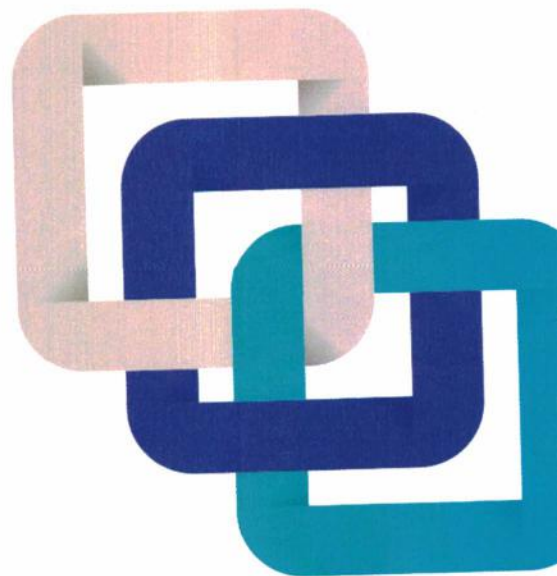


# Financial Statements Afghan United Bank

Audit for the year ended December 31, 2018





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Grant Thornton Afghanistan

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# Independent Auditors' Report

To the shareholders of Afghan United Bank

## Opinion

We have audited the financial statements of Afghan United Bank ("the Bank"), which comprise the statement of financial position as at December 31, 2018, 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, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), the requirements of the Law of Banking in Afghanistan and the Islamic Accounting Standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

## 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 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. 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 of current period. 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 have determined the matters described below to be the key audit matters to be communicated in our report.



## Key Audit Matters

## How the matter was addressed in our audit

### *Loan and advances to customers - net of impairment losses*

Loans and advances to customers has carrying amount of AFN 6,747 million as of year-end and constitute 33% of the total assets. 96% of mark-up/return/interest income of the Bank is derived from loans and advances.

Management of the loan portfolio is important from management's perspective to ensure compliance with the Central Bank's regulations and to ensure the viability of the business operations. Further, classification of loans and advances affects the income of the Bank as reversal of interest accrued is required along with recording of extra provision upon categorization of loans and advances as doubtful or loss which can also be based on qualitative criteria. Therefore, we have considered valuation of loans and advances as a key audit matter.

We refer note 4.2, 4.4 and 4.12 to the financial statements which contain accounting policies for loans and advances recognition and measurement, impairment provision and interest income.

We selected a sample of loans and advances to customers in each category of loans and advances and verified whether approved policies and procedures of the Bank have been followed in sanctioning the loan including proper due diligence procedures to establish the character of the borrower, repayment capacity, appropriateness of the loan product to the purpose and objective of the loan, adequacy, legitimacy and valuation of the collateral. We also checked whether proper loan documentation has been maintained to establish valid claim of the Bank over the borrower. We further checked whether exposures taken by the Bank with respect to any individual borrower and sector are in-line with the limits specified by the Central Bank. We also ensured whether approved policies and procedures of the Bank are in-line with the regulations issued by the Central Bank of Afghanistan.

We further ensured that adequate provision for loan losses is maintained by the Bank in respect of any lapses by management during the loan due diligence process and resulting deterioration in the quality of the loans apart from provisioning resulting from loans falling into aging buckets specified by the Central Bank and we have also verified whether aging of loans and advances is correctly carried out by the banking application in use of the Bank.

We also assessed whether there is also objective evidence of impairment of loan present and as a result of which additional provision may be required.

## **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 issued by the International Accounting Standards Board (IASB), the requirements of the Law of Banking in Afghanistan and the Islamic Accounting Standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and for such internal control as management determines is necessary to enable the



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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 Bank'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.

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.

*Grant Thornton Afg.*

**Grant Thornton Afghanistan**

**Chartered Accountants**

Engagement Partner: Saqib Rehman Qureshi – FCA

Location: Kabul, Afghanistan

Date: *March 30, 2019*



## **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 Bank'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 Bank 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, 2018

		2018	2017
	Note	AFN '000'	
ASSETS			
Cash and balances with central bank	5	6,436,196	8,750,876
Balances with other banks	6	2,681,935	1,910,124
Investments	7	1,479,313	1,095,026
Loans and advances to customers	8	6,747,327	7,432,069
Property and equipment	9	904,139	959,911
Intangible assets	10	6,184	8,022
Other assets	11	2,012,841	2,113,835
Total assets		20,267,936	22,269,863
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	1,522,030	1,522,030
Revaluation reserve on property and equipment	13	463,472	508,407
Retained earnings		123,104	176,854
Total equity		2,108,606	2,207,291
LIABILITIES			
Deposits from customers	14	17,562,438	19,488,727
Deferred tax liability	15	132,419	145,954
Provision for tax		9,086	21,970
Other liabilities	16	455,387	405,921
Total liabilities		18,159,330	20,062,572
Total equity and liabilities		20,267,936	22,269,863
CONTINGENCIES AND COMMITMENTS			
	17		

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

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CHIEF FINANCIAL  
OFFICER (ACTING)

  
CHIEF EXECUTIVE  
OFFICER


  
BOS CHAIRMAN

**AFGHAN UNITED BANK**  
Statement of Comprehensive Income  
For the year ended December 31, 2018

		2018	2017
	Note	AFN '000'	
Mark-up/ return/ interest earned		903,247	951,877
Mark-up/ return/ interest expense		(106,345)	(136,618)
<b>Net mark-up/ return/ interest income</b>	18	<b>796,902</b>	<b>815,259</b>
Fee and commission income		269,542	258,486
Fee and commission expense		(7,028)	(9,304)
<b>Net fee and commission income</b>	19	<b>262,514</b>	<b>249,182</b>
Other income	20	188,062	97,589
<b>Net operating income</b>		<b>1,247,478</b>	<b>1,162,030</b>
Provision against non-performing loans and advances to customers	8.6	(627,965)	(326,760)
Net provision against off balance sheet items and other assets	11.2 & 16.1	(1,500)	(71,132)
Loss on disposal and de-recognition of fixed assets - net		(19,708)	-
Depreciation	9	(65,347)	(67,882)
Amortization	10	(5,167)	(4,671)
Employee compensation	21	(238,051)	(240,591)
Operating lease expenses		(47,106)	(48,613)
Other expenses	22	(287,409)	(285,786)
<b>(Loss)/ Profit before tax</b>		<b>(44,776)</b>	<b>116,595</b>
Income tax expense	23	(53,909)	(32,456)
<b>(Loss)/ Profit for the year</b>		<b>(98,685)</b>	<b>84,139</b>
<b>Other comprehensive income</b>			
(Loss)/ Profit for the year		(98,685)	84,139
Other comprehensive income that will not be reclassified to the income statement		-	-
Other comprehensive income that will be reclassified to the income statement		-	-
<b>Total comprehensive income for the year</b>		<b>(98,685)</b>	<b>84,139</b>

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

  
**CHIEF FINANCIAL  
OFFICER (ACTING)**

  
**CHIEF EXECUTIVE  
OFFICER**

  
**BOS CHAIRMAN**

**AFGHAN UNITED BANK**

## Statement of Changes in Equity

For the year ended December 31, 2018

	Share capital	Revaluation reserve	Retained earnings	Total
	AFN '000'			
Balance as at January 01, 2017	1,522,030	541,683	59,439	2,123,152
Incremental depreciation on revaluation surplus	-	(33,276)	33,276	-
Total comprehensive income for the year				
Profit for the year	-	-	84,139	84,139
Other comprehensive income	-	-	-	-
	-	-	84,139	84,139
Balance as at December 31, 2017	1,522,030	508,407	176,854	2,207,291
Incremental depreciation on revaluation surplus	-	(32,453)	32,453	-
Revaluation adjustments on disposal		(12,482)	12,482	-
Total comprehensive income for the year				
Loss for the year	-	-	(98,685)	(98,685)
Other comprehensive income	-	-	-	-
	-	-	(98,685)	(98,685)
Balance as at December 31, 2018	1,522,030	463,472	123,104	2,108,606

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

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OFFICER


  
BOS CHAIRMAN

# AFGHAN UNITED BANK

## Statement of Cash Flows

For the year ended December 31, 2018

		2018	2017
		AFN '000'	
Note			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
	(Loss)/ Profit before tax	(44,776)	116,595
	<b>Adjustments for:</b>		
	Net impairment loss on financial assets	627,965	326,760
	Provision against off balance sheet items	1,500	71,132
9	Depreciation	65,347	67,882
10	Amortization	5,167	4,671
	Loss on disposal and de-recognition of fixed assets - net	19,708	-
		<b>674,911</b>	<b>587,040</b>
	<b>Increase/ decrease in current assets and liabilities</b>		
	Investments	(384,287)	198,654
	Loans and advances to customers	55,277	(933,390)
	Other assets	100,994	(299,443)
	Deposits from customers	(1,926,289)	1,131,268
	Other liabilities	48,127	116,588
		<b>(1,431,267)</b>	<b>800,717</b>
	Income tax paid	(78,989)	(16,751)
	<b>Net cash (used in)/ generated from operating activities</b>	<b>(1,510,256)</b>	<b>783,966</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
	Purchase of property and equipment	(29,349)	(13,957)
9.1	Purchase of intangible assets	(3,330)	(1,264)
	Proceeds from disposal of property and equipment	66	-
	<b>Net cash used in investing activities</b>	<b>(32,613)</b>	<b>(15,221)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
	Proceeds from issue of shares	-	-
	<b>Net cash generated from/ (used in) financing activities</b>	<b>-</b>	<b>-</b>
	<b>Net (decrease)/ increase in cash and cash equivalents</b>	<b>(1,542,869)</b>	<b>768,745</b>
	Cash and cash equivalents, beginning of year	10,661,000	9,892,255
	<b>Cash and cash equivalents, end of year</b>	<b>9,118,131</b>	<b>10,661,000</b>

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

CHIEF FINANCIAL OFFICER  
(ACTING)

CHIEF EXECUTIVE  
OFFICER

BOS CHAIRMAN

# AFGHAN UNITED BANK

## Notes to the Financial Statements

For the year ended December 31, 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 at Shahr e Naw, Kabul, Afghanistan.

The Bank commenced its operations on October 4, 2007 under the license of commercial banking issued by Da Afghanistan bank (DAB) under the Law of Banking in Afghanistan. It is a full fledge bank principally engaged in the business of commercial banking with a network of 26 branches including two full fledge Islamic banking branches in different provinces of Afghanistan. The bank also holds license from Afghanistan Investment Support Agency (AISA) bearing license no: D-27284.

The financial statements for the year ended December 31, 2018 have been approved and authorized for issue by the Board of Supervisors on March 30, 2019.

### 2 STATEMENT OF COMPLIANCE

- 2.1** These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the requirements of the Law of Banking in Afghanistan and the Islamic Accounting Standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In case requirements differ, the provisions of the Law of Banking in Afghanistan shall prevail.
- 2.2** Standards, amendments and interpretations to publish accounting standards that became effective in the current year

Following accounting standard and amendments became applicable in the current year;

- IFRS 15 "Revenue from Contracts with Customers"
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Amendments IFRS 2 "Classification and Measurement of Share-based Payment Transactions"
- Amendments to IAS 40 "Transfers of Investment Property"
- Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- Annual Improvements 2014-2016 cycle

- 2.3** Standards, amendments and interpretations to publish approved accounting standards that are not yet effective

The following are the standards, interpretations and amendments which have been issued but are not yet effective:

## Afghan United Bank

### Notes to the Financial Statements

For the year ended December 31, 2018

<i>Description</i>	<i>Effective date for annual accounting period</i>
<ul style="list-style-type: none"> <li>• Amendments to IFRS 10 and IAS 28 “IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”</li> </ul>	Not yet finalize
<ul style="list-style-type: none"> <li>• IFRS 16 “Leases”</li> </ul>	1 January 2019
<ul style="list-style-type: none"> <li>• Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures</li> </ul>	1 January 2019
<ul style="list-style-type: none"> <li>• Amendments to IFRS 9 “Prepayment Features with Negative Compensation”</li> </ul>	1 January 2019
<ul style="list-style-type: none"> <li>• Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”</li> </ul>	1 January 2019
<ul style="list-style-type: none"> <li>• IFRS 17 “Insurance Contracts”</li> </ul>	1 January 2021
<ul style="list-style-type: none"> <li>• Annual Improvements 2015-2017 Cycle (issued in December 2017)</li> </ul>	1 January 2019
<ul style="list-style-type: none"> <li>• IFRIC Interpretation 23 “Uncertainty over Income Tax Treatment”</li> </ul>	1 January 2019
<ul style="list-style-type: none"> <li>• IFRS 9 “Financial Instruments”</li> </ul>	1 January 2021

Management does not intend to adopt any of the above standards, interpretations and amendments earlier than the applicable date. These will not have a significant impact on the financial statements of the Bank in the year except for IFRS 16 which will have an impact on the financial statements but assessment in this regard is currently under process.

Central Bank of Afghanistan vide its circular No. 298 dated Hamal 8, 1398 (March 28, 2019) deferred the applicability of IFRS 9 “Financial Instruments” till January 1, 2021.

# Afghan United Bank

## Notes to the Financial Statements

For the year ended December 31, 2018

### 3 BASIS OF PREPARATION

#### 3.1 Basis of measurement

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

#### 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 affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting 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 periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following:

- a) Note 7 Provision against investments
- b) Note 8.6 Provision against non-performing loans and advances to customers
- c) Note 9 Depreciation rates for property and equipment
- d) Note 10.1 Amortization rates for intangible assets
- e) Note 16.2 Provision against non-funded credit facilities
- f) Note 23 Income taxes

#### 3.3 Functional and presentation currency

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

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless or otherwise stated.

#### 4.1 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise of cash and balances with the Central Bank (unrestricted), balances with other banks and investments having maturity of less than 90 days.

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## Afghan United Bank

### Notes to the Financial Statements

For the year ended December 31, 2018

#### 4.2 Financial instruments

##### Recognition, initial measurement and de-recognition

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is de-recognized when it is extinguished, discharged, cancelled or expires.

##### Classification and subsequent measurement of financial assets and financial liabilities

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

1. Designation at fair value through profit or loss (FVTPL)
2. Held for trading
3. Loans and receivables
4. Held to maturity
5. Available for sale

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

##### a) Classification, recognition and subsequent measurement of financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. The Bank's cash and cash equivalents, investments (other than held for trading), loans and receivables and other assets fall into this category of financial instruments.

The Bank determines allowance for impairment loans and advances in accordance with regulation issued by DAB "Asset Classifications and Provisioning Regulation" issued December 2017. Management maintains general provision of 0.25% on its standard loan portfolio.

At each reporting date, the Bank assesses whether there is objective evidence that financial assets which are not carried at fair value through profit or loss are impaired or not. Financial assets or a group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the assets that can be estimated reliably.

The criteria that Bank uses to determine that there is objective evidence that there is an indication to impairment loss includes 1) default or delinquency by a borrower 2) restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider 3) indication that a borrower or issuer will enter bankruptcy 4) disappearance of an active for a security 5) other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

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## Afghan United Bank

### Notes to the Financial Statements

For the year ended December 31, 2018

The Bank considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the assets' original effective interest rate (if any). Losses are recognized in statement of comprehensive income and reflected in an allowance account against financial assets. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through statement of comprehensive income.

The Bank writes off certain loans and advances when they are determined to be uncollectable.

#### b) Classification and subsequent measurement of financial liabilities

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognized in statement of comprehensive income. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

#### 4.3 Investment in equity instruments

Investment in equity instruments is carried at cost less impairment if any.

#### 4.4 Loans and advances

Loans and advances are stated net of provisions against non-performing loans and advances. Specific and general provision are made based on an appraisal of the loan portfolio that takes into account Regulations and other directives issued by the Da Afghanistan Bank from time to time.

The provisions made / reversed during the year are charged to the statement of comprehensive income and accumulated provision is netted off against loans and advances. Loans and advances are written off when there is no realistic prospect of recovery or when the regulation requires.

In Murabaha transactions, the Bank purchases the goods through its agent or client and after taking the possession, sells them to the customer on cost plus profit basis either in a spot or credit transaction. Under Murabaha financing, funds disbursed for purchase of goods are recorded as 'Advance against Murabaha finance'. On culmination of Murabaha i.e. sale of goods to customers, Murabaha financing are recorded at the deferred sale price. Goods purchased but remaining unsold at the statement of financial position date are shown as inventories.

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## Afghan United Bank

### Notes to the Financial Statements

For the year ended December 31, 2018

#### 4.5 Property and equipment

##### Owned

Property and equipment are stated at cost or revalued amounts less accumulated depreciation and accumulated impairment losses thereon. Cost includes expenditure that is directly attributable to the acquisition of fixed assets. Furniture and fixtures, computer equipment and office equipment are stated at revalued amounts less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or are 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 of the item can be measured reliably. All other repairs and maintenance expenditures are charged to profit or loss during the period in which they are incurred.

Surplus arising on revaluation is credited to the 'revaluation reserve' account (net of deferred tax) whereas deficit (if any) is adjusted against the balance in the above-mentioned surplus account. The revaluation is carried out with sufficient regularity to ensure that the carrying amount does not differ materially from that which would have been determined using fair value at the balance sheet date.

Surplus on revaluation of fixed assets (net of deferred tax) is transferred to retained earnings to the extent of incremental depreciation charged on related assets.

Land is not depreciated. Depreciation on all other fixed assets is calculated using the straight line method to allocate their depreciable cost or revalued amount to their residual values over their estimated useful lives. The depreciation method, residual values and useful lives of fixed assets are reviewed, and adjusted (if appropriate) at each balance sheet date.

Net gains and losses on disposal or derecognition of fixed assets are included in statement of comprehensive income currently.

##### Depreciation

Depreciation is recognized in profit or loss account on straight-line basis from the month an asset is put in use 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.

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

-	Office Buildings	20 years
-	Furniture and fixtures	5 years
-	Computer equipment	3.3 years
-	Vehicles	4 years
-	Office equipment	4 years

#### 4.6 Intangible assets

Intangible assets include computer software which are capitalized on the basis of costs incurred to acquire and bring those to use for intended purpose. Subsequent expenditure on intangible asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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## **Afghan United Bank**

### *Notes to the Financial Statements*

*For the year ended December 31, 2018*

These costs are amortized over their expected useful lives using the straight-line method from the date it is available for use since this most closely reflects the pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful life of software is three to ten years.

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

#### **4.7 Impairment of non-financial assets**

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### **4.8 Deposits**

These are recorded at the amount of proceeds received.

#### **4.9 Taxation**

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

##### **Current tax**

Current tax is the expected tax payable or receivable on the taxable income for the year (using tax rates enacted or substantively enacted at the balance sheet date), and any adjustment to tax payable in respect of previous years.

##### **Deferred tax**

Deferred tax is provided for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on temporary differences relating to: (i) the initial recognition of goodwill; (ii) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and (iii) differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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## **Afghan United Bank**

### *Notes to the Financial Statements*

*For the year ended December 31, 2018*

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### **4.10 Employee compensation**

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. The Bank does not provide any retirement benefits to its employees.

#### **4.11 Foreign currency transactions**

Transactions in foreign currencies are translated to AFN at exchange rates prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to AFN at the exchange rate prevailing at that reporting date. Foreign currency differences arising on retranslation are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

#### **4.12 Interest income and expense**

Mark-up /interest /return on advances and investments is recognized in the profit or loss using effective interest rate method, and in case of advances classified as doubtful or loss, mark - up is recognized on receipt basis. Mark-up /interest /return on rescheduled /restructured loans and advances and investments is recognized as permitted by DAB. Income from Murabaha is accounted for on a time proportionate basis over the period of Murabaha transaction. Gain or loss on sale of investments is recognized in profit or loss in the year in which these arise. The rentals from Ijarah are recognized as income over the term of the contract net of depreciation expense relating to the Ijarah assets.

The effective 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 interest expense over the relevant period. The effective interest rate is the rate that 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 the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

#### **4.13 Fee and commission**

Fees and commission income include account servicing fees and commission on transfers and are recognized as the related services are performed.

Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

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## **Afghan United Bank**

### *Notes to the Financial Statements*

*For the year ended December 31, 2018*

#### **4.14 Lease payments**

Payments under operating leases are recognized in profit or loss on straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

#### **4.15 Provisions**

Provisions for restructuring costs and legal claims are recognized when:

- a) the Bank has a present legal or constructive obligation as a result of past events;
- b) it is more likely than not that an outflow of resources will be required to settle the obligation; and
- c) The amount has been reliably estimated.

Provision for guarantee claims and other off-balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations.

#### **4.16 Off-setting**

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.

#### **4.17 Dividend and appropriations to reserves**

Dividends and appropriations to reserves are recognized in the year in which these are approved, except appropriations required by the law which are recorded in the period to which they pertain.

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**AFGHAN UNITED BANK**

Notes to the Financial Statements

For the year ended December 31, 2018

	2018	2017
	AFN	'000'
<b>5 CASH AND BALANCES WITH CENTRAL BANK</b>		
<b>In hand</b>		
Local currency	810,537	1,012,185
Foreign currencies	1,224,708	3,593,691
	<b>2,035,245</b>	<b>4,605,876</b>
<b>With Da Afghanistan Bank in:</b>		
Local currency current accounts	2,109,030	1,153,067
Foreign currency current accounts	1,386,319	1,439,026
Overnight deposit with Central Bank	905,602	1,552,907
	<b>4,400,951</b>	<b>4,145,000</b>
	<b>6,436,196</b>	<b>8,750,876</b>

- 5.1 This represents capital notes from Da Afghanistan bank carrying interest rate from 0.12% to 4.1% (2017: 0.95% to 4.1%) per annum and having maturity date in May 2019.

	Note	2018	2017
		AFN	'000'
<b>6 BALANCES WITH OTHER BANKS</b>			
<b>In Afghanistan</b>			
National Bank of Pakistan		566	524
Pashtany Bank		380,366	352,172
		<b>380,933</b>	<b>352,696</b>
<b>Outside Afghanistan</b>			
CSC Bank, Lebanon		21,963	29,046
Aktif Bank, Turkey		400,774	354,379
Axis Bank, China		18,151	14,006
BMCE Bank, Spain		1,061,283	533,156
Nurol Bank, Turkey		1,843	796
Bahrain Middle East Bank		796,987	626,045
		<b>2,301,002</b>	<b>1,557,428</b>
		<b>2,681,935</b>	<b>1,910,124</b>

**7 INVESTMENTS**

Capital notes	7.1	398,238	197,730
<b>Held to maturity</b>			
Aktif Bank, Turkey	7.2	263,585	244,020
BMCE Bank, Spain	7.2	225,930	174,300
Bahrain Middle East Bank	7.2	376,550	348,600
Nurol Bank, Turkey	7.2	225,930	139,440
		<b>1,091,995</b>	<b>906,360</b>
General provision on investments	7.3	(10,920)	(9,064)
<b>Investments - Net of provision</b>		<b>1,479,313</b>	<b>1,095,026</b>

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**AFGHAN UNITED BANK**

## Notes to the Financial Statements

For the year ended December 31, 2018

7.1 This represents capital notes from Da Afghanistan bank carrying interest rate from 0.12% to 4.1% (2017: 0.95% to 4.1%) per annum and having maturity date in May 2019.

7.2 This represents foreign currency fixed term placements with foreign banks carrying interest ranging from 1.25% to 4.65% (2017: 1.00% to 3.65%) per annum and having maturity by May 2019.

	2018	2016
	AFN '000'	
<b>7.3 Particulars of provision against investments</b>		
Opening balance	9,064	-
Charge for the year	1,856	9,064
Write off during the year	-	-
	<b>1,856</b>	<b>9,064</b>
Closing balance	<b>10,920</b>	<b>9,064</b>

General provision against investment is held as per the DAB's *Asset Classification and Provisioning Regulation* @ 1% of the gross amount of investments.

		2018	2017
	Note	AFN '000'	
<b>8 LOANS AND ADVANCES TO CUSTOMERS</b>			
<b>Conventional financing</b>			
Running finance	8.2	4,673,180	4,202,423
Term finance	8.3	382,882	836,346
		<b>5,056,062</b>	<b>5,038,770</b>
<b>Islamic financing</b>			
Murabaha	8.4	2,921,038	2,785,453
Ijara	8.5	-	242,068
<b>Loans and advances to customers - gross</b>		<b>7,977,100</b>	<b>8,066,291</b>
Provision against non-performing loans and advances	8.6	(1,229,773)	(634,222)
<b>Loans and advances to customers - net of provision</b>		<b>6,747,327</b>	<b>7,432,069</b>

**8.1 Particulars of loans and advances to customers - gross**

In local currency	1,442,026	1,269,611
In foreign currencies	6,535,074	6,796,680
	<b>7,977,100</b>	<b>8,066,291</b>

8.2 These carry interest ranging between 12% to 16% per annum (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.

8.3 These carry interest rate at 13% to 15% per annum (2017: 8% to 13% per annum). These loans have been extended for periods ranging from one and a half year to five years (2017: one year to five years) and are secured against personal guarantees, mortgage of immoveable commercial and residential properties and assignment of receivables.

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**AFGHAN UNITED BANK**

## Notes to the Financial Statements

*For the year ended December 31, 2018*

- 8.4 These represent sale and purchase agreements 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 18% and per annum (2017: 10% to 14% per annum). These facilities are extended for the period of two months to five years (2017: one month to four years) and secured against personal guarantees, mortgage of immovable properties and goods supplied under the sale and purchase agreement.
- 8.5 During the year, one Ijara facility relating to M/s Chela Bagh Limited with an outstanding balance of AFN 3.78 million was written off as on June 30, 2018. One other facility relating to M/s Faiz Nezam Limited with an outstanding balance of AFN 238.28 million was fully settled as on April 22, 2018.

	2018	2017
	AFN '000'	
<b>8.6 Particulars of provision against non-performing loans and advances to customers</b>		
Opening balance	634,222	321,150
Charge for the year	627,965	316,575
Write off during the year	(91,951)	(17,489)
Foreign currency fluctuation effect	59,536	13,987
	<b>595,550</b>	<b>313,073</b>
Closing balance	<b>1,229,773</b>	<b>634,222</b>

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# AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2018

## 9 PROPERTY AND EQUIPMENT

### COST/ REVALUED AMOUNTS

Balance as at January 01, 2017

Additions during the year

Balance as at December 31, 2017

Additions during the year

Adjustments/ disposal during the year

Balance as at December 31, 2018

### ACCUMULATED DEPRECIATION

Balance as at January 01, 2017

Charge for the year

Depreciation on disposals

Revaluation adjustments

Balance as at December 31, 2017

Charge for the year

Depreciation on disposals

Balance as at December 31, 2018

### WRITTEN DOWN VALUE AS AT

- December 31, 2018

- December 31, 2017

Rate of depreciation in %

	Land	Office Buildings	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
				AFN '000'			
	222,424	1,023,756	71,133	147,766	93,313	111,100	1,669,492
9.1	-	4,004	2,026	3,446	2,407	2,074	13,957
	<b>222,424</b>	<b>1,027,760</b>	<b>73,159</b>	<b>151,212</b>	<b>95,720</b>	<b>113,174</b>	<b>1,683,449</b>
9.1	-	3,938	1,147	11,943	-	12,320	29,349
	-	(30,805)	-	-	-	-	(30,805)
	<b>222,424</b>	<b>1,000,893</b>	<b>74,306</b>	<b>163,155</b>	<b>95,720</b>	<b>125,494</b>	<b>1,681,993</b>
	-	262,538	66,838	140,889	91,821	93,570	655,656
-	-	51,254	1,756	7,572	1,127	6,173	67,882
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
	-	<b>313,792</b>	<b>68,594</b>	<b>148,461</b>	<b>92,948</b>	<b>99,743</b>	<b>723,538</b>
-	-	50,566	1,592	5,040	824	7,325	65,347
-	-	(11,031)	-	-	-	-	(11,031)
	-	<b>353,327</b>	<b>70,186</b>	<b>153,501</b>	<b>93,772</b>	<b>107,068</b>	<b>777,854</b>
	<b>222,424</b>	<b>647,566</b>	<b>4,120</b>	<b>9,654</b>	<b>1,948</b>	<b>18,426</b>	<b>904,139</b>
	222,424	713,968	4,565	2,751	2,772	13,431	959,911
		5	20	33	25	25	

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**AFGHAN UNITED BANK**

## Notes to the Financial Statements

For the year ended December 31, 2018

- 9.1 There were no capitalized borrowing costs related to the acquisition of property and equipment during the year (2017: nil).
- 9.2 The Bank's land and building were revalued by an independent accredited professional valuer from May 28, 2012 to July 29, 2012. The revaluation resulted in a net surplus of AFN 1,210 million over the book value. Da Afghanistan Bank approved 70% of this surplus on July 21, 2012 which aggregates to AFN 847.22 million. Moreover, furniture and fixtures, computer equipment and office equipment were also revalued by two independent valuers on 31 December 2012. The valuation performed by the valuers was based on active market prices after adjusting for nature, and/ or condition of the assets. This revaluation resulted in a net surplus of AFN 29.395 million over the book value. The movement in surplus on revaluation is given in note 14 to the financial statements.
- 9.3 The cost/ revalued amount of fully depreciated property and equipment still in use are as follows:

	2018	2017
	AFN '000'	
Furniture and fixtures	59,549	58,428
Computer equipment	99,260	90,689
Vehicles	92,425	92,441
Office equipment	50,507	47,640
	<b>301,740</b>	<b>289,199</b>

- 9.4 The cost/ revalued amount of each category of property and equipment is as below:

	2018	2018	2017	2017
	Cost	Revalued amount	Cost	Revalued amount
	AFN '000'			
Land	73,355	222,424	73,355	222,424
Office buildings	351,827	924,489	362,235	955,294
Furniture and fixtures	67,154	25,780	66,007	25,780
Computer equipment	122,665	31,776	110,722	31,776
Vehicles	95,720	-	95,720	-
Office equipment	83,039	32,428	70,816	32,428
	<b>793,761</b>	<b>1,236,897</b>	<b>778,854</b>	<b>1,267,703</b>

**10 INTANGIBLE ASSETS**

<b>Cost</b>		
Opening balance	234,835	233,571
Additions during the year	3,330	1,264
Closing balance	<b>238,165</b>	<b>234,835</b>
<b>Accumulated amortization</b>		
Opening balance	226,813	222,142
Charge for the year	5,167	4,671
Closing balance	<b>231,980</b>	<b>226,813</b>
<b>Written down value</b>	<b>6,184</b>	<b>8,022</b>

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**AFGHAN UNITED BANK**

Notes to the Financial Statements

For the year ended December 31, 2018

- 10.1** Intangible assets include computer software and licenses. The amortization rate of intangible assets is 33.33% (2017: 33.33%). The gross carrying amount of fully amortized intangible assets still in use is AFN 223,136 thousand (2017: AFN 221,597 thousand).

		<b>2018</b>	<b>2017</b>
	<i>Note</i>	<b>AFN '000'</b>	
<b>11 OTHER ASSETS</b>			
Advances to suppliers and employees		20,112	14,007
Security deposits		75,872	70,100
Prepayments		34,885	40,473
Receivable from Xpress Money and Money Gram		89,727	64,764
Restricted deposits with Da Afghanistan Bank	<i>11.1</i>	1,555,207	1,689,073
Income/ mark-up accrued		228,815	213,515
Others	<i>11.2</i>	8,223	21,903
		<b>2,012,841</b>	<b>2,113,835</b>

- 11.1** This represents statutory reserve maintained with DAB as minimum reserve in accordance with Banking Regulations issued by Da Afghanistan Bank. These minimum reserves carry no interest (2017: nil).

	<b>2018</b>	<b>2017</b>
	<b>AFN '000'</b>	
<b>11.2 Others</b>		
Gross amount	8,223	23,279
Provision against other assets	-	(1,376)
	<b>8,223</b>	<b>21,903</b>

**12 SHARE CAPITAL****12.1 Authorized capital**

<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Number of shares</b>		<b>AFN '000'</b>	
<b>40,000,000</b>	<b>40,000,000</b>		
	Ordinary shares of AFN 250 each/-	<b>10,000,000</b>	<b>10,000,000</b>

**12.2 Issued and paid up capital**

<b>2017</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Number of shares</b>		<b>AFN '000'</b>	
<b>6,088,120</b>	<b>6,088,120</b>		
	Ordinary shares of AFN 250 each/- fully paid in cash	<b>1,522,030</b>	<b>1,522,030</b>

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**AFGHAN UNITED BANK**

Notes to the Financial Statements

For the year ended December 31, 2018

		2018	2017
		AFN '000'	
<b>13 REVALUATION RESERVE ON PROPERTY AND EQUIPMENT</b>	<i>Note</i>		
Furniture and fixtures		2,812	2,812
Computer equipment		11,124	11,124
Office equipment		15,458	15,458
Land		149,069	149,069
Building		698,158	698,158
	9.2	<b>876,621</b>	<b>876,621</b>
Accumulated incremental depreciation	9.2	(267,799)	(222,864)
Related deferred tax liability		(145,350)	(145,350)
		<b>463,472</b>	<b>508,407</b>
<b>14 DEPOSITS FROM CUSTOMERS</b>			
<b>Conventional</b>			
Current deposits		8,709,050	9,500,779
Saving deposits	14.1	246,649	1,058,785
Term deposits	14.2	727,613	674,902
Margin deposits		2,843,333	3,178,840
		<b>12,526,645</b>	<b>14,413,306</b>
<b>Islamic</b>			
Current deposits		2,524,028	2,171,457
Saving deposits	14.3	751,225	758,959
Term deposits	14.4	1,318,184	1,773,920
Margin deposits		442,356	371,085
		<b>5,035,793</b>	<b>5,075,421</b>
		<b>17,562,438</b>	<b>19,488,727</b>

14.1 Saving deposits carry interest ranging from 1% to 3% (2017: 1% to 4% per annum) per annum.

14.2 Term deposits carry interest ranging from 1.5% to 4.75% 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).

14.3 The profit disbursed during the year on the Islamic saving deposits ranged from 0.39% to 0.61% (2017: 0.44% to 0.75%) per annum.

14.4 Profit distribution rates on Islamic term deposits during the year ranged from 2.05% to 4.60% (2017: 2.42% to 5.05%) per annum.

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**AFGHAN UNITED BANK**

Notes to the Financial Statements

For the year ended December 31, 2018

**15 DEFERRED TAX LIABILITY**

Deferred tax liability on account of:

Property and equipment

Intangible assets

2018	2017
AFN '000'	
131,515	144,998
904	956
<b>132,419</b>	<b>145,954</b>

Reconciliation of deferred tax liability is as follows:

Opening balance

Tax expense during the year

- recognized in profit or loss

Closing balance

145,954	149,441
(13,535)	(3,487)
<b>132,419</b>	<b>145,954</b>

**16 OTHER LIABILITIES**

Creditors and accruals

Withholding tax payable

Murabaha risk and equalization reserve

Mark-up/ return/ interest payable

Deferred income on Murabaha Islamic Financing

Deferred income on bank guarantees and letter of credits

Others

Note

2018	2017
AFN '000'	
32,766	34,460
4,732	3,393
66,102	50,168
16,254	25,388
128,901	152,471
76,938	30,825
129,694	109,216
<b>455,387</b>	<b>405,921</b>

- 16.1** This include provision against non-funded credit facilities i.e. Bank Guarantees (BGs) and Letter of Credits (LCs) amounting to AFN 77.30 million (2017: AFN 71.13 million) as per the DAB's *Asset Classification and Provisioning Regulation* @1% of the unsecured amount.

**17 CONTINGENCIES AND COMMITMENTS**

LCs and BGs issued on behalf of the customers

2018	2017
AFN '000'	
<b>10,198,920</b>	<b>7,211,798</b>

This include outstanding BGs amounting to AFN 1.489.43 million (2017: AFN 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

2018	2017
AFN '000'	
47,106	48,613
188,424	194,452
<b>235,530</b>	<b>243,065</b>

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**AFGHAN UNITED BANK**

Notes to the Financial Statements

For the year ended December 31, 2018

		2018	2017
	Note	AFN '000'	
<b>18 NET MARK-UP/ RETURN/ INTEREST INCOME</b>			
<b>Mark-up/ return/ interest earned</b>			
- On loans and advances to customers		864,897	915,366
- On placements and balances with Da Afghanistan Bank		3,075	13,579
- On held to maturity investments		31,676	20,724
- On overnight nostro deposits		3,599	2,208
		<u>903,247</u>	<u>951,877</u>
<b>Mark-up/ return/ interest expense</b>			
Deposits from customers		(106,345)	(136,618)
		<u>796,902</u>	<u>815,259</u>
<b>19 NET FEE AND COMMISSION INCOME</b>			
<b>Fee and commission income</b>			
- Commission and processing fee on guarantees issued		173,775	179,720
- Commission and processing fee on letters of credit issued		7,858	7,632
- Funds transfer, cheque books issuance fee and other service charges		87,909	71,134
		<u>269,542</u>	<u>258,486</u>
<b>Fee and commission expense</b>			
- Inter bank transaction fee		(7,028)	(9,304)
		<u>262,514</u>	<u>249,182</u>
<b>20 OTHER INCOME</b>			
Foreign exchange gain - net	20.1	16,395	39,147
Recovery of written off loans		119,678	11,596
Loan processing fee		36,275	35,485
Other income		15,715	11,361
		<u>188,063</u>	<u>97,589</u>
<b>20.1 Foreign exchange gain - net</b>			
- On dealing in foreign currencies		52,263	34,393
- On translation of monetary assets and liabilities		(35,868)	4,754
		<u>16,395</u>	<u>39,147</u>
<b>21 EMPLOYEE COMPENSATION</b>			
Salaries and wages		185,763	184,663
BOS remuneration and meeting expenses		14,483	20,300
Other allowances and benefits		37,805	35,628
		<u>238,051</u>	<u>240,591</u>

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**AFGHAN UNITED BANK**

Notes to the Financial Statements

For the year ended December 31, 2018

		2018	2017
	Note	AFN '000'	
<b>22 OTHER EXPENSES</b>			
Communication		27,511	34,032
Travelling and conveyance		3,164	3,328
Insurance	22.1	52,128	58,113
Advertisement		25,611	28,500
Fuel expenses		9,489	7,977
Food expenses		501	508
Audit fee		5,934	6,493
Repairs and maintenance		47,700	45,007
Legal and professional charges		1,718	1,467
Stationery and printing		6,790	5,417
Staff training		2,125	2,767
Utilities		15,451	19,779
Security services		54,387	56,339
Miscellaneous		34,900	16,059
		<b>287,409</b>	<b>285,786</b>

- 22.1 These represents charges paid to Afghan Deposit Insurance Corporation (ADIC) @ 0.30% per annum (2017: @ 0.30% per annum) of the total deposits as required by Da Afghanistan Bank.

**23 INCOME TAX EXPENSE**

The major components of tax expense and the reconciliation of the expected tax expense based on the effective tax rate of 20% (2017: 20%) and the reported tax expense in profit or loss are as follows:

	2018	2017
	AFN '000'	
<b>Taxation:</b>		
Current	9,886	35,943
Prior	57,558	-
Deferred	(13,535)	(3,487)
	<b>53,909</b>	<b>32,456</b>
<b>Reconciliation:</b>		
Accounting profit before tax	159	149,871
Tax at the applicable rate of 20% (2017: 20%)	32	29,974
Non-deductible expenditure	2,418	5,969
Other temporary differences	7,436	-
	<b>9,886</b>	<b>35,943</b>

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**AFGHAN UNITED BANK**

Notes to the Financial Statements

*For the year ended December 31, 2018***24 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	
	2018	2017	2018	2017
	AFN '000'			
<b>Shareholders</b>				
Loans and advances	-	-	-	-
Interest income	-	-	-	20,972
<b>Transactions with key management personnel</b>				
Short-term employee benefits				
Salary and other benefits	-	-	37,078	41,507

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## Notes to the Financial Statements

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	Available for sale financial assets	Held for trading	Fair value through profit or loss	Held to maturity	Loans and receivables	Total
	(carried at fair value)			(carried at amortized cost)		
	AFN '000'					
<b>December 31, 2017</b>						
<b>Financial assets</b>						
Cash and balances with central bank	5	-	-	-	8,948,606	8,948,606
Balances with other banks	6	-	-	-	1,910,124	1,910,124
Investments	7	-	-	897,296	-	897,296
Loans and advances to customers	8	-	-	-	7,432,069	7,432,069
Other assets	11	-	-	-	2,059,355	2,059,355
		-	-	897,296	20,350,154	21,247,450
<b>Financial liabilities</b>						
Deposits from customers	14	-	-	-	19,488,727	19,488,727
Other liabilities	16	-	-	-	405,922	405,922
		-	-	-	19,894,649	19,894,649

The carrying values approximate fair values as mostly the assets and liabilities have short maturities and are expected to be recovered/settled at their carrying values.

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## AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2018

### 26 FINANCIAL RISK MANAGEMENT

#### 26.1 Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- a) credit risks
- b) liquidity risks
- c) market risks
- d) operational risks

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 Management Board, Risk Management committee and Credit Committee which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees have both executive and non-executive members and report regularly to the Board of Supervisors on their activities.

The Board's Audit and Risk Committees are responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit and Compliance department whereas Risk Committee is provided frequent feedback by Risk Department.

#### a) **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 Bank has both Board of Management and Board of Supervisors level Credit Committees to mitigate the credit risks. Credit department reporting to the Credit Committee is responsible for managing the Bank's credit risk while the Board is responsible for oversight of same. The credit department is headed by Chief Credit Officer (CCO). Credit officer along with credit department staff look 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.

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**AFGHAN UNITED BANK**

Notes to the Financial Statements

*For the year ended December 31, 2018*

The amount of credit risk is represented by the carrying amounts of the assets on the balance sheet date. Exposure to credit risk is managed through regular analysis of borrower to meet 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**

The Bank's maximum exposure to credit risk is the carrying amount of financial assets at the reporting date, as summarized below:

	2018	2017
	AFN '000'	
<b>Classes of financial assets</b>		
Cash and balances with central bank	4,400,951	4,342,730
Balances with other banks	2,681,935	1,910,124
Investments	1,479,313	897,296
Loans and advances to customers	6,747,327	7,432,069
Other assets	1,957,844	2,073,362
Total carrying amounts	<b>17,267,370</b>	<b>16,655,581</b>

As at balance sheet date, all the loan portfolio of the Bank is recoverable and all the assets which are past due are provided for as per DAB guidelines.

In addition to the above, the Bank has issued financial guarantees and letter of credits contracts for which the maximum amount payable by the Bank assuming all guarantees/ letter of credits (less margin) are called on, is AFN 7,729.84 million (2017: AFN 7,211.80 million).

The Bank's management considers that all the above financial assets that are not impaired or past due for the reporting dates under review are of good credit quality. The credit risk for cash and balances with central bank, balances with other banks, investments and other assets are considered negligible.

**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.

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**AFGHAN UNITED BANK**

## Notes to the Financial Statements

*For the year ended December 31, 2018***Write-off policy**

The Bank writes off loans or advances and any related allowances for impairment losses, when the loans are outstanding for more than 481 days, as per DAB regulation. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position or that proceeds from collateral will not be sufficient to pay back the entire exposure. Before allowing to written off, it is ensured that all possible avenues of recovery, inclusive of legal action are

The Bank holds collateral against loans and advances in the form of property documents, pledge of stocks and scratch cards, assignment of receivables and guarantees.

**Settlement risk**

The Bank's 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 deliver cash, other assets as contractually agreed.

**Concentration of credit risks by industry**

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

		2018	2017
	Note	AFN '000'	
<b>Carrying amount</b>	8	<b>7,977,100</b>	<b>8,066,291</b>
<b>Concentration by sector</b>			
Construction		498,216	2,404,370
Livestock and farms		37,638	-
Services		1,927,618	2,186,220
Trade		3,797,525	2,108,160
Manufacturing		1,207,720	184,174
Others		508,383	1,183,368
		<b>7,977,100</b>	<b>8,066,291</b>

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**AFGHAN UNITED BANK**  
Notes to the Financial Statements  
For the year ended December 31, 2018

**b) 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, whilst enabling the Bank to pursue valued business opportunities. 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.

The Bank relies on deposits from customers as its primary source of funding. Deposits from customers generally have shorter maturities and large proportion of them are repayable on demand. For day to day liquidity risk management, the management relies on several liquidity scenarios to ensure that the Bank is best prepared to respond to any 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:

	2018	2017
At the end of the year	42%	50%
Average for the year	49%	54%
Maximum for the year	55%	60%
Minimum for the year	40%	42%

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# AFGHAN UNITED BANK

Notes to the Financial Statements

For the year ended December 31, 2018

## Maturity analysis for financial liabilities

	Carrying amount	Gross nominal outflow	Less than 1 month	1-3 months	3 months to 1 year	More than 1 to 5 years
	AFN '000'					
Note						
<b>December 31, 2018</b>						
Deposits from customers	14	17,562,438	(17,562,438)	(8,709,050)	(246,649)	(3,570,946)
Other liabilities	16	455,387	(455,387)	(312,347)	-	(143,040)
		<u>18,017,825</u>	<u>(18,017,825)</u>	<u>(9,021,397)</u>	<u>(246,649)</u>	<u>(3,570,946)</u>
						<u>(143,040)</u>
<b>December 31, 2017</b>						
Deposits from customers	14	19,488,727	(19,488,727)	(11,672,236)	(1,817,744)	(5,998,747)
Other liabilities	16	405,922	(405,922)	(324,929)	-	-
		<u>19,894,649</u>	<u>(19,894,649)</u>	<u>(11,997,165)</u>	<u>(1,817,744)</u>	<u>(5,998,747)</u>
						<u>(80,993)</u>
						<u>(80,993)</u>

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 out flow disclosed in the above table is the contractual, undiscounted cash flow on the financial liability.

### c) Market risk

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

Overall authority for market risk is vested in Assets and Liability Committee (ALCO). The Bank's ALCO is responsible for the development of detailed risk management policies and day to day review of their implementation. Risk management department scope covers the market risk identification, evaluation and reporting back with its recommendation to the management.

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# AFGHAN UNITED BANK

## Notes to the Financial Statements

For the year ended December 31, 2018

### Exposure to interest rate risk

The risk to which Banks' 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 re-pricing 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:

		Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
Note		AFN '000'					
<b>December 31, 2018</b>							
Cash and balances with central bank	5	1,038,373	398,238	640,135	-	-	-
Investments	7	1,091,995	451,860	640,135	-	-	-
Loans and advances to customers	8	7,977,100	2,437,215	1,747,364	3,335,884	456,637	-
		10,107,468	3,287,314	3,027,634	3,335,884	456,637	-
Deposits from customers	14	974,262	246,649	727,613	-	-	-
<b>December 31, 2017</b>							
Cash and balances with central bank	5	790,350	197,730	592,620	-	-	-
Investments	7	906,360	313,740	592,620	-	-	-
Loans and advances to customers	8	8,066,291	3,717,416	1,113,719	2,353,572	881,585	-
		9,763,001	4,228,887	2,298,959	2,353,572	881,585	-
Deposits from customers	14	4,266,566	1,817,744	2,448,822	-	-	-

### Exposure to currency risk

The Bank's exposure to foreign currency risk based on notional amounts are as follows:

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**AFGHAN UNITED BANK**  
Notes to the Financial Statements  
For the year ended December 31, 2018

Note	December 31, 2018				
	Total	AFN	USD AFN '000'	EURO	OTHERS
5	6,834,434	4,223,407	2,448,802	156,562	5,663
6	2,681,935	3,145	2,108,309	140,729	429,752
7	1,091,995	-	1,091,995	-	-
8	7,977,100	1,442,026	6,535,074	-	-
12	2,012,841	413,361	1,599,481	-	-
	<b>20,598,305</b>	<b>6,081,939</b>	<b>13,783,660</b>	<b>297,291</b>	<b>435,415</b>
15	(17,562,438)	(4,014,163)	(13,393,016)	(154,804)	(454)
16	-				
	(17,562,438)	(4,014,163)	(13,393,016)	(154,804)	(454)
	<b>3,035,867</b>	<b>2,067,776</b>	<b>390,643</b>	<b>142,487</b>	<b>434,961</b>
<b>December 31, 2017</b>					
5	8,948,606	3,915,889	4,921,138	101,812	9,767
6	1,910,124	2,101	1,539,273	94,711	274,039
7	906,360	-	906,360	-	-
8	8,066,291	1,269,611	6,796,680	-	-
12	2,113,835	1,116,902	996,933	-	-
	<b>21,945,216</b>	<b>6,304,503</b>	<b>15,160,383</b>	<b>196,523</b>	<b>283,806</b>
15	(19,488,727)	(4,738,453)	(14,570,861)	(162,734)	(16,680)
16	-				
	(19,488,727)	(4,738,453)	(14,570,861)	(162,734)	(16,680)
	<b>2,456,489</b>	<b>1,566,051</b>	<b>589,522</b>	<b>33,789</b>	<b>267,127</b>

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# AFGHAN UNITED BANK

## Notes to the Financial Statements

For the year ended December 31, 2018

	December 31, 2018		December 31, 2017	
	Average rate	Reporting date rate	Average rate	Reporting date rate
USD	75.67	75.31	68.10	69.72
EURO	85.93	86.01	76.69	83.27

### Sensitivity analysis

A 10% strengthening of the Afghani, as indicated below, against the USD and EURO at December 31, 2018 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 31, 2018		December 31, 2017	
	Equity	Profit or loss	Equity	Profit or loss
	AFN '000'			
USD	(31,251)	(39,064)	(47,162)	(58,952)
EURO	(11,399)	(14,249)	(2,703)	(3,379)

A 10% weakening of the Afghani against the above currencies at December 31, 2017 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.

### d) Operational risk

The Bank currently uses Basic Indicator Approach to Operational Risk for regulatory capital calculations. We define the operational risk as the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. With the evolution of Operations Risk Management into a separate distinct discipline, the Bank's strategy is to further strengthen its risk management system along new industry standards. Accordingly the Bank has set up a separate Operational Risk Management function within Risk Management department. Bank's operational risk management process involves a structured and uniform approach across the Bank. It includes risk identification and assessments, the monitoring of Key Risk Indicators and Risk Control Self-Assessment activities for key operational risks.

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**AFGHAN UNITED BANK**

Notes to the Financial Statements

*For the year ended December 31, 2018***27 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 December 31, 2018 was as follows:

	2018	2017
	AFN '000'	
<b>Tier 1 capital</b>		
Total Equity	2,108,606	2,207,290
<b>Less:</b>		
Intangible assets	6,184	8,022
Profit for the year	-	84,139
Revaluation reserve on property and equipment	463,472	508,406
	<u>469,656</u>	<u>600,567</u>
<b>Total tier 1 (core) capital</b>	<u>1,638,950</u>	<u>1,606,723</u>
<b>Tier 2 capital</b>		
General loss reserves on credits	9,374	55,235
Profit for the year	-	84,139
Revaluation reserve on property and equipment	463,472	508,406
<b>Total tier 2 (supplementary) capital</b>	<u>472,846</u>	<u>647,780</u>
<b>Total regulatory capital</b>	<u>2,111,796</u>	<u>2,254,503</u>
<b>Risk-Weight Categories</b>		
<b>0% risk weight:</b>		
Cash in Afghani and fully-convertible foreign currencies	2,035,245	4,605,876
Direct claims on DAB	6,354,396	6,033,303
Direct claims on Central Banks and Central Governments of Category A countries	-	-
Precious metals and precious stones	-	-
Direct claims on DAB	-	-
Loans collateralized by blocked deposits	-	-
Other	-	-
<b>Total</b>	<u>8,389,641</u>	<u>10,639,179</u>
<b>0% Risk-Weight Total (Above Total x 0%)</b>	<u>-</u>	<u>-</u>

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**AFGHAN UNITED BANK**

## Notes to the Financial Statements

For the year ended December 31, 2018

<b>20% risk weight</b>		
Loans Collateralized by Claims on Central Banks and Central Governments of Category A Countries	-	-
Direct Claims on banks licensed in Category A countries	2,179,345	2,420,736
Short-term Claims on Banks Licensed In Non-Category A Countries Guaranteed by Multilateral Lending Institutions	1,594,585	395,749
Cash Items in Process of Collection	-	-
Other	-	-
<b>Total</b>	<b>3,773,930</b>	<b>2,816,486</b>
<b>20% Risk-Weight Total (Above Total x 20%)</b>	<b>754,786</b>	<b>563,297</b>
<b>50% risk weight</b>		
Qualifying Residential Mortgage Loans	-	-
Qualifying Real Estate Construction Loans	-	-
Other	-	1,305,789
<b>Total</b>	<b>-</b>	<b>1,305,789</b>
<b>50% Risk-Weight Total (Above Total x 50%)</b>	<b>-</b>	<b>652,894</b>
<b>100% risk weight</b>		
All Other Assets	9,345,058	8,153,072
Minus: Intangible Assets	6,184	8,022
Net Deferred Tax Assets	-	-
Deducted Equity Investments	-	-
<b>Equals: Total</b>	<b>9,338,873</b>	<b>8,145,050</b>
<b>100% Risk-Weight Total (Above Total x 100%)</b>	<b>9,338,873</b>	<b>8,145,050</b>
<b>Off-balance-sheet items with 0% Credit Conversion Factor</b>		
Unused Portions of Commitments with Original Maturity of 1 Year or Less	-	-
Unused Portions of Commitments that are Unconditionally Cancelable	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
<b>0% Credit Conversion Factor Total (Above Total x 0%)</b>	<b>-</b>	<b>-</b>
<b>Off-balance-sheet items with 20% Credit Conversion Factor</b>		
Commercial Letter of Credits		
0 % Risk Weight	14,676	-
20% Risk Weight	-	-
50% Risk Weight	-	-
100% Risk Weight	179,862	233,855
<b>Total</b>	<b>194,539</b>	<b>233,855</b>
<b>Risk-Weighted Total</b>	<b>179,862</b>	<b>233,855</b>

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**AFGHAN UNITED BANK**

Notes to the Financial Statements

For the year ended December 31, 2018

**20% Credit Conversion Factor Total  
(Risk-Weighted Total x 20%)**

35,972	46,771
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**Off-balance sheet items with 100% Credit Conversion Factor**

Guarantees and Standby Letter of Credits

0 % Risk Weight

426,439	302,783
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20% Risk Weight

-	-
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50% Risk Weight

6,614,235	5,815,782
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100% Risk Weight

2,963,707	859,378
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**Total**

10,004,381	6,977,943
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**100% Credit Conversion Factor Total  
(Risk-Weighted Totals x 100%)**

6,270,825	3,767,269
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**Total Risk-Weighted Assets**

16,400,456	13,175,282
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**Tier 1 Capital Ratio**

9.99%	12.19%
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**Regulatory Capital Ratio**

12.88%	17.11%
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**28 POST REPORTING DATE EVENTS**

No adjusting or significant non-adjusting events have occurred between the reporting date, December 31, 2018 and the date of authorization of these financial statements.

**29 CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison and better presentation. *GPA*



CHIEF FINANCIAL OFFICER  
(ACTING)



CHIEF EXECUTIVE  
OFFICER



BOS CHAIRMAN