



PASHTANY BANK
ARTICLE OF ASSOCIATION
(Amended in 2017)





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DEFINITION

“**Clauses**” means these Article(s) as originally framed or as from time to time altered in accordance with law.

“**Bank**” means “PASHTANY BANK”

“**Banking Law**” means the Banking Law Enacted in Afghanistan or any modification or re-enactment thereof for the time being in force.

“**Board**” means the Supervisory Board constituted under these Articles at which a quorum is present.

“**Company Law**” means the Company Law Enacted in Afghanistan or any modification or re-enactment thereof for the time being in force.

“**Directors**” mean the members of the Supervisory Board.

“**Fit and Proper Person**” means a person who in the judgment of Da Afghanistan Bank is of honesty, trustworthiness, fairness, integrity and has ability to make sound and effective decision in his personal, financial and business activities and possesses good skills and experience for conducting the intended activities of the bank.

“**Dividend**” means a part of the company’s net earnings that are distributed to Shareholders in accordance with the rights determined for each kind and class of shares.

“**Government**” means Government of the Islamic Republic of Afghanistan.

“**Month**” means calendar month according to the Afghanistan Calendar.

“**Office**” means the registered Office of the Bank.

“**Register**” means, unless the context otherwise requires, the register of Shareholders to be kept pursuant to Companies Law.

“**Seal**” means the common or official seal of the Bank.

“**Secretary**” includes any person appointed from time to time to perform the duties of Secretary to the Supervisory Board.

“**Special Resolution**” means special resolution of the Bank as defined in the Companies Law.

“**DAB**” means Da Afghanistan Bank (Central Bank of Islamic Republic of Afghanistan)

“**Islamic Banking**” means a bank which operates in accordance with Islamic Shariah.



“**Conventional Bank**” means bank operating in accordance with traditional banking practice.

“**Control**” means any situation in which, a person alone or acting in concert with one or more other persons: holds beneficial ownership of at least 50% of any category of voting shares or Capital of an enterprise; has the power to elect a majority of the board of supervisors, or any similar, Body, of an enterprise; or has the ability to exert a dominant influence over the management or policies of the enterprise; or Has the Power to issue, based on a custom or formal or informal arrangement, Instructions or directions to a majority of the members of the board of Supervisors of an enterprise, or shareholders beneficially owning at least 50% of any category of voting shares or capital of the enterprise.

“**Branch Office**” means a dependent part of a bank where all or some banking Activities are conducted;

CHAPTER 1: OVERVIEW

Article 1: Background

- 1.1. Pashtany Bank is a State Owned bank and is registered with the Central Bank (Da-Afghanistan Bank) under the commercial banking license to operate nationwide.
- 1.2. The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The bank has twenty one branches in operation.
- 1.3. Pashtany Bank was established in 1333 (1954 CE) during King Mohammad Zaher Shah regime with an initial investment of AFG 120 million. Shareholders included institutions such as the Pension Fund Chairmanship, Afghanistan Agriculture Bank, and others. The bank initially employed 22 staff.
- 1.4. Mr. Janat Khan Gharwal was appointed as the first president. Mr. Gharwal grew the bank to 10 departments within its main office along with five local, four provincial branches, three border branches as well as three foreign branches located in Peshawar, Chaman, and Karachi cities of Pakistan.
- 1.5. For its first 19 years, the bank flourished under Mr. Gharwal despite political instability beginning in 1352 (1973 CE) and world financial crisis. Mr. Sardar Mohammad Dawood Khan replaced Mr. Gharwal coincident with the king’s abdication, his replacement with a presidential political system, and economic reforms. Pashtany Bank also lost its private shareholders during this period and became solely owned by the government.

Article 2: General provisions

- 2.1. These Articles of Association are made in accordance with the banking law of the Islamic Republic of Afghanistan “The Afghanistan Banking Law of the Central Bank of Afghanistan (Da – Afghanistan Bank). Registered as a commercial financial institution under the Central Bank of Afghanistan (Da- Afghanistan Bank), (Hereinafter referred to as “Bank”).



Article 3: Mission

3.1. The mission of the Bank is to operate with a customer-focused and market-oriented approach, strengthen corporate governance, pursue a stable and sustainable development and provide high-quality banking services, with a view to achieve the corporate governance goals of becoming a bank operating safely, a strict internal control, thus enhancing its international competitive strength and maximizing the interests of its shareholders.

Article 4: Objectives

4.1. The objectives of the Pashtany Banks are two-fold; to offer a wide variety of services to individual and business customers, and to collect payments including fees, charges and interest on the products and services provided to customers for the purpose of generating profits for shareholders. Pashtany Bank typically offers a robust suite of services in an attempt to be able to serve all the financial needs of each customer. This results in the opportunity to maximize revenues from each customer. For example, a customer who has checking and saving accounts, loans, and credit cards for personal and business use at one bank generates revenues through numerous channels.

4.2. Pashtany Bank financial services another objective is to contribute to the development and prospering of people in country, today and in the future.

4.3. First and foremost this means simultaneously taking into account the social, environmental, cultural and economic impacts of activities on all levels, with the aim of reducing their negative and increasing their positive effects on the common good.

Article 5: Activities

5.1. According to the Afghanistan Banking Law, Article (66) Pashtany bank activities are to perform:

5.1.1. Receiving money deposits in the form of demand deposits, or other types of deposit or other repayable funds, bearing interest or not;

5.1.2. Extending credits whether secured or not by collateral or liens, including;

- Extending consumer and mortgage credit, without limitation;
- Financing of commercial transactions, including purchasing negotiable instruments at
- Discount without recourse;
- Factoring, with or without recourse; and
- financial leasing services;

5.1.3. Buying and selling for its own account or for account of customers:



- Money market instruments (including checks, bills of exchange, promissory notes and certificates of deposit);
 - Foreign currencies
 - Precious metals and precious stones
 - Exchange and interest rate instruments;
 - Stocks, bonds and other securities, in accordance with provisions of the law and regulations of Da Afghanistan Bank;
 - Forward contracts, swap agreements, futures, options, and other derivatives relating to currencies;
 - Swap agreements
- 5.1.4. Entering into contingent commitments, including guarantees and letters of credit, for its own benefit and for the benefit of customers;
- 5.1.5. providing clearing, settlement and transfer services for money, securities, and payment instruments (including checks; credit, debit and other payment cards; travelers' checks; and bank drafts, wire transfers, and preauthorized debits and credits);
- 5.1.6. Money Brokering;
- 5.1.7. Safekeeping and administration of valuables, including securities; providing services as portfolio manager of securities or as financial adviser or as financial agent;
- 5.1.8. Providing financial information and credit reference services, including general market economy information;
- 5.1.9. Issuing electronic money;
- 5.1.10. Providing credit-related insurance to borrowers in connection with credit granted by the bank;
- 5.2. Banks are required to conduct the activities referenced in paragraph 1 of this Article in a sound and prudent manner and in accordance with the requirements of the law, any conditions or restrictions attached to a bank's license, approvals issued by Da Afghanistan Bank, and regulations, guidelines and orders issued by Da Afghanistan Bank.
- 5.3. Domestic banks must conduct their operations in Afghanistan, except as permitted by provisions this Law pertaining to branch offices, representative offices and subsidiaries abroad.
- 5.4. No bank shall move all or any part of its administration, operations, books or records outside Afghanistan without the prior written consent of Da Afghanistan Bank.

**Article 6: Name**

6.1. Full official name of the Bank:

- In Pashto (پښتني بانک)
In Dari (پښتني بانگ)
In English (PASHTANY BANK),

6.2. The Bank has the exclusive right to use its full name. It shall be a finance and credit institution and shall acquire the rights of legal entity from the date of its registration with the Central Bank (Da Afghanistan Bank), in accordance with the laws of Afghanistan and the normative acts of the Da Afghanistan Bank.

6.3. The Bank shall have a round seal with its full name in the local and English languages, stamps and letterheads with its name, its logo and other means of visual identification.

6.4. Main Office PolBagh-e-Omome, Next to Ministry of Communication and Information Technology (MCIT), Kabul – Afghanistan.

Article 7: Branches

7.1. In accordance with the law of banking of Afghanistan and the normative acts of the Da Afghanistan Bank. Bank may establish or legally acquire a subsidiary, in Afghanistan or abroad, only with the prior written approval of Da Afghanistan Bank. (2) A bank may have only financial institutions as subsidiaries. (3) To obtain approval under paragraph 1 of this Article, a bank must submit to Da Afghanistan Bank an application containing the following information.

7.2. Bank shall in form DAB within 10 days of the acquisition or establishment of a subsidiary.

7.3. Bank shall inform DAB within 10 days of all amendments and additions to the charter and by-laws of its subsidiaries.

7.4. Bank shall inform of its decision to relinquish control of a subsidiary or branch, at least 30 days prior to the intended relinquishment; and upon relinquishment of control of a subsidiary, within 10 days following such relinquishment.

(i) The managers or branches and representative offices shall be entitled to act on the basis of powers of attorney issued by the Bank.

(ii) The branches and the representative offices of the Bank shall be entitled to accept deposits as well as provide other banking and financial services to the clients of the Bank, as agents of the main office of the Bank in Kabul, or any of its branches elsewhere in Afghanistan or abroad.



CHAPTER II: CAPITAL

Article 8: Capital Structure

8.1. Pashtany Bank is a state owned bank, where all shareholders are government entities and the major shareholder is the Ministry of Finance with the share percentage of more than 67% equity stake in bank.

8.2. Capital injections can occur throughout the life cycle of a business. The current Capital Structure of Pashtany Banks is as follows:

Shareholders	Number of Share	Nominal Value of Shares	Share Percentage
Ministry of Finance	2,584,800.00	2,584,800,000.00	67.66%
Bank-e- Millie Afghan	1,098,982.00	1,098,982,000.00	28.77%
Afghan Red Crescent Society	20,050.00	20,050,000.00	0.52%
Health Insurance	1,200.00	1,200,000.00	0.03%
Spin Zar Corporation	725.00	725,000.00	0.02%
Ministry of Labor and social affairs	91,600.00	91,600,000.00	2.40%
Chamber of Commerce	11,450.00	11,450,000.00	0.30%
Saderaat Kashmesh	3,900.00	3,900,000.00	0.10%
Institute of Qaraqol	3,775.00	3,775,000.00	0.10%
Carpet Corporation	3,775.00	3,775,000.00	0.10%
Total Number of Shares and Its Nominal Value	3,820,257.00	3,820,257,000.00	100%

8.2. Pashtany Bank has, as required by Afghanistan Banking law, only two possible ways for capitalization of share capital:

- Profit Capitalization
- Fresh Capital injection by Shareholders in case of contingency

Article 9: Power to Increase Capital

9.1. The Bank may, from time to time, in a General Meeting of Shareholders increase the capital by such sum as may be considered appropriate; subject to DAB approval and as per Banking Law of Afghanistan. Similarly they may also decide to allocate the capital to any subsidiary entity of the Bank; subject to DAB approval.

9.2. Where the Directors decided to increase the capital of the Bank by the issue of further shares such shares shall be offered to the members in proportion to the existing shares held by each member and such offer shall be made by notice specifying the number of shares to which the member is entitled, and limiting a time within which the offer, if not accepted, will be deemed to be declined.

**Article 10: Reduction of Capital**

10.1 The Bank may, by special resolution, reduce its share capital in a manner authorized and required by Law. The bank shall not decrease its capital and reserves by repurchasing shares or distributing capital or reserve assets to its owners without the prior written authorization from Da Afghanistan Bank. The reduction in Capital is also to be done in a proportionate manner amongst the existing shareholders and any disproportionate reduction should have the express authorization from the Central Bank. Reduction of Capital is to be permitted only in case the existing Capital is far in excess of the immediate requirement.

Article 11: Notification of Undercapitalized Status

11.2. In the event that a bank becomes undercapitalized, significantly undercapitalized, or critically undercapitalized, the bank must immediately inform Da Afghanistan Bank of this fact, in writing.

11.2. Da Afghanistan Bank may also determine the undercapitalization referred to in Paragraph above of the article based on its own calculation and shall promptly inform the bank of its determination, in writing.



CHAPTER III: SHARES

Article 12: Shareholders Structure

- 12.2 Shares are fundamentally expressing the interest of a shareholder in the company measured by number of shares allotted and a sum of money, for the purpose of a liability in the first place and of interest in the second, but also consisting of a series of mutual covenants entered into by all the shareholders
- 12.3 Pashtany Bank share value is presented in the nominal value which is the face value of shares and. so any single ordinary share for instance has a nominal value of AFN 1000.

Article 13: Exercise of the Preferential Rights

- 13.1 All Pashtany Bank shares are ordinary shares and there are no other classes of shares and thus there is no preferential category of shares and no prioritization right is awarded to any member of shareholders.

Article 14: Assignment of shares

- 14.1 Assignment/Allotment of new shares are allotted and allocation to a member shareholder in the contingency after comprehensive need assessment is carried out and need is determined and a certain number of shares needed to raise for new capital injection from existence shareholder enter into allotment agreement between the capital stakeholders. Once it has agreed between the shareholders the shares are allotted and the holder shares percentage is proportionately increased. Share statement of all members are updated and disseminated to members.



CHAPTER IV: DIVIDENDS

Article 15: Dividends

- 15.1 The Board of Supervisors may propose declaration of dividend which has to be approved in a general meeting of the shareholders but such declaration shall be in accordance with the applicable Banking Law. Dividend shall be payable in cash only; not in kind.
- 15.2 The Directors may from time to time propose to pay to the Shareholders such interim dividends as appear to be justified by the profits of the Bank. Interim dividend shall only be declared out of the current year's profits only upon reasonable assurance that the profits shall be sustained at the year end. DAB's approval shall also be needed for payment of interim dividend, if any.
- 15.3 The Board may carry forward any profits which they may think prudent not to distribute, without setting them aside as a reserve.
- 15.4 The dividend shall be paid within the period of thirty (30) days of the date of the General Meeting of Shareholders authorizing it. The dividend shall be credited to the designated account of the shareholder's or may be sent through cheque to the registered address. Dividend remaining unpaid shall be sent to the Unclaimed Dividend Account of DAB after a period of 10 years
- 15.5 A dividend is an amount payable to shareholders from profits or other distributable reserves. The company in general meeting may declare dividends. No dividend may exceed the amount recommended by the directors who have an implied power in their discretion to set aside profits as reserves.
- 15.6 Pashtany Bank just like public company may only make a distribution if its net assets are, at the time, not less than the aggregate of its called-up share capital and undistributable reserves. It may only pay a dividend which will leave its net assets at not less than that aggregate amount.
- 15.7 Generally dividend could be paid two times interim and final dividend based on interim profit figures,
- 15.8 And a final dividend based on the annual accounts and approved at the AGM in case of Pashtany Bank only final dividend on the net realized profit in compliant to IFRS accounts figures are paid after comprehensive financial regulatory analysis is conducted and dividend amount is determined.



CHAPTER IV: GOVERNANCE STRUCTURE

Article 16:

- 16.1. Governance structure of banks Article as per the Afghanistan Banking Law: Each bank shall have the following governance structure:
- 16.2. Pashtany Bank has the following structure as per law and corporate governance structure:
- General Assembly of the Shareholders,
 - Board of supervisors,
 - Board of management
- 16.3. The board has approved corporate governance policy along with other significant policies for the bank during the year.
- 16.4. Board of Supervisors and Board of Management Members are:

Independent Directors (Non-Executive)	<ul style="list-style-type: none"> • Chairman of the Board of Supervisors • Member of Supervisory Board • Member of Supervisory Board
Management Board Directors	<ul style="list-style-type: none"> • Chief Executive Officer • Dy. Chief Executive Officer • Chief Financial Officer • Chief Credit Officer • Chief Operation Officer

- 16.5. None of the directors is serving as director in both board of supervisors and board of management; all of them are performing independently as per the law.
- 16.6. Boards of Supervisors are non-executive directors and are all fit and proper and meet the conditions as stipulated in the banking law.
- 16.7. Before a bank appoints a person to serve on its board of supervisors or management board, the bank must propose the issue to Da Afghanistan Bank as well as submit documents pursuant to Article 12 of the Afghanistan banking law, during an application for a banking license, and shall obtain Da Afghanistan Bank's authorization.
- 16.8. The Board of Supervisors shall consist of such number and persons of Supervisors as may be established by a resolution of the Shareholders at a General Meeting, provided that at no time shall the number of Supervisors be less than three (3) and more than nine (9). The General Meeting of the Shareholders shall designate a member of the Board of Supervisors to be the Chairman of the Board of Supervisors.



Article 17: General Meeting of Shareholders

17.1. The general meeting of shareholders of a bank “which in this law referred to as general assembly of shareholders” shall have the following duties and powers:

- To adopt the procedures of the bank and amendments thereto;
- To adopt the by-laws of the bank and amendments thereto, provided that the general meeting of shareholders may authorize the board of supervisors to perform these functions,
- To appoint and to dismiss the members of the board of supervisors and determine their remuneration;
- To adopt increases in the authorized capital of the bank and to determine the terms and conditions on which shares of the bank may be issued;
- To approve the annual reports and financial statements of the bank, upon the recommendation of the board of supervisors of the bank;
- To decide on the sale, merger, amalgamation, dissolution and closure of the bank;
- To appoint the bank’s external audit firm, taking into account the recommendation of the board of supervisors.
- To establish and close subsidiaries, branches and representative offices of bank.

17.2. According to the value of the shares in the capital of the bank, each shareholders have voting power proportionate to their shares in capital, and can be used in general assembly by each shareholders directly or through their representatives.

17.3. At least one regular session of the general meeting of shareholders shall be held each year after completion of the external audit of the balance sheet and financial statements of the bank for the preceding financial year, and no later than 3 months after the end of that financial year.

17.4. Extraordinary sessions of the general meeting of shareholders may be convened at the request of the board of supervisors, the management board, shareholders together holding 20% or more of total voting rights, or Da Afghanistan Bank.

17.5. Written notice of the date, place and time of each session of the general meeting of shareholders, together with the agenda for that session, shall be sent to the shareholders using postal or email service at least one month in advance. In urgent issues such notice may be given seven days in advance.

Article 18: Proxy Voting

18.1. Proxy voting systems are implemented to ensure that shareholders who are unable to attend general meetings where resolutions will be proposed and voted on can still make their opinions heard and vote. The respective shareholders will officially appoint their proxy for the general meeting.

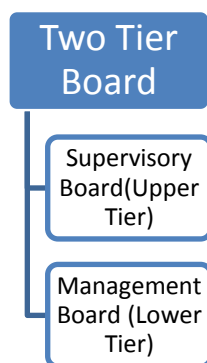
**Article 19: Board Meetings**

Board meetings should include:

- 19.1. The board meetings must be held at least monthly, quarterly, and on yearly basis as per banking regulation of Afghanistan.
- 19.2. Special meetings may be called if:
 - The bank becomes undercapitalized;
 - It is requested by audit committee or external auditor of the bank; or
 - It is requested by Da Afghanistan bank or Management of the bank.
- 19.3. Da Afghanistan Bank may require a bank to hold a special meeting of its board of supervisors if Da Afghanistan Bank deems it necessary, and to consider the matters set forth in a written notice of Da Afghanistan Bank.
- 19.4. The quorum of the board of supervisors is a two third majority of the members and the decisions are taken by a simple majority of the votes of its present members who has voting right. In case of a tie vote, the Chairman shall cast the deciding vote. Members may not abstain from voting except as permitted or required by banking law of Afghanistan.
- 19.5. The board of supervisors shall designate an employee of the bank who is not a member of the board of supervisors as secretary to the board. Minutes of each meeting of the board of supervisors shall be kept and shall be signed by the person chairing the meeting, and by the secretary and other members present.
- 19.6. Agenda should strike a balance between long and short term issues and every director should have the opportunity to place items on the agenda.
- 19.7. All topics should have informative supportive information, risks and alternatives identified. Information must be distributed in good time.
- 19.8. Meetings should be regular and attendance expected.
- 19.9. Chairmen should direct proceedings allowing ample time for discussion and input from everyone prior to decisions being made.
- 19.10. Where necessary board away-days to strategic sites, or supportive strategy briefing meetings should be used.



Article 20: Board Structure



20.1. Upper Tier: Board (Supervisory board):

- Appoints, supervises and advises members of the management board
- Strategic oversight of the bank
- The chairman coordinates the work
- Members are elected by shareholders at AGM and casually as per necessity.
- Receive information and reports from management board.
- And many other rights, duties and responsibilities that are mentioned in this policy

20.2. Lower Tier: Management (executive operating board):

- For day to day running of the enterprise,
- Only includes executive directors,
- The CEO co-ordinates activity and is in charge of this board.
- And many other rights, duties and responsibilities that are mentioned in this policy.

Article 21: Board Members Selection and Qualification

21.1. Boards should have a clear and rigorous process for identifying, assessing and selecting board candidates. Unless required otherwise by law, the board (not management) nominates candidates and promotes appropriate succession planning of board members.

21.2. The selection process should include reviewing whether board candidates:

- Possess the knowledge, skills, experience and, particularly in the case of non-executive directors, independence of mind given their responsibilities on the board and in the light of the bank's business and risk profile;
- Have a record of integrity and good repute;



- Have sufficient time to fully carry out their responsibilities; and
 - Have the ability to promote a smooth interaction between board members.
- 21.3. Board candidates should not have any conflicts of interest that may impede their ability to perform their duties independently and objectively and subject them to undue influence from:
- Other persons (such as management or other shareholders.
 - Past or present positions held; or
 - Personal, professional or other economic relationships with other members of the board or management (or with other entities within the group).
- 21.4. If Shareholders nominate board members and/or to approve their selection. In such cases, the board should still do whatever is within its power to ensure that members selected for the board are qualified and are fit and proper.
- 21.5. If a board member ceases to be qualified or is failing to fulfill his or her responsibilities, the board should take appropriate actions as permitted by law, which may include notifying their banking supervisor and also shareholders.
- 21.6. The bank should have in place a nomination committee or similar body, composed of a sufficient number of independent board members, which identifies and nominates candidates after having taken into account the criteria described above.
- 21.7. In order to help board members acquire, maintain and enhance their knowledge and skills, and fulfill their responsibilities, the board should ensure that members participate in induction programs and have access to ongoing training on relevant issues which may involve internal or external resources. The board should dedicate sufficient time, budget and other resources for this purpose, and draw on external expertise as needed. More extensive efforts should be made to train and keep updated those members with more limited financial, regulatory or risk-related experience.
- 21.8. Where there are shareholders with power to appoint board members, the board should ensure that such individuals understand their duties. Board members have responsibilities to the bank's overall interests, regardless of who appoints them. Where board members are selected by a controlling shareholder, the board may wish to set out specific procedures or conduct periodic reviews to facilitate the appropriate discharge of responsibility by all board members.

Article 22: Board's own Structure and Practices

- 22.1. The board should define appropriate governance structures and practices for its own work, and put in place the means for such practices to be followed and periodically reviewed for ongoing effectiveness.



- 22.2. The board should structure itself in terms of leadership, size and the use of committees so as to effectively carry out its oversight role and other responsibilities. This includes ensuring that the board has the time and means to cover all necessary subjects in sufficient depth and have a robust discussion of issues.
- 22.3. The board should maintain and periodically update organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities.
- 22.4. To support its own performance, the board should carry out regular assessments alone or with
- 22.5. The assistance of external experts of the board as a whole, its committees and individual board members. The board should:
- 22.6. Periodically review its structure, size and composition as well as committees' structures and coordination;
- Assess the ongoing suitability of each board member periodically (at least annually), also taking into account his or her performance on the board;
 - Either separately or as part of these assessments, periodically review the effectiveness of its own governance practices and procedures, determine where improvements may be needed, and make any necessary changes; and
 - Use the results of these assessments as part of the ongoing improvement efforts of the board and, where required by the supervisor, share results with the supervisor (DAB).
- 22.7. The board should maintain appropriate records (eg meeting minutes or summaries of matters reviewed, recommendations made, decisions taken and dissenting opinions) of its deliberations and decisions. These should be made available to the supervisors when required.

Article 23: Role of the Chairman

- 23.1. The chair of the board plays a crucial role in the proper functioning of the board. The chair provides leadership to the board and is responsible for its effective overall functioning, including maintaining a relationship of trust with board members. The chair should possess the requisite experience, competencies and personal qualities in order to fulfill these responsibilities. The chair should ensure that board decisions are taken on a sound and well informed basis. The chair should encourage and promote critical discussion and ensure that dissenting views can be freely expressed and discussed within the decision-making process. The chair should dedicate sufficient time to the exercise of his or her responsibilities.
- 23.2. Promote checks and balances, the chairman of the board should be an independent or non-executive board member.
- 23.3. Ensure that the board sets and implements the company's direction and strategy effectively, and ensure act as the company's lead representative, explaining aims and policies to the shareholders.



- 23.4. Chairman should address the developmental needs of the board as a whole with a view to enhancing its effectiveness as a team.
- 23.5. The chairman should also lead in identifying the development needs of individual directors, with the company secretary playing a key role in facilitating provision.

Article 24: Management Board Meeting

- 24.1. The management board of a bank shall consist of at least 5 members.
- 24.2. The management board of a bank shall include:
- Chief Executive Officer
 - Deputy Chief Executive Officer;
 - Chief Operation Officer,
 - Chief Credit Officer and,
 - Chief Finance Officer.
 - Such other officials as may be specified in the bank's charter or by-laws or deemed appropriate by the board of supervisors.
- 24.3. The same person may perform more than one of the functions specified in paragraph 2 of this Article, so long as all of the functions are covered.
- 24.4. The salary and remuneration of members of the management board, their appointment and dismissal shall be determined and approved by board of supervisors.
- 24.5. Shareholders of banks, their representatives, and close relatives may not serve as management board member of such banks.
- 24.6. The bank's management board shall:
- Organize the work and direct the day-to-day business operation of the bank, pursuant to the strategies and policies approved by the board of supervisors, and monitor the day-to-day activities of the bank's employees;
 - Implement the business strategy and policies of the bank approved by the board of supervisors;
 - Identify and assess regularly all significant risks involved in the activities of the bank and ensure the monitoring and control of the extent of such risks in accordance with the policies approved by the board of supervisors;
 - Develop the organizational structure of the bank and its branches that is suitable for the bank's overall strategy as determined by the board of supervisors, and submit the proposed structure for approval by the board of supervisors;



- Develop and implement systems for monitoring the activities of the bank, ensure adherence to such systems, assess the sufficiency thereof regularly and improve them in accordance with the policies established by the board of supervisors;
- Ensure that all employees of the bank are aware of the provisions of legislation relating to their duties of employment and of the principles approved by the board of supervisors;
- Ensure monitoring of the compliance of the activities of the bank and its employees with legislation and the policies approved by board of supervisors;
- Ensure the existence and functioning of systems to guarantee that information necessary for employees of the bank to perform their duties is communicated to them in a timely manner;
- Ensure the safety and regular monitoring of information technology systems used by the bank and systems used for the safekeeping of assets of clients;
- Inform the board of supervisors of all discovered violations of legislation, internal rules or other rules approved by board of supervisors;
- Present periodic overviews of the activities and financial situation of the bank to the board of supervisors;
- Immediately inform the board of supervisors and Da Afghanistan Bank in writing of any deterioration in the financial situation of the bank, or danger of such deterioration, and any other facts that may materially affect the financial situation of the bank, and in particular if the bank becomes undercapitalized.

Article 25: Audit Committee

- 25.1. The board of supervisors of each bank shall establish an audit committee of uneven number of not less than 3 and more than 9 members, the majority of who shall consist of independent members of the board of supervisors or any other qualified persons. At least one member of the audit committee shall have sufficient experience and expertise in banking, accounting, or financial management.
- 25.2. Prior to appoint a person as an audit committee member, upon application for the banking license, the board of supervisors shall submit proposal to Da Afghanistan Bank along with relevant information and documents in accordance with article 12 of this banking law, and obtain the approval of Da Afghanistan Bank.
- 25.3. None of the members of the audit committee may be members of the management board or employees of the bank or an enterprise in the same group as the bank.
- 25.4. The audit committee of a bank shall have the following duties and responsibilities:
- Be distinct from other committees;
 - Have a chairman who is independent and is not the chair of the board or of any other committee;



- Be made up entirely of independent or non-executive board members; and
 - Include members who have experience in audit practices, financial reporting and accounting
- 25.5. Review the annual financial statements of the bank before the statements are approved by the board of supervisors;
- 25.6. Framing policy on internal audit and financial reporting, among other things;
- 25.7. Overseeing the financial reporting process and;
- 25.8. Review and evaluate the bank's policies regarding internal controls, and make recommendations to the board of supervisors regarding their approval;
- 25.9. Approving the audit charter for internal audit department.
- 25.10. Providing oversight of and interacting with the bank's internal and external auditors;
- 25.11. Approving, or recommending to the board or shareholders for their approval, the appointment, remuneration and dismissal of external auditors;
- 25.12. Reviewing and approving the audit scope and frequency;
- 25.13. Receiving key audit reports and ensuring that senior management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and other control functions;
- 25.14. Overseeing the establishment of accounting policies and practices and implementation by the bank; and
- 25.15. Reviewing the third-party opinions on the design and effectiveness of the overall risk governance framework and internal control system.
- 25.16. Periodically review the effectiveness of the bank's internal controls with the help of the bank's internal audit function and management board, and report its findings to the board of supervisors, together with appropriate recommendations for changes it deems necessary;
- 25.17. The audit committee shall meet at least once per quarter, and may meet more frequently if the committee deems it to be necessary. The quorum of the audit committee is completed by existence of two third majority of the members and decisions are taken by a majority vote of the committee members who are present. Members may not abstain from voting except where voting would lead to a conflict of interest.
- 25.18. At a minimum, the audit committee as a whole should possess a collective balance of skills and expert knowledge – commensurate with the complexity of the banking organization and the duties to be performed – and should have relevant experience



in financial reporting, accounting and auditing. Where needed, the audit committee can have access to external expert advice.

- 25.19. The audit committee should have a robust process for approving, or recommending for approval, the appointment, reappointment, removal and remuneration of the external auditor
- 25.20. The audit committee should monitor and assess the independence of the external auditor.
- 25.21. The audit committee should monitor and assess the effectiveness of the external audit.
- 25.22. The audit committee should have effective communication with the external auditor to enable the audit committee to carry out its oversight responsibilities and to enhance the quality of the audit. The audit committee should require the external auditor to report to it on all relevant matters to enable the audit committee to carry out its oversight responsibilities

Article 26: Risk Management Committee

- 26.1. Should be distinct from the audit committee, but may have other related tasks, such as finance,
- 26.2. At least one member of the risk management committee shall have expertise in risk management and banking,
- 26.3. Should have a chair who is an independent director and not the chair of the board or of any other committee;
- 26.4. should include a majority of members who are independent;
- 26.5. Should include members who have experience in risk management issues and practices;
- 26.6. should discuss all risk strategies on both an aggregated basis and by type of risk and make recommendations to the board thereon, and on the risk appetite;
- 26.7. Is required to review the bank's risk policies at least annually; and
- 26.8. Should oversee that management has in place processes to promote the bank's adherence to the approved risk policies.
- 26.9. The risk committee of the board is responsible for advising the board on the bank's overall current and future risk appetite, overseeing senior management's implementation of the RAS, reporting on the state of risk culture in the bank, and interacting with and overseeing the CRO.
- 26.10. The committee's work includes oversight of the strategies for capital and liquidity management as well as for all relevant risks of the bank, such as credit, market,



operational and reputational risks, to ensure they are consistent with the stated risk appetite.

- 26.11. The committee should receive regular reporting and communication from the CRO and other relevant functions about the bank's current risk profile, current state of the risk culture, utilization against the established risk appetite, and limits, limit breaches and mitigation plans.
- 26.12. There should be effective communication and coordination between the audit committee and the risk committee to facilitate the exchange of information and effective coverage of all risks, including emerging risks, and any needed adjustments to the risk governance framework of the bank.
- 26.13. To assist the board of supervisors in developing, approving, and monitoring the implementation of the bank's risk management policies, the risk management committee shall:
- Review and evaluate the bank's proposed policies, strategies, limits and procedures for risk management, and report its findings to the board of supervisors, together with appropriate recommendations for changes it deems necessary,
 - That the bank's risk management program is conducted in accordance with the policies, strategies and limits approved by the board of supervisors and with relevant laws and regulations of Da Afghanistan Bank;
 - Monitor the implementation of these policies, strategies and limits through receipt of reports from senior management and/or the bank's risk management function;
 - Submit reports to the board of supervisors on the effectiveness of the bank's risk management process;
 - Perform other tasks assigned to it by the board of supervisors relative to the bank's risk management program.
- 26.14. The board of supervisors of a bank may assign some or all of the functions referred to in this Article to the audit committee.

Article 27: Establishment of Other Committees

- 27.1. The board of supervisors may establish other committees as it deems appropriate. Minutes of each meeting of each committee of the board of supervisors shall be kept after it is signed by the person chairing the meeting.

Article 28: Minutes

- 28.1. The Directors shall prepare minutes to be duly entered in books for the purpose:
- Of the names of the Directors present at the each meeting;
 - Of all others present;



- Of all resolutions and proceedings of Meetings.
- Any Director, dissenting from a decision, may cause such dissent to be recorded in the Minutes.
- Minute Books are to be maintained in the form of a Register, page number duly numbered, and shall be pasted in the book. The minutes shall be signed by the Chairman of the meeting. The minute book shall be kept at the Registered Office of the bank and shall be available for inspection.

Article 29: Board of Supervisors

- 29.1. The number of Supervisors to be appointed and elected shall not be less than three and until otherwise determined by the Bank in a General Meeting, total number of Supervisors shall not be more than 9. The number of Supervisors to be elected in accordance with the provisions of the Banking Law in Afghanistan.
- 29.2. Subject to the Banking Law, the Bank may from time to time in a General Meeting of shareholders increase or reduces the number of Directors through an ordinary resolution as long as the number remains in compliance with the Banking Law requirements.
- 29.3. The Bank may, by a Resolution passed in a General Meeting, remove any Director, before the expiration of his period of office and may appoint another person in his place. The removal is also subject to DAB approval and prior to such removal such Director shall have a right of making a representation, in writing.
- 29.4. The Bank shall comply with the provisions of the Banking Law in regard to keeping a register of Directors and Officers. The Register shall contain a list of the Director, the date when he becomes a Director of the Bank and his express consent to act as a Director of the Bank. Such Director must also adhere to the rules made under the provisions of any Acts/statutes made in Afghanistan regarding maximum number of Directorship.
- 29.5. The remuneration of Board of Supervisors shall be determined by the Shareholder's Committee.
- 29.6. A Supervisor shall hold office unless he resigns or become disqualified to function on the Board of Supervisors or otherwise ceases to hold the office.

Article 30: Meetings of the Board of Supervisors

- 30.1. The board of supervisors shall meet regularly, at least once a month,
- 30.2. Special meetings may be called if:
 - The bank becomes undercapitalized;
 - It is requested by the audit committee or external auditor of the bank; or



- It is requested by Da Afghanistan Bank.
- 30.3. Da Afghanistan Bank may require a bank to hold a special meeting of its board of supervisors if Da Afghanistan Bank deems it necessary, and to consider the matters set forth in a written notice of Da Afghanistan Bank.
 - 30.4. The quorum of the board of supervisors is a two third majority of the members and the decisions are taken by a simple majority of the votes of its present members who has voting right. In case of a tie vote, the Chairman shall cast the deciding vote. Members may not abstain from voting except as permitted or required by this Law,
 - 30.5. The board of supervisors shall designate an employee of the bank who is not a member of the board of supervisors as secretary to the board. Minutes of each meeting of the board of supervisors shall be kept and shall be signed by the person chairing the meeting, and by the secretary and other members present.
 - 30.6. Agenda should strike a balance between long and short term issues and every director should have the opportunity to place items on the agenda.
 - 30.7. All topics should have informative supportive information, risks and alternatives identified. Information must be distributed in good time.
 - 30.8. Meetings should be regular and attendance expected.
 - 30.9. Chairmen should direct proceedings allowing ample time for discussion and input from everyone prior to decisions being made
 - 30.10. Where necessary board away-days to strategic sites, or supportive strategy briefing meetings should be used.

Article 31: Chief Executive Officer (CEO)

- 31.1. With the prior approval of DAB, the Board of Supervisors shall appoint the Chief Executive Officer and vest in him/her such powers and functions as they deem fit in relation to the management and administration of the affairs of the Bank and subject to their general supervision and control.
- 31.2. The Chief Executive Officer is authorized to delegate to the Deputy Chief Executive Officer of the Bank to function as “Acting CEO” of the Bank in the absence of the CEO and exercise the powers of CEO during his absence either due to leave or otherwise.
- 31.3. The Deputy Chief Executive Officer is also authorized to exercise the powers of expenditure/payment of any amount within the Budgeted amount in respect of the Budgeted items. This delegation is for exercising even during the presence of CEO so as to share the workload of the CEO.
- 31.4. The search for a potential replacement CEO begins immediately after a new CEO is appointed:
 - for the nomination committee to have access to senior managers to gauge performance,



- To have some idea of a successor in case the new CEO dies or leaves,
- To monitor senior managers and cultivate possible successors over time,
- To think very carefully as to whether the company wants a visionary at the helm or someone who can execute strategy effectively,
- The Non-executive director chairman should meet independence criteria at the time of appointment.



CHAPTER V: ACCOUNTING AND REPORTS

Article 32

- 32.1. The financial year of the bank shall begin on the first day of Jadi and end on the last day of Qaus of the next year.
- 32.2. Pashtany Bank shall maintain accounts and records, and prepare quarterly and annual financial statements, adequate to reflect in accordance with international accounting standards or international financial reporting standards, their respective operations and financial condition, in accordance with related regulations prescribed by Da Afghanistan Bank. The financial statements shall reflect the operations and financial condition of its subsidiaries both on an individual and on a consolidated basis.
- 32.3. Pashtany bank shall appoint an independent external auditor with qualifications and experience acceptable to Da Afghanistan Bank.
- 32.4. External auditors shall perform the following tasks in compliance with standards established by related regulation.
 - advise the bank on maintaining proper accounting systems and procedures;
 - advise the bank on the effectiveness of its internal controls and risk management systems and procedures;
 - prepare and present to the board of supervisors of the bank an annual report together with an external auditor's opinion as to whether the financial statements present a full and fair view of the financial condition of the bank in accordance with the provisions of the banking Law;
- 32.5. The board of supervisors shall, not later than three months' after the end of each financial year, submit to its general meeting of shareholders:
 - Its audited consolidated financial statements, together with the report of its external auditors for that financial year; and
 - The total number of meetings of the board of supervisors and its committees held during the most recently-completed financial year and the number of those meetings attended by each member; and
 - Such other information as may be prescribed by regulations of the Da Afghanistan Bank.
- 32.6. Pashtany bank shall, within 15 days after the general meeting of the bank's shareholders approves the audited financial statements:
 - Provide such financial statements, external auditor's report, and corporate governance report referred to in paragraph 1 of this Article to Da Afghanistan Bank; and



- Publish such statements and reports in an official newspaper of general circulation in Afghanistan.
- 32.7. In addition Pashtany bank shall:
- Exhibit the financial statements and reports referred to in paragraph above in a conspicuous place in each of its offices and branches, in Afghanistan or abroad, and keep it so exhibited throughout the following twelve months;
 - Provide copies of the financial statements and reports referred to in above paragraph to any person requesting such copies, for a reasonable fee, not exceeding the administrative costs of providing such services.
- 32.8. If a material error becomes evident in any report which has been published under the prevalent articles of Da Afghanistan Laws and Regulations, shall be promptly informed of the error and a corrected report shall be issued and published.

Article 33: Legal Reserves

- 33.1. Pashtany Bank shall form reserves, as required in order to deal with general risks to which the bank is exposed, and cover possible losses arising from conducting its activities. The size of such reserves and the ways of their formation, maintenance and usages shall be prescribed in related regulation of Da Afghanistan Bank may require a bank that conducts risky business operations or that shows an unusually high increase in their exposure to various types of risks, to establish higher obligatory reserves.

Article 34: Profit (Capital Distribution)

- 34.1. The Board of Supervisors will make decisions concerning capital distributions, subject to requirements of the Banking Law of Afghanistan and Regulation of Da Afghanistan Bank.
- 34.1. Pashtany Bank will not decrease its capital by repurchasing shares or engaging in a capital distribution without the prior written authorization from Da Afghanistan Bank.

Article 35: Accounts

- 35.1. Proper books of account shall be kept as required under the Banking Law. Copies of such books may be kept at a separate Country, if the Bank expands to another Country.
- 35.2. The book of accounts shall be kept at the registered office of the Bank or at such other place or places as the Supervisory Board think fit and shall be open to inspection by the Board during business hours.

**Article 36: Liquidation**

- 36.1. If the Commission determines that such person has failed or refused to comply with orders referred in the banking law or such other applicable laws of the country, it shall order the liquidation of the business of that person,
- 36.2. The liquidation shall be overseen by Da Afghanistan Bank in accordance with Procedures determined by Da Afghanistan Bank.
- 36.3. If the Bank shall be wound-up, whether voluntarily or otherwise, a liquidator may, with the sanction of a special Resolution of the Bank and any other sanction required by the Law, divide among the members, in specie or kind, the whole or any part of the assets of the bank.
- 36.4. In case of liquidation, the proceeds of liquidation shall be used to pay expenses and other costs of the Commission and Da Afghanistan Bank, depositors and their personal creditors or creditors of the relevant business, in [that] order of.



CHAPTER VI: GENERAL

Article 37: Secrecy

- 37.1. Every Director, Manager, Auditor, Member of a Committee, Officer, Agent, Accountant or other person employed in the business of the Bank shall if so required by the Board, before entering upon his duties, sign a declaration pledging himself to observe strict secrecy respecting all transactions of the bank with its customers and the state of accounts with individuals and in matters relating thereto and shall by such declaration not to remit information which may come to his knowledge in the discharge of his duties except when required to do so by the Board or by any general meeting or by any court of law and except so far as may be necessary in order to comply with any of the Articles hereof or any statutory provisions.

Article 38: Member's Access to Bank Premises

- 38.1. No member or other person shall be entitled to enter the Bank's premises without the permission subject to article 45.5 requirement of the Banking Law discovery of any information respecting any details of the Bank's Business, trading or any matter which is or may be in the nature of trade secret, or of any matter whatsoever which may relate to the conduct of the business of the Bank.
- 38.2. The bank shall permit the inspectors of Da Afghanistan Bank and the auditors appointed by Da Afghanistan Bank to enter the premises of the Bank and each of its subsidiaries, and its each domestic branch office and representative office and shall cooperate fully with them in carrying out their duties.

Article 39: Litigation

- 39.1. All matters of disputes and litigations shall be governed by the Laws prevalent in Afghanistan.

Article 40: Laws and Regulation

- 40.1. Bank is governed by prescribed Laws and regulations of Da Afghanistan Bank and of the Country and amendments wherever whenever enacted thereof.