135,472
Deferred income against repossessed assets		-	323,128,500
Other liabilities	*16*	218,333,271	226,265,808
Total liabilities		**18,415,938,993**	**19,379,914,438**
Total equity and liabilities		**20,546,233,647**	**21,318,395,975**
Contingencies and Commitments	*17*		

The annexed notes from 1 to 28 form an integral part of the financial statements.

Statement of Comprehensive Income

PASHTANY BANK

Statement of Comprehensive Income

For the year ended 30 Qaws 1397 (21 December 2018)

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
		AFN	
Interest income		65,331,722	272,589,468
Interest expense		(5,640,818)	(47,477,454)
Net interest income	*18*	**59,690,905**	**225,112,014**
Fee and commission income		56,180,714	50,392,354
Fee and commission expense		(1,371,020)	(4,250,923)
Net fee and commission income	*19*	**54,809,694**	**46,141,431**
Other income	*20*	401,502,306	397,218,982
		401,502,306	**397,218,982**
Operating income		**516,002,905**	**668,472,427**
Impairment reversal/(loss) on investments and other assets		4,509,045	(8,874,247)
Employee costs	*21*	(194,884,873)	(195,799,380)
Depreciation	*7.1*	(23,456,657)	(27,590,794)
Other operating expenses	*22*	(170,290,805)	(180,558,531)
Exchange gain		53,049,682	35,878,877
Operating expenses		**(331,073,608)**	**(376,944,076)**
Profit before taxation		**184,929,297**	**291,528,351**
Income tax	*23*	36,277,967	(263,068,817)
Profit for the year		**221,207,264**	**28,459,534**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods		-	-
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial loss on defined benefit pension plan		(29,394,147)	-
		(29,394,147)	-
Total comprehensive income for the year ended		**191,813,117**	**28,459,534**

The annexed notes from 1 to 28 form an integral part of the financial statements.

Statement of Cash Flows

PASHTANY BANK

Statement of Cash Flows

For the year ended 30 Qaws 1397 (21 December 2018)

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
		AFN	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**184,929,297**	**290,890,749**
Adjustments for:			
Depreciation	*7.1*	23,456,657	27,590,794
Accounting loss on disposal of assets		178,364	-
Surplus on revaluation - net		2,550,400	2,550,400
Incremental depreciation		(3,188,000)	(3,188,000)
Provision reversed against advances and receivables	*11.*	(37,362,451)	-
Foreign exchange gain		(53,049,682)	(35,878,877)
		117,514,584	**281,965,066**
(Increase) decrease in operating assets and liabilities:			
Other assets		327,415,768	(1,174,388,444)
Deposits from customers and banks		(632,914,408)	2,785,896,293
Deferred tax asset / liability adjustment		-	202,976,400
Deferred income - non current assets held for sale		-	12,322,500
Other liabilities		(37,326,684)	(229,472,193)
Net cash from operating activities before interest and tax		**(225,310,740)**	**1,879,299,621**
Tax paid / adjustment		(742,831)	(261,451,333)
Net cash from operating activities		**(226,053,571)**	**1,617,848,288**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	*7.1*	(21,827,222)	(12,780,732)
Investment made		(1,367,499)	(662,500)
Recognition of non current assets held for sale		-	(12,322,500)
Net cash used in investing activities		**(23,194,721)**	**(25,765,732)**
Net increase / (decrease) in cash and cash equivalents		(249,248,293)	1,592,082,556
Cash and cash equivalents at beginning of the year		16,869,697,707	15,241,736,274
Effect of exchange differences in cash and cash equivalents		53,049,682	35,878,877
Cash and cash equivalents at the end of the year	*5*	**16,673,499,096**	**16,869,697,707**

The annexed notes from 1 to 28 form an integral part of the financial statements.

Statement of Changes in Equity

PASHTANY BANK

Statement of Changes in Equity

For the year ended 30 Qaws 1397 (21 December 2018)

	Share capital	Retained earnings	Surplus on revaluation	Total
Balance as at December 21, 2016	**3,820,257,000**	**(2,360,249,197)**	**450,014,200**	**1,910,022,003**
Incremental depreciation - net of deferred tax	-	2,550,400	(2,550,400)	-
Total comprehensive income				
Profit for the year	-	28,459,534		28,459,534
Other comprehensive income	-	-		-
Balance as at December 21, 2017	**3,820,257,000**	**(2,329,239,263)**	**447,463,800**	**1,938,481,537**
Incremental depreciation - net of deferred tax	-	2,550,400	(2,550,400)	-
Total comprehensive income				
Profit for the year	-	221,207,264	-	221,207,264
Other comprehensive income	-	(29,394,147)	-	(29,394,147)
Balance as at December 21, 2018	**3,820,257,000**	**(2,134,875,746)**	**444,913,400**	**2,130,294,654**

The annexed notes from 1 to 28 form an integral part of the financial statements.

Note to the Financial Statement

1 STATUS AND NATURE OF BUSINESS

1.1 Pashtany Bank ("the Bank") got registered with Afghanistan Investment Support Agency (AISA) on 26 June 2004 as a limited liability company and received formal commercial bank license from Da Afghanistan Bank (DAB) to operate nationwide at the same date. The principal business place of the Bank is at Muhammad Jan Khan Watt, Kabul, Afghanistan with 20 (2017: 20) branches nationwide.

The financial statements for the year ended December 21, 2018 have been approved and authorized for issue by the Board of Supervisors on _____________ 2019.

1.2 Accumulated losses amounting to AFN 2.125 billion (equivalent US$ 29.42 million) have significantly eroded the equity of the Bank. The Bank is not currently lending, and the deposits from customers and banks are largely invested in capital notes issued by the Central Bank of Afghanistan and placements with other banks. The Bank is unable to generate sufficient return from investment in capital notes issued by the Central Bank of Afghanistan since return on capital notes has been significantly reduced in the current year and short-term placements with other banks are also not generating adequate returns. Therefore, the income from operating activities i.e. interest income and commission income is not sufficient to meet the operating expenditure of the Bank with substantial shortfall would result in the absence of loan recoveries. During the current year, cash flows from operating activities of the Bank also went into negative by AFN 226.05 million. In the absence of sufficient income to meet expenditure and negative operating cash flows, the Bank may not be in position to meet its current liabilities amounting to AFN 201.15 million. Considering all the above factors, management has prepared a plan which shows that the Bank will be able to generate sufficient income to meet its on-going expenditure from placement of amount of US$ 71 million (equivalent AFN 5,322 million) with a foreign bank at a higher rate of return and during the current year, His Excellency the President has provided principal approval to the Bank to collect and realize rental income from the investment properties which was previously collected and retained by the Ministry of Finance. Current deposits of the Bank are mainly from the Government entities and saving deposits of the Bank are well diversified. Based on these mitigating factors, management is of the view that the Bank is a going concern and the financial statements are prepared on a going concern basis.

2 STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 will prevail.

2.2 Standards, amendments and interpretations to publish accounting standards that became effective in the current year

Following amendments and clarifications became applicable in the current year;

- Amendments IFRS 2 “Classification and Measurement of Share-based Payment Transactions”
- Amendments to IAS 40 “Transfers of Investment Property”
- Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- Annual Improvements 2014-2016 cycle

The adoption of above amendments and clarifications do not have any impact on the financial statements of the bank.

2.3 Standards, amendments and interpretations to publish approved accounting standards that are not yet effective

The following are the standards, interpretations and amendments which have been issued but are not yet effective:

Description	*Effective date for annual*
• IFRS 9 “Financial Instruments”	1 January 2018
• IFRS 15 “Revenue from Contracts with Customers”	1 January 2018
• IFRS 16 “Leases”	1 January 2019
• IFRS 17 “Insurance Contracts”	1 January 2021
• Amendments to IFRS 10 and IAS 28 “IFRS 10 and IAS 28	Not yet
• Amendments to IFRS 9 “Prepayment Features with	1 January 2019
• Amendments to IAS 19 “Plan Amendment, Curtailment or	1 January
• Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint	1 January 2019
• Clarifications to IFRS 15 “Revenue from Contracts with	1 January
• IFRIC Interpretation 23 “Uncertainty over Income Tax	1 January
• Annual Improvements 2015-2017 Cycle (issued in	1 January

Management does not intend to adopt any of the above standards, interpretations and amendments earlier than the applicable date. These will not have a significant impact on the financial statements of the Bank in the year of initial application except for IFRS9 and IFRS 16 which will have an impact on the financial statements but assessment in this regard is currently under process.

3 BASIS OF PREPARATION

3.1 Basis of measurement

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

3.2 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make judgments, estimates and assumptions that affect 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.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following:

a) Note 9 Provision against advances and receivables

b) Note 22 Income taxes

3.3 Functional and presentation currency

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless or otherwise state.

4.1 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise of cash and balances with central bank (unrestricted), balances with other banks and investments having maturity less than 3 months.

4.2 Financial instruments

Recognition, initial measurement and de-recognition

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value with expensing out transaction cost. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is de-recognized when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets and financial liabilities

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

1. Designated at Fair Value Through Profit or Loss (FVTPL)
2. Held for trading
3. Loans and receivables
4. Held to maturity
5. Available for sale

All financial assets are subject to review for impairment at least at each reporting date except for held for trading and designated at FVTPL to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

a) Classification, recognition and subsequent measurement of financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. The Bank’s cash and cash equivalents, investments (other than held for trading) and other assets fall into this category of financial instruments.

The Bank determines allowance for impairment in accordance with regulation issued by DAB “Asset Classifications and Provisioning Regulation” issued December 2017.

At each reporting date, the Bank assesses whether there is objective evidence that financial assets which are not carried at fair value through profit or loss are impaired or not. Financial assets or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the assets that can be estimated reliably.

The Bank considers evidence of impairment for impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets’ original effective interest rate (if any). Losses are recognized in profit or loss and reflected in an allowance account against financial assets. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through statement of comprehensive income.

b) Classification and subsequent measurement of financial liabilities

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

4.3 Investment in equity instruments

Investment in equity instruments is carried at cost less impairment, if any.

4.4 Property and equipment Owned

Property and equipment are stated at cost or revalued amounts less accumulated depreciation and accumulated impairment losses thereon. Cost includes expenditure that is directly attributable to the acquisition of fixed assets.

Repairs and maintenance expenditures are charged to profit or loss during the period in which they are incurred.

Surplus arising on revaluation is credited to the 'revaluation reserve' account (net of deferred tax) whereas deficit (if any) is adjusted against the balance in the above-mentioned surplus account. The revaluation is carried out with sufficient regularity to ensure that the carrying amount does not differ materially form that which would have been determined using fair value at the balance sheet date.

Surplus on revaluation of fixed assets (net of deferred tax) is transferred to retained earnings to the extent of incremental depreciation, net of deferred tax, charged on related assets.

Land is not depreciated. Depreciation on all other fixed assets is calculated using the straight line method to allocate their depreciable cost or revalued amount to their residual values over their estimated useful lives. The depreciation method, residual values and useful lives of fixed assets are reviewed and adjusted (if appropriate) at each balance sheet date.

Net gains and losses on disposal or de-recognition of fixed assets are included in profit or loss currently.

Depreciation

Depreciation is recognized in profit or loss on straight-line basis from the month of use over the estimated useful lives of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

-	Building	50 years
-	Furniture and fixture	2-10 years
-	IT equipment	3-10 years
-	Computer equipment	3.33 years
-	Vehicles	4 years
-	Electric equipment	3-10 years

4.5 Investment property

Investment properties are those properties which are held to earn rental income or for capital appreciation or for both. Investment properties are stated at fair values. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of de-recognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Any gain or loss arising from a change in fair value is recognized in profit or loss. Rental income from investment property is accounted for on straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

4.6 Repossessed assets

Collateral repossessed by the Bank upon loan default is included in the repossessed assets at the date when the title is transferred to the Bank where the Bank is unable to find a suitable buyer for selling collateral through court process. Repossessed assets are recognized at an amount established by the court (final Mazhar value) together with costs for acquiring the title including legal fees and transfer costs etc. and equivalent amount is recorded as deferred income in the statement of financial position. The Bank is required to sell these assets within a period of four years failing which the Bank derecognizes these assets from its books and the related deferred income. Gain or loss on disposal of repossessed assets is recognized in profit or loss.

4.7 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

4.8 Deposits from customers and banks

These are recorded at the amount of proceeds received.

4.9 Taxation

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income for the year (using tax rates enacted or substantively enacted at the balance sheet date), and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on temporary differences relating to: (i) the initial recognition of goodwill; (ii) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and (iii) differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4.10 Defined benefits pension plan

The Bank operates an approved defined benefit pension plan for all of its permanent employees. An annual provision has been made on the basis of an actuarial valuation to cover obligation under the scheme for all eligible employees.

The latest actuarial valuation of the Bank's defined benefit plan based on the Projected Unit Credit Method was carried out as at 21 December 2018 (Qaws 30, 1397). Actuarial losses arising during the year are recognized in Other Comprehensive Income (OCI) in accordance with IAS-19 (Revised 2011).

4.11 Employee compensation

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

4.12 Foreign currency transactions

Transactions in foreign currencies are translated to Afghani at exchange rates prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Afghani at the exchange rate prevailing at that reporting date. Foreign currency differences arising on retranslation are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

4.13 Interest income and expense

Interest/ profit on investments is recognized in profit or loss using effective interest rate method. Gain or loss on sale of investments is recognized in profit or loss in the year in which these arise.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

4.14 Fee and commission

Fees and commission income include account servicing fees and commissions on transactions and are recognized as the related services are performed.

Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

4.15 Lease payments

Payments under operating leases are recognized in profit or loss on straight line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

4.16 Provisions

Provisions for restructuring costs and legal claims are recognized when:

a) the Bank has a present legal or constructive obligation as a result of past events;
b) it is more likely than not that an outflow of resources will be required to settle the obligation; and
c) The amount has been reliably estimated.

Provision for guarantee claims and other off-balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations.

4.17 Off-setting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

PASHTANY BANK

Notes to the Financial Statements

For the year ended 30 Qaws 1397 (21 December 2018)

		Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
			AFN	
5.	**CASH AND BANK BALANCES**			
	Cash in hand	*5.1*	394,134,335	985,597,997
	Balances with Da Afghanistan Bank	*5.2*	10,835,099,537	15,812,185,220
	Balances with other banks	*5.3*	5,444,265,224	71,914,491
			16,673,499,096	**16,869,697,707**
5.1	**Cash in hand**			
	Local currency		168,732,548	193,278,379
	Foreign currency		225,401,787	792,319,618
			394,134,335	**985,597,997**
5.2	**Balances with Da Afghanistan Bank**			
	Local currency current accounts		570,040,526	325,673,377
	Foreign currency current accounts		2,805,597,743	6,456,022,715
	Capital notes	*5.4*	6,999,088,658	8,451,371,650
	Over night	*5.5*	460,372,610	579,117,478
			10,835,099,537	**15,812,185,220**
5.3	**Balances with other banks**			
	In Afghanistan			
	Azizi Bank		1,642,960	92,062
	Bank Millie Afghan		660,613	2,880,781
	New Kabul Bank		2,813,536	17,999,913
			5,117,109	**20,972,756**
	Outside Afghanistan			
	Afghan National Credit & Finance Limited, London		-	173,165
	Aktif Bank, Turkey		389,268,738	10,038,008
	BMCE, Spain		520,576,553	-
	Citi Bank, UAE		749,600,000	-
	Citi Bank, USA		3,748,000,000	-
	Habib Bank Limited, Pakistan		-	51,477
	MCB Bank Limited, Pakistan		-	3,384,032
	United Bank Limited, Pakistan		31,702,824	37,295,053
			5,439,148,115	**50,941,735**
			5,444,265,224	**71,914,491**

5.4 These represent capital notes issued by Da Afghanistan bank carrying interest rate from 0.15% to 0.34% (2017: 0.15% to 6.67%) p.a. and having maturity date in January 2019.

5.5 This represent over night deposit with Da Afghanistan Bank carrying interest rate of 0.01% (2017: 0.01%) per annum.

PASHTANY BANK
Notes to the Financial Statements
For the year ended 30 Qaws 1397 (21 December 2018)

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
		AFN	
6. INVESTMENTS			
Investment in associated company:			
Balance at beginning of year		17,372,500	16,710,000
Exchange loss recognized in income statement		1,367,500	662,500
	6.1	**18,740,000**	**17,372,500**
Investment in equity instruments	*6.2*	104,212,511	104,212,511
		122,952,511	**121,585,011**

6.1 The Bank has made an investment of USD 250,000 in Afghanistan Payment Systems during the year ended 1389. The Bank currently holds 16.66% (2017: 16.66%) 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.

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
		AFN	
6.2 Investment in equity instruments			
Bank-e-Mille Afghan		9,800,000	9,800,000
Afghan National Insurance Company		7,660,000	7,660,000
Shirkat-e-Ariyana		281,250	281,250
Hotel Intercontinental		64,435	64,435
Afghan Card Corporation		2,822,884	2,822,884
Pakht-e-Herat		65,542	65,542
Shirkat Nasaji Afghan		83,518,400	83,518,400
		104,212,511	**104,212,511**

7. PROPERTY AND EQUIPMENT

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
Operating fixed assets	*7.1*	756,182,136	757,989,934
Capital work-in-progress		68,631,752	68,631,752
		824,813,888	**826,621,686**

PASHTANY BANK

Notes to the Financial Statements

For the year ended 30 Qaws 1397 (21 December 2018)

7.1 Operating fixed assets

	Land	Building	Electric equipment	IT equipment	Furniture and fittings	Computers	Motor vehicles	Total
	AFN							
Cost/ Revalued amounts								
Balance at December 21, 2017	**352,591,506**	**496,013,506**	**63,831,396**	**26,141,735**	**23,090,880**	**55,474,701**	**18,318,603**	**1,035,462,327**
Additions	-	709,363	2,618,145	14,941,435	996,340	2,561,940	-	21,827,223
Disposals / Adjustment	-	-	(140,485)	(262,940)	(50,120)	(154,230)	-	(607,775)
Balance at December 21, 2018	**352,591,506**	**496,722,869**	**66,309,056**	**40,820,230**	**24,037,100**	**57,882,411**	**18,318,603**	**1,056,681,775**
Depreciation								
Balance at December 21, 2017	-	119,103,646	51,041,940	18,811,266	18,308,023	53,590,892	16,616,627	277,472,393
Charge for the year		9,923,396	6,884,230	3,048,043	1,914,640	1,039,347	647,000	23,456,657
Disposals / Adjustment	-	-	(140,476)	(102,111)	(32,598)	(154,226)	-	(429,411)
Balance at December 21, 2018	**-**	**(129,027,042)**	**(57,785,694)**	**(21,757,198)**	**(20,190,065)**	**(54,476,013)**	**(17,263,627)**	**(300,499,639)**
Carrying amounts								
At December 21, 2017	352,591,506	376,909,860	12,789,456	7,330,469	4,782,857	1,883,810	1,701,976	757,989,934
At December 21, 2018	**352,591,506**	**367,695,827**	**8,523,362**	**19,063,032**	**3,847,035**	**3,406,398**	**1,054,976**	**756,182,136**

PASHTANY BANK
Notes to the Financial Statements
For the year ended 30 Qaws 1397 (21 December 2018)

8. INVESTMENT PROPERTIES

Investment properties are stated at fair values. These are held to earn rental income and capital appreciation. These includes land and buildings.

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
		AFN	
Land		5,786,500	5,786,500
Buildings		956,396,500	956,396,500
	8.1	**962,183,000**	**962,183,000**

8.1 Province wise details of investment properties:

Kabul		
Andarabi market 1	33,209,379	33,209,379
Andarabi market 2	33,721,601	33,721,601
Saraji Building	200,443,652	200,443,652
Baghban Koja Building 1	96,818,941	96,818,941
Baghban Koja Building 2	22,004,461	22,004,461
Abida Maiwand	75,000,000	75,000,000
Timorshahi Building	68,200,000	68,200,000
Gul Bahar Center	395,997,256	395,997,256
Qala-Qazi	1,210	1,210
	925,396,500	**925,396,500**
Herat		
Torghondi land	2,186,500	2,186,500
Karwan Sarai land	3,600,000	3,600,000
	5,786,500	**5,786,500**
Mazar Sharif		
Bagha hozori	31,000,000	31,000,000
	31,000,000	**31,000,000**
	962,183,000	**962,183,000**

8.1 As per Initial Decree No. 39 dated Jadi 21, 1388 (January 11, 2010) issued from Presidential Office and correspondence through Directorate General of Properties with the Ministry of Finance (MoF) and Da Afghanistan Bank vide letter no. 4002 dated Dalwa 7, 1394 (January 27, 2016), all the rental income of the investment properties were to be collected and vested with the MoF. Based on request letter no 228 dated Qaws 21, 1397 (December 12, 2018) by MoF and in consequence special Decree issued by His Excellency the President of Afghanistan No. 2344 dated Jaddi 1, 1397 (December 22, 2018), investment properties of Pashtany Bank have been exempted from the Initial Decree No. 39 dated Jadi 21, 1388 (January 11, 2010) and all collected rental income through the Director General Properties to be reverted back to Pashtany Bank. Receivable has not been recorded as the matter is currently under discussion.

PASHTANY BANK
Notes to the Financial Statements
For the year ended 30 Qaws 1397 (21 December 2018)

		Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
			AFN	
9	**DEFERRED TAX ASSET - NET**			
	Deferred tax asset			
	Carried forward tax losses	*9.1*	272,548,356	235,527,558
	Deferred tax liability			
	Surplus on revaluation	*9.2*	(110,492,200)	(111,129,800)
			162,056,156	**124,397,758**
9.1	The movement in carried forward tax losses is as follows:			
	Opening balance		235,527,558	438,503,958
	Charge to profit or loss		(37,020,798)	202,976,400
	Closing balance		**272,548,356**	**235,527,558**
9.2	The movement in surplus on revaluation is as follows:			
	Opening balance		111,129,800	111,767,400
	Deferred tax on incremental depreciation *(recognized in retained earnings)*		(637,600)	(637,600)
	Closing balance		**110,492,200**	**111,129,800**
10	**REPOSSESSED ASSETS**			
		10.1	**-**	**323,128,500**
10.1	The movement in repossessed assets is as follows:			
	Opening balance		323,128,500	310,806,000
	Gain on foreign currency balance translation		25,435,500	12,322,500
	Disposed-off during the year		-	-
	Derecognized during the year	*10.2*	(348,564,000)	-
		10.3	**-**	**323,128,500**

10.2 Pursuant to the regulations issued by the Central Bank of Afghanistan (DAB), the Bank has to sell-off the majority portion of the collateral repossessed within two years of transfer in the name of the Bank and to dispose off remaining within a period of four years. However, the Bank was unable to sell those collaterals within two years and pursuant to the regulations issued by DAB these have been written-off along with reversal of the related deferred income.

10.3 An amount equivalent to the value recognized against repossessed assets is recorded as deferred income in the statement of financial position and included in the liabilities.

PASHTANY BANK
Notes to the Financial Statements
For the year ended 30 Qaws 1397 (21 December 2018)

		Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
11.	**OTHER ASSETS**		AFN	
	Required reserve account	*11.1*	1,377,754,769	1,633,852,256
	Advance tax		353,072,899	408,773,753
	Advances to employees		14,868,690	9,403,211
	Advances to suppliers		60,862,858	64,149,493
	Interest accrued on capital notes & Demand deposits		25,613,215	47,295,449
	Others		3,885,963	-
			1,836,058,394	2,163,474,162
	Provision against advances and receivables	*11.2*	(3,655,127)	(41,017,578)
	Provision against misappropriation		(31,674,273)	(31,674,273)
	Net carrying amount		**1,800,728,994**	**2,090,782,311**

11.1 This represents statutory reserve maintained with DAB as minimum reserve in accordance with Banking Regulations issued by Da Afghanistan Bank. These minimum reserves carry no interest (2017: nil).

		Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
			AFN	
11.1.1	**Currency profile of required reserve with DAB**			
	Local currency		574,866,194	871,526,420
	Foreign currencies		802,888,575	762,325,836
			1,377,754,769	**1,633,852,256**
11.2	**PROVISION AGAINST ADVANCES AND RECEIVABLES**			
	Opening for the year		(41,017,578)	(148,022,334)
	(Charged) / Reversed for the year	*11.2.1*	37,362,451	107,004,756
	Closing for the year		**(3,655,127)**	**(41,017,578)**

11.2.1 This represents provision against other asset in accordance with the DAB's Asset Classification and Provisioning Regulation (December 2017).

		Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
			AFN	
12.	**SHARE CAPITAL**			
12.1	**Authorized**			
	3,820,257 (2017: 3,820,257) ordinary shares of AFN 1,000 each		**3,820,257,000**	**3,820,257,000**
12.2	**Issued, subscribed and paid-up**			
	3,820,257 (2017: 3,820,257) ordinary shares of AFN 1,000 each		**3,820,257,000**	**3,820,257,000**

PASHTANY BANK

Notes to the Financial Statements

For the year ended 30 Qaws 1397 (21 December 2018)

		Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
			AFN	
12.3	The issued shares are subscribed by the following parties:			
	Ministry of Finance		2,584,800,000	2,584,800,000
	Bank-e- Millie Afghan		1,098,982,000	1,098,982,000
	Afghan Red Crescent Society		20,050,000	20,050,000
	Health Insurance		1,200,000	1,200,000
	Spinzar Corporation		725,000	725,000
	Ministry of Labor and Social Affairs		91,600,000	91,600,000
	Chamber of Commerce		11,450,000	11,450,000
	Saderaat Kashmesh		3,900,000	3,900,000
	Institute of Qaraqol		3,775,000	3,775,000
	Carpet corporation		3,775,000	3,775,000
			3,820,257,000	**3,820,257,000**
13	**SURPLUS ON REVALUATION - NET**			
		13.1	**444,913,400**	**447,463,800**
13.1	Opening balance		447,463,800	450,014,200
	Recognized in retained earnings			
	Incremental depreciation		(3,188,000)	(3,188,000)
	Deferred tax on incremental depreciation		637,600	637,600
			(2,550,400)	(2,550,400)
	Closing balance		**444,913,400**	**447,463,800**
14.	**DEPOSITS FROM BANKS**			
	Current deposit			
	Agricultural Bank Kabul	*14.1*	234,321	234,821
	Construction Bank	*14.1*	1,603,240	1,599,059
	Bank-e-Millie Afghan		345,756	332,569
	Maiwand Bank		835,805	783,629
	Afghan United Bank		3,800,411	3,559,781
	Azizi Bank		104,308	1,837,421
	New Kabul Bank		33,957	-
	Ghazanfar Bank		40,322	37,379
			6,998,119	**8,384,659**
	Time Deposit			
	New Kabul Bank	*14.2*	749,600,000	-
			756,598,119	**8,384,659**

PASHTANY BANK

Notes to the Financial Statements

For the year ended 30 Qaws 1397 (21 December 2018)

14.1 These deposits are from the banks which became defunct in 2008. DAB has yet to determine the status of these deposits.

14.2 This represents deposit of USD 10 million carrying interest rate of 1.4% p.a. with maturity on May 15, 2019. The deposit has been received under a memorandum of understanding signed with New Kabul Bank.

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
		AFN	
15. DEPOSITS FROM CUSTOMERS			
Fixed deposit	*15.1*	32,638,602	32,508,056
Saving deposits	*15.2*	8,125,548,155	7,715,876,688
Current deposits		9,282,820,846	11,073,750,727
		17,441,007,603	**18,822,135,472**

15.1 This deposit carries an interest rate of 1% (2017: 1%) p.a.

15.2 These carry interest rate of 0.05% (2017: 1.5%) p.a. for AFN currency and 0.5% (2017: 0.5%) for USD currency p.a.

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
		AFN	
16. OTHER LIABILITIES			
Employees pension fund	*16.1*	130,042,326	95,422,040
Creditors		30,433,100	59,847,342
Accrued expenses		28,169,026	16,995,772
Other payables		10,609,596	16,927,425
Withholding tax payable		1,895,797	20,138,085
Inter-branch unreconciled balance		17,183,426	16,935,145
		218,333,271	**226,265,808**

16.1 **Employees pension fund**

16.1.1 **General description**

The Bank operates an approved defined benefit pension plan for all of its permanent employees. An annual provision has been made on the basis of an actuarial valuation to cover obligation under the scheme for all eligible employees.

16.1.2 **Principal actuarial assumptions**

The latest actuarial valuation of the bank's defined benefit plan based on the Projected Unit Credit Method was carried out as at December 21, 2018 (Qaws 30, 1397). Actuarial gains or losses arising during the year are recognized in Other Comprehensive Income (OCI) in accordance with IAS-19 (Revised 2011). The significant assumptions used in the valuation are as follows:

- Discount rate of 4.50% (2017: 7%) per annum
- Expected increase in salary levels of 4.5% (2017: 6%) per annum
- Withdrawal rate of 11% p.a. for service upto 10 years and 3% p.a. for service after that

PASHTANY BANK

Notes to the Financial Statements

For the year ended 30 Qaws 1397 (21 December 2018)

16.1.3 **Fair value of plan assets and present value of obligation under the scheme at the balance sheet date are as follows:**

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
		AFN	
Present value of defined benefit obligation		130,042,326	95,422,040
Fair value of plan assets		-	-
		130,042,326	**95,422,040**

16.1.4 **Movement in the present value of defined benefit obligation:**

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
Opening net liability		95,422,040	94,988,973
Expense for the year	*16.1.5*	10,843,352	16,784,939
Contributions made to the scheme by employees		3,401,076	2,575,447
Actuarial loss - recognized in OCI		29,394,147	-
Benefits paid during the year		(9,018,289)	(18,927,319)
Liability at end of the year		**130,042,326**	**95,422,040**

16.1.5 **Charge for the defined benefit plan:**

	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
Current service cost	6,752,272	10,452,162
Interest cost	4,091,080	6,332,777
	10,843,352	**16,784,939**

PASHTANY BANK

Notes to the Financial Statements

For the year ended 30 Qaws 1397 (21 December 2018)

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
		AFN	
17. CONTINGENCIES AND COMMITMENTS			
Bank guarantees issued	*17.1*	**946,798,203**	**958,708,847**

17.1 Bank guaranteess issued by the Bank are backed up by 100% cash margin.

		30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
18. NET INTEREST INCOME			
Interest income			
Cash and cash equivalents		65,331,722	272,589,468
Interest expense			
Term deposits		(1,213,276)	(324,435)
Saving deposits		(4,427,542)	(47,153,019)
		(5,640,818)	**(47,477,454)**
Net interest income		**59,690,905**	**225,112,014**
19. NET FEE AND COMMISSION INCOME			
Fee and commission income			
Fee		10,241,900	7,973,727
Commission		45,938,814	42,418,627
		56,180,714	**50,392,354**
Fee and commission expense			
Fund transfer charges		(1,234,427)	(3,576,060)
Account maintenance charges		(136,593)	(674,863)
		(1,371,020)	**(4,250,923)**
		54,809,694	**46,141,431**
20. OTHER INCOME			
Recovery of loans written-off			
Loan principal		332,328,076	273,429,558
Loan interest		50,051,301	113,395,200
		382,379,376	**386,824,758**
Rental income		1,175,370	8,138,547
Income from investments		39,325	506,110
Other		17,908,234	1,749,567
		401,502,306	**397,218,982**

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Notes to the Financial Statements

For the year ended 30 Qaws 1397 (21 December 2018)

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
		AFN	
21. EMPLOYEE COSTS			
Salaries, wages and benefits		158,974,305	167,058,167
Bonus		33,381,148	26,022,007
Staff welfare		2,529,420	2,719,206
		194,884,873	**195,799,380**
22. OTHER OPERATING EXPENSES			
Repair and maintenance		5,063,465	6,331,532
Travel and conveyance		1,801,836	2,751,840
Advertisement and publicity		5,519,347	6,799,417
Rent expense		15,565,095	15,393,299
Building tax		217,950	146,290
Deposit insurance		50,886,680	47,749,141
Internet expense		9,324,073	11,069,005
Security expense		36,113,358	39,921,904
Printing and stationery		5,401,802	5,487,658
Communication		943,301	856,397
Electricity		9,342,659	7,623,468
Fuel expenses		3,126,904	3,726,898
Auditor's remuneration		900,020	722,177
Cleaning and water		465,650	568,807
Kindergarten expenses		271,773	267,460
Employees training expenses		2,663,537	6,652,513
Others		22,683,354	24,490,727
		170,290,805	**180,558,531**

	Note	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
		AFN	
23. TAXATION			
Current	*23.1*	-	-
Prior		742,831	60,092,417
Deferred		(37,020,798)	202,976,400
		(36,277,967)	**263,068,817**

23.1 Owing to the carried forward tax losses of the Bank, no provision for current taxation has been recognized.

PASHTANY BANK

Notes to the Financial Statements

For the year ended 30 Qaws 1397 (21 December 2018)

24. RELATED PARTIES

The related parties of the Bank comprise entities with equity holdings, common directors, major shareholders, directors and key management personnel and close family members of such individuals. Following are the related parties of the Bank:

Key management personnel

Chief Executive Officer
Chief Financial Officer
Chief Operating Officer
Chief Credit Officer

Transactions and balances with related parties , including remuneration and benefits paid to key management personnel under the terms of their employment are as follows:

	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
	AFN			
	Balances		Transactions	
Investment in equity instruments				
Bank-e-Mille Afghan	9,800,000	9,800,000	-	-
Afghan National Insurance Company (ANIC)	7,660,000	7,660,000	-	-
Shirkat-e-Ariyana	281,250	281,250	-	-
Hotel Intercontinental	64,435	64,435	-	-
Afghan Card Corporation	2,822,884	2,822,884	-	-
Pakht-e-Herat	65,542	65,542	39,325	506,110
Shirkat Nasaji Afghan	83,518,400	83,518,400	-	-
Afghanistan Payment Systems	18,740,000	17,372,500	-	-
Deposits from banks				
Bank-e-Mille Afghan	345,756	332,569	(13,187)	(1,569)
Transactions with key management personnel				
Short-term employee benefits	-	-	13,890,000	13,074,800

In addition to their salaries and allowances, the Bank also provides non-cash benefits to directors and executive officers, and contribute to a post employment defined plan on their behalf. The terms of the plan are same as for all employees.

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Notes to the Financial Statements
For the year ended 30 Qaws 1397 (21 December 2018)

25 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of the Bank's financial assets and financial liabilities:

	Note	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total Carrying Value
				AFN		
2018						
Cash and balances with Da Afghanistan Bank	*5.2*	6,999,088,658	3,836,010,879	-	-	10,835,099,537
Balances with other banks	*5.3*	5,322,160,000	122,105,224	-	-	5,444,265,224
Other assets	*1*	25,613,215	1,775,115,780	-	-	1,800,728,994
		12,346,861,872	**5,733,231,884**	**-**	**-**	**18,080,093,756**
Deposits from banks	*14*	756,598,119	-	-	6,998,119	763,596,239
Deposits from customers	*15*	32,638,602	-	-	17,408,369,001	17,441,007,603
Other liabilities	*16*	-	-	-	218,333,271	218,333,271
		789,236,721	**-**	**-**	**17,633,700,391**	**18,422,937,113**
2017						
Cash and balances with Da Afghanistan Bank	*5.2*	8,451,371,650	7,360,813,570	-	-	15,812,185,220
						-
Balances with other banks	*5.3*	-	71,914,491	-	-	71,914,491
Other assets	*1*	47,295,449	2,043,486,862	-	-	2,090,782,311
		8,498,667,099	**9,476,214,922**	**-**	**-**	**17,974,882,022**
Deposits from banks	*14*	-	-	-	8,384,659	8,384,659
Deposits from customers	*15*	32,508,056	-	-	18,789,627,416	18,822,135,472
Other liabilities	*16*	-	-	-	226,265,808	226,265,808
		32,508,056	**-**	**-**	**19,024,277,882**	**19,056,785,938**

The fair values of financial assets and financial liabilities approximates their carrying amounts at the reporting date.

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Notes to the Financial Statements
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26 FINANCIAL RISK MANAGEMENT

26.1 Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

a) Credit risk
b) Liquidity risk
c) Market risk

This note presents information about Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Supervisor has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO) and Credit Committee which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Supervisors on their activities.

26.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and placements with other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board has delegated responsibility for the management of credit risk to its Bank's Credit Committee. Credit department reporting to the Bank Credit Committee is responsible for oversight of the Bank's credit risk.

A separate credit department has been established by the Bank that is responsible for oversight of the Bank's credit risk and which is reportable to the Credit Committee. The Credit department is headed by Chief Credit Officer (CCO). Credit Officer along with credit department staff looks after credit risk matters and conduct portfolio analysis for managing credit risk.

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board. The credit evaluation system comprises of well designed credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio.

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The amount of credit risk in this regard is represented by the carrying amounts of the assets on the balance sheet date. The Bank has major concentration of credit risk in trading sector. Exposure to credit risk is managed through regular analysis of borrower to met interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed against personal guarantee of the borrower and mortgage of immoveable property dully registered with the court of law and hypothecation over stock dully verified by the Bank's Credit Officer on monthly basis.

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due but the Bank believes impairment is not appropriate.

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortized cost that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for the groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off Policy

The Bank write off a loan balance against allowances for impairment losses when the Bank's Credit Department determines that the loan are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrowers financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller standardized loans, charge off decisions generally are based on a product specific past due status. Loan past due by more than 480 days are 100% provisioned and would be kept on books of account for 06 months additional after 480 days and than after expiry of 06 months loans would be written off pursuant to guidelines issued by the Central Bank of Afghanistan, however, this does not waive off the right of the Bank to recover these loans including through legal action.

Concentration of credit risks by sector

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of loans and advances to customers at reporting date is nil (2017: nil)

The Bank held cash and cash equivalents of AFN 16.67 billion (2017: AFN 16.87 billion) which represents its maximum credit exposure on these assets. The cash and cash equivalent are held with central banks and other banks.

Settlement risk

The Banks activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of an entity to honor its obligation to deliverable cash, other assets as constructed agreed.

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26.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Board ensures that the Bank has necessary tools and framework to cater the requirements of liquidity risk management and the Bank is capable to confronting uneven liquidity scenarios. The Bank's management is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board. Asset & Liability Committee (ALCO) is entrusted with the responsibility of managing the mismatch in maturities to ensure sufficient available cash flow to meet possible withdrawal of deposits, other commitment or challenges associated with sudden changes in market conditions, whist enabling the Bank to pursue valued business opportunities.

The Bank relies on deposits from customers as its primary source of funding. Deposits form customers generally has shorter maturities and large proportion of them are repayable on demand. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquidity assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalent less any deposits from banks. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's Regulator (Da Afghanistan Bank). Detail of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period was as follows:

	Note	**30 Qaws 1397 (21 Dec 2018)**	**30 Qaws 1396 (21 Dec 2017)**
At period end / year end		93.77	93.50
Average for the period / year		93.74	93.60
Maximum for the period / year		99.88	97.79
Minimum for the period / year		89.34	90.02

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Maturity analysis for financial liabilities

	Note	Carrying amount	Gross inflow/ (outflow)	Less than 1 month	1-3 months	3 months to 1 year	More than 5 years
				AFN			
2018							
Deposits from banks	*14*	756,598,119	(756,598,119)	(6,998,119)	-	(749,600,000)	-
Deposits from customers	*15*	17,441,007,603	(17,441,007,603)	(17,441,007,603)	-	-	-
Other liabilities	*16*	218,333,271	(218,333,271)	(218,333,271)	-	-	-
		18,415,938,993	**(18,415,938,993)**	**(17,666,338,993)**	**-**	**(749,600,000)**	**-**
2017							
Deposits from banks	*14*	8,384,659	(8,384,659)	(8,384,659)	-	-	-
Deposits from customers	*15*	18,822,135,472	(18,822,135,472)	(18,822,167,980)	-		-
Other liabilities	*16*	206,129,424	(206,129,424)	(206,129,424)	-	-	-
		19,036,649,554	**(19,036,649,554)**	**(19,036,682,063)**	**-**	**-**	**-**

The above table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal inflow/ (out flow) disclosed in the above table is the contractual, undiscounted cash flow on the financial liability.

26.4 Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/ issuer's credit standing) will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures with in acceptable parameters, while optimizing the return on risk.

Management of market risks

To manage and control market risk a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. Overall authority for market risk is vested in ALCO. The Bank's Assets and Liability Committee (ALCO) is responsible for the development of detailed risk management

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Exposure to interest rate risk

The Bank risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of change in market interest rates. Interest rate risk managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day to day monitoring activities. A summary

	Note	Carrying amount	Less than one month	Less than 3 months	6-12 months	1-5 years	More than 5 years
				AFN			
2018							
Cash and balance with DAB	*5.2*	7,459,461,268	7,459,461,268	-	-	-	-
Balances with other banks	*5.3*	5,322,160,000	-	3,748,000,000	1,574,160,000	-	-
		12,781,621,268	**7,459,461,268**	**3,748,000,000**	**1,574,160,000**	**-**	**-**
Deposits from banks	*14*	(749,600,000)	-	-	(749,600,000)	-	-
Deposits from customers	*15*	(8,125,548,155)	(8,125,548,155)	-	-	-	-
		(8,875,148,155)	**(8,125,548,155)**	**-**	**(749,600,000)**	**-**	**-**
		3,906,473,113	**(666,086,887)**	**3,748,000,000**	**824,560,000**	**-**	**-**
2017							
Cash and balance with DAB	*5.2*	9,030,489,128	579,117	9,029,910,011	-	-	-
Balances with other banks	*5.3*	-	-	-	-	-	-
		9,030,489,128	**579,117**	**9,029,910,011**	**-**	**-**	**-**
Deposits from banks	*14*	-	-	-	-	-	-
Deposits from customers	*15*	(7,715,876,688)	(7,715,876,688)	-		-	-
		(7,715,876,688)	**(7,715,876,688)**	**-**	**-**	**-**	**-**
		1,314,612,440	**(7,715,297,571)**	**9,029,910,011**	**-**	**-**	**-**

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Exposure to currency risk

The Bank's exposure to foreign currency risk was as follows based on notional amounts:

	AFN	USD	Others
2018			
Cash and balance with DAB	8,029,501,794	2,915,310,131	115,689,399
Balances with other banks	381,589	5,347,096,606	96,787,029
Other assets	945,266,611	831,127,115.92	7,151,814
	8,975,149,994	**9,093,533,853**	**219,628,242**
Deposits from banks	2,464,196	754,021,169	112,753
Deposits from customers	9,345,146,318	8,005,714,993	90,146,292
Other liabilities	159,541,409	9,859,265	-
	9,507,151,922	**8,769,595,428**	**90,259,046**
Net foreign currency exposure	**(532,001,928)**	**323,938,426**	**129,369,196**
2017			
Cash and balance with DAB	10,399,995	7,119,950	911,690
Balances with other banks	20,973	173	50,769
Loans and advances	-	-	-
Other assets	411,253	25,461	75
	10,832,220	**7,145,584**	**962,534**
Deposits from banks	3,150,268	5,122,320	112,071
Deposits from customers	11,036,377	7,603,166	182,592
Other liabilities	188,195	17,934	0
	14,374,840	**12,743,420**	**294,664**
Net foreign currency exposure	**(3,542,620)**	**(5,597,836)**	**667,870**

The following significant exchange rates were applied during the periods.

	30 Qaws 1397 (21 Dec 2018)	**30 Qaws 1396 (21 Dec 2017)**	**30 Qaws 1397 (21 Dec 2018)**	**30 Qaws 1396 (21 Dec 2017)**
	Average rate	**Reporting date spot rate**	**Average rate**	**Reporting date spot rate**
USD	72.23	74.96	68.17	69.49
EURO	83.79	85.39	76.045	82.18
GBP	93.42	94.53	87.60	92.31

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Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and 10% strengthening euro at 21 December 2017 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
	Equity	**Profit or loss**	**Equity**	**Profit or loss**
	AFN			
USD	25,915,074	32,393,843	(447,826,888)	(559,783,611)

A 10 % weakening of the Afghani against the above currencies at 21 December 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

27 Capital management

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

(i) To comply with the capital requirement set by the DAB
(ii) To safeguard the Bank's ability to continue as going concern so that it can continue to be self sustainable ;
(iii) To maintain strong capital base to support the development of its business.

The Bank regulatory capital position as at December 21, 2018 is as follows:

	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
Regulatory capital:	AFN	
Core (Tier 1) Capital:		
Total shareholder's equity	2,130,294,654	1,938,481,535
Less:		
Profit for the year	(221,207,264)	(27,821,932)
Deferred tax assets - Net	(162,056,156)	(124,397,758)
Surplus on revaluation	(444,913,400)	(447,463,800)
	1,302,117,834	**1,338,798,045**
Supplementary (Tier 2) Capital:		
Profit for the year	221,207,264	27,821,932
Surplus on revaluation	444,913,400	447,463,800
Allowable deduction-equity investment	(122,952,512)	(121,585,012)
	543,168,152	**353,700,720**
Total regulatory capital	**1,845,285,985**	**1,692,498,766**

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	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1396 (21 Dec 2017)
	AFN	
27.1 *Risk-weight categories*		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	394,134,335	985,597,997
Direct claims on DAB	12,212,854,306	17,447,537,475
Total	**12,606,988,641**	**18,433,135,471**
0% risk-weight total (above total x 0%)	**12,606,988,641**	**18,433,135,471**
20% risk weight:		
Balances with other banks	5,444,265,224	71,914,491
20% risk-weight total (above total x 20%)	**1,088,853,045**	**14,382,898**
100% risk weight:		
All other assets	2,498,634,909	2,787,315,850
Allowable deduction-equity investment	(122,952,512)	(121,585,012)
Net deferred tax asset	(162,056,156)	(124,397,759)
100% risk-weight total (above total x 100%)	**2,213,626,241**	**2,665,730,838**
0% risk weight:		
Guarantees	946,798,203	958,708,847
0% credit conversion factor total (risk-weighted total x 0%)	**946,798,203**	**958,708,847**
Total risk-weighted assets	**3,302,479,285**	**2,680,113,736**
Tier 1 Capital Ratio		
(Tier 1 capital as % of total risk-weighted assets)	39.43	49.95
Regulatory Capital Ratio		
(Regulatory capital as % of total risk-weighted assets)	55.88	63.15

28 CORRESPONDING FIGURES

Significant reclassification / rearrangement has been made in these financial statements

Appendix

Shareholders' Information

	Share holding	%age of Share holding
Ministry of Finance	2,584,800,000.00	67.66%
Bank-e- Millie Afghan	1,098,982,000.00	28.77%
Afghan Red Crescent Society	20,050,000.00	0.52%
Health Insurance	1,200,000.00	0.03%
Spinzar Corporation	725,000.00	0.02%
Ministry of Labor and Social Affairs	91,600,000.00	2.40%
Chamber of Commerce	11,450,000.00	0.30%
Saderaat Kashmesh	3,900,000.00	0.10%
Institute of Qaraqol	3,775,000.00	0.10%
Carpet corporation	3,775,000.00	0.10%
Total	**3,820,257,000.00**	**100.00%**

Control rights: Each share is entitled to the same voting rights.

Changes in shareholding: For the financial year ended 21 December 2018, there were no material changes to the shareholding structure of the Bank.

List of Branches

No	Branch	Branch Manager	Telephone No	Email ID	Proviance
1	Head Office	Shafiq Ahmad	(+93)202103872	shafiq.ahmad@pashtanybank.com.af	Kabul
2	Sarai Shahzada Branch	Abdul Raziq	(+93)752006859	sarayshazada@pashtanybank.com.af	Kabul
3	Macroyan Branch	Mirwais Hotak	(+93)202301791	macrorayan@pashtanybank.com.af	Kabul
4	Baharistan Branch	Mohammad Iqbal Amani	(+93)797999103	Baharestan@pashtanybank.com.af	Kabul
5	Shahri Now Branch	Zalmai Sadat	(+93)752015121	share_now@pashtanybank.com.af	Kabul
6	Khairkhana Branch	Salim Abasi	(+93)752015120	khairkhana@pashtanybank.com.af	Kabul
7	Gulbaharistan Branch	Mohammad Zubair Rohi	(+93)202104284	gulbahar@pashtanhybank.com.af	Kabul
8	Dahmazang Branch	Bashir Ahmad Ahmarkhail	(+93)752016182	dehmazang@pashtanybank.com.af	Kabul
9	Mirwais Maidan Branch	Sohaila	(+93)752012069	mirwaismaidan@pashtanybank.com.af	Kabul
10	Abida Maiwand Branch	Mohammad Esa Mobariz	(+93)752093518	abedaemaiwand@pashtanybank.com.af	Kabul
11	Karti Now Branch	Atiqullah Ali khail	(+93)752044096	karte_now@pashtanybank.com.af	Kabul
12	Dashti Barchi Branch	Sayed Mohammad Aqa Hashimi	(+93)772236688	Dasht-e-Barchi@pashtanybank.com.af	Kabul
13	Mazar Sharif Branch	Bashir Ahmad	(+93)502003414	mazar@pashtanybank.com.af	Balkh
14	Heart Branch	Mohammad Nasir	(+93)4022588993	heart@pashtanybank.com.af	Heart
15	Kandahar Branch	Aziz Ahmad	(+93)303001009	kandahar@pashtanybank.com.af	Kandahar
16	Jalalabad Branch	Ismail Hodman	(+93)797999125	jalalabad@pashtanybank.com.af	Jalalabad
17	Faryab Branch	Saifullah Qaderi	(+93)754520085	faryab@pashtanybank.com.af	Faryab
18	Kundoz Branch	Amruddin Asami	(+93)797999123	kondoz@pashtanybank.com.af	Kundoz
19	Hairatan Branch	Zahiruddin Mehrabi	(+93)797999133	hairatan@pashtanybank.com.af	Balkh
20	Polykhomri Branch	Mohammad Sharif Naseri	(+93)799333198	polekhomry@pashtanybank.com.af	Baghlan