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Independent Auditors' Report on Review of Condensed Interim Financial Statements to the Shareholders of Afghan United Bank

Grant Thornton Afghanistan
House # 611, Street # 12
Qualle Fatehullah, Kabul
Afghanistan
T +93 202 202 475
M+93 789 314 616
www.grantthornton.af

We have reviewed the accompanying condensed interim statement of financial position of **Afghan United Bank** ("the Bank"), as of September 30, 2018, and the related condensed interim statements of comprehensive income, statement of changes in equity and statement of cash flows for the nine-months then ended, and the notes to the condensed interim financial statements and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with relevant International Financial Reporting Framework (IFRSs), the requirements of the Law of Banking in Afghanistan and directives issued by Da Afghanistan Bank (DAB). Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, 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 that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CFA

Basis of Qualified Conclusion

IFRS 9 “Financial Instruments” has been effective from January 1, 2018, however, the accompanying condensed interim financial statements do not comply with the requirements of IFRS 9 which shall affect the Bank’s financial statements. This constitute a departure from the applicable financial reporting framework as disclosed in note 2 of these financial statements.

Conclusion

Based on our review, with the exception of the matter 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 at September 30, 2018, and of its financial performance and its cash flows for the nine-months then ended in accordance with applicable International Financial Reporting Framework (IFRSs) and the requirements of the Law of Banking in Afghanistan.

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Chartered Accountants

Engagement Partner: Saqib Rehman Qureshi

Place: Kabul

Date:

AFGHAN UNITED BANK
 CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
 AS AT SEPTEMBER 30, 2018

	Note	Un-audited 30-Sep-18 Afs '000'	Audited 31-Dec-17
ASSETS			
Cash and balances with central bank	6	7,539,852	8,948,606
Balances with other banks	7	2,387,018	1,910,124
Investments	8	1,060,419	897,296
Loans and advances to customers	9	6,269,819	7,432,069
Property and equipment	10	944,218	959,911
Intangible assets	11	7,452	8,022
Other assets		2,307,553	2,113,835
Total assets		20,516,331	22,269,863
EQUITY AND LIABILITIES			
EQUITY			
Share capital		1,522,030	1,522,030
Revaluation reserve		495,925	508,406
Retained earning		178,932	176,854
Total equity		2,196,886	2,207,290
LIABILITIES			
Deposits from customers	13	17,711,339	19,488,727
Deferred tax liability		145,954	145,954
Provision for tax		-	21,970
Other liabilities		462,152	405,922
Total liabilities		18,319,445	20,062,573
Total equity and liabilities		20,516,331	22,269,863
CONTINGENCIES AND COMMITMENTS			
	15		

The annexed notes 1 to 17 form an integral part of these financial statements.


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AFGHAN UNITED BANK
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

	Quarter Ended	Nine Months ended	Quarter Ended	Nine Months ended
Note	30-Sep-18	30-Sep-18	30-Sep-17	30-Sep-17
 Afs '000'			
Mark-up/return /interest earned	227,298	682,726	242,087	716,348
Mark-up /return /interest expensed	(22,169)	(69,569)	(32,248)	(92,742)
Net interest income	205,129	613,157	209,839	623,606
Fee and commission income	62,526	179,054	42,251	163,815
Fee and commission expense	(1,485)	(5,585)	(1,968)	(7,359)
Net fee and commission income	61,041	173,469	40,283	156,456
Other operating income	65,266	169,263	12,582	78,927
Operating income	331,436	955,889	262,704	858,989
Net impairment (loss)/reversal on financial assets	(554,699)	(495,628)	95,517	(385,182)
(Provision)/reversal on off-balance sheet items	(17,833)	5,324	-	-
Losses on de-recognition of fixed asset	9 (7,226)	(7,226)	-	-
Depreciation	10 (8,592)	(24,517)	(8,749)	(26,163)
Amortization	11 (1,341)	(3,900)	(1,073)	(3,568)
Employee compensation	(57,886)	(179,950)	(59,492)	(178,298)
Operating lease expenses	(11,841)	(35,241)	(12,197)	(36,486)
Other expenses	(77,715)	(212,152)	(76,571)	(209,576)
Profit/ (Loss) before tax	(405,696)	2,599	200,139	19,716
Income tax expense	81,139	(520)	(40,028)	(3,944)
Profit/ (Loss) for the year	(324,557)	2,079	160,111	15,772
Other comprehensive income				
Profit for the period	(324,557)	2,079	160,111	15,772
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	(324,557)	2,079	160,111	15,772

The annexed notes 1 to 17 form an integral part of these financial statements.


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AFGHAN UNITED BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

	Share capital	Revaluation reserve	Retained earning	Total
 Afs '000'			
Balance as at January 01, 2017	1,522,030	541,683	59,440	2,123,152
Total comprehensive income for the period				
Profit for the period	-	-	15,772	15,772
Other comprehensive income	-	-	-	-
	-	-	15,772	15,772
Balance as at September 30, 2017	1,522,030	541,683	75,212	2,138,924
Balance as at January 01, 2018	1,522,030	508,407	176,853	2,207,289
Total comprehensive income for the period				
Profit for the period	-	-	2,079	2,079
Other comprehensive income	-	(12,482)	-	(12,482)
	-	(12,482)	2,079	(10,403)
Balance as at September 30, 2018	1,522,030	495,925	178,932	2,196,886

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The annexed notes 1 to 17 form an integral part of these financial statements.


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AFGHAN UNITED BANK
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UN-AUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

Note	Un-audited	Un-audited
	30-Sep-18	30-Sep-17
..... Afs '000'		
CASH FLOWS FROM OPERATING ACTIVITIES		
	2,599	19,716
	Profit before tax	
	Adjustments for:	
	495,628	385,182
	(5,324)	-
	24,517	26,163
10	3,900	3,568
11	7,292	-
	528,612	434,629
	Net (gain)/ loss on disposal of fixed assets	
	Increase /decrease in current assets and liabilities	
	(163,123)	473,960
	671,946	113,864
	(193,718)	(180,878)
	(1,777,388)	(1,158,065)
	56,690	37,293
	(876,981)	(279,197)
	Investments	
	Loans and advances to customers	
	Other assets	
	Deposits from customers	
	Other liabilities	
	(22,950)	(122)
	(899,931)	(279,319)
	Income tax paid	
	Net cash generated from/ (used in) operating activities	
CASH FLOWS FROM INVESTING ACTIVITIES		
10	(28,599)	(11,539)
11	(3,330)	(1,264)
	(31,929)	(12,803)
	Purchase of property and equipment	
	Purchase of intangible assets	
	Net cash used in investing activities	
CASH FLOWS FROM FINANCING ACTIVITIES		
	-	-
	-	-
	Proceeds from issue of shares	
	Net cash generated from/ (used in) financing activities	
	(931,860)	(292,122)
	10,858,730	9,892,255
	9,926,870	9,600,133
	Net increase/ (decrease) in cash and cash equivalents	
	Cash and cash equivalents, beginning of period	
	Cash and cash equivalents, end of period	

The annexed notes 1 to 17 form an integral part of these financial statements.

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AFGHAN UNITED BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

1 STATUS AND NATURE OF BUSINESS

Afghan United Bank ("the Bank") is a commercial bank registered and operating in Afghanistan. The registered office of the bank is located in Kabul, Afghanistan.

The bank obtained business license from Afghanistan Investment Support Agency (AISA) bearing license no: D-27284. The bank commenced its operations on October 04, 2007 under the license for commercial banking issued by Da Afghanistan bank (DAB) under the law of banking in Afghanistan. Currently, the bank is being operated with twenty six branches including two full fledged Islamic banking branches (2017: twenty six branches) in different provinces of Afghanistan.

These condensed interim financial statements for the nine-months ended September 30, 2018 have been approved and authorized for issue by the board of supervisors on November ____, 2018.

2 STATEMENT OF COMPLIANCE

- 2.1** This condensed interim financial statements of the Bank for the nine-months ended September 30, 2018 is un-audited and have been prepared in accordance with the International Accounting Standard 34, 'Interim Financial Reporting', issued by the International Accounting Standard Board (IASB) and directives issued by the Central Bank of Afghanistan (DAB). In case the requirements differs, the provisions of the law of banking in Afghanistan and directives issues by DAB shall prevail.

The disclosures made in this condensed interim financial statements have been limited and do not include all the information as required in the annual financial statements. Accordingly, this condensed interim financial information should be read in conjunction with the annual financial statements of the Bank for the year ended December 31, 2017.

3 BASIS OF PREPARATION

3.1 Basis of measurement

These condensed interim financial statements have been prepared on the historical cost basis except that certain fixed assets are stated at revalued amount.

3.2 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that effect the application of accounting policies and reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

The judgements, estimates and assumptions applied in the Interim Financial Statements, including key sources of estimation uncertainty, were same as those applied in the Bank's last annual financial statements for the year ended 31 December 2017.



AFGHAN UNITED BANK
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

3.3 Functional and presentation currency

These financial statements are presented in Afghani (AFS), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in Afs has been rounded to the nearest thousand.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of this condensed interim financial statements are the same as those applied in the preparation of the financial statements of the Bank for the year ended December 31, 2017 except for the impact of significant changes in the DAB Assets Classification and Provisioning Regulation.

The basis for accounting estimates adopted in the preparation of this condensed interim financial statements are the same as those applied in the preparation of the financial statements of the Bank for the year ended December 31, 2017.

5 FINANCIAL RISK MANAGEMENT

The Bank's Financial Risk Management objectives and policies adopted by the Bank are consistent with those disclosed in the annual financial statements for the year ended December 31, 2017.

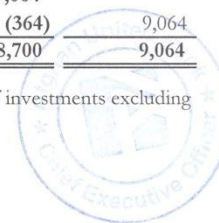


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AFGHAN UNITED BANK
NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

6 CASH AND BALANCES WITH CENTRAL BANK	Note	Un-audited 30-Sep-18	Audited 31-Dec-17
	 Afs '000'
In hand			
Local currency		1,170,681	1,012,185
Foreign currencies		1,741,826	3,593,691
		<u>2,912,507</u>	<u>4,605,876</u>
With Da Afghanistan Bank in:			
Local currency current accounts		1,073,697	1,153,067
Foreign currency current accounts		1,899,662	1,439,026
Placements - Capital Notes		1,199,473	197,730
Overnight Deposit with Central Bank		454,513	1,552,907
		<u>4,627,345</u>	<u>4,342,730</u>
		<u>7,539,852</u>	<u>8,948,606</u>
7 BALANCES WITH OTHER BANKS			
In Afghanistan			
National Bank of Pakistan		569	524
Pashtany Bank		382,081	352,172
		<u>382,650</u>	<u>352,696</u>
Outside Afghanistan			
CSC Bank, Lebanon		40,349	29,046
Aktif Bank, Turkey		196,679	354,379
Axis Bank, China		9,427	14,006
BMCE Bank, Spain		754,392	533,156
Nurol Bank, Turkey		228,825	796
Bahrain Middle East Bank		774,696	626,045
		<u>2,004,368</u>	<u>1,557,428</u>
		<u>2,387,018</u>	<u>1,910,124</u>
8 INVESTMENTS			
Held to maturity			
Aktif Bank, Turkey		264,775	244,020
BMCE Bank, Spain		226,950	174,300
Bahrain Middle East Bank		378,250	348,600
Nurol Bank, Turkey		-	139,440
Capital Notes with DAB		199,144	-
		<u>1,069,119</u>	<u>906,360</u>
General provision on investments	8.1	<u>(8,700)</u>	<u>(9,064)</u>
Investments - Net of provisions		<u>1,060,419</u>	<u>897,296</u>
8.1 Particulars of provision against investments			
Opening balance		9,064	-
Charge/ (reversal) for the period/ year		<u>(364)</u>	<u>9,064</u>
Closing balance		<u>8,700</u>	<u>9,064</u>

General provision against investment is held @ 1% (2017: 1%) of the gross amount of investments excluding investments in capital notes with central bank.



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AFGHAN UNITED BANK
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

9 LOANS AND ADVANCES TO CUSTOMERS	Note	Un-audited 30-Sep-18	Audited 31-Dec-17
	 Afs '000'	
Conventional financing			
Running finance	9.2	3,899,997	4,202,423
Term finance	9.3	525,543	836,346
		<u>4,425,540</u>	<u>5,038,770</u>
Islamic financing			
Murabaha	9.4	2,945,755	2,785,453
Ijara	9.5	-	242,068
Loans and advances to customers - gross		<u>7,371,295</u>	<u>8,066,291</u>
Provision against non-performing loans and advances		<u>(1,101,476)</u>	<u>(634,222)</u>
Loans and advances to customers - net		<u><u>6,269,819</u></u>	<u><u>7,432,069</u></u>

9.1 Particulars of loans and advances to customers - gross

In local currency	1,138,719	1,269,611
In foreign currencies	6,232,576	6,796,680
	<u>7,371,295</u>	<u>8,066,291</u>

9.2 These carry interest ranging between 12% to 15% (2017: 12 % to 15%) per annum. All facilities are extended for maximum period of 12 months and are expected to be recovered within 12 months of the reporting date. These are secured against personal guarantees, mortgage of immoveable properties and hypothecation over stock in trade.

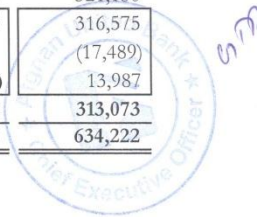
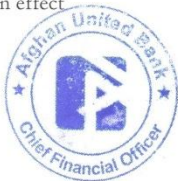
9.3 These carry interest rate at 8% to 13% (2017: 8% to 13%) per annum. These loans have been extended for periods ranging from one year to five years (2017: one year to three years) and are secured against personal guarantees, mortgage of immoveable commercial & residential properties and assignment of receivables.

9.4 These represent sale and purchase agreement under which the Bank had paid finance for the purchase of goods and then sold the requisite goods to the customer on profit margin which is ranging from 10% to 14% (2017: 10% to 14%) per annum. These facilities are extended for the period of one month to four years (2017: 1 months to 4 years) and secured against personal guarantees, mortgage of immovable properties and goods supplied under the sale and purchase agreement.

9.5 These represent sale and purchase agreement under which the Bank had paid finance for the purchase of goods and then sold the requisite goods to the customer on profit margin which is ranging from 12% to 15% (2017: 12% to 15%) per annum.

9.6 Particulars of provision against non-performing loans and advances

	Un-audited 30-Sep-18	Audited 31-Dec-17
 Afs '000'	
Opening balance	634,222	321,150
Charge for the period/ year	498,095	316,575
Write off during the period/ year	-	(17,489)
Currency Fluctuation effect	(30,841)	13,987
	<u>467,254</u>	<u>313,073</u>
Closing balance	<u>1,101,476</u>	<u>634,222</u>



AFGHAN UNITED BANK
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

	Un-audited 30-Sep-18	Audited 31-Dec-17
 Afs '000'	
10 PROPERTY AND EQUIPMENT		
Gross Carrying Amount		
At beginning of the period/ year	1,683,450	1,669,492
Addition during the period/ year	28,599	13,957
Disposal during the period/ year	(14,346)	-
Revaluation adjustment	(16,460)	-
Closing balance	1,681,243	1,683,449
Accumulated Depreciation		
At beginning of the period/ year	723,539	655,656
Charge for the period/ year	24,517	34,606
Accumulated depreciation on disposal during the period/ year	(7,053)	-
Revaluation adjustment	(3,978)	33,276
Closing balance	737,025	723,538
Net book value	944,218	959,911

11 INTANGIBLE ASSETS

Gross carrying amount		
Opening balance	234,835	233,571
Additions during the period/ year	3,330	1,264
Closing balance	238,165	234,835
Less: Accumulated amortization		
Opening balance	226,813	222,142
Charge for the period/ year	3,900	4,671
Closing balance	230,713	226,813
Net book value	7,452	8,022

11.1 Intangible assets include computer software and licenses which are being amortized over the life of these assets. The amortization rate of intangible assets is 33.33% (2017: 33.33%).

12 SHARE CAPITAL

12.1 Authorized capital

2018	2017	Note	Un-audited 30-Sep-18	Audited 31-Dec-17
Number of shares		 Afs '000'	
40,000,000	40,000,000	Ordinary shares of Afs 250 each	10,000,000	10,000,000



AFGHAN UNITED BANK
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

12.2 Issued and paid up capital

2018	2017		30-Sep-18	31-Dec-17
Number of shares				
6,088,120	6,088,120	Ordinary shares of Afs 250 each	<u>1,522,030</u>	<u>1,522,030</u>

13 DEPOSITS FROM CUSTOMERS

Current deposits		11,111,814	11,672,236
Saving deposits	13.1	1,182,099	1,817,744
Term deposits	13.2	2,061,971	2,448,822
Margin deposits against bank guarantees		<u>3,355,454</u>	<u>3,549,925</u>
		<u>17,711,339</u>	<u>19,488,727</u>

13.1 Saving deposits carry interest ranging from 1% to 2% p.a (2017: 1% to 4% p.a). The profit disbursed during the period on the Islamic saving deposits ranged from 0.32% to 0.75% p.a (2017: 0.44% to 0.75% p.a).

13.2 Term deposits carry interest ranging from 2% to 5% per annum (2017: 2% to 5% per annum), based on the term, with maturity ranging from three to twelve months (2017: three to twelve months). Profit distribution rates on Islamic term deposits during the period ranged from 4.43% to 4.54% (2017: 3.64% to 3.78%) p.a.

14 RELATED PARTY TRANSACTIONS

Parent and ultimate controlling party

The Bank is owned by individual shareholders who owns Bank's shares in different proportions.

Key management personnel

Key management personnel includes Board of Supervisors, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Credit Officer, Chief Risk Officer and Chief HR and Administration Officer

Transactions with related parties

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

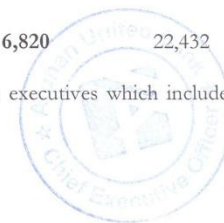
	Balances		Transactions	
	Un-audited	Audited	Un-audited	Un-audited
	30-Sep-18	31-Dec-17	30-Sep-18	30-Sep-17
		Afs '000'		
Shareholders				
Loans and advances	-	-	-	-
Interest income	-	-	-	12,859

Transactions with key management

Short term employee benefits

Salary and other benefits	-	-	6,820	22,432
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14.1 In addition to salaries and remuneration, Bank also provides non-cash benefits to executives which include furnished accommodation, meal and travel cost.



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AFGHAN UNITED BANK
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

15 CONTINGENCIES AND COMMITMENTS

Un-audited 30-Sep-18	Audited 31-Dec-17
..... Afs '000'	

Letter of credits and guarantees issued on behalf of customers	<u>9,555,514</u>	<u>7,211,798</u>
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This include outstanding BGs amounting to AFN 1,223 million (2017: 723.73 million) issued in Islamic mode of finance.

Commitment for operating lease

- not later than one year
- later than one year and not later than five year

46,988	48,613
<u>187,952</u>	<u>194,452</u>
<u>234,940</u>	<u>243,065</u>



AFGHAN UNITED BANK
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

16 CAPITAL MANAGEMENT

Regulatory capital

The Banks' regulator Da Afghanistan Bank sets and monitors capital requirements for the Bank. The capital adequacy of the Bank is assessed in two tiers as per regulations of the Da Afghanistan Bank.

- Tier 1 or core capital, consisting of the highest quality capital elements that fully meet all the essential characteristics of capital; to be 6% of risk weighted assets.
- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank as a going concern.
- Regulatory capital is the sum of Tier 1 and Tier 2 capital. Besides, Tier 2 capital cannot exceed from total amount of Tier 1 capital. The Bank complies with these regulations.

The Bank's regulatory capital position at September, 30 , 2018 was as follows:

	Un-audited 30-Sep-18	Audited 31-Dec-17
 Afs '000'	
Tier 1 capital		
Total Equity	2,196,886	2,207,290
Less:		
Intangible assets	(7,452)	8,022
Profit for the year	(2,079)	117,415
Surplus on revaluation	(495,925)	508,406
	<u>(505,456)</u>	<u>633,843</u>
Total tier 1 (core) capital	<u>1,691,430</u>	<u>1,573,447</u>
Tier 2 capital		
General loss reserves on credits	9,964	55,235
Profit for the year	2,079	117,415
Surplus on revaluation	495,925	508,406
Total tier 2 (supplementary) capital	<u>507,967</u>	<u>681,056</u>
Total regulatory capital	<u>2,199,398</u>	<u>2,254,503</u>

17 GENERAL

No adjusting or significant non-adjusting events have occurred between the reporting date, September 30, 2018 and the date of authorization of these financial statements.



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