Pashtany Bank
Kabul, Afghanistan
Audited financial statements with accompanying information

For the year ended December 21, 2013

Crowe Horwath™
هـــوروات مـــالك
Horwath MAK 1981 Kabul
Auditors & Business Advisors

6th Floor, Kabul Business Center,
Haji Yaqoob Square, Shahr-e-Naw
Kabul, Afghanistan
Tel: +93 (0) 202 211 264
+93 (0) 780 780 786
E-mail: kabul@crowehorwath.af
Web site: www.crowehorwath.af

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF SUPERVISORS

We have audited the accompanying financial statements of Pashtany Bank ("the Bank"), which comprise the statement of financial position as at **December 21, 2013,** and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the nine months then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the requirements of the Law of Banking in Afghanistan and directives issued by the Da Afghanistan Bank (DAB), 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

1. The bank owns investment properties amounting to Afn. 717.44 million (December 20, 2012: Afn. 717.44 million) which is in contravention of the requirements of Article 34 'Prohibited Activities' of Law of Banking of Afghanistan, which prohibits banks from engaging in such type of business activities.

UAE (13 Offices), Oman (2 Offices), London, Azerbaijan, Afghanistan
Registered with the Afghanistan Investment Support Agency (AISA), Kabul Licence No: i-11681 as a partnership firm
Member Crowe Horwath International

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6th Floor, Kabul Business Center,
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Tel: +93 (0) 202 211 264
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E-mail: kabul@crowehorwath.af
Web site: www.crowehorwath.af

2. Deferred tax liability amounting to Afn 116.91 million remained unverified due to non-availability of any supporting documentation. Further, deferred tax implications of the taxable temporary differences and deductible temporary and permanent differences on property and equipment, impairment of loans and advances, carried forward losses and pension payable have not been accounted for in the financial statements as required by the International Accounting Standard - 12 " Income Taxes". We were unable to quantify the financial impact of this on financial statements due to unavailability of information.

3. 'Balances with other banks' (Note 5) include balance of Afn. 90.76 million (December 20, 2012: Afn 82.60 million) with Bank of Credit and Commerce International (BCCI) London. This is the remaining balance with BCCI as at December 21, 2013 after taking into account all the subsequent disbursements by BCCI since its bankruptcy on July 21, 1992. As per correspondence from Afghan National Credit and Finance Limited (holding power of attorney for pursuing bank's claims) this amount is no longer recoverable. Had this amount been written off the net loss for the year would have increased and balances with other banks balance would have decreased by the said amount.

4. Impairment test of financial asset 'Investment in Equity Instruments' (Note 6.2 to the financial statements) as required by International Accounting Standard (IAS) 39 'Financial Instruments: Recognition and Measurement' was not carried out. We therefore, are not in a position to ascertain whether carrying amounts of 'Investment in Equity Instruments' of the bank are not stated in excess of their recoverable amount as at December 21, 2013.

5. We have not observed the counting of cash in hand stated at Afn. 1,991.76 million as at December 21, 2013 since that date was prior to our appointment as auditors. We have been unable to satisfy ourselves as to cash in hand balance at that date by alternate audit procedures.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the bank as at December 21, 2013, and its financial performance and its cash flows for the nine months then ended in accordance with International Financial Reporting Standards (IFRSs), the Law of Banking in Afghanistan and directives issued by the Da Afghanistan Bank (DAB).

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Auditors & Business Advisor
Kabul. Afghanistan

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Auditors & Business Advisors
Kabul

Pashtany Bank
Statement of Financial Position
As at December 21, 2013

	Note	December 21 2013 AFN '000'	Restated December 20 2012 AFN '000'	March 20 2012 AFN '000'
Assets				
Cash and Balances with Da Afghanistan Bank (DAB)	4	**9,048,995**	9,517,322	8,082,720
Balances with other banks	5	**2,785,748**	894,469	1,182,367
Investments - Net	6	**132,505**	131,041	39,758
Loans and advances	7	**1,071,295**	1,561,150	3,119,839
Property and equipment	8	**1,136,902**	1,145,579	2,409,651
Intangible assets	9	**5,329**	15,339	20,631
Investment property	10	**717,445**	717,445	580,762
Advance income tax		**71,785**	43,195	24,823
Other assets	11	**113,776**	108,160	499,471
Total assets		**15,083,781**	14,133,701	15,960,022
Liabilities				
Deposits from banks	12	**3,992**	41,111	22,853
Deposits from customers	13	**15,121,797**	13,704,860	12,909,704
Deferred tax liabilities	14	**116,912**	116,912	116,912
Other liabilities	15	**228,893**	395,532	187,116
Total liabilities		**15,471,594**	14,258,415	13,236,585
Equity				
Share capital	16	**2,500,000**	2,500,000	2,500,000
Accidental reserves	17	**500,000**	500,000	500,000
Legal reserves	18	**466,650**	466,650	375,782
Retained earnings		**(4,325,163)**	(4,060,777)	(1,998,395)
Surplus on revaluation of property and equipment	19	**467,650**	467,650	1,344,973
Exchange translation reserve		**3,050**	1,762	1,077
Total equity		**(387,813)**	(124,714)	2,723,436
Total liabilities and equity		**15,083,781**	14,133,701	15,960,022
Contingencies and Commitments	30			

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The annexed notes 1 to 34 form an integral part of these financial statements.

Chief Executive Officer

Chief Financial Officer

Pashtany Bank
Income Statement / Statement of Comprehensive Income
For the year ended December 21, 2013

	Note	For the year ended December 21 2013 AFN '000'	Restated For the Nine Months ended December 20 2012 AFN '000'
Interest income	20	**268,771**	228,711
Interest expense	20	**(139,999)**	(132,587)
Net interest income		**128,772**	96,124
Fee and commission income	21	**38,276**	20,631
Foreign exchange loss		**(60,385)**	(67,948)
Other operating income	22	**190,405**	168,577
Operating income		**297,068**	217,384
Gain arising from change in fair value of investment property	10	-	(318,340)
Net impairment loss on loans and advances	7.1	**(228,711)**	(1,746,920)
Personnel expenses	23	**(164,473)**	(100,499)
Depreciation	8.1	**(33,463)**	(24,948)
Amortization	9	**(10,010)**	(7,379)
Other expenses	24	**(124,797)**	(84,556)
Loss before income tax		**(264,386)**	(2,065,259)
Taxation	25	-	(8,720)
Net Loss for the year		**(264,386)**	(2,073,979)
Other comprehensive income			-
Total comprehensive income		**(264,386)**	(2,073,979)

The annexed notes 1 to 34 form an integral part of these financial statements.

Chief Executive Officer

Chief Financial Officer

Pashtany Bank
Statement of Cash Flows
For the year ended December 21, 2013

	Note	For the year ended December 21 2013	Restated For the Nine Months ended December 20 2012
			AFN '000'
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year / period		**(264,386)**	(2,073,979)
Adjustment for :			
Depreciation	8.1	**33,463**	24,948
Amortization	9	**10,010**	7,379
Net impairment loss on loans and advances	7.1	**228,711**	1,746,920
Gain arising from change in fair value of investment property	10	-	318,340
Adjustment of obsolete items of fixed assets		-	237
Exchange loss		**60,385**	67,948
		332,569	2,165,772
Cash flow before working capital changes		**68,183**	91,794
Working Capital Changes			
(Increase) / Decrease in loans and advances	7	**261,144**	(188,231)
(Increase) / Decrease in other assets	11	**(30,211)**	391,311
Increase / (Decrease) in deposits from banks	12	**(37,119)**	18,258
Increase / (Decrease) in deposits from customers	13	**1,416,937**	795,156
Increase / (Decrease) in other liabilities	15	**(166,639)**	208,416
		1,444,113	1,224,909
Cash generated from operations		**1,512,295**	1,316,703
Tax paid		-	(8,720)
Employees welfare fund paid		**(4,153)**	(1,852)
Staff pension paid		**(19)**	(475)
Net cash from operating activities		**1,508,123**	1,305,656
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of operating fixed assets	8.1	**(24,787)**	(13,230)
Advance against capital work in progress		-	(68,631)
Acquisition of intangible assets		-	(2,087)
Acquisition of investment - net of interest		-	(7,055)
Net cash used in investing activities		**(24,787)**	(91,003)
CASH FLOWS FROM FINANCING ACTIVITIES			-
Increase in cash and cash equivalents		**1,483,336**	1,214,653
Cash and cash equivalents at the beginning of the year / period	4	**10,411,791**	9,265,087
Effect of exchange differences on cash and cash equivalents		**(60,385)**	(67,948)
Cash and cash equivalents at the end of the year / period	4	**11,834,743**	10,411,791
DEFINITION OF CASH AND CASH EQUIVALENTS			
Cash for the purposes of statement of cash flows consists:			
Cash and Balances with Da Afghanistan Bank (DAB)		**9,048,995**	9,517,322
Balances with other banks		**2,785,748**	894,469
		11,834,743	10,411,791

The annexed notes 1 to 34 form an integral part of these financial statements.

Chief Executive Officer **Chief Financial Officer**

Pashtany Bank
Statement of Changes in Equity
For the year ended December 21, 2013

	Share capital	Retained earnings	Accidental reserve	Legal reserve	Surplus on revaluation of property and equipment	Exchange translation reserve	Total
				AFN '000'			
Balance as at March 21, 2012	2,500,000	(1,998,396)	500,000	375,782	1,344,973	1,077	2,723,436
Comprehensive income for the nine months period	-	(2,073,979)	-	-	-	-	(2,073,979)
Prior year error adjustments		1,934					1,934
Revaluation surplus - Derecognition		9,664			(877,323)		(867,659)
Investments in equity instrument recognized during the period	-	-	-	90,868	-	-	90,868
Exchange gain on translation of investments in associates	-	-	-	-	-	685	685
Balance as at December 20, 2012 - Restated	2,500,000	(4,060,777)	500,000	466,650	467,650	1,762	(124,714)
Balance as at December 21, 2012 - Restated	**2,500,000**	**(4,060,777)**	**500,000**	**466,650**	**467,650**	**1,762**	**(124,714)**
Comprehensive income for the year period	-	**(264,386)**	-	-	-	-	**(264,386)**
Investments in equity instrument recognized during the period	-	-	-	-	-	-	-
Exchange gain on translation of investments in associates	-	-	-	-	-	**1,288**	**1,288**
Balance as at December 21, 2013	**2,500,000**	**(4,325,163)**	**500,000**	**466,650**	**467,650**	**3,050**	**(387,813)**

The annexed notes 1 to 34 form an integral part of these financial statements.

Chief Executive Officer

Chief Financial Officer

01. STATUS AND NATURE OF BUSINESS

Pashtany Bank (the Bank) was registered with Afghanistan Investment Support Agency (AISA) on 26 June 2004. On 26 June 2004 the bank received formal commercial banking license from Da Afghanistatan Bank (DAB), the Central Bank in Afghanistan, to operate nationwide.

The Bank is a Limited Liability Company and is incorporated and domiciled in Afghanistan. The Principal business place of the Bank is at Muhammad Jan Khan Watt, Kabul, Afghanistan.

The Bank has been operating as one of the leading commercial banking service provider in Afghanistan. The Bank has Twenty One branches (December 20, 2012: Twenty One branches) in operation.

02. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB). Whenever, the requirements of the Law of Banking in Afghanistan differs with the requirements of IFRS, the requirement of the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB) takes precedence.

These financial statements have been prepared using accrual basis of accounting under the historical cost convention except for the following material items in the statement of financial position:

- Financial Instruments designated as available for sale are measured at fair value (Note: 3.3(d)).

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

The Bank classifies its expenses by the "function of expense" method.

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: 3.19.

In accordance with the Decision No. 3278/2420 of the Board of Da Afghanistan Bank (DAB) dated 02 October 2012 (11 Meezan 1391) which states that "The change in financial year has been ordered by International Monetary Fund (IMF) and consquently changed the financial year of Islamic Republic of Afghanistan", Bank has decided to change its financial year from March 20th to December 20th in previous year.

2.1 New accounting standards and IFRS interpretations that are not yet effective

	Effective from accounting period beginning on or after
IAS 32 - Offsetting Financial Assets and Financial Liabilities - (Amendment)	January 01, 2014
IAS 36 - Impairment of Assets - (Amendment)	January 01, 2014
IAS 39 - Financial Instruments: Recognition and Measurement (Amendment)	January 01, 2014
IFRIC 21- An interpretation on the accounting for levies imposed by governments	January 01, 2014
IAS 19 - Employee Benefits (Amendment)	July 01, 2014
IAS 38 - Intangible Assets - (Amendment)	July 01, 2014
IAS 24 - Related Party Disclosure	July 01, 2014
IAS 40 - Investment Property	July 01, 2014
IFRS 2 - Share-based Payment	July 01, 2014
IFRS 3 - Business Combinations	July 01, 2014
IFRS 8 - Operating Segments	July 01, 2014

03. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the periods presented in these financial statements.

3.1 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprises balances with less than three months maturity from the date of acquisition including cash in hand, unrestricted balances with Da Afghanistan Bank (DAB) and balances with other banks.

3.2 Financial Instruments

Financial assets and liabilities are recognized when the Bank becomes a party to the contractual provisions of the instruments, and derecognized when the Bank loses control of the contractual rights that comprise the financial assets, and in case of the financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These are subsequently measured at fair value, amortized cost or costs, as the case may be. Any gain or loss on dercognition of financial assets and liabilities is included in income for the year.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

3.3 Financial Assets

The Bank classifies its financial assets in four categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair fair value through profit or loss.

A financial asset is classified as held-for-trading if it is acquired principally for the purpose of selling in the short term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

b) Loans and receivables

Loans and receivables are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market, other than:

i) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit and loss;

ii) those that the entity upon initial recognition designates as available for sale; or

iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Cash and balances with Da Afghanistan Bank (DAB), balances with banks and receivables from financial institution, loan and advances to customers and security deposits and other receivables are classified under this category.

c) Held-to-maturity financial assets

Held-to-Maturity investments are non-derivative financial assets with fixed with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to--maturity financial assets before its maturity, the entire category would be reclassified as available for sale. Short term placements are classified under this category.

d) Available-for-sale financial assets

Available-for-sale assets are those intended to be held for an indefinite period of time, which may be sold in response to need for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale financial assets (AFS) are non-derivatives that are either designated as AFS or are not classified as (i) loans and receivables, (ii) held-to-maturity investment or (iii) financial assets at fair value through profit or loss.

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale are recognized on trade-date the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss category are presented in the statements of comprehensive income as a part of other income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gain and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

3.4 Impairment of financial assets

a) Assets carried at amortized cost except for loans and advance

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash Flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiations of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration below investment grade level.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credits losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income in impairment charge for credit losses.

b) Loans and advances to customers

These are stated net of general provisions on loan and advances considered "Standard" and specific provisions for non-performing loans and advances, if any. The outstanding principal of the advances are classified in accordance with the Classification and Loss Reserve Requirement(CLRR) issued by DAB.

i) **Standard:** These are loans and advances, which are paying in a current manner and are adequately protected by sound net worth and paying capability of the borrower or by the collateral, if any supporting it. A general provision is maintained in the books of account @1% of value of such loans and advances.

ii) **Watch:** These are loans and advances, which are adequately protected by the collateral, if any supporting it, but are potentially weak. Such advances constitute an unwarranted credit risk, but not to the point of requiring a classification of Substandard. further, all loans and advances which are past due by 31 to 60 days for principal or interest payment are classified as Watch. A provision is maintained in the books of account @5% of value of such loans and advances.

iii) **Substandard:** These are loans and advances, which are inadequately protected by current sound net worth and paying capacity of the borrower or by the collateral , if any, supporting it. Further, all loans and advances which are past due by 61 or 90 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account @25% of value of such loans and advances.

iv) **Doubtful:** These are loans and advances, which can be classified as Substandard and have added characteristic that these weaknesses make collection or liquidation in full, on the basis of current circumstances and values, highly questionable and improbable. further, all loans and advances which are past due by 91 to 540 days (2012: 91 to 180 days) for principal or interest payments are also classified as Doubtful as per Asset Classification Schedule Amended dated December 04, 2013. A provision is maintained in the books of account @50% of value of such loans and advances.

v) **Loss:** These are loans and advances, which are not collectable and or such little value that in continuance as a bankable asset is not warranted. Further, all loans and advances which are past due over 540 days (2012: 180 days) for principal or interest payments are also classified as Loss as per Asset Classification Schedule Amended dated December 04, 2013. A provision is maintained in the books of account @100% of value of such loans and advances and then these loans are charged off and the reserve for losses is reduced immediately upon determination of Loss status.

c) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired in the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value , less any impairment loss on those financial assets previously recognized in the statements of comprehensive income is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instrument are nit reversed through the statement of comprehensive income. If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income, related to an event occurring after the impairment loss was recognized.

3.5 Financial liabilities

The Bank classifies its financial liabilities in following categories;

a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified in this category if incurred principally for the purpose of trading or payment in the short term. Derivatives (if any) are also categorized as held for trading unless they are designed as hedges.

b) Other financial liabilities measured at amortized cost

These are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These are recognized initially at fair value., net of transaction costs incurred and are subsequently stated at amortized cost; any differences between the proceed (net of transaction costs) and the redemption value is recognized in the income statements.

3.6 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Non-financial assets that are subject to depreciation /amortization are reviewed for impairment whenever events or changes in circumstances indicates that the carrying amount may not be recoverable. An impairment loss or reversal of impairment loss is recognized in the statement of comprehensive income. An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. (cash-generating units)

3.7 Offsetting

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.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gain and losses arising from a group of similar transactions.

3.8 Investments

Classification of investment is made on the basis of intended purpose for holding such investment.
Management determines the appropriate classification of investments at the time of purchase and re-evaluates such designation on regular basis.

Investments in associated are initially recognized at cost, being the aggregate of fair value at the date of acquisition and any cost attributable. Investments are subsequently carried at cost less impairment losses, if any.

At inception management classifies investments in one of the following categories:(detailed explained in Note:3.3(a),(c)&(d))

- Investment at fair value through profit or loss
- Held to maturity
- Available for sale

Investments with no active market (unquoted) are valued at higher of cost and breakup value. Breakup value of equity instruments is calculated with reference to net assets as per the audited financial statements of the company in which the investment has been made. Investments in associates are initially recognized at cost, being the aggregate of fair value at the date of acquisition and cost directly attributable to the acquisition. Investments are subsequently carried at cost less impairment losses, if any. Foreign exchange difference on investment in associates is recognized in equity.

3.9 Loans and advances

Loans and advances initially measured at fair value plus incremental direct transaction cost and subsequently measured at their amortized cost using the effective interest method. Determination of allowance for impairment, reserve for losses and non-accrual status cases is made in accordance with the regulations issued by Da Afghanistan Bank (DAB).

3.10 Property and equipment

These are stated at historical cost less accumulated depreciation and impairment, if any, except capital work in progress which is stated at cost. Historical cost includes expenditures that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost can be measured reliably. The carrying value of the replaced part is derecognized. All other repair and maintenance are recognized in the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is recognized in income statement on a straight line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Land and building revaluation has been de-recognized during the current year.

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

-	Building	50 years
-	Furniture and fixtures	5-20 years
-	Electric equipment	7 years
-	Computer equipment	3 years
-	Vehicles	5 years

Depreciation methods, useful lives and residual value are reassessed at each financial year end and adjusted, if appropriate.

Gains and losses on disposal of property and equipment are determined by comparing proceeds with the carrying amount. These are included in other income in the income statement.

When the use of property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasuerment is recognized in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognized in other comprehensive income and presented in revaluation reserve in equity. Any loss is recognized immediately in income statement.

3.11 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 charged to income applying straight line method.

Acquired computer software is capitalized on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of 03 years.

3.12 Investment properties

Investment properties are properties which are held to earn rental income or for capital appreciation or for both. Investment properties are stated at their fair values. The fair values are based on the market values, being the estimated amount for which the property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowingly, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognized in the income statement. 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. During the current year bank has derecognized the gain arised in previous period revaluation.

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.

3.13 Deposits

Deposits are the bank's source of funding. Deposits are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using effective interest method, except where the bank choose to carry the liabilities at fair value through income statement.

3.14 Taxation

Current

The current income tax is calculated in accordance with the Income Tax Law, 2009. Management periodically evaluates position taken in tax return with respect to situation in which applicable tax regulation is subject to interpretation and establishes provision where appropriation the basis of amounts expected to be paid to the tax authorities.

Deferred

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally for al deductible temporary differences to the extent that it is probable that the taxable profits will be available against which those deductible temporary s can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that effect neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in period in which the liability is settled or the asset realized., based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would flow from the manner in the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.15 Revenue recognition

a) Interest income and expenses for all interest bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within "interest income " and "interest expense" in the statement of comprehensive income using the effective interest rate method.

The effective rate of 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 expense over the relevant period. The effective interest rate is the rate that exactly 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 financial instrument but does not consider future credit losses.

b) Due but unpaid interest income is accrued on overdue advances for periods up to 90 Days in compliance with the Banking regulations issued by DAB. After 540 days, overdue advances are classified as non-performing loans and further accrual of unpaid interest income ceases at 90 Days.

c) Gains and losses on disposal of property and equipment are recognized in the period in which disposal is made.

d) Fees and commission income and expenses are recognized on an accrual basis when the service has been provided / received.

e) Fees and commission income that are integral part to the effective interest rate on financial assets and financial liabilities are included in the measurement of effective interest rate. Other fees and commission expenses related mainly to the transactions are service fee, which are expensed as the services are received.

3.16 Foreign currency transaction and translation

a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operated (the functional currency), which is Afghani(AFN).

b) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rate prevailing a the date of the transaction. Foreign currency assets and liabilities are translated using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of assets and liabilities denominated in foreign currencies are recognized in income currently.

	USD	Euro	Sterling	Pak. Rupee
The exchange rate for following currencies against AFN were:				
As at December 21, 2013	57.29	77.94	92.61	0.5396
As at December 20, 2012	52.14	68.65	83.55	0.5339

3.17 Provisions

Provisions are recognized when there are present, legal or constructive obligations as a result of past events; it is probable that an out flow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amounts can be made. Provisions for guarantee claims and other off balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations.

3.18 Employees benefits

The banks operates pension sceme for its employees. Contributions to the scheme are made by the employees and the bank. An employee contributes 3% of Net salary and educational allowance of Afn 200 on monthly basis, while the bank contributes 8% of the budgeted salary on yearly basis.

Pension is payable after the retirement on monthly basis in accordance with the following rates depending upon the completed years of service. Pension is payable to spouse incase of death of employee upto the later eldest achieves the age of 18 years or completing education.

Completed years of service	Pension Payable
1-5 years	2 months last drawn gross salary
6-9 years	3 months last drawn gross salary
10 years	3 months last drawn gross salary and 40% of last drawn gross salary in addition to it.
Above 10 years	In addition to the pension payable for 10 years, 2% of the last drawn gross salary for each completed year of service above ten years.

3.19 Use of critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial years. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgment will, by definition, rarely equal the related actual results. The material estimates., assumptions and judgments used to measure and classify the carrying amounts of assets and liabilities are outlined below:

a) Provision for loan losses

The Bank reviews loan to customer balances quarterly for possible impairment and records the provisions for possible loan losses as per the Bank's policy and in accordance with DAB regulations as disclosed in Note: 7. The Bank maintains a general provision of 1% against outstanding loan and advances to customers as at the year end.

b) Provision for income taxes

The Bank recognizes tax liability in accordance with the provisions of Income Tax Law 2009. The final tax liability is dependent on assessment of Ministry of Finance, Afghanistan.

c) Useful life of property and equipment and intangible assets

The Bank reviews the useful life and residual value of property and equipment and intangible assets on regular basis. Any change in estimates may effect the carrying amounts of the respective items of property and equipment and intangible assets with a corresponding effect on the depreciation / amortization charge.

d) Held to maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivatives financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment, the Bank evaluates its intention and ability to hold such investment to maturity.

	Note	December 21 2013 AFN '000'	December 20 2012 AFN '000'
4.0 CASH AND BALANCES WITH DA AFGHANISTAN BANK (DAB)			
Cash in hand		**1,991,769**	1,267,331
Balance with Da Afghanistan Bank:			
Local Currency:			
- Deposit accounts		**58,721**	99,110
- Required reserve account	4.1	**1,175,943**	1,072,513
- Current accounts		**365,626**	427,723
		1,600,291	1,599,346
Foreign Currency:			
- Current accounts		**2,800,170**	1,515,421
Placements:			
- Capital Notes	4.2	**2,656,766**	5,135,225
		9,048,995	9,517,322

4.1 Required reserve account is being maintained with DAB which is denominated in AFN to meet minimum reserve requirement in accordance with Article 3 "Required Reserve regulations" of the Banking regulations issued by DAB. The required reserve and the deposit facility accounts kept with DAB are interest bearing.

4.2 This represents capital notes issued by DAB from 28 days to 364 days (20 December 2012: from 28 days to 182 days) carrying coupon interest at rate ranging from 3.33% p.a. to 7.07% p.a. (20 December 2012: 3.22% p.a. to 3.38% p.a.)

5.0 BALANCES WITH OTHER BANKS

	Note	December 21 2013 AFN '000'	December 20 2012 AFN '000'
In Afghanistan			
Current accounts		**7,218**	4,352
Deposit accounts	5.1	**1,145,800**	-
Outside Afghanistan			
Current accounts		**771,761**	888,516
Deposit accounts	5.2	**860,969**	1,602
		2,785,748	894,469

5.1 These represent term deposits made in Azizi Bank amounting to USD20 Million for a period of 09 months at 3% per annum (20 December 2012: Nil).

5.2 These represent term deposits made in MCB Bank Limited and Aktif Bank amounting to Pkr 3 Million USD15 Million having maturity up to a maximum of 12 months and 06 months respectively and carry interest rate at 4.1% and 3% per annum (20 December 2012: MCB Bank Limited - 4.1% per annum, Aktif Bank - Nil).

6.0 INVESTMENTS - NET

	Note	December 21 2013 AFN '000'	December 20 2012 AFN '000'
Investment in associated companies:	6.1		
Balance at beginning of year / period		**13,035**	12,350
Exchange gain transferred to Exchange translation reserve		**1,288**	685
Balance at end of year / period		**14,323**	13,035
Investment in equity instruments	6.2	**101,455**	101,455
Held-to -Maturity	6.3	**16,728**	16,551
		132,505	131,041

6.1 The Bank has made investment of USD 250,000 in Afghanistan Payment System (APS) LLC during the year 1389. The Bank currently holds 33.33% shares in the company. As per the Articles of Association of the investee company, its shares cannot be sold or transferred or offered to the public.

		Note	December 21 2013 AFN '000'	December 20 2012 AFN '000'
6.2	**Investment in equity instruments**			
	Bank-e-Milli Afghan		**9,800**	9,800
	Afghan National Insurance Company		**7,660**	7,660
	Shirkat-e-Ariyana		**250**	250
	Hotel Intercontinental		**64**	64
	Afghan card corporation		**163**	163
	Afghan Nasaji company	18	**83,518**	83,518
			101,455	101,455
6.3	**Held-to-Maturity**			
	United Bank Limited	6.3.1	**16,728**	16,551
			16,728	16,551

6.3.1 This represents investment made in term deposit account amounting to 31 Million Pak. Rupee for a period of eight years having interest rate at 11% p.a. (December 20, 2012: 11% p.a.)

7.0 LOANS AND ADVANCES

	Note	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		December 21, 2013			December 20, 2012		
Term finance - amorized cost	7.1	**1,422,533**	**352,827**	**1,069,706**	1,842,921	285,050	1,557,872
Short term loans to employees	7.2	**1,589**	**-**	**1,589**	3,279	-	3,279
		1,424,122	**352,827**	**1,071,295**	1,846,200	285,050	1,561,150

7.1 Term loans carry interest at 12% to 14% per annum (December 20, 2012: 12% to 14% per annum) and having maturity ranging between 01 to 06 years (December 20, 2012: 1 to 6 years).These loans are secured against mortgage of property, personal guarantees, lien on equipment, pledge of stocks and/or assignment of receivables of the borrowers.

Impairment allowance

	Note	December 21 2013 AFN '000'	December 20 2012 AFN '000'
Balance at the beginning of year / period		**285,050**	808,701
Impairment loss for the year / period		**228,711**	1,746,920
Loan written offs	7.1.1	**(160,934)**	(2,270,571)
Balance at end of year / period		**352,827**	285,050

7.1.1 These represents 'loss' category loan which have been written off in accordance with the requirements of the Banking regulations issued by DAB (the DAB Regulations). However, in terms of paragraph 3.3.1(g) of part C of the DAB Regulations, the write off does not affect the Bank's rights to recover the debt due from customers and does not eliminate the borrowers' responsibility to repay the loan.

7.2 Short term loans to employees are interest free and secured against personal guarantees.

7.3 At December 21, 2013, AFN Nil (December 20, 2012: AFN 5.90 million) of loan and advances to customers are expected to be recovered more than twelve months after balance sheet date.

8.0 PROPERTY AND EQUIPMENT

	Note	December 21 2013 AFN '000'	December 20 2012 AFN '000'
Operating fixed assets	8.1	**1,068,271**	1,076,948
Advance against Capital work-in-progress	8.2	**68,631**	523,654
Recognized as investment property		**-**	(455,023)
		1,136,902	1,145,579

8.2 This represents advance against the capital work-in-progress for constrcution of Saraji Building. Building situated at Gulbahar Centre was under construction during the year ended March 20, 2012 and in previous period management has decided to recognize it as an investment property.

8.1 Operating fixed assets

	Land	Building	Electric equipment	Furniture & Fittings	Computers	Motor Vehicles	Lease hold appreciations	Total
	Afghanis "000"							
Cost or revalued amount								
Balance as at March 21, 2012	987,827	971,024	20,835	28,318	27,919	20,640	1,225	2,057,788
Additions for the period	-	2,752	5,942	3,496	1,019	20	-	13,230
Revaluation reversal including adjustments	(534,050)	(343,273)	-	-	-	-	-	(877,323)
Adjustment - Prior year error	-	-	5,450	(8,981)	(4,234)	265	-	(7,500)
Balance at December 20, 2012 - Restated	453,777	630,503	32,227	22,833	24,704	20,925	1,225	1,186,195
Balance as at December 21, 2012 - Restated	453,777	630,503	32,227	22,833	24,704	20,925	1,225	1,186,195
Additions for the year	-	-	21,881	543	2,086	277	-	24,787
Balance at December 21, 2013	453,777	630,503	54,109	23,376	26,791	21,202	1,225	1,210,982
Depreciation								
Balance as at March 21, 2012	-	56,356	6,680	9,147	18,402	12,216	360	103,160
Depreciation for the period	-	15,984	1,764	1,172	4,434	1,501	92	24,948
Adjustment / Reversals		(9,664)	3,615	(4,502)	(6,992)	(1,318)	-	(18,861)
Balance at December 20, 2012 - Restated	-	62,676	12,059	5,817	15,843	12,399	452	109,247
Balance as at December 21, 2012	-	62,676	12,059	5,817	15,843	12,399	452	109,247
Depreciation for the year	-	13,521	6,242	2,478	6,898	4,201	123	33,463
Balance at December 21, 2013	-	76,197	18,301	8,295	22,742	16,600	575	142,710
Carrying amounts								
Balance at December 20, 2012 - Restated	453,777	567,826	20,168	17,016	8,861	8,526	773	1,076,948
Balance at December 21, 2013	**453,777**	**554,305**	**35,808**	**15,081**	**4,049**	**4,601**	**650**	**1,068,271**
		2%	15%	5% to 20%	33%	20%	10%	

9.0 INTANGIBLE ASSETS

Description	COST				AMORTIZATION				Written Down value as at 21 December 2013	Rate
	As at 21 December 2012	Additions	Deletions	As at 21 December 2013	As at 21 December 2012	Charge for the period/year	Adjustments / Deletions	As at 21 December 2013		
	Afghanis									%
Accounting Software	30,333	-	-	30,333	14,994	10,010	-	25,004	5,329	33
December 21 2013	30,333	-	-	30,333	14,994	10,010	-	25,004	5,329	
December 20 2012	28,246	2,087	-	30,333	7,615	7,379	-	14,994	15,339	

	Note	December 21 2013 AFN '000'	December 20 2012 AFN '000'
10.0 INVESTMENT PROPERTY			
Balance at the beginning of year / period		**717,445**	580,762
Addition during the year / period	8.2	**-**	455,023
Derecognition of gain on investment property		**-**	(318,340)
Balance at end of the year / period		**717,445**	717,445
11.0 OTHER ASSETS			
Cheque books		**10,503**	18,887
Advances to employees		**3,437**	6,796
Advances to suppliers		**42,932**	24,616
Accrued interest on deposits		**14,895**	-
Other Assets		**42,009**	57,861
		113,776	108,160
12.0 DEPOSITS FROM BANKS			
Agriculture Bank, Kabul		**940**	1,500
Construction Bank		**2,068**	2,332
New Kabul Bank		**4**	36,373
Bank-e-Millie Afghan		**311**	286
Maiwand Bank		**670**	620
		3,992	41,111
13.0 DEPOSITS FROM CUSTOMERS			
Term deposits	13.1	**391,142**	376,517
Saving deposits	13.2	**6,296,266**	5,623,068
Current deposits		**8,434,389**	7,705,275
		15,121,797	13,704,860

13.1 All the term deposits are expected to be settled in twelve months of the balance sheet and carry interest rate ranging from 2% to 4% per annum (December 20, 2012: 2.7% 6% per annum).

13.2 These carry interest rate of 1% to 2% per annum (December 20, 2012: 2.5% to 4% per annum)

14.0 DEFERRED TAX LIABILITIES

This represent deferred tax liability related to surplus on revaluation of property and equipment and investment property carried out in previous years.

	Note	December 21 2013 AFN '000'	December 20 2012 AFN '000'
15.0 OTHER LIABILITIES			
Withholding tax payable		**31,480**	34,241
Staff pension payable	15.1	**5,531**	2,208
Interbank Balance Accounts		**18,657**	154,105
Deposits against letter of credits		**64,121**	58,339
Employees Uniform		**-**	300
Welfare fund for employees		**6,137**	10,291
Restricted balance of customer against default loans		**49,343**	49,343
Other payables		**53,624**	86,706
		228,893	395,532
15.1 Staff pension payable			
Balance at the beginning of year / period		**2,208**	816
Contribution / transfers made during the year / period		**3,342**	1,867
Payments made during the year / period		**(19)**	(475)
Balance at end of year / period		**5,531**	2,208
16.0 SHARE CAPITAL			
Issued and paid capital		**2,500,000**	2,500,000

	December 21 2013	December 20 2012
	AFN '000'	AFN '000'

16.1 The physical shares of the Bank have not been issued to date.

S. No.	Name of share holder	Number of shares	Face Value	Percentage	Amount
		No.	Afn	%	Afn
01	Ministry of Finance	2,285	1,000	91.392	2,284,800
02	Bank-e-Milli Afghan	79	1,000	3.149	78,725
03	Afghan Red Crescent Society	20	1,000	0.802	20,050
04	Health Insurance	1	1,000	0.048	1,200
05	Spin zar corporation	1	1,000	0.029	725
06	Ministry of Labor and social affairs	92	1,000	3.664	91,600
07	Chamber of Commerce	11	1,000	0.458	11,450
08	Saderaat Kashmesh	4	1,000	0.156	3,900
09	Institute of Qaraqol	4	1,000	0.151	3,775
10	Carpet corporation	4	1,000	0.151	3,775
		2,500		100	2,500,000

17.0 ACCIDENTAL RESERVE

This represents accidental reserve created out of retained earnings as approved by the Board of Supervisor in their meeting held on 14 July 2008. This reserve has been created for the purpose of covering any expected losses as a result of natural calamity or any accidents.

18.0 LEGAL RESERVE

This represents legal reserve created out of retained earnings as approved by the Board of Supervisor in their meeting held on 18 October 2009. This reserve is not for the distribution of dividends and is also not for the adjustment of any impaired loans and advances. During the previous year Bank has recognized investment in equity instrument of Afghan Nasaji Company amounting to 83.5 Million Afghanis. Confirmation to the same has been taken through letter 386 dated 18 December 2013 (27 Qaws 1392) from Afghan Nasaji Company and Ministry of Finance.

19.0 SURPLUS ON REVALUATION OF PROPERTY AND EQUIPMENT

Balance at the beginning of year / period	**467,650**	1,344,973
Reversal of revaluation surplus	**-**	(877,323)
Balance at end of year / period	**467,650**	467,650

The bank revalued its land and building on 27 February 2012 resulting in revaluation surplus amounting to Afn 877,323 Million. The revalued amounts of land and building are based on the market values that were determined by M/s Umran Sakht having knowledge of the market. Fair values were determined having regard to recent market transactions for similar properties in the same location. Pursuant to Da Afghanistan Bank letter no. 429/419 dated 18 June 2009 (30-03-1388) which instructs the commercial banks to state the properties at cost, unless DAB has given the instructions to use the revaluation model and approval of Board of Supervisors to reverse the revaluation, management has decided to reversed the revaluation surplus retrospectively as per IAS - 08 " Accounting Policies, Changes in Accounting Estimates and Error" in current year.

	Note	**For the year ended December 21 2013**	For the Nine Months ended December 20 2012
		AFN '000'	AFN '000'
20.0 NET INTEREST INCOME			
Interest income			
Cash and cash equivalents		**150,569**	130,018
Loans and advances to customers		**118,202**	98,693
		268,771	228,711
Interest expense : Deposits from customers	20.1	**139,999**	132,587
Net interest income		**128,772**	96,124
20.1 Deposits from customers			
Term deposits		**10,456**	58,127
Saving deposits		**129,543**	74,460
		139,999	132,587

	Note	For the year ended December 21 2013	For the Nine Months ended December 20 2012
		AFN '000'	AFN '000'
21.0 FEE AND COMMISSION INCOME			
Fund transfer fee/Commission		**38,276**	20,631
		38,276	20,631
22.0 OTHER OPERATING INCOME			
Rental income		**32,061**	80,107
Bad debts recovered		**146,194**	82,884
Miscellaneous		**12,150**	5,586
		190,405	168,577
23.0 PERSONNEL EXPENSES			
Salaries and wages		**112,164**	86,607
Contribution towards pension fund		**40,620**	10,890
Staff welfare		**11,689**	3,002
		164,473	100,499
24.0 OTHER EXPENSES			
Repair and maintenance		**1,823**	1,740
Travel		**2,413**	1,737
Advertisement and publicity		**8,749**	10,904
Rent expenses		**13,206**	6,298
Insurance expenses		**36,546**	22,808
Internet expenses		**12,580**	3,741
Security expenses		**9,406**	5,752
Building tax		**1,828**	484
Printing and stationery		**10,900**	5,089
Communication		**1,235**	1,259
Electricity		**6,900**	4,881
Fuel expenses		**5,407**	3,522
Auditor's remuneration		**1,750**	1,750
Cleaning and water		**550**	339
Kindergarten expenses		**200**	105
Employees Training Expenses		**876**	1,116
Others		**10,428**	13,031
		124,797	84,556
25.0 TAXATION			
Recognized in statement of financial position			
Current year payment of tax	25.1	-	(8,720)
25.1 *Reconciliation of effective tax rate*		**(52,877)**	(413,052)
Loss before income tax	Rate (%)	**(264,386)**	(2,065,259)
Total taxable income in the income statement	20%	-	-

The tax losses available for carry forward for set off against future taxable profits aggregate to Afn 2,329.64 million. Due to uncertainty about availability of future taxable profits, the Bank has not recognized deferred tax asset amounting to Afn 465.93 million on accumulated loss at the reporting date.

26.0 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	Designated at fair value	Held to maturity	Loans and receivables - amortized cost	Available for sale	Cash and cash equivalents	Total carrying amount	Fair value
		Afghanis '000'						
December 21, 2013								
Cash and balance with DAB Afghanistan	4	-	2,656,766	-	-	6,392,230	9,048,995	9,048,995
Balances with other banks	5	-	2,006,769	-	-	778,979	2,785,748	2,785,748
Investments - Net	6	14,323	16,728	-	101,455	-	132,505	132,505
Loans and advances	7	-	-	1,071,295	-	-	1,071,295	1,071,295
Other assets	11	-	-	113,776	-	-	113,776	113,776
		14,323	4,680,262	1,185,071	101,455	7,171,209	13,152,319	13,152,319
Deposits from banks	12	-	-	-	-	3,992	3,992	3,992
Deposits from customers	13	-	-	-	-	15,121,797	15,121,797	15,121,797
Other liabilities	15	-	-	-	-	228,893	228,893	228,893
		-	-	-	-	15,354,682	15,354,682	15,354,682
December 20, 2012								
Cash and balance with DAB Afghanistan	4	-	5,135,225	-	-	4,382,098	9,517,322	9,517,322
Balances with other banks	5	-	1,602	-	-	892,867	894,469	894,469
Investments - Net	6	13,035	16,551	-	101,455	-	131,041	131,041
Loans and advances	7	-	-	1,071,295	-	-	1,071,295	1,071,295
Other assets	11	-	-	108,160	-	-	108,160	108,160
		13,035	5,153,377	1,179,455	101,455	5,274,965	11,722,288	11,722,288
Deposits from banks	12	-	-	-	-	41,111	41,111	41,111
Deposits from customers	13	-	-	-	-	13,704,860	13,704,860	13,704,860
Other liabilities	15	-	-	-	-	395,532	395,532	395,532
		-	-	-	-	14,141,503	14,141,503	14,141,503

27.0 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 loans and advances to customers and placements with other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

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

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

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

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

Exposure to credit risk

	Loans and advances - amortized cost	Available-for-sale assets	Assets at fair value through profit or loss	Total carrying amount
	Afghanis '000'			
December 21, 2013				
Carrying value	**1,424,122**	101,455	-	**1,525,578**
Assets at amortized cost				
Impaired:	**352,827**			**352,827**
Carrying amount	**352,827**	-	-	**352,827**
Past due but not impaired:	-	-	-	-
Gross amount	-	-	-	-
Neither past due but nor impaired:				
Gross amount	**1,071,295**	-	-	**1,071,295**
Carrying amount-amortized cost:	**1,424,122**	-	-	**1,424,122**
Investment in equity instruments				
Gross amount	-	101,455	-	101,455
Carrying amount	-	101,455	-	101,455
Total carrying amount	**1,424,122**	101,455	-	**1,525,577**
December 20, 2012				
Carrying value	1,846,200	101,455	-	1,947,655
Assets at amortized cost				
Impaired:	285,050	-	-	285,050
Carrying amount	285,050	-	-	285,050
Past due but not impaired:	-	-	-	-
Gross amount	-	-	-	-
Neither past due but nor impaired:				
Gross amount	1,561,150	-	-	1,561,150
Carrying amount-amortized cost:	1,846,200	-	-	1,846,200
Investment in equity instruments				
Gross amount	-	101,455	-	101,455
Carrying amount	-	101,455	-	101,455
Total carrying amount	1,846,200	101,455	-	1,947,655

As of balance sheet date the Bank held cash and cash equivalents amounting to Afn 9,843 Million (December 20, 2012: Afn 9,144 Million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with Central Bank and Other Banks. Management believes that cash and cash equivalents are not exposed to significant credit risk as disclosed and provided for.

As at balance sheet date approximately 24.78% (December 20, 2012: 15.44%) of total loan portfolio of the Bank was impaired against which a provision has been made in these financial statements. In addition to the above, at year end there were no lending commitments which is pending for disbursement.

Past due but not impaired loans

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

Allowances for impairment

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

All loans and other assets are classified into one of the five classification grades mentioned below for minimum provisioning amounts. General and specific allowance for impairment is made by the Bank with the following percentages:

Loan Grading	Days past dues	Percentage %
Standard	None	1%
Watch	31-60 days	5%
Substandard	61-90 days	25%
Doubtful	91-540 days	50%
Loss	Over 540 days	100%

Write-off Policy

The Bank write off a loan balance against allowances for impairment losses when the Bank' Credit Department determines that the loan are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrowers financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller standardized loans, charge off decisions generally are based on a product specific past due status. Loan past due by more than 540 days are written off pursuant to guidelines issued by the Central Bank of Afghanistan, however, this does not waive off the right of the Bank to recover these loans including through legal action.

Concentration of credit risks by sector

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of loans and advances to customers at reporting date is as follows:

	Note	December 21 2013	December 20 2012
		AFN '000'	**AFN '000'**
Carrying amount	7	**1,071,295**	1,561,150
Concentration by sector			
Construction		**501,400**	901,157
Trading		**368,413**	427,435
Industrial		**199,882**	220,448
Others		**1,600**	12,110
		1,071,295	1,561,150

Settlement risk

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

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, whist enabling the Bank to pursue valued business opportunities.

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

Exposure to liquidity risk

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

	December 21 2013 AFN '000'	December 20 2012 AFN '000'
At period end / year end	**77%**	62%
Average for the period / year	**76%**	67%
Maximum for the period / year	**79%**	123%
Minimum for the period / year	**71%**	42%

Maturity analysis for financial liabilities

	Note	Carrying amount	Gross inflow/ (outflow)	Less than 1 month	1-3 months	3 months to 1 year	More than 5 years
		---AFN '000'---					
December 21, 2013							
Deposits from banks	12	**3,992**	**(3,992)**	**(3,992)**	-	-	-
Deposits from customers	13	**15,121,797**	**(15,121,797)**	**(8,434,389)**	(6,296,266)	**(391,142)**	-
Other liabilities	15	**228,893**	**(228,893)**	**(228,893)**	-	-	-
		15,354,682	**(15,354,682)**	**(8,667,274)**	(6,296,266)	**(391,142)**	-

	Note	Carrying amount	Gross inflow/ (outflow)	Less than 1 month	1-3 months	3 months to 1 year	More than 5 years
		---AFN '000'---					
December 20, 2012							
Deposits from banks	12	41,111	(41,111)	(41,111)	-	-	-
Deposits from Customer	13	13,704,860	(13,704,860)	(7,705,275)	(376,517)	(5,623,068)	-
Other Liabilities	15	395,532	(395,532)	(395,532)	-	-	-
		14,141,503	(14,141,503)	(8,141,918)	(376,517)	(5,623,068)	-

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.

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 three months	3-6 months	6-12 months	1-5 years	More than 5 years
		AFN '000'					
December 21, 2013							
Cash and balance with DAB Afghanistan	4	**9,048,995**	**7,497,752**	**1,551,243**	-	-	-
Balances with other banks	5	**2,785,748**	**778,979**	**2,006,769**	-	-	-
Loans and advances	7	**1,071,295**	**1,066,359**	**4,936**	-	-	-
		12,906,038	**9,343,091**	**3,562,948**	-	-	-
Deposits from banks	12	**(3,992)**	**(3,992)**				-
Deposits from customers	13	**(15,121,797)**	**(14,730,655)**	**(391,142)**			-
		(15,125,789)	**(14,734,647)**	**(391,142)**	-	-	-
		(2,219,750)	**(5,391,556)**	**3,171,805**	-	-	-
December 20, 2012							
Cash and balance with DAB Afghanistan	4	9,517,322	6,649,753	2,867,570	-	-	-
Balances with other banks	5	894,469	892,867	1,602	-	-	-
Loans and advances	7	1,561,150	1,112,871	442,340	-	5,939	-
		11,972,942	8,655,492	3,311,511	-	5,939	-
Deposits from banks	12	(41,111)	(41,111)				-
Deposits from customers	13	(13,704,860)	(8,081,792)	(5,623,068)			-
		(13,745,971)	(8,122,903)	(5,623,068)	-	-	-
		(1,773,029)	532,589	(2,311,557)	-	5,939	-

Exposure to currency risk

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

	AFN '000'	US$ '000'	Others '000'
December 21, 2013			
Cash and balance with DAB Afghanistan	**4,426,902**	**4,328,592**	**293,501**
Balances with other banks	**5,768**	**2,767,690**	**12,290**
Loans and advances	**783,681**	**640,441**	-
Other assets	**89,137**	**24,639**	-
	5,305,488	**7,761,362**	**305,791**
Deposits from banks	**3,146**	**730**	**116**
Deposits from customers	**7,678,398**	**7,197,495**	**245,905**
Other liabilities	**137,325**	**90,001**	**1,567**
	7,818,870	**7,288,226**	**247,588**
Net foreign currency exposure	**(2,513,381)**	**473,137**	**58,204**

	AFN '000'	US$ '000'	Others '000'
December 20, 2012			
Cash and balance with DAB Afghanistan	6,819,904	1,439,438	1,257,980
Balances with other banks	1,071	774,312	119,087
Loans and advances	843,765	1,002,435	-
Other assets	100,398	7,762	-
	7,765,138	3,223,947	1,377,067
Deposits from banks	19,641	21,366	104
Deposits from customers	7,283,036	6,348,131	73,693
Other liabilities	312,701	81,421	1,410
	7,615,378	6,450,918	75,207
Net foreign currency exposure	149,760	(3,226,972)	1,301,860

The following significant exchange rates were applied during the periods.

	December 21, 2013		December 20, 2012	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
US$	**54.72**	**57.29**	50.77	52.14
Euro	**73.30**	**77.94**	66.77	68.65

Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD, and euro at 21 December 2013 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.

	December 21, 2013		December 20, 2012	
	Equity	Profit or loss	Equity	Profit or loss
		-------------AFN '000'-------------		
US$	**37,851**	**47,314**	(258,158)	(322,697)
Euro	**4,656**	**5,820**	104,149	130,186

A 10% weakening of the Afghani against the above currencies at 21 December 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

27.5 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 meets the initial minimum capital requirements as per Article 6 of the Banking Law of Afghanistan. The regulatory capital comprising of Core (Tier 1) capital and Supplementary (Tier 2) amounts to AFN (277,365) thousand (20 December 2012: AFN 1,078,649 thousand) calculated as follows

	December 21 2013 AFN '000'	December 20 2012 AFN '000'
Regulatory capital:		
Core (Tier 1) Capital:		
Total equity capital	**(387,813)**	(124,714)
Less:		
Surplus on revaluation of property -net	**(467,650)**	(467,650)
Exchange translation reserve	**(3,050)**	(1,762)
Intangible assets	**(5,329)**	(15,339)
Add: Loss for the period / year	**264,386**	2,065,259
	(599,455)	2,560,006
Supplementary (Tier 2) Capital:		
Loss for the period / year	**(264,386)**	(2,065,259)
Surplus on revaluation - net	**467,650**	467,650
Exchange translation reserve	**3,050**	1,762
Allowable deductions: investments in equity instruments and associates	**115,778**	114,490
	322,091	(1,481,356)
Total regulatory capital	**(277,365)**	**1,078,649**

28.0 EVENT AFTER BALANCE SHEET DATE

The bank has entered into an agreement on 15 January 2014 (25 Jadi 1392) with Bank-e-Millie Afghan in presence of shareholders of both organizations for provision of 20 Million USDollars capital injection in Pashtany Bank to stablize the deficit in equity of Pashtany Bank. Subsequently, same has been approved by Finance Minister. Resultantly, changed shareholding pattern is as follows;

S. No.	Name of share holder	%age before change	%age after change
01	Ministry of Finance	91.392	62.942
02	Bank-e-Milli Afghan	3.149	33.298
03	Afghan Red Crescent Society	0.802	0.522
04	Health Insurance	0.048	0.033
05	Spin zar corporation	0.029	0.020
06	Ministry of Labor and social affairs	3.664	2.523
07	Chamber of Commerce	0.458	0.315
08	Saderaat Kashmesh	0.156	0.107
09	Institute of Qaraqol	0.151	0.104
10	Carpet corporation	0.151	0.104
		100	100

	December 21 2013 AFN '000'	December 20 2012 AFN '000'
29.0 TRANSACTIONS WITH RELATED PARTIES		
Key management personnel compensation for the year comprised :		
Managerial remunerations	**7,130**	4,613
Other allowances	-	-
	7,130	4,613
Number of Person	**04**	03

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. Other transactions with related parties are explained in Note: 28 to the financial statements.

30.0 CONTINGENCIES AND COMMITMENTS

	2013	2012
Bank guarantees	**102,369**	48,331
	102,369	48,331

31.0 CHANGE IN ACCOUNTING ESTIMATES, POLICIES AND PRIOR YEAR ERROR

In accordnace with the IAS - 08 " Accounting Policies, Changes in Accounting Estimates and Error " following adjustments have been made retrospectively and for change in estimates effect has been taken prospectively;

- Prospective adjustment of depreciation rates for operating fixed assets
- Reversal of revaluation surplus on land and building
- Reversal of gain on investment properties
- Reversal of depreciation related to revauled cost of building
- Prior year error adjustments on depreciation of operating fixed assets
- Reversal of immaterial items capitalized in previous years
- Adjustment of advance to suppliers as advance against capital work in progress

The effect of restatement on these financial statements is summarized as follows:

		December 21, 2013	December 20, 2012
		AFN '000	
Increase in electrical equipment	Debit	-	5,308
Decrease in retained earnings	Debit		323,054
Decrease in accumulated depreciation	Debit		22,476
Increase in vehicle	Debit		263
Increase in advance against capital work in progress	Debit		68,631
Decrease in revaluation surplus	Debit		877,323
Decrease in advance to supplier	Credit		(68,631)
Increase in retained earnings	Credit	-	(15,840)
Increase in accumulated depreciation	Credit	-	(3,615)
Decrease in computer equipment	Credit		(4,245)
Decrease in furniture and fixture	Credit	-	(9,061)
Decrease in investment property	Credit	-	(318,340)
Decrease in land and building	Credit	-	(877,323)

32.0 DATE OF AUTHORIZATION

These financial statements were authorized to be issued by Board of Supervisor on ______________.

33.0 CORRESPONDING FIGURES

Comparative figures for Income Statement / Statement of Comprehensive Income are not comparable due to difference in reporting period, that resulted due to change in the entity's financial year. For details refer to Note: 02 to the financial statements. Moreover, significant reclassification / rearrangment have been depicted in Note : 30 to the financial statements.

34.0 GENERAL

Figures have been rounded off to the nearest Afghani.

Chief Executive Officer | **Chief Financial Officer**