



Grant Thornton

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Independent auditors' report to the Shareholders of Afghan United Bank

Grant Thornton Afghanistan

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Opinion

We have audited the financial statements of Afghan United Bank (the Bank), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board of Accountants' *Code of Ethics of Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Afghanistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We concluded to report following key audit matter.

The provision against non-performing loans and advances as disclosed in note 8.6 of the financial statements amounts to AFN 316.57 million. The management has followed a time-based system-automated provisioning criteria combined with periodic subjective provisioning. For all loans and advances, the identification of impairment event and determination of impairment charge require significant judgment by management, in particular, the timing, quantum, and viability of future cash flows.

In testing the completeness of impairment, we have assessed the impairments for loans we deemed at high risk and reviewed the nature and timing of the sample and assessed the rationale for the quantum and recalculated the impairment charge. Overall, we found management to have implemented appropriate controls in determining the quantum of impairment as per DAB regulations.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Further auditor's responsibilities are annexed to this report.



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From the matters communicated with those charged with governance, we determine the matter that was of most significance in the audit of the financial statements of the current period and is, therefore, the key audit matter. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Chartered Accountants

Engagement Partner: Saqib Rehman Qureshi

Kabul, Afghanistan

Date: *27-Mar-2018*



ANNEXURE – Auditor's Responsibilities

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AFGHAN UNITED BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017

	Note	2017 Afs '000'	2016
ASSETS			
Cash and balances with central bank	5	8,948,606	8,545,896
Balances with other banks	6	1,910,124	1,346,359
Investments	7	897,296	1,293,680
Loans and advances to customers	8	7,432,069	6,896,571
Property and equipment	9	959,911	1,013,837
Intangible assets	10	8,022	11,429
Other assets	12	2,113,835	1,814,392
Total assets		22,269,863	20,922,164
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	1,522,030	1,522,030
Revaluation reserve	14	508,406	541,683
Retained earning		176,854	59,439
Total equity		2,207,290	2,123,152
LIABILITIES			
Deposits from customers	15	19,488,727	18,357,459
Deferred tax liability	11	145,954	149,441
Provision for tax		21,970	3,585
Other liabilities	16	405,922	288,527
Total liabilities		20,062,573	18,799,012
Total equity and liabilities		22,269,863	20,922,164
CONTINGENCIES AND COMMITMENTS			
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The annexed notes 1 to 29 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive Officer

BOS Chairman

AFGHAN UNITED BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017 Afs '000'	2016
Mark-up/return /interest earned		951,877	1,014,666
Mark-up /return /interest expensed		(136,618)	(102,466)
Net interest income	17	815,259	912,200
Fee and commission income		258,486	341,840
Fee and commission expense		(9,304)	(27,447)
Net fee and commission income	18	249,182	314,393
Other operating income	19	97,589	53,736
Operating income		1,162,030	1,280,329
Net impairment loss on financial assets	8.6, 12.2 & 7	(326,760)	(602,384)
Provision against off-balance sheet items	16.1	(71,132)	-
Net losses on disposal and de-recognition of fixed assets	9	-	(19,517)
Depreciation	9	(34,606)	(38,005)
Amortization	10	(4,671)	(12,100)
Employee compensation	20	(240,591)	(223,440)
Operating lease expenses		(48,613)	(48,074)
Other expenses	21	(285,786)	(262,334)
Profit/ (Loss) before tax		149,871	74,475
Income tax expense	22	(32,456)	(16,559)
Profit/ (Loss) for the year		117,415	57,916
Other comprehensive income			
Profit for the year		117,415	57,916
Incremental (depreciation)/ movement in revaluation		(33,276)	(33,277)
Total comprehensive income for the year		84,139	24,639

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

Chief Financial Officer

Chief Executive Officer

BOS Chairman

AFGHAN UNITED BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	Share capital	Revaluation reserve	Retained earning	Total
 Afs '000'			
Balance as at January 01, 2016	1,522,030	574,960	1,532	2,098,513
Total comprehensive income for the year				
Profit for the year	-	-	57,916	57,916
Other comprehensive income	-	(33,277)	-	(33,277)
	-	(33,277)	57,916	24,639
Transactions with owners				
Issuance of shares	-	-	-	-
Balance as at December 31, 2016	<u>1,522,030</u>	<u>541,683</u>	<u>59,439</u>	<u>2,123,152</u>
Balance as at January 01, 2017	1,522,030	541,683	59,439	2,123,152
Total comprehensive income for the year				
Profit for the year	-	-	117,415	117,415
Other comprehensive income	-	(33,276)	-	(33,276)
	-	(33,276)	117,415	84,139
Transactions with owners				
Issuance of shares	-	-	-	-
Balance as at December 31, 2017	<u>1,522,030</u>	<u>508,407</u>	<u>176,854</u>	<u>2,207,291</u>

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

Chief Financial Officer

Chief Executive Officer

BOS Chairman

AFGHAN UNITED BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Note	2017 Afs '000'	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		149,871	74,475
Adjustments for:			
Net impairment loss on financial assets		326,760	602,384
Provision against off-balance sheet items		71,132	
Depreciation	9	34,606	38,005
Amortization	10	4,671	12,100
Net (gain)/ loss on disposal of fixed assets		-	19,517
		<u>587,040</u>	<u>746,481</u>
Increase /decrease in current assets and liabilities			
Investments		396,384	(951,830)
Loans and advances to customers		(933,390)	(1,404,295)
Other assets		(299,443)	(409,324)
Deposits from customers		1,131,268	1,577,087
Other liabilities		<u>116,588</u>	<u>185,087</u>
		<u>998,447</u>	<u>(256,794)</u>
Income tax paid		<u>(16,751)</u>	<u>(46,632)</u>
Net cash generated from/ (used in) operating activities		<u>981,696</u>	<u>(303,426)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(13,957)	(12,494)
Purchase of intangible assets		(1,264)	(10,435)
Proceeds from disposal of property and equipment		-	212
Net cash used in investing activities		<u>(15,221)</u>	<u>(22,717)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	-
Net cash generated from/ (used in) financing activities		<u>-</u>	<u>-</u>
Net increase/ (decrease) in cash and cash equivalents		<u>966,475</u>	<u>(326,143)</u>
Cash and cash equivalents, beginning of year		<u>9,892,255</u>	<u>10,218,398</u>
Cash and cash equivalents, end of year		<u><u>10,858,730</u></u>	<u><u>9,892,255</u></u>

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Chief Financial Officer

Chief Executive Officer

BOS Chairman