

Pashtany Bank

Kabul, Afghanistan

**Un-Audited Condensed Interim Financial
Statements Along With Accompanying
Information**

For The Period Ended As At June 20, 2016

Report on Review of Interim Financial Statements to Shareholders

Introduction

We have reviewed the accompanying Statement of Condensed Interim Financial Position of **Pashtany Bank** ("the bank") as at **June 20, 2016**, and the related Condensed Interim income statement, Statement of Condensed Interim changes in equity and Statement of Condensed Interim cash flows for the period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards (IFRSs), the requirements of the Law of Banking in Afghanistan and directives issued by the Da Afghanistan Bank (DAB). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standards on Review Engagements (2410), "Review of Interim Financial Information Performed by the Independent auditor of the entity". A review of interim financial information consist of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

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

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

3. Impairment test of financial assets “Investment in Equity Instruments” as required by International Accounting Standard (IAS) 39 “Financial Instruments: Recognition and Measurement” was not carried out. We therefore, are not in a position to ascertain whether carrying amounts of ‘Investment in Equity Instruments’ of the bank are not stated in excess of their recoverable amount as at June 20, 2016.
4. The bank has a defined benefit pension scheme for its employees however no provision has been made in financial statements and no actuarial valuation was conducted in this regard during the year as required by International Accounting Standards – 19 “Employee Benefit”. We were unable to quantify the financial impact of this on financial statements due to unavailability of information.
5. Opening balance of advance income tax amounting to Afn. 329.624 Million includes an amount of Afn 190.183 Million for which, we have not been provided with the supporting evidence of advance income tax recognized and acknowledged by Ministry of Finance (MoF) in these financial statements as receivable from Ministry of Finance (MoF).

Qualified Conclusion

Based on our review, with the exception of the matters described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as of **June 20, 2016** and of its financial performance and its cash flows for the three month period then ended in accordance with International Financial Reporting Standards (IFRSs), the requirements of the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB) rules and regulations.

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Auditors & Business Advisors
Kabul




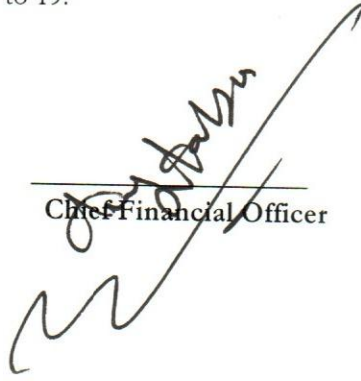
PASHTANY BANK
STATEMENT OF CONDENSED INTERIM FINANCIAL POSITION
AS AT 31 Jawza 1395 (20 June 2016)

		Un-audited June 20, 2016	Dec 21, 2015
	Notes	----- (AFN) -----	
Assets			
Cash and bank balances	5	15,464,633,094	14,440,451,000
Loans and advances to customers	8	-	4,462,000
Investments	7	121,510,012	141,275,000
Property and equipment		852,361,247	863,854,000
Investment properties		962,183,000	962,183,000
Other assets	9	573,458,128	470,183,171
Total assets		<u>17,974,145,481</u>	<u>16,882,408,171</u>
Liabilities			
Deposits from banks	10	1,587,738,850	972,534,000
Deposits from Customers	11	15,055,094,809	14,908,182,000
Deferred tax liabilities		116,912,000	116,912,000
Other liabilities	12	186,444,495	128,067,000
Total liabilities		<u>16,946,190,154</u>	<u>16,125,695,000</u>
Equity			
Share capital		3,820,256,999	3,820,256,999
Retained earnings		(4,497,842,828)	(3,879,713,256)
Profit for the period		271,241,156	(618,129,572)
Surplus on revaluation of property and equipment - net		467,650,000	467,650,000
Other reserves		966,650,000	966,650,000
Total equity		<u>1,027,955,327</u>	<u>756,714,171</u>
Total liabilities and equity		<u>17,974,145,481</u>	<u>16,882,409,171</u>

CONTINGENCIES AND COMMITMENTS 17

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


 Chief Executive Officer


 Chief Financial Officer

PASHTANY BANK
STATEMENT OF CONDENSED INTERIM COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 JAWZA 1395 (20 JUNE 2016)

		Un-audited			
		Quarter ended June 20, 2016	Half Yearly June 20, 2016	Quarter ended June 22, 2015	Half Yearly June 22, 2015
Notes		----- (AFN) -----			
Interest / profit income		94,978,147	196,934,519	124,152,488	252,133,000
Interest / profit expense		(13,399,677)	(25,828,884)	(15,997,861)	(29,099,000)
Net interest / profit income	13	<u>81,578,470</u>	<u>171,105,635</u>	<u>108,154,627</u>	<u>223,034,000</u>
Fee and commission income		17,840,758	25,543,217	26,884,759	47,122,000
Fee and commission expense		(1,099,797)	(2,821,119)	(3,355,544)	(5,881,878)
Net fee and commission income		<u>16,740,961</u>	<u>22,722,098</u>	<u>23,529,215</u>	<u>41,240,122</u>
Other income	14	<u>79,855,511</u>	<u>230,836,781</u>	<u>72,325,484</u>	<u>91,938,000</u>
		79,855,511	230,836,781	72,325,484	91,938,000
Operating income		<u>178,174,943</u>	<u>424,664,514</u>	<u>204,009,327</u>	<u>356,212,122</u>
Impairment reversal / (loss) on loans and advance	8.1	-	(4,000,000)	(566,630,543)	(802,407,000)
Personnel expenses	15	(32,026,516)	(71,280,702)	(37,596,785)	(85,078,000)
Depreciation		(7,450,400)	(13,407,518)	(4,975,088)	(12,439,000)
Amortization		-	-	-	-
Other expenses	16	(31,814,226)	(70,546,357)	(32,491,031)	(69,874,122)
Exchange gain / (loss)		(5,836,465)	5,811,219	2,814,691	7,582,000
Profit before taxation		<u>101,047,336</u>	<u>271,241,156</u>	<u>(434,869,429)</u>	<u>(606,004,000)</u>
Income tax		-	-	(19,482,362)	(39,700,000)
Net profit for the period		<u>101,047,336</u>	<u>271,241,156</u>	<u>(454,351,791)</u>	<u>(645,704,000)</u>
Other comprehensive income		-	-	-	-
Total comprehensive income for the period ended		<u>101,047,336</u>	<u>271,241,156</u>	<u>(454,351,791)</u>	<u>(645,704,000)</u>

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


 Chief Executive Officer

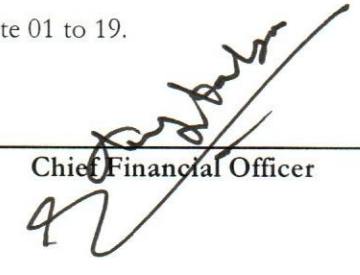

 Chief Financial Officer

PASHTANY BANK
STATEMENT OF CONDENSED INTERIM CASH FLOWS
FOR THE PERIOD ENDED 31 JAWZA 1395(20 JUNE 2016)

	Un-audited June 20, 2016	June 22, 2015
	----- (AFN) -----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit / (loss) before income tax	271,241,156	(606,004,000)
Adjustments for:		
Depreciation	13,407,518	12,439,000
Amortization		-
Net impairment loss on loans and advances	4,000,000	802,407,000
Foreign exchange (gain) / loss	(5,811,219)	(7,582,000)
	<u>282,837,456</u>	<u>201,260,000</u>
(Increase) decrease in operating assets and liabilities:		
Loans and advances - net	462,000	89,121,000
Other assets	(103,274,957)	(96,133,000)
Deposits from customers and banks	762,117,660	502,954,000
Other liabilities	58,377,495	6,113,000
	<u>1,000,519,654</u>	<u>703,315,000</u>
Net cash from operating activities before interest and tax		
Tax paid	-	(39,700,000)
Net cash from operating activities	<u>1,000,519,654</u>	<u>663,615,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,913,767)	(3,335,000)
Investment made	19,764,988	(386,000)
Proceeds from sale of property and equipment	-	-
Net cash used in investing activities	<u>17,851,221</u>	<u>(3,721,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of share capital	-	320,257,000
Net cash used in financing activities	<u>-</u>	<u>320,257,000</u>
Net increase / (decrease) in cash and cash equivalents	1,018,370,875	980,151,000
Cash and cash equivalents at beginning of the period	14,440,451,000	14,086,366,000
Effect of exchange differences in cash and cash equivalents	5,811,219	7,582,000
Cash and cash equivalents at the end of the period	<u>15,464,633,094</u>	<u>15,074,099,000</u>

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


Chief Executive Officer


Chief Financial Officer

PASHTANY BANK

	Share capital	Retained earnings	Accidental reserve	Legal reserve	Surplus on revaluation of property and equipment	Total
	-----AFN-----					
Balance as at December 22, 2014	3,500,000,000	(3,885,102,826)	500,000,000	466,650,000	467,650,000	1,049,197,174
Comprehensive income for the period ended	-	(645,704,000)	-	-	-	(645,704,000)
Transactions with owners						
Issuance of capital	320,526,999	-	-	-	-	320,526,999
Adjustments	-	1,342,000	-	116,912,000	-	118,254,000
Balance as at June 22, 2015 - un-audited	3,820,526,999	(4,529,464,826)	500,000,000	583,562,000	467,650,000	842,274,173
Comprehensive income for the period ended	-	26,231,998	-	-	-	26,231,998
Transactions with owners						
Adjustments	-	5,390,000	-	(116,912,000)	-	(111,522,000)
Balance as at December 21, 2015	3,820,256,999	(4,497,842,828)	500,000,000	466,650,000	467,650,000	756,714,171
Comprehensive income for the period ended	-	271,241,156	-	-	-	271,241,156
Balance as at June 20, 2016 - un-audited	3,820,256,999	(4,226,601,671)	500,000,000	466,650,000	467,650,000	1,027,955,327

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

Chief Executive Officer

Chief Financial Officer

PASHTANY BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 20, 2016

1. STATUS AND NATURE OF OPERATIONS

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

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

2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Law of Banking in Afghanistan. In case requirements differ, the provisions of the Law of Banking in Afghanistan shall prevail.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

These financial statements have been authorized to be issue at July 28, 2016 with approval of Board of Supervisors.

3.2 Functional and presentation currency

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

3.3 Use of critical accounting estimates and judgments

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

PASHTANY BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 20, 2016

	Note	June 20, 2016 2016 ----- (AFN) -----	December 21, 2015
5. CASH AND BANK BALANCES			
Cash in hand			
Local currency		118,734,445	163,743,000
Foreign currency		246,226,267	297,606,000
		364,960,712	461,349,000
Balances with Da Afghanistan Bank	5.1	12,358,297,496	11,374,344,000
Balances with the other banks	6	2,741,374,886	2,604,758,000
		15,464,633,094	14,440,451,000
5.1 Balances with Da Afghanistan Bank			
Local currency			
Required reserve account		1,216,006,000	1,171,040,000
Current accounts		714,561,801	210,641,000
		1,930,567,801	1,381,681,000
Foreign currency			
Current accounts		5,258,136,880	4,599,734,000
Placements			
Capital notes	5.2	5,080,361,724	5,385,764,000
Over night Account with DAB		89,231,090	7,165,000
		12,358,297,496	11,374,344,000
5.2			
This represents capital notes issued by DAB from over night 7, 28, 186 and 365 days (2015: from 28, 186 and 365 days) carrying coupon interest rate ranging from 1.80% to 6.84 % p.a. for the period ended as at June 20, 2016 (December 21, 2015: 1.80% to 6.78% p.a.)			
	Note	June 20, 2016 2016 ----- (AFN) -----	December 21, 2015
6. BALANCES WITH OTHER BANKS			
In Afghanistan			
Current accounts		32,676,200	1,976,000
Deposit accounts	6.1	1,383,800,000	2,056,207,000
Outside Afghanistan			
Current accounts		632,998,686	544,668,000
Deposit accounts	6.2	691,900,000	1,907,000
		2,741,374,886	2,604,758,000

PASHTANY BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 20, 2016

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

6.2 These represent term deposits with Bahrain Middle East Investment Bank for 10 million USD (5 million for 3 months and 5 million for 6 months).

Note	June 20, 2016	December 21,
	2016	2015
	----- (AFN) -----	

7. INVESTMENTS - NET

Investment in associated companies:

Balance at beginning of period		17,359,000	14,593,000
Exchange gain recognized in income statement		(61,500)	2,766,000
Balance at end of period	7.1	17,297,500	17,359,000

Investment in equity instruments

Held-to -Maturity

7.2 104,212,512 104,212,512

7.3 - 19,703,488

121,510,012 141,275,000

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

7.2 Investment in equity instruments

Bank-e-Mille Afghan 9,800,000 9,800,000

Afghan National Insurance Company 7,660,000 7,660,000

Shirkat-e-Aryana 281,250 281,250

Hotel Intercontinental 64,435 64,435

Afghan Card Corporation 2,822,884 2,822,884

Pakht-e-Herat 65,542 65,542

Shirkat Nasaji Afghan 83,518,400 83,518,400

104,212,512 104,212,512

7.3 This represented a term deposit with United Bank Limited amounting to PKR 31 million for a period of eight years having interest rate at 11% p.a. (2015: 11% p.a.) subsequently the same has been credited in May 2016.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 20, 2016

		Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
8. LOANS AND ADVANCES - NET							
	Note	2016			2015		
Term finance - amortized cost	8.1	4,000,000	(4,000,000)	-	8,000,000	(4,000,000)	4,000,000
Short term loans to employees		-	-	-	462,000	-	462,000
		4,000,000	(4,000,000)	-	8,462,000	(4,000,000)	4,462,000
					June 20, 2016	December 21,	
					2016	2015	
	Note				----- (AFN) -----	-----	
8.1 Impairment allowance							
Balance at the beginning of period / year					4,000,000	383,701,000	
Impairment loss for the period / year					-	924,892,000	
Loan written offs					(4,000,000)	(1,310,923,000)	
Reversal of provision					-	6,330,000	
Balance at end of period / year					-	4,000,000	
9. OTHER ASSETS							
Advances to employees					2,105,662	-	
Advances to suppliers					72,292,367	64,026,000	
Interest accrued on capital notes & demand deposit					104,337,352	138,068,000	
Advance income tax					329,623,689	288,130,000	
Other assets					107,242,065	22,096,000	
Receivable from BCCI-London					109,618,314	108,287,000	
					725,219,449	620,607,000	
Provision against advances and receivables	9.1				(151,761,322)	(150,423,829)	
Net carrying amount					573,458,128	470,183,171	
9.1 PROVISION AGAINST ADVANCES RECEIVABLES							
Opening for the period / year					(150,423,829)	-	
Charged for the period / year					(1,337,493)	(150,423,829)	
Closing for the period / year					(151,761,322)	(150,423,829)	
10. DEPOSITS FROM BANKS							
Agricultural Bank Kabul					959,463	5,000	
Construction Bank					1,669,939	1,724,830	
New Kabul Bank					34,597,698	34,178,000	
Bank-e-Millie Afghan					338,872	331,170	
Maiwand Bank					785,425	777,000	
Afghan United Bank					346,467,181	285,518,000	
Azizi Bank					902,920,272	350,000,000	
Bakhtar Bank					300,000,000	300,000,000	
					1,587,738,850	972,534,000	
11. DEPOSITS FROM CUSTOMERS							
Term deposits					503,228,733	496,700,000	
Saving deposits					7,324,976,677	7,094,977,000	
Current deposits					7,226,889,399	7,316,505,000	
					15,055,094,809	14,908,182,000	

PASHTANY BANK

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 20, 2016

	Note	June 20, 2016	December 21, 2015
		----- (AFN) -----	
12 OTHER LIABILITIES			
Withholding tax payable		29,223,153	39,991,000
Other payables		40,906,003	512,000
Creditor payable		116,315,339	87,564,000
		<u>186,444,495</u>	<u>128,067,000</u>
		June 20, 2016	June 22, 2015
		----- (AFN) -----	
13. NET INTEREST INCOME			
Interest income			
Cash and cash equivalents		183,419,424	216,003,000
Loans and advances to customers		13,515,095	36,130,000
		<u>196,934,519</u>	<u>252,133,000</u>
Interest expense			
Deposits from customers	13.1	(25,828,884)	(29,099,000)
Net interest income		<u>171,105,635</u>	<u>223,034,000</u>
13.1 Deposits from customers			
Term deposits		(3,320,982)	899,000
Saving deposits		(22,507,901)	28,200,000
		<u>(25,828,884)</u>	<u>29,099,000</u>
14. OTHER INCOME			
Rental income		15,833,523	18,082,000
Bad debt recovered:			
Loan principal		153,574,162	35,241,000
Loan interest		58,263,484	9,120,000
Other		3,165,612	29,495,000
		<u>230,836,781</u>	<u>91,938,000</u>
15. PERSONNEL EXPENSES			
Salaries and wages		60,978,760	70,526,000
Contribution towards pension fund		10,240,332	13,583,000
Staff welfare		61,610	969,000
		<u>71,280,702</u>	<u>85,078,000</u>

PASHTANY BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 20, 2016

	June 20 2016	June 22 2015
	----- (AFN) -----	
16. OTHER OPERATING EXPENSES		
Repair and maintenance	706,203	3,097,000
Travel and conveyance	766,176	535,000
Advertisement and publicity	1,930,918	520,000
Rent expense	6,280,478	8,283,000
Building tax	448,207	1,173,000
Deposit insurance	18,333,093	18,765,000
Internet expense	8,901,215	6,602,000
Security expense	14,108,042	9,510,000
Printing and stationery	2,602,625	4,599,000
Communication	439,458	570,000
Electricity	2,945,468	3,939,000
Fuel expenses	2,583,118	1,717,000
Auditor's remuneration	803,781	-
Cleaning and water	214,431	395,000
Kindergarten expenses	109,190	112,000
Employees training expenses	21,000	86,000
Others	9,352,954	9,971,122
	<u>70,546,357</u>	<u>69,874,122</u>
17. CONTINGENCIES AND COMMITMENTS		
Counter guarantees issued	<u>58,037,482</u>	<u>17,137,000</u>
18. CAPITAL MANAGEMENT		

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

The Bank regulatory capital position as at June 20, 2016 is as follows:

	June 20 2016	December 21 2015
	----- (AFN) -----	
Regulatory capital:		
Core (Tier 1) Capital:		
Total shareholder's equity	1,027,955,327	756,714,171
Less:		
Profit for the period / year	(271,241,156)	-
Surplus on revaluation	(467,650,000)	(467,650,000)
	<u>289,064,171</u>	<u>289,064,171</u>
Supplementary (Tier 2) Capital:		
Profit for the period / year	271,241,156	-
Surplus on revaluation	467,650,000	467,650,000
	<u>738,891,156</u>	<u>467,650,000</u>
	<u>1,027,955,327</u>	<u>756,714,171</u>

19. GENERAL

Figures have been rounded off to the nearest Afghanis.

Chief Executive Officer

Chief Financial Officer