



پښتني بانک
PASHTANY BANK
| زمونږ خپل بانک |

PASHTANY BANK ANNUAL REPORT 2019

✉ Marketing@pashtanybank.com.af

☎ 0202103863

🌐 pashtanybank.com.af

Pashtany Bank
Annual Report 2019



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Board of Directors Profile

Mr. Wadir Safi



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

Chairman Board of Supervisor

from Faculty of Literature and Human Science – Kabul University Afghanistan. Mr. Safi visited and participated in numerous academic conferences throughout his career for sharing his rich experience in leadership and attended programs 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 magazine

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. Before joining Pashtany Bank as a member of Board of Directors, He worked 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 and 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. Moreover, he worked as as a Country Coordinator in the International Republican Institute, Work for

Democracy in Afghanistan, Afghan Media Resources Center, Afghan NGOs Coordination Bureau, Coordinated activities with donors. Mr. Nasib has also played a vital role in 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 Democracy Award in 2005 by Senator Jhon McCain – United Nation, he has honored with a Ghazi Mir Masjidi Khan Medal in 2006 by King 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. Since May 2020, He is elected as Chairman of ICC Afghanistan Banking Commission. 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 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
Chief Finance Officer (CFO)



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

Mr. Aimal Mangal

Chief Credit Officer (CCO)



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 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 international meetings, seminars.
represented Pashtany bank in different

Pashtany Bank Financial Highlights

Statement of Financial Position

	December 21 2019	December 21, 2018	December 21, 2017
	AFN	AFN	AFN
Assets			
Cash and cash equivalents	7,092,551,511	11,351,339,096	16,866,089,034
Placements and investments	11,344,064,460	5,553,454,129	267,476,627
Property and equipment	835,281,873	824,813,888	826,621,685
Intangible assets	56,739,884	-	-
Investment properties	962,183,000	962,183,000	962,183,000
Deferred tax asset - net	145,251,231	166,686,786	124,397,758
Repossessed assets	-	-	323,128,500
Other assets	2,231,759,281	1,845,694,924	2,090,782,311
Total assets	22,667,831,240	20,704,171,823	21,460,678,915
Equity and Liabilities			
Equity			
Share capital	3,820,257,000	3,820,257,000	3,820,257,000
Accumulated losses	(1,569,675,490)	(2,000,090,720)	(2,186,956,321)
Surplus on revaluation - net	442,363,000	444,913,400	447,463,800
Total equity	2,692,944,510	2,265,079,680	2,080,764,479
Liabilities			
Deposits from banks and financial institutio	1,013,618,861	756,598,119	8,384,659
Deposits from customers	18,695,527,131	17,441,007,603	18,822,135,472
Deferred income against repossessed assets	-	-	323,128,500
Deferred grant	79,382,268	-	-
Other liabilities	186,358,470	241,486,421	226,265,805
Total liabilities	19,974,886,730	18,439,092,143	19,379,914,436
Total equity and liabilities	22,667,831,240	20,704,171,823	21,460,678,915

Statement of Comprehensive Income

PASHTANY BANK

Statement of Comprehensive Income

For the year ended 30 Qaws 1398 (21 December 2019)

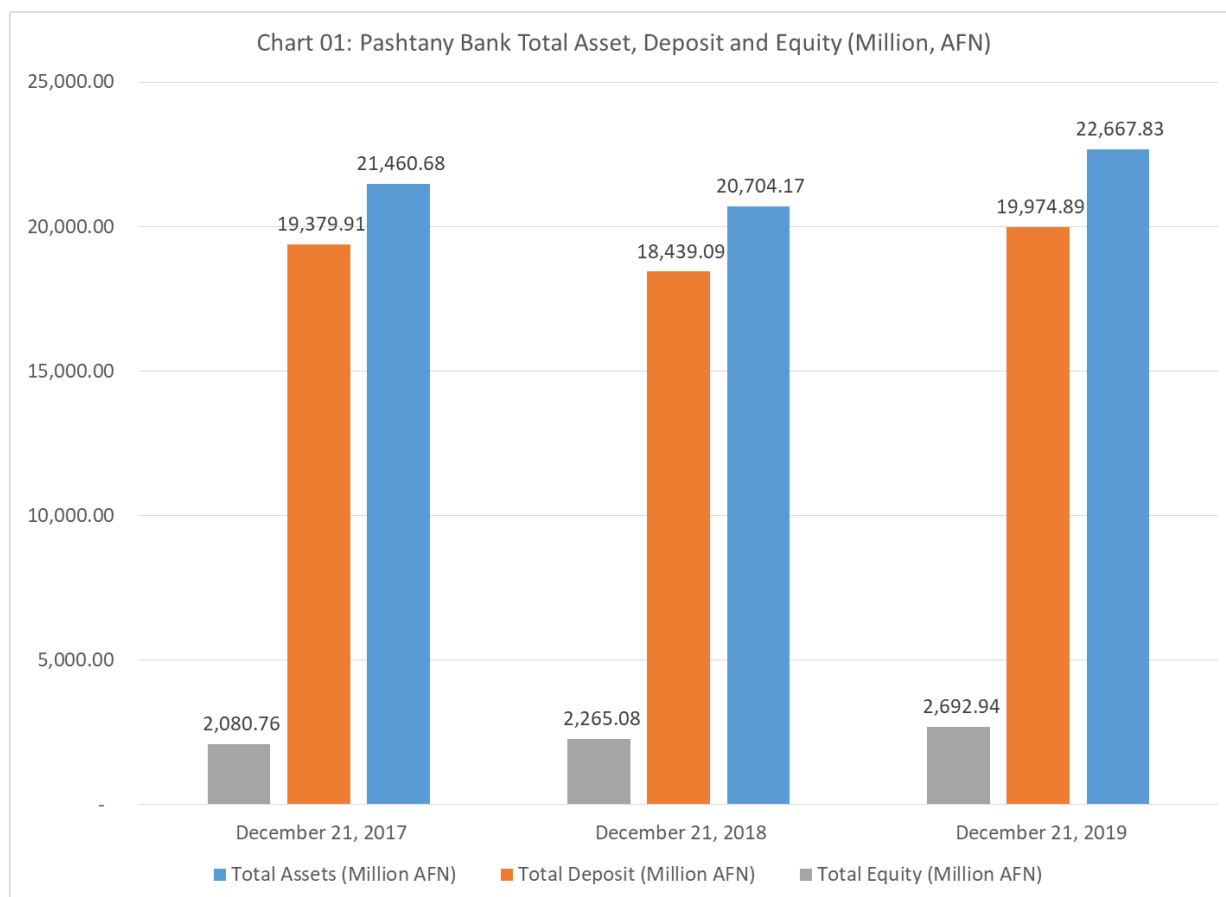
	December, 21 2019	December 21, 2018	December 21, 2017
	AFN	AFN	AFN
Interest income	222,599,183	65,331,722	272,589,468
Interest expense	(26,245,831)	(5,640,818)	(47,477,454)
Net interest income	196,353,352	59,690,904	225,112,014
Fee and commission income	87,475,177	56,180,714	50,392,354
Fee and commission expense	(1,526,941)	(1,371,020)	(4,250,923)
Net fee and commission income	85,948,236	54,809,694	46,141,431
	282,301,588	114,500,598	271,253,445
Other income	524,852,203	401,502,306	397,218,982
Amortization of deferred grant	1,590,753	-	-
Impairment reversal/(loss) on investments and other assets	(1,054,663)	4,509,045	(8,874,247)
Employee costs	(182,669,869)	(218,038,023)	(195,799,380)
Depreciation	(27,677,511)	(23,456,656)	(27,590,794)
Amortization	(1,438,294)	-	-
Other operating expenses	(187,264,205)	(170,928,407)	(180,558,531)
Exchange gain	20,785,671	53,049,682	35,878,877
Operating income	429,425,673	161,138,545	291,528,351
Share in profit of associates	8,380,781	6,118,369	-
Profit before taxation	437,806,454	167,256,914	291,528,351
Income tax	(9,548,277)	41,546,197	(263,068,817)
Profit for the year	428,258,177	208,803,111	28,459,534
Other comprehensive income			
<i>To be reclassified to profit or loss in subsequent periods</i>	-	-	-
<i>Not to be reclassified to profit or loss in subsequent periods:</i>			
Share in OCI of associates	-	-	-
Actuarial loss on defined benefit pension plan	(393,347)	4,906,237 (29,394,147)	-
	(393,347)	(24,487,910)	-
Total comprehensive income for the year ended	427,864,830	184,315,201	28,459,534

Financial Ratios:

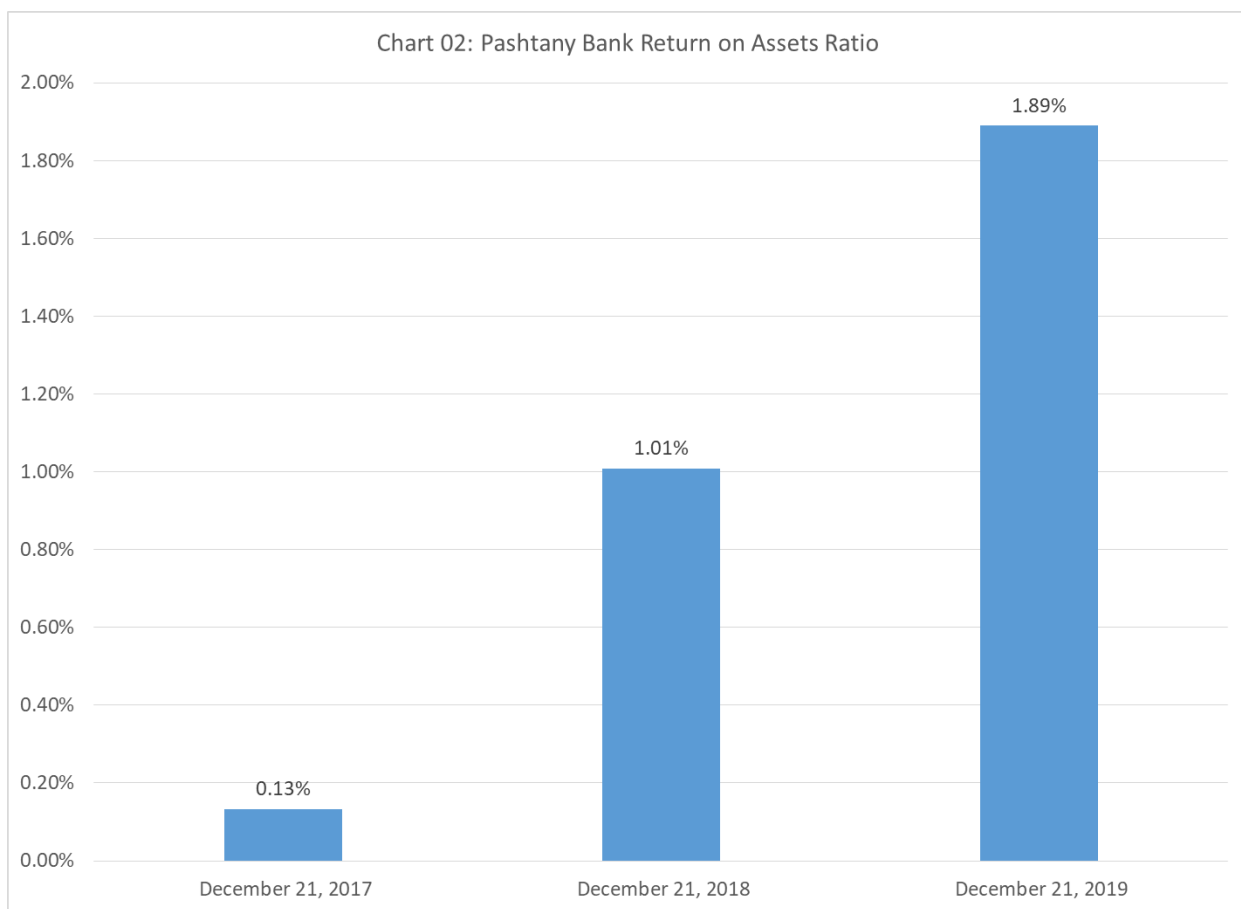
Ratios	December 21, 2019	December 21, 2018	December 21, 2017
Total Assets (Million AFN)	22,667.83	20,704.17	21,460.68
Total Deposit (Million AFN)	19,974.89	18,439.09	19,379.91
Total Equity (Million AFN)	2,692.94	2,265.08	2,080.76
Net profit for the period (Million AFN)	428.26	208.80	28.46
Return on Assets (ROA)	1.89%	1.01%	0.13%
Return on Equity (ROE)	15.90%	9.22%	1.37%
Debt to Equity/Gear Ratio	741.75%	814.06%	931.38%
Capital to Average Assets	11.88%	10.94%	9.70%
Tier 1 Capital Ratio	38.10%	43.20%	49.95%
Regulatory Capital Ratio	52.91%	55.84%	63.15%

Graphical Analysis

Pashtany Bank's assets and deposits mainly remained stable during FY 2017-2019 and had sizable growth in the year 2018 – 2019 of 9.48% in asset, 8.33% in deposit and 18.89% in equity capital. Equity of the bank increased showing profitable position in the last three consecutive years. The trend of bank capital structure with total asset is depicted in **Chart 01**.

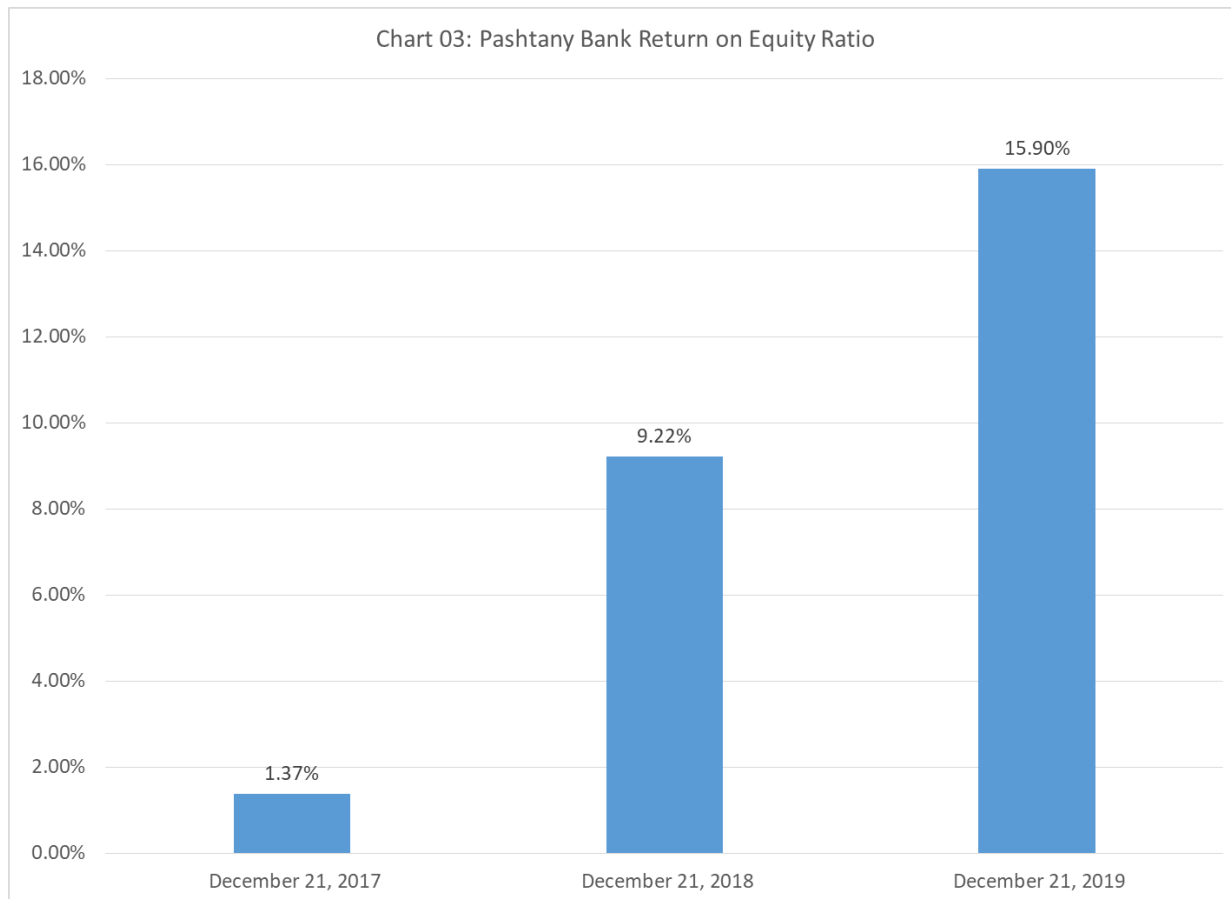


ROA indicates profitable position of the bank relative to its total assets and gives an idea of how effectively and efficiently we managed the assets to generate earnings. Pashtany Bank's ROA had fluctuations during these three years and was at a peak of 1.89% in financial year 2019 due to operation capacity improvement in all key indicators and more significantly net interest on the placement with banks overseas, net commission and fee income, other income especially from recovery of bad debt grew by 229%, 31% and 31% respectively comparing to the to the financial year 2018; moreover, the operational expenses decreased by the 3% tentatively comparing both financial years. Further details are depicted in **Chart 02**.



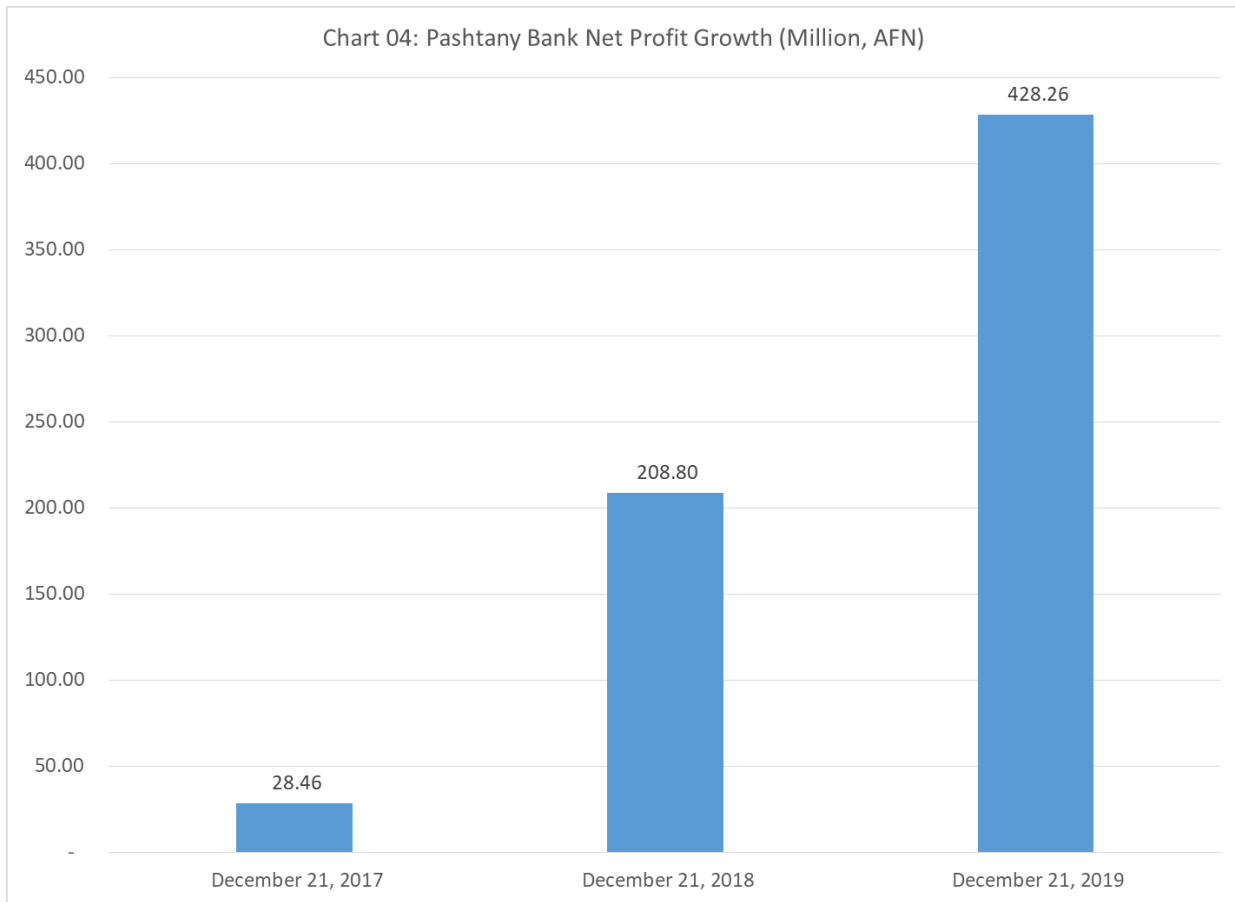
Return on Equity indicates the financial performance of a company and measures how effectively management is using a company's assets to create profits. A good or bad ROE will depend on what's normal for the industry or company peers. Pashtany Bank's ROE had fluctuations during these three years and financial year 2019 due to operation capacity improvement in all key indicators and more significantly net interest on the placement with banks overseas, net commission and fee income, other income especially from recovery of bad debt grew by 229%, 31% and 31% respectively comparing to the to the financial year 2018;

moreover, the operational expenses decreased by the 3% tentatively comparing both financial years. Further details are depicted in **Chart 03**

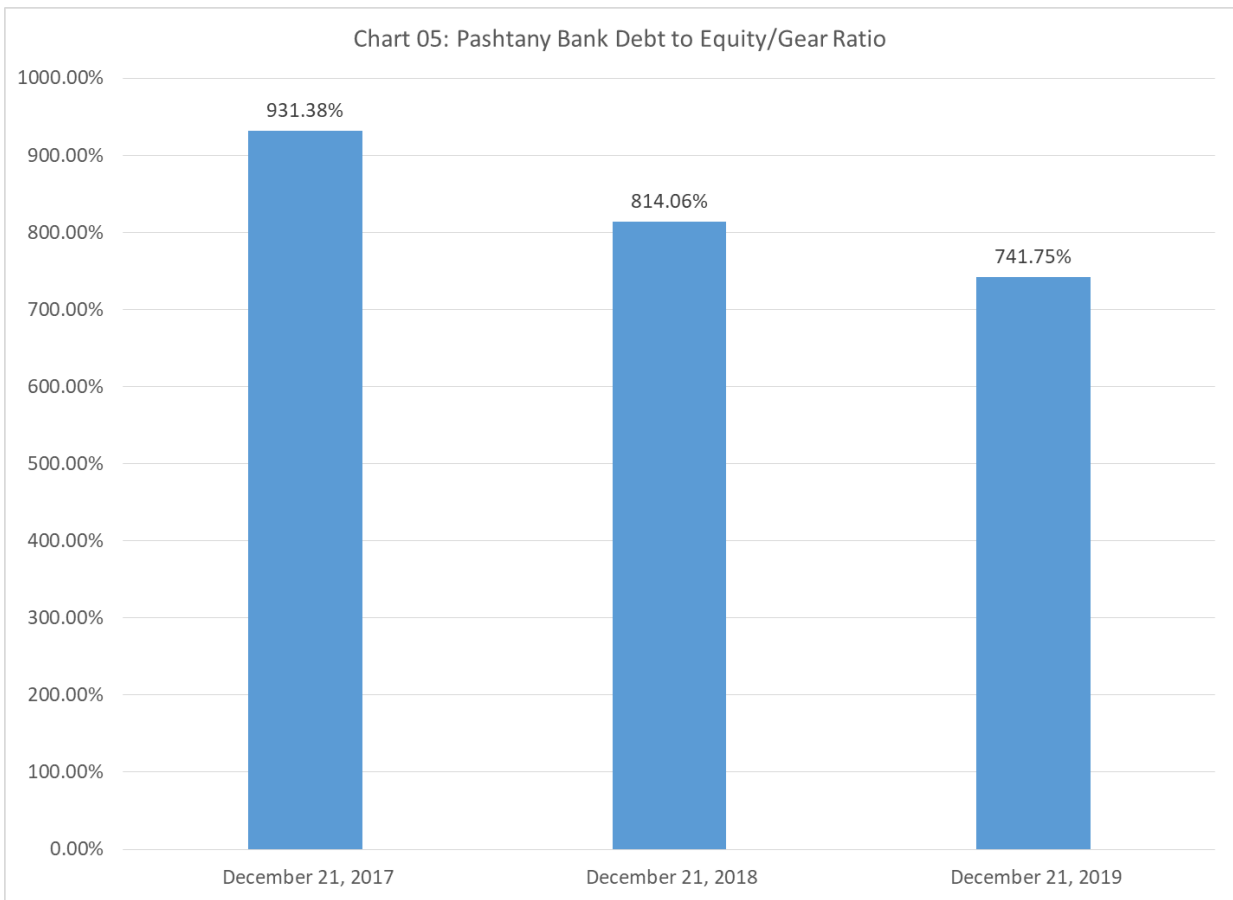


Pashtany Bank's net profit increased from AFN 208.8 million in FY 2018 to AFN 428.2 million in FY 2019. Fluctuation in the profitability of bank is reflected from certain changes in the balance sheet of bank based on the recommendation of external auditors.

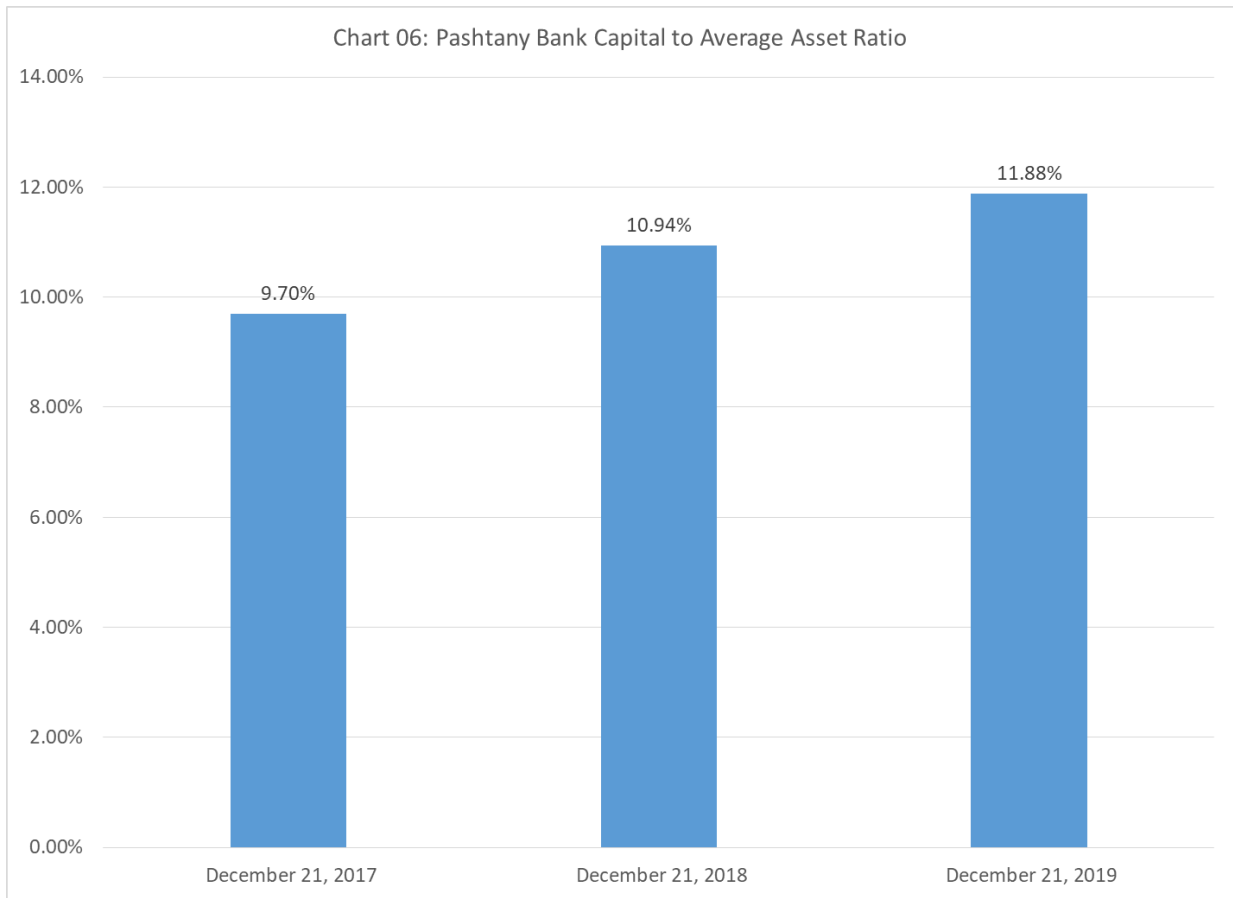
In the financial year 2019 due to operation capacity enhancement and all key indicators and more significantly net interest on the placement with banks overseas, net commission and fee income, other income especially from recovery of bad debt grew by 229%, 31% and 31% respectively comparing to the to the financial year 2018; moreover, the operational expenses decreased by the 3% tentatively comparing both financial years. Further details are depicted in **Chart 04**.



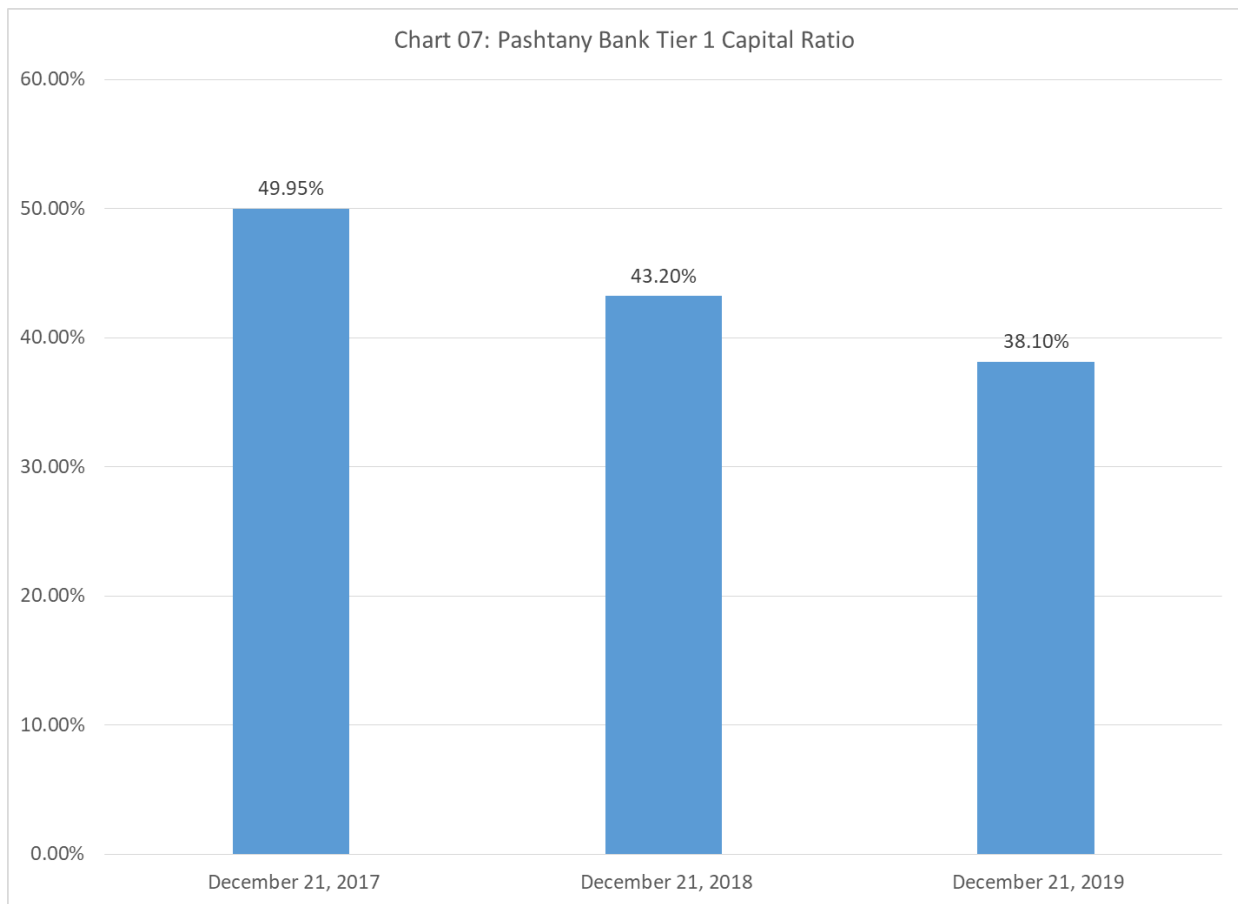
This ratio is aimed to evaluate bank's financial leverage. It is a measure of the degree to which bank is financing its operations through debt versus wholly owned funds. More specifically, it reflects the ability of shareholder equity to cover all outstanding debts in the event of a business downturn. A high debt/equity ratio is often associated with high risk; it means that bank has been aggressive in financing its growth with debt. Leverage ratio of the bank during 2017, 2018, and 2019 has been 931.38%, 814.06% and 741.75% respectively. Further details are depicted in **Chart 05**.



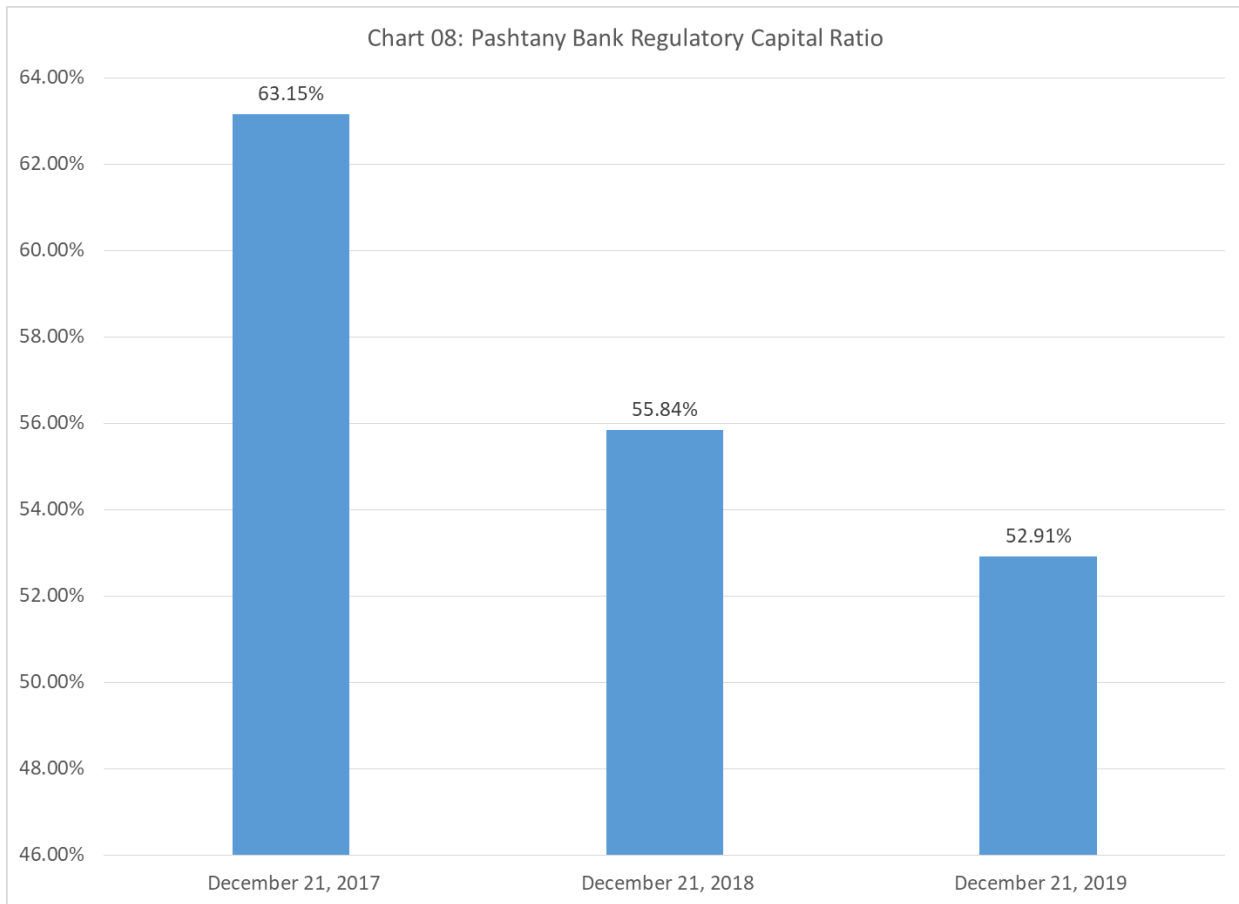
The capital to average assets ratio had an increasing trend from FY 2017 to 2019 and reached to 11.88% in the financial year 2019, which indicates Pashtany Bank equity capital increases with yearly net profit during FY 2017-2019. Further details are depicted in **Chart 06**.



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 38.1% in 2019 higher than the regulatory threshold of minimum 6 percent showing strong capital base of the bank; bank decrease trend indicates that bank assets are exposed to risk especially in the interbank investment for gaining good yield. Further details are depicted in **Chart 07**.



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 52.9% in 2019. This is mainly resulting from higher level interbank placement with banks overseas, and yet the required threshold by capital regulation of the 12% but bank decrease trend indicates that bank assets are exposed to risk especially in the interbank investment for gaining good yield. Further details are depicted in **Chart 08**.



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. 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 details 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, 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 are 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 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

**Independent Auditors' Report**

To the shareholders of Pashtany Bank

Grant Thornton Afghanistan
House # 116, Street # 12
Quall e Fatehullah, Kabul,
Afghanistan
T: +93 202 202 475
M: +93 789 314 616,
www.grantthornton.af

Qualified Opinion

We have audited the accompanying financial statements of Pashtany Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2019, 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 the effects of the matters described in the *Basis of Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019, 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), the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank.

Basis for Qualified Opinion

- 1) The Bank has property and equipment with written down value of AFN 835.282 million and this includes land having value of AFN 352.591 million and buildings having written down value of AFN 364.567 million. Further, the Bank holds investment properties carried at a value of AFN 925.397 million. As per the accounting policy of the Bank, land and buildings are carried at revalued amounts and investment properties at fair value, however, we noted that revaluation of these assets has not been carried out since 2009. Subsequent to year end, Da Afghanistan Bank has provided its principal approval to the Bank to engage independent third party(ies) to revalue its property and equipment and investment properties. We understand that the fair values of land and buildings and investment properties can significantly change over a period time. 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.
- 2) 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.

**Grant Thornton**

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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

- a) We draw attention to note 6.3.2 to the financial statements which states that investments in associates are accounted for at cost as a result of non-availability of latest audited financial statements. The value of these investments amount to AFN 106.36 million. Our opinion is not modified in respect of this matter.
- b) We draw attention to note 6.3.3.1 to the financial statements which states that during year ended 21 December 2018, Bank-e-Millie Afghan (BMA) transferred land having fair value of AFN 1,108,208,690 to the Ministry of Finance Afghanistan (MoFA) which held 97.194% ownership interest in BMA before the transfer and it was treated as dividend paid to MoFA. As per disclosures provided in the audited financials of BMA, shareholding of MoFA reduced to 94.194%. As per communication received from BMA, shareholding of the Bank has increased to 2.066% (increase by 1.086%) apparently without any consideration paid by the Bank. The matter is under discussion with BMA and pending resolution, the Bank has accounted for share of net assets (including profit and OCI) in BMA at 0.98%. Our opinion is not modified in respect of this matter.

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), the requirements of the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank, and for such internal control as 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

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aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton Afg.

Grant Thornton Afghanistan
Chartered Accountants

Engagement Partner: Saqib Rehman Qureshi - FCA

Location: Kabul, Afghanistan

Date: 23-Mar-2020



Chartered Accountants and Management Consultants
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Statement of Financial Position

PASHTANY BANK

Statement of Financial Position

As at 30 Qaws 1398 (21 December 2019)

		December, 21 2019	December 21, 2018
	Note	AFN	AFN
Assets			
Cash and cash equivalents	5	7,092,551,511	11,351,339,096
Placements and investments	6	11,344,064,460	5,553,454,129
Property and equipment	7	835,281,873	824,813,888
Intangible assets	8	56,739,884	-
Investment properties	9	962,183,000	962,183,000
Deferred tax asset - net	10	145,251,231	166,686,786
Repossessed assets		-	-
Other assets	11	2,231,759,281	1,845,694,924
Total assets		22,667,831,240	20,704,171,823
Equity and Liabilities			
Equity			
Share capital	12	3,820,257,000	3,820,257,000
Accumulated losses		(1,569,675,490)	(2,000,090,720)
Surplus on revaluation - net	13	442,363,000	444,913,400
Total equity		2,692,944,510	2,265,079,680
Liabilities			
Deposits from banks and financial institutions	14	1,013,618,861	756,598,119
Deposits from customers	15	18,695,527,131	17,441,007,603
Deferred income against repossessed assets		-	-
Deferred grant	16	79,382,268	-
Other liabilities	17	186,358,470	241,486,421
Total liabilities		19,974,886,730	18,439,092,143
Total equity and liabilities		22,667,831,240	20,704,171,823
Contingencies and Commitments	18		

The annexed notes from 1 to 29 form an integral part of the financial statements.

Statement of Comprehensive Income

PASHTANY BANK

Statement of Comprehensive Income

For the year ended 30 Qaws 1398 (21 December 2019)

		December, 21 2019	December 21, 2018
	Note	AFN	AFN
Interest income		222,599,183	65,331,722
Interest expense		(26,245,831)	(5,640,818)
Net interest income	19	196,353,352	59,690,904
Fee and commission income		87,475,177	56,180,714
Fee and commission expense		(1,526,941)	(1,371,020)
Net fee and commission income	20	85,948,236	54,809,694
		282,301,588	114,500,598
Other income	21	524,852,203	401,502,306
Amortization of deferred grant	16	1,590,753	-
Impairment reversal/(loss) on investments and other assets		(1,054,663)	4,509,045
Employee costs	22	(182,669,869)	(218,038,023)
Depreciation	7.1	(27,677,511)	(23,456,656)
Amortization	8	(1,438,294)	-
Other operating expenses	23	(187,264,205)	(170,928,407)
Exchange gain		20,785,671	53,049,682
Operating income		429,425,673	161,138,545
Share in profit of associates	6.3	8,380,781	6,118,369
Profit before taxation		437,806,454	167,256,914
Income tax	24	(9,548,277)	41,546,197
Profit for the year		428,258,177	208,803,111
Other comprehensive income			
<i>To be reclassified to profit or loss in subsequent periods</i>			
		-	-
<i>Not to be reclassified to profit or loss in subsequent periods:</i>			
Share in OCI of associates		-	4,906,237
Actuarial loss on defined benefit pension plan		(393,347)	(29,394,147)
		(393,347)	(24,487,910)
Total comprehensive income for the year ended		427,864,830	184,315,201

The annexed notes from 1 to 29 form an integral part of the financial statements.

Statement of Cash Flows

PASHTANY BANK

Statement of Cash Flows

For the year ended 30 Qaws 1398 (21 December 2018)

		30 Qaws 1398	30 Qaws 1397
		(21 Dec 2019)	(21 Dec 2018)
	Note	AFN	AFN
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		437,806,454	167,256,914
Adjustments for:			
Depreciation	7.1	27,677,511	23,456,656
Amortization	8	1,438,294	-
Accounting loss on disposal of assets		146,549	178,364
Amortization of deferred grant	16	(1,590,753)	-
Pension liability expense	17.1	14,712,210	10,843,352
Impairment loss/(reversal) on other assets		1,054,663	(4,509,045)
Exchange gain on investment in associate	6.3.1	(862,500)	(1,367,500)
Share in profit of associates	6.3	(8,380,781)	(6,118,369)
		472,001,647	189,740,372
(Increase) decrease in operating assets and liabilities:			
Other assets		(283,300,645)	248,853,602
Deposits from banks and financial institutions		257,020,742	748,213,460
Deposits from customers and banks		1,254,519,528	(1,381,127,869)
Other liabilities		(59,297,577)	(15,998,594)
Net cash from/(used in) operations		1,640,943,695	(210,319,029)
Pension payments during the year		(10,935,932)	(9,018,289)
Tax paid		(91,931,097)	-
Net cash from/ (used in) operating activities		1,538,076,666	(219,337,318)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(14,957,956)	(21,827,223)
Proceeds against disposal of property and equipment		(539,246)	-
Investment made		(5,781,367,049)	(5,318,551,326)
Net cash used in investing activities		(5,796,864,251)	(5,340,378,549)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend income		-	44,965,930
Net cash from/ (used in) financing activities		-	44,965,930
Net decrease in cash and cash equivalents		(4,258,787,585)	(5,514,749,938)
Cash and cash equivalents at beginning of the year		11,351,339,096	16,866,089,034
Cash and cash equivalents at the end of the year	5	7,092,551,511	11,351,339,096

The annexed notes from 1 to 29 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 1398 (21 December 2019)

	Share capital	Accumulated losses	Surplus on revaluation - net	Total
	AFN	AFN	AFN	AFN
Balance as at December 21, 2016	3,820,257,000	(2,360,249,197)	450,014,200	1,910,022,003
Total Comprehensive income				
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 21 December 2017	3,820,257,000	(2,329,239,263)	447,463,800	1,938,481,537
Effect of change in accounting policy - refer note 4.4	-	142,282,942	-	142,282,942
Balance as at 21 December 2017 - restated	3,820,257,000	(2,186,956,321)	447,463,800	2,080,764,479
Incremental depreciation - net of deferred tax	-	2,550,400	(2,550,400)	-
Profit for the year	-	208,803,111	-	208,803,111
Other comprehensive income	-	(24,487,910)	-	(24,487,910)
Total comprehensive income	-	184,315,201	-	184,315,201
Balance as at 21 December 2018	3,820,257,000	(2,000,090,720)	444,913,400	2,265,079,680
Incremental depreciation - net of deferred tax	-	2,550,400	(2,550,400)	-
Profit for the year	-	428,258,177	-	428,258,177
Other comprehensive income	-	(393,347)	-	(393,347)
	-	427,864,830	-	427,864,830
Balance as at 21 December 2019	3,820,257,000	(1,569,675,490)	442,363,000	2,692,944,509

The annexed notes from 1 to 29 form an integral part of the financial statements.

Note to the Financial Statement

1 STATUS AND NATURE OF BUSINESS

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 21 December 2019 have been approved and authorized

For issue by the Board of Supervisors on _____ 2020.

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 Standard Board, the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank. Whenever the requirement of the Law of Banking in Afghanistan differs with the requirements of the IFRS, the requirement of the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank take precedence.

These financial statements comprise statement of financial position, statement of comprehensive income as a single statement, statement of changes in equity, statement of cash flows and the accompanying notes.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.2.

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

Following amendments and clarifications became applicable in the current year;

- IFRS 15 "Revenue from Contracts with Customers"
- Clarifications to IFRS 15, "Revenue from Contracts with Customers"
- IFRIC Interpretation 22, "Foreign Currency Transactions and Advance Consideration"
- IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2
- Transfers of Investment Property (Amendments to IAS 40)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

- 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 published accounting standards that are not yet effective

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

<i>Description</i>	<i>Effective date for annual accounting period beginning on or after</i>
• Amendments to IFRS 10 and IAS 28 “IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet finalized
• IFRS 16 “Leases”	1 January 2019
• IFRS 9 “Financial Instruments” *	1 January 2021
• IFRS 17 “Insurance Contracts”	1 January 2022
• IFRIC Interpretation 23 “Uncertainty over Income Tax Treatment”	1 January 2019
• Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures	1 January 2019
• Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	1 January 2019
• Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	1 January 2019
• Annual Improvements 2015-2017 Cycle (issued in December 2017)	1 January 2019

*Central Bank of Afghanistan vide its circular No. 298 dated 8 Hamal 1398 (28 March 2019) deferred the applicability of IFRS 9 “Financial Instruments” till 1 January 2021 from original applicable date of 1 January 2018.

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 under the historical cost convention except that property and equipment which are stated at revaluated amounts and pension liability which is stated at present value.

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 11 Provision against advances and receivables
- b) Note 24 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 of 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 Investment in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

During the year, the Bank changed its accounting policy to account for investment in associates at equity method of accounting to the extent audited financial information is available for the entities. This resulted in recognition of AFN 142,282,292 in opening equity with recognition of AFN 103,686,182 as share in profit of associates and AFN 4,963,290 as share in OCI of associate. Under the equity method, an investment in an associate is recognized initially in the statement of financial position at cost and adjusted thereafter to recognize the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate. An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Bank's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired. The requirements of IAS 36 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases. The Bank discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Bank retains an interest in the former associate and the retained interest is a financial asset, the Bank measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Bank accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Bank reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed off. When the Bank reduces its ownership interest in an associate but the Bank continues to use the

equity method, the Bank reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

4.5 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 from 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 derecognition 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	10 years
-	Computer equipment	10 years
-	Vehicles	5 years
-	Electric equipment	6-7 years

4.6 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 derecognition.

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.

4.7 Intangible assets

Intangible assets are capitalized only to the extent that the future economic benefits can be derived by the Bank having useful life of more than one year. Intangible assets are stated at cost less accumulated amortization. Amortization is charged to income applying the straight-line method.

a) Core Banking System (CBS)

The Core Banking System is amortized over the useful life of 10 years.

b) Computer software

Acquired computer software is capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of 3 years.

The useful lives of intangibles are reviewed and adjusted, if appropriate, at each statement of financial position date.

4.8 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 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.

4.9 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.

4.10 Deposits from customers and banks

These are recorded at the amount of proceeds received.

4.11 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.

4.12 Defined benefits pension plan

The Bank operates an approved defined benefit pension plan for all of its permanent employees. Annual provision is made on the basis of actuarial valuation, determined using the Project Unit Credit Method, to cover obligation under the scheme for all eligible employees. Remeasurements comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest), if any, are recognized immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Remeasurements recognized in other comprehensive income are not reclassified. Past service cost is recognized in profit or loss when the plan amendment or curtailment occurs, or when the Bank recognizes related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognized when the settlement occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- a) service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements;
- b) net interest expense or income; and
- c) remeasurements

Services costs and net interest expense are recognized in the employee costs. The retirement benefit obligation recognized in the statement of financial position represents the deficit or surplus in the Bank's defined benefit plan pension plan. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

4.13 Employee compensation

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

4.14 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.

4.15 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.

4.16 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.

4.17 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.

4.18 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.

4.19 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 29 Qaws 1398 (21 December 2019)

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
			AFN
5. CASH AND CASH EQUIVALENTS			
Cash in hand	5.1	759,688,887	394,134,335
Balances with Da Afghanistan Bank	5.2	6,054,483,854	10,835,099,537
Balances with other banks	5.3	278,378,770	946,665,224
		<u>7,092,551,511</u>	<u>12,175,899,096</u>
5.1 Cash in hand			
Local currency		376,052,735	168,732,548
Foreign currency		383,636,152	225,401,787
		<u>759,688,887</u>	<u>394,134,335</u>
5.2 Balances with Da Afghanistan Bank			
Current accounts:			
Local currency		397,039,695	570,040,526
Foreign currency		134,644,479	2,805,597,743
		<u>531,684,174</u>	<u>3,375,638,269</u>
	5.2.1		
Capital notes		4,490,351,526	6,999,088,658
Overnight deposit	5.2.2	1,032,448,154	460,372,610
		<u>6,054,483,854</u>	<u>10,835,099,537</u>
5.2.1	These represent 7 to 91 days (up to 91 days) capital notes and carry interest of 0.5% (2018: 0.15% to		
5.2.2	This represent overnight deposit with Da Afghanistan Bank in local currency and carry interest rate of 0.01% (2018: 0.01%) per annum.		

PASHTANY BANK

Notes to the Financial Statements

For the year ended 29 Qaws 1398 (21 December 2019)

		30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
	Note	AFN	
5.3	Balances with other banks		
	In Afghanistan		
	<i>Current accounts:</i>		
	Azizi Bank	1,718,106	1,642,960
	Bank Millie Afghan	1,109,523	660,613
	New Kabul Bank	3,222,951	2,813,536
		6,050,580	5,117,109
	Outside Afghanistan		
	<i>Current accounts:</i>		
	Aktif Bank, Turkey	3,393,556	389,268,738
	BMCE, Spain	239,087,267	520,576,553
	United Bank Limited, Pakistan	29,847,367	31,702,824
		272,328,190	941,548,115
		278,378,770	946,665,224
6.	PLACEMENTS AND INVESTMENTS		
	Capital notes issued by Da Afghanistan Bank	6.1 1,978,827,049	-
	Placements	6.2 9124700000	5322160000
	Investment in associated entities	6.3 240537411	231294129
		11,344,064,460	5,553,454,129

6.1 These represent capital notes having maturity from 182 days to 364 days and carry interest rate of 1.35% to 2% p.a.

PASHTANY BANK

Notes to the Financial Statements

For the year ended 29 Qaws 1398 (21 December 2019)

		30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		AFN	
6.2 Placements			
Inside Afghanistan			
Afghanistan International Bank		500,000,000	-
Outside Afghanistan			
Aktif Bank, Turkey		784,100,000	374,800,000
BMCE, Spain		391,650,000	449,760,000
Citi Bank, UAE		3,136,400,000	749,600,000
Citi Bank, USA		2,744,350,000	3,748,000,000
First Abu Dhabi Bank		1,568,200,000	-
Habib Bank Limited, Pakistan		-	-
MCB Bank Limited, Pakistan		-	-
Afghan National Credit & Finance Limited, London		-	-
		8,624,700,000	5,322,160,000
6.2.2		9,124,700,000	5,322,160,000
6.2.2	These placements are having maturity up to 366 days and carry interest rate of ranging from 0.35% to 5% p.a.		
6.3	Investment in associated entities		
	<i>At cost:</i>		
	Afghanistan payment systems (APS)	19,602,500	18,740,000
	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
		106,355,012	105,492,511
	<i>At equity method:</i>		
	Bank-e-Millie Afghan	60,672,584	52,291,803
	Afghan National Insurance Company	73,509,815	73,509,815
		134,182,399	125,801,618
		240,537,411	231,294,129
6.3.1	Afghanistan payment systems (APS)		
	Balance at beginning of year	14,950	17,372,500
	Exchange gain on translation	780	(17,357,550)
	Balance at the end of year	15,730	14,950
6.3.1.1	The Bank has made an investment of USD 250,000 in APS during the year ended 1389. The Bank held 16.66% (2018: 16.66%) shares in APS. As per the Articles of Association of the investee company, its shares cannot be sold or transferred or offered to the public. During the year, Da Afghanistan Bank (DAB) acquired the entire shareholding in APS on 11 September 2019. Subsequent to the year end, the Bank received an amount of AFN 1,938,000 from DAB against its share held in APS. As per instructions received from DAB balance of AFN 17,664,500 is to be written-off as loss on disposal of		
6.3.2	These investments in associates are recorded at cost as a result of non-availability of latest audited financial statements.		

PASHTANY BANK

Notes to the Financial Statements

For the year ended 29 Qaws 1398 (21 December 2019)

6.3.3 Bank-e-Millie Afghan

Cost of investment	9,800,000	9,800,000
Post-acquisition share of net assets	42,491,803	81480292
Increase in ownership interest upon transfer of land to MoFA (0.98% to 2.066%)	6.3.3.1 -	-
	52,291,803	91,280,292
Share of profit in associate	8,381,607	6,071,718
Share of OCI in associate	-	51,484
Share of dividend		(15,624,668)
Return of investment		(29,341,262)
	-	(44,965,930)
Other adjustments	(826)	(145,761)
Closing balance	60,672,584	52,291,803

6.3.3.1 During year ended 21 December 2018, Bank-e-Millie Afghan (BMA) transferred land having fair value of AFN 1,108,208,690 to the Ministry of Finance Afghanistan (MoFA) which held 97.194% ownership interest in BMA before the transfer and it was treated as dividend paid to MoFA. As per disclosures provided in the audited financials of BMA, shareholding of MoFA reduced to 94.194%. As per communication received from BMA, shareholding of the Bank has increased to 2.066% (increase by 1.086%) apparently without any consideration paid by the Bank. The matter is under discussion with BMA and pending resolution, the Bank has accounted for share of net assets (including profit and OCI) in BMA at 0.98%.

	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
Note	AFN	
6.3.4 Afghan National Insurance Company		
Opening balance		
Cost of investment	7,660,000	7,660,000
Post-acquisition share of net assets	65,849,815	60,802,650
	73,509,815	68,462,650
Share of profit in associate	-	192,412
Share of OCI in associate	-	4,854,753
Dividend received	-	-
Closing balance	73,509,815	73,509,815

PASHTANY BANK

Notes to the Financial Statements

For the year ended 29 Qaws 1398 (21 December 2019)

6.3.5 The summarized financial information of Bank-e-Millie Afghan (BMA) and Afghan National Insurance Company (ANIC) are as follows:

		30 Qaws 1398	30 Qaws 1397
		(21 Dec 2019)	(21 Dec 2018)
	Note	AFN	
BMA (audited financial statements)			
Total assets		41,761,269,674	41,879,351,674
Total liabilities		33,649,670,465	34,622,978,506
Net equity		8,111,599,209	7,256,373,168
Revenue		1,085,178,560	905,195,233
Profit for the year		855,226,041	683,204,365
Other comprehensive income (OCI)		-	(3,203,217)
ANIC			
Total assets		Not available	1,030,891,211
Total liabilities		Not available	71,233,038
Net equity		Not available	959,658,174
Revenue		Not available	227,014,929
Profit for the year		Not available	2,511,911
Other comprehensive income (OCI)		Not available	63,377,981

7 PROPERTY AND EQUIPMENT

Operating fixed assets	7.1	755735179	756182136
Capital work-in-progress	7.2	79546694	68631752
		<u>835,281,873</u>	<u>824,813,888</u>

PASHTANY BANK

Notes to the Financial Statements

For the year ended 29 Qaws 1398 (21 December 2019)

7.1 Operating fixed assets

	Land	Building	Electric equipment	IT equipment	Furniture and fittings	Computers	Motor vehicles	Total
	AFN							
Cost/ Revalued amounts								
Balance at 21 December 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
Additions	-	6,853,881	1,462,639	15,583,215	1,946,349	786,801	204,972	26,837,857
Disposals / Adjustment	-	-	(1,454,274)	(4,777,156)	(1,430,734)	(9,360,660)	(6,295,882)	(23,318,706)
Balance at 21 December 2019	352,591,506	503,576,750	66,317,421	51,626,289	24,552,715	49,308,552	12,227,693	1,060,200,926
Depreciation								
Balance at 21 December 2018	-	129,027,042	57,785,694	21,757,198	20,190,065	54,476,013	17,263,627	300,499,639
Charge for the year	-	9,982,504	4,959,285	8,523,089	1,718,149	1,773,402	721,082	27,677,511
Disposals / Adjustment	-	-	(1,435,165)	(4,716,855)	(1,384,522)	(9,625,981)	(6,548,880)	(23,711,403)
Balance at 21 December 2019	-	139,009,546	61,309,814	25,563,432	20,523,692	46,623,434	11,435,829	304,465,747
Carrying amounts								
At 21 December 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
At 21 December 2019	352,591,506	364,567,204	5,007,607	26,062,857	4,029,023	2,685,118	791,864	755,735,179

PASHTANY BANK

Statement of Comprehensive Income

For the year ended 30 Qaws 1398 (21 December 2019)

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
AFN			
7.2 Capital work-in-progress			
Opening		68,631,752	68,631,752
Additions during the year		80,973,021	-
Transferred to property and equipment		10,289,148	-
Transferred to intangible assets		58,178,178	-
		68,467,326	-
		81,137,447	68,631,752
8. INTANGIBLE ASSETS			
Cost			
Opening balance		-	-
Additions during the year - Core Banking System	8.1	58,178,178	-
Closing balance		58,178,178	-
Less: Accumulated amortization			
Opening balance		-	-
Charge for the year		3,577,289	-
Closing balance		3,577,289	-
Written down value		56,739,884	-

8.1 Intangible assets include licenses acquired for Core Banking System (Oracle) as a part of the IT infrastructure development financed by the World Bank project to modernize Afghan State-Owned Banks. The amortization rate of intangible assets determined is 10% p.a.

PASHTANY BANK

Statement of Comprehensive Income

For the year ended 30 Qaws 1398 (21 December 2019)

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
		AFN	AFN
9 INVESTMENT PROPERTIES			
Land		5,786,500	5,786,500
Buildings		956,396,500	956,396,500
	9.1	962,183,000	962,183,000
9.1 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
AFN			
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

9.1 As per Initial Decree No. 39 dated 21 Jaddi 1388 (11 January 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 7 Dalwa 1394 (27 January 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 21 Qaws 1397 (12 December 2018) by MoF and in consequence special Decree issued by His Excellency the President of Afghanistan No. 2344 dated 1 Jaddi 1397 (22 December 2018), investment properties of Pashtany Bank have been exempted from the Initial Decree No. 39 dated 21 Jaddi 1388 (11 January 2010) and all collected rental income through the Director General Properties to be reverted back to Pashtany Bank. Receivable against the rent collected by the MoF has been accounted for as an advance tax as per understanding reached with the MoF.

PASHTANY BANK

Statement of Comprehensive Income

For the year ended 30 Qaws 1398 (21 December 2019)

		30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
	Note	AFN	
10.	TOTAL ASSETS		
	<i>Deferred tax asset</i>		
	Carried forward tax	255,105,831	277,178,986
	10.1		
	<i>Deferred tax liability</i>		
	Surplus on revaluation	(109,854,600)	(110,492,200)
	10.2		
		<u>145,251,231</u>	<u>166,686,786</u>
10.1	The movement in carried forward tax losses is as follows:		
	Opening balance	277178986	235,527,558
	Charge/ (reversal) to profit or loss	-22073155	(235,527,558)
	Closing balance	<u>255,105,831</u>	<u>-</u>
10.2	The movement in surplus on revaluation is as follows:		
	Opening balance	110,492,200	111,129,800
	Deferred tax on incremental depreciation	(637,600)	(637,600)
	Closing balance	<u>109,854,600</u>	<u>110,492,200</u>

PASHTANY BANK

Statement of Comprehensive Income

For the year ended 30 Qaws 1398 (21 December 2019)

	Note	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
11 OTHER ASSETS			
Required reserve at	11.1	1,656,688,233	1,377,754,769
Advance tax		456,891,274	353,072,899
Advances to employees		11,372,194	14,868,690
Advances to suppliers		13,790,269	60,862,858
Interest accrued on capital notes and time deposits		48,352,370	25,613,215
Security deposit		45,436,280	-
Others		3,938,450	48,851,893
		2,236,469,070	1,881,024,324
Provision against ac	11.2	(4,709,789)	(3,655,127)
Provision against misappropriation		-	(31,674,273)
Net carrying amount		<u><u>2,231,759,281</u></u>	<u><u>1,845,694,924</u></u>
11.1	This represents statutory reserve maintained with DAB as minimum reserve in accordance with Banking Regulations issued by Da Afghanistan Bank. These		
11.1.1	Currency profile of required reserve with DAB		
		787,815,073	574,866,194
		868,873,160	802,888,575
		<u><u>1,656,688,233</u></u>	<u><u>1,377,754,769</u></u>
11.2	PROVISION AGAINST ADVANCES AND RECEIVABLES		
		(3,655,127)	(41,017,578)
(Charged) / Rever	11.2.1	(1,054,662)	37,362,451
Closing for the year		<u><u>(4,709,789)</u></u>	<u><u>(3,655,127)</u></u>
11.2.1	This represents provision against other asset in accordance with the DAB's Asset Classification and Provisioning Regulation (December 2017).		

PASHTANY BANK

Statement of Comprehensive Income

For the year ended 30 Qaws 1398 (21 December 2019)

	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
	AFN	
12 SHARE CAPITAL		
12.1 Authorized		
3,820,257 (2018: 3,820,257) ordinary shares of AFN 1,000 each	<u>3,820,257,000</u>	<u>3,820,257,000</u>
12.2 Issued, subscribed and paid-up		
3,820,257 (2018: 3,820,257) ordinary shares of AFN 1,000 each	<u>3,820,257,000</u>	<u>3,820,257,000</u>
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
	<u>3,820,257,000</u>	<u>3,820,257,000</u>
13.0 SURPLUS ON REVALUATION - NET		
13.1	<u>444,913,400</u>	<u>447,463,800</u>
13.1 Opening balance	444913400	447463800
Recognized in retained earnings		
Incremental depreciation	-3188000	-3188000
Related deferred tax liability	637600	637600
	-2550400	-2550400
Closing balance	<u>442,363,000</u>	<u>444,913,400</u>

PASHTANY BANK

Statement of Comprehensive Income

For the year ended 30 Qaws 1398 (21 December 2019)

14.0 DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

Current deposit

Agricultural Bank of Afghanistan	14.1	233,321	234,321
Construction Bank of Afghanistan	14.1	25,321,506	1,603,239
Bank-e-Millie Afghan		40,348,767	345,756
Maiwand Bank		867,336	835,805
Afghan United Bank		3,949,927	3,800,411
Azizi Bank		107,540	104,308
New Kabul Bank		33,952	33,957
Ghazanfar Bank		40,609	40,322
		70,902,958	6,998,119

Time Deposit

New Kabul Bank	14.2	784,100,000	749,600,000
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Time Deposit of financial institutions

Afghan National Insurance Company		158,615,903	-
		1,013,618,861	756,598,119

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 1.10% p.a. with maturity on November 17, 2020. The deposit has been received under a memorandum of understanding signed with New Kabul Bank.

		30 Qaws 1398	30 Qaws 1397
		(21 Dec 2019)	(21 Dec 2018)
Note	AFN		

15.0 DEPOSITS FROM CUSTOMERS

Fixed deposit	15.1	36,911,938	32,638,602
Saving deposits	15.2	8,342,570,612	8,125,548,155
Current deposits		10,316,044,581	9,282,820,846
		18,695,527,131	17,441,007,603

15.1 This includes fixed deposit of USD 54,500 (equivalent AFN 4.27 million) from the Ministry of Commerce which carry interest rate of 0.5% and maturing on 30 December 2019. The remaining amount of AFN 32.64 million from Seloo Markazi which is interest free with indefinite maturity.

15.2 These carry interest rate of 0.05% (2018: 1.5%) p.a. for AFN currency and 0.5% (2018: 0.5%) p.a. for deposits in USD currency. Other foreign currencies are interest free.

PASHTANY BANK

Statement of Comprehensive Income

For the year ended 30 Qaws 1398 (21 December 2019)

		30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
	Note	<u>AFN</u>	
16.	DEFERRED GRANT		
	Opening balance	-	-
	Additions during the year	80,973,021	-
	Amortization		
	Property and equipment	152,459	
	Intangible assets	1,438,294	
		<u>1,590,753</u>	-
		<u>79,382,268</u>	<u>-</u>

16.1 This represents the non-monetary grant received from the World Bank during the

17 OTHER LIABILITIES

Employees pension fund	0	131,030,424	130,042,326
Creditors		3,071,771	30,433,100
Accrued expenses		16,377,892	51,322,176
Other payables		29,055,434	10,609,596
Withholding tax payable		2,622,798	1,895,797
Inter-branch unreconciled balance		4,200,151	17,183,426
		<u>186,358,470.0</u>	<u>241,486,421</u>

PASHTANY BANK

Statement of Comprehensive Income

For the year ended 30 Qaws 1398 (21 December 2019)

17.1 Employees pension fund

17.1.1 **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.

17.1.2 **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 21 December 2019 (30 Qaws 1398). 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 2.20% (2018: 4.50%) per annum
- Expected increase in salary levels of 2.20% (2018: 4.50%) per annum
- Withdrawal rate of 19.3% (2018: 11%) p.a. for service upto 10 years and 5.3% (2018: 3%) p.a. for service after that

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

Note	30 Qaws 1398 (21 Dec 2019)	AFN	30 Qaws 1397 (21 Dec 2018)
Present value of defined benefit obligation	131,030,424		130,042,326
Fair value of plan assets	-		-
	131,030,424		130,042,326

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

Opening net liability	130,042,326	95,422,040
Current service cost	9,106,364	6,752,272
Interest cost	5,605,846	4,091,080
Contributions made to the scheme by employees	2,828,921	3,401,076
Actuarial loss - recognized in OCI	393,347	29,394,147
Transfer out	(874,783)	-
Benefit payable	(5,135,665)	-
Benefits paid during the year	(10,935,932)	(9,018,289)
Liability at end of the year	131,030,424	130,042,326

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25 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 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
	AFN		AFN	
	Balances		Transactions	
Investment in equity instruments				
Bank-e-Mille Afghar	60,672,584	52,291,803	-	44,965,930
Afghan National Insurance Company	73,509,815	73,509,815	-	-
Shirkat-e-Ariyana	281,250	281,250	-	-
Hotel Intercontinent	64,435	281,250	-	-
Afghan Card Corpor	2,822,884	2,822,884	-	-
Pakht-e-Herat	65,542	65,542	39,325	39,325
Shirkat Nasaji Afgha	83,518,400	83,518,400	-	-
Afghanistan Payme	19,602,500	18,740,000	-	-
Deposits from banks				
Bank-e-Mille Afghar	40,348,767	345,756	40,003,011	(13,187)
Transactions with key management personnel				
Short-term employee benefits			23,180,500	13,890,000

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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26. 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				
2019					
Property and equipment	4,490,351,526	-	-	2,602,199,985	7,092,551,511
Intangible assets	11,103,527,049	-	240,537,411	-	11,344,064,460
Loans and advances to customers	-	-	-	-	-
Other assets	-	-	-	1,749,705,544	1,749,705,544
	15,593,878,575	-	240,537,411	4,351,905,529	20,186,321,515
Deposits from banks and financial ir	-	-	-	1,013,618,861	1,013,618,861
Deposits from customers	-	-	-	18,695,527,131	18,695,527,131
Other liabilities	-	-	-	48,505,097	48,505,097
	-	-	-	18,744,032,228	18,744,032,228
2018					
Cash and cash equivalents	5,322,160,000	-	231,294,129	-	5,553,454,129
Placements and investments	-	-	-	-	-
Loans and advances to customers	-	-	-	(86,476,073)	(86,476,073)
Other assets	12,321,248,658	-	231,294,129	5,769,140,915	18,321,683,702
Deposits from banks and financial ir	-	-	-	756,598,119	756,598,119
Deposits from customers	-	-	-	17,441,007,603	17,441,007,603
Other liabilities	-	-	-	92,364,872	92,364,872
	-	-	-	18,289,970,594	18,289,970,594

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

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27. FINANCIAL RISK MANAGEMENT

27.1 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.

27.2 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 placements with other banks and guarantees issued by the Bank. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

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27.3 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, whilst enabling the Bank to pursue valued business opportunities.

The Bank relies on deposits from customers as its primary source of funding. Deposits from 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:

	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
At period end / year end	95.44	93.77
Average for the period / year	95.48	93.74
Maximum for the period / year	102.60	99.88
Minimum for the period / year	80.34	89.34

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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
2019				AFN		
Deposits from banks :	14	1,013,618,861	(1,013,618,861)	(70,902,958)	-	(942,715,903)
Deposits from custom	15	18,695,527,131	(18,695,527,131)	(18,695,527,131)	-	-
Other liabilities	17	48,505,097	(48,505,097)	(48,505,097)	-	-
		19,757,651,089	(19,757,651,089)	(18,814,935,186)	-	(942,715,903)
2018						
Deposits from banks :	14	756,598,119	(756,598,119)	(6,998,119)	-	(749,600,000)
Deposits from custom	15	17,441,007,603	(17,441,007,603)	(17,441,007,603)	-	-
Other liabilities	17	92,364,872	(92,364,872)	(92,364,872)	-	-
		18,289,970,594	(18,289,970,594)	(17,540,370,594)	-	(749,600,000)

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.

27.4 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 policies and day to day review of their implementation.

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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 of the Bank's interest rate gap position on non-trading portfolio is as follows:

	Note	Carrying amount	Less than one month	Less than 3 months	6-12 months	1-5 years
AFN						
2019						
Cash and cash equi	5	5,522,799,680	1,532,399,548	3,990,400,132	-	-
Placements and inv	6	11,344,064,460	-	-	11,103,527,049	-
		16,866,864,140	1,532,399,548	3,990,400,132	11,103,527,049	-
Deposits from banks	14	942,715,903	-	-	942,715,903	-
Deposits from custo	15	8,379,482,550	8,379,482,550	-	-	-
		9,322,198,453	8,379,482,550	-	942,715,903	-
Gap		7,544,665,687	(6,847,083,002)	3,990,400,132	10,160,811,146	-
2018						
Cash and cash equi	5	7,459,461,268	460,372,610	6,999,088,658	-	-
Placements and inv	6	5,322,160,000	-	-	5,322,160,000	-
		12,781,621,268	460,372,610	6,999,088,658	5,322,160,000	-
Deposits from banks	14	749,600,000	-	-	749,600,000	-
Deposits from custo	15	8,158,186,757	8,125,548,155	-	32,638,602	-
		8,907,786,757	8,125,548,155	-	782,238,602	-
Gap		3,873,834,511	(7,665,175,545)	6,999,088,658	4,539,921,398	-

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Exposure to currency risk

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

	US\$	Euro	Others
2019			
Cash and cash equivalents	465,008,153	196,889,619	134,761,629
Placements and investments	8,468,280,000	156,420,000	-
Other assets	907,410,431	10,708,861	-
	9,840,698,585	364,018,479	134,761,629
Deposits from banks and financial institutions	951,604,490	108,199	3054
Deposits from customers	8,413,908,270	122,348,427	42,007,662
Other liabilities	15,939,821	-	-
	9,381,452,581	122,456,626	42,010,716
Net foreign currency exposure	459,246,004	241,561,853	92,750,913
2018			
Cash and cash equivalents	2,940,246,737	156,172,723	626,344,231
Placements and investments	5,322,160,000	-	-
Other assets	831,127,116	7,145,480	-
	9,093,533,853	163,318,203	626,344,231
Deposits from banks and financial institutions	754021169.3	108026.889	4726.5
Deposits from customers	8005714993	68774855.64	21371436.71
Other liabilities	36,608,742	-	-
	8,796,344,904	68,882,883	21,376,163
Net foreign currency exposure	297,188,949	94,435,320	604,968,068

The following significant exchange rates were applied during the periods.

	2019		2018	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
US\$	77.70	78.41	72.23	74.96
Euro	87.00	86.90	83.79	85.39
GBP	98.46	101.80	93.42	94.53

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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 2019 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.

	2019		2018	
	Equity	Profit or loss	Equity	Profit or loss
	AFN		AFN	
US\$	36,739,680	45,924,600	23,775,116	29,718,895
Euro	19,324,948	24,156,185	7,554,826	9,443,532

A 10 % weakening of the Afghani against the above currencies at 21 December 2019 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.

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28.1. Capital management

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

- (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 ; and
- (iii) To maintain strong capital base to support the development of its business.

The Bank regulatory capital position as at 21 December 2019 is as follows:

	30 Qaws 1398 (21 Dec 2019)	30 Qaws 1397 (21 Dec 2018)
	AFN	
Core (Tier 1) Capital:		
Total shareholder's equity	2,692,944,510	2,265,079,680
Less:		
Profit for the year	(428,258,177)	(208,803,111)
Deferred tax assets - Net	(145,251,231)	(166,686,786)
Intangible assets	(56,739,884)	-
Surplus on revaluation of fixed assets	(442,363,000)	(444,913,400)
	1,620,332,218	1,444,676,383
Supplementary (Tier 2) Capital:		
Profit for the year	428,258,177	208,803,111
Surplus on revaluation of fixed assets	442,363,000	444,913,400
Allowable deduction - equity investment	(240,537,411)	(231,294,129)
	630,083,766	422,422,382
Total regulatory capital	2,250,415,984	1,867,098,765
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	759,688,887	394,134,335
Direct claims on DAB	9,689,999,136	12,212,854,306
Total	10,449,688,023	12,606,988,641
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Balances with other banks	9,403,078,770	5,444,265,224
20% risk-weight total (above total x 20%)	1,880,615,754	1,088,853,045
100% risk weight:		
All other assets	2,815,064,447	2,652,917,958
Allowable deduction-equity investment	(240,537,411)	(231,294,129)
Intangible assets	(56,739,884)	-
Net deferred tax asset	(145,251,231)	(166,686,786)
100% risk-weight total (above total x 100%)	2,372,535,921	2,254,937,043
0% risk weight:		
Guarantees	1,093,102,000	946,798,203
0% credit conversion factor total (risk-weighted total x 0%)	-	-
Total risk-weighted assets	4,253,151,675	3,343,790,088

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	<u>30 Qaws 1398</u> <u>(21 Dec 2019)</u>	<u>30 Qaws 1397</u> <u>(21 Dec 2018)</u>
	AFN	
<i>Tier 1 Capital Ratio</i>		
(Tier 1 capital as % of total risk-weighted assets)	38.10%	43.20%
<i>Regulatory Capital Ratio</i>		
(Regulatory capital as % of total risk-weighted assets)	52.91%	55.84%

29. **CORRESPONDING FIGURES**

29.1 Corresponding figures have been reclassified / re-arranged wherever necessary to facilitate comparison in the presentation in the current year.

29.2 The figures in these financial statements have been rounded off to the nearest in AFN.

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 2019, 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)700813473	sarayshazada@pashtanybank.com.af	KABUL
3	Macrorayan Branch	Mirwais Hotak	(+93)202301791	macrorayan@pashtanybank.com.af	KABUL
4	Baharistan Branch	Mohammad Iqbal Amani	(+93)788045504	baharstan@pashtanybank.com.af	KABUL
5	Share_Now Branch	Zalmai Sadat	(+93)794824849	share-now@pashtanybank.com.af	KABUL
6	Khairkhana Branch	Pazhwak Noori	(+93)780660502	khairkhana@pashtanybank.com.af	KABUL
7	Gulbahar Center Branch	Mohammad Zubair Roohi	(+93)786971700	Gulbahar center@pashtany bank.com.af	KABUL
8	Dehmazang Branch	Bashir Ahmad Amarkhail	(+93)0202514260	dehmazang@pashtanybank.com.af	KABUL
9	Mirwais Maidan Branch	Habib Andar	(+93)0202562158	mirwaismaidan@pashtanybank.com.af	KABUL
10	Abida Maiwand Branch	Mohammad isa Mobariz	(+93)730604488	abedaemaiwand@pashtanybank.com.af	KABUL
11	Karti_now Branch	Mohammad Salim Abasi	(+93)771002420	Karte-now@pashtanybank.com.af	KABUL
12	Dashti_barchi Branch	Sayed Mohammad Aqa Hashimi	(+93)744741535	Barchi@pashtanybank.com.af	KABUL
13	Mazar Sharif Branch	Amruddin Asami	(+93)502003414	mazar@pashtanybank.com.af	MAZAR
14	Heratt Branch	Sharifullah Naseri	(+93)783412372	herat@pashtanybank.com.af	HEART
15	Kandahar Branch	Aziz Ahmad	(+93)797999124	kandahar@pashtanybank.com.af	KANDAHAR
16	Jalalabad Branch	Ismail Hodman	(+93)797999125	jalalabad@pashtanybank.com.af	JALALABAD
17	Faryab Branch	Saifullah	(+93)797999126	faryab@pashtanybank.com.af	FARYAB
18	Kundoz Branch	Mujtaba	(+93)799060500	kondo@pashtanybank.com.af	KUNDOZ
19	Hairatan Branch	Zahiruddin Mehrabi	(+93)794290004	hairatan@pashtanybank.com.af	HAIRATAN
20	Polekhomry Branch	Ansarullah Amani	(+93)582010218	polekhomry@pashtanybank.com.af	POLEKHOMRY